



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

September 2023

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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 African Anti-Money Laundering Group (ESAAMLG) undertook a survey to assess the existence, causes and impact of de-risking¹ in the ESAAMLG region. The report was approved by the ESAAMLG Council of Ministers in September 2017 and thereafter the first follow up report was approved in 2021 and a second report was approved in September 2022. Following the publication of the second follow up report, the Project Team of the Working Group on Risk, Compliance and Financial Inclusion (WG-RCFI) was requested to continue monitoring the de-risking situation in the ESAAMLG region by being more specific to: correspondent banking relationships in particular for terminations and terminations related to new technologies; and de-risking of customer relationships more specifically to terminations and restrictions. The revised mandate of the team focused on the number of terminations and accounts closed/restricted, the reasons for terminations and restrictions, the type of currencies affected, the types of institutions and customers affected, the geography affected, and the volume and balance of accounts affected.

Key Findings

The Survey highlighted the key findings below:

¹ See FATF Guidance on Correspondent Banking Services, 2016 for definitions of de-risking and CBRs

1. Twelve out of nineteen countries continue to be affected by de-risking at different levels.
2. The assessment of continued de-risking on CBRs terminations for new technologies is a new objective under the updated template for this follow-up assessment and only two countries provided data in this regard (Botswana and Zambia).
3. The unique and often unfamiliar business model of virtual assets poses a challenge to regulators and policy makers around the world who are unsure how to deal with this payment method. Therefore, the project team is under the assumption that majority of the ESAAMLG member countries do not have the risk appetite to embrace the new technologies based on the data submitted. The way these private or consortium solutions could be implemented is by introducing central bank digital currencies (CBDCs). It is likely that upcoming innovations in the correspondent banking system, if any, will be driven by new CBDCs and their different implementations. These CBDCs will be promoted by government agencies as this will create trust and make inclusion into the traditional financial system way more likely.
4. The number of customer accounts that were terminated showed a significant increase when compared to the previous reporting period.
5. Crypto-assets continue to be a concern to the region, with some countries such as Kenya, Rwanda and Tanzania further indicating termination of accounts linked to these transactions.

6. De-risking may be impacting financial inclusion, as customer groups from villages have been de-risked. This relates to individuals, SMEs, and cash intensive businesses have had their accounts terminated.
7. The trickle-down effects of terminations and restrictions of CBR continues to affect individual customers as institutions pass on the effects to their customers.
8. USD and Euro are the currencies that are mainly affected by de-risking across the region.

1 PURPOSE, SCOPE AND METHODOLOGY

1.1 Purpose of Study

The aims of the third follow-up report is to provide a further assessment on whether de-risking still exist in the region whilst being more specific on the drivers of de-risking and the impact as felt by both country and customers. The Project Team's findings will determine whether the measures put in place to reduce de-risking are working effectively and if further monitoring at regional level is still required.

1.2 Scope of the study

The study targeted the financial sector but through their regulatory and supervisory authorities. The study covered the period from January 2021 to August 2022. This report considers 20 ESAAMLG member countries in its analysis.

1.3 Methodology

The Project Team which comprises of Angola, Seychelles, South Africa, Zambia and Zimbabwe continues to monitor the de-risking situation in the region. On this basis, the Team developed a new template which has four key objectives (*see section on "Analysis"*) to achieve this aim. The questionnaire was sent to the regulatory authorities for completion. The Project Team verified data quality and data analysis was done using Microsoft excel. The Team formed 4-subteams with a responsibility to analyse the data, come up with findings and make recommendations on each of the 4 objectives.

1.4 Limitations

It is noted that responses from some member countries were incomplete, inconsistent and in some cases, not provided. South Sudan did not submit the questionnaire and therefore the data considered was from only 19-member countries. Additionally, some member countries did not provide adequate information which would assist the Project Team to present an accurate picture of the impact of de-risking in the region.

2 ANALYSIS AND FINDINGS

This section describes the overall findings from the analysis of the follow-up statistics provided by the members for the period of January 2021 to August 2022. It is divided into four sections covering the following key areas:

- a) Continued de-risking of correspondent Banking Relationships (CBRs) (Terminations);
- b) Continued de-risking of Correspondent Banking Relationships (Termination -New Technologies);
- c) Continued downstream de-risking of customer relationships (Terminations); and
- d) Continued downstream de-risking of customer relationships (Restrictions).

2.1 Continued De-risking of Correspondent Banking Relationships (Terminations)

Member countries were requested to indicate the number of CBR terminations, institutions affected, the volume of transactions involved, the type of currency affected, the geographical area affected, and the corresponding reasons during the period under review.

