

Understanding Correspondent Banking Trends

A Monitoring Framework

Seminar for Senior Bank Supervisors from Emerging Economies
October 21 - 25, 2019

Presenter
Dirk Jan Grolleman (MCM)





Agenda

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Introduction

2

Monitoring Tools and Metrics

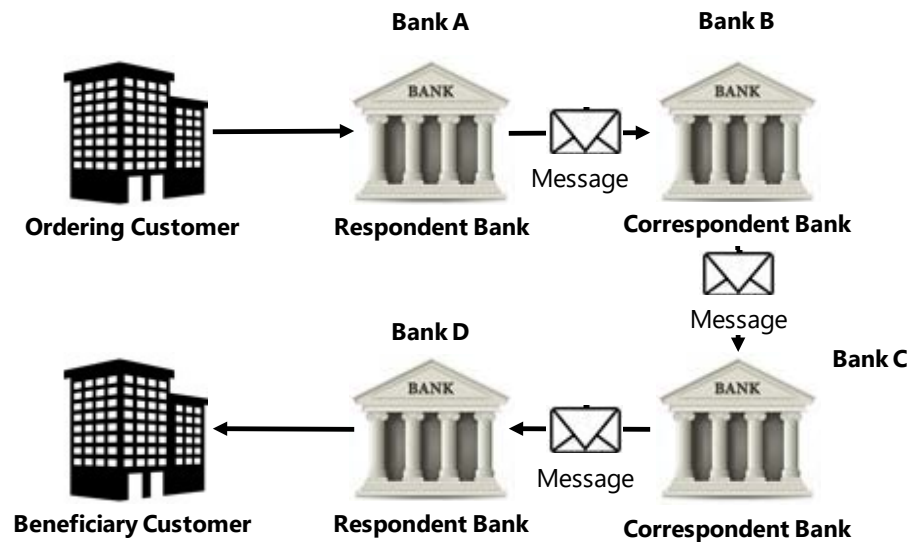
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Examples Minimum and Expanded Scope Outputs

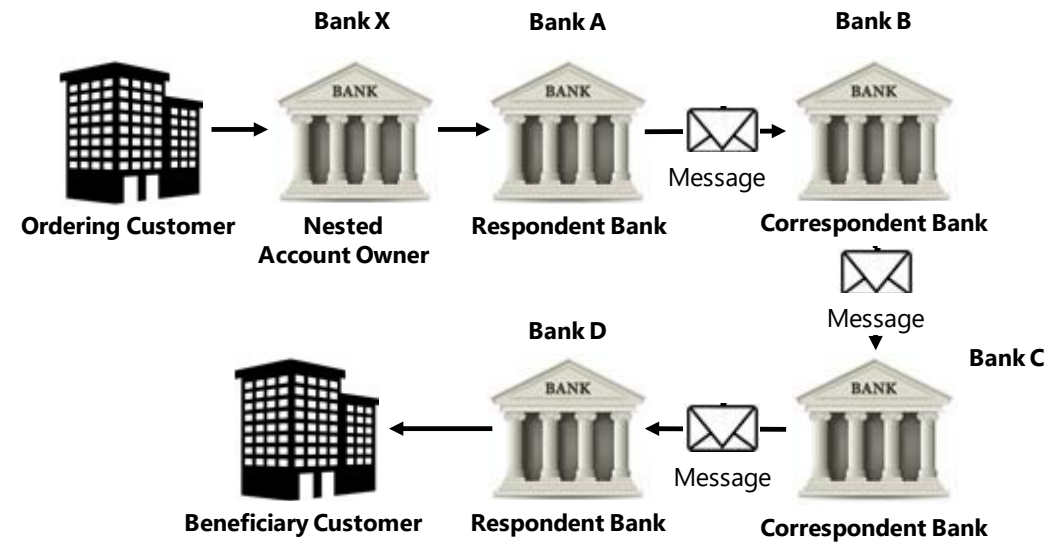


What is a Correspondent Banking Relationship (CBR)?

Traditional Correspondent Banking



Nested Correspondent Banking



Three forms of correspondent banking services

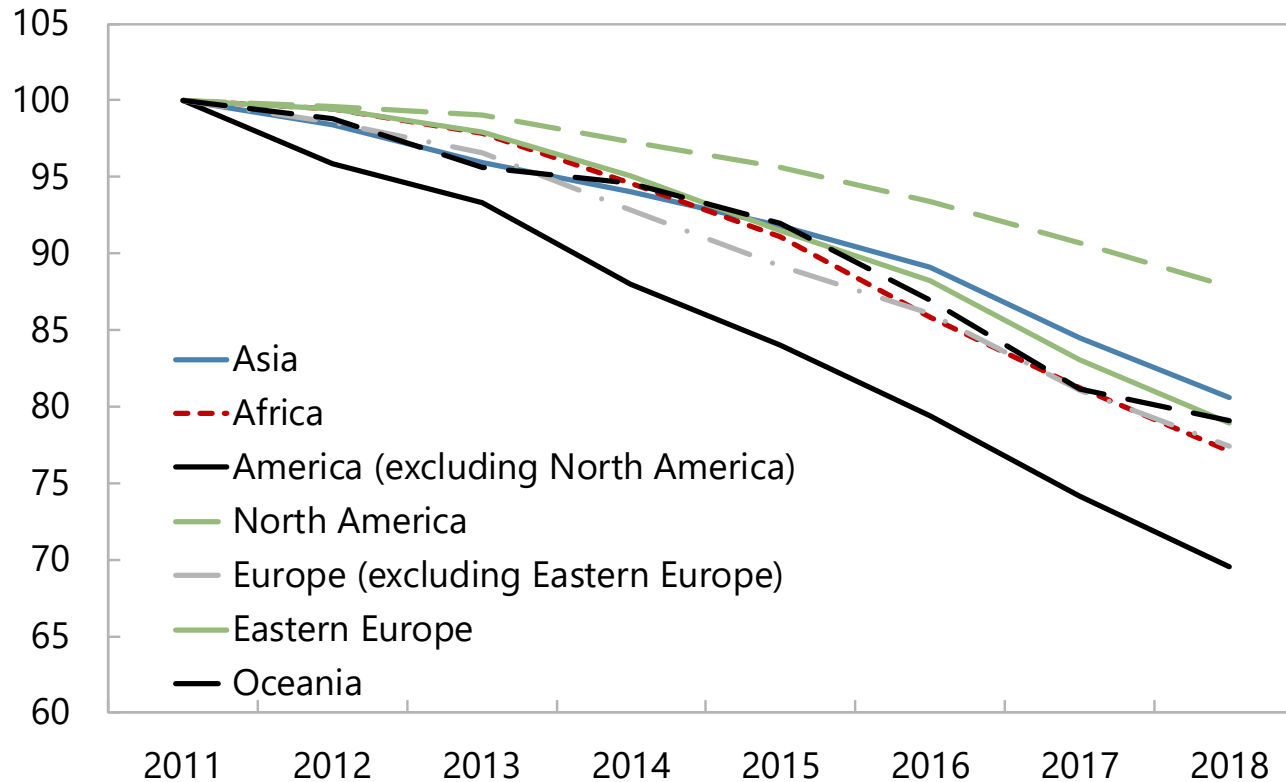
- (1) **Traditional** (respondent and correspondent banks enter into agreement)
- (2) **Nested** (use of CBR by respondent bank's intermediate customers)
- (3) **Payable-through** (similar to nested)



