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EASTERN AND SOUTHERN AFRICA
ANTI-MONEY LAUNDERING GROUP

FOLLOW UP REPORT TO ASSESS THE CONTINUED EXISTENCE AND IMPACT OF DE-RISKING IN THE ESAAMLG REGION

APRIL 2021

FOLLOW-UP REPORT TO ASSESS THE CONTINUED EXISTENCE AND IMPACT OF DE-RISKING IN THE ESAAMLG REGION

April 2021

WORKING GROUP ON RISK, COMPLIANCE AND FINANCIAL INCLUSION (WG-RCFI)

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ACRONYMS

AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
CBR	Correspondent Banking Relationship
CDD	Customer Due Diligence
EDD	Enhanced Due Diligence
ESAAMLG	Eastern and Southern Africa Anti- Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligent Unit
KYC	Know Your Customer
ML/TF	Money Laundering and Terrorist Financing
MVTS	Money or Value Transfer Service(s)
NPOs	Non-Profit Organizations
PEPs	Politically Exposed Persons
RBA	Risk Based Approach
WG-RCFI	Working Group on Risk, Compliance and Financial Inclusion

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EXECUTIVE SUMMARY

In 2017 the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) undertook a survey to assess the existence, causes and impact of de-risking in the region. The 2016 FATF Guidance on Correspondent Banking Services[1] describes *de-risking* as situations where financial institutions terminate or restrict business relationships with the entire countries or classes of customer in order to avoid, rather than manage, risks in line with the Financial Action Task Force's (FATF) risk-based approach. The Guidance also defines *Correspondent Banking Relationships (CBRs)* as the provision of banking services by one bank (the "Correspondent Bank") to another bank (the "Respondent").

The De-risking phenomenon is a serious concern for the ESAAMLG region and the global community as it has an effect of driving genuine financial transactions into less/non-regulated channels, reducing transparency of financial flows and creating financial exclusion, thereby increasing exposure to money laundering and terrorist financing (ML/TF) risks.

The 2017 De-risking Survey Report was approved by the ESAAMLG Council of Ministers during its meeting in Zanzibar in September 2017. The report was thereafter published on the ESAAMLG website. It acknowledged the existence of de-risking in several ESAAMLG member countries, albeit at varying levels. Whilst some countries had relatively low levels of impact, others were severely affected particularly countries perceived to be high risk. Economic impact of de-risking has also been felt across the region. These include difficulties in accessing international payment systems and foreign markets for trade, closure of operations by institutions, reduced scale of operations, diminished financial performance and job losses. Heavily impacted were CBRs through termination and/or restriction of relationships. This in turn created

[1] FATF Guidance on Correspondent Banking Services, 2016

cascading effects where affected financial institutions also terminated relationships with their customers, at the same time negatively impacting access to financial products and services (financial inclusion). Also affected were remittance flows into countries in the ESAAMLG region which were noted to have reduced by about 10%.

Following the publication of the de-risking report, the Council of Ministers, during its meeting in Seychelles, in September 2018, approved the recommendation of the Task Force of Senior Officials for the Project Team of the Working Group on Risk, Compliance and Financial Inclusion (WG-RCFI) to continue monitoring the de-risking situation in the ESAAMLG region (i.e. to review whether countries which were previously being affected by the phenomenon had worsen or improved) including implementation of the key recommendations of the 2017 De-Risking Report by member countries through the collation of key statistics using an approved template. In line with this decision, a *de-risking tracking template* was developed by the Project team and circulated to all 18 ESAAMLG member countries in October 2019 targeting financial sector supervisors/regulators. All the 18 ESAAMLG member countries responded and submitted to the Secretariat completed questionnaire templates with data covering the period January 2018 – June 2019. While 17 member countries submitted consolidated data, only Zambia requested the private sector to submit directly to the Secretariat without the supervisors consolidating the data. All responses were considered for data analysis.

Overall, the survey established that:

- 50% of the ESAAMLG member countries had neither shared the 2017 De-risking Report with their institutions nor taken action to implement the recommendations of the 2017 report. 11% did not indicate whether they have shared and implemented the recommendations of the Report.

- The absolute number of CBR terminations and restrictions increased by 68% from the previous period, albeit a decline in the number of member countries affected which fell to 78% from 95% in the previous period;
- Main drivers of CBR terminations and restrictions were basically similar to the ones identified in the previous period. Notable ones included changes in the correspondent bank's jurisdiction policies, in particular, decreasing risk appetite by the correspondent banks and viability aspects;
- Due to de-risking 70% of ESAAMLG member countries indicated that financial institutions in their jurisdictions further terminated relationships with downstream customers, although at lower levels compared to those in the 2017 De-risking Report;
- Groups mostly affected by terminations and restrictions are customers with negative publicities, non-face-to-face customers, Politically Exposed Persons (PEPs) and cash intensive businesses in that order. MVTS, NPOs and gambling entities identified in the previous report as mostly affected are among the least affected categories;
- The remittances sector is still being affected by de-risking, notwithstanding, at lower levels than reported in 2017. The most affected channels are banks and MVTS;
- Less than 17% of the member countries indicated that de-risking still has a significant impact on financial inclusion and the groups most affected are exporters & importers and undocumented immigrants;
- While there was a significant reduction in closed operations, there was an increase in the number of institutions who reduced the scale of operations and recorded diminished financial performance.

De-risking is a multi-dimensional challenge that consists of operational, financial and supervisory/regulatory issues that are detrimental to member states at varying degrees.

In view of this and the continued existence and effects of de-risking the Project Team encourages regulatory/supervisory authorities to continue strengthening their AML/CFT regulatory oversight and supervision frameworks, in particular, the application of the AML/CFT risk-based approach. The Project team further recommends a shared responsibility to develop sustainable solutions on an ongoing basis among all key stakeholders within the region.

CHAPTER 1 - PURPOSE, SCOPE AND METHODOLOGY

1.1 Purpose of Study

One of the recommendations of the 2017 De-risking Survey Report urged ESAAMLG member countries to maintain statistics and provide updates to the ESAAMLG Secretariat on steps that they would have taken to address de-risking and implementation of the recommendations of the report. It is based on this recommendation that this report aims to use the statistics collated for the period January 2018 to June 2019 in order to provide further assessment on the existence and level of de-risking in the region subsequent to the 2017 survey report. It also assesses progress made in implementing other recommendations of the 2017 De-risking Report. Similar exercises will be undertaken for the other periods.

1.2 Scope of the study

The study targeted the financial sector but through their regulatory and supervisory authorities. The study period covered was from January 2018 to June 2019.

1.3 Methodology

The Project Team that participated in the 2017 De-Risking survey, comprising of Angola, Kenya, Seychelles, South Africa, Zambia and Zimbabwe, were requested by the Task Force to continue monitoring the de-risking situation in the region. On this basis, the team developed a short questionnaire with five key objectives *(see section on "Analysis").* Unlike the survey in 2017 where the questionnaire was sent to both regulators and the private sector, in the current survey the questionnaire was administered only to regulatory authorities for completion. The Project Team verified data quality and data analysis was done using Microsoft excel. Three analysts were selected to validate the excel data. Thereafter, the team formed 5-subteams with a responsibility to interpret and to write findings on each of the 5 objectives before consolidation by few selected team members was done.

1.4 Limitations

While some of the responses were incomplete, inconsistent and in some cases, no responses were provided, some member countries have not responded to the questionnaire template in a meaningful way which would assist the project team members to come up with meaningful analysis and findings. Zambian authorities did not submit a consolidated template as requested, instead, they requested banks to submit directly to the project team and only six banks out of 17 banks in Zambia responded with nil returns. The banks that responded are the big banks that are less likely to be affected by de-risking. South Africa reported N/A for most sections of the questionnaire which made it difficult to interpret and at the same time portraying as if de-risking does not apply to South Africa. No reasons were given as to why the country decided to take this route especially given that it was one of the countries affected by de-risking in the previous period. Furthermore, there were delays in data analysis due to the fact that team members were working remotely because of Covid-19 pandemic and lack of appropriate software analytical tools which made the exercise onerous. Additionally, some countries did not meet deadline for submitting comments on the draft Report and this created complications in amending the report when the comments were finally received.

CHAPTER 2 – DATA ANALYSIS AND FINDINGS

2.1 Introduction

This section describes the overall findings from the analysis of the follow-up statistics provided by the members for the period January 2018-June 2019. It is divided into five sections covering the following key objective areas:

a) Progress made by member countries in implementing Recommendations of the 2017 De-risking Survey Report;
b) Continued de-risking of Correspondent Banking Relationships;
c) Continued de-risking of downstream customer relationships;
d) Impact of De-risking on Financial Inclusion and Remittance Flows; and
e) Further Economic Impact of De-risking on member countries.

The follow-up survey to assess the existence, causes and impact of de-risking in the region received responses from 18 ESAAMLG member countries.