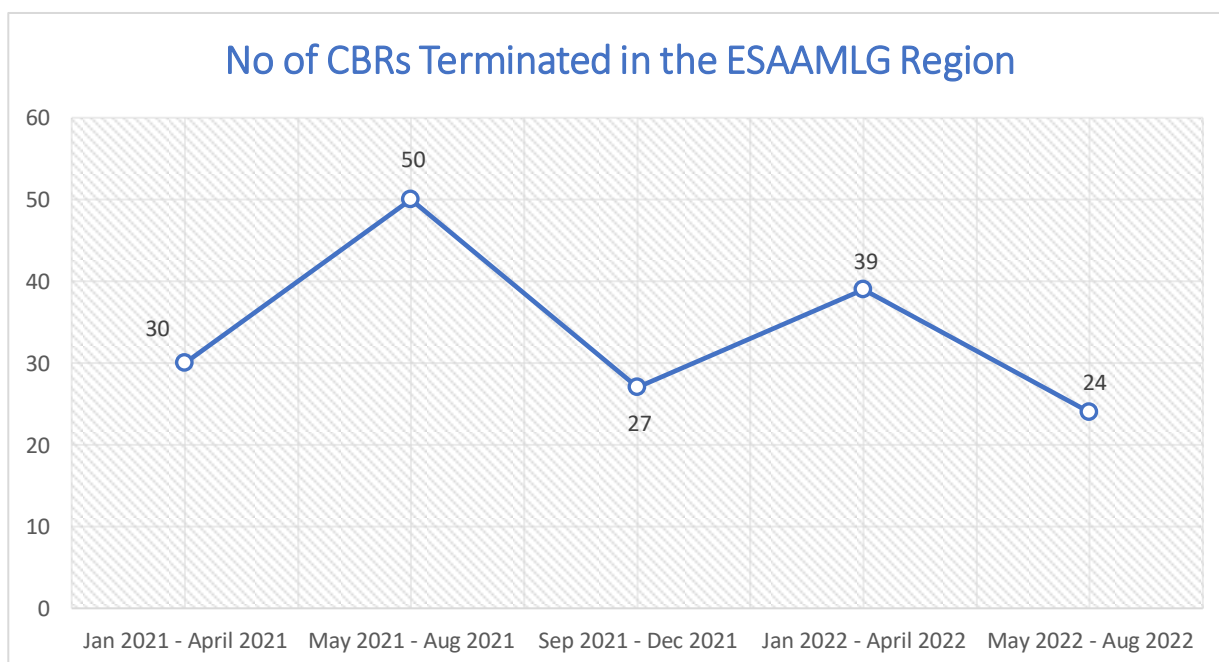


Figure 1: No of CBRs Terminated in the ESAAMLG Region

Figure 1 indicates a general downward trend in the number of terminations from January 2021 to August 2022. Despite the fluctuations, an overall decrease of 20 per cent was recorded. However, the number of CBRs termination in the region initially spiked from the first period to the second period of 2021, from 30 to 50, which was followed by a 46 percent decrease in the last four months of 2021.

