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Assessing the Impact of the De-risking on Remittances and Trade Finance in Belize

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Abstract[*]

Since 2015, Belize has experienced de-risking, the withdrawal of correspondent banking relationships. The impact on the banking sector and other financial institutions has been adverse, with repercussions also for the personal and commercial activities of clients. This study contributes to the policy discussion and ongoing efforts to address this challenge. While fully quantifying the cost of de-risking has not been possible, this study nevertheless describes the various effects of the withdrawal of correspondent banking relationships, and identifies the increase in transactional costs as the most significant impact to date. Key observations include the narrowing of wire transfers, the increase in direct costs to send and receive funds electronically, and the continued vulnerability of newly established correspondent banking relations, in certain cases.

Keywords: correspondent banks, de-risking, money laundering

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Abbreviations

AML	anti-money laundering
BCCI	Belize Chamber of Commerce & Industry
CBB	Central Bank of Belize
CBR	correspondent banking relationship
CDD	customer due diligence
CFATF	Caribbean Financial Action Task Force
CFT	combatting financing of terrorism
FATF	Financial Action Task Force
Forex	foreign exchange market
IDB	Inter-American Development Bank
IMF	International Monetary Fund
ML	money laundering
TF	terrorism financing

Executive Summary

This paper describes the experience of Belize with the withdrawal of correspondent banking relationships (CBR) between early 2015 and mid-2016, which has directly impacted the operations of banks and other financial institutions. The adverse downstream effects have reflected on Belize's economy, as well as on the personal and commercial activities of customers.[1] The document aims to contribute to and provide relevant data and inputs for ongoing policy discussions and efforts in the Caribbean and other regions affected by de-risking.

Despite not having been able to fully quantify the costs, this study categorizes the various effects of de-risking, identifying the significant increase in transactional costs as the most important. The main observations gained in September 2016 were the narrowing of wire transfers, the significant increase in direct cost to send and receive funds electronically, and the continued vulnerability of newly established CBRs. De-risking has severely impacted remittance services and has affected producers and traders alike, particularly those who are clients of de-risked banks and those without foreign currency accounts. The intermediation of the Central Bank of Belize's (CBB) on banking and private sector transactions has placed it at the frontline of commercial operations, possibly increasing its risk exposure.

Highlighted is that the withdrawal of CBRs has reduced the availability of foreign exchange, increased business costs, and presented the opportunity for the use of a parallel foreign exchange market (Forex) by economic actors. The study finds that transactional costs have (i) increased, with an adverse impact on Belize's financial institutions, their clients and importers; and (ii) impacted the availability of some services. It also notes the adverse consequence of de-risking in terms of a reported increased activity in the informal cash economy and the parallel Forex. The final section of the paper provides an overview of measures already adopted by the government of Belize and the CBB to address de-risking, as well as some recommendations that may help mitigate the relevant effects.

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Introduction

Since late 2014, various major international banks have either terminated or threatened to withdraw their CBRs worldwide, an occurrence commonly referred to as de-risking. Caribbean banks have been especially vulnerable to de-risking, with Belize among those having suffered the most. According to the International Monetary Fund (IMF), five banks in Belize, jointly accounting for approximately 60 percent of assets, have experienced the withdrawal of CBRs, including the largest systemic bank in April 2016.[2] Three Belize-based international (offshore) banks have also been reported to have lost CBRs.

At the time of this research in September 2016,[3] there were four domestic banks in Belize, two of which had retained CBRs. The systemically important bank, however, remained without CBRs. To mitigate the disruption of international transactions, the CBB assisted the impacted banks and their clients in cross-border financial transactions.[4] Since domestic banks dominate Belize's financial sector—accounting for approximately 80 percent of financial assets—the continuing withdrawal of CBRs has posed a significant threat to the economic and financial stability of the country.

As indicated in recent reports, several factors have been identified as possible causes of de-risking. These include a change in the risk appetite of international banks following the 2008 crisis and increased incidence of sanctions for failure to comply with national AML/CFT regulations, as well as the unintended consequence of implementing international standards for anti-money laundering/combatting the financing of terrorism (AML/CFT) (CDG, 2015; BIS, 2015). Although some of these factors are exogenous to Belize, they affect the country's financial institutions by changing the risk–reward considerations of banks establishing or maintaining CBRs with local banks.[5] While Belize may not be able to significantly shift the reward component of the equation due to its limited market size, it may have more control or influence on the risk variable to make the equation more attractive for correspondent banks.

Belize subscribes to international AML/CFT standards through its membership of the Caribbean Financial Action Task Force (CFATF). In 2013, Belize was one of two jurisdictions identified by the CFATF as having strategic AML/CFT deficiencies that had not made sufficient

[2] As reported in IMF, 2016a. The CBB reports that three domestic banks and five international banks experienced withdrawal of CBRs.
[3] Note that further reference in this report to "the time of writing" infers this date.
[4] By August 2016, only one bank in Belize did not have a correspondent bank and only cheque clearing services were being provided by the CBB
[5] Note that the term, "local bank", in this study refers to respondent banks, often based in low-income or developing countries.

progress, [6] due to unresolved deficiencies in its AML/CFT regime, identified in its July 2011 mutual evaluation report. The assessment was based on Belize's compliance with the previous 40 Recommendations and 9 Special Recommendations of the Financial Action Task Force (FATF) that focus mainly on technical compliance with AML/CFT law and regulations.[7] In November 2013, the CFTAF considered that Belize had not taken the appropriate steps toward improving its AML/CFT compliance regime by having failed to approve and implement the required legislative reforms. Following the CFATF's enhanced follow-up process and call for countermeasures, Belize passed the required legislation and took other relevant measures following which the CFATF recognized Belize as having made "significant progress" in addressing the deficiencies identified in the 2011 Mutual Evaluation Report. Because of these positive developments, in May 2015 the CFATF discontinued the enhanced follow-up and review process of Belize.[8]

In 2012, the FATF completed its revised Recommendations, currently in force, which include additional compliance conditions that require countries to demonstrate that their AML/CFT regimes are effective; that is, that they are achieving the desired objectives. In addition, the revised standards require countries to adopt a risk-based approach to AML/CFT requirements on national authorities, regulators, and relevant private sector entities. Belize has not been assessed under the updated 2012 FATF Recommendations nor under the corresponding 2013 *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems* (updated in 2017).

