FSB action plan to assess and address the decline in correspondent banking

Progress report to G20 Finance Ministers and Central Bank Governors meeting of March 2018

16 March 2018

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Executive Summary

A decline in the number of correspondent banking relationships remains a source of concern for the international community because, in affected jurisdictions, it may impact the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on international trade, growth, financial inclusion, as well as the stability and integrity of the financial system.

The Financial Stability Board (FSB) launched in November 2015 a four-point action plan to assess and address the decline in correspondent banking relationships.[1] In March 2016, the FSB established the Correspondent Banking Coordination Group (CBCG)[2] to coordinate and maintain impetus in the implementation of the action plan in four areas:

- Further examining the dimensions and implications of the issue;
- Clarifying regulatory expectations, as a matter of priority, including guidance by the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision (BCBS);
- Domestic capacity-building in jurisdictions that are home to affected respondent banks;
- Strengthening tools for due diligence by correspondent banks.

This is the fourth progress report under the initiative, following those of August 2016,[3] December 2016[4] and July 2017[5].

The international components of the action plan are now largely in place. The actions taken since July 2017 include:

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1 http://www.fsb.org/2015/11/report-to-the-g20-on-actions-taken-to-assess-and-address-the-decline-in-correspondent-banking/ of 6 November 2015.

2 The CBCG's membership comprises senior representatives from international organisations and standard setters and national authorities in the FSB and its Regional Consultative Groups.

3 August 2016 progress report to the G20 Leaders' Hangzhou Summit. See http://www.fsb.org/2016/08/progress-report-to-g20-on-the-fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/.

4 End-2016 progress report and next steps on the FSB action plan to assess and address the decline in correspondent banking, 19 December 2016, http://www.fsb.org/wp-content/uploads/FSB-action-plan-to-assess-and-address-the-decline-in-correspondent-banking.pdf.

5 FSB action plan to assess and address the decline in correspondent banking: Progress report to G20 Summit of July 2017, http://www.fsb.org/2017/07/fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking-progress-report-to-g20-summit-of-july-2017/

Data collection and analysis

– The FSB has published an update of its correspondent banking data report, using data provided by SWIFT as of end-June 2017.[6] This latest update shows that the reduction in the number of correspondent banking relationships has continued at the global level. Changes varied across regions. The average number of direct relationships between countries started increasing in North America and Eastern Europe, and declined at a slower pace in Africa and Oceania, although Americas (excluding North America), Asia and Europe (excluding Eastern Europe) continued to see a deterioration in the pace of the decline.

– In addition, the FSB is also continuing its discussions with SWIFT on the regular provision of an enhanced data set to monitor future trends, including the addition of aggregated and anonymised data from account statement messages (MT 940 and 950), complementing the payment messages data used so far.

– The World Bank conducted country case studies that provide more qualitative detail regarding the impact of the decline of correspondent banking and complement the quantitative evidence presented in the correspondent banking data report. They provide more insight into the further effects on financial inclusion and other activities relevant to emerging markets resulting from the termination of business relationships with various types of customers, such as humanitarian organisations and remittance companies.

– The International Monetary Fund (IMF) published a Working Paper "Understanding Correspondent Banking Trends: A Monitoring Framework".[7] The paper discusses a framework that can be used by central banks and supervisory authorities to monitor the developments of correspondent banking relationships in their jurisdiction, and includes reporting templates and an analytical tool for the collection and analysis of data on correspondent banking relationships.

Clarifying regulatory expectations

– The FATF and BCBS initiated surveys of their membership to assess the transmission and traction of the FATF guidance on correspondent banking and the revised BCBS guidance on correspondent banking. FATF discussed progress of that work at their Plenary meeting of February 2018.

Domestic capacity building

– The CBCG held on 10 October 2017 a workshop for public sector technical assistance (TA) providers to share lessons learned from capacity-building activities and discuss the prioritisation and coordination of their capacity-building activities within their respective mandates.

Strengthening tools for due diligence by correspondent banks

[6] http://www.fsb.org/2018/03/fsb-publishes-updated-data-on-correspondent-banking-relationships/

[7] http://www.imf.org/en/Publications/WP/Issues/2017/10/04/Understanding-Correspondent-Banking-Trends-A-Monitoring-Framework-45318

- In February 2018, the Wolfsberg Group, whose membership comprises major global correspondent banks, published their Correspondent Banking Due Diligence Questionnaire, which outlines a reasonable set of questions which a correspondent bank asks of its respondents to collect Know-Your-Customer (KYC) information used to assess risk.[8] The questionnaire will help to streamline the establishment and maintenance of correspondent banking relationships for those institutions that use it, as well as foster interoperability of processes for a more efficient exchange of information through KYC utilities. The BCBS, Committee on Payments and Market Infrastructures (CPMI), FATF and FSB welcomed the questionnaire as one of the industry initiatives that will help to address the decline in the number of correspondent banking relationships, as part of a cooperative effort by the public and private sectors to recognize KYC utilities as an effective and efficient tool to support due diligence processes.[9]
- FSB, BCBS, CPMI held a workshop with the Wolfsberg Group and KYC utilities in Basel in September 2017 to discuss how the Wolfsberg questionnaire could serve as a basis for the standardisation of the content held in KYC utilities. Also, the Wolfsberg Group, as part of its contribution to private sector capacity building, is planning outreach activities to encourage the use of its questionnaire.
- Milestones to allow the use of the LEI to support due diligence in correspondent banking have been achieved: The GLEIF and SWIFT published on 8 February 2018 the first mapping between the BIC and LEI[10], the number of LEIs distributed almost doubled in the second half of 2017, and SWIFT Payment Markets Practice Group (PMPG) published in November 2017 an option for including the LEI in payment messages.
- FATF published on 5 November 2017 a Guidance on Private Sector Information Sharing.[11]
- In October 2017, the Wolfsberg Group published a revised version of their Payment transparency standards.[12]

Access of remittance providers to banking services

- Remittance service providers are one of the categories of bank customers that have been most affected by the reduced provision of correspondent banking services. The FSB has conducted a stocktake of existing initiatives to address access to banking services by remittance providers and, as a result, has developed an action plan to address gaps and remaining barriers, including to: (i) promote better dialogue between stakeholders and technical standardisation, (ii) improve the implementation of international standards and oversight of the remittance sector, (iii) to encourage use of innovation in the remittance

[8] http://www.wolfsberg-principles.com/wolfsbergcb.

[9] http://www.fsb.org/2018/03/bcbs-cpmi-fatf-and-fsb-welcome-industry-initiative-facilitating-correspondent-banking/.

[10] Business Identifier Code. The BIC is used to identify banks in correspondent banking messages, but for historical and other reasons, a bank may have several BICs. The LEI is a unique identifier for legal entities.