2.2 Dissemination of Findings of the 2017 De-risking Survey Report

The Task Force urged member countries to implement Recommendations made in the 2017 De-Risking Report. These included both preventive and remedial measures. In particular, countries were urged to disseminate the 2017 De-Risking Report to their reporting entities and other competent authorities in their jurisdictions; get feedback on issues raised in the Report and at the same time highlighting interventions made by regulators and policy makers to address the concerns raised, and where necessary, escalate such issues to the ESAAMLG for concerted solutions.

2.2.1 Dissemination of 2017 De-Risking Report Findings

In order to assess progress in this regard, members were asked whether they had circulated the findings of the Report to their relevant competent authorities and reporting entities.

Fifty percent (50%) of the member countries (Madagascar, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Uganda and Zambia) indicated that they had not disseminated the Report to the competent authorities and reporting entities in their jurisdictions, while thirty-nine percent (39%) advised that they had done so. No specific reasons were given by those countries who had not disseminated the Report. Eleven percent (11%) (Lesotho and Tanzania) did not respond to the question. See Figure 1 below.

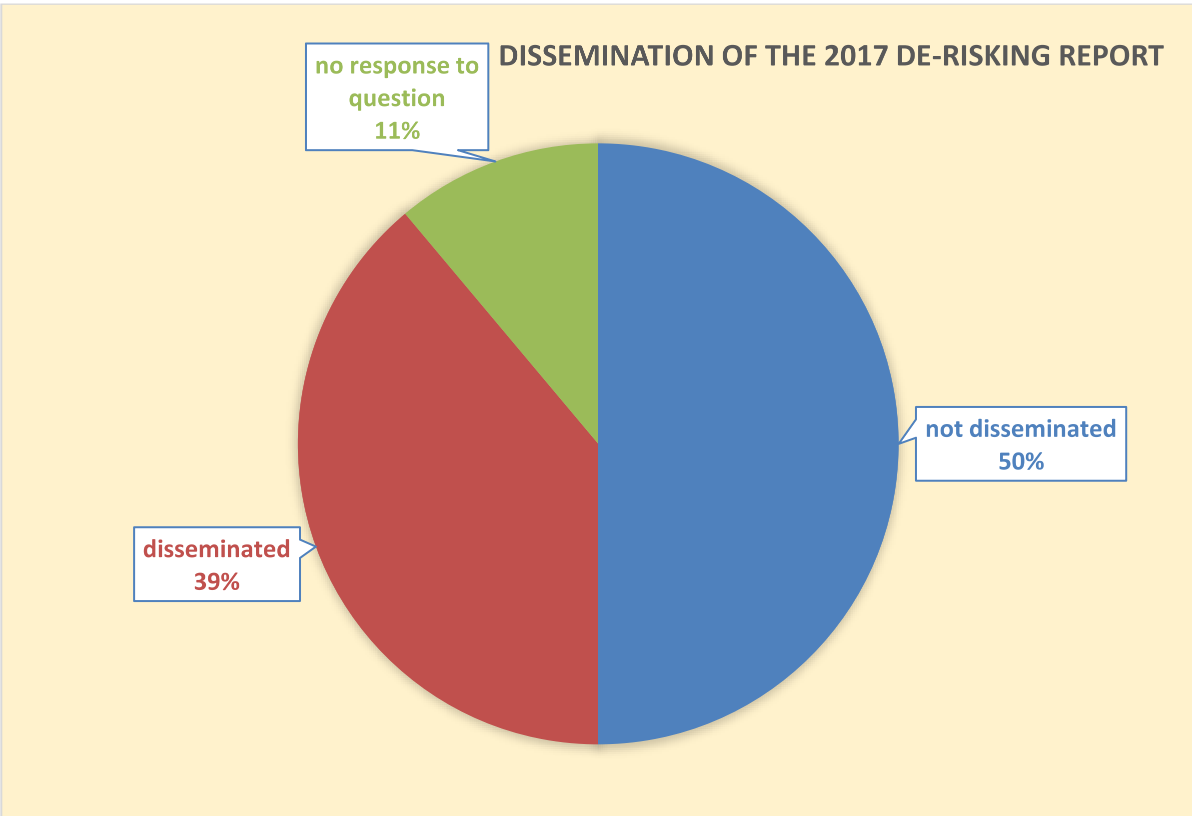

Figure 1: Dissemination of ESAAMLG Report Findings

2.2.2 Feedback Received from Disseminated Report

To allow full implementation of the Recommendations of the 2017 De-Risking Survey Report, member countries were requested to provide feedback on key issues which would require regional attention in order to assist in mitigating the effects of de-risking. This was assessed based on four variables relating to (i) capacity building; (ii) supervisory concerns; (iii) laws & regulations; and (iv) policy issues. Figure 2 shows the responses from member countries for each of the variables.

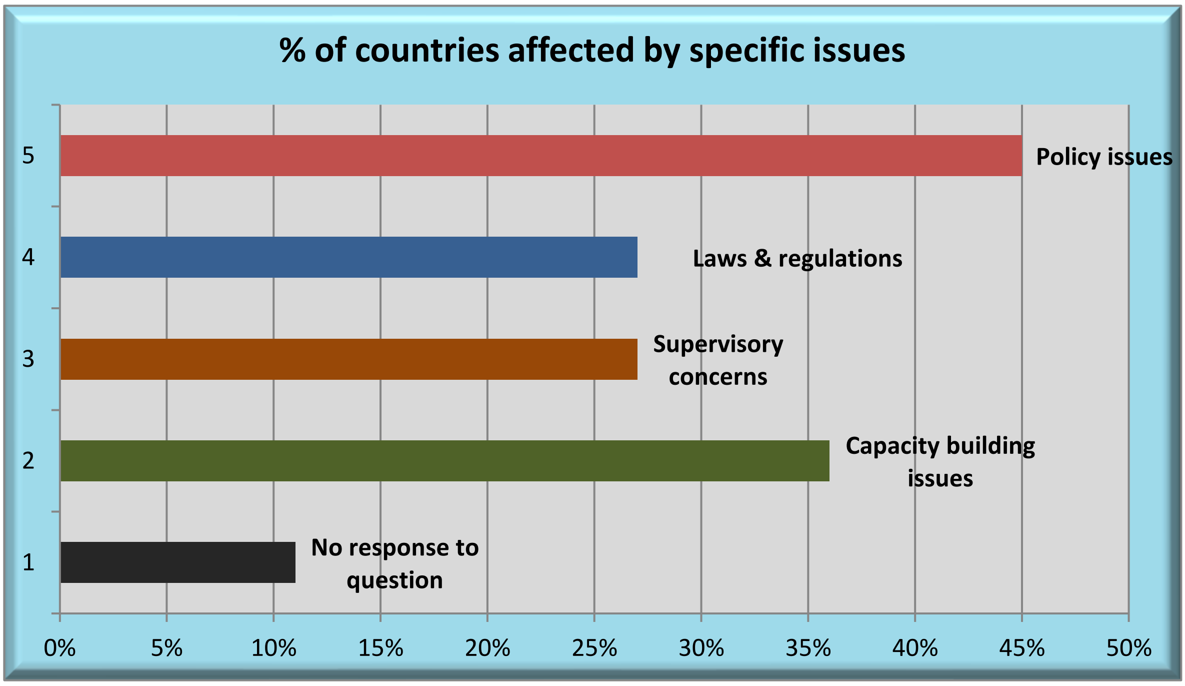

Figure 2: Percentage of countries affected by specific issues

Ninety percent (90%) of the countries responded to the question. Forty-five percent (45%) indicated the need for policy issues to be addressed at regional level in particular, the need for standard customized guidelines to assist financial institutions on conducting ML/TF institutional risk assessments. In order to strengthen their AML/CFT measures, member countries also highlighted the need for a common methodology relating to obtaining and maintaining beneficial ownership information including ultimate beneficial owners for both legal persons and legal arrangements.

Additionally, thirty-six percent (36%) expressed their desire for the region to enhance capacity building programmes in areas that were considered by the Report as contributing to de-risking in the region, which include inadequate application of AML/CFT risk-based approach and risk-based supervision measures. Although issues were raised relating to strengthening legal and supervisory frameworks, these were mainly relating to risk assessments and application of the risk-based approach and supervision.

2.2.3 Interventions

Despite highlighting areas which require regional attention, eight member countries (Angola, Eswatini, Kenya, Lesotho, Malawi, South Africa, Zambia and Zimbabwe) indicated that they had undertaken a number of intervention measures in order to address some gaps that were highlighted in the 2017 De-Risking Survey Report. These measures ranged from strengthening the licensing process, in particular, focusing on those entities that were identified as highly exposed to de-risking; strengthening their AML/CFT institutional and legal frameworks to incorporate application of risk-based approach. Some member countries like Zambia organized public/private sector collaboration workshops focusing on de-risking and AML/CFT Compliance for banks and money transfer operators. Despite countries like Botswana, Mauritius, Namibia, Rwanda, Seychelles, Tanzania and Uganda featuring in the 2017 De-Risking Survey Report as being among the countries affected by de-risking, they have not indicated intervention measures, if any, which they have taken to address the phenomenon following the recommendations of the Report.