The changes in the international AML/CFT regime, which are the latest development in a process that has been under way since the late 1990s,[9] may have had the unintended effect of decreasing the risk appetite of international banks and therefore increasing the propensity of international banks to 'de-risk' respondent banks. Various reports have evidenced that that the tightening of rules and enforcement may have particularly adverse consequences for small

[6] In November 2013, the Caribbean Financial Action Task Force identified Belize and Guyana as jurisdictions with strategic AML/CFT deficiencies that pose a risk to the international financial system. Both countries were subjected to a call by CFATF on its members and other jurisdictions to apply counter-measures to protect the international financial system from the substantial and on-going money laundering and terrorist financing (ML/TF) risks emanating from these countries. Among the measures required of Belize to address deficiencies identified by the CFATF were to (i) remedy customer due diligence deficiencies, (ii) implement a framework for combatting the financing of terrorism, (iii) extend the AML/CFT framework to designated nonfinancial businesses and professions, (iv) strengthen the operational independence of the Financial Intelligence Unit, and (v) prohibit dealings with shell banks.

[7] The CFATF Mutual Evaluation found that Belize was partially compliant (21) or noncompliant (17) with 38 (i.e., 77.6 percent) of the FATF's 40 Recommendations and 9 Special Recommendations.

[8] At the end of the follow-up process, of the deficiencies identified, Belize had achieved a largely compliant rating in six Core Recommendations and eight Key Recommendations. In addition, of the remaining non-core and key recommendations that were found to be deficient, Belize had improved to a level of compliance comparable to at least largely compliant.

[9] See, for example, the report of the U.S. Permanent Subcommittee on Investigations (2001) which prominently features many Caribbean-based banks; and reports on another wave of wholesale CBR closures in the mid-2000s. See also Simpson (2004) regarding the sanctions imposed on ABN Amro.

jurisdictions.[10] Small countries are more likely to endure de-risking although most of the sanctions against correspondent banks for noncompliance with AML policies originate from regulators in larger economies, namely, Europe and the United States (CGD, 2015; BIS, 2015).

Within this framework, the aim of this report is to set out the impact of the latest wave of de-risking on economic actors in Belize. The study reviews the effects on the availability of financial services and on cost (financial and transactional) within the following three key areas of Belize's financial and commercial sectors: (i) remittances, (ii) wire transfers, and (iii) trade financing (Table 1).

The report is based primarily on discussions held in September 2016 with banks, credit unions, money remitters, importers, exporters, the CBB, and the Belize Chamber of Commerce & Industry (BCCI). The study takes into account information provided in discussions on the effects of de-risking since the beginning of 2015 to the end of August 2016. Sufficient up-to-date statistical data to measure impact, particularly on financial cost, was generally unavailable, thus limiting more precise quantitative estimates of the de-risking impact in the study areas. Consequently, the study relies mostly on anecdotal evidence provided by discussants.

The report is intended to inform policy discussion and planning by the Belizean government, as well as by regional and international organizations. It aims to contribute to the development of practical solutions to the de-risking in both Belize and the rest of the region.

[10] This is reflected in IMF (2017), which describes how access to financial services in the small states of the Pacific is being eroded. This work analyzes the way in which weaknesses in AML/CFT compliance—in the context of high levels of remittances—contribute to the withdrawal of CBRs and to the closure of bank accounts of money transfer operators.

Table 1. Research Questions: Impact of De-risking on Remittances, Wire Transfers and Trade Financing

Impact	Description
Availability of transactions	Is the type of transaction still available through conventional institutions following de-risking?
Financial cost	Has de-risking increased the cost (for users and operators) of these transactions, and if so, by how much? This question is tackled by comparing present costs with costs at two points in time before de-risking began.
Transactional cost	Has de-risking increased the type and number of administrative steps, due diligence, and controls necessary to conduct the transaction, as well as the time required to complete it?

Background: The Loss of Correspondent Banking Relationships, Globally and Regionally

Over the last two years, major international banks have either terminated or threatened to terminate CBRs with their respondent banking clients across the globe.[11] This loss of CBRs—commonly known as de-risking—seriously damages the provision of domestic and cross-border payments, since CBRs are the most widely used mechanisms for such transactions. CBRs facilitate access to financial services across jurisdictions, including cross-border payment remittances, trade financing, and other economic activities. As defined by the FATF glossary,

> "[c]orrespondent banking is the provision of banking services by one bank (the "correspondent bank") to another bank (the "respondent bank"). Large international banks typically act as correspondents for thousands of other banks around the world. Respondent banks may be provided with a wide range of services, including cash management (e.g. interest-bearing accounts in a variety of currencies), international wire transfers, cheque clearing, payable through accounts and foreign exchange services" (FATF, 2012–2017: 112).[12]

[11] Recently, de-risking has been described and analyzed in a series of reports and surveys, including the Bank for International Settlements, World Bank, and IMF, as well as think tanks and independent researchers. In-depth analyses are available in CDG (2015), BIS (2015), IMF (2016b); World Bank (2015a), CCM&F (2016), and Schmid (2015).

[12] In terms of this definition, it is important to consider that "Correspondent banking does not include one-off transactions or the mere exchange of SWIFT Relationship Management Application keys (RMA) in the context of non-customer relationships, but rather is characterized by its on-going, repetitive nature" (FATF, 2016, pp. 7−8).

Among other mechanisms, well-functioning CBRs are instrumental in conducting international trade and facilitating financial inclusion.

De-risking is defined as the decision by major global banks to terminate their CBRs with other banks or with entire jurisdictions, based on presumed or real money-laundering risks that this financial relationship may involve. In fact, de-risking is ultimately described as a response to the loss of trust in the capacities of other financial entities or jurisdictions to comply with FATF rules—more broadly, transparency regulations. Zagaris (2017: 38) explains that banks' cost–benefit analysis is shaped by

> "the re-evaluation of business models in the new macroeconomic environment and changes in the regulatory and enforcement landscape, especially with respect to more rigorous prudential requirements (…), economic and trade sanctions, AML/CFT and tax transparency."

