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Correspondent Banking – An Introduction

March 2024



Trainer Profile

Julia Chin aka Compliance Blackbelt is a multi-lingual financial industry professional with over 25 years of experience. She is a subject matter expert on Correspondent Banking, Securities Services and most recently Fintech in the areas of Financial Crime and Regulatory Compliance and Fraud Management.

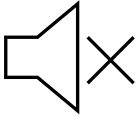
She is a member of the APAC Global Coalition to Fight Financial Crime (“GCFFC”) Secretariat and a member of the Global Digital Finance (“GDF”) AML Working Group.

Having worked in consultancy, global banking and regulatory entities which include Standard Chartered Bank, HSBC, Deutsche Bank, KLOFFE and KPMG, she has considerable experience on implementing and designing standards of control frameworks in Asia and Middle East.





Administration

- Please mute your microphones when not speaking 
- Have your mobile phone handy
- Use the group chat if you wish to comment or ask questions
- Raise your hand if you have questions, so we can unmute you
- Please submit survey by 15 March 2024
- Parking Lot
- Co-creation of Content
- Participate actively
- Have fun
- Participation Certificate



Have Burning Questions?



<https://app.sli.do/event/d2TJpxVHdqA9d8UuxTUMsH>

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Correspondent Banking and the Practical Approach to AML/CFT

Module 1 - Correspondent Banking – An Introduction

Module 2 – Fundamentals of Customer Due Diligence

Module 3 – Sanctions and Terrorist Financing

Module 4 – Enterprise-Wide Risk Assessment

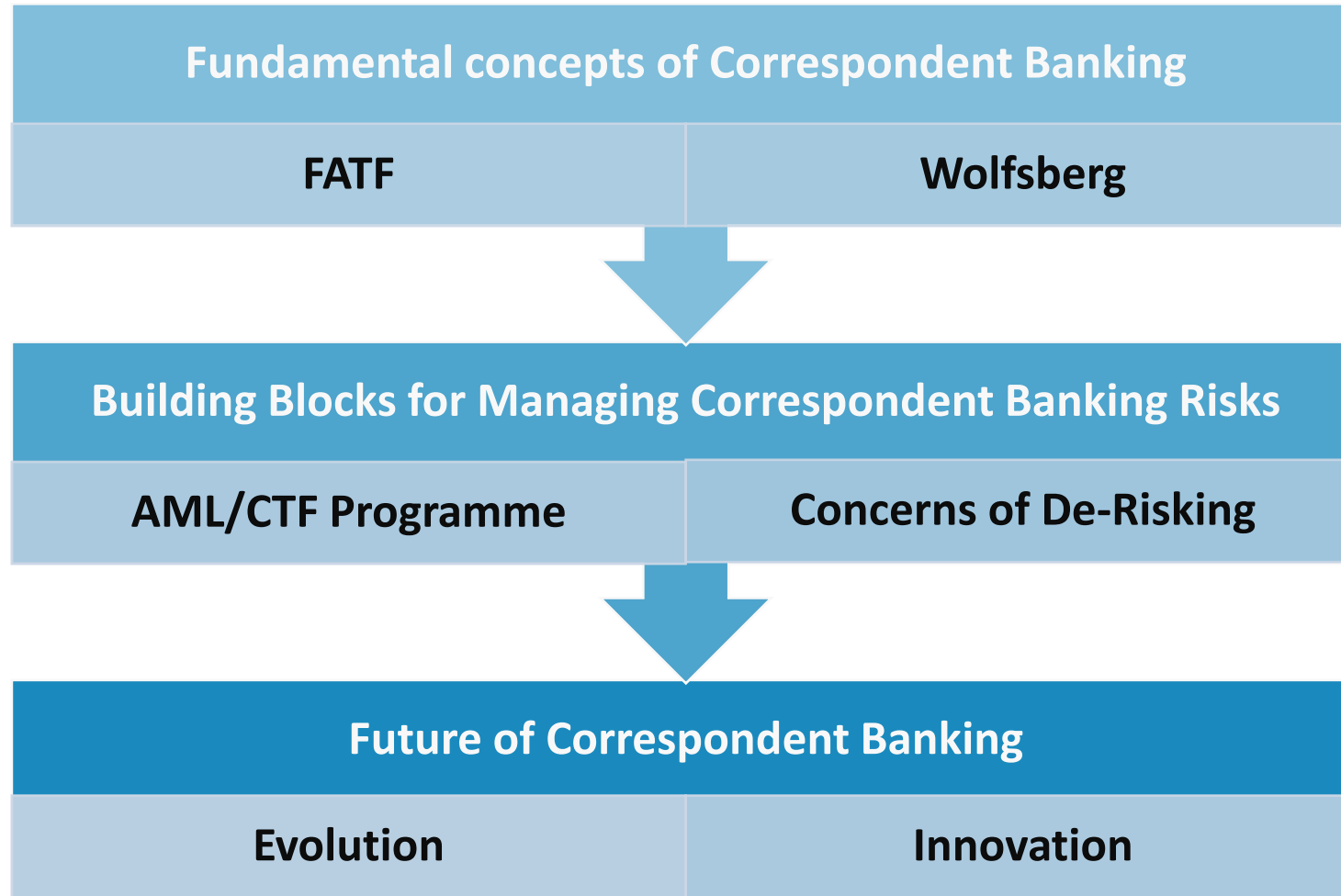
Module 5 – Transaction Monitoring

Module 6 – Anti-Bribery and Corruption

Module 7 – Suspicious Transaction Investigation and Reporting



Learning Objectives of this module





How familiar are you with Correspondent Banking?

