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Webinar:
**The Role of AML Compliance in
Correspondent Banking**

February 21, 2019

MODERATOR



Shirish Pathak
Managing Director,
Fintelekt Advisory
Services

Shirish Pathak is the Founder and Managing Director of Fintelekt Advisory Services Pvt Ltd (www.fintelekt.com), an India-based company with a strong focus on the anti-money laundering domain providing research, training and community building for the benefit of compliance professionals and regulators.

Over the last few years, Shirish has navigated Fintelekt through an organic growth path across India, Nepal, Sri Lanka, Bangladesh, Vietnam and The Philippines, and continues to actively invest time, energy and capital in building awareness about anti-money laundering within the banking and financial services industry across the region. The Fintelekt Certificate AML Professional (FCAP) Certification that was launched two years ago by Fintelekt has seen senior bankers across India, Nepal, Bangladesh, Sri Lanka, Bhutan and Maldives attending the week-long quarterly residential face-to-face training program on advanced AML/CFT techniques that leads to this certification.

AGENDA

Discussion with Guest Expert

30 min

Case Study

15 min

Interactive Session with Participants

15 min

INTRODUCTION

De-risking

Global financial institutions are increasingly terminating or restricting business relationships with local banks and remittance companies in certain regions of the world.

A World Bank study of 300 banks in 92 countries found that

- 27 per cent surveyed indicated they were experiencing a decline in correspondent banking relationships
- 72 per cent reported multiple challenges with correspondent banking viability and costs
- Some regions are more affected than others
- Smaller countries were found to be more affected than the larger ones.

Drivers of decline in Correspondent Banking Relationships

Business-related causes based on economic terms

Regulatory and risk related causes based on the ML/TF risk of the counterparty

GUEST SPEAKER



Charan Rawat
Head of
Compliance,
Rabobank, India

Charan Rawat has over 32 years' experience in banking with large international banks such as Barclays Bank, Standard Chartered Bank, ANZ Grindlays Bank. He started his career with domestic financial institution State Bank of India Group where he worked for 2 years followed by a stint at another domestic institution Vijaya Bank where he oversaw and managed corporate credit relationships with some of the largest industrial names in India.

He has worked across Retail, Corporate & Investment Banking, Wealth Management in multiple functions viz. Compliance, Credit Risk, Operational Risk, Relationship Management.

His most recent assignment was Chief Governance Officer, Barclays Bank India which was a newly created role responsible for overseeing various risk impinging on the Bank. As a custodian of these risk management plans, his role entailed check and challenge process with various risk owners responsible for Credit Risk, Liquidity Risk, Legal & Compliance Risk, Market Risk, Financial Crime Compliance Risk, Technology Risk, Operational Risk, Business Strategy & Reputational Risk. He was also responsible for oversight of similar risks faced by other Barclays Group entities working in India.

DISCUSSION

Question 1:

Can you outline some of the key points of the FATF recommendations related to monitoring and risk management of correspondent banking relationships as per their 2016 direction?

FATF RECOMMENDATIONS

- **Correspondent banking** is the provision of services from one bank (correspondent bank) to another (respondent bank).
- The objective of the FATF Recommendations is to **reduce the financial crime risk** in the banking system.
- FATF issued Guidance for Correspondent Banking Services in 10/2016
- Important Recommendations for Correspondent Banking:
 - Customer Due Diligence
 - Record-keeping
 - Transaction Monitoring

DISCUSSION

Question 2:

What are some of the inherent AML risks that banks should factor in while managing their correspondent banking relationships?

WHY IS CORRESPONDENT BANKING CONSIDERED RISKY?

- Correspondent Bank has no visibility on the end clients or their business
- It relies on communication and confirmations provided by the respondent banks
- Reliance on certifications provided by respondent bank
- Lack of familiarity with business model, client base, client CDD standards, monitoring activities at the end of respondent bank
- Principle to Principle Transactions between banks tend to create a false sense of security
- Presence of Nested Accounts.