This implies that AML/CFT compliance is not the only aspect that might impact de-risking; reputational risk, bribery, and corruption concerns, as well as strategic business reasons, also factor in the withdrawal of CBRs (Artingstall et al., 2016).

In small markets, and particularly in terms of AML/CFT, the operating costs for international banks may rise based on uncertainties such as how far customer due diligence (CDD) should extend in order to ensure regulatory compliance (i.e., the extent to which banks should know their customers' customers). Thus, to avoid penalties and related reputational damage, international banks are becoming increasingly sensitive to the risks associated with correspondent banking. As a result, they have withdrawn services with local respondent banks that (i) do not generate sufficient business volume to justify compliance costs; (ii) are located in jurisdictions perceived as too risky; (iii) provide payment services to customers on whom the necessary information for an adequate risk assessment is not available or not collected; or (iv) offer products or services that pose a higher risk of money laundering (ML)/financing terrorism (FT).

The reason why de-risking appears to affect small jurisdictions more significantly is that the cost for a major international bank to verify that corresponding banks are fully in compliance with international standards on financial transparency can easily exceed the expected benefit of a CBR.[13] As such, CBRs do not necessarily entail a higher risk of ML *per se*, but the levels of ML

[13] As will be explained later in this paper, there are other causes for de-risking, which include the shifting of business models on the part of international banks that require increased efficiency and reduced operating costs.

risk do vary according to the service encompassed by the CBR. As the FATF states, "[s]ome correspondent banking services present a higher ML/FT risk because the correspondent institution processes or executes transactions for its customer's customers" (2016: 8).

For major banks to avoid being exposed to or mitigate their ML risks, they need, among other things, to verify that all their respondent banks apply the same AML standards as they do in terms of, for example, knowing their customers. Naturally, this verification can be very costly. Consequently, when the risk component of the risk-reward equation outweighs the reward, banks may decide to terminate a certain CBR.

In general, it is possible to identify two main underlying causes of de-risking: the unintended consequences of implementing international and national AML/CFT standards and the aggressive stance of some regulators toward enforcing financial transparency regulation. The recommendations in the updated (2017) 2013 *Methodology for Assessing Technical Compliance with the FATF 40 Recommendations and the Effectiveness of AML/CFT Systems* are more demanding than the previous version in that they focus not only on legal compliance, but also on its effectiveness.[14] Hence, the new recommendations set out the expectation that AML systems will prove their effectiveness by demonstrating they have rules in place and that they are effectively applied. For banks, this implies greater pressure from regulators, which to have to prove that their AML framework is effective, including through the issuance of sanctions. Some regulators, such as the U.S. Treasury, have applied stricter controls, including severe penalties.

Since late 2014, banks have reacted to such tight regulations by reducing their risk exposure and withdrawing CBRs in some jurisdictions. Several countries, including Belize, have reported a reduction in CBRs with global banks, as well as a restriction on the offer to certain types of customers, countries, and regions of their financial services. Smaller emerging markets and developing economies with less mature and sophisticated financial infrastructures (e.g., in the Africa, Caribbean, and Pacific regions) may be the most affected. As the World Bank (2015a) has portrayed, more than 69 percent of banking authorities surveyed indicated that not only are money transfer operators and other remittance companies most impacted by de-risking, but so are small and medium domestic banks (44 percent) and exporters (26 percent).

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[14] It is worth noting that during the FATF Plenary week in June 2016, a statement was issued emphasizing concern about the withdrawal of CBRs in some jurisdictions. The FATF particularly underscored two important aspects: (i) that, although the recommendations are identified as one of the contributing factors to de-risking, there were also other important determinants, and (ii) that the risk-based approach and other general principles informing the FATF Recommendations do not instruct that risks should be avoided, for example, by terminating CBRs; rather, they should be managed. Furthermore, FATF approved its guidance, *Correspondent Bank Services*, in October 2016, explaining the requirements. The highlight of this document is that it clarifies that the FATF Recommendations do not require correspondent financial institutions to conduct due diligence on the customers of their respondent institutions.

Within this framework, there are various reasons why banks may decide to withdraw from CBRs. Among them are:[15]

- high real or perceived ML/TF risks in a country, affecting the risk-reward/cost-benefit analysis of CBRs by correspondent banks;
- re-evaluation of business models (e.g., due to changes in the FATF Recommendations) and the associated legal, regulatory, and enforcement environment;
- enhanced application of ML/TF risk countermeasures and sanctions;
- increased demands for tax transparency;
- unclear regulatory expectations;
- difficulties in managing and mitigating cross-border ML/TF risks associated with CBRs; and
- legal impediments to access cross-border information and information sharing between banks and their regulatory authorities.

The withdrawal of CBRs limits access for local banks to global payments systems, resulting in disruptive effects on domestic financial and commercial services, cross-border trade finance, and electronic transfers and remittances. This, in turn, undermines financial stability and economic growth, as well as financial inclusion. It also increases the volume of the informal and cash economy that further hampers efforts to promote financial inclusion. Trade and cross-border payment patterns are also affected, especially when foreign exchange availability in the conventional banking sector is reduced and parallel Forex develop. These consequences, especially in terms of an informal cash-based economy and parallel Forex, create increased opportunities for ML and TF. The perceived risk profile of a country, therefore, would deteriorate further, exacerbating the risk of CBR withdrawals.

[15] It is relevant to maintain that the reasons behind de-risking may be multiple and that they operate concurrently. As explained in IMF (2016b),

> "[t]he withdrawal of CBRs generally reflects banks' business decisions based on their cost-benefit analyses. Therefore, understanding trends in CBRs requires recognizing banks' evolving business models against the backdrop of macroeconomic developments and the broader decline in cross-border lending since the global financial crisis";
> and
> "analyzing the evolving regulatory expectations and enforcement landscape; and distinguishing "wholesale" CBR withdrawals from a case-by-case termination in services."

