STATEMENT ON BEHALF OF CARICOM
SPECIAL SESSION OF THE PERMANENT COUNCIL
BANKING AND FINANCIAL SERVICES IN THE CARIBBEAN

Secretary General of the Organization of American States, Luis Almagro
Assistant Secretary General, Nestor Mendez
Chairman of the Permanent Council, Sir Ronald Sanders

Excellencies and Alternates

Chairman, thank you for the opportunity to explain on behalf of the 14 member-states of the Caribbean Community (CARICOM) why several of our member states requested this meeting of the Permanent Council on the Finance and Banking Challenges to Development in the Caribbean.

The current Chair of the CARICOM Heads of Government, the Prime Minister of Belize, the Rt. Hon. Deane Barrow, at a Summit meeting last month described the challenges that confront CARICOM countries in the financial services sector as "existential".

It was an observation with which all CARICOM Heads of Government agreed, because for several years, despite the full compliance of our member states with the requirements of international bodies and in spite of bilateral agreements with OECD member states, several of our jurisdictions have been wrongly described by a few states as "tax havens" or countries of concern for money laundering.

Worse yet, the entire region has been unfairly tagged by some states as a "high risk" area for financial services.

However, at the international level, through regular reviews our countries have all been judged to be in compliance with the recommendations of the Financial Action Task Force on Money Laundering and Counter Terrorism Financing and with the requirements of the Global Forum on Taxation of the Organization for Economic Cooperation and Development (the OECD).

What is more, all of our jurisdictions are subject to annual appraisals by the International Monetary Fund, including of our anti-money laundering and counter terrorism financing regimes.

At the bilateral level, all of our countries have entered tax information exchange agreements with major nations in Europe and North America, under which tax information is provided on request.

Nonetheless, Mr. Chairman, recently indigenous banks in all 14 CARICOM states, and off-shore banks in several of them, have found that banks in North America and Europe, with which they have done business for many decades, have been cutting off correspondent relations that are crucial to their survival and to the economies of our countries.

It is against this background that CARICOM Heads of Government, meeting in Belize last month, issued the following statement:

“Heads of Government deplored the progressive decline in correspondent banking relationships available to the banking sector in Member States, as a result of the de-risking strategies employed by the global banks.

They opined that the withdrawal, restricted access and /or the higher cost of such services, allegedly in response to the heightened regulatory posture of regulatory authorities, would destabilize the financial sector in Member States with deleterious effects on growth and economic progress, as well as national security.

Heads of Government characterized the actions of the correspondent banks as an economic assault and was therefore tantamount to an economic blockade against Member States”.

Mr. Chairman, by way of further explanation of this grave issue that deeply concerns the 14 CARICOM member states and other states in Central America, I draw attention to a statement on De-Risking and Correspondent Banking delivered at the Committee on Trade in Financial Services of the World Trade Organization, by CARICOM states just 12 days ago on 18 March.

The statement is as follows:

“Correspondent banking” which can broadly be defined as the provision of banking services by one bank (the “correspondent bank”) to another bank (the “respondent bank”), is essential for customer payments, especially across borders, and for the access of banks themselves to foreign financial systems.

The ability to make and receive international payments via correspondent banking is vital for businesses and Correspondent banking individuals.

Correspondent banks are private sector institutions that, pursuant to recommendations issued by the Financial Action Task Force (FATF), are required to evaluate risks when doing business with other banks and jurisdictions.

The practice of ending banking relationships with clients or closing accounts deemed to be of "high risk" is referred to as "de-risking"

According to a statement issued by the FATF in October 2014, "de-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach.

De-risking can be the result of various drivers, such as concerns about profitability, prudential requirements, anxiety after the global financial crisis, and reputational risk.

To mitigate against this negative impact, some global banks opted to exit whole business lines that carry increased risk, instead of improving risk management and controls and evaluating customers individually.

It appears that several global banks have concluded that the potential downsides of maintaining certain businesses deemed high risk (for example, money services businesses, third-party payment processors) outweigh the possible benefits.
Throughout 2015, the situation further deteriorated as a number of international banks terminated Correspondent Banking Relations with several banks in the Caribbean.