1 - What is Correspondent Banking

To

5 - I am Subject Matter Expert

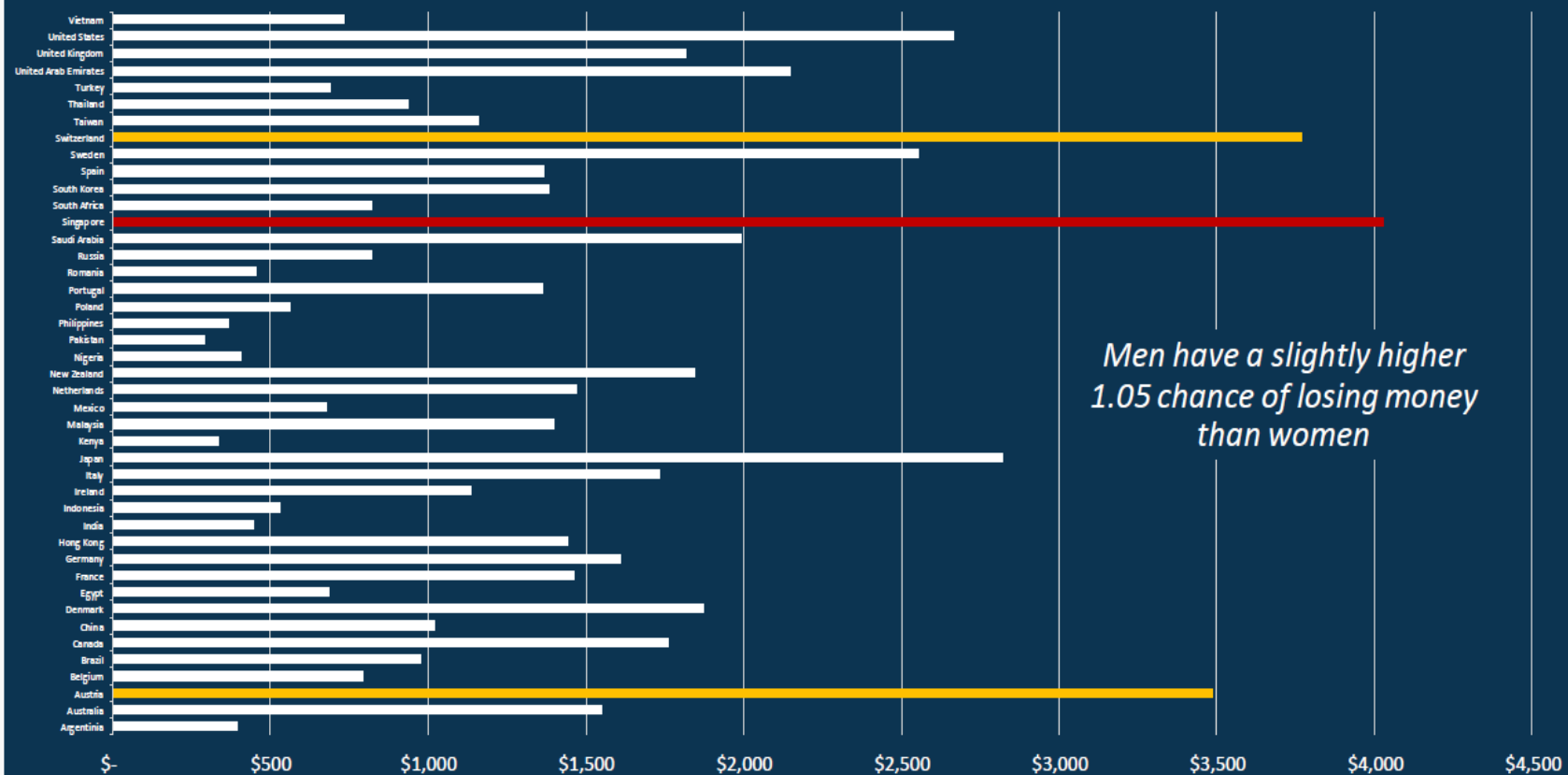
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The average amount lost varies drastically by country



*Men have a slightly higher
1.05 chance of losing money
than women*

The highest average amount stolen is in Singapore (\$4,031) followed by Switzerland (\$3,767) and Austria (\$3,484)

The sheer number of investment scams has a significant impact on the average.

Q7: Which of the following situations happened to you in the last 12 months? Select all that apply.

Statistics of scams worldwide

Source: [The Global State of Scams Report 2023 - GASA](#)





**Scammers gone
Pro**

**Scammers are
marketeers**

**Scammers
operate globally**

**Scammers use AI
tools too!**

**Scam-As-A-
Service**

**Scammers use
Social Media**

**Scammers are
entrepreneurial**

**Scammers know how to use
our emotions**

**Scams becoming hard
to detect**



Singapore – August 2023 Headlines

S\$3 Billions worth of assets seized and still counting ...

Arrested and charged



Persons of interest



It is not a victimless crime





Predicate Crime

A criminal activity that generates proceeds that can be laundered (i.e. the crime behind the crime)

Examples:

- Fraud
- Human trafficking
- Illicit wildlife trafficking
- Drug trafficking
- Arms trafficking
- Tax evasion
- Corruption and bribery
- Etc

The European Union 6th Anti-Money Laundering Directive (6AMLD), which identifies 22 predicate offenses that can be associated with money laundering

International regulatory standards setters and bodies – Frameworks and initiatives



International regulatory standards setters and agencies

International regulatory works and initiatives

Country Primary legislation

Secondary legislation

Rules and regulations (Regulators)

Industry guidance/Best Practices

Firm and Compliance Function





Financial Action Task Force (FATF)

Inter-governmental body established in 1989 by G7 countries

The objectives of the FATF:

- Set Standards
- Promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system

Tools and methods used to achieve these objectives:

- FATF recommendations, Mutual evaluations
- High-risk and non-cooperative jurisdictions, Guidance and typologies reports

<http://www.fatf-gafi.org/pages/aboutus/>



Asia Pacific Group on Money Laundering (APG)

The APG is part of a global network of similar bodies, referred to as Financial Action Task Force-Style Regional Bodies (FSRBs) and is the largest in terms of membership numbers and geographical size. The APG also has a large number of observers (both jurisdictions and supporting organizations) that participate in its programmes and activities. Some of the key international organizations that support the APG include the International Monetary Fund, World Bank, OECD, United Nations Office on Drugs and Crime, the UN's Counter Terrorism Executive Directorate, Asian Development Bank, Commonwealth Secretariat, INTERPOL and the Egmont Group of Financial Intelligence Units.