De-risking in the Caribbean

The Caribbean region, as mentioned previously, has been particularly exposed to de-risking. According to the World Bank (2015a), the Caribbean appears the most severely affected region due to the size of its economies, degree of informality, and institutional and regulatory challenges, among other factors. The significant presence of offshore banking in some Caribbean countries has contributed to a heightened perception of risk.

Since May 2016, de-risking has resulted in at least 16 banks in the Caribbean having lost their CBRs,[16] including in the Bahamas,[17] Barbados, Belize, Jamaica, and countries of the Organization of Eastern Caribbean States (CCM&F, 2016). Credit unions, particularly those that provide remittance services, also have been affected, as their know-your-customer rules and the source of funds collected over the counter have come under increasing scrutiny. Despite the need to quantify the full impact of the CBR loss, "the unmeasured effect has been a loss in business confidence and in the ease of some basic transactions" (IMF, 2016b: 13).

In general, local financial institutions may find it difficult to stay abreast of the latest developments in global AML/CFT standards. The challenges relate to human as well as financial resources, including the need to implement adequate training, staffing and operational upgrade practices to comply with such standards and adequately communicate compliance improvements.

The current scenario is rather complex, given the importance of CBR in Caribbean countries. CBRs enable the flow of remittances, provide access to credit and other forms of financing, and facilitate business operations for multinational corporations, including foreign direct investment. The loss of CBRs imposes a negative impact in terms of development, since it can increase financial exclusion, reduce trade flows, hamper the ability of foreigners (e.g., tourists) to obtain payments for services, and compromise the current and future global competitiveness of Caribbean businesses. The withdrawal of CBRs may also contribute to the growth of the informal

[16] A number of these financial institutions have recently secured new CBRs. Nonetheless, these new relationships involve a higher cost for correspondent bank transactions.

[17] According to the IMF:

> "[f]inancial institutions in The Bahamas have experienced additional scrutiny of their CBRs, although only in a few cases has this resulted in temporary disruptions of correspondent banking services. Five financial institutions (representing about 19 percent of the assets of the banking system) have recently lost one or more CBRs. The Money or Value Transfer Services sector has also been affected, as well as various business lines, including credit card payments, cash management, investment services, clearing and settlement, international wire transfers and remittances. Although the impact has been limited so far, further pressure on CBRs could have an adverse effect on the financial sector and increase costs of outgoing remittances in the Caribbean. Indeed, The Bahamas is a source of remittances to other countries. In Haiti, for example, the impact of this spillover would be immediate, as about 75 percent of remittances from The Bahamas to Haiti are paid and received in the same day" (2016b: 13).

financial sector and thus illicit activities, as well as a return to cash transactions, thus further exacerbating the perception that the region is high risk due to financial crime.

Belize and De-risking

As mentioned in the previous section, banks in the Caribbean have been especially vulnerable to de-risking. Belize has been among the most severely impacted jurisdictions, with CBR losses accounting for more than half of its banking assets. According to the IMF country report (2016a), five banks in Belize—representing approximately 60 percent of assets—have lost their CBRs. Given that domestic banks dominate the Belizean financial sector, accounting for approximately 80 percent of financial system assets, the continuing loss of CBRs poses a threat to economic and financial stability.

Money laundering risk, compliance with international AML/CFT requirements and de-risking: A brief history

Prior to 2010, two Belizean banks lost their correspondent accounts reportedly due to activities conducted in the Corozal Free Zone. This occurred following the revocation in 2005 of money service business (*casas de cambio*) licenses (from April 15, 2002 to July 11, 2005). The two banks with branches in the Corozal Free Zone subsequently handled currency operations previously conducted by the *casas de cambio* (CFACF, 2010).

In 2011, the CFATF conducted a mutual evaluation of Belize which identified significant deficiencies in its AML/CFT regime. In 2013, Belize was one of two jurisdictions identified by the CFATF as having strategic AML/CFT deficiencies that had not made sufficient progress in addressing those deficiencies. The risk profile of and the compliance deficiencies in the offshore sector were key elements in the poor performance identified by the CFATF Mutual Evaluation of Belize. In 2015, Belize was removed from the enhanced follow-up process in recognition of reforms it had implemented.

The revised 2012 FATF Recommendations, under which Belize has yet to be evaluated, now require member countries to apply a risk-based approach to compliance and prove effectiveness and results in their AML/CFT framework. The de-risking by foreign correspondent banks is partly due to the risk-based requirements of the revised standards and strict enforcement and sanctions against European and U.S. banks by their respective authorities.

A recent IDB scoping mission to Belize found anecdotal evidence that not only does de-risking decrease the availability of remittance and trade finance services while increasing their cost (financial and transactional), it also raises the cost of wire transfers and makes them

cumbersome. Those at the bottom of the socio-economic pyramid are thus affected the most, and may be presented with incentives to move into the informal sector, with negative repercussions on economic development.

While banks that have lost CBRs may be able, in the short term, to rely on intermediate or nested banking relationships to conduct cross-border financial transactions this approach in the long term may be unsustainable, and local banks will need to search for CBR replacements.[18]

Offshore banks licensed in Belize also have been de-risked by foreign correspondent banks. While the withdrawal of CBRs by offshore banks may not have a direct and immediate impact on the domestic economy (i.e., offshore bank activity is mainly with nonresidents), it can have a contagion effect on affiliated domestic banks—three in the case of Belize—due to reputational risk. On a broader scale, an offshore sector in any country generally raises its ML/TF risk profile.

Remittances, mainly from the Belizean diaspora residing in the United States, are an important source of revenue for low-income families in Belize. Foreign workers, especially from Central America, who work in Belize use remittance channels to send money back to their families. Any increment in cost is likely to erode these financial flows, as well as the purchasing power of low-income families which, in turn, will adversely affect the economy and government revenue. As a direct result of de-risking, some local banks have closed the accounts of at least one major money remittance firm in Belize, resulting in the closure of at least four remittance subagents in the southern districts. In addition, the largest receive agent of one of the international money transfer companies in Mexico has ceased transactions to and from Belizean counterparts. Over the long term, this may limit trade and other flows with Mexico, an important trading partner, with repercussions for lower-income consumers.