2.3 Continued De-Risking of Correspondent Banking Relationships (CBRs)

The 2017 De-Risking Survey Report found that a total of 108 CBR accounts were affected by terminations or restrictions between the periods 2011 to 2016. Of these accounts, about twenty percent (20%) were affected by restrictions while eighty percent (80%) were affected by terminations. Most of the reasons were centered around

AML/CFT concerns. In view of this finding, this section seeks to examine changes in the number of CBR accounts restricted and terminated between January 2018 and June 2019 denoted by three half-year periods of H1, H2 and H3[2].

2.3.1 CBRs Restrictions and Terminations

Members were requested to indicate the number of CBR restrictions and terminations that were experienced during the period under review and the corresponding reasons for the restrictions and terminations.

During the period under review, 146 accounts were found to be terminated (compared to 89 accounts from 2011-2016) while 35 accounts were restricted (compared to 19 in 2011-2016). In order to compare the findings of the 2017 De-risking Report and the current period, a trend analysis was conducted shown in Figure 3. It shows that the number of accounts terminated and restricted continued to increase from 2011 reaching a peak of 57 and 16 accounts respectively between January-June 2018 before declining. Although terminations show a declining trend from H2-H3, the number of accounts affected are still a cause of concern.

[2] HI refers to the period Jan -June 2018 and H2 refers to July – Dec 2018 and H3 refers to Jan – June 2019 (also referred to as H1 2019)

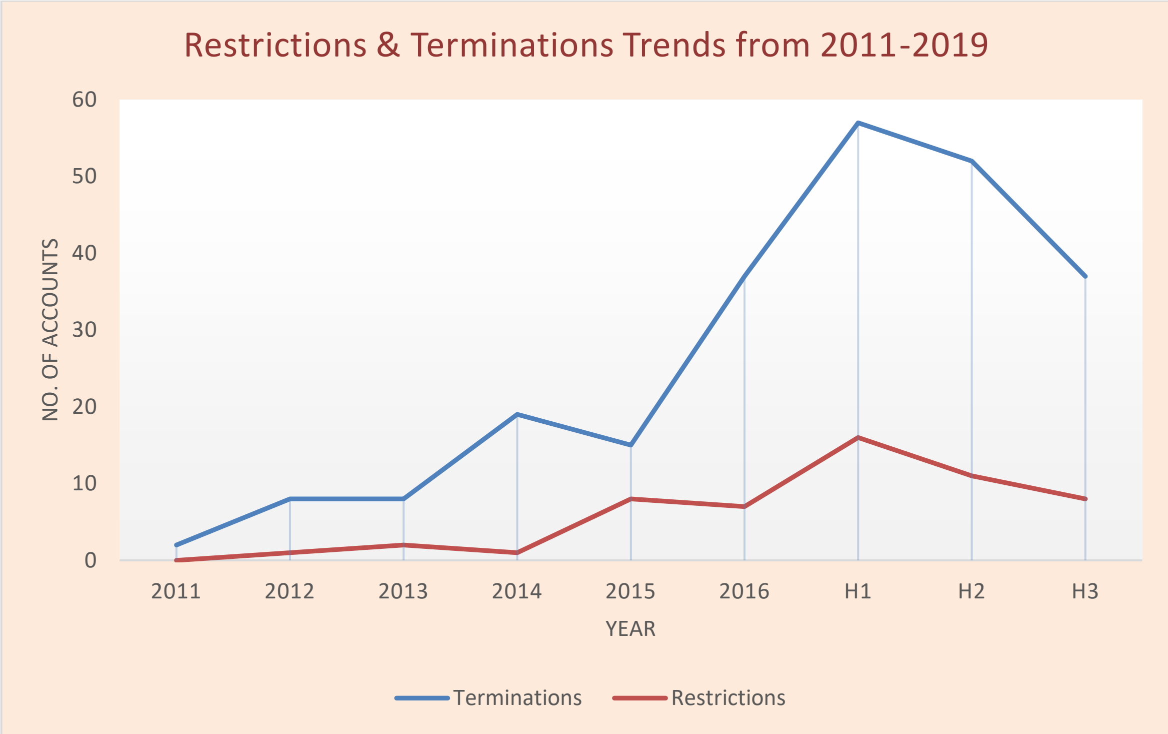

Figure 3: Restrictions and Terminations trend analysis

Restrictions

At country level, responses show that fifty percent (50%) of the ESAAMLG member countries were affected by restrictions during the period under review, which is an increase from twenty-eight percent (28%) reported in the 2017 De-Risking Report. Zimbabwe, Kenya, Botswana and Ethiopia reported the highest numbers of CBRs restricted constituting a total of about seventy-one percent (71%) of all restrictions in the region during the period under review. Figure 4 shows all the countries affected by restrictions.

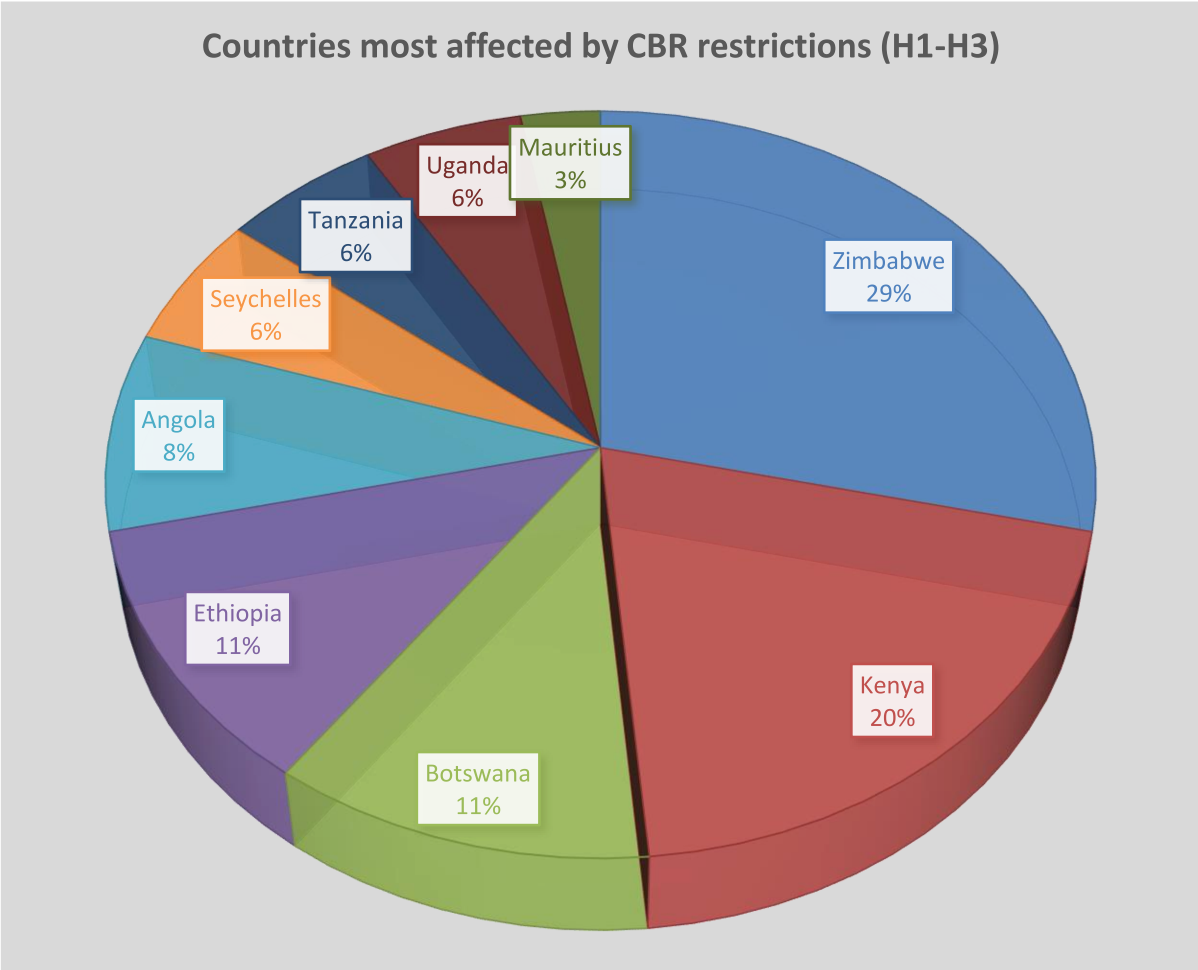

Figure 4: CBR Restrictions

Terminations

Seventy-two percent (72%) of all the countries in the region were affected by CBRs terminations (compared to ninety-five percent (95%) reported in the 2017 De-risking Report), albeit at varying levels. Zimbabwe, Tanzania, Mozambique, Uganda, Kenya and Madagascar were most affected by CBRs terminations constituting ninety percent (90%) of all the terminations during the period under review. Zimbabwe, Tanzania and Mozambique alone constitute sixty-eight percent (68%) of all the terminations. Figure 5 shows the level of terminations per country.