Five primary functions:

- Mutual Evaluations
- Technical Assistance and Training
- Typology Research
- Global Engagement
- Private Sector Engagement

<http://www.apgml.org/>

- Consists of 12 global banks
- Leading voice in banking committed to combatting financial crime
- Influential in shaping the policies and practices of financial institutions worldwide, as well as informing regulatory developments in the field of financial crime prevention
- Bring together expert practitioners and collect best practices from members to advise and support the industry
- Provides practical guidance developed by practitioners to help improve the effectiveness of financial crime compliance within the financial sector
- Collaborates on issues such as customer due diligence, risk assessment, and information-sharing to develop common approaches that can be adopted across the industry
- Promote engagement between public and private sectors in combatting illicit financial activity.



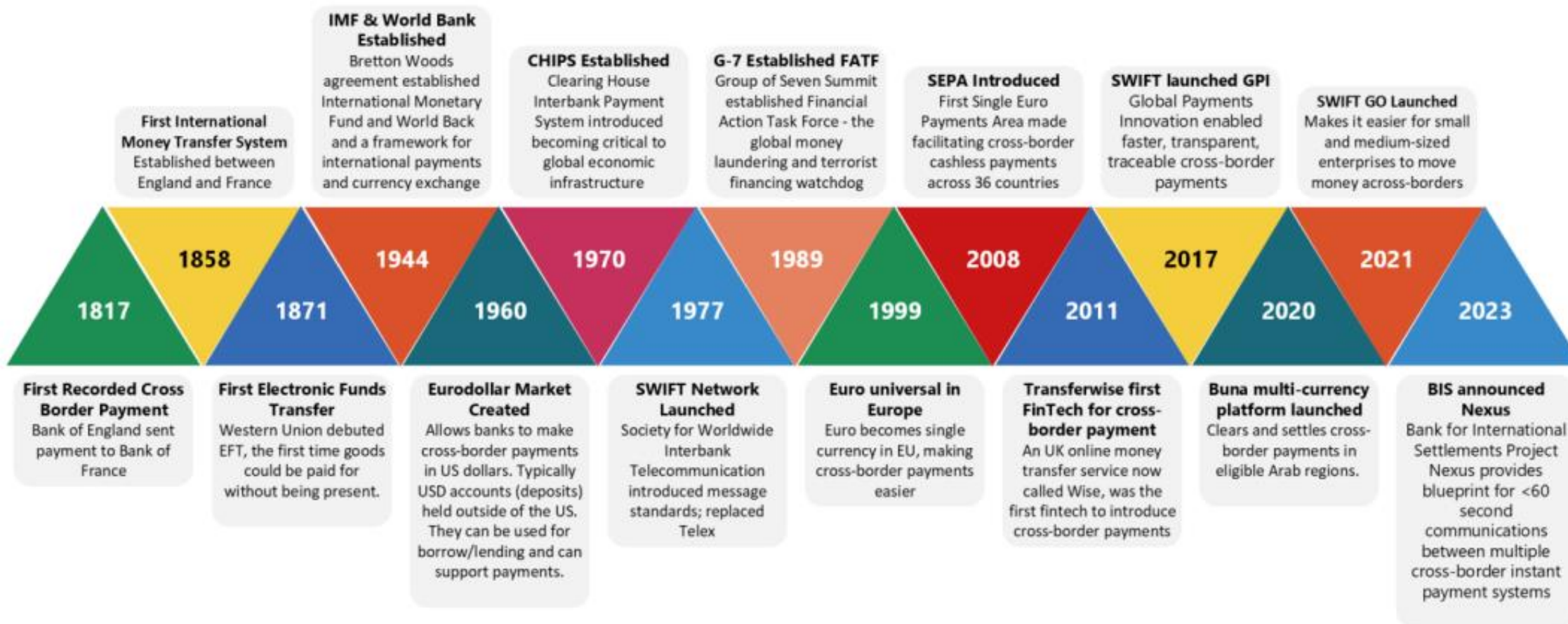
What is Correspondent Banking and why is it important?

Correspondent Banking has been defined by the FATF (Financial Action Task Force) as “...the provision of banking services by one bank (the “correspondent bank”) to another bank (the “respondent bank”)”

- To facilitate international trade, investment, and cross-border payments (issue letters of credit, provide financing for imports and exports, and manage the various financial aspects of international trade transactions)
- Allows banks to provide services in foreign currencies and jurisdictions where they may not have a physical presence (allowing banks to provide currency exchange services to their customers engaged in international trade or travel)
- To clear and settle transactions, ensuring that funds are transferred accurately and in a timely manner
- Allows banks to manage liquidity by holding accounts with correspondent banks in various currencies
- Connecting banks in different regions. This connectivity allows individuals and businesses in one part of the world to access financial services offered by banks in another part of the world



