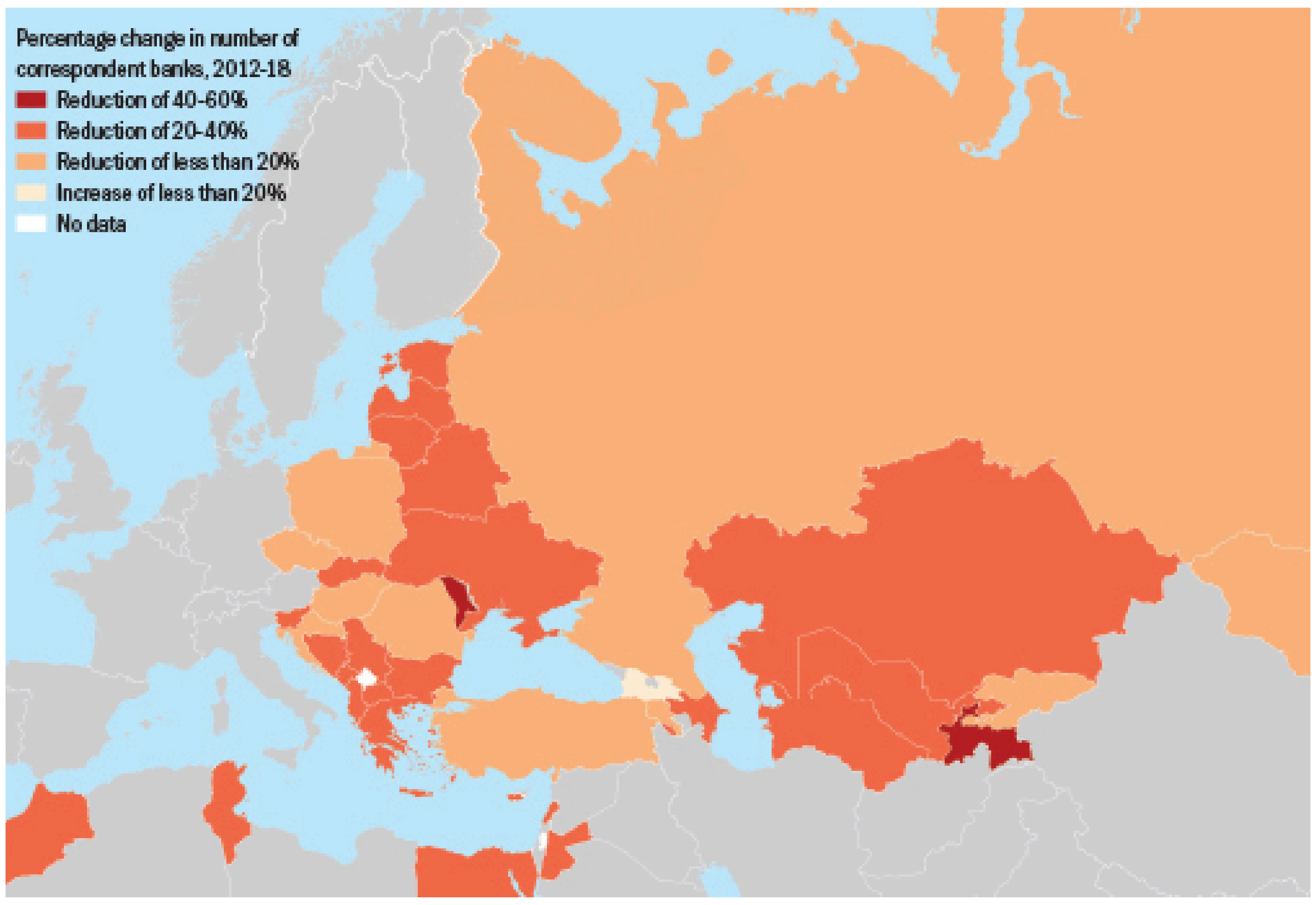
EBRD TRADE FACILITATION PROGRAMME (TFP)
Correspondent banking

April 2024

European Bank for Reconstruction and Development



Correspondent Banking in EBRD's countries of operations
In numbers
2012 - 18

- **Central Asia faced a sharp decline in correspondent banking relationships (20-40 percent) with Tajikistan experiencing the largest decline (40-60 percent)**
- **Eastern Europe and the Western Balkans experienced a decline in correspondent banking relationships (20-40 percent) with Moldova experiencing the most significant decline (40-60 percent)**
- **The SEMED region (Egypt, Tunisia and Morocco) encountered a decline in correspondent banking relationships (20-40 percent)**