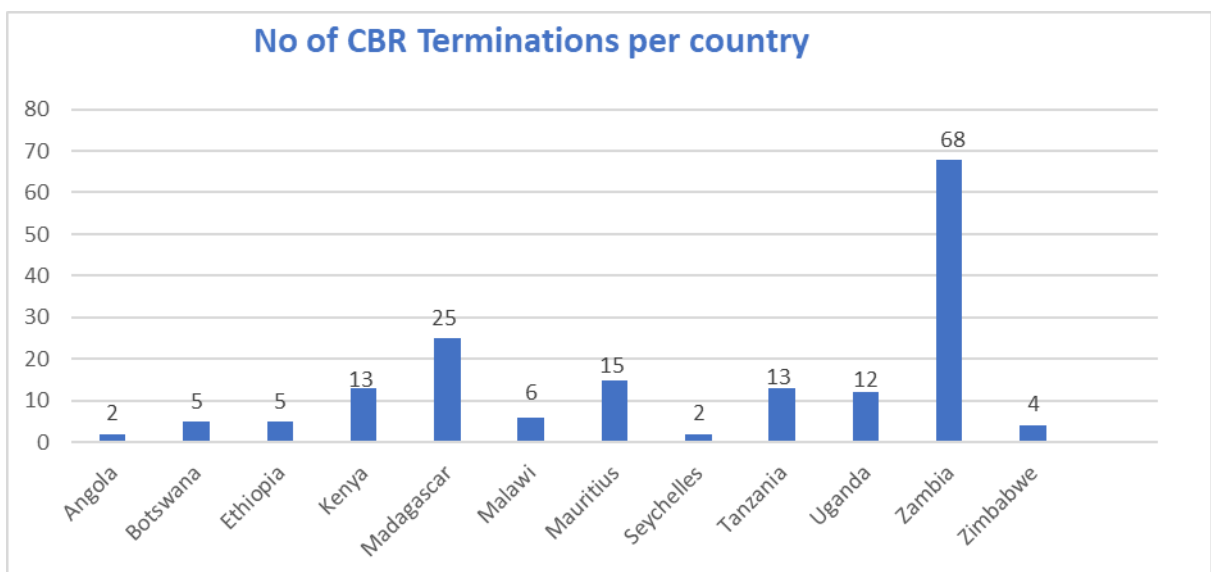


Figure 2: No of CBR Terminations per country

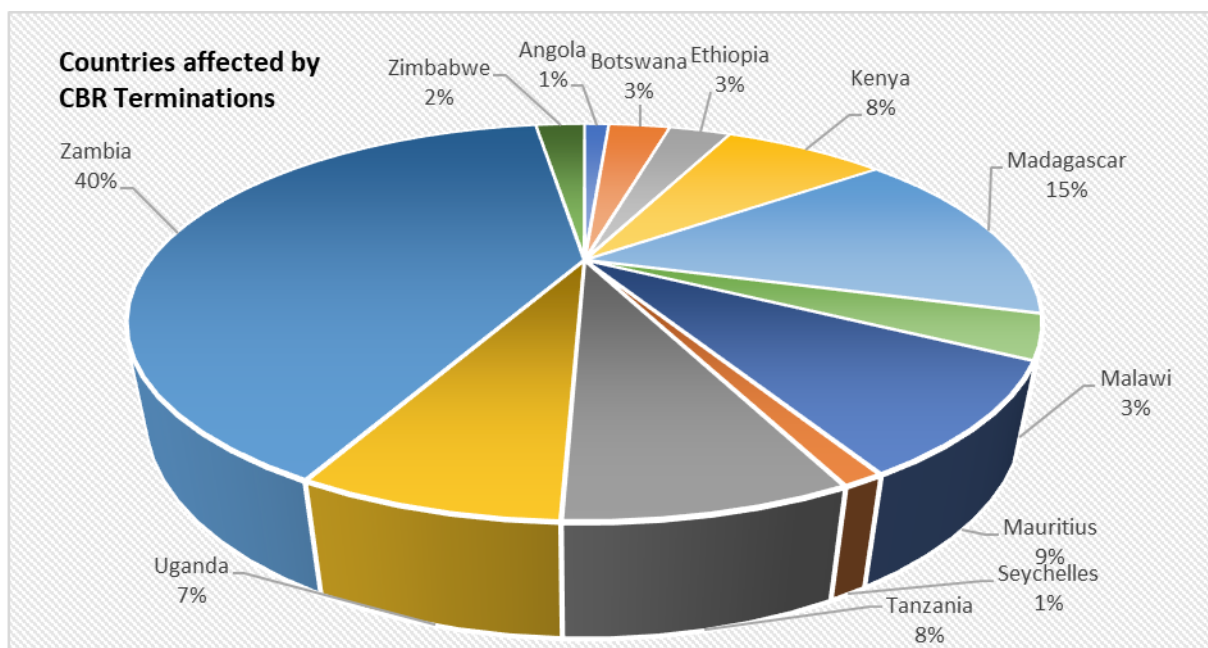


Figure 3: Countries affected by CBR Terminations.

During the period under review, 60 per cent of member countries experienced some terminations on CBRs compared to 50 percent reported in the 2018 to 2020 period. Zambia was the most affected contributing 40 percent to the total number of terminations, whilst Angola and Seychelles were the least affected with 1 percent each respectively. Jurisdictions that previously had no indication of any CBR terminations in the previous period, are now being affected by the terminations. This relates to Zambia, Ethiopia, Malawi, Seychelles, and Uganda. Zambia indicated a total of 68 terminations. The reasons for terminations are stated in Table 1.

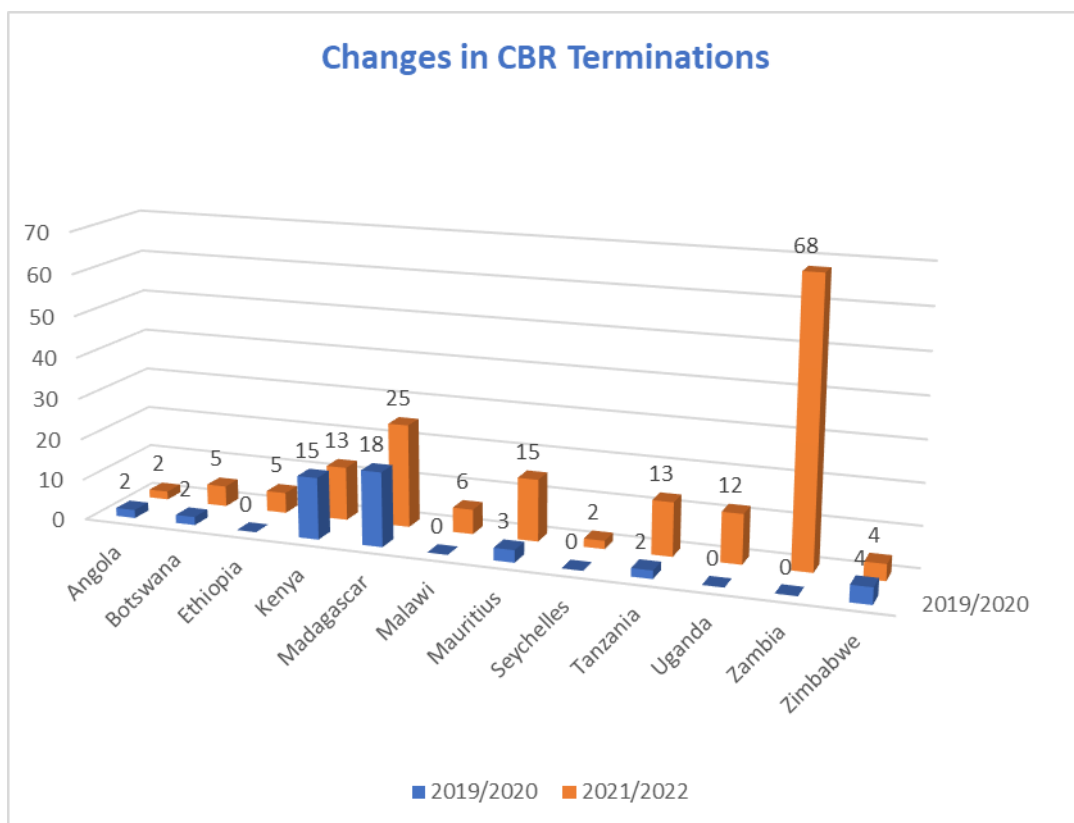


Figure 4: Changes in Terminations

Figure 4 gives a comparison of the changes and movements among member countries that were affected during the period 2019/2020 and 2021/2022. The countries that experienced an increase in terminations were Tanzania (550%), Mauritius (400%), Botswana (150%), and Madagascar (39%). Kenya on the other hand, had a decrease in CBRs terminations of 13%. The number of countries affected by CBR terminations in the period under review in the ESAAMLG Region increased by 100 percent compared to the previous period 2019/2020. The increase was attributed to the high cost of maintaining accounts, low volume of transactions, and identification of nesting using a sister bank in another country.