Brief History of Cross Border Payments



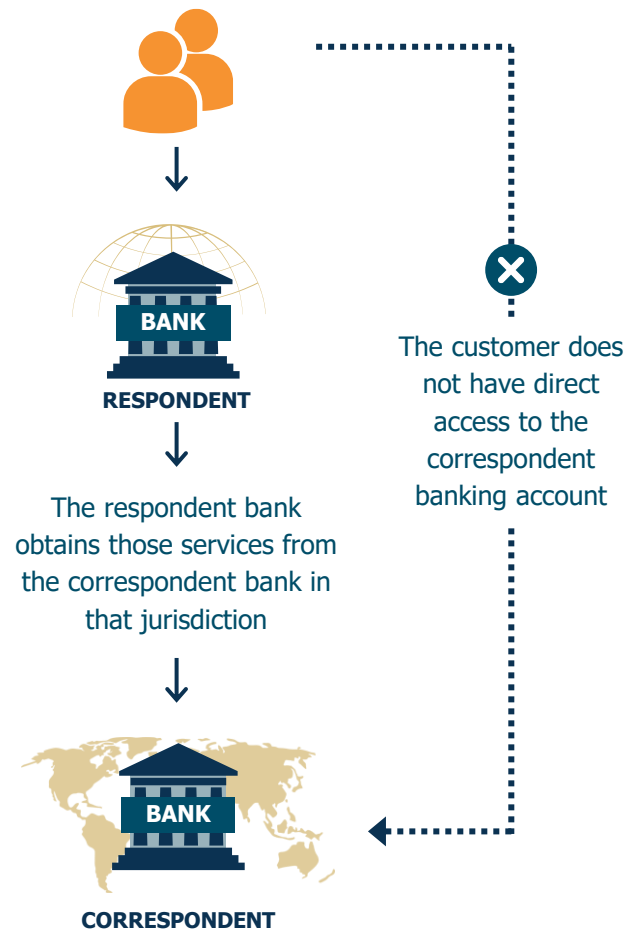
Source: The Practicalities of Cross Border Payments in a Faster Payments World by Faster Payments Council



Common Correspondent Banking Structures

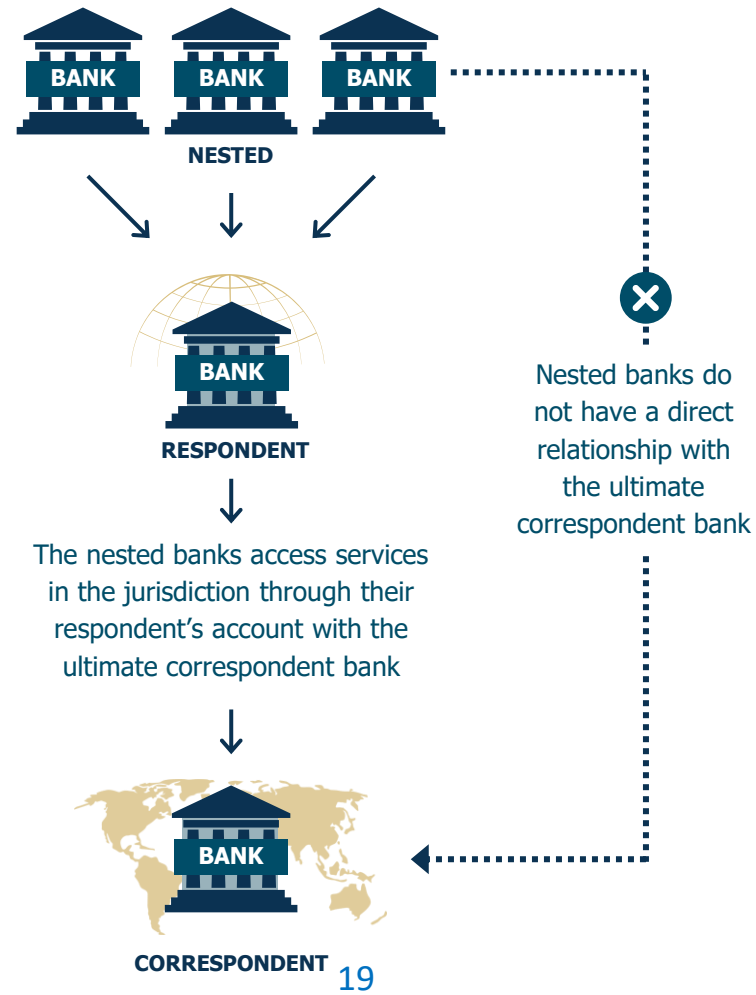
DIRECT

A bank wants to provide its customers with services in foreign jurisdiction



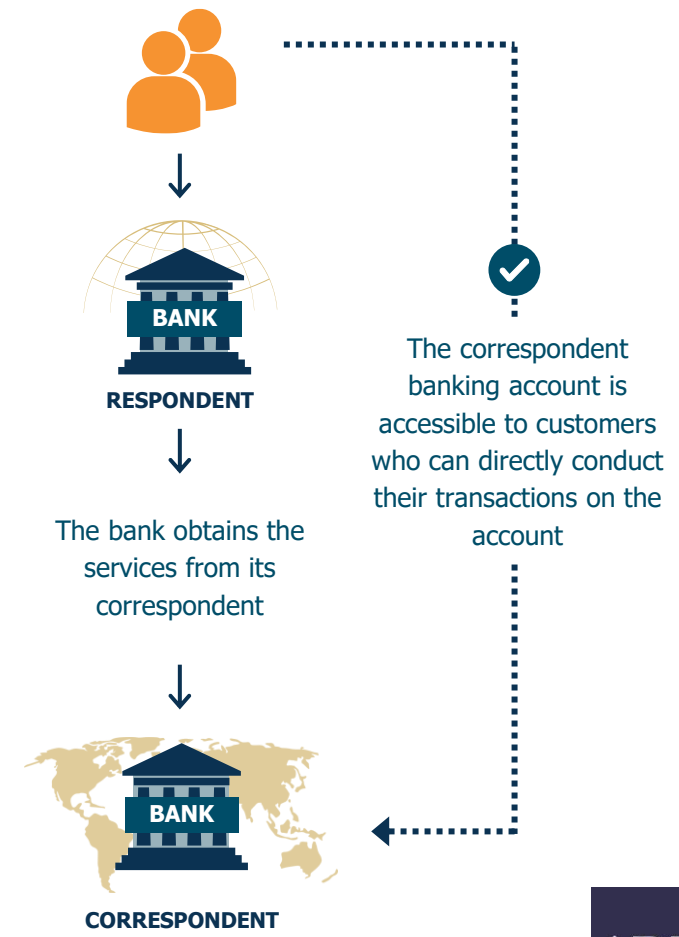
NESTED

A number of banks use another bank's correspondent relationship to conduct transactions and access other financial services