CBR Development Overall (all currencies) by Region

Number of Active Correspondents by Region

(Index, 2011=100)



If a correspondent bank maintains one or more CBRs with respondent banks in the country it is called an **Active Correspondent (AC)** for that country

Sources: SWIFT BI Watch, National Bank of Belgium.

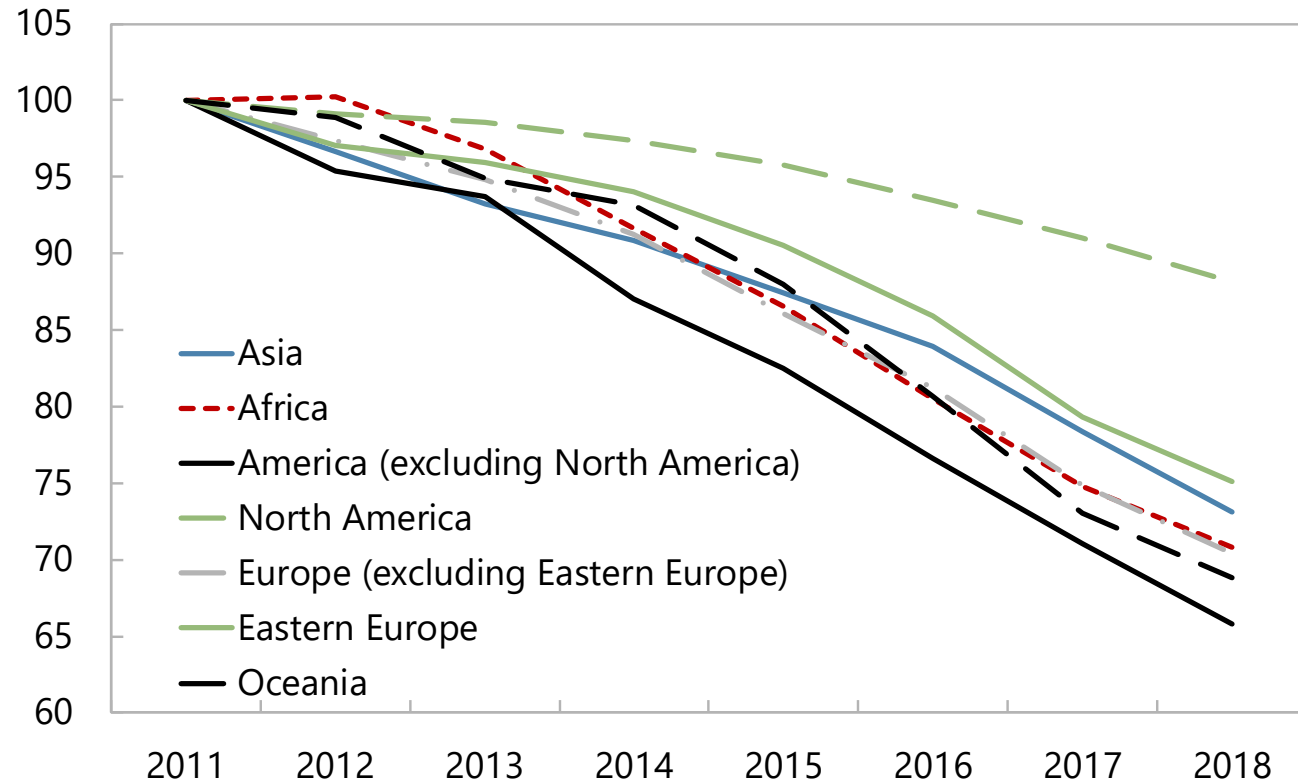
Source: <https://www.bis.org/press/p190527.htm>



USD CBR Development by Region

Number of Active USD Correspondents by Region

(Index, 2011=100)



Sources: SWIFT BI Watch, National Bank of Belgium.