Similarly, it is quite possible that increments in the cost of traditional trade financing will particularly upset the small- and medium-sized businesses that are less likely to have access to alternative forms of financing. There is evidence that in Belize, some customers are reverting to alternative means to obtain or transfer funds. The increase in the Belize dollar rate of exchange in the parallel currency market has increased trade financing costs, and importers are resorting to sourcing foreign currency outside the formal banking sector (e.g., black market peso exchange schemes). Anecdotal evidence indicates that the rate of exchange between the Belizean dollar and the U.S. dollar in the parallel market ranges between BZ$2.07 to $2.10 per US$1, compared

[18] Following the Wolfsberg Group (2014: 6) definition, "nested banking" refers to the downstream correspondent relationship that occurs when "a Correspondent Bank client provides Correspondent services to other banks, domiciled inside or outside their country, to facilitate international products and services on behalf of the Downstream Correspondent's clients."

to the official rate of BZ$2:US$1 (banks and importers indicated that the effective purchase rate is around BZ$2.04:US$1 when charges and fees are added). As some studies have indicated, this situation may present an incentive and opportunity to pursue informal methods through which illicit U.S. dollar funds can be integrated into Belize's formal economy and financial sector, further raising the country's ML risk profile.

Banks that have lost CBRs, nevertheless, have continued efforts to establish new ones, with some success. As of the time of writing, one bank has reportedly established a CBR with a UK institution that may reduce pressure on the system, while another has established a relationship with a U.S. institution. Some financial entities, however, have placed transactional limits, such as on the monthly volume of wire transfers, and prohibited business with credit unions. The effects of these moves will be discussed in the following section.

Key Findings on the Impact of De-risking: Availability and the Financial and Transactional Costs

Among the three domestic banks that had CBRs withdrawn since early 2015,[19] Belize's largest and most systemically important domestic bank continues without one at the time of this study.[20] To mitigate the disruption in international transactions, in particular wire transfers, the CBB has provided nested or intermediary services for the affected banks to facilitate cross-border banking transactions.[21]

Against this background, this study assesses the impact of de-risking on the availability and cost (financial and transactional) of remittances, wire transfers, and trade finance. This section provides specific and anecdotal evidence and estimates on the impact of de-risking since early 2015 to August 2016. It is largely based on discussions with and data collected from representatives of banks, credit unions, money remitters, the CBB, importers and exporters, and the BCCI (which is the main franchise in Belize of an international remittance firm). Because many of the issues generally affect more than one area of analysis (e.g., wire transfers and trade finance), the findings are organized by type of institution contacted. Some of the statistical data requested from at least two large financial institutions have yet to be provided and are thus not included in this report.

A key finding in this study is that increased transactional costs are the most significant adverse impact of de-risking on Belize's financial institutions, their clients, and importers. These

[19] Two of the banks have lost their CBRs, while the third has lost a less significant one.
[20] Since interviews for this paper where conducted, this particular bank is reported to have established a CBR.
[21] More recently, Belize's banking regulator, the CBB, has lost two of its four CBRs, as well as an investment bank account, although the reports indicate that discontinuation of CBRs in these cases was not due to compliance issues.

costs are largely due to the enhanced due diligence required by foreign banks, domestic banks, and foreign suppliers. In turn, increased transactional costs have resulted in an increment in business overhead costs that, except in certain cases, have yet to be quantified by those affected.

The second most important impact is on the availability of some services, particularly with respect to remittances, wire transfers, and foreign exchange. There are reports that direct financial costs for these services have increased significantly, up to three times the cost prior to de-risking, although the amounts are small in absolute terms and do not (as yet) appear to have negatively impacted the financial condition of those affected.

The following sections provide more in-depth information on the adverse impact of de-risking on remittances, wire transfers, and trade finance. The discussion also notes the adverse consequence of de-risking in terms of its contribution to increased activity in the informal and cash economy, as well as the parallel Forex. This represents a threat to the financial and economic system by negatively affecting financial inclusion and Belize's perceived ML risk profile.

Banks and Credit Unions

Availability

The loss of CBRs has reduced wire transfer services for clients, particularly for importers. This is partly due to a reduction in the availability of foreign currency from traditional banking sources. One of the banks that had its CBR withdrawn is the main source of foreign currency within the banking system and it no longer can neither directly sell the currency to nor make direct foreign payments on behalf of its clients. In addition, those with whom discussions were held have stressed that foreign currency is not yet available to those banks with CBRs, limiting their ability to make foreign payments on behalf of their clients. In at least one case, limited access to foreign currency has restricted a bank's ability to repatriate its profits.[22] While the financial cost (direct and indirect) to banks and clients has yet to be quantified by those banks with which discussions were held, there is a belief that de-risking is decreasing banking business in wire, foreign exchange, lending (overdraft), and connected services.

The limitations on access to and availability of foreign exchange from traditional banking sources have forced banks to rationalize the sale of U.S. dollars. Priority is now given to clients who, for example, have bank loans and overdrafts. Other clients may have to wait up to one week to obtain U.S. dollars. While the CBB sells foreign exchange to banks, it does so as the institution of last resort. It is also believed that restrictions on accessing foreign exchange contribute to

[22] According to the CBB, the Bank had been accumulating retained earnings over several years before the de-risking occurred.

excess liquidity in the banking system, such as the delays that clients experience in cross-border trade payments, resulting in the temporary accumulation of funds in demand or overdraft accounts.

A further effect of reduced wire and trade-related business, triggered by the loss of CBRs, is a reduction in the volume of business provided to foreign correspondent banks, which may deteriorate their risk-reward (cost-benefit) equation. In turn, this could hamper efforts to reestablish CBRs.

De-risking has encouraged domestic banks—including those with CBRs—to apply enhanced CDD, particularly for clients deemed to be inherently at high risk of ML/TF. At least two banks have now de-risked or closed the accounts of local money remittance agents, with at least one major remittance firm closing four subagencies in Southern Belize. Compounding the loss of service availability, money remittance firms confirm that since August 2016, the largest agent of one of the Mexican money transfer company has refrained from receiving and sending funds to Belize-based money remitters. It is not known whether the closure of accounts by local banks has contributed to this decision.