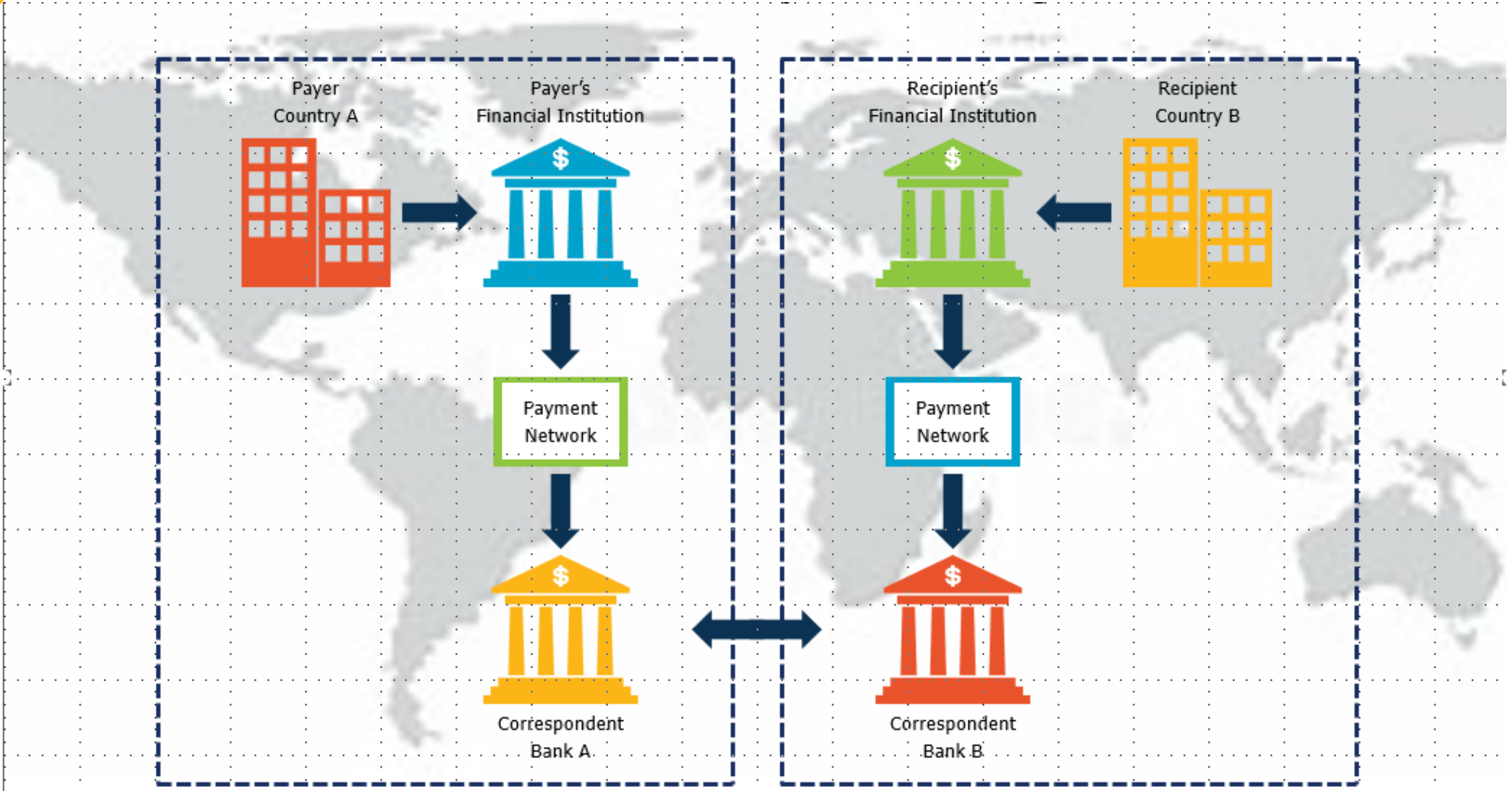
PAYABLE-THROUGH OR PASS-THROUGH

A bank wants to provide its customers with services in foreign jurisdiction





Cross Border Correspondent Banking





What is 'risk' in Correspondent Banking?

- Correspondent often has no direct relationships with the underlying parties to the transactions they process
 - has limited information
 - unable to verify their identities
 - often have to rely on the controls and due diligence programmes the respondent banks have put in place
- Risks of financial crime can arise in the relationship between the correspondent and the respondent, particularly where these two entities operate within different legal frameworks, jurisdictions and perhaps to different standards

New transaction banking initiatives are changing traditional correspondent banking practices and payment processing paradigms



Breaking down the challenges further

- Regulatory compliance
- Security
- Foreign exchange rate fluctuation risk
- Lack of transparency
- High cost
- Interoperability
- Data privacy
- Rise of fintechs and new, innovative payment methods
- Liquidity management
- De-risking leading to the search for alternative channels