[11] http://www.fatf-gafi.org/publications/fatfgeneral/documents/guidance-information-sharing.html

[12] http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Payment-Transparency-Standards-October-2017.pdf

sector to facilitate remittance firms' greater access to banking services; as well as (iv) to encourage technical assistance to support the implementation of recommendations in these areas. The stocktake and action plan (including specific recommendations) are being published alongside this report.[13]

Next steps

Some further work remains to be completed at the international level, and to be effective, the solutions designed by international standard setting bodies and industry organisations need to be implemented in practice by national authorities and banks. These include:

- The monitoring of correspondent banking trends at the global level and of the impact on jurisdictions still needs to be improved. A sustainable framework for the ongoing monitoring of trends in correspondent banking relationships is expected to be completed in the first half of 2018, with the implementation of methodological improvements to be applied on end-2017 data.
- The new FATF and revised BCBS guidance should be followed up by statements at the national level by national regulators to clarify expectations at the national level, so that they are appropriately reflected in supervisory practices and banks' risk management practices; FATF and BCBS will continue monitoring progress in this regard and report later in 2019.
- The delivery of correspondent banking-related technical assistance needs to be considered in light of areas of risk, both geographic and topical. To this end, the CBCG will monitor and make technical assistance providers aware of reports that assess the status of correspondent banking. The CBCG will also reorient its inventory of technical assistance to be more forward looking. By doing so, technical assistance providers can assure that their efforts do not overlap and that the areas of greatest need are receiving the necessary assistance. Finally, to the extent possible, the CBCG will facilitate the sharing of assessments by technical assistance providers of their programmes, both successful and unsuccessful experiences.
- Technical solutions such as Know Your Customer (KYC) utilities have the potential to assist in conducting due diligence and reducing compliance costs. The FSB encourages banks to use the Wolfsberg Correspondent Banking Due Diligence Questionnaire to achieve greater efficiencies and will continue to support improved standardisation in KYC utilities through discussions with industry.
- FATF guidance on Private Sector Information Sharing and industry standards on the transparency and correct use of payment messages will support information exchange between respondents and correspondents. However, as noted by FATF, countries should consider conducting an evaluation of their existing legal framework to address challenges to information sharing, to ensure their own data protection, financial secrecy provisions or other related regulations are not causing their financial institutions to lose access to correspondent banking services. Relatedly, the Wolfsberg Group observes that full adoption of their Payment Transparency Standards will require investments to be

[13] http://www.fsb.org/2018/03/stocktake-of-remittance-service-providers-access-to-banking-services/

made over time, for example, for financial institutions to realign policy, data and systems to these new requirements and/or foster the development of enhanced market infrastructures. The SWIFT PMPG underlines that implementing the recently published LEI option to identify originators and beneficiaries in payment messages will also require material changes by banks, and also further dialogue with the regulatory community to maximise the benefits of the option. In the longer run, another infrastructure enhancement recommended by CPMI is the adoption of new payment message formats together with the implementation of the ISO 20022 standard. The FSB action plan on remittances also recommends standardisation initiatives such as ISO 20022 to support information sharing between the banking and the remittance sectors.

– In order to address the gaps and barriers identified in the stocktake on access to banking services by remittance providers, implementation of the recommendations in the action plan will be important. The action plan includes proposals for monitoring actions taken by national authorities, banks and remittance firms in response to the recommendations.

– The reduction in correspondent banking relationships may affect trade finance transactions that rely on correspondent banking arrangements to be processed, and may thereby impact some countries, especially those that depend on trade for their development or the access to basic supplies. The FSB, with inputs from the World Trade Organisation and International Financial Corporation, will therefore explore whether and how some of the solutions already developed can be further elaborated to better capture the trade finance components of correspondent banking.

1. Data collection and analysis to further examine the dimensions and implications of the issue

The CBCG has established a workstream to identify the remaining gaps in knowledge about the decline in correspondent banking, its causes and its effects, determine the feasibility of developing a global framework for more systematic data collection at the country level and a more effective capacity to monitor trends at the global level, beyond ad hoc surveys.

A. Update to the Correspondent Banking Data Report published by the FSB

The FSB published in March a Correspondent Banking Data Report-Update,[14] which follows up on the FSB Correspondent Banking Data Report of July 2017[15], and includes additional data from January – June 2017 derived from information provided by SWIFT to the FSB, through the intermediation of the National Bank of Belgium and Deutsche Bundesbank. A fuller analysis, including methodological improvements currently being worked on (see section B), will be published by mid-2018, based on end-2017 data.

Unlike the July 2017 data report, the March 2018 update does not include data other than from SWIFT, as the survey of over 300 banks in nearly 50 jurisdictions conducted last year by the FSB was a one-off exercise. The FSB survey allowed a deeper look at the concentration issues resulting from the decline in the number of correspondent relationships, on the drivers of the decline, and also informed the monitoring framework based on SWIFT data, including the methodological improvements currently being worked on.

The more limited data available for the March 2018 update shows that the reduction in the total number of active correspondents, as measured by the number of banks that have sent or received messages corridor by corridor in a given month, continued in the first half of 2017. While there may be some seasonality in the changes in the latest six months, the number of active correspondents in June 2017 is also lower than in June 2016.

Although no comprehensive regional breakdown is available for this mid-year data, the average number of active corridors per country (i.e. of direct relationships with countries, again measured by the flow of SWIFT messages) increased in the first half of 2017 in Oceania, Eastern Europe and Northern America, while the rest of the Americas and of Europe, as well as Africa and Asia, continued to experience declines. However, it is difficult to draw firm conclusions from six-monthly data.

The twelve-month rates of change between June 2016 and June 2017 appear to confirm increases in the average number of active corridors per country for North America and Eastern Europe and slower declines than in the year June 2015 to June 2016 in Africa and Oceania. On the other hand, the rate of decline between June 2016 and June 2017 increased in the Americas (excl. North America), Asia and Europe (excl. Eastern Europe) compared with June 2015 to June 2016.

Over the period from 2011 to mid-2017, the Americas (excl. North America) and Oceania are the most affected regions in terms of the average number of active corridors per country and

[14] http://www.fsb.org/2018/03/fsb-publishes-updated-data-on-correspondent-banking-relationships/

[15] Available at http://www.fsb.org/2017/07/fsb-correspondent-banking-data-report/

the rate of the decline of this variable. Europe (excl. Eastern Europe) remains the region that has experienced the largest absolute decline in the average number of active corridors per country, which may be the result of the greater use of regional payment systems and is counterbalanced by the fact that this region remains the one with the highest average number of active corridors per country.

In line with previous analyses in the CPMI report of July 2016 and FSB Correspondent Banking Data Report of July 2017, data continues to support that, at the global level, the decline in the number of active correspondents (as defined in this report) has not resulted in a lower number of payment messages (volume) or a lower underlying value of the messages processed through SWIFT. The higher volume of messages could in part reflect a lengthening of payment chains, as discussed in the July 2017 report.