INHERENT AML RISKS

- Inadequate appreciation and understanding of the business of Respondent Bank
- Risks associated with products, services, client profile, geographic locations and attendant risks are not factored in periodically
- Lack of visibility on underlying transactions
- AML programme is not tailored to address correspondent banking matters
- Transaction monitoring is inadequate – far too high false positives or too few alerts.

DISCUSSION

Question 3:

Can you outline some of the CDD/EDD requirements in the correspondent banking relationship and the actual boundaries?

WOLFSBERG CBDDQ

Entity & Ownership

Products & Services

AML, CFT & Sanctions Programme

Anti-Bribery & Corruption

Policies & Procedures

AML, CFT & Sanctions Risk Assessment

KYC, CDD & EDD

Monitoring & Reporting

Payment Transparency

Sanctions

Training & Education

Quality Assurance/ Compliance Testing

Audit

CDD / EDD ISSUES

- Who is our customer? The respondent bank or the Customer of the respondent bank?
- Know Your Customer's Customer?
- KYCC has created its own challenges.
 - FATF has clarified that "FATF Recommendations do not require financial institutions to conduct customer due diligence on the customer of their customer (i.e. each individual customer)"
- In a correspondent banking world, if a correspondent bank detects reasons for suspicions on a client or a transactions, it can make a Request for Information from the respondent bank.

DISCUSSION

Question 4:

What are your thoughts on the relevance and importance of the Wolfsberg Correspondent Banking Due Diligence Questionnaire (CBDDQ) issued in June 2018 and what is your advice to bankers from Asia on this subject?

WOLFSBERG CBDDQ

- De-facto standard for due diligence
- Final decision will rest with the specific correspondent bank
- Binary – to be answered in Yes/ No
- There is no right or wrong answer
- An exercise in identifying and managing risk, through a risk-based approach
- Accuracy of information provided is critical.

Themes covered in the Wolfsberg CBDDQ:

Entity & Ownership

Products & Services

AML, CFT & Sanctions Programme

Anti-Bribery & Corruption

Policies & Procedures

AML, CFT & Sanctions Risk Assessment

KYC, CDD & EDD

Monitoring & Reporting

Payment Transparency

Sanctions

Training & Education

Quality Assurance/ Compliance Testing

Audit

RELATED CASES OF PENALTIES

- In 2012, a USA based bank paid USD 1.92 Billion for having moved Mexican drug monies.
- In 2015, a German bank pleaded guilty for violation of Iran / Myanmar / Sudan related sanctions and paid USD 1.45 Billion.
- In 2018, a France based bank paid staggering USD 9 Billion for OFAC sanction busting.
- A UK based with large operations in Asia is expected to face penalty of close to USD 1.5 Billion for Iran related business.

RUSSIAN LAUNDROMAT CASE

Between January 2011 and October 2014 **\$20.8 billion**
from **19 Russian banks** was laundered.