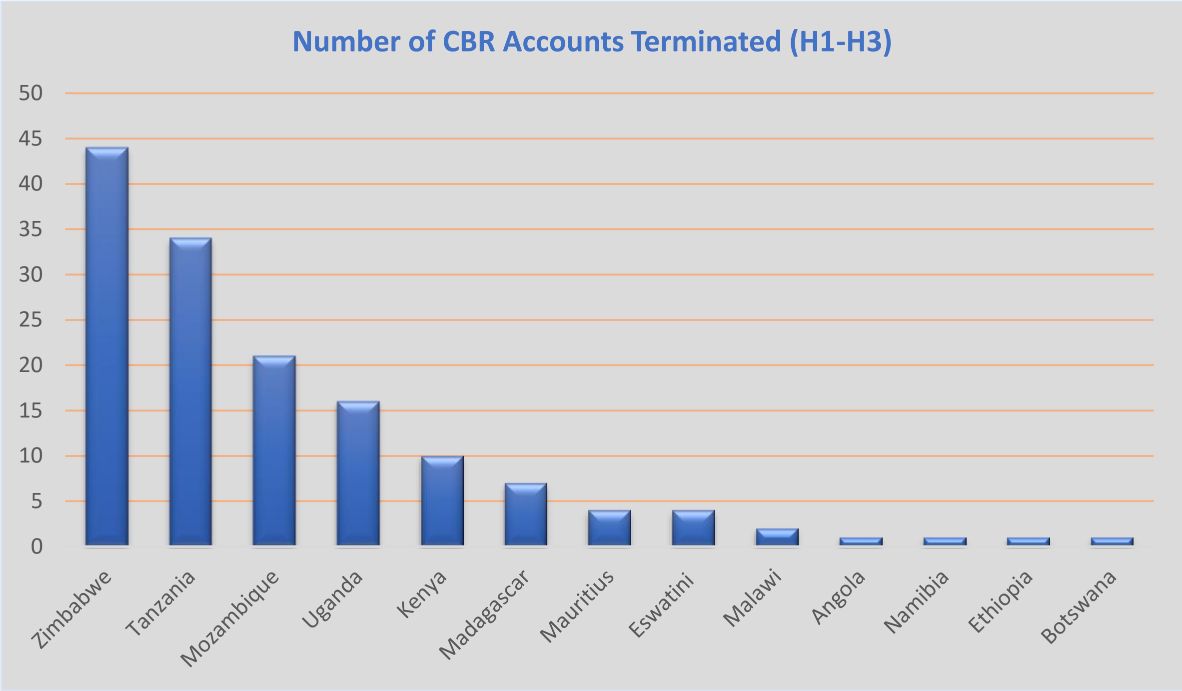

Figure 5: CBR terminations per country

Taking note of the limitations highlighted in the paragraph above, the rest of the countries indicated that they had not been affected by terminations and restrictions over the period.

Generally, most countries that were affected by CBR terminations in the previous period are still the ones experiencing terminations during the period under review with the exception of South Africa which indicated that it has not experienced CBR terminations during the period under review. Angola which experienced one termination indicated that the terminations reported in the 2017 De-risking Report were all on USD denominated accounts. While Angola remains de-risked on USD denominated accounts, about 53% of the affected FIs in Angola were able to either find alternative CBRs in other currencies (not USD) or through nesting. The CBR termination and restrictions that happened during the current period were denominated in other currencies.

Figure 6 shows the trend of CBRs terminations for each of the most affected countries over the period H1-H3. While the general trend shown under figure 3 is an increase in the number of terminations from 2011, some countries such as Zimbabwe, Kenya and

Madagascar experienced a decreasing trend in terminations over the period H1-H3. Mozambique, which did not feature in the previous report as being affected by terminations, together with Mauritius experienced an upward trend in terminations. Terminations in Tanzania and Uganda are bell curved.

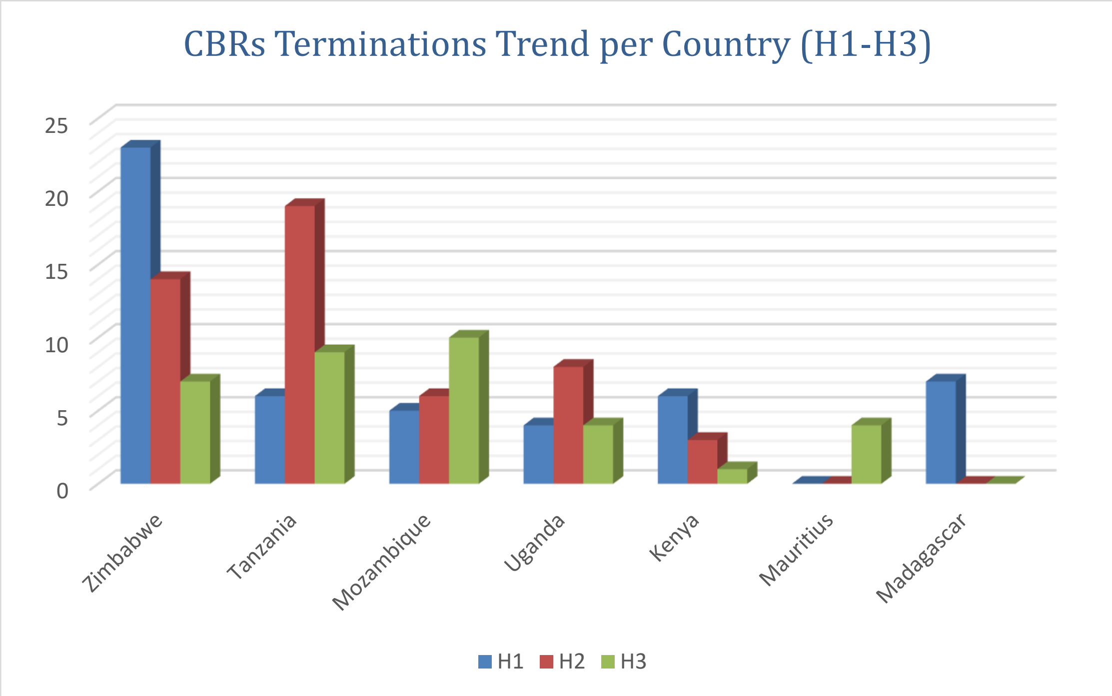

Figure 6: CBRs Terminations trend per Jurisdiction over H1-H3

Table 1 shows the comparison of changes in terminations and restrictions for each country between period 2011-2016 and January 2018 – June 2019.

Table 1: Changes in Terminations (T) and Restrictions (R)

Country	**Comparison of No. of Terminations (T) & Restrictions**					
	2011 - 2016		**Jan 2018 – June 2019**		**% change**	
	T	**R**	**T**	**R**	**T**	**R**
Angola	7	7	1	3	(86%)	(57%)
Botswana	2	0	1	4	(50%)	400%
Ethiopia	0[3]	0	1	4	100%	400%

[3] Where the value for the base period (2011-16) is zero, for the purpose of comparison this value has been considered as one to enable percentage comparisons across countries

Eswatini	1	0	4	0	300%	0
Kenya	17	6	10	7	(41%)	17%
Lesotho	2	0	0	0	(100%)	0
Madagascar	2	1	7	0	250%	100%
Malawi	7	0	2	0	(250%)	0
Mauritius	3	0	4	1	33%	100%
Mozambique	1	0	21	0	2000%	0
Namibia	1	0	1	0	0	0
Rwanda	4	2	0	0	(100%)	(200%)
Seychelles	4	0	0	2	(100%)	100%
South Africa	12	3	0	0	(100%)	(100%)
Tanzania	9	0	34	2	278%	100%
Uganda	2	0	16	2	700%	100%
Zambia	3	0	0	0	(100%)	0
Zimbabwe	12	0	44	10	267%	900%
TOTALS	**89**	**19**	**146**	**35**		

Figure 3: CBR Terminations per country

The biggest change in terminations is in Mozambique at two thousand percent (2000%) followed by Uganda at seven hundred percent (700%). Zimbabwe, Botswana and Ethiopia recorded the biggest change in restrictions at 900% and 400% respectively.

2.3.2 Reasons for Restrictions and Terminations

The 2017 De-Risking Report highlighted several reasons as the causes/ drivers of foreign financial institutions' decisions to terminate or restrict foreign CBRs chief among which were reasons attributed to changes in the correspondent bank's jurisdiction/ policies, in particular, decreasing risk appetite by the correspondent banks. Reasons attributed to concerns on the respondent bank's jurisdiction were next.

