AI Technology to Mitigate Correspondent Bank Derisking

SUMMARY
Joint ADB Cambridge Centre for Alternative Finance, Cambridge University
Roundtable Discussion
2025 Japan Future Tech Forum: Accelerating Technology Adoption

Navigating the Paradox: Rising Cross-Border Payments Amid Accelerating Derisking

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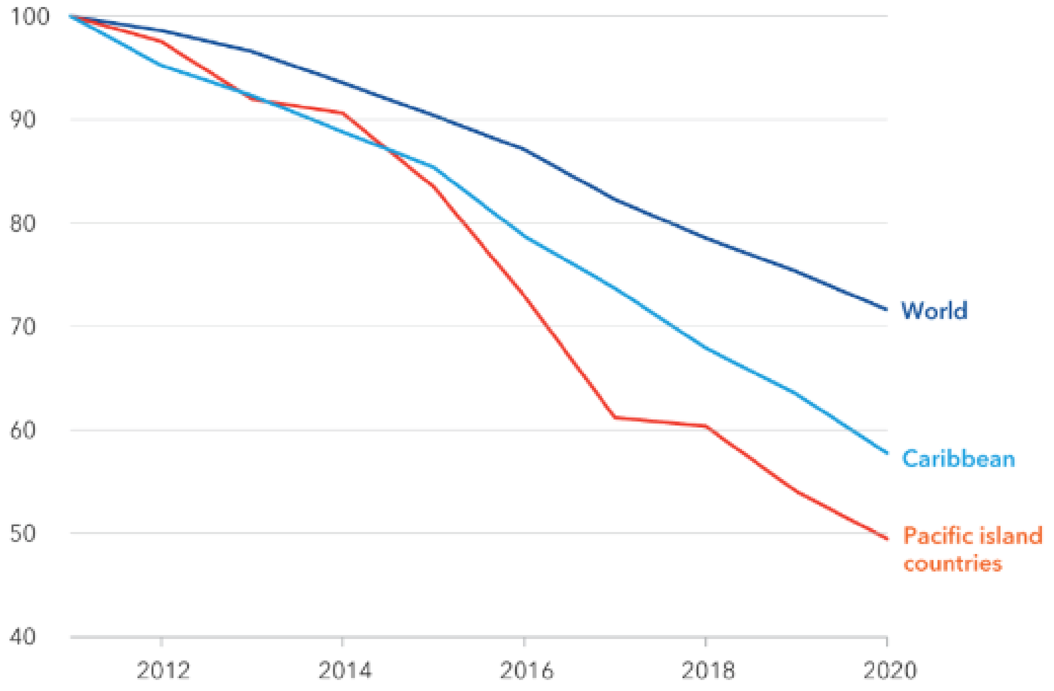
- Over the last decade, the global volume and value of cross-border payments increased by 61% and 37%, respectively.
- These payments depend highly on correspondent banking
- … at the same time, Pacific Island Countries have seen a 60% decline in correspondent banking relationships, which is double the global average reduction of 30%.,
- As such, this has resulted in higher cost of remittances with the price averaging 9.1% in the Pacific vs. the global average of 6.6%, which is 3 times higher than the sustainable development goal target of 3%.
- This consolidation significantly heightens the risk of a complete loss of CBRs in some Pacific Island countries (PICs).

Number of active correspondents
(index 2011=100)



Sources: Bank for International Settlements and IMF staff calculations.

IMF

Roundtable:

AI Technology to Mitigate Correspondent Bank Derisking, 3 March 2025

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The roundtable discussion examined how AI-powered solutions can assist *key stakeholders—including banks, regulators, policymakers, and standard setters*—in navigating complex and evolving regulatory requirements.

By addressing the underlying drivers of derisking, these solutions enhance transparency, rebuild trust, and strengthen confidence in Correspondent Banking Relationships.

But correspondent banking isn't just about regulatory efficiency—it's also about *financial inclusion*, lowering the cost of remittances, and ensuring that *vulnerable populations* maintain access to essential financial services.

At its core, correspondent banking safeguards livelihoods by enabling *families and small businesses* to receive remittances, finance trade, and cover basic needs, bringing a human dimension to global finance.

Key Findings:

The Role of AI in Regulatory Alignment and AML/CFT Compliance

1. As digitization accelerates, global connections deepen, and regulatory standards evolve, there is a need to reimagine the correspondent banking framework.
2. AI-powered analytics present a transformative opportunity. By harnessing large language models (LLMs) and advanced data analytics, financial institutions can synthesize fragmented regulations, identify emerging risks, and conduct comparative assessments across jurisdictions. These technologies enhance regulatory compliance, mitigate risks, and provide much-needed transparency—offering a pathway to restore and strengthen CBRs.
   a. To drive regulatory alignment, the session discussed how AI-powered policy analysis and compliance solutions can help financial institutions and regulators:
      i. Analyze vast and evolving regulatory frameworks
      ii. Improve transparency in compliance and AML/CFT standards
      iii. Restore and secure confidence in CBRs
   b. By leveraging AI-driven solutions, stakeholders can strengthen trust, improve regulatory efficiency, and ensure that CBRs continue supporting essential cross-border banking services, such as remittances, trade finance, and payment systems, particularly for vulnerable economies.

Key Findings:
Emergence of Ecosystem AI Partnership Models

Regulators (Monetary Authority of Singapore (MAS)), government agencies (Financial Crimes Enforcement Network, US Treasury), and FI groups (Transaction Monitoring Nederland (TMNL) Netherlands) have enabled consortium-based approaches for FIs to share anonymized risk intelligence and real-time threat updates, without sensitive data leaving borders.

Global communities of AML compliance experts are starting to share risk insights on trusted, secure ecosystems that AI-based federated learning models drive.

These ecosystem networks help the smallest FIs access advanced intelligence, thereby helping improve detection, reduce costs, close gaps vs. Financial Action Task Force (FATF) standards, mitigate derisking, and consequently help the industry unite in the war on financial crime.

Key Findings:
Moving Beyond Traditional Payment Infrastructure

Emerging digital frameworks offer innovative solutions for creating universal, unified ledgers that cover various asset classes, including deposits, carbon credits, equity, and real estate, through tokenization. These frameworks enable individuals and businesses to securely control their identities, credentials, and financial assets.

By addressing traditional payment system inefficiencies, advanced digital solutions facilitate seamless, secure, and cost-effective financial transactions across diverse assets and platforms. This approach enhances financial connectivity and interoperability, leading to a more inclusive, efficient, and resilient global financial ecosystem.

Such digital frameworks also enable secure, permissioned processes tailored specifically for low-value, high-volume, high-trust scenarios, notably in cross-border payments.