2.1.1 Reasons for CBRs Terminations

The reasons for CBR terminations for the period 2021/2022 were relatively similar to the ones highlighted in the 2020 report. These are stated in Table 1.

Table 1: Reasons for CBRs Terminations

COUNTRY	REASONS
Angola	<ul style="list-style-type: none"> • Correspondent's Initiative/ Internal Policies
Botswana	<ul style="list-style-type: none"> • The respective Bank closed their BWP inactive account. • ML/TF risk appetite by the bank's clearer. • Account not required as the bank used its sister bank in South Africa for all ZAR related transactions.
Ethiopia	<ul style="list-style-type: none"> • Internal bank policy. • low volume of transactions. • Correspondent Bank's Business Policy. • Absence of Transactions.
Kenya	<ul style="list-style-type: none"> • Correspondent bank strategy refresh included Africa relationships, administratively untenable due to a lot of requests for information (RFIs). • Low Business volumes. • Termination driven by need to rationalize number of USD correspondents. • Russian sanctions related to Ukraine.
Madagascar	<ul style="list-style-type: none"> • Change of CBR (following change of majority shareholder).

	<ul style="list-style-type: none"> • Internal Policy of Correspondent. • Relationship Management Application (RMA) revoked as requested by the correspondent.
Malawi	<ul style="list-style-type: none"> • Low Volume of transactions. • Expiry of Guarantee and the relationship could not continue. • Outstanding legal issues pertaining to shareholding upon conviction of majority shareholder.
Mauritius	<ul style="list-style-type: none"> • De-risking by the correspondent bank. • Low volume on the account. • High Account maintenance fees/charges. • Internal Policy of the correspondent bank. • Correspondent bank reviewed its strategies for offering nostro banking services to countries in the region. • No transaction/activity in the USD nostro account, thus account was closed in 2021. • Correspondent Bank had stopped providing nostro services in Russian Rubles and thus the account was closed in 2022.
Seychelles	<ul style="list-style-type: none"> • Consolidating Nostro accounts at Head Office due to Low Payments Volumes.
Tanzania	<ul style="list-style-type: none"> • De-risking of African countries. • High cost of maintaining accounts. • Low volume of transactions.
Uganda	<ul style="list-style-type: none"> • Correspondent Bank decided to exit the East African Market as part of their de-risking measures. • Low traffic. • Bank of Uganda directive. • Bank decided to exit the relationship citing strict risk appetite.
Zambia	<ul style="list-style-type: none"> • Relationship Management Application Revoked. • Non-compliance to AML / CFT requirements and policies. • Inactive/ dormant account. • Strategic review of business lines and correspondent relationships.
Zimbabwe	<ul style="list-style-type: none"> • Risk Appetite. • Termination of Relationships with Banks in Africa.

2.1.2 Types of Institutions affected

Most jurisdictions affected by CBR termination indicated that Commercial Banks were the most affected types of institutions. Other jurisdictions indicated that there were no institutions affected due to CBR terminations over the review period.

2.1.3 Geographical areas affected

The most affected ESAAMLG member countries to be affected were Botswana, South Africa, Mauritius, Malawi, Tanzania, Zambia, Kenya, and Rwanda. ESAAMLG member countries further experienced CBRs terminations that emanated from:

- Europe: - Switzerland, Italy, Denmark, Norway, the United Kingdom, Germany, Spain, Russia and Cyprus
- North and South America: - USA and Mexico; and
- Asia: - New Zealand, Taiwan, UAE, and India.

2.1.4 Currency Affected

The 12 Countries that responded to the questionnaire indicated that CBR terminations related to USD, GBP, and Euro. Kenya, Mauritius, Seychelles and Uganda further indicated that other currencies such as the Danish Kroner, New Zealand Dollar, Canadian Dollar, Botswana Pula, Zambian Kwacha, United Arab Emirates Dirham, Swiss Francs, Korean Won, Kenyan Shilling, West African CFA franc, Japanese Yen, Swedish Krona, Indian Rupee, and Mauritian Rupee were affected. The major reason highlighted by most jurisdictions was low volumes and high transaction costs.

2.2 Continued De-Risking of Correspondent Banking Relationships (Terminations – New Technologies)

Member countries were requested to indicate the continued de-risking and indicate the number of CBRs terminations in respect of new

technologies between January 2021 and August 2022 denoted by five time periods and the corresponding reasons thereof.

Most of the member countries indicated that they had no CBR terminations in respect of new technologies except for Botswana and Zambia. However, it is not clear from the submissions whether member countries who reported zero or nil are embracing new technologies with no subsequent impact of de-risking.

Data provided indicates that Botswana had three CBR terminations in respect of new technologies for the period January to April 2022 and the volume of transactions involved were 176. The reasons indicated for these terminations were:

- Policy restrictions; and
- Risk appetite.

Zambia had two CBR terminations in respect of new technologies for the period May to August 2021, and the reasons indicated for these terminations were:

- Descoped for May and June.

