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AI Technology to Mitigate Correspondent Bank Derisking

Global Financial Technology Network Forum, Japan 3 to 7 March 2025

The GFTN Forum, Japan 2025, focused on building financial corridors by strengthening connections between South and North Asia, ASEAN, and global markets through innovative financial solutions and capital flows.

Key discussions during the GFTN Forum explored the impact of AI, Quantum Technology, Tokenization, and Digital Assets on economic transformation, with a deep dive into asset management, digital assets, and the future tech stack.

Stakeholders emphasized driving actionable results by fostering collaborations between the public and private sectors to develop meaningful initiatives and outcomes.

Roundtable:

AI Technology to Mitigate Correspondent Bank Derisking,
3 March 2025



ADB, in collaboration with the Cambridge Centre for Alternative Finance, Cambridge University, held a joint roundtable discussion that explored harnessing AI-driven regulatory risk assessment with the use of Large Language Models.

The objective is to enable financial institutions, regulators, and policymakers to synthesize fragmented regulations, identify emerging risks, and deliver comparative insights across jurisdictions to enhance transparency, efficiency, and accuracy in assessing international standards, compliance frameworks, and anti-money laundering obligations.

As AI-powered analytics continue to evolve, they hold the potential to transform how regulatory frameworks are assessed, aligned, and implemented globally. This shift can foster a more resilient, adaptive, and risk-sensitive financial ecosystem, preserving Correspondent Banking Relationships (CBRs).

Roundtable:

AI Technology to Mitigate Correspondent Bank Derisking,
3 March 2025



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.

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.

GFTN Insights

Roundtable
Room 3, 5F,
BelleSalle

Open

Mon, 3 Mar | 1:00 PM - 2:30 PM

AI Technology to Mitigate Correspondent Bank Derisking

Roadmap for AI and Quantum

[Learn More](#)



Prof. Bob Wardrop

Professor, University of Cambridge & Spin-out Founder, RegGenome



Kenneth Gay

Chief FinTech Officer, Monetary Authority of Singapore



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Chief Executive Officer, Impact Financial Advisory



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Senior Fintech Consultant, Asian Development Bank



Ryosuke Ushida

Chief Fintech Officer, Financial Services Agency of Japan



Dr. Giovanni Bandi

Executive Director - Regulatory Genome Project, Cambridge Judge Business School

Navigating the Paradox:

Rising Cross-Border Payments Amid Accelerating Derisking



Over the last decade, the global volume and value of cross-border payments increased by 61% and 37%, respectively.

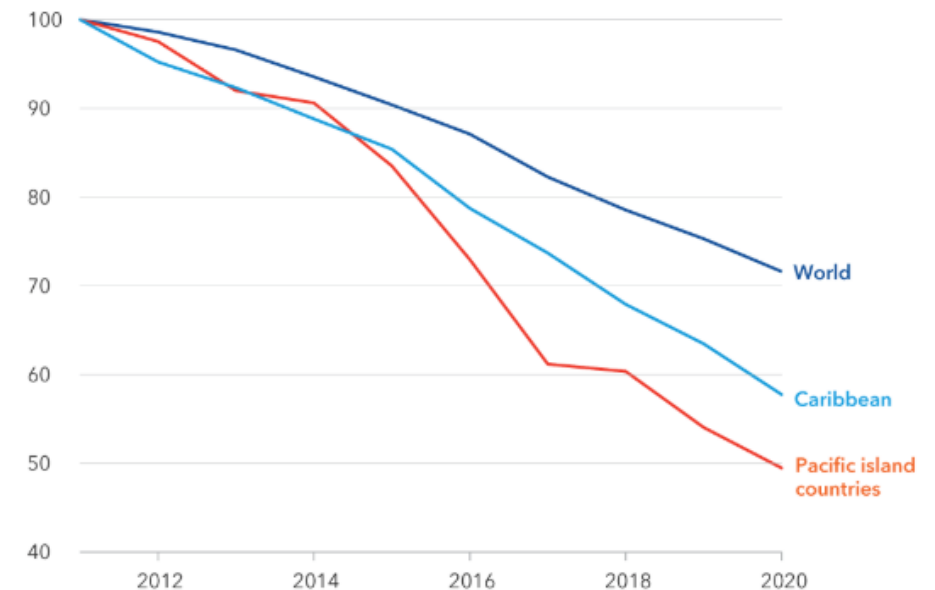
These payments depend highly on correspondent banking, which has long been a critical pillar of the global financial system, enabling cross-border transactions, trade finance, and remittances.