Source: <https://www.bis.org/press/p190527.htm>



Drivers of the Withdrawal of CBRs

- Banks' individual business decisions reflecting a cost-benefit analysis
- Drivers are multiple and operate concurrently
- Significance varies case-by-case
- Two broad categories:
 - Re-evaluation of business models
 - Changes to regulatory and enforcement landscape



FSB Initiatives to Address CBR Withdrawal

- 1 Monitoring
- 2 Clarifying Regulatory Expectations
- 3 Strengthening and Aligning Regulatory and Supervisory Frameworks
- 4 Stimulating Industry Initiatives to lower Compliance Costs
- 5 Contingency Planning and Public Support



Structure

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Introduction

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Monitoring - Tools and Metrics

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Examples Minimum and Expanded Scope Outputs



Limitations FSB/CPMI monitoring

50 countries or territories with the largest cumulative decline in the number of CBR between 2012 and 2018

Table 12

	Change in 2018 (%)			Change 2012-2018 (%)		
	CBR	Local banks	Ratio CBR/(local banks)	CBR	Local banks	Ratio CBR/(local banks)
Korea, Democratic People's Rep. Of				-100.0	-100.0	
St Pierre and Miquel	-60.0	0.0	-60.0	-77.8	0.0	-77.8
Syrian Arab Republic	-16.1	-12.5	-4.1	-72.9	-17.6	-67.1
Mayotte	-40.0	0.0	-40.0	-71.4	0.0	-71.4
Timor-Leste	10.7	0.0	10.7	-65.9	100.0	-83.0

Source: <https://www.bis.org/press/p190527.htm>

Does the above provide you as a supervisor/Central Bank with sufficient information - what else would you like to know?




Limitations FSB/CPMI monitoring

Based on country-level SWIFT data or surveys

No time series of bank-by-bank CBR/SWIFT data and therefore impossible to establish how many CBRS and in which currency, each bank has

- As a result several countries expressed a need for a CBR monitoring framework
- MCM therefore developed monitoring tools



WP/17/216

IMF Working Paper

Understanding Correspondent Banking Trends:
A Monitoring Framework

By Dirk Jan Grolleman and David Jutra

Working Paper:

<https://www.imf.org/en/Publications/WP/Issues/2017/10/04/Understanding-Correspondent-Banking-Trends-A-Monitoring-Framework-45318>

Reporting templates:

<https://www.imf.org/~media/Files/Publications/WP/2017/datasets/wp17216.ashx>



The Minimum and Expanded Scope Framework

The working paper describes two frameworks:

- Minimum Scope Framework
Using accounting data - aggregates per reporting period

- Expanded Scope Framework
Using SWIFT data – individual transaction data, allowing for even more granular analysis (however, it also requires more data handling capacity and resources)



Basic Metrics Covered by the Monitoring Tool

Basic metrics for monitoring:

- Number and identity of ACs
- Number and identity of CBRs per respondent bank
- Nature of ACs/CBRs: Direct and Nested
- Number of nostro accounts per CBR
- Currencies in which the accounts are operated (currency corridors)
- Value of transactions processed per nostro account
- Volumes (number of transactions) per nostro account
- Limitations in third payments services
- Restrictions on clients and/or transactions
- (Additional Services and products – credit lines, deposit accounts etc.)

Reported in CPMI and FSB data reports – percentage change in ACs/CBRs, values and volumes on an (aggregated) country level

=> Would this cover the basic information needs on a country level?

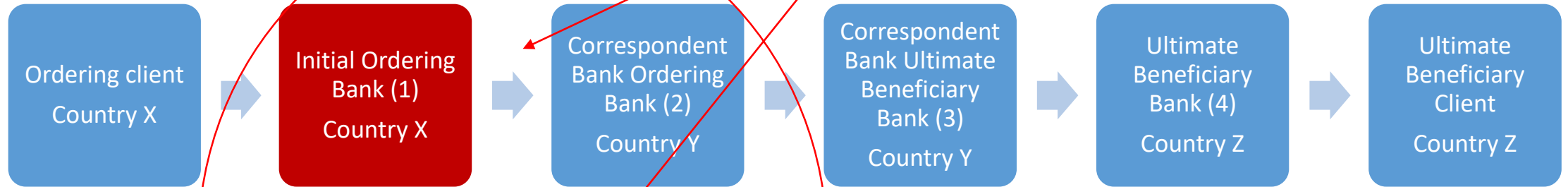
Minimum Scope Framework

Minimum Scope Framework

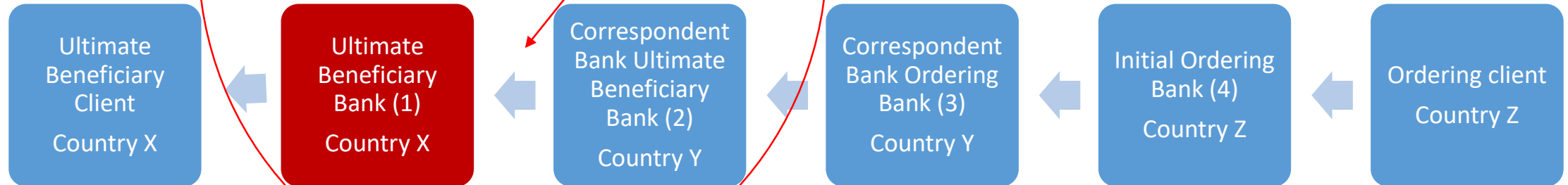
Metrics to determine materiality of CBR:

Aggregated values and volumes of payment flows per currency per reporting period

Outflows

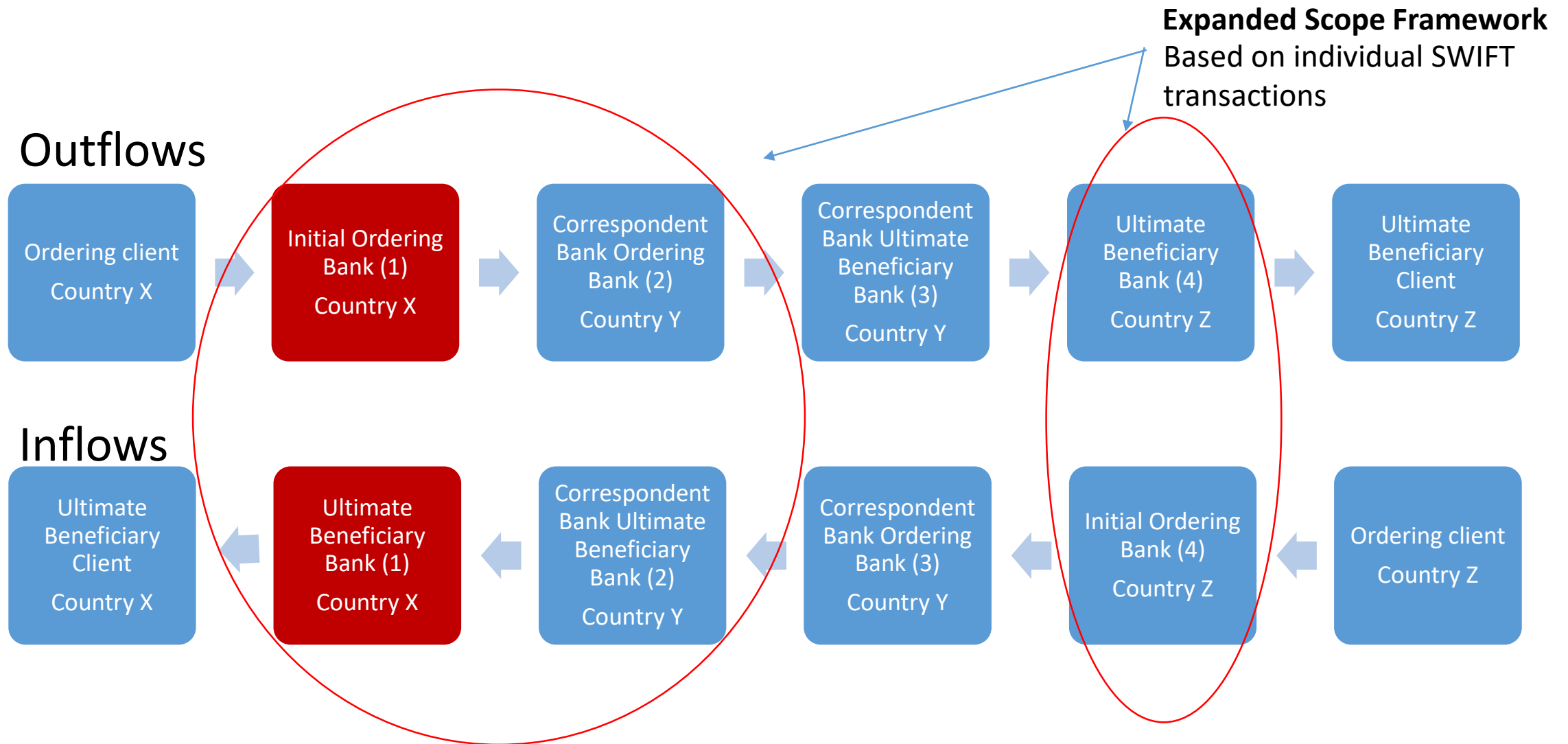


Inflows



The red blocks denote the reporting/supervised bank

Expanded Scope Framework



The red blocks denote the reporting/supervised bank

Structure

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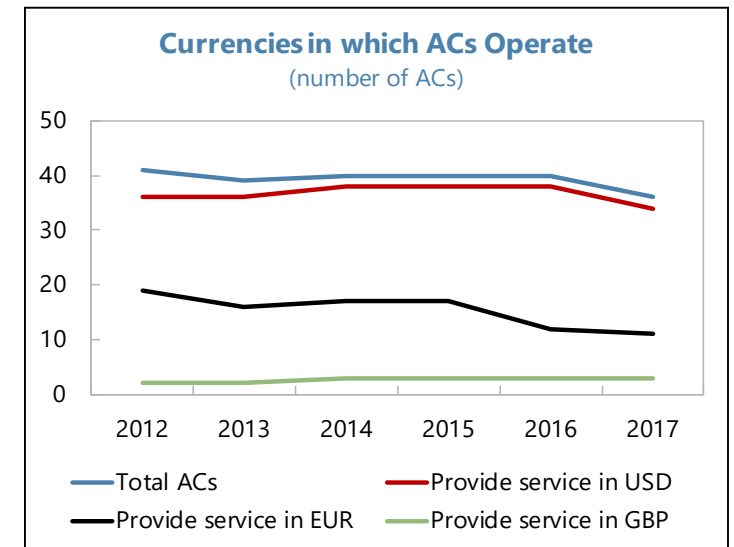
