

Developing and Managing a Correspondent Banking Framework

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Proposed Outline

- **Background**

- A modern banking and electronic payment system in Suriname is vital to the growth of the economy. These requirements include both regulatory and technological aspects. The following presentation provides an overview of the regulatory framework needed to adhere to international financial regulations, to facilitate international trade and provide a seamless and efficient domestic banking experience for the citizens of Suriname.

- **Current Regulatory Environment**

- There are two main drivers of financial de-risking in the Caribbean: 1) limited profitability for correspondent banks due to the relatively small size and volume of transactions; and 2) countries' classification as "high-risk jurisdictions," and their perceived weak regulatory frameworks to address money laundering and terrorism financing. Both drivers have contributed to a broad decline in correspondent banking relationships.
- Correspondent bank failures to comply with its specific and general obligations regarding correspondent accounts has resulted in significant criminal and civil liability, including deferred prosecution and other settlement agreements, with fines and forfeitures in many billions of dollars.

- **Managing Correspondent Banking Risks**

- Correspondent banks typically manage their relationships with respondent banks with two principal objectives in mind: 1) meeting specific regulatory obligations in connection with maintaining correspondent relationships; and 2) meeting general compliance and supervisory obligations to report suspicious activity, prevent money laundering, and comply with economic sanctions.

- **Specific Regulatory Obligations in Connection with Maintaining Correspondent Relationships**

- ◻ Anti-money laundering/countering the financing of terror ("AML/CFT") and Sanctions regulators recognize the risks posed by correspondent bank accounts. In the United States, Congress specifically addressed the AML risks of correspondent banking relationships in Sections 311 to 313 of the USA PATRIOT Act. The requirements of both the Financial Action Task Force ("FATF") Recommendations 10 and 13 must be met in all cases before cross-border correspondent banking services may be provided to a respondent institution. The regulatory expectation that correspondent banks conduct due diligence on respondent banks will permeate the correspondent bank's relationship with both the respondent bank and the regulator and will continue to be a significant issue in the supervision process.

- **What Can a Respondent Bank Do?**

- Managing the relationship with a regulator or a correspondent bank is, in theory, relatively straightforward for a respondent bank in terms of complying with its own risk management obligations, including demonstrating a robust audit trail. In practice, however, maintaining an effective AML/CFT and Sanctions compliance program entails complexity, requires commitment of significant financial and human resources, and requires a high-level of proactive engagement from the respondent bank.

- **Effective Risk Management**

- ◻ Correspondent banks want to establish relationships with respondent banks that do not create additional enforcement risks and that minimize compliance burdens by addressing AML/CTF & Sanctions risks before they are potentially passed on to a correspondent bank. The key to ensuring that senior management of a correspondent bank can get comfortable with a respondent bank's AML/CTF & Sanctions program and approve a correspondent account is for the correspondent bank to understand fully the nature of the respondent bank's business and the extent and effectiveness of its AML/CTF & Sanctions systems and controls.

Proposed Outline (cont'd.)

- **Engagement with the Correspondent Bank**

- ❑ After a respondent bank has built out its program, it must effectively, and often proactively, communicate its approach to the correspondent banks in which it is seeking to establish a correspondent account. The respondent bank must establish a dialogue with its correspondent bank, through extensive ad hoc consultations, site visits, and regular updates, to demonstrate that it has appropriately identified its AML/CFT & Sanctions risks and is continuously taking appropriate steps to address such risks. It also is important for a respondent bank to identify proactively those transactions that may be considered high-risk by its correspondent bank and explain how and why it decided to process the transaction. Respondent banks need to be able to prove that they can reliably identify risks and take meaningful steps to mitigate them, even as the risk environment evolves.
- ❑ Respondent banks need to be able to prove that they can reliably identify risks and take meaningful steps to mitigate them, even as the risk environment evolves.
- ❑ Transparency between the respondent bank and its correspondent are critical to ensuring the success of both parties.
- ❑ The ability to share customer data is critical to establishing productive relationships with correspondent banks and developing game-changing due diligence utilities.

- **Responsibilities of Central Banks and Government Regulators**

- Central Banks and government regulators play a critical role in the oversight and the management of the risks posed by correspondent banking. Regulatory bodies must develop and implement robust risk-focused compliance testing regimes. Central Banks and government regulators play a critical role in the issuance of guidance and the setting of regulatory expectations. A lack of proper oversight by either a Central Bank or government regulators leads to a diminishment of reputations among peers.
- Correspondent banks consider respondent bank's home country AML/CFT & Sanctions regimes as well as the perceived effectiveness of the respondent bank's home country regulator.

- **Conclusion**

- For a respondent bank, consistent correspondent account access can mean independence, stability, and strategic success. While correspondent banks may bring another layer of increased scrutiny to these relationships, there are steps that respondent banks can take to protect themselves. At a minimum, establishing and maintaining a solid AML/CFT and Sanctions compliance programs is a foundational element for a respondent bank seeking to establish a long-lasting partnership in a correspondent banking relationship.
- Central Banks and government regulators play a critical key role in ensuring that that the risks posed by correspondent banking is identified and mitigated by both the correspondent and respondent banks.