... 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%, leading to a widespread phenomenon known as 'derisking' and a concentration of remaining relationships within a few banks.

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 3times 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)



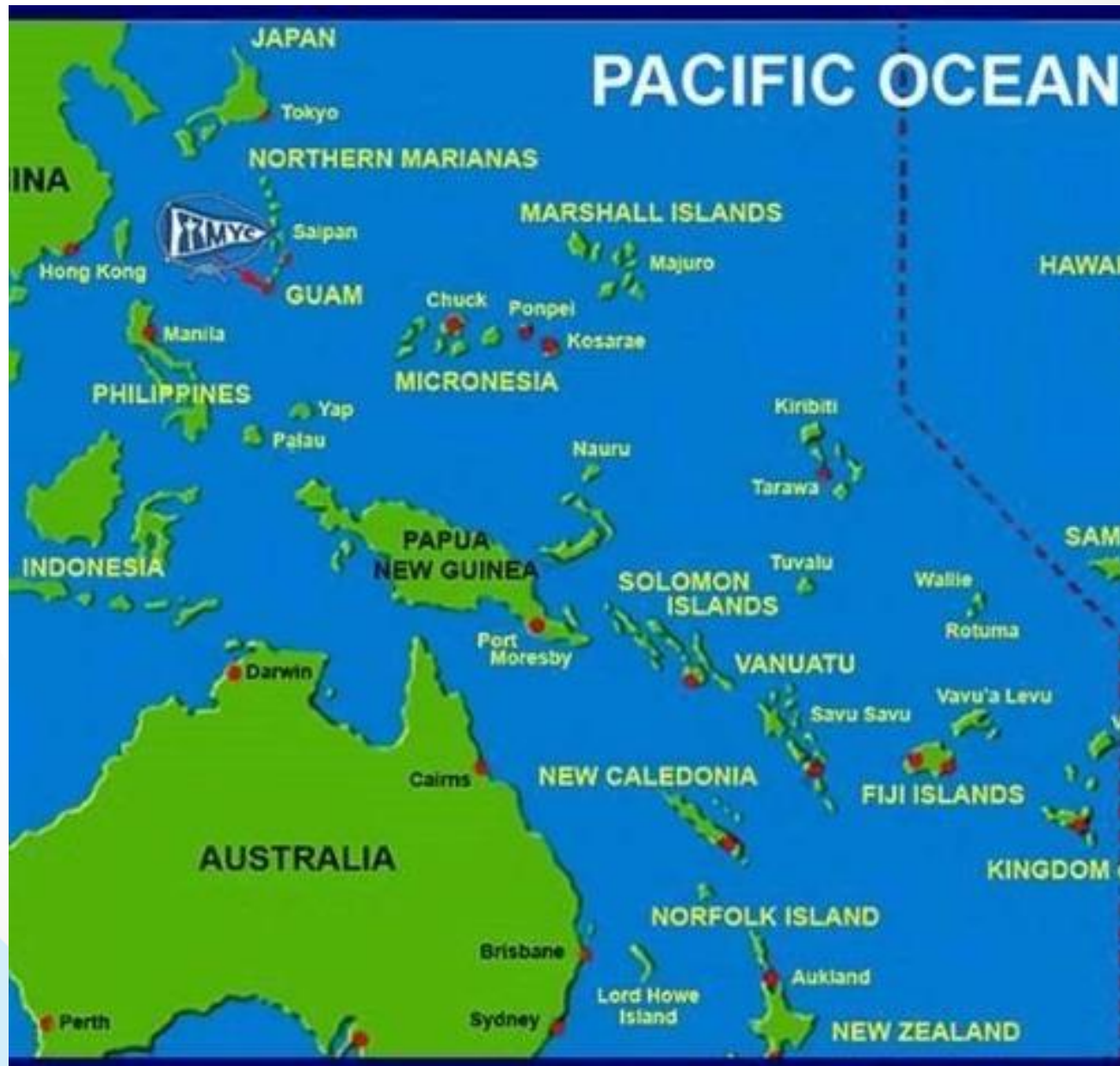
Sources: Bank for International Settlements and IMF staff calculations.

IMF

Derisking is driven by regulatory misalignment, rising costs, and business challenges.



This makes it harder for banks to maintain correspondent banking relationships, especially in smaller economies like those in the Pacific.



