GCC banks strengthen standard compliance as part of de-risking

R. SEETHARAMAN
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CORRESPONDENT BANKING is the back bone of the global financial system for facilitating the financial transactions between one country to another country. The banks across the world have to use services of other banks which acts as a correspondent bank to the originating bank to support their payment requirements. Correspondent banking services are required to support all kinds of financial payments i.e. international trade payments or non-trade payments i.e. individual remittances. Correspondent banking services are essential in the GCC (Gulf Cooperation Council) as it enables companies and individuals to transact internationally and make cross-border payment.

Financial world is facing enhanced challenges in terms of money laundering activities and some of which eventually lead to terrorist financing. It is felt among the policy makers and regulators across the globe that the banks across the world should monitor the payment flows in order to cut down the channels of finance available for such organisation who are involved in the acts of terrorism. The discussion of tracking of payment flows immediately leads to tracking of correspondent banking services provided by the banks to another banks. There is a growing trend in recent years among large global banks to limit or terminate their correspondent services. The process in which banks cut off correspondent services entirely — has come to be known in international banking as "de-risking." Effectively, the correspondent bank eliminates all potential risks related to a client bank by cutting ties altogether. The products and services most affected by de-risking include cash management services, check clearing and settlement, international wire transfers and, for banking authorities and regional banks, trade finance.

The trend of de-risking is being driven by a number of factors related to compliance and business costs. In recent years large banks have come under increasing pressure from regulatory bodies to strengthen their oversight and controls for combating financial crimes, or face harsh penalties. Regulators from various countries are also now putting the monitoring processes for their banks and there are instances of fines which are levied by home country regulators on the banks citing weakness in their monitoring systems for various KYC (know your customer) and AML (anti-money laundering) checks. The Financial Action Task Force — an anti-money laundering and financial terrorism watchdog requires banks to conduct thorough due diligence of their clients as well as of their correspondent account holders. The Panama Papers scandal added to that spectre of risk mitigation by demonstrating how difficult it is for large banks to know for certain the origins of the correspondent funds that they process or how they are being used. Additionally, international banking rules passed after the financial crisis have required banks to hold more assets for every dollar that they hold in correspondent accounts, effectively lowering the amount they can lend out.

In GCC region stricter AML/CFT enforcement has increased correspondent banking business costs. A high number of the GCC banks viewed the compliance-enhancing efforts as necessary to maintain the integrity of the global financial system and lower reputation risks. The penalties associated with non-compliance, threats to banking relationships and the integrity of the financial system far outweigh the cost of enhancing compliance requirements. Except in countries on the economic and trade sanctions list, international remittances have been only marginally impacted by the enforcement of AML/CFT rules. Considering the heightened risks evolving from the correspondent banking activities the GCC banks are taking all necessary steps of client profiling, activity profiling and take actions in order to de-risk themselves from knowingly/unknowingly playing a role in channeling of financial transactions as part of their correspondent banking activities. Banks are focused on the monitoring and screening of transactions against sanctions lists, and responding to rapid changes to lists and their increased volumes. Separate senior level sanctions screening division have also been created by certain banks with the changing list of sanctions and to mitigate jurisdiction and customer risks with regard to AML/CFT issues. IT upgrades and due diligence enhancements are necessary and have become part of GCC Bank's business plans. This will have a positive impact on correspondent banking relationships and enhance the integrity and the soundness of the financial system. Effective AML/CFT systems and compliance with international standards would be mutually beneficial for the GCC banks as it increases the confidence in their own financial system and attracts financial flows.

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The writer is the group CEO of Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.