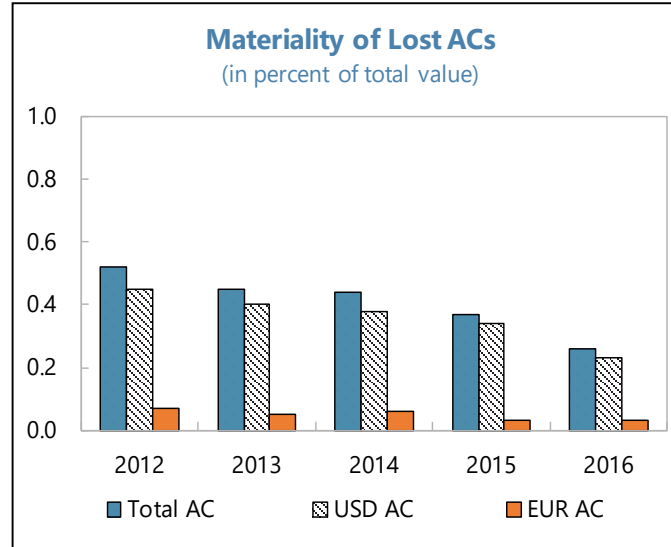
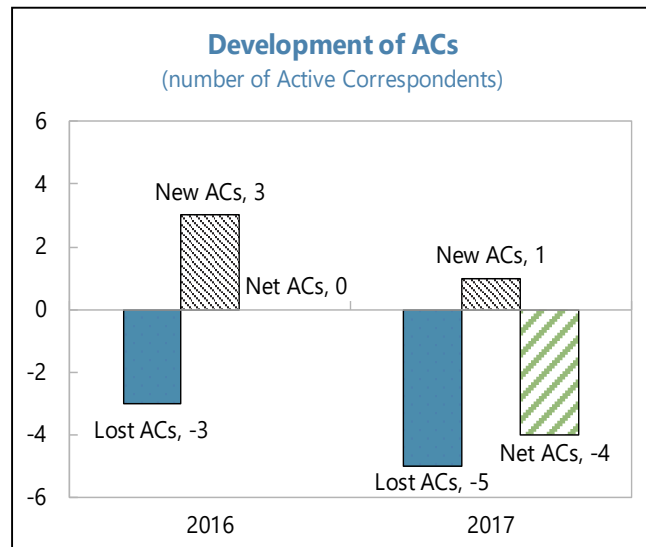
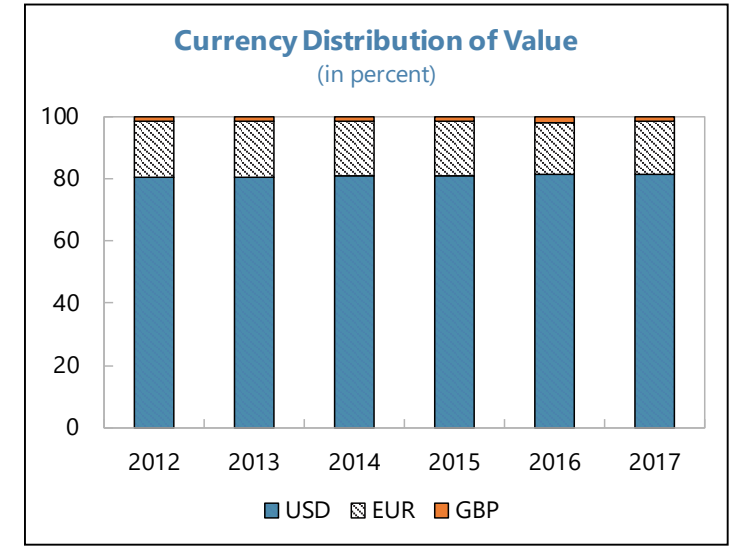
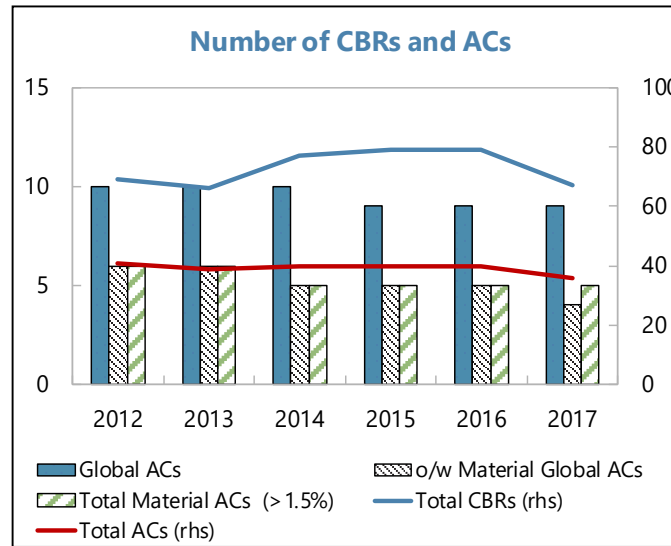
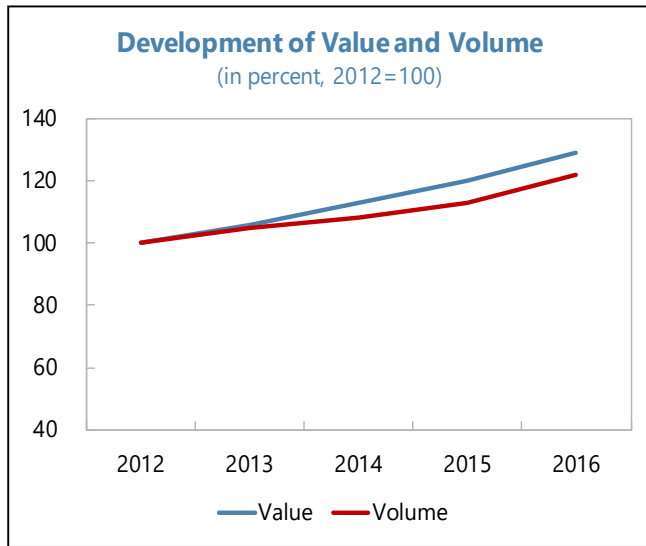
Monitoring Tools and Metrics

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Examples Minimum and Expanded Scope Outputs