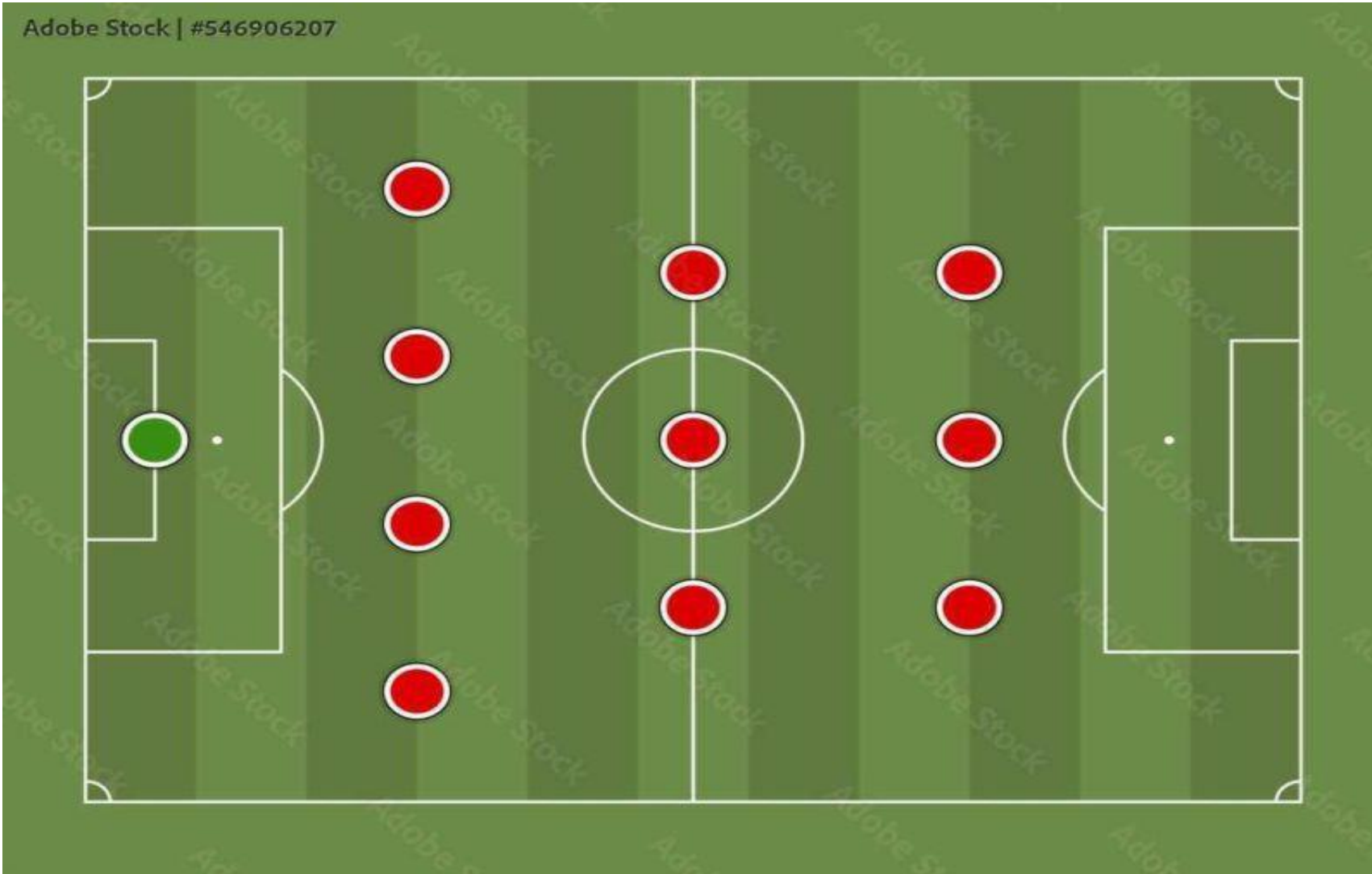


What are the expectations of the Respondent

- Partnership – clear and open communication related to FCC matters and the provision of complete and accurate due diligence information
- Responses to Requests for Information – timely and fulsome responses to inquiries related to transactions in the account
- Understanding of the Institutions' risk appetite and compliance with any restrictions communicated



Three Lines of Defence





Correspondent Banking Due Diligence

Risk based approach

- Customer risk
- Geographical risk
- Products and services risk
- Transactions and delivery channels risk

Questionnaires (CBDDQ and FCCQ)

- The Correspondent Banking Due Diligence Questionnaire (CBDDQ) introduced in 2018 covers a wide range of financial crime risks and is the successor to the Wolfsberg AML Questionnaire which was first issued in 2004.
- Shorter version, the Wolfsberg Group Financial Crime Compliance Questionnaire (FCCQ), was also developed to designed to address relationships other than those deemed higher risk.



Wolfsberg Financial Crime Principles for Correspondent Banking Updated 2022

- Definition of Correspondent Banking
- Responsibility and Oversight
- Risk based due diligence guidelines and considerations
 - Geographic Risk
 - Own branches, subsidiaries and affiliates
 - Own branches, subsidiaries and affiliates of other Financial Groups
 - Ownership and management Structures
 - Products and services
 - Customer base
 - Regulatory status and history
 - Financial crime controls
 - Business arrangements with shell banks
 - Customer visit



Wolfsberg Financial Crime Principles for Correspondent Banking Updated 2022

- Enhanced due diligence
 - PEP involvement
 - Downstream Financial Institutions (nesting)
 - Governance review and approval
- Monitoring and reporting of suspicious activities
- Ongoing review of correspondent banking relationships
- Integration with institution's wider Financial Crime Compliance Programme



Sections in Wolfsberg Group Correspondent Banking Due Diligence Questionnaire (CBDDQ) V1.4

- Entity & Ownership
- Product & Services
- AML, CFT & Sanctions Programme, Policies & Procedures
- Anti Bribery & Corruption
- AML, CFT & Sanctions Risk Assessment
- KYC, CDD and EDD
- Sanctions
- Training & Education
- Quality Assurance/Compliance Testing
- Audit
- Fraud



Key Anti-Money Laundering Concepts

- 3-stage model of money laundering
 - Placement
 - Layering
 - Integration
- Customer due diligence
- Identifying suspicious activities
- Risk based approach



Breakout/Discuss (10 min)