Based on the analysis the currencies affected for Botswana were EUR and USD for the period January to April 2022, whereas currencies involved for CBR terminations for Zambia for the period January 2021 to April 2022 were not indicated.

Botswana indicated that the SADC Region was mostly affected and the types of institutions were Virtual Assets Service Providers. Zambia did not provide any data regarding the geographical area, affected types of institutions and volume of transactions involved.

The overall analysis indicates that there were few CBR terminations for the period January 2021 to August 2022 in terms of new technologies and the affected countries are Botswana and Zambia which had a combined total of five terminations within the ESAAMLG Region.

2.3 Continued Downstream De-Risking of Customer Relationships (Terminations)

The 2017 and 2021 De-Risking Reports 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, the 2017 and 2021 Reports showed that 80 percent and 72 percent of the countries respectively further terminated relationships with some customers. Therefore, this section seeks to establish the continued existence and levels of downstream terminations of customer accounts, customer groups affected, reasons for terminations and affected geography.

When comparing with the previous Reports, 56% of the countries reported continued downstream de-risking of customer relationships, either by conditions imposed by correspondent banks, AML/CFT

concerns or bank policies, showing a slight decrease in the number of members reporting.

2.3.1 Number of accounts closed.

Figure 5 shows the countries where downstream accounts were closed from January 2021 to August 2022.

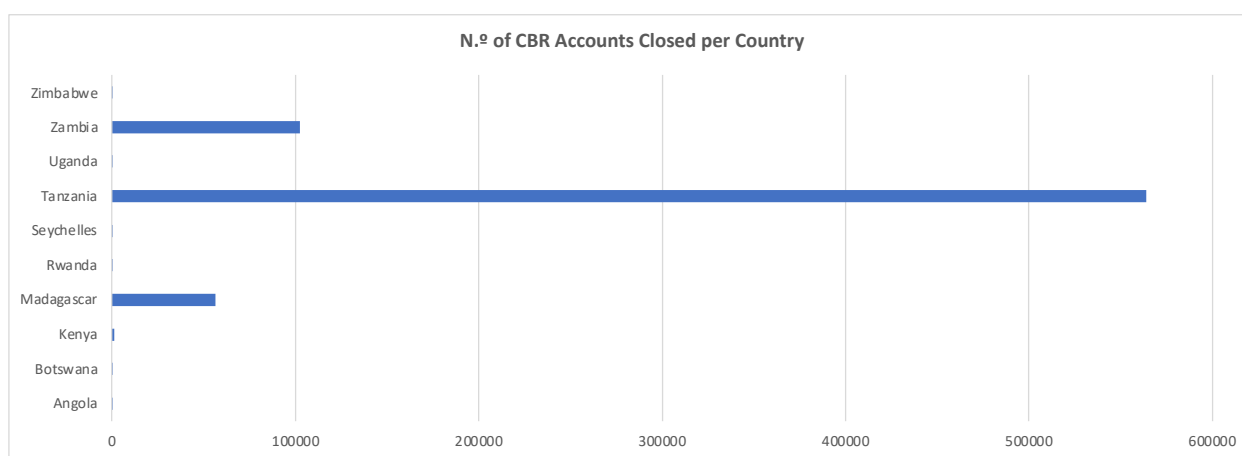


Figure 5: Downstream accounts closed from January to August 2022

Ten countries reported downstream terminations of customer relationships while the remaining countries had no experiences of downstream terminations. A total of 724,023 customer accounts were terminated by financial banking institutions, during the two-year period under review compared to 1401 accounts terminated in 2019/2020.

The absolute figures show that majority of the customers affected by the downstream terminations were from Tanzania (563,810 accounts), followed by Zambia (102,629 accounts) and Madagascar (56,249). The trend analysis of accounts closed per country over the period is shown

in Figure 6. Of note, with the exception of the 3 countries mentioned above, the number of accounts closed were small in comparison.

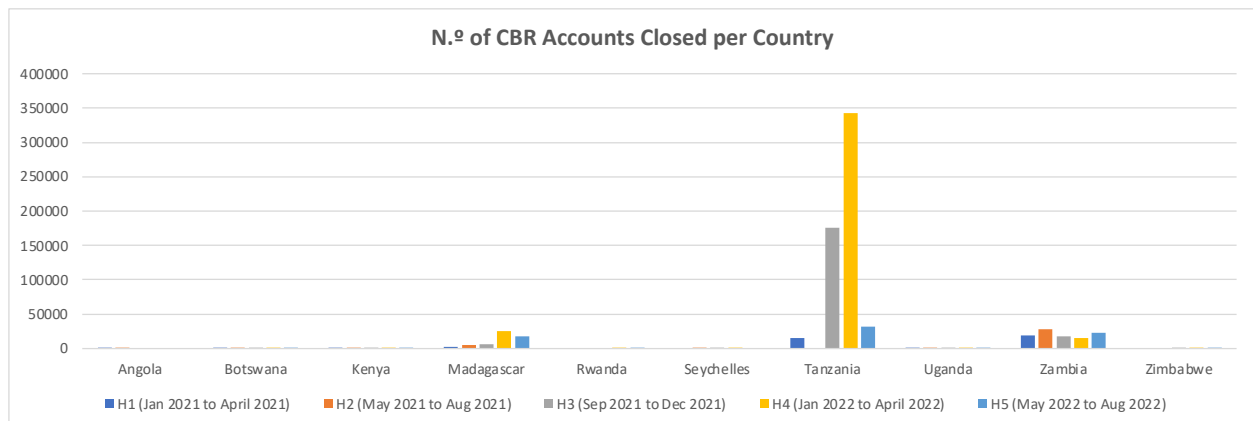


Figure 6: Accounts closed per country

2.3.2 Customer groups impacted and reasons for terminations

Figure 7 depicts the customer groups that were impacted by the downstream account terminations. It shows that the most affected customer categories were, corporate and retail customers. Nonetheless, it can be captured that downstream de-risking might be affecting financial inclusion, as it was reported that customer groups such as individuals, SMEs, cash intensive businesses and educations (foreign students) have had their accounts terminated.