Regarding concentration of correspondent banking, the Gini coefficient on the number of active correspondents per corridor slightly decreased in the first half of 2017, which is a sign of slightly lower concentration, but remains at high levels. The average volume of messages handled by a given correspondent has increased in all regions, although to a lesser extent in Africa and Eastern Europe.

As noted in other reports, the data does not represent a comprehensive account of correspondent banking cross-border financial flows. Because financial institutions have multiple means of exchanging information about their financial transactions, SWIFT messages flows do not represent complete market or industry statistics.

B. Ongoing monitoring of trends in correspondent banking

An essential element of the FSB four-point action plan on correspondent banking is to develop a global framework for more systematic, regular data collection at the country level and a more effective capacity to monitor trends at the global level, beyond ad hoc surveys. This will assist in better understanding the causes and effects of the decline, to ensure that actions to address the decline are well targeted, and to monitor their effects. In developing such a framework, the objective is to limit the duplication of efforts and rely as much as possible on existing data. Data will be sought on a voluntary basis.

As SWIFT is the most commonly used standard for cross-border payments, SWIFT captures a meaningful amount of correspondent banking activity. Therefore, with the support of the Bank for International Settlement (BIS) Economic Consultative Committee, the FSB initiated in 2016 discussions with SWIFT and the National Bank of Belgium, as overseer of SWIFT, on the role they could play in supporting the monitoring of trends in correspondent banking.

As a result of these discussions, SWIFT has already provided two updates of the aggregated and anonymous dataset on correspondent banking activity that was provided to CPMI for its report of July 2016, including the one described in the previous section. SWIFT has also agreed to provide further updates each six months until the provision by end-January 2019 of end-2018 data.

Regular updates of data for values and volumes of correspondent banking activity and numbers of active correspondents at a country level will be important to be able to monitor changes over time. The CBCG also sought a way to show regularly the extent of concentration in the correspondent banking market at country level, which is important for monitoring financial stability risks by providing indicators of the fragility of the correspondent banking networks in individual countries and regions. However, confidentiality constraints restrict the data analysis that can be done at the global level, and detailed concentration analysis may be best conducted at the national level, using for instance the IMF methodology described in the next section.

The December 2016 progress report noted that the FSB and SWIFT would set out a process and scope of data for the ongoing monitoring of trends in correspondent banking. Following the FSB's analysis of the end-2016 SWIFT data and of the data collected in the FSB's own survey, the FSB and SWIFT, together with the National Bank of Belgium and CPMI, will assess the possibility to make available certain additional anonymous and aggregated data to enable the monitoring of trends in correspondent banking. In particular, SWIFT has agreed to provide enhanced data regarding active relationships, to include the use of aggregated and anonymised MT 940 and MT 950 messages on account statements, in addition to the updates using the previous methodology, which focus on payment messages sent and received. Enhancements will also include the number of players per corridor (subject to confidentiality constraints). These enhancements are still being worked on, and will be reflected in the data update, based on end-2017 data, expected to be published in the next few months.

C. Other analyses of correspondent banking

The World Bank initiated in March 2017 the field work for a few country studies in emerging markets as a complement to the FSB survey. The objective is to provide more insight into the further effects on financial inclusion and other activities relevant to emerging markets resulting from financial institutions' termination of business relationships with various types of customers, such as humanitarian organisations and remittance companies. The World Bank discussed preliminary findings with affected jurisdiction at a forum in the margins of the IMF-World Bank Annual Meetings in October 2017, together with possible policy solutions. The World Bank will synthesise the collection of these country studies for a policy paper expected to be released in March 2018.

The IMF published a Working Paper "Understanding Correspondent Banking Trends: A Monitoring Framework".[16] The paper discusses a framework that can be used by central banks and supervisory authorities to monitor the developments of correspondent banking relationships in their jurisdiction, and includes reporting templates and an analytical tool for the collection of data and analysis of correspondent banking relationships, including dashboards and network analyses. This framework builds on the fact that national authorities (central banks and supervisors) can access more granular, bank level data, and are better placed to conduct detailed analyses of issues such as concentration. The monitoring framework proposed in the working paper includes a Minimum Scope Template for collecting data from banks and conduct a full assessment of the domestic banking system's ability to access the international payment system, and an Expanded Scope Framework, including the values and volumes of individual transactions using respondent banks' SWIFT payment data.

[16] http://www.imf.org/en/Publications/WP/Issues/2017/10/04/Understanding-Correspondent-Banking-Trends-A-Monitoring-Framework-45318

2. Clarifying regulatory expectations

The action plan included the clarification of regulatory expectations, including more guidance from the FATF in the area of correspondent banking, in cooperation with the BCBS Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Expert Group (AMLEG). With the publication of guidance by FATF and BCBS, the CBCG workstream dedicated to supporting a coherent and consistent clarification of expectations has completed its task and was disbanded. However, FATF and BCBS are still monitoring how their guidance is implemented at the jurisdiction level.

As mentioned in the previous progress reports, the guidance on correspondent banking[17] published by FATF in October 2016 clarified that the FATF Recommendations do not require financial institutions to conduct customer due diligence on the customers of their customer (KYCC). The guidance also highlighted the principle of a risk-based approach, namely that not all correspondent banking relationships (CBRs) carry the same level of money laundering (ML) or terrorist financing (TF) risk, hence any enhanced due diligence measures have to be commensurate with the identified risk. The focus of the FATF guidance is CBRs that are higher risk, in particular cross-border CBRs involving the execution of third party payments. The FATF also clarified that correspondent banking does not include one-off transactions or the mere exchange of messaging capabilities in the context of non-customer relationships, but rather is characterised by its ongoing, repetitive nature.

The FATF guidance was completed in June 2017 by the revision by BCBS of its guidance on correspondent banking.[18] The purpose of the revisions was to clarify further supervisory expectations with regard to managing AML/CFT risks associated with correspondent banking in a manner consistent with FATF standards. The BCBS guidance recognised that not all CBRs bear the same level of risk and included an updated list of risk indicators that correspondent banks should consider in their risk assessment. The document also expanded the guidance on nested CBRs and clarified regulatory expectations concerning Know-your-customer utilities as well as regarding the quality of payment messages.

The FATF and BCBS initiated in November 2017 a joint exercise to assess the traction and transmission of the FATF guidance on correspondent banking and new BCBS guidelines. The objectives of the project are to identify how new guidelines have been used after their publication, encourage national authorities to respond to new guidelines, and identify obstacles which may prevent the new guidelines from being implemented and any potential changes which could facilitate practical implementation by the private sector. The CBCG will discuss progress on this subject further at its next meeting.

The FATF also finalised in November 2017 its guidance for private sector information sharing (see section 4).

[17] http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf.

