

# DE-RISKING

IN 7 STEPS

“Der-isking,” or “de-banking,” refers to the practice of financial institutions exiting relationships with and closing the accounts of clients perceived to be “high-risk.”

## 1 FINANCIAL SECTOR

The financial sector is one of the largest contributors to GDP, playing a central role in economic growth and development.



## 2 CBRs

Local banks become part of the global financial network by establishing correspondent banking relations (CBRs). CBRs provide services such as wire transfers and foreign denominated transactions on their behalf.

## 3 MONITORING

Following the global financial crisis of 2007-2008, national and international regulatory bodies have imposed stricter regulatory standards with respect to prudential requirements, anti-money laundering/combating the financing of terrorism (AML-CFT).

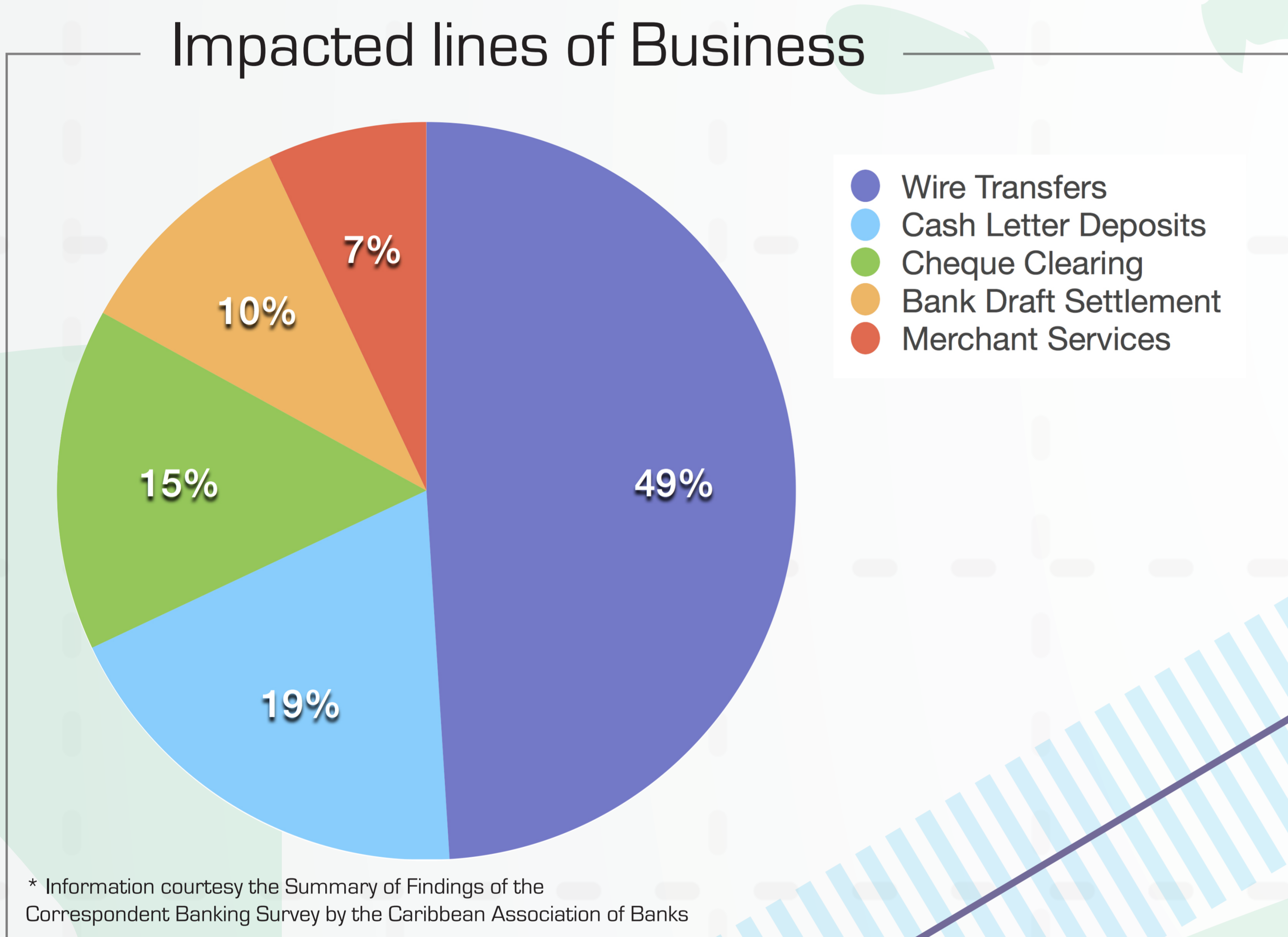


## 4 DE-RISKING

The response of correspondent banks to increased stipulations and stiffer sanctions has been to aggressively lower their exposure to risk by terminating bank-to-bank relationships and/or closing accounts for certain classes of customers deemed as high-risk.

## 5 DE-RISKING IN 12 COUNTRIES

So far, financial institutions in 12 Caribbean countries have had the CBRs of at least one of their local banks terminated or “de-risked”. These include: Antigua and Barbuda, The Bahamas, Belize, British Virgin Islands, Cayman Islands, Dominica, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Suriname and Trinidad and Tobago.



## 6 OTHER EFFECTS

In the face of increased pressures on CBRs, banks have sought to temper the effects of lost services by securing replacement CBRs, however, some CBRs have proved irreplaceable, resulting in lost business for many banks, the inability of certain sectors to conduct business, and adverse effects on remittance receipts.

Of even greater concern than the actual loss of CBRs is the potential risk of businesses or clients excluded from the financial system seeking less regulated and less transparent channels to conduct transactions. This exposes the system to a reduction in transparency of financial flows as well as increased risk of money laundering and terrorist financing.

## 7



A comprehensive examination of the causes and implications of de-risking is required with focus on quantifying the economic impact on the region.

In this regard, in late 2016, ECLAC embarked on a pilot project, in select Caribbean countries, aimed at capturing the primary and secondary market effects of de-risking needed to quantify the economic impact of the de-risking phenomenon.



To find out more on ECLAC Caribbean’s work on de-risking or to get involved contact us at: [edu-pos@eclac.org](mailto:edu-pos@eclac.org)

