



SURVEY –BANKING AUTHORITIES

Recent Trends in Foreign Correspondent Banking Relationships (CBRs) in the Arab Region: Causes and Impact

Background

During the past few years, regulators around the world have stepped up their regulatory regime with respect to AML/CTF practices, enforcement of sanctions, and tax transparency and exchange of tax information. Hence, regulated entities have responded by adding further risk management requirements to their existing ones, including by taking measures to exclude from their customer base and business lines, categories of customers considered “too risky” and/or too costly (de-risking). However, since some businesses are highly cross-border in nature, second round effects and geographic spill-over effects have been discussed amongst international supervisors.

In this survey, we try to capture the effect of de-risking practices conducted by correspondent banks internationally and regionally? on banks operating in the Arab region. In doing so, we aim to have a better understanding of not only the direct effects, but also of the indirect effects as well as the root-causes of such policy changes.

We limit our focus here to client banks (Nostro accounts) with an aim to understand how they were directly affected by de-risking. To what extent have Arab banks seen terminations of their CBRs in the past 4 years (2012-2015)? How have increased KYCC requirements led Arab banks themselves to de-risk at the expense of losing business with clients or jurisdictions all together? All these questions we hope can be answered by this survey.

To the extent possible, please answer all questions for the period of the past 4 years (2012-2015), where that information is available. Where you are unable to fully respond to the question for lack of information, please answer as fully as you can, or skip the question. This survey should be sent by the Central Banks to their local financial institutions, which shall return the survey back to the Central Banks. The Central Banks will collect the surveys and forward them to the Arab Monetary Fund (AMF).

Confidentiality: Please be assured that your responses will be treated as strictly confidential by the project team. Only aggregated data will be referenced publicly (unless with the explicit consent of the individual survey participant), including in a report to be shared with respondents, national central banks and other regional and international stakeholders..

Preliminary:

Name of Respondent (an individual who could be contacted in case of follow-up questions):

Title:

Institution:

Jurisdiction:

Phone:

Email:

Date:

Client Perspective (Nostro accounts)

1. Has your Bank experienced changes in the scale and breadth of foreign correspondent banking relationships, including the number of Nostro accounts held?

- Yes, increased significantly
 Yes, declined significantly
 No significant change
 Unknown

If you answered “Yes, increased significantly,” “No significant change,” or “Unknown,” please skip all subsequent questions.

2. Please indicate the number of Nostro accounts that have been terminated and/or imposed restrictions by foreign financial institution(s) between 2012 and 2015

| | Accounts terminated | Accounts restricted | Specify types of restrictions |
|-------|---------------------|---------------------|-------------------------------|
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| Total | | | |

3. Please list **up to ten** jurisdictions (locations) where foreign correspondent banks have terminated and/or imposed restrictions on your bank as clients

| | |
|-----|--|
| 1. | |
| 2. | |
| 3. | |
| 4. | |
| 5. | |
| 6. | |
| 7. | |
| 8. | |
| 9. | |
| 10. | |

Causes of decline

4. What have been the main causes/drivers in the foreign financial institutions' decisions to terminate or restrict foreign CBRs with your Bank? **Please check all applicable:**