[18] http://www.bis.org/bcbs/publ/d405.htm

As noted in previous reports[19], because of the potential role of uncertainty over regulatory expectations related to economic sanction regimes in the decline in correspondent banking, relevant national authorities are encouraged to issue guidance, or continue to issue guidance, on their national or regional sanction regimes, and engage with interested parties, to support clarity in the implementation of these sanction regimes in correspondent banking.

The publication by the Wolfsberg Group of its revised Correspondent Banking Due Diligence Questionnaire, discussed in details in section 4, will also add clarity to the general expectations about the information to be collected by correspondent banks from their respondents as part of their due diligence process.

3. Domestic capacity-building in jurisdictions that are home to affected respondent banks

Jurisdictions exited by correspondent banks are often those with actual or perceived weaknesses in their supervisory and regulatory frameworks, including frameworks for compliance with AML/CFT standards. Concerns about weaknesses in respondent banks' risk management practices also can play a central role. Correspondent banks have pointed out that the business costs and risks associated with meeting AML/CFT or sanctions requirements with respect to particular jurisdictions or banks may be important drivers in their decisions to terminate correspondent banking relationships (CBRs).

The third element in the FSB action plan supports coordination of domestic capacity building to improve and build trust in the supervisory and compliance frameworks of affected jurisdictions. The FSB is therefore working with banking industry representatives to discuss the contributions that can be made by private sector initiatives and potential synergies between public and private sector initiatives, as described further below.

A. Assessment of weaknesses and TA by the official sector

As reported in the August 2016 FSB progress report to the G20,[20] to help with the coordination of capacity building, the CBCG has established an inventory of TA and other capacity building activities provided by the official sector. This inventory is appreciated by those public sector bodies involved in capacity building because of the unique global view it provides of much of the TA taking place that is relevant to the correspondent banking issue.

National and multilateral institutions provide critical TA and training activities to jurisdictions and sectors, including to those that have been affected by or are concerned with the withdrawal of correspondent bank relationships. The CBCG held a workshop in October 2017 to bring together relevant public sector TA sponsors/providers to share lessons learned from TA delivery, explore ways to meet global TA demands and develop sustainable mechanisms for coordination among TA providers with a view to more effectively provide assistance to affected jurisdictions. Participants shared views and experiences on how to make TA as effective as

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19 Progress reports of August 2016 (http://www.fsb.org/2016/08/progress-report-to-g20-on-the-fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/) and December 2016 http://www.fsb.org/2016/12/fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/.

20 http://www.fsb.org/wp-content/uploads/Correspondent-Banking-progress-report.pdf

possible. In this regard it was noted that political will is critical to the success of any TA programme and that frequently TA only addresses one part of a bigger issue. The likelihood of a successful TA programme can be enhanced if it is part of a broader plan with clearly defined goals and objectives to strengthen the financial sector. Participants then discussed gaps and weaknesses in the delivery of TA. These included lack of resources, insufficient communication and coordination among donor agencies, and differing objectives between the donor and recipient jurisdiction. Mechanisms to enhance coordination, prioritization and coverage of TA projects were also considered, including making the TA inventory more risk focused and forward looking.

Going forward, the CBCG will take a number of steps to make its work on capacity building more effective and more useful. It will begin by making its TA inventory more risk-focused. In other words, the CBCG will overlay its existing TA inventory with reports and analysis that identify areas of greatest capacity building need to ensure that TA is being properly directed. It will also strive to make its TA more forward looking to enable all providers to better plan and coordinate their activities. Third, it will encourage (with the understanding that there may be confidentiality issues) TA providers to share internal assessments of the effectiveness of their capacity building programmes. A sharing of these assessments and views on what worked and what did not work would allow providers to learn from each other and enhance the delivery of future TA. Fourth, the CBCB will engage further with the private sector on the delivery of TA. Many public sector providers are prohibited from offering TA to the private sector, but a holistic solution to weaknesses in AML/CFT for example, should also involve the private sector. Finally, the CBCG is also considering a follow-up workshop for public sector TA providers in the second half of 2018.

B. Encouraging training or assistance provided by private sector initiatives

1) Private sector initiatives on capacity building

The FSB is encouraging the banking industry to complement official sector work through their own voluntary capacity building initiatives. For instance, correspondent banks can support improvements at respondent banks, including by helping to identify what measures respondents could proactively undertake in order to avoid account closures or service restrictions. CBCG has an ongoing dialogue with the Wolfsberg Group, an industry body whose membership is comprised of major global correspondent banks. The Wolfsberg Group, as part of its contribution to private sector capacity building, is planning outreach activities to encourage the use of its revised questionnaire (see section 4). The CBCG will explore further the role of the private sector and discuss avenues to engage the correspondent banking community on ongoing TA projects.

2) Dialogue between the public and private sector on capacity building

The FSB and its members, as well as FSB Regional Consultative Groups, and TA providers continue to engage in a range of global and regional dialogues with correspondents and respondents. In addition, CBCG members also hold bilateral and multilateral meetings (for instance meetings organised by the US authorities with banks and authorities of specific countries or regions), which help to foster a mutual understanding of the issues and develop responses.

A number of other private-public sector meetings have also taken place in recent months across the affected regions, for instance sessions on correspondent banking and remittances at the FSB Regional Consultative Group meeting for the Americas in Nassau on 13 December 2017. Meetings dedicated to remittances are described in a separate report (see section 5).

*3) **Developing proposals on actions national authorities can take to build trust in their AML/CFT frameworks and quality of supervision.***

The more national authorities build trust in their supervisory and AML/CFT frameworks and in the quality of their supervision, the more foreign correspondent banks will be able to rely on the information they provide without multiplying costly due diligence and checks. FATF mutual evaluations and FSAPs can help in this regard, but it is ultimately for each jurisdiction to develop action plans as necessary; to strengthen their AML/CFT and supervisory frameworks and achieve their effective implementation, and to communicate their successes in these areas.

Jurisdictions could follow the suggested framework published by the FSB in July 2017, to build trust by communicating concrete actions taken—including implementation of relevant reforms—to improve their AML/CFT frameworks and the quality of their supervision of financial institutions. In addition, international organisations are also helping to build trust by disseminating information on their capacity building activities, on the assessments of jurisdictions' degree of compliance with AML/CFT and supervisory standards and through surveillance reports and other studies that report on the steps being taken by jurisdictions. For example, IADB has an Annual Report for TA projects under the Transparency Trust Fund.

The CBCG will further support the communication of information on correspondent banking matters through the FSB website.

4. Strengthening tools for due diligence by correspondent banks

The mandate of FSB CBCG workstream 4 includes supporting the implementation of the recommendations in the CPMI report on Correspondent banking of July 2016. The report included a package of measures that could help improve the efficiency of due diligence procedures, reduce compliance costs and help address perceived uncertainty, without altering the applicable rules and the basic channels for correspondent banking between correspondent and respondent banks.[21]

The FSB and CPMI are jointly supporting and monitoring the implementation of the recommendations in the CPMI report, which requires ongoing cooperation by a number of public sector and private sector bodies. To that end, BCBS AMLEG, CPMI Working Group on Correspondent Banking and Workstream 4 of the FSB CBCG organised a workshop in Basel in September 2017 to discuss the use of KYC utilities for correspondent banking due diligence. Key industry stakeholders participated in the workshop, including the Wolfsberg Group, the International Standardization Organisation, the Global LEI Foundation and several KYC utilities.

