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GLOBAL TRADE FACILITATION SUMMIT DUBAI 2022

Wednesday 16th March 2022 to Thursday 17th March 2022

Correspondent Banking – *in decay or in transition?*

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www.tradeassets.online



Context

Correspondent Banking is the provision of a current or other liability account and related services to another financial institution

De-risking: Terminating long-standing relationships with, and unilaterally close bank accounts of correspondent banks mostly in riskier jurisdictions

Following regulator actions, providers of correspondent banking services have developed an increased sensitivity to the risks associated with servicing other banks

Like in any business, Banks assess the profitability of their business lines, customers and even jurisdictions in a world where Capital and Liquidity are scarcer and more expensive

Cause

Is Financial Crime only a 'Developing Economies' problem?

Trade-Related Illicit Financial Flows (IFF) - GFI Report, December 16, 2021

IMF classification:
148 Developing Economies,
36 Advanced Economies

134/36 Trade in 2018
Sum of value gaps - \$835B

134/ROW Trade in 2018
Sum of value gaps - \$1.6T

Extracts from UK Parliament's Committee Report on Russia, July 2020

London's appeal was

- the exploitation of the UK's investor visa scheme
- strong capital and housing markets offering sound investment opportunities
- UK's rule of law and judicial system

UK welcomed Russian money, few questions – if any – asked about provenance

Reference to London 'laundromat'

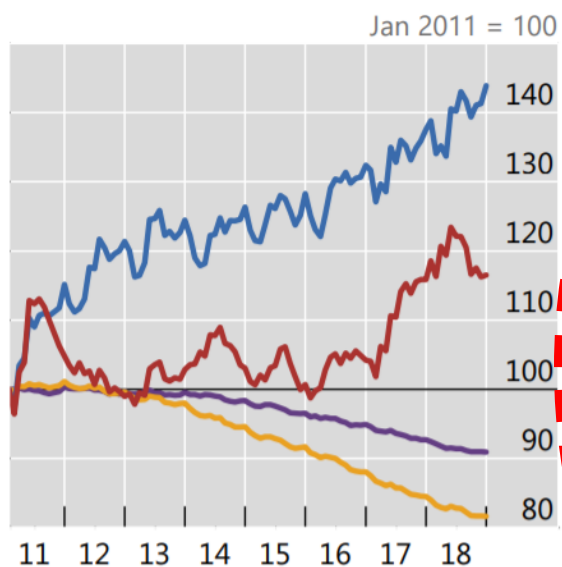
Effect

BIS Quarterly Review March 2020

Correspondent banking landscape

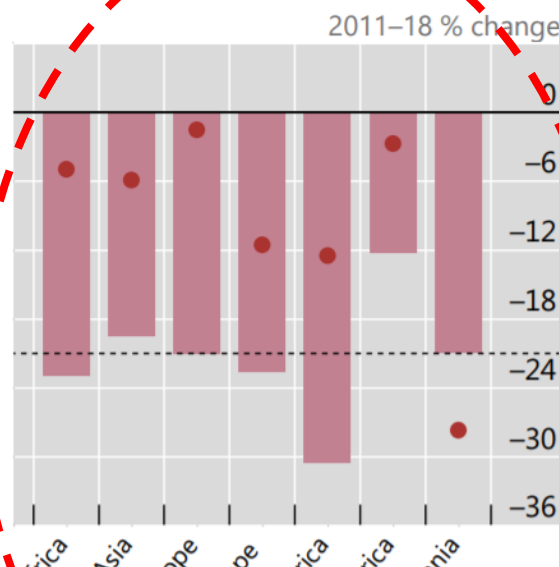
Graph 1

Banks have been retreating¹



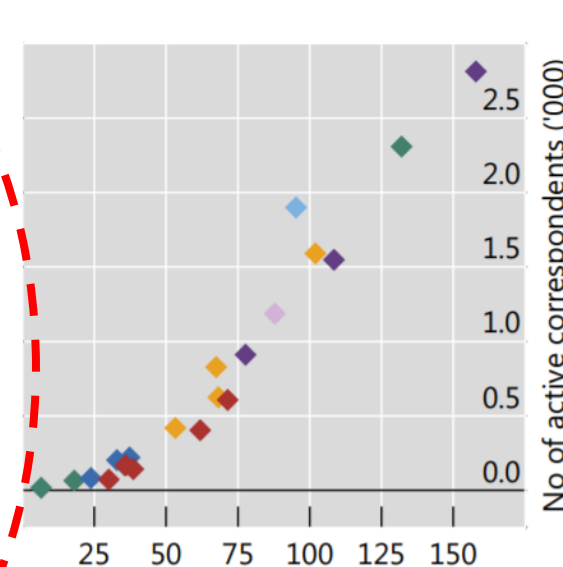
- Value of cross-border payments
- Volume of payment messages
- Number of active correspondents
- Number of corridors

The decline is global²



- Number of:
- Active correspondents
 - Corridors

Some regions are less connected³



- Africa
- Asia
- Eastern Europe
- Europe
- Latin America
- Northern America
- Oceania

The view from Developing Economies

We agree Financial Crime is a menace

We agree Integrity is not subjective nor relative. Integrity is non-negotiable

Global standards determined by 'experts' with no awareness of our unique challenges are foisted upon us. Yet we do our best to comply, just to remain part of the international system

Ratings and indices do not define us. Please don't use these measures to generalise and stereotype

Banks raised their drawbridges to insulate themselves from suspect payments;
Trade Finance was a casualty

De-risking instead of risk mitigation became the oft-used tool leading to an international division of humanity

BIS Committee on Payments and Market Infrastructure

“Correspondent Banking services - support international trade and financial inclusion”

Here’s a strange contradiction

Developing Economies - heavy on documentary mechanisms such as letter of credit

Annual Surveys of Trade Finance report very low rates of default

To transact in a currency that is not ours was not of our choosing

Self-imposed stringent capital controls

Controlled and even restricted usage of limited foreign currency balances

Less prone to frivolous expenditures

Impact of denial of support

Consider the impact

Blocking migrant remittances – the lifeline for many families

Insufficient fuel to fire up our kitchen stoves and turn on the lights

Reduced access to Food we do not produce

Inability to spur job creation because the required machineries are not available

Investment flows choked off

....

Correspondent Banking is in transition

Do more to help yourself

Inexpensive and committed implementation of effective financial crime control protocols

Embrace technology solutions such as TradeAssets, quickly

Invest and maintain customer/credit information systems

Raise transparency of transactions, allowing foreign correspondents the independent ability to validate information

Communicate proactively with foreign correspondents

Seek new partners for provision of correspondent banking services

Under any circumstances, meet your commitments



An e-marketplace to transact financial institution risks

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