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REPORT ON THE G20 SURVEY ON DE-RISKING ACTIVITIES IN THE REMITTANCE MARKET

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Finance and Markets Global Practice, The World Bank Group

Report on the G20 Survey on De-risking in the Remittance Market
October 2015

Prepared by the World Bank Group for the G20 Turkish Presidency

Acknowledgments

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Executive Summary

1. In September 2014, the Group of Twenty (G20) Global Partnership for Financial Inclusion (GPFI) requested the World Bank Group to undertake a survey in the G20 countries on the issue of commercial banks' actions to de-risk their operations, specifically in relation to non-bank international remittance service providers or, as they are alternatively referred to throughout this report, money transfer operators (MTOs). According to the definition provided by the Financial Action Task Force (FATF), the term "*de-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach*".

2. The objective of the survey was to assess the status of the de-risking phenomenon in the G20 countries, and to collect evidence from which conclusions on the main drivers and the impact for the MTO market could be drawn.

3. In total, 13 governments, 25 banks and 82 MTOs completed the survey. Despite the relatively low response rates on the banks' side, the data gathered can still be considered to be indicative of the MTOs market reality, as the companies that provided inputs include some of the most prominent players in the market. In fact, it is important to note that MTO responses were received from entities with global coverage and thus, in terms of market share of the overall remittance market, can be considered quite substantial. The data obtained by the banks are statistically not significant, but they offer interesting indications, particularly when cross-referenced with the inputs of the other two groups.

4. Those countries where MTOs completed the survey and where the phenomenon seems to be present include Australia, Canada, Germany, France, Italy, Mexico, the UK, and the USA. T he relevance of the phenomenon varies by country. The number of accounts being closed appears to be increasing; both MTOs and banks report an increased trend of closed and/or restricted number of accounts between 2010 and 2014; 46 percent of MTO respondents have received notifications from their banks about the upcoming closure of their accounts.

5. The responses of the banks and MTOs on the main drivers for MTO account closure are mutually reinforcing on most points. They mainly include: (1) profitability, (2) pressure from other actors (correspondent banks) and fear of regulatory scrutiny, (3) lack of confidence in the MTOs' procedures, (4) reputational risk. Neither banks nor MTOs cited AML/CFT-related violations or sanctions by MTOs as one of the top 5 reasons for account closures.

6. A significant portion of MTOs declared that the MTO principal (28 percent of the respondents) or its agents (45 percent of respondents) can no longer access banking services. Of that smaller group of MTO principal without access, 74 percent are maintaining their presence in the market by using alternative channels to clear and settle the amounts at international level. Notably the following methods are reported: a) using other MTOs, b) operating via cash management companies and physically transporting cash, and c) using personal bank accounts. The other 26 percent of MTO principal respondents are currently unable to operate regularly through bank channels. The inability for the agents to obtain a bank account raises the concern about the possibility for the MTOs to continue serving remote and rural areas, in particular in the receiving countries. Thanks to the extensiveness of the agent network, MTOs can efficiently provide their service in remote and rural areas, where the physical presence of the principal company is not economically and logistically viable. The reduction of access to the bank accounts

for the agents can impose higher operational and compliance risks and costs to the MTOs. An increased level of costs would ultimately be transferred to the customers.

7. There are differing views on the effectiveness of supervision of the MTOs sector. 85 percent of the governments that responded stated that they believe banks can rely on adequate supervision of the MTOs sector in order to inform their risk-based decisions on opening/maintaining accounts for MTOs' customers. 88 percent of MTO respondents agreed that their sector was sufficiently supervised. Only 52 percent of bank respondents judged that the MTOs sector is sufficiently supervised and only 48 percent of bank respondents felt that they can rely on the supervision of the MTOs sector to inform risk-based decisions on opening/maintaining accounts for MTO customers.

8. The MTOs business model is often perceived as high risk, in particular in relation to ML/FT. However, the survey highlights a rather low number of violations of the relevant legal requirements. This finding therefore corroborates to a large extent the one above on the consistency between risk perceptions and effectiveness of supervision of MTOs. According to the answers received from the governments, there are very few MTOs (principals or agents) that have been fined, suspended, sanctioned or received some other enforcement action for an AML/CFT-related violation between 2012 and 2014, however, the number has increased over time. Only two of the responding governments indicated that a bank operating in their country has been fined, suspended, sanctioned or has received some other enforcement action for an AML/CFT-related violation associated with their relationship with MTOs. In addition, 78 percent of MTO respondents indicated no record of sanctions or other enforcement actions related to AML/CFT.

9. The survey highlighted that there is a limited capacity to monitor the rapid developments of the de-risking phenomenon. Before the implementation of the survey a number of jurisdictions indicated that they had no information of problems in this area. Currently there are no clear and defined plans to systematically gather more data and structure national plans to discuss the issue with the industry and find a coherent solution. Without an adequate monitoring system, capable of providing accurate and up to date information, it is quite difficult to evaluate whether or not the real peak of de-risking has been reached and therefore set up measures to prevent further worsening of the situation or revert the current trends.

10. Based on these survey results, three suggested areas of intervention have been proposed thus far:

- Money transfer operators are still perceived as "inherently high risk". Making a concerted effort to get out the message that not *all* MTOs are "high risk" seems critical. The FATF should play a key role in that respect, but these efforts need to be complemented at the country level;
- There is a clear need to clarify the regulatory expectations, and provide more guidance on the boundaries of a risk based approach – from higher risks to lower risks. Given the cross border dimension of the issue, coordination between jurisdictions on regulatory expectations is a challenge that must be addressed;
- A more effective, proportionate supervision of money transfer operators is essential, including to allow a genuine implementation of a risk-based approach by banks when dealing with them. This is relevant both for developed and developing countries.

Introduction and Objectives

11. According to the definition provided by the Financial Action Task Force (FATF), the term "*de-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach*".[1] Over the last few years, numerous anecdotal reports have circulated within the international financial community about banks' actions to de-risk their operations and about the negative impact that such actions have had, in particular, on remittance services providers.

12. In 2013, the World Bank Group, under the umbrella of the Global Remittances Working Group, published the report "Barriers to Access to Payment Systems in Sending Countries and Proposed Solutions",[2] which addresses to some extent the topic of de-risking and provides both examples in key remittances sending markets and recommendations on potential actions to reduce the impact of the phenomenon. In 2014, the World Bank Group also published the report "Making Remittances Work: Balancing Financial Integrity and Inclusion,"[3] highlighting the complementarity of public policies to promote integrity and inclusion through the remittances market. The work undertaken by the World Bank Group in the remittances sector aims at the implementation of the WB/CPMI General Principles for International Remittances Services (Box 1), the international standards in this sector, published in 2007.[4]

Box 1. List of the General Principles and related Roles

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

1. See also http://www.fatf-gafi.org/topics/fatfrecommendations/documents/rba-and-de-risking.html
2. Available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044135948878679 1/barriers_web.pdf
3. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/18551/884820PUB0Box300EPI2101090May29 2014.pdf?sequence=1
4. Available at http://siteresources.worldbank.org/INTPAYMENTREMMITTANCE/Resources/New_Remittance_Report.pdf

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Roles of remittance service providers and public authorities

A. The role of remittance service providers. Remittance service providers should participate actively in the implementation of the General Principles.