In addition to the CPMI recommendations, other technical solutions addressing or offsetting the reduced availability of correspondent banking are also being proposed, including how

[21] http://www.bis.org/cpmi/publ/d147.htm

technological innovations, such as big data and machine learning, might be usefully applied in generating and analysing information and facilitating due diligence processes.

A. Progress in the implementation of CPMI recommendations and next steps

1) Recommendation on the use of "know your customer" (KYC) utilities:

The CPMI report of July 2016 noted that the due diligence by correspondent banks on their respondents "often leads to a massive exchange of documents. According to SWIFT, the 7,000 banks that use the SWIFT network for correspondent banking have more than 1 million individual relationships, so the number of documents exchanged is presumably much higher".

The CPMI report continued by explaining that "To improve this situation, several providers have developed or are developing KYC utilities, with the aim of storing customer due diligence information in a single repository. These utilities may help correspondent banks to identify and mitigate the risks associated with respondent banks. Respondent banks would access such a utility to provide the initial information and then provide updates as necessary in line with a standardised template, whereas correspondent banks would access it to retrieve the necessary information. Information-providing banks (respondents) maintain full control over their data and determine which banks have access to it."

"The use of KYC utilities would provide several advantages: (i) the number of times a bank must send the same information could be greatly reduced; (ii) the accuracy and consistency of the information could improve, as banks would maintain only one set of updated information; (iii) the use of a single template might promote the standardisation of the information that banks provide to other institutions as a starting point for KYC obligations; (iv) the use of a central KYC utility might speed up the process; and (v) costs could be reduced thanks to a lesser amount of documentation being exchanged."

However, the CPMI observed that there was no standardised set of information that should be included in KYC utilities. Therefore, the CPMI recommended that relevant standard setters consider defining a standardised minimum set of information and data (including the format) that any bank should be ready to provide to banks requiring the information for correspondent banking activities via KYC utilities. In addition, the authorities with responsibility for AML/CFT (i.e. the FATF and BCBS AMLEG) were invited to discuss a set of issues that financial institutions should consider when developing and using KYC utilities, to support an appropriate use of these utilities. These recommendations were included in the FSB action plan and were addressed by the publication of the final version of the revised guidance on correspondent banking by BCBS on 7 June 2017, which completed the clarification of supervisory expectations regarding correspondent banking at the international level, and includes guidance in this area.

In February 2018, the Wolfsberg Group, whose membership comprises major global correspondent banks, published their Correspondent Banking Due Diligence Questionnaire which outlines a reasonable set of questions which a correspondent bank asks of its respondents and which could serve as a basis for the standardisation of the data held in KYC utilities to assess risk.[22]

The initial Wolfsberg questionnaire dated back to 2004 and included 27 questions. An additional question on training was added in 2014, and although banks were still filling the questionnaire in, the common practice by large correspondent banks was to add their own, far more extensive and detailed questionnaires.

The revisions were undertaken to take into account changes in regulatory requirements, expectations and practice in the industry and were designed to add clarity and support the standardisation of due diligence information for correspondent banks. The number of questions has been expanded, with multiple sub-questions, setting out information to be collected and a standard for reasonable correspondent banking due diligence.

At the workshop jointly organised by FSB, BCBS, CPMI with the Wolfsberg Group and KYC utilities in Basel in September 2017, the Wolfsberg Group highlighted that it has never stipulated or implied that the mere fact of obtaining any information from a questionnaire (whether the original or revised version) suffices in terms of meeting any financial institution's regulatory requirements from a due diligence perspective. The questionnaire was designed to set a data standard which allowed for the collection of certain data points, which would, in turn, allow a financial institution to undertake its risk assessment process, as per its policies and procedures, such that a risk rating could be assigned to the customer in question and the appropriate level of controls implemented thereafter, including frequency of periodic reviews, need for a site visit and enhanced monitoring.

In the workshop, participants observed that:

- The purpose of the questionnaire should be made clear, especially concerning questions on whether the respondent has Money and Value Transfer Services (MVTS) providers as their customers or downstream relationships. The Wolfsberg Group noted that their questionnaire was designed to assess risk as part of the due diligence process more effectively. The objective of the Wolfsberg Correspondent Banking Due Diligence Questionnaire is to assess the risk of the respondent, and not all responses need to be "yes" in order to accept or retain respondent relationships.
- Updates of responses were essential, as well as an appropriate level of sign-off of the response by the respondent banks, notably to ensure that all relevant business areas are committed.
- It was necessary for the industry to define a process for the maintenance of the questionnaire, including managing requests for changes that could come from use of the questionnaire, but also from development of regulatory requirements, while recognising that changes should not be made lightly, given they may require operational changes such as adapting procedures, workflows, systems enhancements or training, to be undertaken.

Participants in the workshop discussed that the due diligence questionnaire:

[22] http://www.wolfsberg-principles.com/wolfsbergcb.

- would relieve the burden for respondent banks to prepare multiple questionnaires for different correspondent banks and facilitate the data processing of the correspondent banks as well;
- would make clear what information is expected from respondent banks as a first step in the risk assessment process;
- would make it easier for a respondent bank to invest in new operational processes for sharing information and data, if all its correspondents come with the same requests, rather than multiple interpretations of the same standards. The Wolfsberg Correspondent Banking Due Diligence Questionnaire could therefore support capacity building.

A prerequisite to achieve these objectives and thereby contribute to addressing the reduction in correspondent banking, is that the questionnaire is effectively used. It is the expectation of the Wolfsberg Group that the Group members will begin to use the questionnaire, either directly or (at least initially, as part of a phased approach) through a KYC utility, with all their respondents. Some providers of technical assistance plan to support outreach activities by the Wolfsberg Group to help train respondent banks to prepare their responses to the questionnaire.

In this context, the FSB welcomes the Wolfsberg Correspondent Banking Due Diligence Questionnaire. A large use of the questionnaire can contribute to reducing the fixed costs of maintaining correspondent banking relationships, and may therefore help respondents to preserve a sufficient number of relationships, and address the risks associated with relying on too few providers. The FSB CBCG survey showed indeed that 45% of surveyed banks reported relying on two or fewer correspondents for more than 75% of the value of wire transfers sent or received as of June 2016; these were mostly small and medium banks in terms of their assets, and, as such, were more vulnerable to restrictions.

