

KEYNOTE ADDRESS

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AT

THE STANDARD CHARTERED BANK
WORKSHOP ON CORRESPONDENT
BANKING RELATIONSHIPS, HELD AT
THE BANK OF SIERRA LEONE
COMPLEX, KINGTOM,
FREETOWN- SIERRA LEONE
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PROTOCOL

Let me start by extending our appreciation to all CEOs present for prioritizing this workshop, which addresses critical issues on correspondent Banking Relationships. I will also like to thank Standard Chartered Bank for collaborating with us in delivering this capacity building program. We believe the knowledge gained from this workshop will go a long way in improving banking practice in the country.

Ladies and Gentlemen, the recent termination of correspondent banking relationships with our banks has been of concern to the Bank of Sierra Leone (BSL) because the consequences of severing these relationships for the banking industry and the economy as a whole are significant. In a world that is increasingly shrinking into one highly connected village, billions of financial flows exchanged on a daily basis. While banks facilitate trade and other cross-border payments, they are also threatened by heightened financial crime risks. To this end, few subjects may interest us as the Supervisory Authority more than one related to correspondent banking.

As you are aware, the problem is not unique to Sierra Leone. International banks are increasingly restricting or terminating such relationships with respondent banks across the globe, especially in jurisdictions considered being high risk. This de-risking process has been partly driven by commercial reasons and the inability of respondent banks to meet increasing international standards on financial crime. As respondent banks may not be able to find alternative correspondent banks, the loss of their relationships will undoubtedly limit their ability to facilitate cross-border transactions. Consequently, the reduction in cross-border payments and remittance flows will impede growth, especially for import dependent country like ours, and undermine efforts to promote financial inclusion. The termination of correspondent banking relationship may

compromise the integrity of the financial system, as some transactions could be channeled through unregulated routes.

I therefore consider this workshop as taking place at an opportune time. I am optimistic that Standard Chartered Bank will share both best practice and their experience across multiple markets, in the course of this workshop. My hope is that the outcome of this workshop will meet the expectations of the various stakeholders involved. As the Regulator, my expectation also is that there will be a robust conversation, especially around some of the key correspondent banking challenges impacting Sierra Leone. I will, therefore, attempt to highlight a number of issues in this speech.

Ladies and Gentlemen, let me emphasize that banks must have the enabling capacity and requisite infrastructure to render correspondent banking services. Unfortunately, most banks in the African sub-region lack this ability because of their small size relative to global banks. Hence, there is a huge dependence by African banks, including those in Sierra Leone, on global banking organizations like Standard Chartered.

Notwithstanding, consumers of financial services in Sierra Leone, like their counterparts worldwide, are demanding faster, easier and more efficient means of completing both domestic and international transactions. In order to enhance payments, settlements and clearing operations in Sierra Leone today, banks in the country must enter into well managed, supervised and regulated credible correspondent banking relationships.

In the international regulatory environment, we have witnessed heavy fines imposed on global banks for violations of regulatory requirements; different types of regulatory orders; aggressive build- up of capacity- infrastructure and people; tightening of controls; increased awareness of financial crime risks;

shrinking of risk appetite through different types of de-risking programs; etc. One big question on minds of most observers is “how is all this affecting respondent banks and in turn the economies they support”?

A first step in addressing this question for the Bank of Sierra Leone (BSL) has been to ascertain the nature, scale and drivers of the termination of these relationships and assess the potential consequences for the banking industry and the economy as a whole. The BSL therefore commissioned a study in December 2016 for more informed policy responses on how the problem can be collectively tackled. The findings of this report will constitute the rest of my speech.

Ladies and Gentlemen, our study points to the fact that a significant proportion of our banks (77 percent) had at least one correspondent banking relationship terminated over the period 2012-end September 2016. This problem is partly driven by global banks’ concerns about the country’s level of compliance with international standards on AML/CFT. A range of products and services were identified as mostly affected by the withdrawal of these relationships: international wire transfers, clearing and settlements, cheque clearing, trade finance/letters of credit, cash management services and foreign exchange services.

Indeed one is tempted to say the full gamut of correspondent banking services may have been affected. The study also found that the ability to conduct foreign currency denominated current account transactions in US dollars (USD) had been most significantly affected. The loss of correspondent banking relationships has also severely affected importers, exporters and money transfer operators and remittance providers. While most banks have been able to find alternatives, mainly through their parent banks, there is a risk of concentration in

the provision of these services in few correspondent banks, with potential systemic risks if these relationships are further severed.

In trying to address the problem, the BSL had engaged the IMF, World Bank, Office of Technical Assistance, United States Treasury and the West African Monetary Zone (WAMZ) College of Supervisors on the appropriate policy responses at the sub-regional level. Discussions on this issue are ongoing.

I will not end this statement without making these quick asks. The first, I address to providers of correspondent banking services- such as Standard Chartered Bank. You must continue to upgrade your global AML/CFT measures, as it is evident they help prevent money laundering and terrorist financing. However, you must not lose sight of the negative effect that de-risking programs, and their likes, have on the welfare of ordinary citizens of Sierra Leone- and rest of Africa in general. You must find ways to highlight this to your home regulators, as well as pursue well thought out balance score card around your financial crime risk management.

To our banks, you must familiarize yourselves with the AML/CFT controls in the correspondent banking space- beginning with the Wolfsberg AML principles for Correspondent Banking. You must improve communication with the BSL and your correspondent banks in order to understand the nature of their financial crime risk concerns. Remember, correspondent banking relationships, by their nature, are based on trust. Therefore, foster trust with transparent and responsive communication.

Indeed, we expect that you will continue to promote internal standards, document operating procedures; invest more in staff training on AML/CFT standards and practices, embed good governance structures, implement effective monitoring of transactions, ensure timely filing of suspicious activity reports, and institute whistle-blowing.

I therefore request that you try to be more proactive in implementing the AML/CFT requirements to support the Bank's effort in enhancing the country's compliance with international standards on AML/CFT. From our supervisory perspective, we are developing our AML/CFT framework to migrate from compliance-based to risk-based supervision. This will improve the effectiveness of AML/CFT supervision and send the right signals to correspondent banks to encourage them to establish and/or retain relationships with your banks. We will also coordinate with other central banks in the sub-region and relevant international agencies, with regard to sharing of information and the implementation of international standards on AML/CFT, to increase awareness about our banks' level of compliance with these standards.

Ladies and Gentlemen, let me conclude by indicating that the BSL is aware of the importance of correspondent banking to the health of the financial services industry and economy in general. Under my leadership, the BSL will continue to support any developments in this area both regionally and internationally.

To this end, banks in Sierra Leone are encouraged to ensure that their risk management programmes more robust and adequate to maintain strong relationships with their correspondent banks. I believe today's workshop presents an ample opportunity to start off conversations around some of the points I touched.

Thank you for listening and have a fruitful deliberation.