PRESS RELEASE

Scotia Groups Craig Mair Offer Solutions to the Issues of Correspondent Banking

Craig Mair (left), Vice President Corporate and Commercial Banking at Scotiabank, greets fellow panelist, Brian Wynter (right), Governor Bank of Jamaica, at the recently hosted Jamaica Stock Exchange Conference.

[January, 2017] Craig Mair, vice president of commercial banking at Scotiabank is encouraging political leaders and regulators to stem the fallout from the risk of local financial institutions losing their correspondent banking relationships (CBR) with international money operations.

Speaking at the Jamaica Stock Exchange (JSE) Regional Investments & Capital Markets Conference 2017, held from January 24 to 26 at the Pegasus Hotel, Mair suggested that "our leaders across the Caribbean must do more to clarify ambiguities in regulation and articulate clear, specific guidelines governing how far our banking due diligence must go."

Research shows that international banks in the U.S., Europe, and other major money centres around the globe, are purging their correspondent banking relationships (CBRs) in order to de-risk. The result of de-risking is that banks and other financial institutions are being shut out of the global financial system and more profoundly, that certain countries and regions become unbanked or at least, less-banked.

Mair shared with the JSE conference audience that, "As of May 2016, sixteen banks in the Caribbean across five countries have lost all or some of their CBRs. In Barbados, eight financial institutions have had their CBRs severed; five of seven banks in Belize have had their CBRs terminated; In the Bahamas, two domestic and four international banks have also have had their CBR brought to an end; In Haiti, all local banks have either seen their CBR severed or truncated; and here in Jamaica, international

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correspondent banks have restricted or terminated their relationships with a number of our financial institutions."

And one of the main reasons, ironically for de-risking is not risk, but the cost to comply with regulations that protect against risk. Research funded by the Council of Europe suggest that international banks are responsible for due diligence of their clients, and how well banks do due diligence of their own clients. The Council of Europe reports that this is a costly process. Compliance officers at international banks are required to have an in-depth knowledge of the legal and regulatory framework in their country and that knowledge should extend to jurisdictions in which their banks have CBRs.

When compliance requirements are not adhered to, it can be very costly in regards to fines paid by the international banks.

According to Mair, "following the 9/11 terror attacks there have been several significant fines imposed on international financial institutions. Most recently, Western Union agreed to pay over US$500 million to the US government to compensate victims of fraud, principally scammers."

Interestingly, the same research papers that outlines how costly it is for international banking partners to scrutinize the compliance of their Caribbean banking partners, also notes that stock exchanges are significant contributors to reducing the risk of poor financial practices. In research provided by the OCED it is noted that stock exchanges contribute to corporate governance practices through its listing and disclosure standards as well as monitoring compliance for listed companies.

Mair noted that, "the termination or threat of termination of CBRs directly threaten our local economy".

What this means is access to the global payment system, especially for cross-border transactions, will be severely minimised. Customers will have limited access to financial services in alternate jurisdictions, and payment solutions such as remittances that rely heavily on correspondent banking, will be challenged.

According to him "Jamaica has sought to handle de-risking by pro-actively assuring our partners that our compliance frameworks are robust. Jamaica is currently fully compliant with the core and key regulations of the international Financial Action Task Force, and we have signed FACTA agreements with the US Government. Through the Government Of Jamaica and Central Bank, we have seen amendments in legislation to strengthen customer due diligence and heighten the use of risk based processes to identify risk."

In recognizing how delicate the balance is to keep the CBR as part of the financial framework in Jamaica, Mair suggests the following:

1. Continue to strengthen the AML/KYC framework of respondent institutions, based on a uniform regulatory framework and method of data collection and storage.

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2. Regional leaders must increase the intensity of the lobbying effort, to get international regulators to clarify ambiguities in regulations, governing AML/CFT, articulate clear, specific guidelines governing how far customer due diligence should go in order ensure regulatory compliance.
3. Enforce compliance uniformly across institutions, customers must understand the importance of compliance.
4. Ask the regulators to heighten of the financial sector's activities.

Mair was one of three members of the Scotia Group to participate at the recently held JSE Conference.

About Scotia Group Jamaica Limited (SGJL)

Scotiabank has been in Jamaica since 1889 and is the premier financial institution in the country with just over 2,000 employees and 35 Branches Island wide. SGJL is a subsidiary of Scotiabank (Canada) and offers a diverse range of products and services including personal, commercial, and small business banking, wealth management, insurance, and mortgages. SGJL is an award winning institution having been named on numerous occasions as the Bank of the Year and Best Bank in Jamaica by international financial publications – the Banker, Latin Finance, Euromoney, and Global Finance magazines. SGJL has JMD$ 450 billion in assets (as at April 30, 2016). For more information please visit www.scotiabank.com/jm.

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