This survey has shown that similar reasons that were identified in 2017 as driving restrictions and terminations of CBRs are dominantly the same reasons indicated by affected member countries. Seventy-two percent (72%) of the member countries indicated reasons relating to correspondent's business/ Regulatory concerns namely; overall risk appetite of the correspondent bank, lack of profitability of certain foreign CBR services/products, changes to legal, regulatory or supervisory requirements in the correspondent banks that have implications for maintaining CBRs, compliance with pre-existing legal/ supervisory / regulatory requirement by the correspondent bank and impact of internationally agreed financial regulatory reforms. About thirty percent (30%) of the respondents further indicated jurisdictional concerns such as ML/TF risks in the jurisdiction including imposition of international sanctions on the jurisdiction.

2.4 Continued De-Risking of Downstream Customer Relationships

The 2017 De-Risking Report found that although terminations and restrictions have occurred both at the level of bank-to-bank relationships, it also occurred at financial institutions-to-customer relationships. As a result of CBRs de-risking, eighty percent (80%) of financial institutions in the ESAAMLG region further terminated relationships with some customers, especially those considered as presenting an unacceptable level of ML/TF risk or from jurisdictions posing higher ML/TF risk and on the grounds that the products, services, transactions or delivery channels presented an unacceptable level of ML/TF risk. It was further found that majority of terminations had occurred in the banking sector.

This section therefore seeks to establish the continued existence and levels of downstream terminations of customer accounts.

Thirteen countries (72%) reported continued existence of de-risking of customer relationships while four countries (22%), Angola, Ethiopia, Rwanda and Zambia reported that there was no indication of continued de-risking of customer relationships in their jurisdictions. South Africa reported that de-risking of downstream customers was zero for the period under review. This is so despite the findings of the 2017 De-Risking Survey Report which indicated that 98.8% (or 468,833 accounts) of the downstream terminations of customer accounts occurred in South Africa over the period 2011 – 2015.

A total of 1,389 customer accounts were terminated by financial institutions, mostly banks, during the 18-month period under review. This constitutes 0.3% of the number of accounts closed between 2011-2015. The majority of the customers affected by the closure are from Kenya (42%), Mauritius (15%), Uganda (13%), Tanzania and Zimbabwe (10% each) contributing a total of 90% of the accounts closure in the region. Figure 7 shows all the countries that experienced downstream accounts closure.

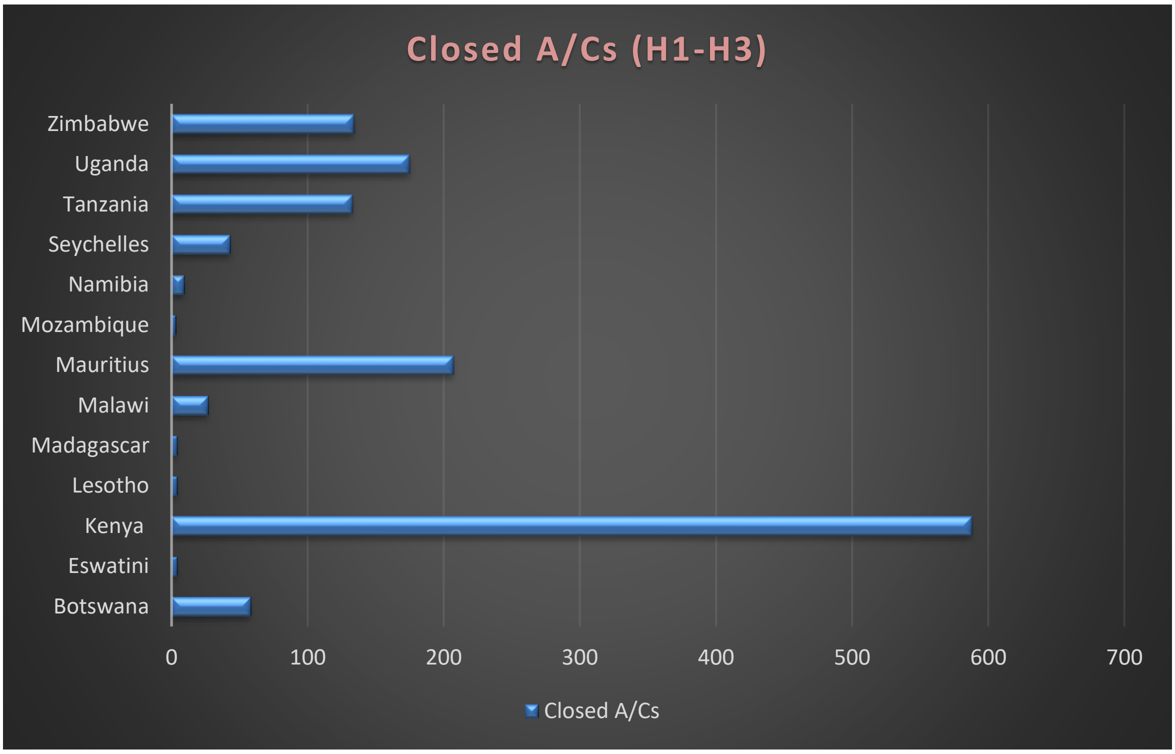

Figure 7: Customer accounts closed

There were several reasons reported as to why customer accounts were closed. However, two categories emerged prominently as major reasons and these are (a) customer accounts closed due to AML/CFT concerns, and (b) accounts closed in response to conditions imposed by correspondent banks.

(a) Customer accounts closed due to AML/CFT concerns

These denote accounts that were closed on account of unacceptable levels of ML/TF risks inherent in certain (i) customers, (ii) jurisdictions and (iii) products and/or services, and (iv) transactions or delivery channels. Figure 8 shows the number of accounts closed due to AML/CFT concerns.

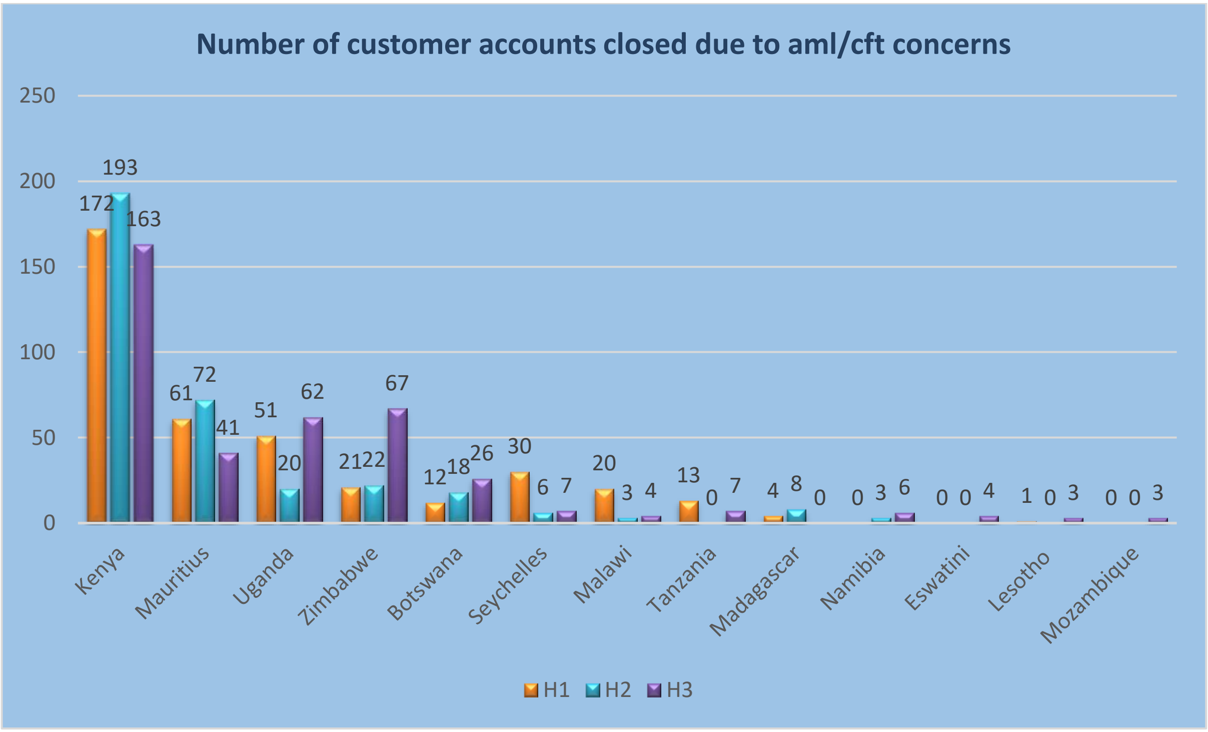

Figure 8: Number of customer accounts closed due to AML/CFT concerns

Like in the previous period, Kenya and Mauritius reported the highest numbers of customer relationships that were terminated as a result of AML/CFT concerns. South Africa which featured as one of the highest affected country in the previous report has not reported any statistics, instead, it indicated that this question is not applicable (N/A) to the country.

Figure 9 depicts the customer groups that were impacted by closure of accounts due to AML/CFT concerns.

