De-risking Through Education

A new approach to promote the safety of the financial system while preventing financial exclusion

The de-risking challenge

The ongoing decline of corresponding banking relationships around the world means an increasing number of emerging market banks risk being shut out of the global financial system.

Not only does this trend threaten to disrupt international trade and economic growth in many countries, but there are immediate human consequences as well. The knock-on effects make it harder for businesses to trade and for households to send and receive remittances from abroad. At a national level, countries can struggle to import sufficient food to feed their people.

At the heart of the challenge is understanding how to bridge the gap between the financial crime compliance knowledge and capability of local banks, and that of global institutions such as Standard Chartered.

The Financial Stability Board has analysed data from the global payment messaging system SWIFT and reported a global decline in correspondent banking relationships.

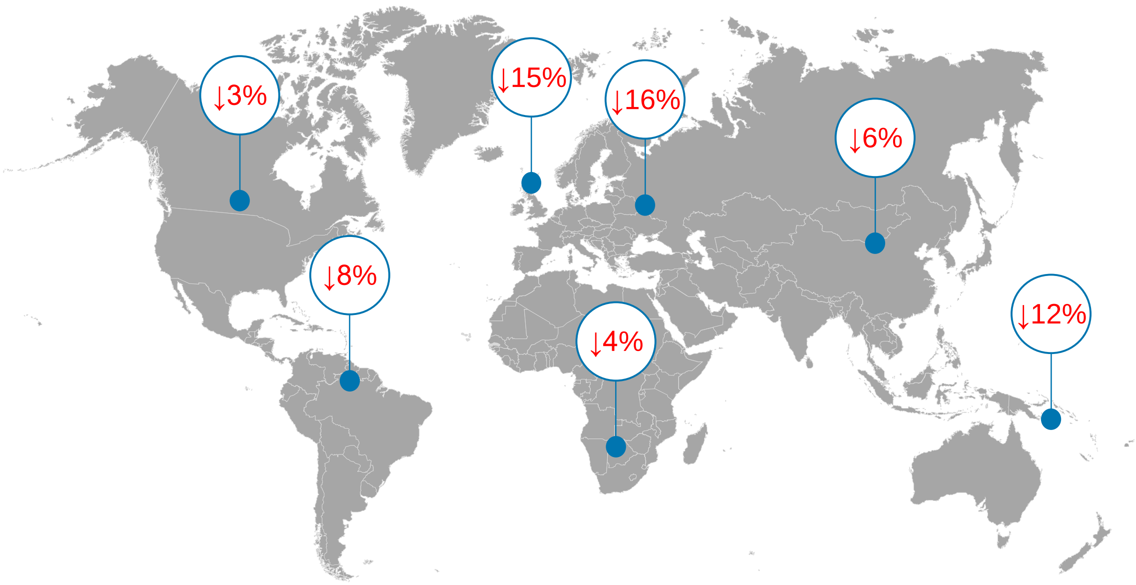
The continuing decline of correspondent banking relationships

Data from SWIFT shows that across all regions there has been a decline in the number of correspondent banking relationships.

Globally, there has been a 6% fall in the number of active correspondents:

But, the rates of decline vary by region:

- Americas (exc. North America): -8%
- Africa: -4%
- Asia: -6%
- Eastern Europe: -16%
- Europe (exc. Eastern Europe): -15%
- North America: -3%
- Oceania: -12%



"For some emerging market and developing economies, the persistent threat of financial abandonment due to the de-risking in correspondent banking relationships…has potentially serious consequences for growth, financial inclusion, as well as the stability and integrity of the financial system."

Mark Carney's letter to G20 Finance Ministers and Central Bank Governors, March 2017

"The International Monetary Fund flagged concerns earlier this year, warning that a steady decline in Correspondent Banking Relationships has exacerbated fragilities in the financial system by concentrating flows of money across borders."

Ben McLannahan, The Financial Times, September 2017

Standard Chartered's point of view

This is an issue that matters to Standard Chartered. Our role as a bank is to drive commerce in the markets we serve, and with operations in countries across the globe we've seen first-hand the positive role banks can play in economic development and promoting prosperity.

The inconvenient truth is that de-risking through exiting relationships is sometimes necessary if respondent banks can't comply with international standards. These standards are important: they're designed to safeguard the integrity of the financial system and keep it safe from abuse.

Yet there are a growing number of banks who have the right intent but lack the capabilities needed to meet those standards, and so are being shut out of the system. That's why we're trying to forge a new approach – driven by the belief that it's possible both to promote the safety of the financial system and prevent financial exclusion.

We call this approach *de-risking through education.*

"By sticking with our clients who have the right intentions, and working with them to improve their capabilities and controls, we're able to continue to make the financial system a hostile environment for financial crime and preserve emerging markets' access to finance and trade."