B. The role of public authorities. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

13. In September 2014, the Group of Twenty (G20) Global Partnership for Financial Inclusion (GPFI) requested the World Bank Group to undertake a survey in the G20 countries on the issue of commercial banks' actions to de-risk their operations, specifically in relation to non-bank international remittance service providers or, as they are alternatively referred to throughout this report, money transfer operators (MTOs). The purpose of this report is to summarize the findings of the survey.

14. The survey was distributed online, in the G20 countries,[5] between May and August 2015, and collected information from governments, banks, and MTOs. The content, audience and the overall approach of the survey were approved by GPFI before its launch. The objective of the survey was to assess the scale of the de-risking phenomenon in the G20 countries, and to collect evidence from which conclusions on the main drivers and the impact for the MTO market could be drawn. The report also offers recommendations with the goal of supporting the international community in its understanding and policy response to address the problems faced by the industry. The survey was conducted with the financial support of the Bill and Melinda Gates Foundation.

15. Since 2013, different sources have reported that banks have cut off access to banking services to MTOs, allegedly due to the increased risks and costs associated with the existing compliance requirements, particularly in the area of anti-money laundering and combating the financing of terrorism (AML/CFT). Additionally, it had been reported that banks seem to be increasingly concerned about the potential fines and penalties that could be levied against violators of the legal and regulatory framework. Some of these concerns were reported in studies from standard setting bodies and other institutions.[6]

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5. Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States of America; the European Union is not included in the surveys as it is an organ representing multiple countries.

6. Please see "*De-Risking: Global Impact and Unintended Consequences for Exclusion and Stability*," FATF Plenary Document 1, October 2014; available at https://classic.regonline.com/custImages/340000/341739/G24%20AFI/G24_2015/De-risking_Report.pdf. The CPMI ha recently published the "*Correspondent banking - consultative report"*, available at https://www.bis.org/cpmi/publ/d136.htm

16. MTOs deliver the large majority of international remittances flows at global level and are a crucial part of the international remittance services industry. In most of the national markets they represent the channel through which more than 90 percent of the remittances flows are processed. Even in countries with a higher level of competition from other remittance service providers (banks, other financial institutions and telecommunication companies), MTOs still maintain a dominant share of the market. The services they provide are important for many migrants and their families as they help extend reach and access to remittances and other financial services in many remote locations where banks are not present.

17. The limitations suffered by the MTOs can have a detrimental effect of the efforts undertaken by countries to increase the level of financial inclusion. The services provided by the MTOs to millions of migrants around the world spark a multiple set of outcomes in the receiving countries. Remittances contribute to sustaining the welfare of about 700 million people globally and they often represent the only source of income to provide food, healthcare, housing, and education to migrants' families. Remittances also represent the main—and frequently the only—form of financial service that a large part of the lowest income segment of the population ever experiences. Via the remittances transfer migrants and their families have the opportunity to progressively access a more sophisticated set of financial products, such as savings, microcredit and insurances. In this direction, a large number of MTOs have established partnerships with other financial institutions and created products that can satisfy additional needs of the population. In many countries banks are starting to leverage the remittances flows to attract new customers and cross-sell tailored products that can increase the level of financial capability of the population.

18. The need to increase the potential of remittances in the area of financial inclusion, thereby reducing poverty and driving economic growth, has been recognized by the G20. The work developed in this area can substantially contribute to and align with the Sustainable Development Goals and Addis Ababa Action Agenda. The G20 is particularly focused on: a) achieving remittance cost reductions, b) encouraging savings and other financial services, c) increasing competition, and d) fostering public and private investments. The G20 aims to accelerate financial inclusion, literacy and consumer protection for individuals, with particular attention to women, youth, elderly, the disabled, people in rural areas and small and medium enterprises.

19. At the same time, however, remittance channels can be a source of money laundering and financing of terrorism (ML/FT) risks. As remittance volumes grow, so do concerns about potential risks. There is a general perception that remittances and wire transfers are more vulnerable to ML/FT risks than other financial activities such as deposit taking, lending, leasing, and money management, particularly when transactions are conducted by operators that are not subject to, or do not comply with, AML/CFT obligations. For these reasons, the AML/CFT community has for the last 15 years actively promoted policies and practices to ensure that remittances use legal and regulated channels. Relevant actions undertaken to increase the integrity of the sector include enhanced level of oversight on the market (including the introduction of registration and/or licensing), as well as institutional measures within the sector (including AML/CFT preventive measures). At the international level, the FATF recommendations include relevant requirements in Recommendations 14 (money or value transfer services) and 16 (wire transfers).

20. The key findings of this survey and the relative recommendations on potential actions are provided in this report to assist the G20 governments, standard setting bodies, private sector entities and the other relevant stakeholders in the financial sector on future discussions on this topic.

21. In addition to working with the G20 on de-risking in the remittance market, the World Bank Group collaborated with the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI) to conduct a global survey on access to foreign correspondent banking relationships. This survey is focused on banking authorities, large international banks, and regional/local banks. The G20 Finance Ministers and Central Bank Governors endorsed this work in February 2015.

Summary of Key Findings

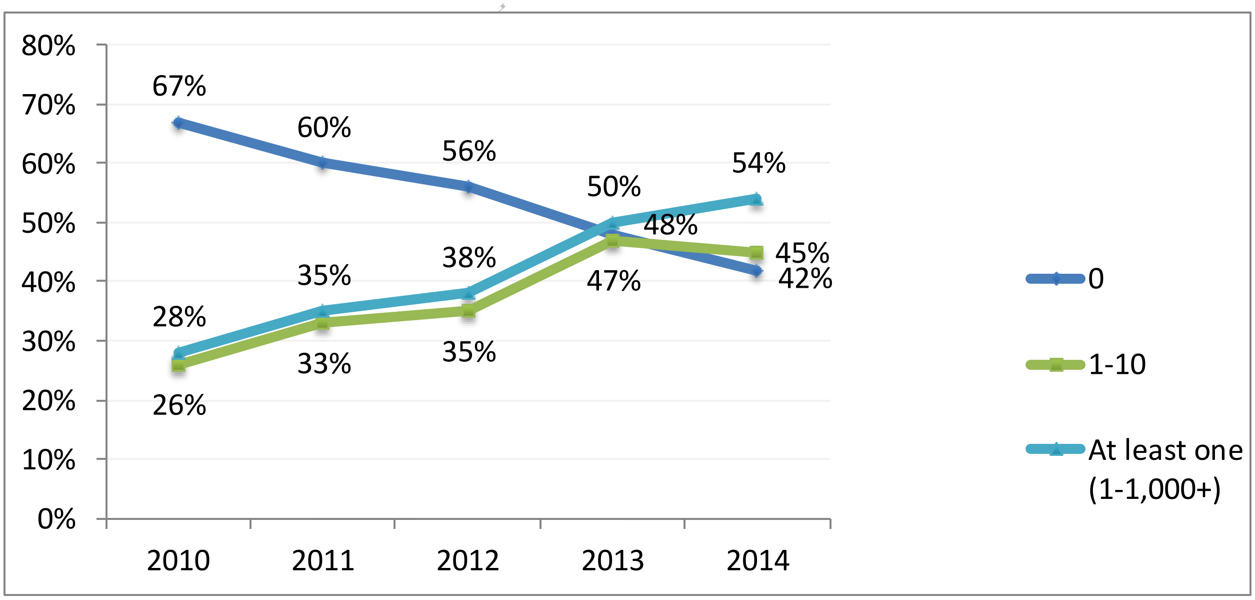
22. The survey identified some notable similarities and differences in the perspectives of the respondent stakeholders on very important issues. Some of the most salient are highlighted below.