| Causes/Drivers | Check if applicable | Rank by significance (1 most-16 least) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------------|
| a. Imposition of international sanctions on your jurisdiction | <input type="checkbox"/> | |
| b. Imposition of enforcement actions by the domestic authority on the relevant foreign financial institution | <input type="checkbox"/> | |
| c. Your jurisdiction is subject to countermeasures or identified as having strategic AML/CFT deficiencies by FATF (or another international body) | <input type="checkbox"/> | |
| d. Concerns about money laundering/terrorism financing risks in your jurisdiction | <input type="checkbox"/> | |
| e. The sovereign credit risk rating of your jurisdiction | <input type="checkbox"/> | |
| f. Inability/ cost for foreign financial institutions to undertake Customer Due Diligence (CDD) on your financial institutions' customers | <input type="checkbox"/> | |
| g. Your financial institutions' high-risk customer base | <input type="checkbox"/> | |
| h. Your financial institutions' lack of compliance with AML/CFT or sanctions regulations | <input type="checkbox"/> | |
| i. Concerns about, or insufficient information about, your financial institutions' internal controls for AML/CFT and sanctions, including CDD procedures (for AML/CFT or sanction purposes) | <input type="checkbox"/> | |
| j. Impact of internationally agreed financial regulatory reforms (other than AML/CFT) (e.g. Basel III capital and liquidity standards, tax transparency and exchange of tax information) | <input type="checkbox"/> | |
| k. Changes to legal, regulatory or supervisory requirements in foreign financial institutions' jurisdiction that have implications for maintaining CBRs (e.g., US sanctions and FATCA) | <input type="checkbox"/> | |
| l. Overall risk appetite of foreign financial institution | <input type="checkbox"/> | |
| m. Compliance with pre-existing legal/ supervisory / regulatory requirement by foreign financial institution | <input type="checkbox"/> | |
| n. Industry consolidation within jurisdiction of foreign financial institution | <input type="checkbox"/> | |
| o. Structural changes to foreign financial institutions (including merger/acquisition) and/or reorganization of business portfolio | <input type="checkbox"/> | |
| p. Lack of profitability of certain foreign CBR services/products | <input type="checkbox"/> | |

If 4g) was checked as applicable, please specify class(es) of high-risk customers:

| | |
|----|--|
| 1. | |
| 2. | |
| 3. | |
| 4. | |
| 5. | |

If the cause/driver is not mentioned above, please specify below:

| |
|--|
| |
|--|

Impacts of decline / policy response

5. Geographical impact. Please describe the impact of the decline in the foreign CBRs of your bank on your ability to conduct foreign currency denominated capital and current account transactions (on your behalf, or on behalf of your customers), by region:

| Region | Significant | Moderately significant | Insignificant / No Impact | Unknown |
|--------------------------------|-------------|------------------------|---------------------------|---------|
| 1. Africa | | | | |
| 2. East Asia & Pacific | | | | |
| 3. Europe and Central Asia | | | | |
| 4. Latin America and Caribbean | | | | |
| 5. Arab Region | | | | |
| 6. South Asia | | | | |
| 7. North America, excluding US | | | | |
| 8. USA | | | | |

6. Products/services impact. Please tell us the impact of the decline in the foreign CBRs of your bank on your ability to access the following products/services:

| Product/Service | Significant | Moderately significant | Insignificant / No impact | Unknown |
|------------------------------------------------------------------------------------------------------------------------|-------------|------------------------|---------------------------|---------|
| Clearing and Settlement | | | | |
| Cash Management Services (Deposit accounts, payable through accounts) | | | | |
| Check clearing | | | | |
| Investment Services (money market accounts, investment accounts, certificates of deposit, securities trading accounts) | | | | |
| Trade Finance/Letters of Credit/ Documentary Collections | | | | |
| International Wire Transfers (Please specify currency/currencies): | | | | |
| Lending | | | | |
| Foreign Exchange Services | | | | |
| Structured Finance/Foreign Investments | | | | |
| Others (Please specify, adding rows as needed): | | | | |

7. Impact on clients/client segments: Please tell us the impact of the decline in foreign CBRs of your bank on your ability to service the following clients/client segments:

| Client/Client Segments | Significant | Moderately significant | Insignificant / No impact | Unknown |
|------------------------------------------------|-------------|------------------------|---------------------------|---------|
| Money Transfer Operators (MTOs) | | | | |
| Other Remittance companies/service providers | | | | |
| Small and medium exporters | | | | |
| Others (Please specify, adding rows as needed) | | | | |

8. When your bank had their foreign CBRs terminated or restricted, was it able to find replacement CBRs or establish alternative for each terminated relationship (i.e. maintained the number of CBRs)?

Yes, found replacements

Please explain the level of difficulty with which they were able to replace their foreign CBRs:

| Extremely difficult | Difficult | Not difficult |
|---------------------|-----------|---------------|
| | | |

No, unable to find replacements

No, unable to find replacements but found alternative means to meet their needs

9. If the answer was no, is your bank still able to handle the same volume, and if so whether the terms and conditions (and speed of processing) are the same? and what are the differences compared to previous arrangements?

10. Other comments you would like to add?

Thank you for your participation.