On 6 March 2018, the BCBS, CPMI, FATF and FSB published a joint statement to welcome the Wolfsberg Group Correspondent Banking Due Diligence Questionnaire, as one of the industry initiatives that will help to address the decline in the number of correspondent banking relationships by facilitating due diligence processes. Furthermore the FATF observed, in its November 2017 guidance on Private sector information sharing,[23] that "*A number of possible models are currently being developed which may encourage such voluntary sharing of information. It could include bilateral information exchange between financial institutions and/or shared KYC utilities and/or centralized data repositories, which capture key elements of customer and transaction information and disseminate such information to participating financial institutions with appropriate protocols and access controls*". The FATF also wrote that *"Such utilities can also contain updated information on respondent institutions, which can facilitate their risk assessment and ongoing due diligence by correspondents. In all such cases, the ultimate responsibility for due diligence remains with the financial institution using such utilities.*"

[23] http://www.fatf-gafi.org/media/fatf/documents/recommendations/Private-Sector-Information-Sharing.pdf

2) *Recommendation on the use of the Legal Entity Identifier (LEI) in correspondent banking:*

Implementation measures regarding the LEI include:

- General promotion of LEIs: the number of LEIs increased significantly in the second half of 2017, almost doubling from some 520,000 end June to 975,000 end December, and exceeded 1.09 million on 13 February 2018.
- Mapping LEIs with other identifiers: The GLEIF and SWIFT published on 8 February 2018 the first mapping between the BIC and LEI.[24] This will allow for routing information available in payment messages to be mapped to the relevant LEI.
- Assessing potential uses of the LEI as a means of accessing reliable information to support customer due diligence in correspondent banking. The BCBS has encouraged the use of the LEI in some circumstances in its *General guide to account opening*[25]. In addition, in the revised guidance on correspondent banking, the BCBS notes that information on the group structure available in the LEI system may be a way to access information on the jurisdictions in which subsidiaries and branches of the respondent bank corporate group are located, to support their risk assessment, provided respondents make sure the information is comprehensive and up-to-date. The LEI system started in May 2017 to collect information on the parent companies of legal entities and as of end January 2018, just over 80% of current LEI records had undergone the relationship data collection process.[26] This may facilitate the access of this information in a standardised format and banks are encouraged to use this channel to exchange with each other information on their group structures, by registering their relevant entities and keeping the information up-to-date.

3) *Recommendation on information-sharing initiatives:*

The CPMI noted that privacy laws may prevent the transmission of additional information by the respondent to its correspondent concerning transactions, their originators and beneficiaries. In addition, the private sector identified this as a key issue that may lead banks to avoid high risk customers altogether, as banks may be prevented from sharing information that would clear suspicious transactions, or that would show that suspicious transactions are appropriately handled and reported.

The CPMI identified the following actions:

- "*Further explore ways to tackle obstacles to information-sharing, with the aim of identifying potential best practices (in the enterprise-wide context, among financial institutions not part of the same financial group, and between the public and the private sector).*" Following a dialogue with the private sector, the FATF published on 5

[24] Business Identifier Code. The BIC is used to identify banks in correspondent banking messages, but for historical and other reasons, a bank may have several BICs. The LEI is a unique identifier for legal entities.

[25] http://www.bis.org/bcbs/publ/d405.htm, Annex 4.

[26] 1,416,970 relationships or exceptions had been reported, compared to 1,071,693 LEI records, of which 875,760 had an issued (current) status, knowing that two parent or exception records are expected for each entity (i.e. "ultimate accounting consolidating parent" and "direct accounting consolidating parent"). (source GLEIF)

November 2017 a Guidance on Private Sector Information Sharing[27] complementing the consolidated FATF standards on information published in June 2016 and updated in November 2017[28] to reflect changes made to FATF recommendations to support information sharing. While much broader in scope, the November 2017 guidance includes sections on correspondent banking. The document notes that "*appropriate mechanisms should exist to allow respondent financial institutions to share the requested information with correspondents. For this purpose, authorities of the respondent institutions should understand and clarify the cases in which correspondent institutions may request information and the type of information they may request, so that an appropriate sharing mechanism is put in place by respondent financial institutions to enable such information-flow. Countries could also consider encouraging responsiveness from respondent banks and expressly set out their obligations to share information with their correspondent. Where warranted, countries should consider conducting evaluation of their existing legal framework to address challenges to information sharing in this respect, to ensure their own data protection, financial secrecy provisions or other related regulations are not causing their financial institutions to lose access to correspondent banking services. A dialogue and engagement between public and private sector may also further help identify specific areas or issues where guidance may be needed*".[29]

– Other CPMI recommendations included the use of contractual frameworks to facilitate information sharing on customers, and information-sharing mechanisms, such as the one developed in Mexico, on which the FATF guidance of November 2017_provides updated information.

4) ***Recommendation on payment messages, with a focus on the correct use of available methods for payment.***

Improving the quality of information in payment messages should reduce the number of requests for additional information and associated costs, and more generally improve trust between the correspondent and respondent. As described above, the BCBS published the final version of their revised guidance on supervisors' expectations regarding the quality of payment message content. In October 2017, the Wolfsberg Group published a revised version of their Payment transparency standards.[30] These standards set the responsibilities of originating, intermediary and beneficiary financial institutions, including concrete guidance on names, addresses, account numbers of originators and beneficiaries of payments, and cases when a customer is a remittance service provider or is making payments on behalf of an ultimate originator.

Improving in practice the quality of payment messages will require the correct implementation of relevant guidelines. It is also important that supervisors be alert to the quality of payment

[27] http://www.fatf-gafi.org/publications/fatfgeneral/documents/guidance-information-sharing.html

[28] http://www.fatf-gafi.org/publications/fatfrecommendations/documents/consolidated-fatf-standard-information-sharing.html

[29] Ibid, paragraphs 60 and 61.

[30] http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Payment-Transparency-Standards-October-2017.pdf

messages issued by the institutions they supervise, as part of their supervisory activities described in section 3. B).

The Wolfsberg Group observes in this regard that full adoption of their Payment Transparency Standards will require investments to be made over time, for example, for financial institutions to realign policy, data and systems to these new requirements and/or foster the development of enhanced market infrastructures. The Wolfsberg Group offers guidelines to address current limitations of commonly used infrastructure such as SWIFT and National Payment Systems, which result in a lack of sufficient capacity in certain payment message fields to transmit all the information. The Wolfsberg Group observes that full adoption of ISO 20022 standards would support addressing these limitations.

5) ***Recommendation on the use of the LEI on an optional basis as additional information in payment messages:***

The CPMI invited relevant stakeholders (e.g. the PMPG) to work to define a common market practice for how to include on an optional basis the LEI in the current relevant payment messages without changing the current message structure.

Separately, and as part of a potential future migration to message formats based on the ISO 20022 standard, CPMI encourages relevant stakeholders (i.e. ISO and SWIFT) to consider developing dedicated codes or data items for the inclusion of the LEI in payment messages.