Existence of the "De-risking" Phenomenon

- Those countries where MTOs completed the survey and where the phenomenon seems to be present include Australia, Canada, Germany, France, Italy, Mexico, the UK, and the USA. The relevance of the phenomenon varies by country.
- The "de-risking" trend impacts more MTOs today than a few years ago; in 2010, 67 percent of MTOs indicated that they had not had a single bank account closed and, in 2014, that number has declined to 42 percent (Figure 1).
- The main drivers for MTO account closure mainly include: (1) profitability, (2) pressure from other actors (correspondent banks) and fear of regulatory scrutiny, (3) lack of confidence in the MTOs' procedures, (4) reputational risk.
- The issue of de-risking for MTOs seems to be closely related to the overall global phenomenon of de-risking affecting other business lines or clients. The link with the decline in correspondent banking relationships is clearly demonstrated by the MTO and bank responses, and confirmed by the preliminary findings of the correspondent banking survey.

Figure 1. Trend in Bank Account Closures for MTO Clients (2010 – 2014, MTO Perspective)

Has your firm, as principal MTO, had bank accounts closed that impede your ability to provide international remittance services? Please record the number of accounts closed.



Bank Account Access for MTOs

- Six of the 13 responding governments indicated that, in the past two years, they had received complaints or requests for assistance from MTOs in obtaining and/or maintaining access to bank account.
- When asked whether they provide banking services to MTOs and their agents, five of the responding banks indicated that they do not offer their services to MTO principals, while 15 indicated that they do not open accounts for agents of MTOs.
- A significant portion of MTOs declared that the MTO principal (28 percent of the respondents) or its agents (45 percent of respondents) can no longer access banking services (Figure 2). Within this group, six MTOs (7 percent of respondents) are currently unable to operate regularly through bank channels. In addition, 38 MTOs (46 percent of respondents) have received notifications from their banks about the upcoming closure of their accounts.
- The number of accounts being closed appears to be increasing; both MTOs and banks report an increased trend of closed and/or restricted number of accounts between 2010 and 2014 (see Figures 1 and 3). In both cases, there is a shift in distribution towards higher brackets, indicating that there are (i) more MTOs having their accounts closed and (2) that each MTO is having a higher number of accounts closed. The difference among the two groups in the reported intensity of the increase could be due to the larger statistical baseline of the MTO answers.
- When asking for explanations about the reason for the account closure provided by their banks, these MTOs reported that the most common answers they received relate to fear of regulatory scrutiny, reputational risk, profitability, and fear of losing access to correspondent banking relationships.

Figure 2. Access to Bank Accounts for MTOs and their Agents[7]

In the country in which you are based, does your firm, as a principal MTO, currently lack complete access to a bank account in providing international remittance services?

		Yes		No		Total
In the country in which you are based, do your agents currently lack complete access to a bank account in providing remittance transfer services?	Yes	23		14		37
		100%		24%		*45%*
	No	0		45		45
		0%		76%		*55%*
	Total	23	*28%*	59	*72%*	82

7. The figure aims at comparing the answers provided by the MTOs in relation to the indicated questions. So, for example, 23 MTOs reported that they lack complete access to bank accounts and all those same companies also have agents that cannot access bank accounts (upper left corner). At the same time, 14 MTOs that still have access as principals to a bank account declared that their agents do not have access (upper right corner). Finally, 45 MTOs reported that neither them as principals, nor their agents lack access to bank accounts.

- Banks that are no longer providing banking services to the MTOs (five out of 25) declared that they would re-engage in this business if: a) MTOs were better supervised and banks could better rely on government oversight, and b) regulators published new guidance spelling out the requirements for managing risks for MTOs. Both the measures would increase the confidence of the banks in the remittances business and would support the efforts that banks are already putting in place to properly perform their own risk-based assessments of the MTOs.

Figure 3. Trend in Bank Accounts Closed and/or Restricted (2010 - 2014, Bank Perspective)[8]

	2014	2013	2012	2011	2010
0	10	9	8	8	8
1 – 10	6	7	8	8	8
11 – 50	2	2			1
51 – 100	1		1	1	
101 - 500					
Don't know Refusal	1	2	3	3	3

N=20

Requirements to Operate in Remittances Business

- In all 13 countries for which governments responded, MTO principals are required either to register or obtain a license to operate (12 of the 13 require registration; nine of the 13 required obtaining a license) (Table 1).
- The responses were less consistent for MTO agents; while practice goes beyond the international standard in the vast majority of countries. In seven of the 13 countries MTO agents are required to register, and in four of the 13 countries MTO agents are required to obtain a license. In two countries MTO agents are not required to obtain a license or a registration.
- Of the 82 MTO respondents, 75 companies (92 percent of respondents) indicate that they are registered or licensed in the country where they operate.

Table 1. MTO Requirements to operate (Government Responses)

	MTO Principals	MTO Agents
Registration required	12	7
License required	1	4
Neither required	0	2

8. Indicates number of accounts

Supervision of MTOs

- In all 13 countries the governments state that MTOs are supervised in their country. When asked whether the MTO sector was sufficiently supervised, 11 of the 13 governments replied positively. In 11 of the 13 countries, the governments stated that they believe banks can rely on adequate supervision of the MTO sector in order to inform their risk-based decisions on opening/maintaining accounts for MTO customers (Table 2).
- The overwhelming majority of MTOs agreed that the remittances business sector is sufficiently supervised (88 percent) and that banks can rely on the regulatory supervision of the MTO sector in order to inform risk-based decisions on opening/maintaining accounts for MTO customers (90 percent).
- Contrary to the responses from the government and MTOs, only 13 out of 25 (52 percent) of the responding banks judged the MTO sector as sufficiently supervised and 12 out of 25 (48 percent) of the responding banks feel that they can rely on the supervision of the MTO sector to inform risk-based decisions on opening/maintaining accounts for MTO customers.

Table 2. Differing Perspectives on MTO supervision

	Governments	Banks	MTOs
Remittance business sector is adequately supervised	11/13 (84%)	13/25 (52%)	72/82 (87%)
Banks can rely on adequate supervision to inform their risk-based decisions on opening/ maintaining accounts for MTO customers	11/13 (84%)	12/25 (48%)	74/82 (90%)

MTO Sector Guidance

- 11 of the 13 governments have issued guidance for the MTO sector, but only six of the 13 governments have issued guidance to banks on the provision of bank accounts and banking services to MTOs (Table 3).
- While the majority of MTOs (90 percent) report receiving some guidance on their sector, intended to clarify and facilitate adherence to compliance requirements, fewer than half of the responding banks indicate having received guidance from supervisory authorities on providing banking services to MTOs.
- Banks and MTOs also express disparate views on the usefulness of the guidance received; the majority of MTOs (91 percent) found the guidance helpful, but only 46 percent of banks would agree.