Regulatory Misalignment

Regulatory misalignment:

- A key factor driving derisking is the misalignment of regulatory and compliance frameworks across different jurisdictions.
- Financial rules and regulations aren't the same everywhere. Different countries have their own banking and anti-money laundering rules, and when they don't match up, it creates uncertainty, compliance risks, and extra costs for banks.
- After the 2008 financial crisis, global standards like FATF requirements became stricter, requiring more due diligence and tougher enforcement of AML/CFT, tax transparency, and sanctions compliance.
- Many correspondent banking relationships struggle to meet these evolving regulatory, supervisory, and capital requirements—especially in smaller economies where transaction volumes are low.

Rising costs

- Global banks frequently conclude that maintaining certain relationships is not commercially viable due to rising compliance costs and associated risks. In smaller markets, banks often find it challenging to absorb these growing expenses, prompting them to withdraw from these markets.
- The potential for significant financial penalties resulting from non-compliance further increases their caution about sustaining these banking relationships.

Business Viability

- Another factor is that correspondent banking is a low-margin, high-risk business, and for it to be profitable, banks need large transaction volumes.
- The reality is that many Pacific Island countries don't have the scale to make these relationships financially viable, and with compliance costs rising, some banks simply don't see it as worth the effort.

Strengthening AML/CFT Frameworks to Mitigate Derisking Risks

The implementation of Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulatory frameworks is indeed a crucial factor in addressing regulatory misalignment. Effective AML/CFT frameworks are essential for maintaining the integrity of the financial system, ensuring financial stability, and promoting global security.

According to the Financial Action Task Force (FATF), derisking occurs when financial institutions terminate or restrict business relationships with entire regions, customer categories, or institutions to avoid regulatory and reputational risks rather than managing them. The unintended consequences of derisking include reduced financial transparency, increased illicit financial activity in unregulated channels, and, most critically, financial exclusion, particularly in vulnerable economies.

In response to these challenges, the FATF has emphasized a risk-based approach (RBA) to correspondent banking. The FATF Recommendations do not require financial institutions to conduct due diligence on the customers of their respondent banks. Instead, correspondent institutions should assess the risk profile of the respondent bank itself—its business model, regulatory compliance framework, and transaction monitoring practices—rather than severing ties based on broad, sector-wide assumptions.

FATF's guidance also underscores the need for a balanced approach, ensuring that risk management measures do not unduly disrupt legitimate financial services. The withdrawal of Correspondent Banking Relationships (CBRs) has disproportionately impacted certain regions, such as the Pacific Islands, where financial institutions have struggled to maintain access to international banking channels. The result is a heightened risk of economic isolation, restricting access to remittances, trade financing, and essential payment systems.



From Fragmentation to Clarity:

Harnessing AI to Secure Financial Connectivity

ADB

As digitization accelerates, global connections deepen, and regulatory standards continue to evolve, the current correspondent banking framework must be reimagined.

Strengthening legal, regulatory, and digital infrastructure is essential to preserving global financial access, but achieving alignment across jurisdictions is critical to effectively address the challenge of de-risking. Inconsistent regulatory frameworks increase complexity, compliance costs, and perceived risks, prompting banks to exit markets altogether.

Technological innovations—particularly AI-driven regulatory data platforms—can transform this landscape by bridging regulatory gaps, enhancing transparency, and fostering trust between jurisdictions.

By converting complex regulatory requirements into structured, machine-readable data, these solutions can significantly improve regulatory clarity and mitigate compliance-related challenges, ultimately sustaining critical financial connections globally.



Transforming Compliance:

How AI and LLMs Drive Global Regulatory Alignment

Leveraging AI-driven regulatory risk assessment through Large Language Models (LLMs) enables financial institutions, regulators, and policymakers to integrate fragmented regulatory information, swiftly detect emerging risks, and generate comparative analyses across different jurisdictions. This approach significantly improves transparency, efficiency, and precision when evaluating international standards, compliance frameworks, and anti-money laundering obligations.

As AI-powered analytics continue to advance, they offer transformative potential for assessing, harmonizing, and applying regulatory frameworks globally. Such innovation promotes a resilient, adaptable, and proactive financial system, essential for preserving Correspondent Banking Relationships.

Utilizing AI and policy analysis is vital for achieving regulatory alignment among countries, as diverse and continuously evolving regulatory environments pose considerable challenges for banks seeking consistent compliance.



Key Findings:

The Role of AI in Addressing Derisking Challenges

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.



Moving Beyond Traditional Payment Infrastructures



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.