The FSB CBCG noted that, in line with CPMI recommendations and BCBS guidance, the optional addition of the Legal Entity Identifier (LEI) in payment messages would support information sharing on the originator and beneficiary of wire transfers, by removing certain ambiguity that may be associated with names, and facilitating the retrieval of information of this customer.

The PMPG published such an option in November 2017 in a discussion paper "LEI in the Payments Market".[31] The PMPG noted that "the ability to clearly identify the originating and beneficiary parties with LEI (and therefore having additional transparency on these parties) could bring significant quantitative and qualitative benefits on a strategic basis, mainly for compliance and risk management functions", for instance, "eliminating potential delays during payment processing from false hits in compliance and sanctions screening; optimized and more accurate AML controls and detection of suspicious activities and ability to identify ordering and beneficiary customer as meaningful information for correspondent banks acting as intermediary in the payments chain. PMPG considered that some of the benefits, for instance mitigating data truncation in name and address data when it exceeds the field size of message party fields, assume that in the long-term the LEI may be used instead of name/address, and called for a continued industry dialogue including the regulatory community on how to use LEI for sanctions list screening and AML/CFT purposes.[32]

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[31] https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre.

[32] PMPG specifies that: "Including LEI in field 50 or field 59 with option F as proposed above in a structured manner requires the availability of a 'free' line. Currently, in many occurrences, all available lines are already used for the name and address of the ordering / beneficiary party. Therefore, adding LEI in these fields would require freeing up one line and/or truncating the name or address. Evidently, if the sender and receiving bank are able to derive the accurate legal name and registered address of the party from the LEI reference data, the LEI would valuably replace the explicit name and address data in

The Wolfsberg Group recognised in their October 2017 Payment transparency principles that "*wide adoption of LEIs might support more rapid elimination of false positive alerts generated by commonly deployed screening and monitoring systems for sanctions and AML purposes, while ensuring more efficient payment processing through the provision of certainty of identity*." The Wolfsberg Group also called for wider adoption of the LEI in order to address transparency comprehensively, and for the development of a comparable solution for individuals not covered by the LEI.[33] Concerning the originators and beneficiaries of wire transfers (i.e., bank customers), the recent expansion in LEI numbers should support a higher LEI coverage among non-financial counterparties, and thereby the use of the option, developed by PMPG, for adding the LEI in wire transfer messages for the identification of originators and beneficiaries.

B. Potential public sector involvement in other technical solutions

The CBCG discussed further the scope for public sector actions, at the national, regional or international level, to support technical solutions addressing or offsetting the reduced availability of correspondent banking, on the basis of the IMF Staff Discussion Note of 30 June 2016, which presented the case for contingency planning and public support for countries facing severe loss of correspondent banking services, and the IMF April 2017 report "*Recent Trends in Correspondent Banking Relationships – Further Considerations*". The CBCG concluded that it was particularly important that concerns about weak compliance with AML/CFT standards be addressed in the first place; otherwise, any public sector facility would eventually face the same problems in accessing the international financial system. Such projects should therefore be informed by a good understanding of the causes of the loss of correspondent banking relationships in the jurisdiction, such as the role of country risks and insufficient profitability due to low volumes and other factors.

C. Potential applications of financial technologies

Advances in big data and analytics might be usefully combined with KYC utilities, better information in payment messages and the LEI to facilitate due diligence on correspondent banks and transaction monitoring. For instance, machine learning and artificial intelligence might improve the capabilities and cost efficiency of automated monitoring systems. Biometric technology and centralised databases have begun to be used as a means of verifying customers' identities in some jurisdictions such as India, to support financial inclusion and thereby a lesser use of cash. This in turn could help address some of the issues faced by remittances as discussed in section 5 and the CBCG Remittance Task Force explored some of these technical solutions at a workshop with industry participants in Brussels in December 2017.[34] Fintech could also facilitate the secure information sharing of information between financial institutions.

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these fields. This would however also require further guidance and direction on usage and prevalence of LEI from the supervisory authorities prior to implementing this scenario."

33 The LEI only covers individuals acting in a business capacity.

34 See joint report on the stocktake on remittance providers' access to banking services: http://www.fsb.org/2018/03/stocktake-of-remittance-service-providers-access-to-banking-services/

The FATF held a second FinTech and RegTech Forum[35] in Berlin in October 2017, following the one of May 2017 in San Jose. The Berlin Forum discussed the opportunities that FinTech and RegTech may present in improving the effective implementation of AML/CFT measures, as well as the challenges that emerging technologies and financial innovations may pose. Several of the topics may be particularly relevant for remittance services. For instance, participants discussed how the concept of digital ID is being developed in different ways, and how non-face-to-face transactions and relationships might be mitigated by such technologies. Participants also discussed the potential applications and challenges presented by the use of distributed ledger technology, developments and ongoing initiatives relating to KYC utilities, and how FinTech and RegTech could have the potential to enhance public-private information sharing for AML/CFT purposes.

5. Developing a specific action plan on the access of remittance service providers to banking services

As stated in the G20 Baden-Baden Communique and G20 Hamburg Action Plan, the FSB coordinated work, together with the FATF and the Global Partnership for Financial Inclusion (GPFI), to address remittance service providers' (RSPs) access to banking services that are not already being dealt with through existing initiatives. To this end, the FSB took stock of past and ongoing initiatives, including through consultations with the private sector, to assess whether there are remaining issues relating to remittance providers' access to banking services, and, if any are identified, evaluate the need for an action plan to address them. If deemed appropriate, the G20 will pursue actions to address any unwarranted barriers identified by the stocktaking in early 2018 and proceed with their implementation thereafter.

To carry out this work, in July 2017 the FSB created a Remittance Task Force (RTF), chaired by Matthew Taylor, Director (International), HM Treasury, United Kingdom, that reports to the Correspondent Banking Coordination Group. The RTF has 38 members representing 25 jurisdictions (11 of which are non-FSB members) and five international organisations and standard-setters.

A separately published report summarises the findings from the stocktake, including outcomes from a High-level Roundtable with the industry in Washington DC on 12 October 2017 and subsequent technical meetings in Brussels on the interaction between remittance service providers and banks, and possible innovative solutions, and in Copenhagen on the supervision and oversight of the remittance sector. This report includes 19 recommendations (see below) in areas such as the further promotion of a dialogue between stakeholders, technical standardisation, oversight and supervision of the remittance sector, the use of innovation and technical assistance to address challenges associated with the provision of banking services to RSPs.

In addition to the recommendations themselves, an authority is identified for each area of recommendations that will be responsible for monitoring actions taken by national authorities, banks and RSPs in response to the recommendations. It is proposed that a report detailing the

[35] http://www.fatf-gafi.org/publications/fatfgeneral/documents/fatf-fintech-regtech-forum-oct-2017.html

steps and actions taken with respect to the recommendations be submitted to the G20 Ministers and Central Bank Governors in July 2019.