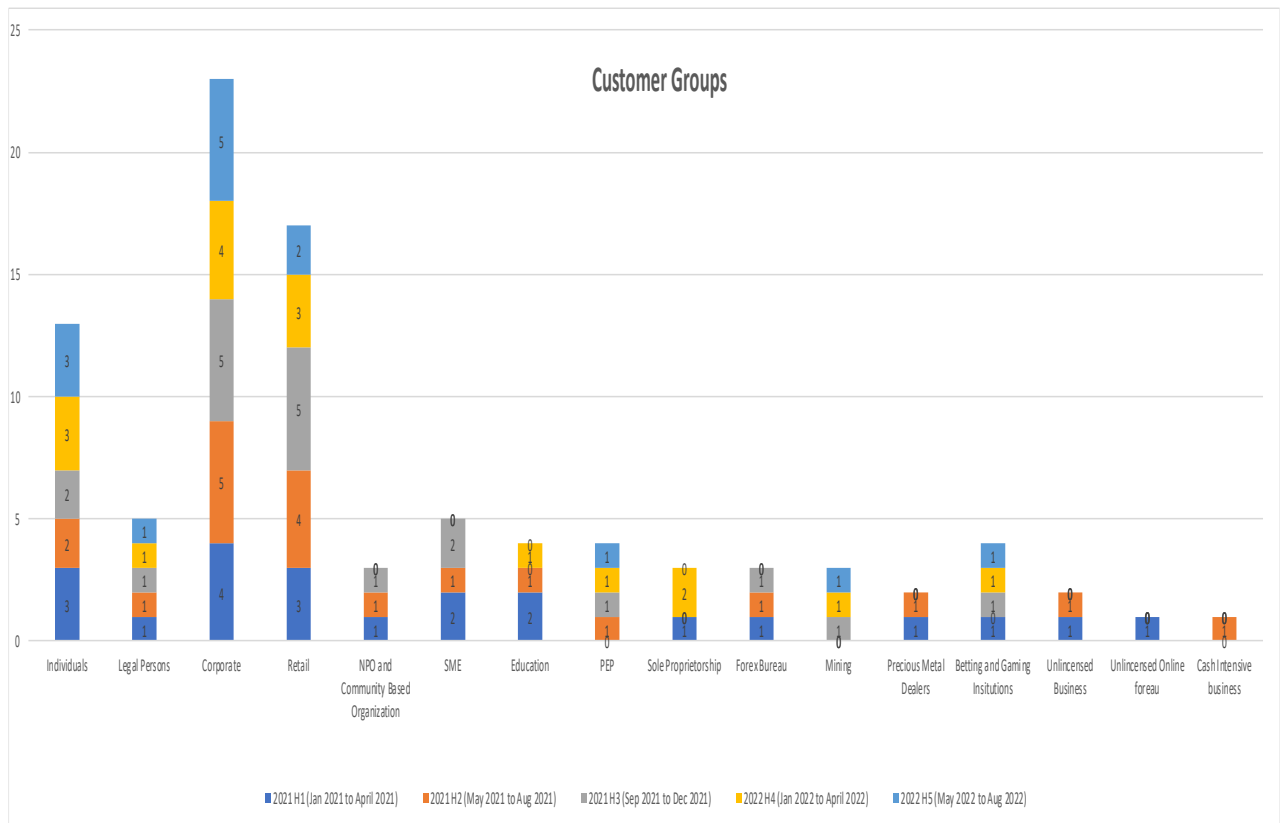


Figure 7: Customer groups impacted for terminations of accounts

When analysing the reported data, according to Figure 7, some countries such as Kenya, Rwanda and Tanzania further indicated termination of accounts linked to crypto-assets related transactions and Uganda reporting that some of the terminations were due to International Sanctions. With regards to bank policy and operations, as these institutions strengthen them whether due to correspondent bank impositions or by regular activities of the bank, customers, such as individual, SMEs and cash intensive businesses are affected by imposed terminations.

Reasons for Closure										
KYC/CDD	Crypto-related Transactions	Betting and Gaming	Pyramid Scheme	Negative Media	Sanctions	Correspondent Bank Relations	Fraud	Tax Evasion	Unlicensed Business	Bank Policy and Operations
Angola, Botswana, Kenya, Madagascar, Seychelles, Tanzania, Uganda, Zimbabwe	Kenya, Rwanda, Tanzania	Rwanda, Uganda	Rwanda, Uganda	Kenya	Uganda	Uganda, Zambia	Angola, Kenya, Seychelles, Uganda, Zambia	Madagascar	Kenya	Kenya, Madagascar, Seychelles, Tanzania, Uganda, Zambia, Zimbabwe

Figure 8: Reasons for closure of accounts

2.3.3 Geography of related transactions

In relation to the geographical related transactions, Figure 9 shows that majority of affected countries are in Africa. As per Figure 9, downstream De-risking of customer relationships affects considerably the region. Conversely, it is observed that this may have an impact on financial inclusion. Botswana reported a number of villages towards its southern borders which has been affected, which subsequently gives rise to financial inclusion concerns.