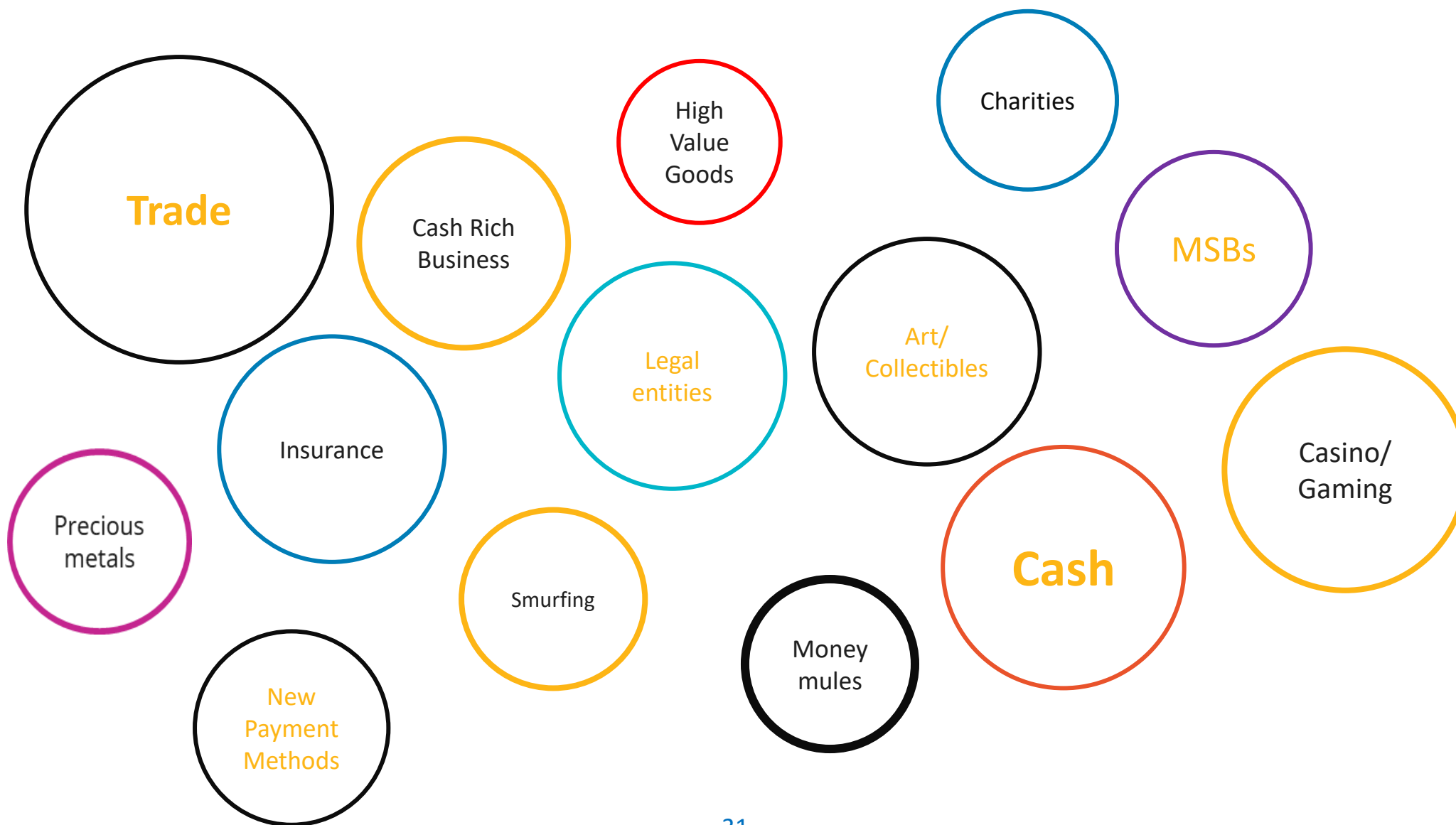
Imagine yourselves the group of money launderers in Singapore

- Devise a method to 'clean' \$1 million in criminal proceeds
- Identify the weaknesses in the financial system which you can exploit to launder your proceeds
- Be creative
- Be international





Common Ways to Launder Money





Singapore August 2023

Modern Money Laundering



Risk identification and assessment

Risk Identification and Assessment:-

- Customer risk
- Country risk
- Products and services risk
- Transactions and delivery channels risk

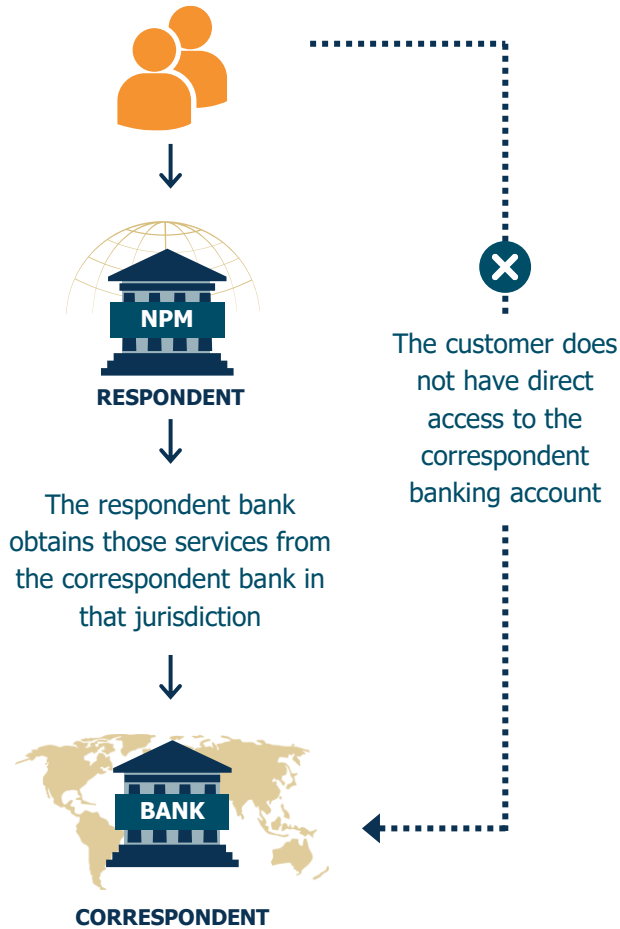
Other areas to be considered for the risk identification:

- Structure of the Financial Institution
- Results of the National Risk Assessment (NRA)
- Other factors e.g., Internal audit and regulatory findings, the number of STRs filed

NEW PAYMENT METHODS (NPM)