Table 3. MTO Sector Guidance

	Governments	Banks	MTOs
Guidance issued to the MTO sector	11/13 (84%)		75/82 (91%)
Guidance issued to Banks on the provision of bank accounts and banking services to MTOs	6/13 (46%)	13/25 (52%)	
Was the guidance helpful?		6/13 (46%)	68/75 (90%)

AML/CFT Violations and Sanctions

- In this sample, according to the answers received from the governments, there are very few MTOs (principals or agents) that have been fined, suspended, sanctioned or received some other enforcement action for an AML/CFT-related violation between 2012 and 2014, however, the number has increased over time (Table 4).
- Only two of the 13 countries indicated that a bank operating in their country has been fined, suspended, sanctioned or has received some other enforcement action for an AML/CFT-related violation associated with their relationship with MTOs.
- In terms of the supervisory sanctions received, 64 MTOs (78 percent of respondents) indicated no record of sanctions or other enforcement actions in the country of reference for the survey.
- Neither banks nor MTOs cited AML/CFT-related violations or sanctions by MTOs as one of the top five reasons for account closures.

Table 4. MTO Fined, Suspended, Sanctioned

MTOs fined, suspended or sanctioned	2014	2013	2012
0	8	8	9
1 – 10	2	3	2
11-50	1		
51 – 100	1		
Don't know/Refusal	1	2	2

Survey Methodology

23. The respondents for the survey on de-risking in the remittance market (the survey) represent three primary stakeholders on this issue—governments, banks, or MTOs.[9] The stakeholders were defined as follows:

- **Governments**: All G20 members, with the exception of the European Union, as it is an organ representing multiple countries;
- **Banks**: A range of large-, medium-, and small-sized banks, based in the G20 countries;
- **MTOs**: A range of MTOs, based in the G20 countries, of different market share sizes and serving different corridors.

24. A combination of different sources was used to market the survey to the different respondent categories, primarily based on the World Bank Group knowledge of the international market for remittances. The sources used for each respondent category are outlined below.

Governments

25. The survey was sent to the contact details indicated by the different members of the G20. In some cases the survey was sent to multiple individuals within the same government and they coordinated a single response on behalf of their government, in other cases the G20 representatives indicated one single contact person who would manage the collection of the information at national level on behalf of their government. As the European Union was not included, the survey was sent to 19 governments.

Banks

26. The survey was sent to banks identified via three different methods. 1) The World Bank Group contacted commercial banks via a set of databases of the banks' headquarters present in each of the G20 countries.[10] 2) The World Bank Group, through contacts in national banking associations, contacted specific banks that expressed interest in the survey. 3) Banks in the USA were invited to participate in the survey clicking on a "generic" link, specifically developed for that market. This option for the USA market was set up in response to a specific request from the authorities in the USA who expressed concern that a dedicated link for each respondent might be interpreted as a way to trace responses back to individual banks and, as a result, could discourage participation in the survey. In addition, and in order to increase the sample size in the banking sector, the World Bank Group worked closely with certain national Bankers Associations

9. For the purpose of this survey the MTOs are defined according to the WB-CPMI General Principles for International remittances services as "*a non-deposit taking payment service provider where the service involves payment per transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (for example, by cash or bank transfer) – i.e. as opposed to a situation where the payment service provider debits an account held by the sender at the payment service provider*". As per the definition above MTOs area all the non-bank entities that provide remittances services in a given country.
10. The databases were purchased from a specialized company, Dunn and Bradstreet.

(Australia, Canada, Indonesia, Italy, Mexico, Turkey, UK and USA) and other international organizations such as the Institute of International Finance and the World Savings and Retail Banking Institute.

27. As indicated in Table 5, 3000 contacts in banks outside of the USA (plus 11 of them in the USA) received an individually dedicated link to answer the survey online.

Table 5. Number of contacts reached in banks and other deposit taking institutions

Country	Banks Contacted
ARGENTINA	29
AUSTRALIA	53
BRAZIL	78
CANADA	153
CHINA	100
FRANCE	618
GERMANY	912
INDIA	211
ITALY	323
JAPAN	1
MEXICO	91
RUSSIA	211
SAUDI ARABIA	4
SOUTH AFRICA	9
TURKEY	38
UNITED KINGDOM	158
UNITED STATES of AMERICA	11
TOTAL	**3000**

MTOs

28. The World Bank Group had a pre-existing list of contacts of MTOs, and additional details were obtained with the support of national authorities and the local and global industry associations.

29. The MTOs with global coverage (Western Union, Money Gram, RIA, UAE exchange) were individually invited to take part in the survey. Other MTOs expressed their interest in taking part in the survey after being prompted by their association or after the announcement of the survey on the World Bank Group website or other social media.

30. Similar to USA-based banks, MTOs in the USA were invited to participate in the survey clicking on a “generic” link, specifically developed for that market. This option for the USA market was set up in response to a specific request from the authorities in the USA who expressed concern that a dedicated link for each respondent might be interpreted as a way to trace responses back to individual MTOs and, as a result, could discourage participation in the survey.

31. A total of 310 contacts in MTOs received an individually dedicated link to answer the survey, with at least one MTO based in every country in the survey.[11] Table 6 presents the distribution of the links sent out per country, counting multiple times the MTOs which have presence in more than one jurisdiction.

Table 6. Number of contacts reached in MTOs

Country	MTOs Contacted
ARGENTINA	8
AUSTRALIA	29
BRAZIL	7
CANADA	44
CHINA	6
FRANCE	11
GERMANY	13
INDIA	16
INDONESIA	65
ITALY	19
JAPAN	5
KOREA REP OF	2
MEXICO	191
RUSSIA	16
SAUDI ARABIA	3
SOUTH AFRICA	4
TURKEY	3
UNITED KINGDOM	28
UNITES STATES OF AMERICA	31
TOTAL	**501**

11. This number excludes the USA-based MTOs which were directly contacted by their associations, and accounts only once the MTOs that received multiple links because they are active in two or more countries. The two Korean MTOs are international MTOs operating in that country (see below).

Results of the survey

32. In total, 13 governments, 25 banks and 82 MTOs completed the survey.[12] Despite relatively low response rates achieved (Table 7), the data gathered can still be considered to be indicative of the MTOs market reality, considering that the companies that provided inputs include some of the most prominent players in the market. In terms of the MTO responses, it is important to note that responses were received from entities with global coverage (see above) and thus, in terms of market share of the overall remittance market, can be considered quite substantial.[13] The data obtained by the banks are statistically not significant, but they offer interesting indications, particularly when cross-referenced with the inputs of the other two groups. The low rate of response among banks may be interpreted as a lack of interest on the topic, considered the result of "survey fatigue", and/or be a reflection of their desire to maintain confidentiality on their commercial decisions.