Anurag Bajaj, Global Head of Banks, Transaction Banking

Correspondent Banking Academies

The flagship activity of this approach has been our Correspondent Banking Academy initiative, in which we partner with our respondent banks to share our tools and experience to help them build robust controls for managing financial crime risk. Our approach is to:

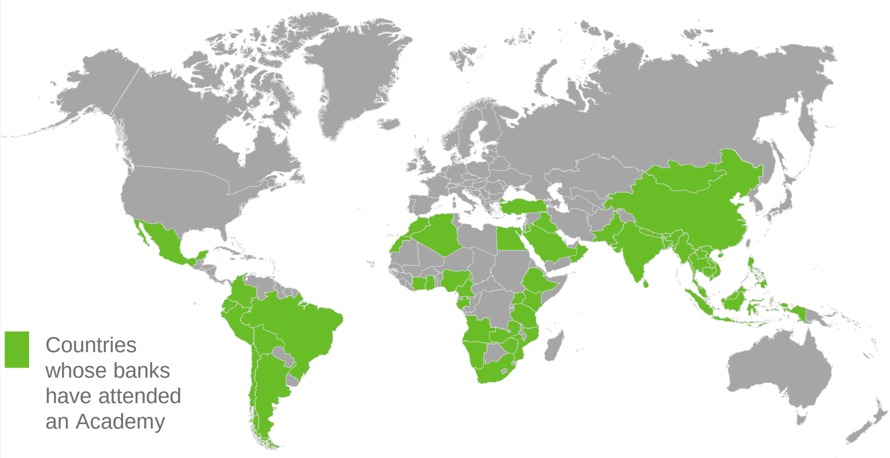
- Deliver workshops where we bring together senior figures from Standard Chartered with executives and frontline compliance staff from respondent banks.
- Provide introductions to topics ranging from to anti-money laundering compliance and international expectations surrounding sanctions, to terrorist financing risk, trade-based money laundering, and anti-bribery and corruption rules.
- Facilitate discussion on the nature of the risks these banks face, and how we can work together to improve practices and fight financial crime.
- Provide access to Standard Chartered's financial crime compliance training for all of our banking customers' employees.

The Academy was set up two years ago and we've had more than 3,600 senior bankers from over 1,120 banks in 71 countries participate. We've had international regulators attend the workshops along with central banks and other local banks.

"When we first took this idea to our customers two years ago, some were skeptical about the value it would bring. We've seen that mindset changed completely – we see many of our partner banks take ownership of the challenge, and realise the stakes and the opportunities to get this right. And now they ask: when are we next coming back."

Heidi Toribio, Global Head of Banks and Broker Dealers,

> 3,600 Participants	60 Academies	71 Countries	>1,120 Banks



90%+ participants recommend the Academies to their institutions, with regulators participating in 13 locations and highly supportive.

Standard Chartered's point of view

What's next in the response to the de-risking challenge?

The challenges around de-risking are bigger than any one bank, and to respond effectively the banking industry needs to cooperate on a number of fronts.

We believe there are three areas where such cooperation would be most useful:

1. **Agreeing on what good regulatory standards look like** so that respondent banks do not have to navigate a proliferation of expectations. Valuable progress has been made by the Wolfsberg Group on standardising the questions banks are asking of their customer banks, but more remains to be done.

2. **Agreeing on a reasonable level of assurance:** there has to be a level of trust, but also checks and balances to validate what happens when no one is looking.

3. **Continue to build the knowledge and capabilities of respondent banks** so that those with the right intent – but currently lacking the resources to meet the necessary standards – are able to do so.

"We welcome such initiatives by financial institutions such as Standard Chartered, where key stakeholders can engage in the discussion as to what constitutes an appropriate level of transparency, how the regulators can support correspondent banking, and how law enforcement can derive benefit from financial intelligence. These measures will help make the financial system a safer environment whilst supporting the economic development that is important for the societies we serve."

Lawrence Paramasivam, Director, Conduct of Business Supervision, Dubai Financial Services Authority

"Standard Chartered might have joined other multinationals in shedding all but its relatively low-risk correspondents in developed countries. However, correspondent banking is a key offering at Standard Chartered. The bank chose to find novel ways to manage the risk."

Brett Wolf, Reuters, July 2017

Combatting NGO de-risking

Increasingly NGOs are also being shut out of the global financial system over concerns about their ability to meet the demanding financial crime compliance standards expected of them.

In a recent survey two-thirds of charities working internationally are experiencing difficulties sending money to where it is needed, according to a study released by the Charity & Security Network.

This means it's getting harder to transfer money to where it is needed most; from help with charitable projects, to funding for long-term development aid, to support in times of humanitarian crisis.

In response, Standard Chartered is working to expand its de-risking through education approach into the NGO sector. Our first Financial Crime Risk Management Academy for Development Organisations, in partnerships with InterAction, was launched alongside the 2017 World Bank & IMF Annual Meetings.

"Aid agencies find themselves at the sharp end of this trend with a real human cost. When funding is delayed, or stopped, schools are not built, doctors are not hired and refugee camps lose access to water and power. If banks, charities, policy makers and regulators can come together to make find new ways forward then we can collectively have a huge human impact."

Daniel Hanna | Global Head, Public Sector and Development Organisations