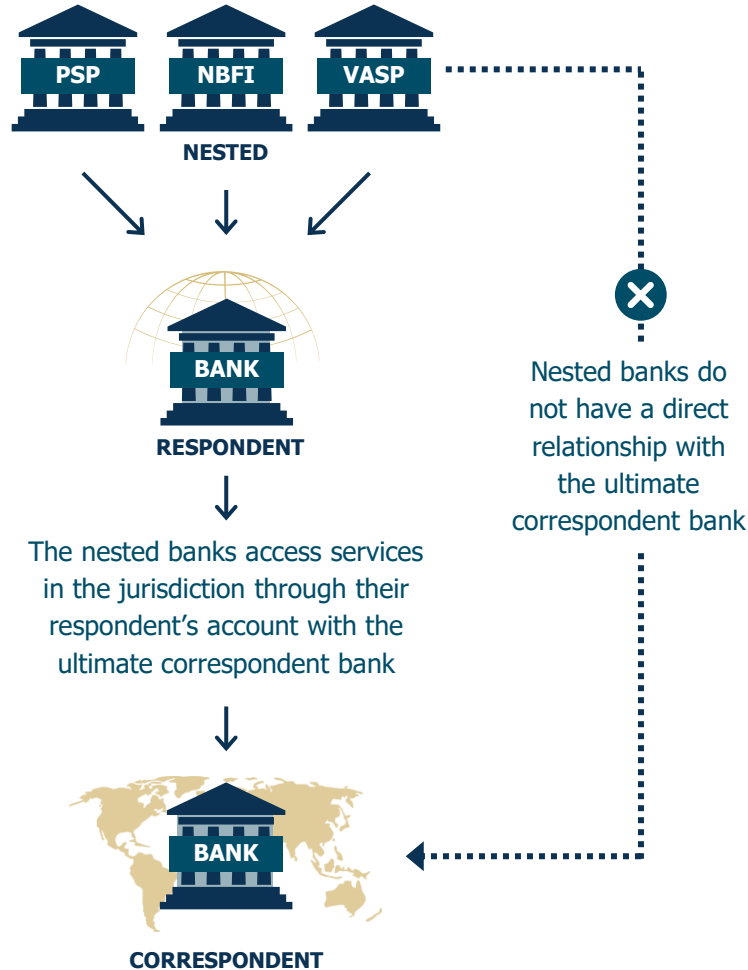
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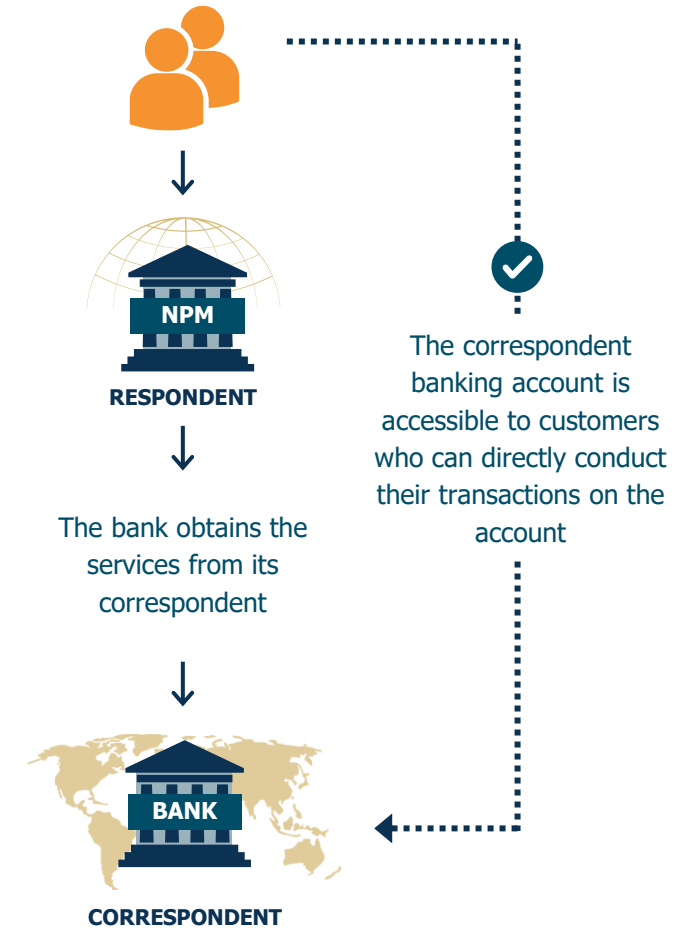
NESTED

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PAYABLE-THROUGH OR PASS-THROUGH

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Our role in conducting Due Diligence – Why?

Keep our financial system safe for consumers

Maintain the integrity of our financial system

The eyes and ears of the community and law enforcement

- **1st line of defence**
- **STRs**





Resources

- FATF Guidance on Correspondent Banking: <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Correspondent-Banking-Services.pdf>
- 2023 APG Typologies Report: <https://apgml.org/news/details.aspx?pcPage=1&n=7211>
- The Wolfsberg Group: <https://wolfsberg-group.org/>
- Wolfsberg Correspondent Banking Principles 2022: <https://db.wolfsberg-group.org/assets/431f9f38-d56d-426d-b929-620371131654/Wolfsberg%20Correspondent%20Banking%20Principles%202022.pdf>
- Wolfsberg CBDDQ: <https://db.wolfsberg-group.org/assets/3964cedf-a462-4e55-a1e7-ca7c70dfa7ec/CBDDQ%20v1.4.pdf>
- Wolfsberg FCCQ: <https://db.wolfsberg-group.org/assets/8f28b4be-5808-485f-aba0-ff79ebce8294/FCCQ%20v1.2.pdf>
- GDF Anti-Money Laundering Due Diligence Questionnaire for Virtual Asset Service Providers (VASPs): <https://www.gdf.io/working-group/kyc-aml-ctf/>
- Egmont Group: <https://egmontgroup.org/>
- The journey leading to Wolfsberg CBDDQ: <https://thefinancialcrimenews.com/interview-with-alan-ketley/>



Thank you.