Cross-border banking services have also suffered as a result of the restrictions and conditionality imposed by some correspondent banks on existing relationships. In the case of one bank, particularly, the CBR can only be used for wires. In another instance, no third-party checks made directly to the depositing bank are accepted, and travelers check deposits and money orders are prohibited. In yet another case, check deposits have been capped at US$1 million a month.

The loss of CBRs and related service availability has also been felt by credit unions, with domestic banks having closed the U.S. dollar accounts of at least one credit union and another having refused an application to open such an account. This is largely due to the correspondent banks no longer accepting checks on deposit with second endorsements. Similarly, U.S. banks have prohibited some of their Belize respondent banks from processing wires for third-party clients, including credit unions.

In addition to the above limitations, two correspondent banks have placed monthly caps on the volume of wires transferred through CBRs. One has placed a limit of US$13 million and the other, US$37 million, thus limiting the volume of wires for one domestic bank to a total of US$50 million a month. No estimate has been provided with regard to the reduction in terms of volume since de-risking commenced.

Yet another case highlights the new restrictions having had an impact on a large credit union that had to refuse and return U.S. dollar pension checks from a large Belizean exporting

company. Those with whom discussions were held speculate that U.S. dollar checks are being sold in the parallel Forex at hefty discounts, although no evidence has been provided. Credit unions do not have overseas CBRs, where they can directly deposit U.S. dollar instruments at full value. The view is that the CBB would have to approve the opening of such accounts, which may not occur.

The lack of facilities to deposit U.S. dollar remittance checks has not only restricted clients from using credit unions and domestic banks but has also prevented credit unions from taking advantage of investment opportunities. One such case was the suspension by a credit union to implement a well-researched residential mortgage project for low- to medium-income housing, to be financed by foreign remittances. Due to the current de-risking environment, the credit union was unable to take this opportunity, as was the case with the communities it serves.

The loss of remittances from checks and money orders, however, is only a small part of the credit union portfolio and does not appear to have had a significant impact on other client services. According to one credit union, such restrictions encourage customers to channel remittances through remittance operators whose service costs are generally higher than those of credit unions. As mentioned above, de-risking has resulted in the enhancement of CDD on money remittance firms by domestic banks. This, over time, could adversely affect the volume of remittance receipts through conventional channels, as well as enable funds to be funneled into the informal economy.

Financial cost

It is apparent that the deposit or purchase of U.S. dollar checks, primarily foreign remittances, has decreased by approximately 50 percent since the start of de-risking, although in absolute terms, the amount is relatively insignificant, having declined from approximately US$2 million to US$1million a month.

With regard to wire transfers, fees have increased in general from approximately BZ$100 to BZ$250. The added cost may be due in part to additional fees charged by U.S. banks; in at least one case, a U.S. bank reportedly used an outsourced intermediary to facilitate wire payments to Belizean banks. The loss of wire transfer business by banks without direct CBRs, nevertheless, has benefited other local banks with at least one bank having apparently doubled its volume of wire transfers since 2015. No statistics are available regarding the volume of transfers and fees.

Foreign correspondents, according to two banks, now have a graduated wire fee structure with higher fees for larger amounts. While the local banks that are affected intend to pass on the

additional cost to clients, they maintain—as of the time of writing—that the CBB has not yet made a decision on their application for incremental fees, submitted in Spring 2016. Banks state the increased cost is necessary, not only to cover the higher wire transfer fees but also the rise in overhead costs associated with enhanced compliance and other transactional costs. Despite this, the CBB itself does not pass on its own wire fees to banks for which it provides intermediary support, considering that such a subsidy is a public good in light of the de-risking challenges faced by the banking sector and its clients.

Importers are the most impacted by de-risking. While the additional costs or business losses have not been quantified, importers experience unprecedented delays in payments to foreign suppliers. This has forced some to forfeit supplier credit arrangements, discounts, and other unspecified benefits. Often, they are required to pre-pay for their imported goods.

The intermediary support of the CBB for domestic banks has required the CBB to step up its CDD activities of underlying transactions, requiring the CBB to invest in additional operating systems and tools, while assigning its supervisory staff to manage the CDD process, thus diverting resources from its core supervisory activities. Albeit in a limited way, the CBB has indirectly extended its services beyond its traditional role from that of a banker for the public sector to that for the private sector by way of its "nested" customer transaction and its CDD activities. Over time, this could create a conflict-of-interest perception, given that the CBB's mandate is also to review the AML/CFT due diligence compliance of banks and credit unions.

The decline in expected tourism inflows as a result of CBR loss and increased demand for U.S. dollars in the parallel currency exchange market have further increased the financial loss to Belize. According to the CBB, the number of touristsin 2016 rose by approximately 16 percent against an inflow increase of approximately 1%,[23] ultimately leading tourism operators to maintain foreign currency receipts abroad to avoid the uncertainty of and difficulties in repatriating funds, as well as the complexities and delays in importing goods. The more attractive exchange rate in the parallel Forex, now ranging from BZ$2.07 to BZ$2.10 per US$1, may also be a driver.

Credit union representatives state that the loss of foreign exchange revenue due to limitations in the deposit of U.S. dollar assets, including that from remittances, has resulted in some exchange loss and in a 25 percent decline in volume. No estimate in absolute dollar terms on the volume lost has been provided. The wire transfer fees charged to credit unions by banks, according to representatives, have risen significantly from approximately BZ$175 to BZ$200 per wire, up from the original BZ$30 before de-risking.

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[23] During 2015, Belize had more than 340,000 tourists, according to the Belize Tourism Board.

Delays to execute credit union wire transfers have also had an adverse effect on clients, apart from the credit unions themselves. In one instance, the late receipt of agricultural product proceeds led to small growers falling into arrears on their loan repayments, giving way to higher interest costs and late payment fees. Moreover, export proceed delays and the late processing of outgoing wires have hampered payments for imported production material (e.g., for irrigation and packaging). In addition to loan servicing issues, such circumstances disrupt production and cause loss. At the time of writing, no statistical evidence is available of the costs involved.

Transactional cost

As indicated, the loss of CBRs since early 2015 has had a significant impact on the transactional costs to banks and clients alike, largely due to the delays in completing cross-border financial and commercial transactions. The increase in transactional costs has yet to be quantified by those affected, although most representatives agree that overhead increments and lost business opportunities have increased significantly.