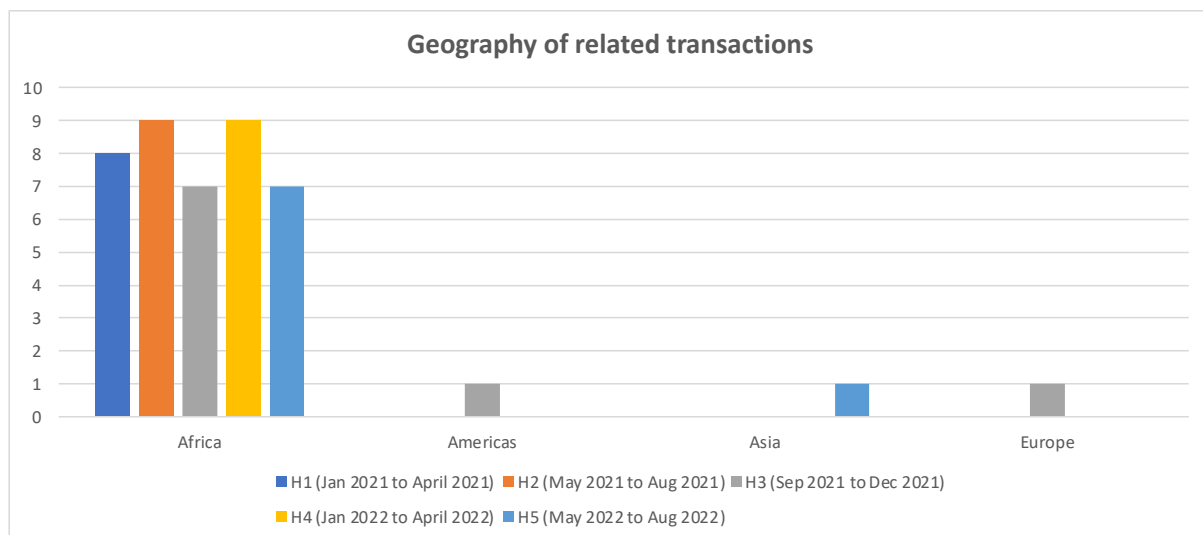


Figure 9: Geographical areas affected for termination of accounts

2.4 Continued Downstream De-risking of Customer Relationships (Restrictions)

De-risking has unintended consequences which subsequently affects customers of financial institutions. This objective aims at assessing continued downstream de-risking impacts on customer relationships in particular with regards to restrictions. In considering the periods from January 2021 to August 2022, it was observed that de-risking has impacted customer relationships. For the period under review, a total of 358,329 accounts were restricted in 10 ESAAMLG member countries as depicted in figure 10.



Figure 10: Accounts restricted per country per period

It was observed that 67.89 per cent of accounts restricted were from Tanzania. The other country most affected by customer restrictions is Madagascar followed by Zambia.

From January 2021 to April 2021, 6 countries out of 20 reported restriction of customer accounts, namely Kenya, Madagascar, Malawi, Tanzania, Uganda

and Zambia. For the period relating May to August 2021, 5 countries were affected, mainly Kenya, Madagascar, Tanzania, Uganda and Zambia. During the period September to December 2021, 8 member countries namely Angola, Botswana, Madagascar, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe were affected by restrictions. In the period between January to April 2022, it was noted that 7 countries were affected by namely, Kenya, Madagascar, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe. Whereas in the period between May to August 2022. 9 out of 20 countries namely Angola, Botswana, Kenya, Madagascar, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe were affected.

However, it is noted that the highest balance of accounts restricted were from Uganda in contrast to the number of accounts restricted. This is shown in figure 11.



Figure 11: Balance of accounts restricted per reporting period

It was observed that the balances of accounts restricted had a decreasing trend in particular for Uganda which started with a balance of \$4.9million for

January to April 2021 which decreased progressively to \$0.19 million in May to August 2022. On the other hand, Tanzania showed an increasing trend in the balance of accounts which were restricted from \$0.10 million in January to April 2021 to \$0.29million in May to August 2022. Zambia showed the most fluctuation with significant change noted from May to August 2021 from \$184 to \$1.7 million. Of note, the balance of \$21.61 million had been restricted by member countries for the period under review.

The reasons behind the restrictions of customer account varies across countries. Figure 12 shows the different reasons recorded across the 10 ESAAMLG member countries affected by de- risking.



Figure 12: Reason for Restrictions of Accounts

Accounts frozen by order of LEAs and suspicious transactions were the main reason behind restrictions of accounts by multiple countries followed by KYC non-compliance or incomplete KYC of customers and exposures to financial

crimes and reputational risks. Of note, frauds, embezzlement of public funds, and money laundering where part of the reasons considered under exposure to financial crimes and reputational risks. Only Uganda reported to have restricted accounts as a direct result of correspondent bank prohibition and Botswana as a result of policy restrictions and risk appetites. Angola reported that institutions have restricted accounts in view that the owners of the accounts had been included on the sanction lists.

In addition to the ESAAMLG region, it is noted that the geographies mostly affected were the SADC region, Europe, USA, the Asian Region, UAE, Australia, the West African region and the United Kingdom as shown in the below graph.