Table 7. Survey Response Rate by Respondent Category

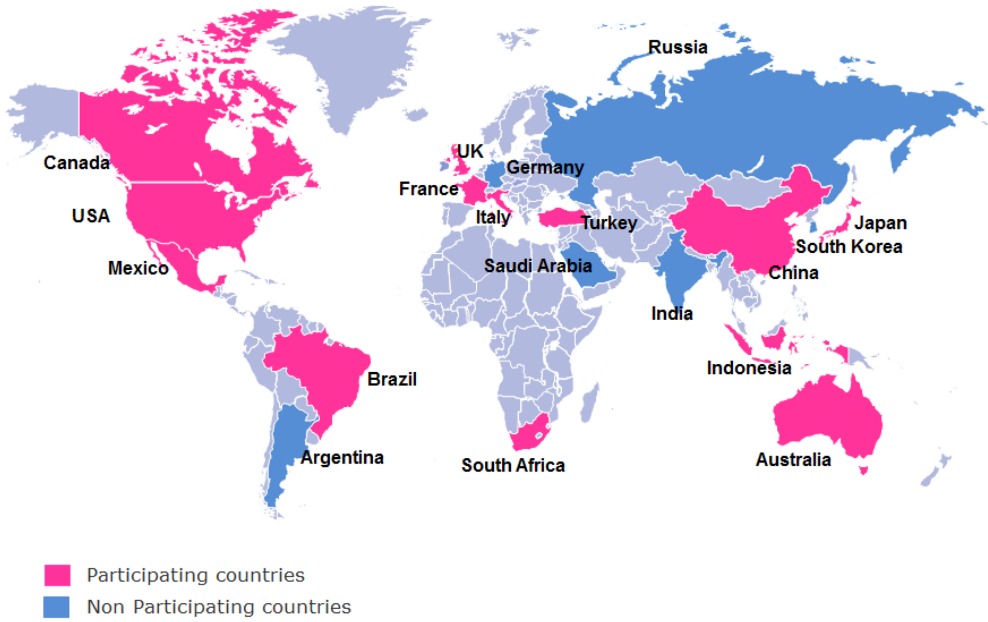
	Governments	Banks	MTOs
Participated	13	25	82
Invited to participate	19	3,000	501
RESPONSE RATE	**68.4%**	**0.8%**	**16.4%**

Government Responses

33. **Of the 19 governments invited to respond, 13 completed the survey, namely Australia, Brazil, Canada, China, France, Indonesia, Italy, Japan, Mexico, South Africa, Turkey, UK, and USA (Figure 4).** Nine of the respondent countries are net senders of remittances, and four are net receivers of remittances. The following analysis will consider only the responses received from the 13 governments that completed the survey.

12. The total numbers include cases in which banks or MTOs operating in different G20 countries have provided multiple answers, one per each country. Purely as an example, the company XZY Remit LTD could have provided two answers, one for Brazil and another one for India.
13. It is quite complex to define the exact level of market share covered by the MTOs' responses in each market, as the exact percentage is not publicly available and it changes substantially in each country. However, based on the general knowledge of the main players, it is possible to say that in some of the countries the responding MTOs represent more than 50 percent of the overall market.

Figure 4. Survey Participation among G20 Countries



34. **The respondents with the greatest number of MTO principals currently registered or licensed are the USA, Mexico, the UK, Australia and Canada.**

35. **In all 13 countries MTO principals are required either to register or obtain a license to operate (12 of the 13 require registration; nine of the 13 require obtaining a license).** This would indicate that most of the respondents have an accurate understanding of the scope of MTO principals operating in their jurisdiction, and ML/FT risks associated with MTOs.

36. **The responses were less uniform for MTO agents. In seven of the 13 countries MTO agents are required to register with the relevant supervisory or regulatory authorities, and in four of the 13 countries MTO agents are required to obtain a license.** In two countries MTO agents are not required to obtain a license or a registration. This generally indicates that the governments rely on the principal for the supervision of the agents.

37. **In all 13 countries the governments state that MTOs are supervised in their country. In 11 of the 13 countries, the governments stated that they believe banks can rely on adequate supervision of the MTO sector in order to inform their risk-based decisions on opening/maintaining accounts for MTO customers.** This is notable in that many banks cited concerns about inadequate government supervision of the MTO sector.

38. **When asked whether the banking sector is sufficiently supervised, all 13 governments replied positively. When asked whether the MTO sector was sufficiently supervised, 11 of the 13 governments replied positively.**

39. **11 of the 13 governments have issued guidance for the MTO sector, but only six of the 13 governments have issued guidance to banks on the provision of bank accounts and banking services to MTOs.** While many governments have addressed the MTO side of the relationship, there appears to be a need for guidance on the banking side of the relationship. This may be an area of opportunity for governments to take additional action.

40. **In the 13 countries in the sample there are very few MTOs (principals or agents) that have been fined, suspended, sanctioned or received some other enforcement action for an AML/CFT-related violation between 2012 and 2014. However, the number has increased over time.** Of the respondents, only five of the 13 reported such actions over the past three years. In 2014, two jurisdictions took significant action with one country issuing between 11 and 50 violations and one country issuing between 51 and 100 violations.

41. **Only two of the 13 countries indicated that a bank operating in their country had been fined, suspended, sanctioned or been subject to some other enforcement action for an AML/CFT-related violation associated with their relationship with MTOs.**

42. **Six of the 13 governments indicated that they had received complaints or requests for assistance from MTOs in the past two years in obtaining and/or maintaining access to a bank account.** Of those six, four stated that requests have increased in frequency over the past two years while two stated the frequency of the requests has remained the same.

MTO responses

43. **The 82 MTOs that participated in the survey are active in 13 of the G20 countries.[14]** The sample gathers 21 micro and small companies that serve less than 10,000 customers every year, 52 medium-size companies, providing remittances services to a range of 10,000 and 1 million customers and 9 companies serving between 1 and 10 million customers.

44. **In some of the countries the MTO responses do not point to a problem of de-risking. This, however, also reflects specific conditions of each national market.** In Argentina the local legislation is such that the MTOs do not use banks to clear and settle the funds at international level. In the Republic of Korea the legislation allows the provision of remittances only through banks and there are no MTOs directly operating in the country. In two other countries (Japan and Turkey) the MTOs did not report past or current problems in this area, but they indicated that the issue may impact them in the future (paragraph 52). In India, four MTOs participated in the survey and did not report any recent account closure.

45. **In the remaining countries where MTOs completed the survey (Australia, Canada, Germany, France, Italy, Mexico, the UK, and the US) the phenomenon seems to be present, with different degrees of relevance (Table 8).** If the MTOs are disaggregated by size (Table 9), the incidence of the phenomenon does not change and large MTOs are affected by the phenomenon as much, if not more, as the other categories. In this sense, the data go against the general assumption that the reputation of the MTOs and the amount of investments and resources dedicated to the compliance with the legislation could positively influence the decision of the banks to maintain or close the relationships with them.

14. The countries of operation of the 82 MTOs do not match with the 13 countries whose governments answered the survey.

Table 8. MTO Account Closures at Firm Level per country (2014)

Has your firm, as principal MTO, had bank accounts closed that impede your ability to provide international remittance services. Please record the number of accounts closed

Number of Accounts Closed	ARG	AUS	CAN	GER	FRA	ITA	JPN	RUS	UK	USA	TUR	IND	MEX	TOTAL
0	1	2	4	4	1	1	1	1	4	9	1	4	1	34
1 – 10		8	4	1	1	1			4	18			1	38
11 – 50										2				2
51 – 100		1	1							2				4
101 – 500										1				1
1,000 +														
Don't know									1	2				3
TOTAL	1	11	9	5	2	2	1	1	9	34	1	4	2	82

Table 9. MTO Account Closures at Firm Level (2014) per MTOs size[15]

Has your firm, as principal MTO, had bank accounts closed that impede your ability to provide international remittance services. Please record the number of accounts closed

	SMALL	MEDIUM	LARGE	TOTAL
0	17	13	4	34
1 – 10	17	14	7	38
11 – 50		2		2
51 – 100	2	1	1	4
101 - 500			1	1
1,000 +				
Don't know Not Answered	1		2	3
TOTAL	37	30	15	82

46. **In the countries where there are reports of de-risking, the phenomenon has also increased in prevalence in the last few years.** 45 MTOs (54 percent of respondents) reported that they had an account closed in 2014, versus the 24 MTOs (29 percent of respondents) that had an account closed in 2010.The same conclusion is confirmed by the fact that 55 MTOs (67 percent of respondents) reported that in 2010 they did not experience any closure of accounts, while in 2014 the number dropped to 34 (42 percent of respondents). In terms of the number of accounts closed, in some extreme cases MTOs reported a very large number of accounts shut down in 2014: one

15. The responding MTOs have been divided in three categories based on the declared annual customer basis: 1) "Small" the MTOs with less than 50,000 customers per year; 2) "Medium" the MTOs with between 50,000 and 500,000 customers per year; and 3) "Large" the MTOs with more than 500,000 customers per year.

operator reported between 101 and 500 accounts closed and four MTOs reported that they had between 51 and 100 accounts closed.