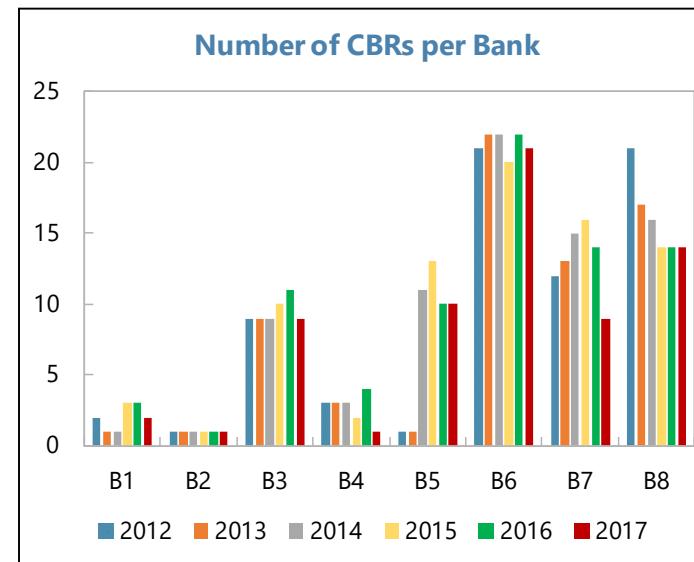
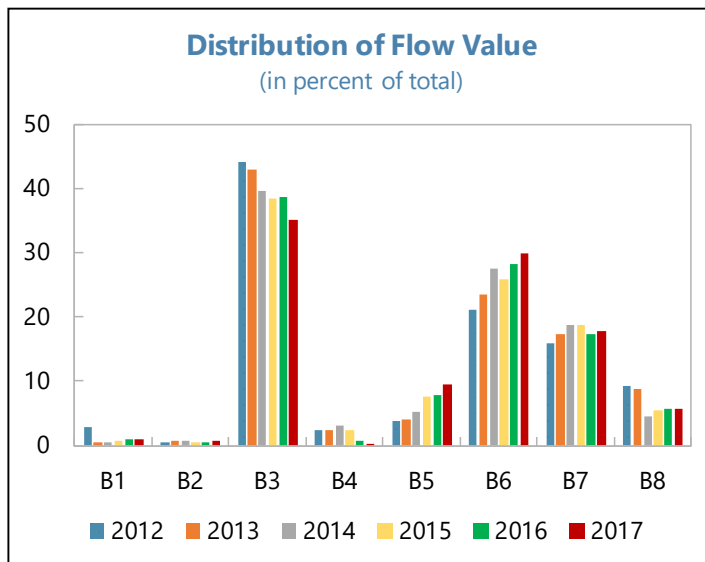
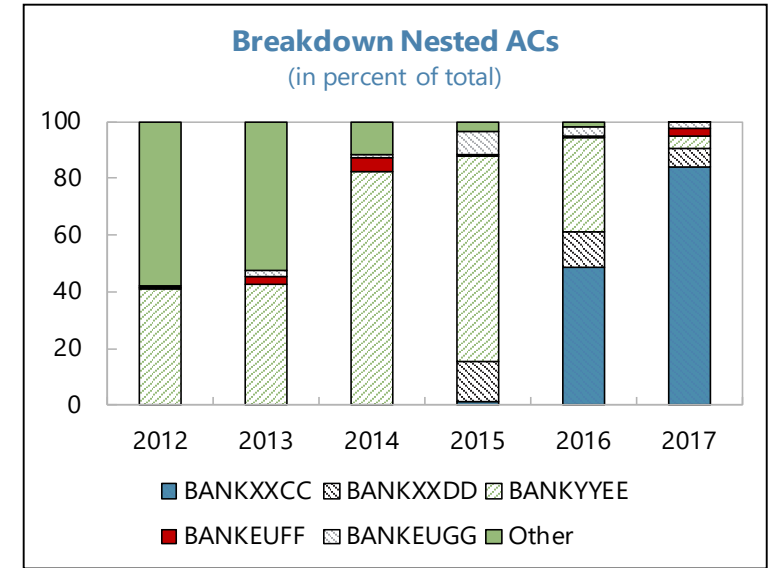
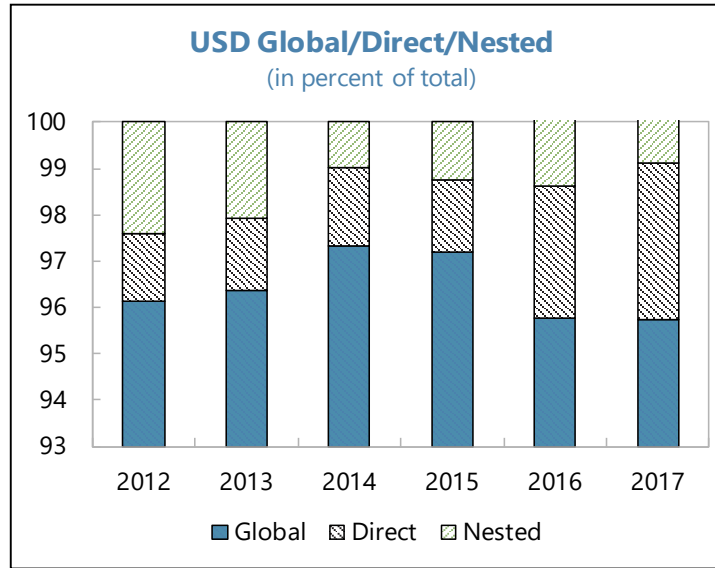
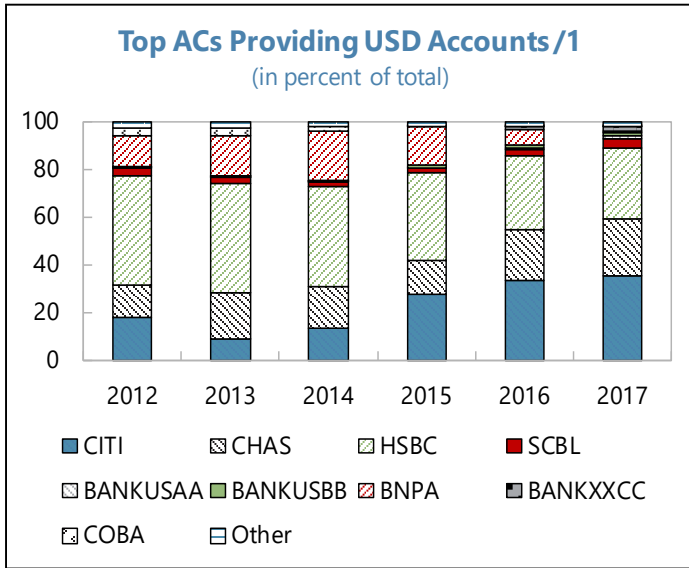


Example Outputs (Minimum Scope Framework)