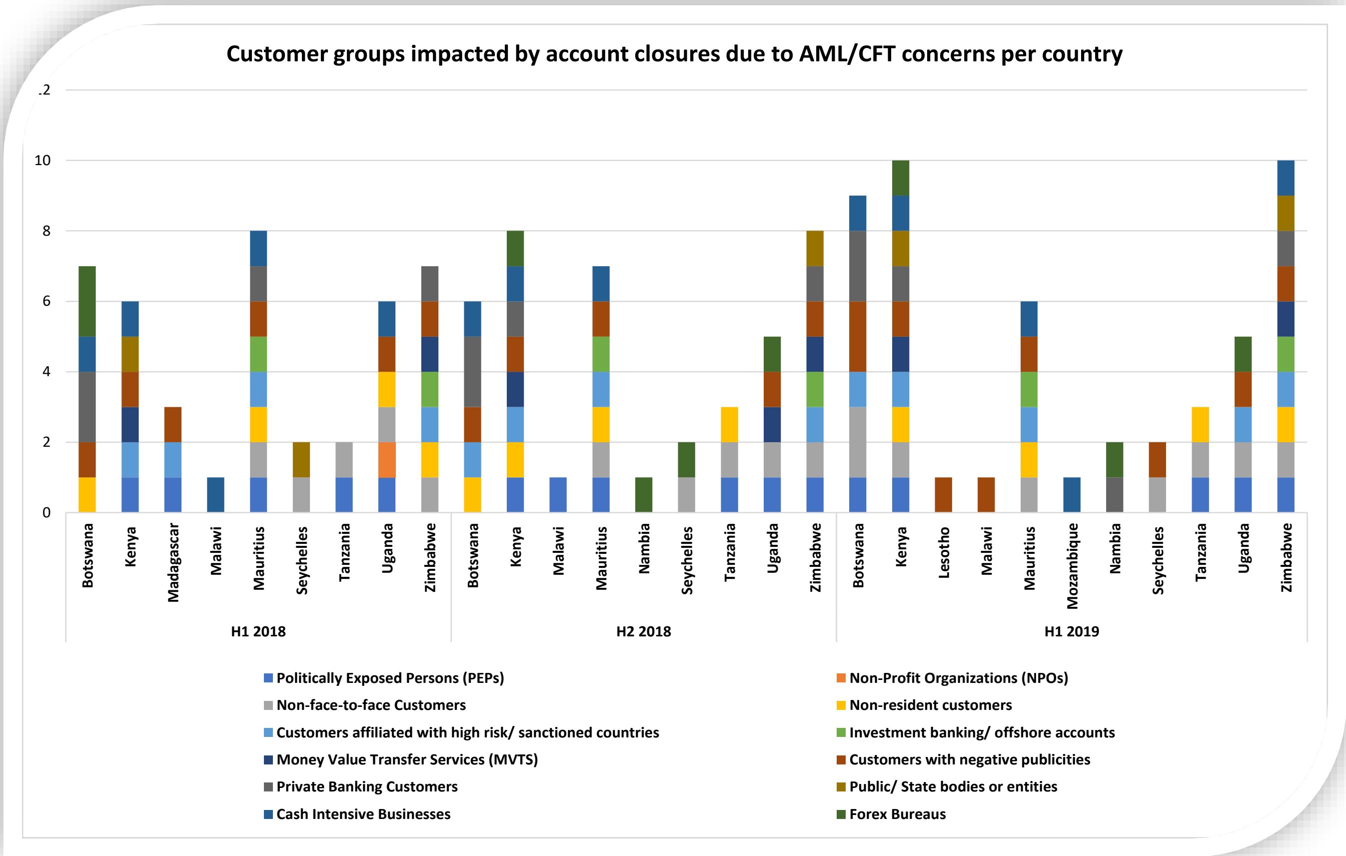

Figure 9: Customer groups impacted by closures due to ML/TF risk concerns

It shows that the top most affected categories are, customers with negative publicities, non-face-to-face customers, Politically Exposed Persons (PEPs) and cash intensive businesses, in that order. MVTS and NPOs are among the least affected categories in most countries.

(b) *Accounts closed in response to conditions imposed by correspondent banks*

Figure 10 depicts that seven countries, namely Mauritius, Tanzania, Kenya, Uganda, Zimbabwe, Mozambique and Botswana terminated customer relationships in response to conditions imposed by correspondent banks.

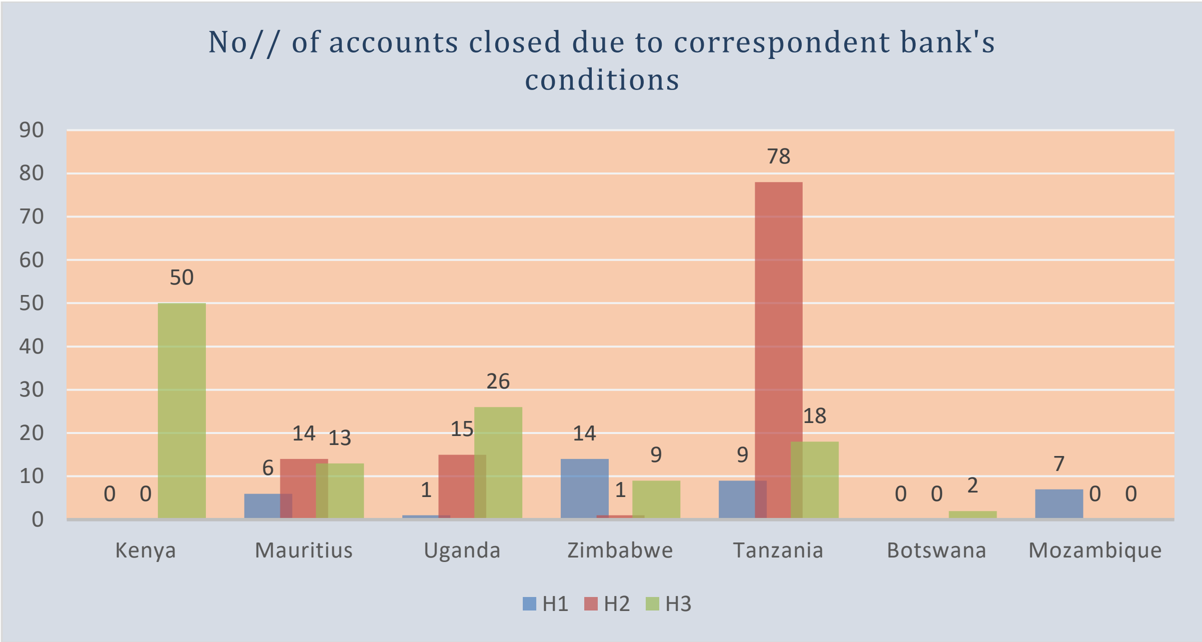

Figure 10: Number of customer accounts closed due to correspondent banks' conditions

Tanzania, Kenya and Uganda reported majority of accounts closed by their financial institutions due to conditions imposed by correspondent banks accounting for seventy-five percent (75%) of all accounts closed due to this reason.

Customer groups that were most impacted by closure of the accounts due to conditions imposed by correspondent banks are shown in Figure 11. In addition to non-face-to-face customers and customers with negative publicities, member countries also highlighted that customers affiliated with high/sanctioned countries were among the mostly impacted customer groups. This is unlike the findings of the 2017 De-Risking Survey Report where MVTS, NPOs and Gambling entities (casinos, betting, lotteries) were among the most affected customer categories in most countries.