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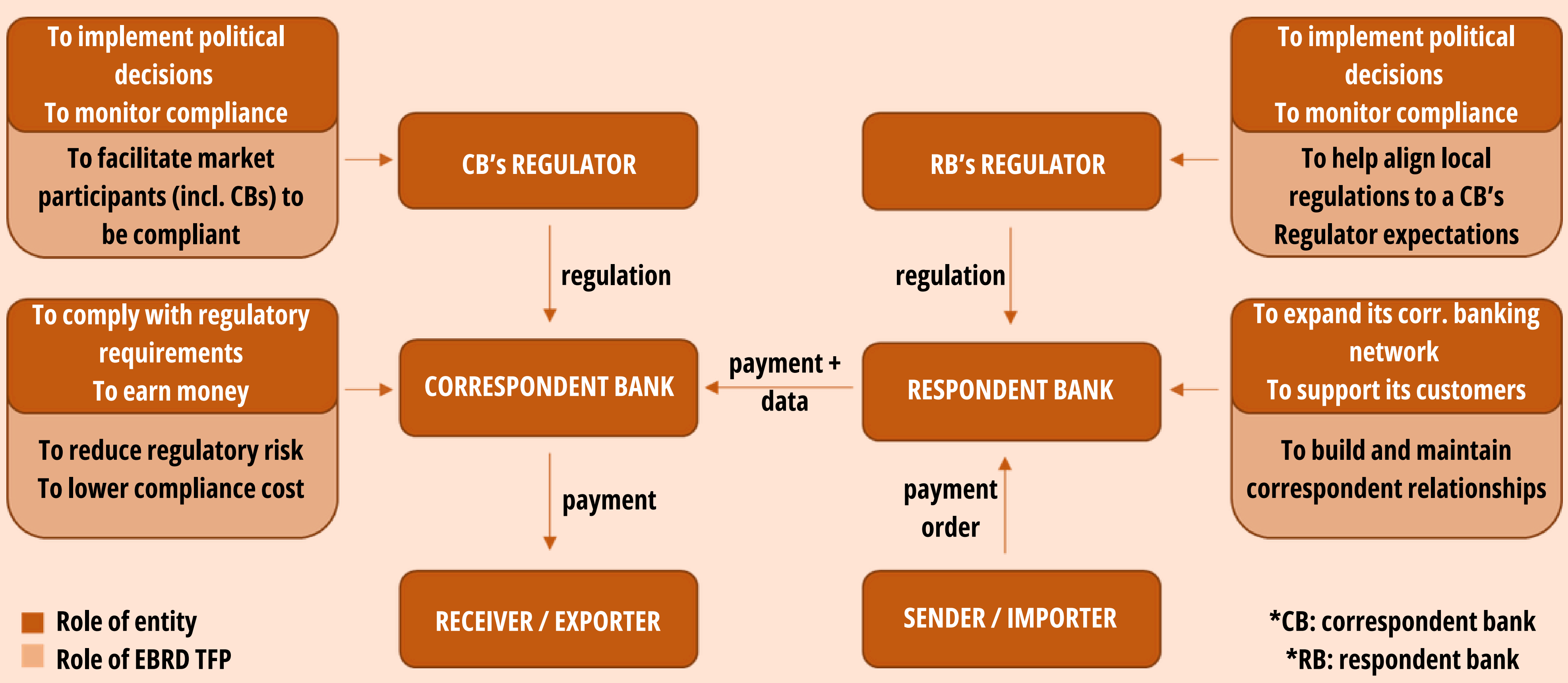
Correspondent banking refers to a relationship between two banks, where one bank (the correspondent bank) provides numerous banking services to another bank (the respondent bank), allowing the respondent bank to access services in foreign markets. Such banking services include opening nostro accounts, processing international payments, managing foreign currency transactions, and facilitating international trade by enabling cross-border transactions.

Stakeholders

The primary stakeholders in correspondent banking are:

- the correspondent bank that provides financial services
- the respondent bank that receives financial services to process its clients' and its own payments
- regulators of correspondent and respondent banks that implement political decisions and monitor compliance
- industry associations that provide guidance and support to other stakeholders.

Stakeholders in Correspondent banking



Importance of correspondent banking

Correspondent banking leads to the establishment of an account relationship. Without account, a respondent bank is cut off from the respective currency or market and will not be able to effect customer or treasury payments. Having an account relationship means that the respondent bank may serve its clients, including providing access to local/hard currencies, financial products and payment systems for trade, and subsequently generate income.

On a wider basis, limited access or loss of access to correspondent banking has serious consequences for international trade, growth and financial inclusion. Clients of respondent banks are unable to pay in the required currency, start to import less and, as a result, total firm revenues and employment of affected firms shrink over time. It is likely that trade patterns will shift to those countries whose correspondent banks offer account services.