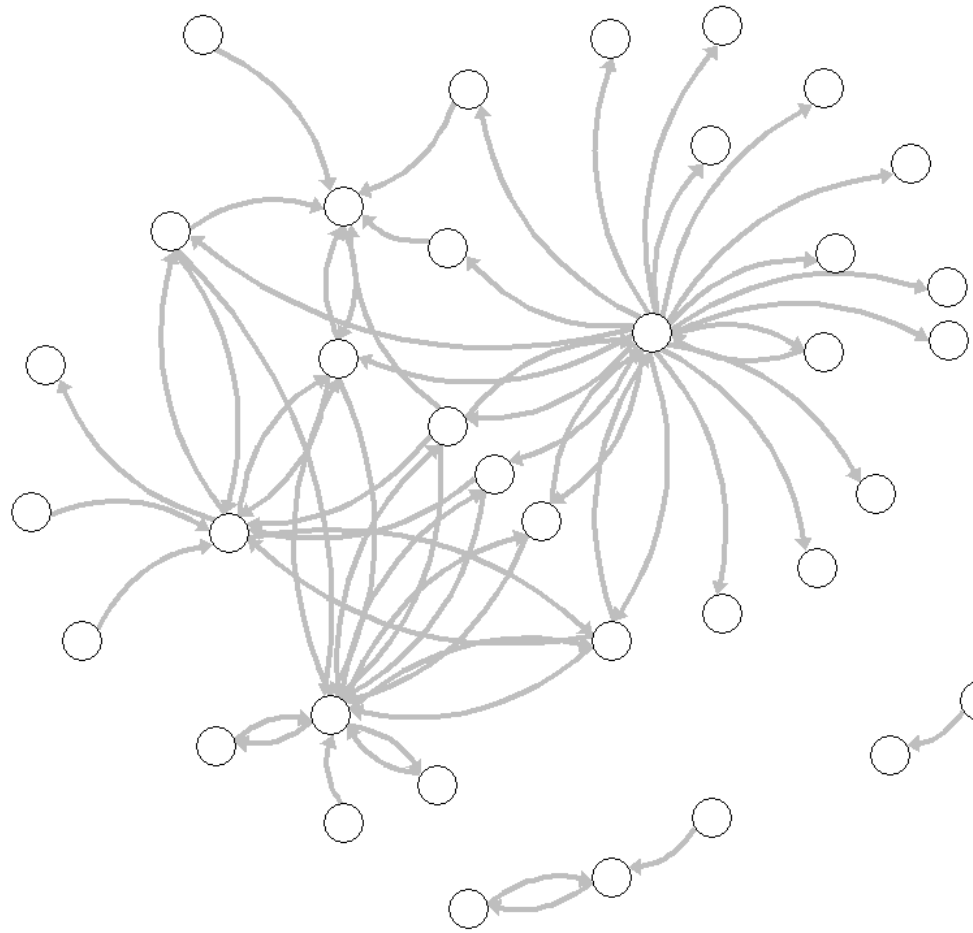




Example Outputs Minimum Scope Framework



Example Network Output (Expanded Scope Framework)



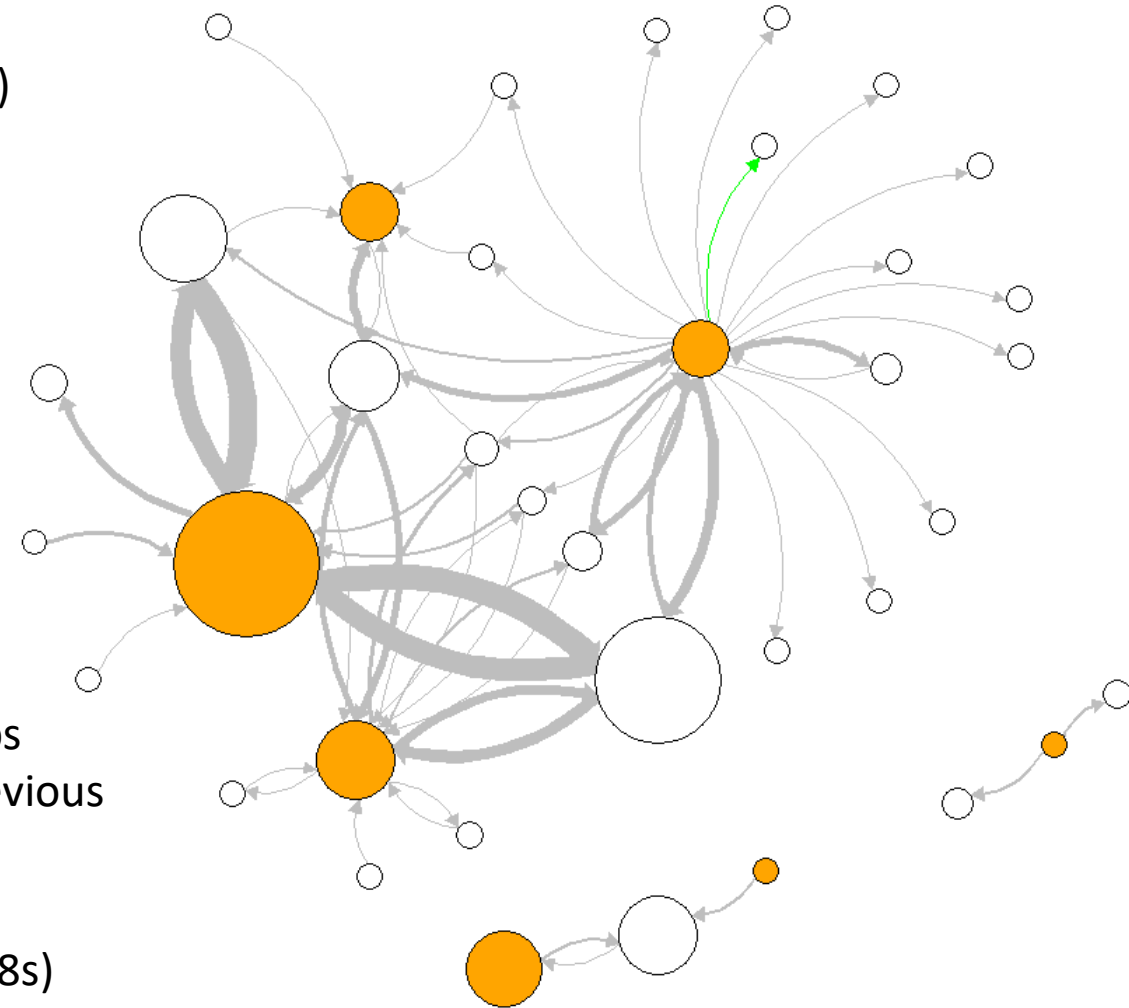
Node size reflects importance (PageRank score)

edge width reflects scaled flow size (value)

orange nodes represent domestic banks

green edges are new relationships compared to previous period

Node labels (BIC8s) are turned off for visibility



Example Network Output (Expanded Scope Framework)