Intermediary assistance offered by Belize's CBB to banks with a CBR loss or relevant restriction has caused considerable delay in the deposit or sale of US-dollar assets. When the CBB purchases U.S. dollars from Belize's domestic banks, the latter are required to complete a form that lists the specifics of each check or monetary instrument in an effort to help the CBB conduct its own limited CDD on underlying client transactions. The entire process takes far more time to accomplish, given that this activity does not fall within the mandate or operation of the CBB. This process has the potential of creating downstream delays for banks and customers. Prior to de-risking in 2015, it took between one and two days to process a private sector wire transaction. With the support of the CBB, it now takes up to two weeks, with one week for government-related transactions.

In terms of trade financing, banks now conduct enhanced CDD for all cross-border payments, including those for long-term clients. Bank compliance officers devote more time and resources to the CDD of routine payment transactions to ensure that complete details relating to originator and source of funds are included in wire transfers. It is not known, however, whether banks previously provided full originator data consistent with international AML/CFT standards (FATF Recommendation 16). The failure of respondent banks to do so may lead to the closure of correspondent accounts.

Delays in the processing of outgoing and incoming wires apparently have created considerable foreign remittance payment backlog. Likewise, importers are finding it a challenge to receive supplies on time. A report from a bank states that there are challenges to the remittance

of dividends due to the lack of foreign exchange.[24] Such obstacles may, over time, impact foreign direct investment inflows, based on the uncertainty of repatriating investments and profits.

Credit unions, similar to banks, have experienced operational disruptions from de-risking, and now are able only to deposit and cash U.S. dollar checks made out to the credit union and not to the client/member, since checks that are endorsed are unacceptable to local banks. Clients who wish to remit overseas now are required to use the services of other local financial institutions and money remitters, compared to previously having been able to wire the funds through a local U.S. dollar credit union account. The closure of accounts and the dearth of foreign CBRs now prevent credit unions from processing such transactions on behalf of their clients.

Furthermore, credit unions state that it now takes between three to four months to clear U.S. dollar checks abroad as a result of having to channel them through the CBB, compared to what used to be approximately two weeks. The CBB reportedly now requires copies of member accounts prior to authorizing the transfer of wires or remittances through a local remittance firm.

Credit unions now experience significant delays in routing overseas wire transfers by having to request them three weeks in advance, whereas prior to de-risking, it took only one day. Credit union representatives believe that the challenge may not only be due to the enhanced CDD conducted by banks and the CBB, but rather to Forex restrictions from traditional banking sources.

Concern is evident on the payment delays with respect to loans from foreign international lenders, including from the IDB under its Social Entrepreneurship Program. A delay of only one day could reflect negatively on the reputation of credit unions, potentially jeopardizing future loan assistance programs.

Money Remitters

Availability

The most visible impact of de-risking on this sector is the closure by local banks of four subagents in the south of Belize that, albeit limited, made transfers to and from Belize City more challenging. Enhanced CDD by banks with accounts at remittance firms has created uncertainty regarding future operations, with the remittance firm accounts being potentially closed to avoid the risk of losing their own CBRs.

As previously mentioned, since early August 2016, one Mexican remittance firm has ceased transactions with Belize-based remitters due to unspecified reasons. In absolute terms, however, the business loss from Mexico may be limited, despite it adversely affecting the

[24] See footnote 22.

outbound payments of lower-income customers who benefit from such service for educational, medical, and other personal purposes.

Money remitters still are able to make periodic settlement payments with their overseas remittance counterparts despite the delays. One local bank provides wire services to facilitate this process.

Financial cost

Despite Mexican remitters' restrictions, it is estimated that business loss in Belize is low, since the volume of inbound receipts is approximately BZ$20,000 a month, consisting of about 200 transactions. Data provided by the CBB supports these estimates. Total outbound remittances to Mexico was approximately BZ$160,000 a month until July 2016. Because of the cessation of business by a Mexican remittance firm, a local remitter has had to refund clients who had attempted to send money prior to the ceasing of flows from Belize to Mexico.

Money remitters have not experienced a fee increase from the banks that provide them with wire transfer services. Nevertheless, they expressed concerns that in the long term, their banking relationships may be at risk.

Transactional cost

The main impact on remitters and their customers, in terms of other financial institutions in Belize, has been the increased delays and overhead costs associated with enhanced CDD by banks. Remitters have been required to carry out their own enhanced CDD in an effort to maintain their banking relationships. This has placed pressure on staff due to growing customer frustration.

Importers, Exporters, and the Chamber of Commerce

Availability

The same foreign exchange availability and cost issues described above with respect to wire transfers and trade finance have affected import and export clients. Bank clients have further highlighted issues as a result of de-risking. In some cases, importers and exporters experienced collateral effects on their ability to transact with foreign suppliers and their banks, although no hard statistics are available to measure more precisely the impact of de-risking on their operations.

De-risking also has had an impact on the availability of foreign exchange. In one instance, 70 percent of a company's foreign exchange needs were lost due to a domestic bank having experienced the withdrawal of CBRs. The order could not be fully met by any of the other banks

that provided the first 30 percent. Importers are uncertain as to why sufficient foreign exchange had not been distributed to other banks with CBRs.[25]

A major exporting company stated that de-risking and foreign exchange availability had no direct adverse impact on its operations, given that the company provides for its own foreign exchange needs (receipts and payments) through overseas U.S. dollar accounts. As such, export proceeds are maintained abroad and brought into the country as needed.

Financial cost

The most visible and measurable financial costs arising from de-risking, so far, are the increase in the cost of wire transfers, despite it representing a small percentage of operating costs. Many importers indicate that wire transfer fees have increased, in absolute terms, from BZ$90 to between BZ$300 and BZ$500 at some banks. These estimates vary among importers, however, with some indicating a three-fold rise, from US$55 to US$150. Representatives also maintain that some banks have not increased their fees, while others are considering a graduated fee structure based on amount. While there was consensus that the CBB approves wire transfer fee changes and that no increases had yet been approved, importers were of the view that some banks had, nevertheless, increased them.