This has had a significant impact on products and services widely used by CARICOM financial institutions, such as cheque clearing, clearing and settlement; cash management services; international wire transfers; and trade finance.

A survey conducted by the World Bank over the period April to September 2015 on the decline in correspondent banking services indicated that foreign exchange services and foreign currency bank note services have been affected.

The survey also indicated that the client segments most affected are money services operators and remittance companies.

Further, the survey revealed that the decline in correspondent banking services occurred in varying degrees across Latin America and the Caribbean, Africa, East Asia and the Pacific, Europe and Central Asia and the Middle East.

The Report also highlighted the main drivers and/or causes of the actions by the global banks and confirmed that roughly half of the emerging market and developing economy jurisdictions surveyed have experienced a decline in correspondent banking relationships and are under threat of exclusion from the global payments system.

Such declines were reported, in particular, in small jurisdictions with low volumes of business/transactions as well as those with significant offshore banking activities.

However, despite full compliance with regulatory practices recommended by FATF and Global Forum Standards and certification by peer reviews and FSAPs, international transactions in
those countries that scrupulously apply these measures are still being considered to be at risk for violating national sanctions and prohibitions in certain jurisdictions.

The financial services sector, and specifically banking, continues to be a vital sector for the development of Caribbean Economies.

Indeed, Financial Services is the second largest contributor to Gross Domestic Product (GDP) in the Caribbean region after Tourism.

Already, the countries of the CARICOM Region are experiencing challenges in integrating into the global economy by virtue of their size, susceptibility to external shocks and fragility and vulnerability of their small economies.

This termination of Correspondent Banking relations is, therefore, a worrying development as it has the potential to threaten the Region's economic stability and capacity to remain properly integrated into the global financial, trade and economic systems.

In this regard, the Caribbean was identified as the most adversely affected region despite there being no evidence of lax AML/CFT systems in the Region, including in the areas of remittance transfers, payment of pensions, and facilitation of trade financing.

Closure of correspondent banking accounts presents a tangible threat to international trade finance, particularly for developing countries in the Caribbean and elsewhere at a time when they are recovering from the 2008 global financial and economic crisis.

As financial institutions countries close the correspondent accounts of foreign banks, they effectively reduce or cut off access to the currencies required to conduct international trade and enable international investment.

For developing economies, this can have a significant impact on economic growth.

The research that has been done by the WTO reveals that over 80% of global trade relies on trade finance.

If developing countries, like those in the Caribbean, do not have access to trade finance, they are in a disadvantageous position.
De-risking practices have profound economic and humanitarian consequences, particularly those related to interruptions in global remittance flows.

Any reduction in these flows would have a clear and tangible impact on countries where remittances account for a significant portion of their GDP, as well as on the vulnerable communities which receive billions of dollars sent in global remittances each year.

Numerous reports have highlighted the personal and dire repercussions of any curtailment of remittance flows, including family members' inability to pay for health care, food, housing, and school fees and purchase goods in commerce.

Although de-risking is partly intended to reduce the vulnerability of the formal financial sector to abuse from money launderers and terrorist financiers, many have argued that the practice in fact has the opposite effect.

With the closure of correspondent banking relationships at many major financial institutions, affected respondent institutions have been forced to rely on smaller overseas banks and credit unions that may not have adequate capacity to deal with higher-risk 5 customers"

Mr. Chairman that is the essence of the statement made a few days ago at the World Trade Organization by CARICOM.

We have repeated it here today because it explains in large measure why we have introduced the matter in the Permanent Council.

The Charter of the Organization of American States, Chapter 1, Article 2, (f) enjoins our member states "to promote by cooperative action, their economic, social and cultural development".

By introducing this matter to the Permanent Council and by proposing a Declaration on it, the proposers from CARICOM and Central America seek no more than the fulfilment of obligations to each other that the OAS Charter has established.

Thank you Mr. Chairman.