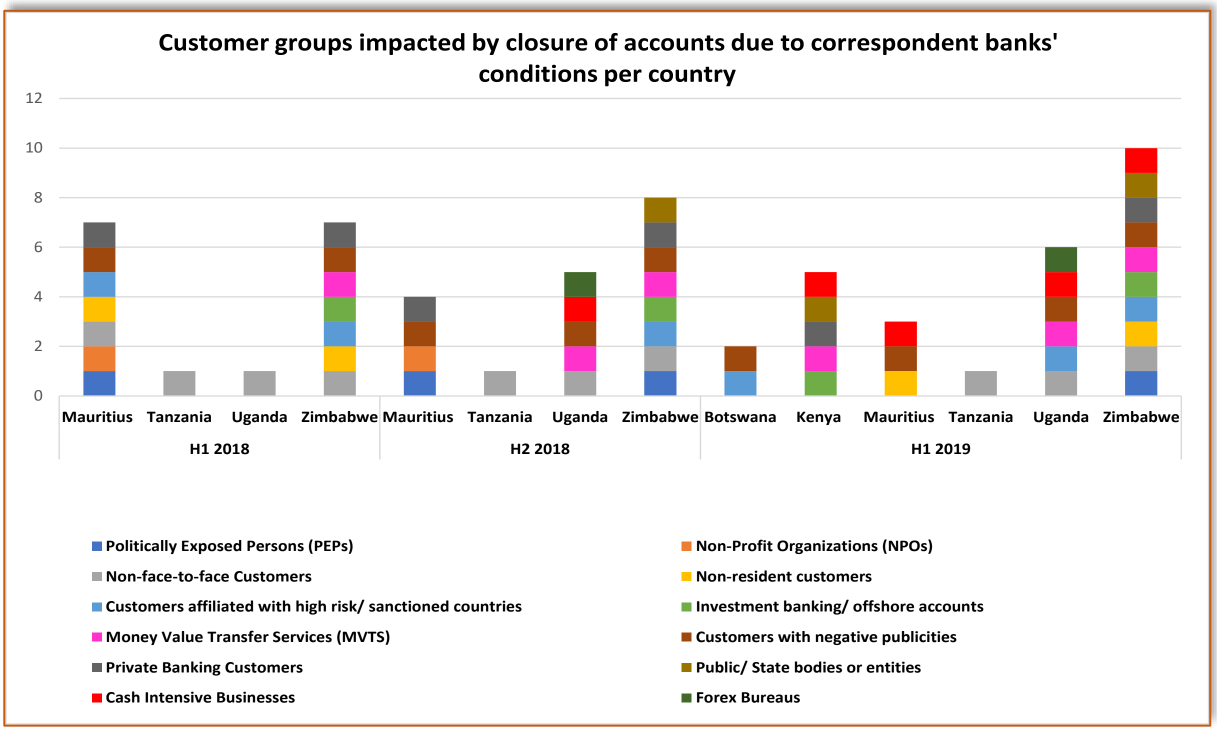

Figure 11: Customer groups impacted by account closures by FIs

2.5 Impact of De-risking on Financial Inclusion and Remittance Flows

This section examines changes in the impact of de-risking on financial inclusion products and on remittance flows.

2.5.1 Impact of de-risking in the Remittances Sector

During the previous survey, the Regulators/ Authorities indicated that the extent of impact of de-risking on remittances was low affecting less than 10% of money remittance/ money value transfer service providers or their agents' transactions. Five jurisdictions namely Angola, Botswana, Tanzania, Uganda and Zimbabwe indicated that money remittance/ money value transfer service providers or their agents had been affected by de-risking resulting in some of them experiencing a reduction in remittance flows.

The results of this survey authenticate the findings of the 2017 De-Risking Report that there is a low impact of de-risking in the remittances sector. Only the flow of remittances in Tanzania and Zimbabwe were mostly impacted by de-risking. All the other countries including some of those that were previously impacted such as Botswana and Uganda have not reported any negative impact of de-risking on remittances flows. While Angola was affected in H1, it has experienced positive inflows of remittances since then.

Although remittances in Tanzania and Zimbabwe were negatively impacted, there was a general increase in remittances in the region averaging to nine percent (9%) from the previous period. Figure 12 below shows countries whose remittances sectors were affected by de-risking.

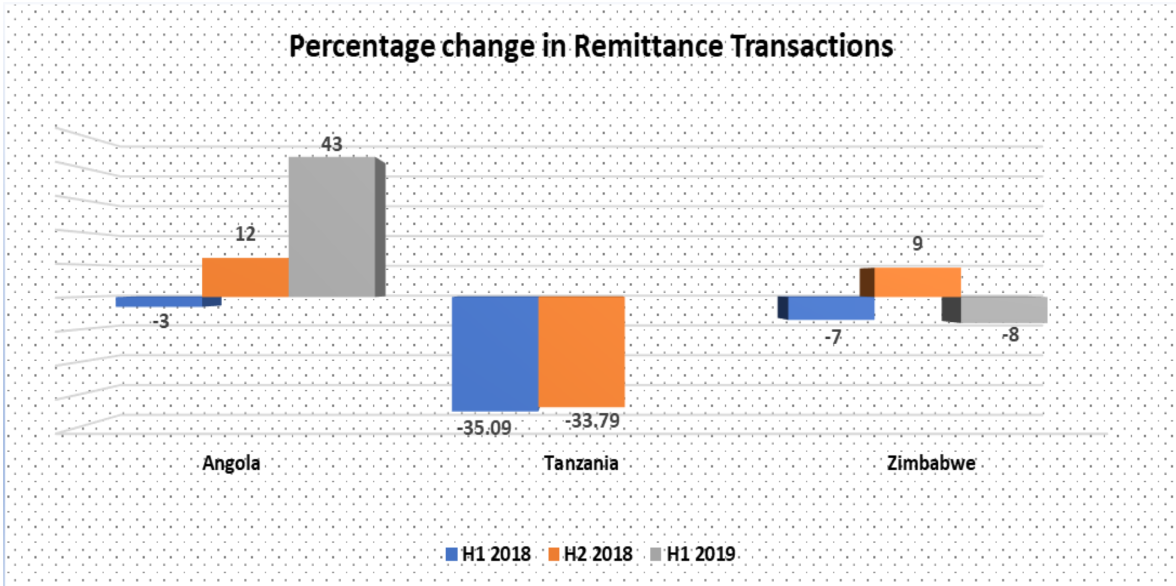

Figure 12: Percentage change in Remittance Transactions

2.5.2 Impact of de-risking in the Financial Inclusion Sector

The survey sought to examine the impact of de-risking on financial inclusion since the last De-risking Survey report in 2017. As shown in Figure 13, three countries, namely Uganda, Mozambique and Malawi reported that de-risking is still a threat to financial inclusion, with Uganda being the most affected country. This is, however, an improvement from nine countries that were highlighted as negatively impacted in the 2017 De-risking Report. Mozambique, which was not impacted in the previous review period, has advised that financial exclusion increased by 3.3% (from 64% in 2016 to 67.3% in 2018) mainly due to KYC related issues. Other countries have not reported any impact on financial inclusion in their territories.

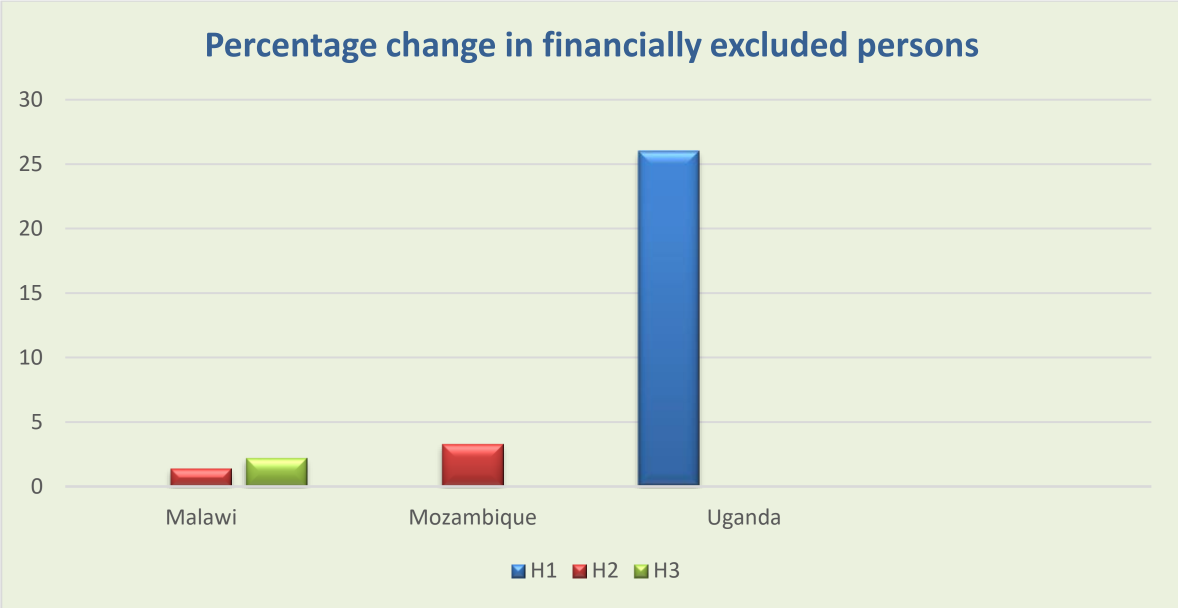

Figure 13: Percentage change in Financially Excluded Persons by Country

The affected countries indicated that undocumented immigrants, importers and exporters were some of the specific customer types/ groups whose access to financial inclusion products/ services was affected. MVTS, forex bureaus, PEPs, and customers from high-risk countries which were highlighted as significantly affected in the 2017 De-risking Report were all not mentioned as affected in the current review.

2.6 Economic Impact of De-risking

This section examines the economic impact of de-risking in the ESAAMLG region between January 2018 and June 2019 focusing on institutions that have:

- Closed Operations;
- Reduced the Scale of Operations;
- Recorded Diminished Financial Performance; and
- No access to Correspondent Banking Relationships.

Responses from member countries are shown in Figure 14.

Closed Operations

Unlike the previous period where three countries (Angola, Malawi and Uganda) were affected by closed operations, this survey has noted that there were no significant experiences where operations were closed due to de-risking. Only one country, Namibia, indicated that one financial institution was affected by closure of operations during the first half of 2018 mainly due to de-risking. The rest of the countries were not impacted during the period under review.

