IMF/WORLD BANK 2016 ANNUAL MEETINGS SMALL STATES FORM SPEECH

presented by
The Honourable Audley Shaw CD, MP.
Minister of Finance and the Public Service

TOPIC: EQUITABLE GROWTH, FINANCE AND INSTITUTIONS

SUB – TOPIC: DE- RISKING AND REMITTANCES IN THE CARIBBEAN

Correspondent Banking Relationships (CBRs) are being terminated across the world, with some correspondent banks exiting over 60 percent of their CBRs.

A 2015 World Bank survey and study revealed that the Caribbean appeared to be the region most severely affected by this de-risking strategy where 66 percent of the region's banks reported a decline in CBRs. This is so because international correspondent banks have either ceased to offer their services or have restricted the type of services offered to a number of domestic banks in the region in the last four years. It is reported that this has happened to at least eight financial institutions in Barbados, seven in Jamaica, five in Belize and others in Antigua and Barbuda, Montserrat, and other states, according to the Caribbean Community (CARICOM).

Ladies and gentlemen, this is a worrying threat to sustainable growth and development of the Caribbean region. Correspondent banking relationships (CBRs) are critical for enabling key economic and financial transactions such as remittances, foreign direct investments and international trade in goods and services, which constitute some of the key drivers for sustaining the Caribbean's growth and development.

The reasons we have heard for the restriction or termination of correspondent banking relationships are mixed. The predominant one points to the high cost of compliance for global correspondent banks stemming from heightened anti-money laundering and counter financing of terrorism (AML/CFT) requirements. The correspondent banks say this cost of compliance dwarfs the business returns from smaller territories, particularly if they are classified as high risk clients and products. In this context, correspondent banks are apprehensive about doing business with money transfer operators and remittance companies.

Ladies and gentlemen, de-risking not only constrains growth and development, it undermines financial inclusion. The irony is that without the clear and transparent conduits provided by correspondent banking relationships, money will move through the murky shadows of the underground economy which will make it even more vulnerable to loss and capture by illicit and illegal activities.

The vulnerabilities of Latin America and the Caribbean to de-risking practices are again emphasized when one examines the region’s dependence on this inflow of cash, as opposed to countries like the United States of America.

For the period 2000-2013, in terms of average remittances received as a percentage of GDP, among the most vulnerable countries were Haiti (21%), Jamaica (15%) and Guyana (14%). Trinidad and Tobago (0.6%) is the least vulnerable among English speaking Caribbean countries. The significance of these figures in keeping Caribbean economies afloat is critical and should not be underestimated.

Jamaica's Experience

The impact of remittances to the Jamaican economy cannot be over-emphasized. There is a large diaspora that sends significant sums of money via money services businesses. In 2015, the ratio of remittances to GDP stood at 16.1% and the ratio of remittances to tourist expenditure stood at 95.7 %. Of significance, the ratio of remittances to exports increased to 175.7 % in 2015 from 148.9 % in 2014 and 73.7% in 2008.

Like many Caribbean countries, Jamaica is facing the challenge of de-risking. Over the past five years, international correspondent banks have restricted or terminated their relationships with a number of deposit-taking institutions operating in Jamaica even as new relationships have been established. Many money service businesses, including a number of cambios (money exchanges) have been excluded from accessing the services of global correspondent banks. These developments threaten to stifle Jamaica's objectives of financial inclusion, poverty reduction and sustained growth.

The Region's Response to De-risking

Jamaica, with our Caribbean neighbours, has been addressing the problem of de-risking by proactively reassuring our international partners that our AML/CFT regulatory framework is robust. Our message has been that the Jamaica is a place for correspondent banks to do business. Caribbean jurisdictions have worked together to establish the regulatory framework to efficiently supervise banking and money services business and to effectively identify and manage the money laundering and terrorism financing risks in the financial sector.

Regional policy harmonisation is already being coordinated by the Committee of Caribbean Central Bank Governors, the Caribbean Group of Bank Supervisors, the Caribbean Financial Action Task Force, the Caribbean Association of Insurance Regulators and Caribbean membership of the Global Forum on the Exchange of Tax Information.

As Caribbean leaders addressed the 71st Session of the United Nations General Assembly (UNGA) debate two weeks ago, they once more warned the global community of the grave challenges to the region's economic viability, describing the correspondent banking problem as "***an urgent and existential threat of considerable relevance***".

In July 2016 at the 37th Regular meeting of the Conference of Heads of Government of the Caribbean Community, in Guyana, the matter of correspondent banking was discussed and it was noted, among other things, that CARICOM Member States are particularly hard hit by this de-risking strategy which *inter alia*, promotes financial exclusion with the attendant higher transactions costs; inhibits international commerce and can inadvertently create serious security concerns. The Conference also agreed that the Region must continue its robust and unrelenting advocacy on the issue of Correspondent Banking.

Conclusion

Ladies and gentlemen, in concluding, I re-iterate that remittances continue to play a central role in the lives of many families in the Caribbean. They also constitute a critical flow of foreign currency to the majority of Caribbean territories. The resultant potential multiplier effect on GDP through consumption and investment will become challenging for recipient countries throughout the region with the current de-risking strategy being employed by Correspondent Banks.

Thank you.