47. **When asking for explanations about the reasons for the account closure provided by their banks, these MTOs reported that the most common answers they received relate to concerns with regulatory scrutiny, reputational risk, profitability, and concerns of losing access to correspondent banking relationships.** The responses most indicated were the following:

a. The bank(s) do(es) not even want the names of MTOs, supposedly in full compliance with AML/CFT standards, in their computer systems because they fear this invites increased supervisory scrutiny of their business (23 respondents).
b. The bank(s) took this decision because enforcement examiners indicated to them that they should stop banking all MTOs - even in those when MTOs were possibly in compliance with all requirements (23 respondents).
c. Concern about reputational risks if the bank(s) continued to bank MTOs (22 respondents).
d. The bank reassessed risk-reward trade-offs of providing accounts and decided the risks of continuing to provide these services to MTOs outweighed the revenue-generating potential (20 respondents).
e. The bank(s) told the MTOs that one or more of their correspondent banks has been pressing them to close MTO accounts (15 respondents).

48. **The survey also highlighted that 23 MTOs (28 percent of the total respondents) declared that *both* the MTO principal and its agents can no longer access banking services. Within this smaller group of 23 respondents, 6 MTOs (26 percent of those without access) are currently unable to operate regularly.** The other 17 MTOs (74 percent of those without access) are maintaining their presence in the market by using alternative channels to clear and settle the amounts at international level, notably the following methods: a) using other MTOs, b) operating via cash management companies and physically transporting cash, and c) using personal bank accounts.

49. In addition to the 23 MTOs mentioned above for which the access to banking services is unavailable to both principals and agents, **an additional 14 MTOs noted that while the principal may still maintain access, the agents do not** – bringing the total of MTOs which completed the survey noting that their agents no longer have access to banking services to a total of 37 companies (45 percent of respondents).

50. Of these 37 cases of agents without access, 11 agent networks are currently unable to operate, while in the other 26 cases a set of alternative solutions are being used to clear and settle funds with the principal company. It is important to notice that agents develop an essential role in the overall process of collection and disbursement of remittances, as they represent the main contact point for a large percentage of migrants and their families. The inability for the agents to obtain a bank account raises the concern about the possibility for the MTOs to continue serving remote and rural areas, in particular in the receiving countries. In many cases small enterprises like grocery stores, gas stations and microfinance institutions are the only entities with presence in remote areas and therefore the only access point for migrants and their families. The inability for these entities to access a bank account would progressively reduce the coverage of the MTOs in

these areas, with quite onerous consequences for the migrants and their families, in terms of costs, both direct (increased fees) and indirect (loss of working hours, travel costs, risks related to cash transportation, etc.).

51. Another interesting element of analysis can be extracted by the comparison between the numbers of accounts closed to the numbers of accounts opened by the same MTOs. In 2014, 45 MTOs had at least one account closed or restricted and 16 of them did not manage to open any bank account. Similarly, in the same year, 30 MTOs report the closure of bank accounts for their agents, and 19 of them indicate that agents managed to have some accounts opened in that year.

52. **Collected data indicate that 38 MTOs (46 percent of respondents) have received notifications from their banks about the *upcoming* closure of their accounts (Table 10).** In 27 of these cases, the banks informed the MTOs that the accounts will be closed within three months from the submission of the survey, while for the remainder the window for account closure spans between four and 12 months. As outlined above, in this group of notified upcoming account closures, there are MTOs from Turkey and Japan, which had not experienced problems in the past.

Table 10. Notification of account closures by banks

Q24. Have you been formally notified that any of the bank accounts for international remittance services held by you or your agents will be closed in the future by any of your banking relationships?

	ARG	AUS	CAN	FRA	GER	ITA	JPN	RUS	UK	USA	TUR	IND	MEX	TOTAL
Yes		5	5		2		1		5	18	1		1	38
No	1	6	4	2	3	2		1	4	16		4	1	44
TOTAL	1	11	9	2	5	2	1	1	8	34	1	4	2	82

53. **Of the 82 MTO respondents, 75 companies (92 percent of respondents) indicate that they are registered or licensed in the country where they operate**, while 6 MTOs (7 percent of respondents) report that there is no need for license or registration in their jurisdiction and only in one case the MTO indicates it is not licensed or registered (although it is required in its jurisdiction of activity). With only one exception, all the MTOs in the survey stated that they have a formal AML/CFT compliance program, in accordance with international good practices, and in 90 percent of the cases the MTOs confirm that both the principal and the agents are regularly examined by the supervisory authorities.

54. **In 88 percent of the cases, MTOs expressed the opinion that the remittances business sector is sufficiently supervised and banks can rely on the regulatory supervision of the MTO sector in order to inform risk-based decisions on opening/maintaining accounts for MTO customers.** This aligns closely with the same question posed to governments, where 11 of the 13 governments stated that they believe banks can rely on adequate supervision of the MTO sector in order to inform their risk-based decisions on opening/maintaining accounts for MTO customers.

55. **The examinations of the MTOs by supervisory authorities are reported as regular: while in 34 percent of the cases they are not predictable, for 30 percent of respondents the inspections happen once a year or more often.** In 10 percent of the cases the examinations happen less frequently and only 4 percent of the MTOs declared that there are no inspections

whatsoever. It is important to stress that in the narrative section on the answers, the MTOs indicated that examinations can follow a quite complex procedure, sometimes involving multiple governmental agencies that overlap and duplicate.

56. **In terms of the supervisory sanctions received, 64 MTOs (78 percent of respondents) indicated no record of sanctions or other enforcement actions in the country of reference for the survey.** The analysis of the additional clarifications provided by the 16 MTOs which were subject to sanctions indicates that the majority of them were related to problems of compliance by their agents. There was no response to this question by 2 respondents.

57. **Finally, 75 MTOs (92 percent of respondents) confirmed that they received some kind of guidelines issued by the government to clarify the compliance requirements to which MTOs are subject.** In 90 percent of cases the MTOs consider these guidelines relevant and useful.

Bank Responses[16]

58. **The 25 banks that responded to the survey are distributed as follows: eight in the USA, six in Mexico, four in Turkey and the UK, two in Italy and one in South Africa.**

59. **When asked whether they provide banking services to MTOs and their agents, five of the responding banks indicated that they do not offer their services to MTO principals, while 15 indicated that they do not open accounts for agents of MTOs.** The 20 banks that indicated they provide banking services to MTO principals, also indicated the revenue generated by this business is quite low and in 13 cases below 1 percent of the bank's total revenues in the most recent financial year. Only in one case was it indicated that the income produced by this line of business was higher than 20 percent of the total annual revenue.