Recommendation	Responsible authority for monitoring
Promoting dialogue and communication between the banking and remittance sectors	**FSB**
Fostering dialogue between the RSP's and the banking sectors through public initiatives to improve interconnectedness between both sectors. The FSB, GPFI, FATF, IMF and World Bank should continue to facilitate a dialogue among stakeholders to foster a common understanding of issues facing the remittance sector and RSPs' access to banking services.	
Promote private sector initiatives to foster dialogue between the remittance and banking sectors. Banks and RSPs could work together to enhance the level of understanding, communication and cooperation between themselves; thereby enabling banks to apply a risk-based approach. The banking sector could, for example, clarify with RSPs their expectations concerning AML/CFT compliance and offer assistance, where appropriate.	
Support of mechanisms to standardise, where appropriate, financial communication, including clearing and settlement infrastructures, between the banking and remittance sectors. Cost functions, compliance processes and financial communication (including information sharing) would be improved through technical standardisation and standardisation initiatives such as ISO 20022.	
Supporting actions by the remittance sector, such as the development of a code of conduct, to improve the risk perception of the sector by banks. Demonstrating the level of AML/CFT compliance could help to improve perceptions surrounding risk management practices within the sector. An example of this is the code of conduct being developed by the International Association of Money Transfer Networks[36] (IAMTN). The introduction of a private sector certification or periodic independent audits to demonstrate compliance could be a useful complement to the code as it would strengthen the confidence of correspondent banks in the AML/CFT procedures of RSPs. It is recommended that work on these best practices continue, with a view to pilot it at least at a domestic level.	
International standards and oversight of the remittance sector	**FATF**
National authorities should implement the FATF standards as they relate to RSPs. In particular, they should: (a) assess the risks associated with RSPs when conducting national risk assessments for money laundering/terrorist financing (ML/TF); (b) ensure that RSPs are licensed or registered, and their agents are either licensed or registered or RSPs are required to maintain current list of their agents; (c) apply a system of risk-based monitoring and	

[36] At the global level, the IAMTN represents money transfer industry and payments institutions providing cross border payments. Founded in 2005, the objective of the organisation is to discuss common challenges and industry initiatives.

inspection of RSPs; and (d) apply criminal and/or administrative sanctions for significant violations of AML/CFT obligations.

National authorities should evaluate and improve, as necessary, coordination and information sharing practices. Effective coordination and information sharing practices among supervisory, financial intelligence, law enforcement and other authorities, responsible for the oversight of RSPs are a critical element of oversight of the remittance sector.

National authorities should publish guidance. National authorities should publish, as necessary, guidance on the risk-based approach and the banking of RSPs, on their regulatory and supervisory expectations for AML/CFT compliance by RSPs, and should consider additional efforts to engage in direct dialogue with the private sector on these issues. Doing so would assist both banks and RSPs to properly implement laws and regulations and in the case of banks, manage the risks associated with RSPs.

National authorities should assess whether their models for the regulation and supervision, as well as inspection of RSPs, are effective and properly include a risk-based approach. If not, authorities should clearly outline what steps they could take to address deficiencies, recognising that this may have an impact on the number of players in the market. Where appropriate national authorities could consider augmenting oversight of the remittance sector with regular reviews by independent parties including external auditors. Doing so would not however, absolve supervisors from their oversight responsibilities.

National authorities could consider programmes that would enable supervisors to collect data necessary to effectively oversee the remittance sector and for both supervisors and RSP principals to monitor and assess the risks associated with agents. National authorities could consider mechanisms that enable them to collect data from RSPs that is necessary for them to properly supervise both the remittance sector as a whole and remittance providers individually. In addition, supervisors and RSPs could require regular reporting on the admission of agents into the remittance sector and that RSPs closely monitor and assess the risks associated with their agents.

The use of innovation in the remittance sector and its possible role in enabling RSPs greater access to banking services **GPFI**

National authorities should consider how the regulatory environment could best support greater innovation. Innovation could be promoted through, for example, the use of sandboxes or innovation hubs, while at the same time managing risk levels and maintaining a healthy and stable financial system.

National authorities could promote new technologies supporting the identification of customers. Technologies such as e-ID and those that facilitate the creation of e-ID platforms as well as access to these platforms by financial institutions (including banks and non-banks, and in general all financial institutions providing remittance services) could help to reduce ML/FT risks.

National authorities should investigate and implement – to the extent feasible within national legislation – ways to facilitate end-users' access to transaction accounts offered by banks as well as non-banks. Access to transaction accounts would increase end-users' freedom of choice and could mitigate their vulnerability to loss of access to cash-based remittance services.

Without introducing a technological bias, national authorities should consider digital solutions when drafting and issuing laws and regulations, in order to make them more resilient to future technological developments.

Without introducing a bias, national authorities could support the development of FinTech firms through enabling legal and regulatory frameworks. In addition to creating a supportive environment for FinTech firms and innovation, the frameworks should ensure that FinTech firms are subject to proportionate and risk-based AML/CFT requirements. Authorities could also identify adequate risk mitigation measures for FinTech products, which would contribute to lowering their risk-profile.

Remittance-related technical assistance (areas of possible focus) **IMF/World Bank**

Technical assistance focused on the strengthening regulation and supervision of RSPs, where necessary. TA providers should prioritise capacity building, consistent with international standards and guidance, such as the General Principles for International Remittance Services[37] (GPs) and FATF standards, to the areas of regulation and supervision where material weaknesses have been identified. These include appropriate licensing procedures; effective risk-based supervision; adequate cooperation between supervisors, including between AML/CFT supervisors and payment systems overseers; and; proportionate and deterrent administrative, civil or criminal sanctions in case of non-compliance or illegal provision of services.

Preparing national risk-assessments to determine the level of risk posed by the remittance sector, particularly ML/FT risk.

Reducing the use of cash in remittance flows. TA could be directed at efforts to promote the access to and use of transaction accounts offered by banks and non-banks (including RSPs) and remittance products based on those transaction accounts, as well as interoperability between payment services and platforms (including for remittance services).

Improving interconnectedness between remittance sending and receiving jurisdictions. TA could assist RSPs' in the strengthening of their implementation of best practices and international standards. This may lead to greater access to payment systems, except in cases where their participation would introduce financial or other risks in the system. Access by RSPs to payment systems should be consistent with Principle 18 of the Committee on Payments and Market Infrastructures (CPMI)-International Organization of Securities Commissions (IOSCO) Principles for financial market infrastructures.[38] Similarly, technical standardisation and standardisation initiatives such as ISO 20022 could generally support the interoperability of clearing and settlement infrastructures.

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[37] See http://www.bis.org/cpmi/publ/d76.pdf.

[38] See https://www.bis.org/cpmi/publ/d101a.pdf.

Collecting data to monitor the evolution of the remittances market. TA could be used to support the collection of additional data on the remittances market, including for the World Bank's Remittances Prices Worldwide database.