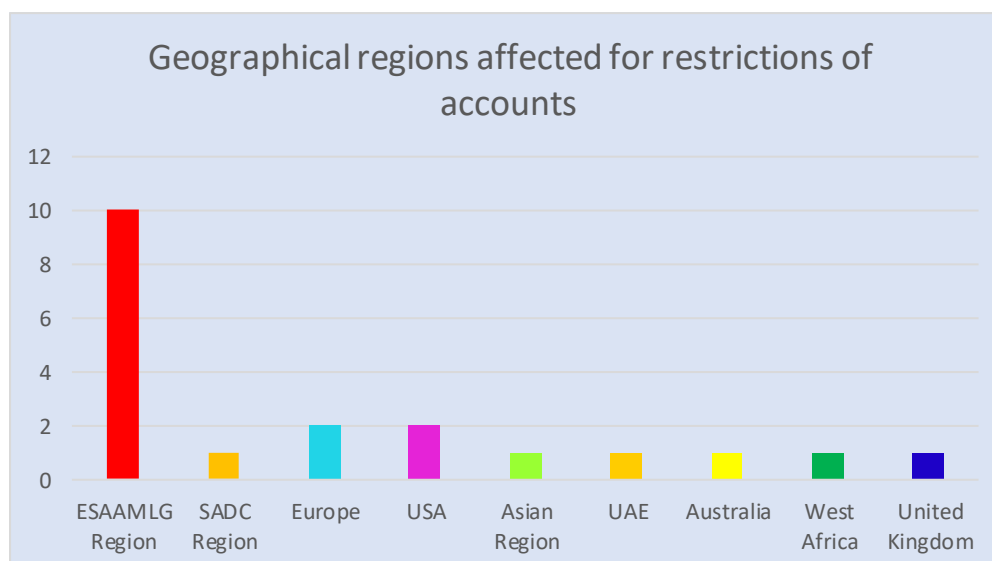


Figure 13: Geographical regions affected for restriction of accounts

In addition to the country specific currencies, it is noted that the USD and Euro were the most affected. Figure 14 shows the other currencies as affected.

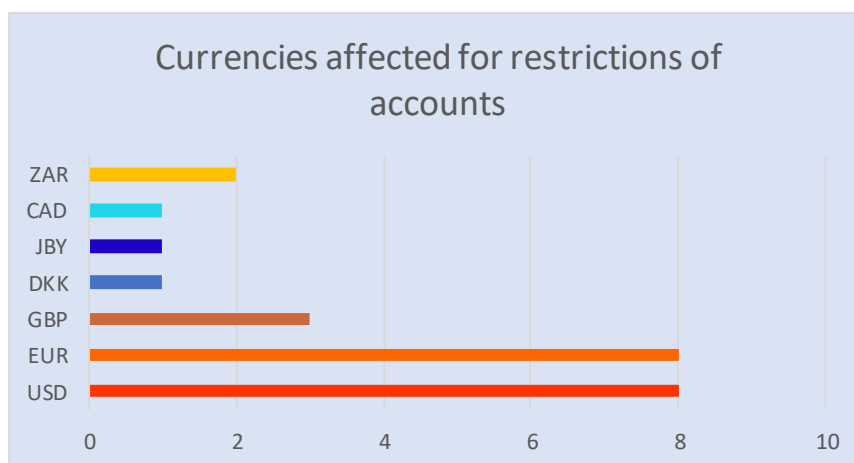


Figure 14: Currencies affected for restrictions of accounts

Member countries, namely Malawi, Tanzania, Uganda, Zambia, Angola, Seychelles and Kenya restricted customer accounts held in USD and Euro. In addition, Zimbabwe also restricted USD accounts and Madagascar restricted Euro accounts. Other currencies affected were GBP, DKK, JBY, CAD, and ZAR.

Types of customers that were mostly affected by restrictions were individuals and corporates followed by money services bureaus which includes bureau de change and remittance services.

Other customers affected were Small to Medium Enterprises (SMEs), joint savings, gambling, business agent banking float accounts, legal persons, non-resident individual and corporates, politically exposed persons, international business companies, crypto currency and private companies. The geography affected are Eastern and Southern African, Nigeria, Togo and USA.

3 RECOMMENDATIONS & CONCLUSIONS

3.1 Recommendations

The team recommends the following measures:

- To enable ESSAMLG member countries embrace the development of new technologies into the CBR system, private or consortium new technologies will need to be implemented as they offer better control mechanisms as well as privacy;
- The ESAAMLG to facilitate engagement with correspondent banks at a regional level to gauge expectations and possible improvements or actions that respondent banks are expected to take in order to limit terminations and restrictions;
- Member countries and reporting entities to be encouraged to implement effective risk-based approaches 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/service, channel, customer and geography and to consider applying commensurate measures before the decision to close the accounts. This may be assisted by external assessments by experts in the field that helps to identify possible weaknesses and makes recommendation to rectify same; and
- 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. A new mandate should be assigned to the Project Team in order to allow for the formulation of appropriate regional policies and guidelines.

- All member countries to commit to fully participate in regional surveys, providing accurate and relevant information timely 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 whole region.

3.2 Conclusion

The de-risking trend continues to be prominent in some parts of the ESAAMLG region and still affecting some member countries. In order to minimize the continued de-risking of correspondent banking relationships as well as the subsequent de-risking of customers, recommendations made should be implemented both at a regional level and the country level.