60. **From 2010 to 2013 the de-risking activities towards some MTO principals and their agents were matched by a parallel activity of opening of bank accounts for the same group of entities.** The net effect is however not possible to extract from the survey.

61. **By analyzing the answers of the banks, the main reasons for account closure put forward are profitability, pressure from other actors (correspondent bank or law enforcement), lack of confidence in the MTOs' procedures, and reputational risk.** The exact responses most indicated were the following:

a. Reassessed tradeoffs of providing accounts and decided the risks outweighed the revenue-generating potential (four respondents);
b. One or more of our correspondent banks has been pressing us to close MTO accounts (four respondents);
c. Law enforcement enquiries led us to close or not open MTO accounts (three respondents);
d. Cannot manage risk with MTO accounts because lack of confidence they vet their customers (three respondents);

16. The low number of respondents among the banks does not allow to consider the results of this section of the survey as statistically valid. However, for the purpose of identifying the most relevant inputs, the analysis of the answers has been conducted with the goal of extracting potential conclusions that could be compared with the opinions of the other categories of respondents. The conclusions reported should be considered as a general and partial indication of the banks opinion and should be further corroborated by additional consultations at national level.

e. Concerned by reputational risks to our bank if we continued to bank MTOs (three respondents).

62. **Banks that are no longer providing banking services to the MTOs (five out of 25) declared that they would re-engage in this business if: a) MTOs were better supervised and banks could better rely on government oversight, and b) regulators published new guidance spelling out the requirements for managing risks for MTOs.** This is complementary to the finding in the government survey that 11 of the 13 governments have issued guidance for the MTO sector, but only six of the 13 governments have issued guidance to banks on the provision of bank accounts and banking services to MTOs.

63. **Contrary to the government and MTOs responses, only 13 out of 25 (52 percent) of the responding banks judged the MTO sector as sufficiently supervised. Also contrary to the government and MTO responses, 13 out of 25 (52 percent) of the responding banks consider that they cannot rely on the supervision of the MTO sector so as to inform their risk-based decisions on opening/maintaining accounts for MTO customers.** Banks also indicated that they constantly review their own portfolio and apply internal oversight on the remittances-related accounts. Out of 25 responding banks, 14 perform an internal review of the MTO account holders once or twice every year and seven of them more frequently.

64. **In terms of guidance from public authorities to banks, 12 out of 25 banks (48 percent of respondents) indicated that they have not received any information in this area by the supervisors.** When such guidance is provided, six of the 13 banks indicated the guidance is not useful or relevant.

65. **The issue of de-risking for MTOs seems to be closely related to the overall global phenomenon of de-risking – of other business lines or clients. The link with the decline in correspondent banking relationships is clearly demonstrated by the MTO and bank responses** (see paragraphs 34(e) and 46(b) above). Banks were asked to indicate whether their correspondent banks have closed or restricted their accounts as a consequence of the relationships with MTOs: three banks confirmed that they have had one or more accounts closed for this reason, seven have received requests of clarifications about their relationships with MTOs, and four have been requested to terminate any relationship with this segment of the industry. The remaining 11 bank respondents did not report this phenomenon.

Conclusions and Suggested Areas of Intervention

Conclusions

66. The survey provided a good evidence base for further discussions on de-risking in the remittance market, and identification of potential responses. Certain areas of divergence between governments, banks, and MTOs highlight the crucial need for greater communication, in particular when it comes to the compliance obligations, supervision requirements and enforcement actions. The industry convenes on the fact that a quite useful tool could consist in two precise sets of national guidelines: a) for banks, on how to provide banking services to MTOs under a risk based approach, and, b) for countries, on how to effectively supervise MTOs, in particular to pursue at the same time financial integrity and financial inclusion . The guidelines should include clear and proportionate measure to ensure that the MTOs are assessed properly and with a focus on the actual risk that they can represent, taking into account the quality of their oversight/supervision. Such guidelines should also avoid general approaches but focus on practical steps and expectations/recommendations. They should also provide an opportunity to clarify the roles, functions and responsibilities of the different supervisory authorities.

67. The response rate from private sector players was lower than expected, pointing to some disconnect between the intensity of the anecdotal evidence and advocacy by the industry and the response level to the survey. Language barriers, resources constraints and other obstacles might have played a relevant role in reducing the number of potential answers. This does not weaken the fact base and analysis of this survey, but instead raises questions for policy makers on how to best engage the industry (both MTOs and banks) and the potential design of future fact-based policy and operational responses. This also points to the need to continue to closely monitor the situation, but also to diversify the tools used (not least given the low levels of responses to surveys).

68. While the survey indicates that the de-risking phenomenon exists, it is not fully global in nature. It is more acute in some jurisdictions and affects a substantial part of certain markets. There is also confirmed acceleration of the phenomenon, with new MTOs in a broader set of jurisdictions at risk to be affected in the near future. Some markets and corridors are relatively more significantly affected, and the survey confirms the risk that operators unable to access the banking services decide to use clearing and settlement mechanisms that are less transparent and reliable than banks.

69. It is also important to stress that the problems in accessing bank accounts for MTOs in G20 sending countries will eventually impact a large number of non-G20 receiving countries. The lack of access to bank accounts in a sending country automatically excludes the possibility of transferring abroad the amounts collected among the migrant population for the MTOs operating in that jurisdiction. The remittances sending countries members of the G20 are currently the main source of remittances for several countries in the world and the potential inability or severe restriction of the international clearing and settlement mechanisms would impact not only the MTOs, but also the economies of the countries that are relying on the remittances flows.

70. The de-risking phenomenon might also trigger a shrinking of the competition levels in certain countries, with possible consequences on the cost of sending remittances and on the availability of adequate coverage to remote and rural areas. This could hamper the potential of remittances in the area of financial inclusion and cause economic disruption to migrants and their families in some of the countries highly dependent on these flows.

71. The effects of the de-risking phenomenon on the cost of sending remittances are still uncertain. At the moment there are no evident patterns that could clearly link cost increases to the de-risking phenomenon. In particular, fluctuations of the costs are normal and happen also in countries where MTOs are not experiencing problems of access to the bank accounts. However, in some of the countries where de-risking is more acute, some cost increase trends have been identified in a review of the country corridors covered by the World Bank Remittance Prices Worldwide database. In the last year, the cost of sending remittances increased in 64 percent of the corridors from the UK and in 50 percent of the corridors from Australia. If compared to data from the last quarter, 55 percent of the corridors from the USA experienced a cost increase. The data also provides additional observations from the receiving country perspective. In the last year the cost of sending money to Somalia increased both in the UK and, to a lesser degree, in the USA. Similarly, sending money to other African countries (e.g. Ghana, Nigeria, Rwanda, and Zimbabwe) has become more expensive in all or in the large majority of the sending countries monitored. All the corridors to Lebanon and Pakistan also saw cost increases in the last year. These trends are in themselves not conclusive and will need to be examined in the upcoming months to further assess their possible causes, as many factors may contribute to cost increases in any given corridor.