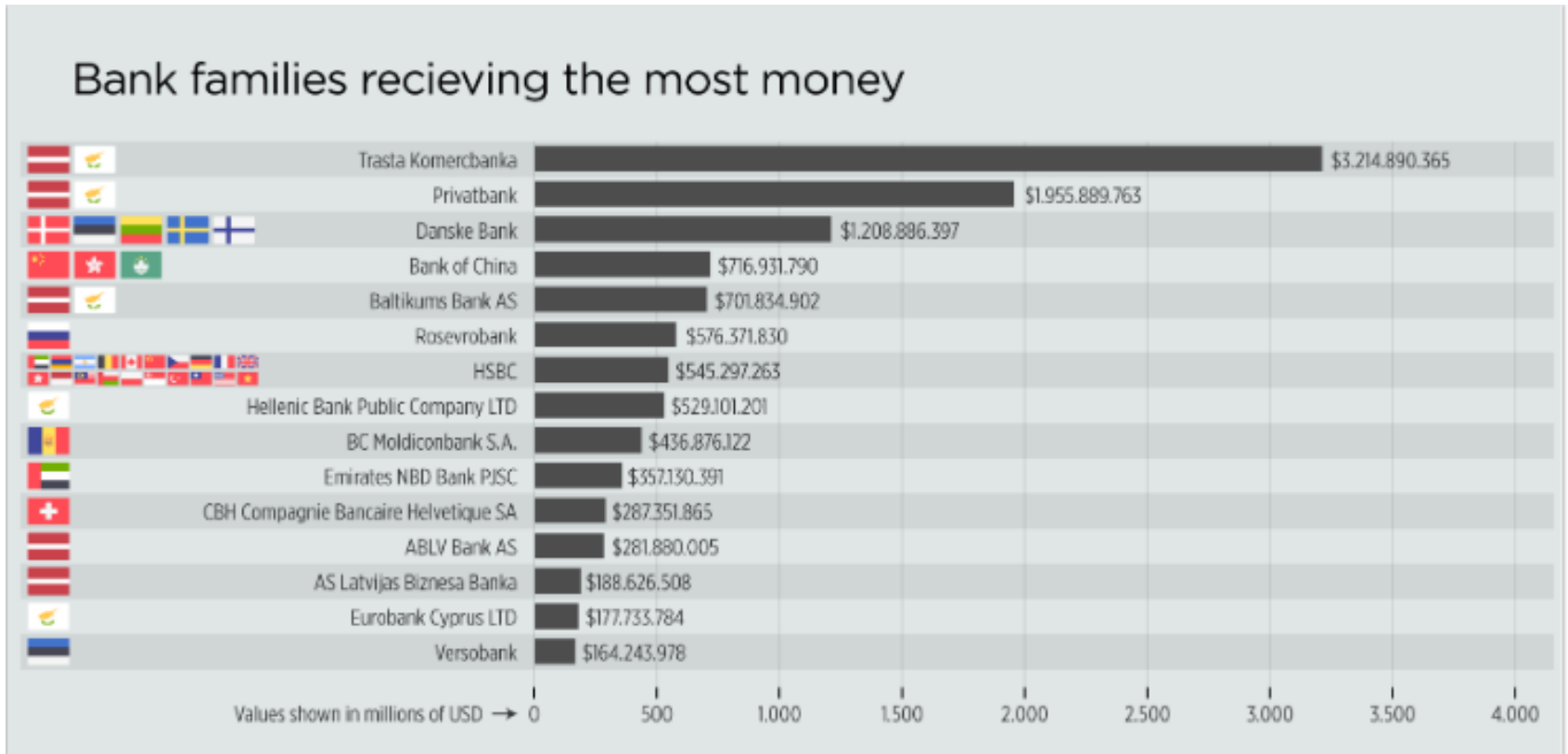
The money went to **5,140 companies**
with accounts at **732 banks** in **96 countries**

How was this scale of criminality possible?

How did it work?

Source: <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/>

RUSSIAN LAUNDROMAT CASE



Source: <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/>

KEY LEARNINGS FOR BANKS

- A sharp focus on policies, procedures, training, monitoring and auditing will help avoid expensive regulatory action.
- Learn from mistakes of others, continuously update your processes and challenge your own processes / monitoring practises to identify possible loopholes.
- An end-to-end visibility into transactions and customer details will help avoid 'siloed approach' to banking in general.
- **Finally, there is no substitute for eternal vigilance!!**

Banks need to ensure the following

Effective AML Programme

Adequate CDD

Adequate Transaction monitoring

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**QUESTION &
ANSWER SESSION**

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Fintelekt-ABA Participation Certificates

Participants who attempt the assessment will be eligible to receive Fintelekt-ABA Participation Certificates.

Please click the link below to access the assessment:

<https://www.surveymonkey.com/r/LZQ2SVT>

Last date for attempting the assessment is February 28, 2019