Reduced Scale of Operations

During January 2018 - June 2019, four countries namely Angola, Seychelles, Tanzania, and Zimbabwe indicated that de-risking had resulted in reduced scale of operations affecting 22 financial institutions compared to less than 10 institutions in the previous period. While Angola and Tanzania were the most affected, Malawi and Uganda which featured in the previous report indicated that they have not experienced any further closure of operations.

Diminished Financial Performance

Three countries, Angola, Seychelles and Mauritius indicated that they have recorded diminished performance. This is an increase from one country (Uganda) which was affected in this regard in the previous period.

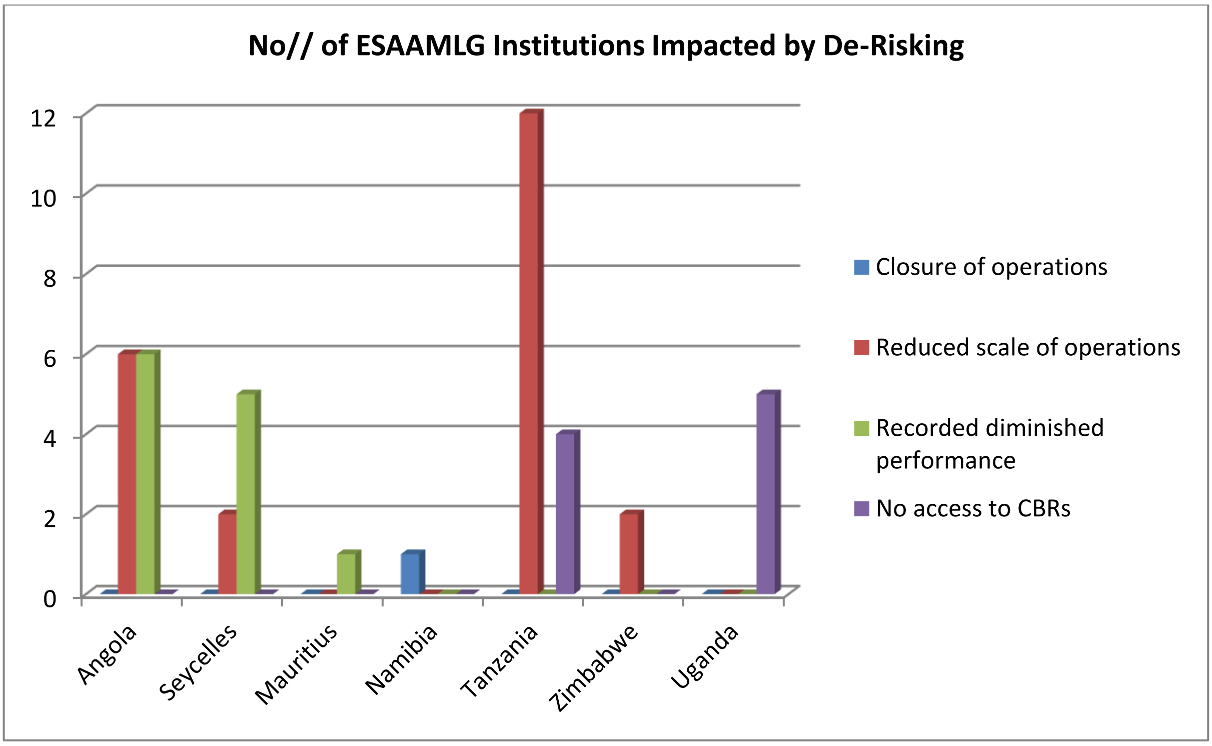

Figure 14: Impact of de-risking

Access to CBRs

During January 2018 - June 2019, 9 financial institutions, 4 from Tanzania and 5 from Uganda were reported as not having access to CBRs due to de-risking. Uganda reported that the failure to obtain correspondent bank was due to the failure by the financial institution to demonstrate effectiveness of AML/CFT requirements as stipulated by the correspondent Bank.

Additionally, Angola highlighted that currently some banks have no access to USD denominated CBRs. However, after the loss of the USD denominated CBRs, the affected Banks in Angola used alternative options which include replacing the USD for the EUR in the settlement of cross-border transactions.

CHAPTER 3 - KEY FINDINGS, RECOMMENDATIONS & CONCLUSIONS

3.1 Key Findings

The Survey highlighted the key findings below:

1. That 50% of the member countries have not disseminated and taken steps to implement the recommendations of the 2017 De-risking Survey Report;
2. That some member countries have not responded to the survey questionnaire in a meaningful way which would assist the project team members to come up with meaningful findings (see "limitations" section). Such scenarios may tend to distort correct status of de-risking in the region;
3. That CBR de-risking still exist in the region. 72% of the member countries were affected by terminations, which is a decline from 95% highlighted in the 2017 Report. However, 50% of the countries were restricted, up from 28% highlighted in the 2017 Report. Overall, the number of relationships terminated and restricted increased by 68% from the previous period, although they were mostly concentrated on a few countries;
4. Main drivers of CBR terminations and restrictions were found to be basically similar to the ones identified in the previous period, to wit, reasons relating to correspondent's business/ Regulatory concerns namely; overall risk appetite of the correspondent bank, lack of profitability of certain foreign CBR services/products, changes to legal, regulatory or supervisory requirements in the correspondent banks that have implications for maintaining CBRs, compliance with pre-existing legal/ supervisory / regulatory requirement by the correspondent bank and impact of internationally agreed financial regulatory reforms;

5. De-risking of downstream customer relationships still exists in the region affecting 70% of the ESAAMLG member countries, albeit, at lower levels. The number of accounts affected have reduced by 99.7% from those previously recorded in 2017;
6. Only one country, South Africa, which was among countries found to be most affected by de-risking in the previous period has reported that it has neither been affected by CBR terminations and restrictions nor has it been affected by downstream terminations of customer relationships;
7. Groups that were most affected by terminations and restrictions are customers with negative publicities, non-face-to-face customers, Politically Exposed Persons (PEPs) and cash intensive businesses, in that order. MVTS, NPOs and gambling entities identified in the previous report as mostly affected are among the least affected categories;
8. That the remittances sector is still being affected by de-risking, albeit, at lower levels than reported in 2017;
9. While most countries have indicated that de-risking has not impacted on financial inclusion, only 17% indicated that financial inclusion is still affected by de-risking and that the groups most affected are exporters, importers and undocumented immigrants;
10. While there was a significant reduction in closed operations, there was an increase in the number of institutions who reduced the scale of operations, recorded diminished financial performance and those with no access to CBRs.

3.2 Recommendations

The team recommends the following measures:

- Encourage member countries to participate fully in regional surveys in order to enable the region to identify the correct status of de-risking and at the same time to allow for development of strategies that will benefit the region as a whole.

Members are further encouraged to cooperate in the implementation of the recommendations agreed upon by the region;

- Authorities and respondent banks, individually or collectively to continue engaging correspondent banks on their expectations and possible improvements or actions that respondent banks are expected to take in order to limit terminations and restrictions;
- Correspondent banks should consider other alternative measures to take before they consider terminating or restricting relationships such as giving notices or engaging the central banks of respondent institutions;
- Member countries and reporting entities to be encouraged to implement effective risk-based approaches and risk-based supervision in line with the FATF recommendations;
- In order to limit downstream terminations, financial institutions should be encouraged to conduct institutional risk assessments to determine the level of risk of each product/services, channel, customer and geography and to consider applying commensurate measures rather than or before the decision to close the accounts;
- The policy responses to CBR withdrawal need to be more comprehensive and uniform across the ESAAMLG region mainly on the strengthening and aligning of supervisory and regulatory frameworks;
- Apply proportionate and simplified due diligence measures for financial inclusion products.

3.3 Conclusion

The de-risking trend continues to be prominent in some parts of the ESAAMLG region and still affecting some member countries. Reduced scale of operations for institutions remains to be one of the major results of de-risking within the region, which results into financial exclusion and some institutions left with no access to CBRs. There were no reports where large number of business operations were closed due to de-risking and the remittance sector was insignificantly affected. Whilst de-risking historically affects mostly low-income groups, these groups typically use the informal sectors which are unregulated and have higher ML/TF risk due to financial exclusion. However, financial exclusion was not recorded as extraordinary for the period under review compared with the 2017 review. It is evident that collaboration by the member countries' regulators and reporting entities remains vital to reduce the effect of de-risking on financial exclusion. The results of the survey clearly indicated that member countries should continue to implement remedial and preventative measures set in the 2017 De-risking Report and this report. Although some intervention measures were taken by some member countries, it was noted that some member countries affected by de-risking had not implemented any intervention measures nor have they responded accordingly to the call of monitoring de-risking within the region. In order to curb the de-risking phenomenon, good AML/CFT measures addressing the risk and that also encourages financial inclusions should be set by member countries.