Analysis of countries to and from which USD flows are send and received

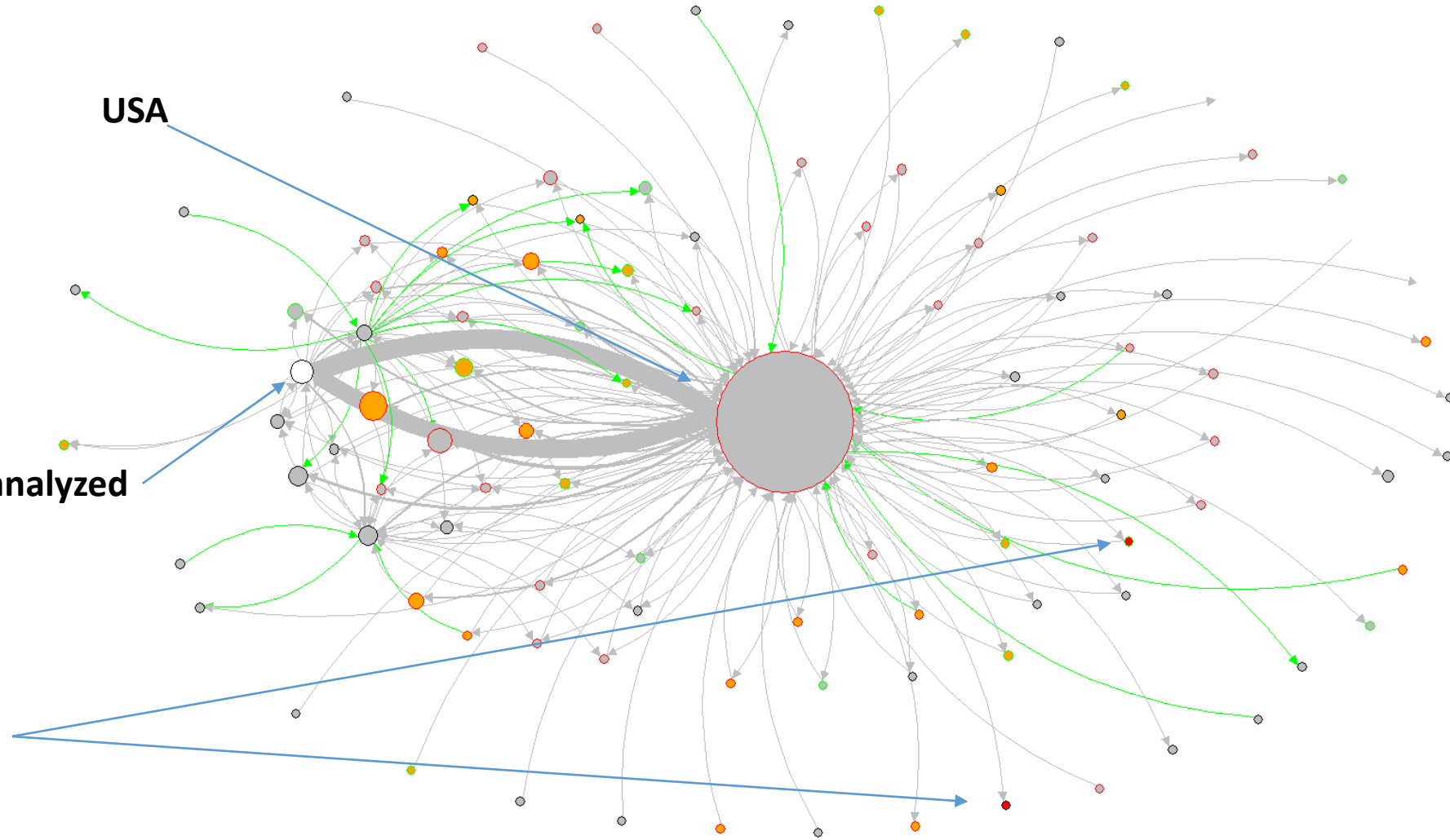
Inside node color reflects country score in the relevant period's corruption index.

Outside node color reflects corruption index score compared to previous period.

Country analyzed

Red nodes are countries in the bottom quintile of the corruption index.

In this example there are observed flows to **Congo** and to and from **Haiti**.





Country Surveillance and Technical Assistance

IMF country teams used the minimum scope framework in surveillance work for:

- Seychelles
- Belize (Selected Issues Paper published)
- Cabo Verde (Selected Issues Paper published)

IMF MCM provided TA on the (min. and expanded scope) framework to:

- Angola, Guatemala, Jamaica, Bahamas, Guyana, Eastern Caribbean Central Bank (in progress), Samoa

Framework also referenced by the FSB and World Bank in their work on CBRs.



Conclusion

- Data for Minimum Scope Framework should be readily available
- Minimum Scope Framework satisfies monitoring needs for prudential and financial stability purposes
- Expanded Scope Frameworks adds additional layers of analysis
 - However, it should be complemented with the qualitative elements of the Minimum Scope Framework
- The additional cost of collecting SWIFT data (and the programming capacity needed) should be considered in the decision to implement the Expanded Scope Framework

Thank You