72. De-risking of MTOs is driven by a variety of factors—most notably ML/FT risk management issues and profitability. It is not simply an issue for banks to be confronted with unmanageable risks. There is also a stronger aversion to regulatory risk, irrespective of the residual ML/FT risk profile of the MTOs, or the amount of risk that remains even after controls are taken in to account.

73. The survey shows that the some of the responding banks have different views than governments and MTOs on the quality of the regulation, supervision and compliance of the MTOs. Such divergent opinions produce quite diverse expectations in MTOs and governments on banks' capacity to rely on the legal and regulatory framework to properly assess the risks generated by MTOs. There is also a significant gap between the same populations on the value and impact of guidance to banks on the provision of bank accounts and banking services to MTOs. There is also a significant gap between the same populations on the value and impact of guidance to banks on the provision of bank accounts and banking services to MTOs.

Recommendations

74. Listed below are some recommendations for consideration. Given the cross-sectoral set of responsibilities in the area of remittances, a number of national authorities might be involved in the implementation of these actions. Among the others, the central bank, the ministry of finance, the authorities in charge of the enforcement of the AML/CFT legislation (whenever not embedded in the previous two authorities) and any other governmental body with responsibilities in the regulation and supervision of the remittances providers and the banking sector. Authorities should establish a strong coordination at national level and constantly interact with the industry to shape the actions as per the local needs.

- **Progress on the overall understanding and architecture for risk perception, allocation, and management is necessary to move beyond what appears at the moment as a dead-end.** The survey highlights significantly different perspectives between MTOs, governments, and banks on the risks and vulnerabilities associated with the provision of

remittance services. This is compounded by different views and expectations on how the overall residual risk[17] is distributed and shared among these three sets of players. In addition, the consequences of MTO account closures on financial exclusion and the resulting increased ML/FT risks associated should be of concern to policy makers and supervisors. More clarity on ML/FT risks and risk differentiation, regulatory expectations, focus on risk management and not risk avoidance (including by the public sector), and alignment of practices by and within supervisory bodies, are essential to ensure that the practical measures suggested below deliver their full impact.

- **The results of the survey also suggest that regulators, supervisory entities and other enforcement authorities need to take a more direct role, in particular in the areas of proactive and effective risk based supervision, as well as enforcement.** Regulators need to ensure that market participants can meet the minimum legal requirements, therefore giving banks comfort about MTOs' compliance with the relevant regulations. A more thorough oversight of the market, as well as a set of auditing and enforcement actions towards MTOs (either by regulators or trusted third-parties) could help prevent illegal activities. An increased level of attention by the regulators could also reassure banks when considering the risk involved in providing services to MTOs.
- **Increased communication and outreach on supervisory practices and actions towards MTOs seems essential, to further contribute to more differentiated risk decision by banks.** There is also an evident need to provide all stakeholders more comprehensive data and information on the rationale and the outcomes of regulatory enforcement actions concerning MTOs. Such information could support efforts to properly implement risk mitigation in the sector and in individual institutions. Public information on the grounds for enforcement actions by supervisors concerning MTOs may provide clarity to banks on what issues MTOs are actually facing, and assist them in further differentiating their risk-based decisions on banking MTOs. As of today the publicly available information indicates that the de-risking may result from the fear of enforcement actions that have little to do with violations of the law from the side of the MTOs, or lack of compliance by banks in their MTO related business. Similar conclusions are available from the analysis of the narrative included in the survey answers. At the same time, it is necessary to admit that there is an overall limited amount of information in this area. On the one hand, limited enforcement action can be signal that the MTOs supervisory system does not work; on the other hand, enforcement actions are often over-read as applying to all actors in the sector.
- While many governments have issued guidance to MTOs, **there is also a need for guidance to banks on the provision of bank accounts and banking services to MTOs and their agents**. This may be beneficial from both a national level and an international standard setter level. Banks specifically noted they would consider re-engaging with the sector if regulators published new guidance spelling out the requirements for managing risks for MTOs. Such guidance should enable banks to differentiate between higher and lower risk providers and corridors and to adopt appropriate, proportionate risk-based controls in respect of these categories. Similarly, it could limit the risk of corresponding banks terminating their relationships with banks that provide services to the MTOs.

17. The residual risk is the amount of risk that remains even after controls are taken in to account.

- In addition to guidance on the provision of bank accounts to MTOs, **there is also a need to provide more explicit information on risks and risk management of the MTO sector, notably residual risks.** This information may also be useful at both a national level and an international standard setter level.
- Additional measures to reduce the problem of de-risking could include legal provisions to ensure that all the financial sector entities legally operating in a market can have **access to the national payment systems infrastructure**. In this sense, the provisions of the Revised EU Directive on Payment Services (PSD2) are introducing much more precise rules for banks in terms of their possibility to limit or restrict access to bank accounts to other payment service providers, including MTOs. The PSD2 will indeed guarantee all remittance service providers which are registered under EU legislation access to banks' payment accounts services unless there is an objectively justified reason to refuse such access.[18]
- **Particular attention should be given to the issues pertaining to MTOs' agents.** Agents are essential to traditional money transfer models, which continue to be prevalent in the remittance business. Establishing an extensive network of agents is vital to MTOs on both the sending and the receiving end, the latter in particular being often the most challenging. At the same time, agents can represent the weak link of the chain and agent misconduct is not uncommon. It is critical for operational purposes that agents be able to open a bank account; however, MTO agents seem to be severely affected by de-risking. Guidance could be issued to clarify the allocation of risk, requirements, and good practices for agent onboarding and management.
- On the side of the MTOs it would be beneficial to **establish clear and transparent codes of conduct related to the enforcement of the legislation, establishing industry minimum standards above the bar set by the legislation.** This would produce an increased level of confidence among the banks, in particular if the measures are properly advertised via a communication campaign supported by third party auditing and constant corporate dialogue with the regulators and the banks.

75. While the survey confirms the link between account closures for MTOs and increased risk aversion or de-risking in the realm of correspondent banking relations, it is likely that policy and operational responses to address de-risking with regards to intermediated relationships will only be effective if taking into account drivers that go beyond MTOs. As the World Bank Group fact

18. In particular, see Recital 27 *"Payment service providers when engaging in the provision of one or more of the payment services covered by this Directive should always hold payment accounts used exclusively for payment transactions. For payment service providers to be able to provide payment services, it is indispensable that they have the possibility to open and maintain accounts with credit institutions. Member States should ensure that access to such accounts is provided in a non-discriminatory way and proportionately to the legitimate aim it intends to serve. While the access could be basic, it should always be extensive enough for the payment institution to be able to provide its services in an unobstructed and efficient way."* and art. 29a *"Access to accounts maintained with a credit institution" - Member States shall ensure that payment institutions have access to credit institutions' payment accounts services on an objective, non-discriminatory and proportionate basis. Such access shall be extensive enough to allow payment institutions to provide payment services in an unhindered and efficient manner. The credit institution shall provide the competent authority with duly motivated reasons for any rejection."*

gathering is still on-going with regards to correspondent banking relationships, this report will not try to put forward at this stage specific recommendations. However, the results of this survey will, at the appropriate time, be incorporated with the results of the survey on correspondent banking relationships, enabling the identification of common aspects to the general problem of de-risking and the formulation of holistic recommendations in addressing the issues, also taking into consideration the work undertaken in this field in other fora such as the Financial Stability Board, the Committee on Payment and Market Infrastructures and the Financial Action Task Force.