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De-risking in the context of correspondent banking

Over the last 15 to 20 years the regulatory environment in correspondent banking has become stricter and stricter. Increasingly high standards of compliance have forced correspondent banks to raise their compliance efforts, which in turn has pushed up the cost for each account relationship.

As a consequence, correspondent banks have refocused their business strategies (known as risk appetite) and started to retreat (or de-risk) from respondent banks in smaller countries (due to revenue risk) and politically exposed regions or regions with a low level of regulatory compliance (known as regulatory risk). Reputational risk is also something that correspondent banks consider when deciding whether to maintain a relationship or de-risk.

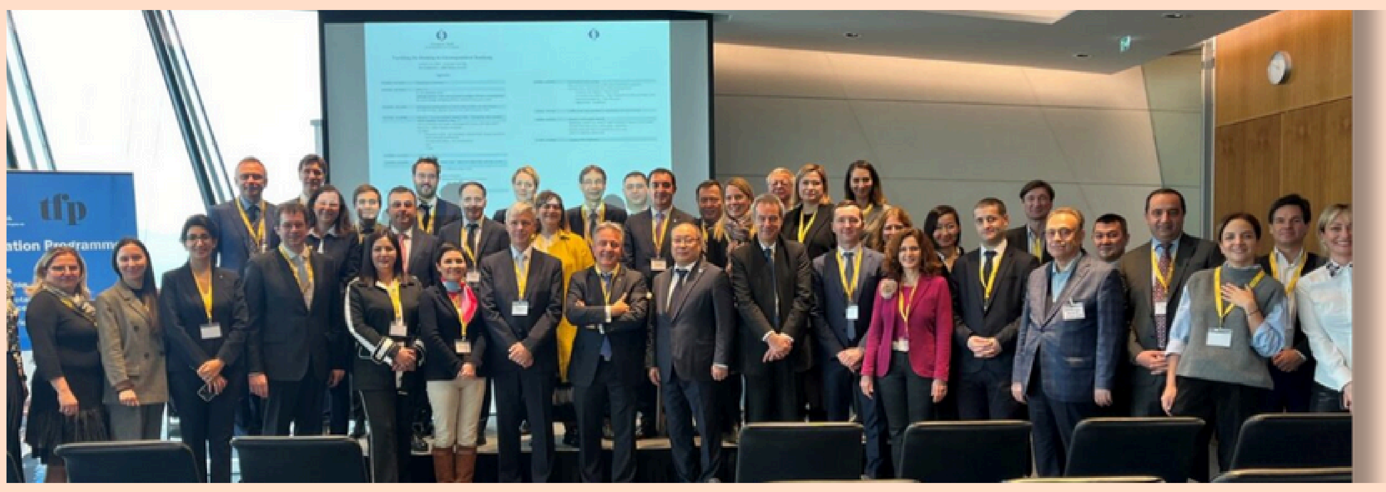
A number of emerging markets have experienced a sharp decline in their access to correspondent banking services. The EBRD's countries of operation, respondent banks in Central Asia and the Caucasus region are particularly affected.

The role of the EBRD and its Trade Facilitation Programme (TFP)

The EBRD's role is to ensure that financial institutions regain access to correspondent banking and are able to serve their customers and support international trade flows throughout the Bank's regions.

The EBRD is also acting in cooperating closely with international compliance bodies and banking associations to tackle de-risking. Work is focused mainly on raising awareness among policy makers and regulators, training in customer, transaction and sanctions compliance as well as bridging communication between correspondent and respondent banks. Work includes:

- EBRD economists regularly publishing papers on de-risking.
- Workshops. In January of 2024, the EBRD TFP organised a one-day event on "De-Risking in Correspondent Banking" in Vienna. The Bank brought together Western correspondent banks and respondent banks from the Caucasus and Central Asia, as well as regulators from these regions, to discuss each stakeholder's approach and challenges faced by correspondent and respondent banks in meeting regulatory requirements. The participants also exchanged ideas on ways how to reduce the cost of compliance.



- Compliance training and certification, whereby bank staff will have the opportunity to attend courses developed by the International Compliance Association, the Association of Certified Anti-Money Laundering Specialists, and the London Institute of Banking and Finance in areas such as due diligence on customers, prevention of financial crime, and money laundering risks in correspondent banking.
- Know your customer (KYC)-related training from SWIFT.
- Policy dialogue with the relevant regulators/national central banks, focusing on efforts to bring best international practices to the country in question, including specialist training to improve the respondent banks' KYC profiles.
- Individual advisory services for selected banks to help bring respondent banks' compliance procedures up to the required international standard.

1 E.g. https://www.ebrd.com/publications/working-papers/broken-relationships-de-risking-by-correspondent-banks-and-international-trade