Despite the above, there has been at least one case where the increase in fee by a foreign bank on a wire transfer from a Belize importer resulted in a small payment shortfall to the exporter of less than US$100. This led to a significant delay in the shipment of material which, over time, may disrupt business and cause loss.

The acquisition cost of foreign exchange is also a challenge for importers, causing considerable disadvantages. Some importers pay between BZ$2.07 and BZ$2.10 per US$1 from nontraditional sources, well above the official exchange rate which, inclusive of tax and fees, is approximately BZ$2.04:US$1. No precise estimates of the financial cost to importers was provided although, based on anecdotal evidence, it appears that import costs are rising significantly for some importers.

More than one importer indicated that overhead costs, especially staff time and wages, have increased as a consequence of the additional paperwork necessary to obtain foreign exchange and process international payments. Some have recruited up to two additional staff to meet the demands while another has experienced an increase in overtime staff costs. One business has resorted to relying on non-U.S. currencies to meet import financing needs. Because

[25] In October of 2016, the Central Bank used Direction 19 to reallocate the BZ dollar equivalent of US$30.0M from foreign currency surplus banks to deficient ones. The Bank continues to monitor the foreign exchange status of the system.

of the unfamiliarity with some currencies, this carries a foreign exchange risk, which has not been quantified.

Importers also are experiencing indirect financial costs from de-risking. Foreign suppliers with whom they have been doing business for decades now require stricter CDD, resulting in two to three additional days of paperwork, thus further increasing overhead costs. The payment settlement period is now between two to three weeks compared to one or two days prior to de-risking.

De-risking is also affecting the business opportunities of one enterprise, whereby the import of manufactured goods for a new project faces foreign exchange challenges. Together with enhanced CDD, the ability to receive overseas supplies on time for the new project put the viability of the project at risk.

The de-risking effects experienced by importers have been confirmed by the BCCI, which states that the cost to purchase U.S. dollars from nonbanking sources is approximately BZ$2.07−BZ$2.10:US$, which is higher than the official exchange rate. The BCCI strongly believes that this exacerbates the parallel Forex and the informal cash economy, as well as increases the cost of doing business in Belize.

Transactional cost

As indicated above, transactional costs appear to have the largest impact on business and customers, although costs could not be quantified at the time of writing. Businesses have had to resort to less conventional nonbank sources of foreign exchange and require additional staff time and resources to obtain U.S. dollars and process foreign payments. Staff—from the level of management to that of operational—has had to adjust to such conditions. Such efforts detract from the core business, involving indirect and hidden costs. One representative cited business disruption as a main concern, especially the delays for overseas supplies, mirroring the above example of one credit union and the disruptions those delays caused to clients.

A further business concern is the change in the resupply and payment patterns caused by de-risking. There have been instances where imports have had to be prepaid in rounded amounts and not according to invoice, raising questions from supplier banks at the receiving end. Given the raised suspicions of foreign banks regarding ML, they now require further details on transactions. Should this trend continue, foreign payments may be further compromised and the CBR and de-risking issue could worsen.

In one such case, the lack of foreign exchange from conventional banking sources and the consequent import payment delays led a major importer to prioritize payments to safeguard

the supply of “bread and butter” products, fueling fears that this could disrupt the business profile of the firm and risk financial loss. Such loss would then affect the loan repayments to the local banking sector. A local business confided that one of its traditional domestic suppliers is unable to receive necessary food supplies due to import payment difficulties. These scenarios essentially bring about an uncertain business environment that has the potential to discourage investment.

According to a BCCI survey of its members on the impact of de-risking, payment delay to overseas suppliers is the most immediate concern. Previously, the time taken to process such payments was about three days. At the time of writing, it takes at least one week on average. Those surveyed believe that this has a material effect on the cost of doing business, although this has not yet been quantified. The BCCI also believes that exporters face similar challenges with regard to the import of supplies for their operations.

While there is no statistical evidence, the interviews also reflected that there had been a decline in sales in the retail sector due to such delays, and firms found it a challenge to project sales and accurately plan for future purchases. This placed their supplier relationships at risk.

Similar challenges are believed to affect exporters in terms of receiving goods from overseas, such as citrus processers. A firm in the industrial sector of Belize, for instance, experienced late approval for foreign exchange transactions and transfers, while others had their accounts closed by local banks when they were unable to prove the source of their funds, albeit as a result of inefficient records and bookkeeping.

For the tourism services sector, the BCCI survey revealed similar challenges to wire transfers as those mentioned above, although the impact was believed to be less pronounced given the fact that tourism-related financial transactions take place outside of Belize. Those surveyed considered that foreign exchange inflows from tourism through the banking sector may be decreasing due to business uncertainty and/or a higher demand for U.S. dollars in the parallel Forex.

The BCCI attributes some of the delays to be related to additional documentation and CDD requirements imposed on its members. This includes the need to ascertain the source of funds for well-established bank clients, particularly in the case of transactions channeled through the CBB.

General Concerns

In addition to the above-mentioned factors, this study also identified related and emergent issues. While there has been neither an in-depth analysis nor discussions held with representatives on these issues, they are presented as additional background information to broaden the context for discussion.

Increase in the use of a parallel Forex

Most businesses with which discussions were held had the view that the parallel Forex for U.S. dollars was growing as a result of de-risking, with the consequential rise in the cost of foreign exchange and imports. Also expressed was that Belize residents with U.S. dollars abroad tend to operate in a parallel market, finding it easier to use their U.S. dollar asset accounts there than with banks that have CBRs.

Increase of the informal cash-based economy and risk perception

The decrease of foreign exchange for businesses and the clients of domestic banks, coupled with pressures on the remittance sector, are believed to foster an informal economy and cash society, the latter of which is influenced by the closure of remittances operators' bank accounts and subagencies. In addition, the reduction of business by one Mexican remittance firm with Belizean counterparts may have resulted in an increased use of cash for cross-border activities with Mexico.

An informal cash-based economy can provide opportunities for ML, with illicit foreign currency sold in the parallel Forex to meet the legitimate needs of the business community that are not being met by the local banking sector. Over time, this situation may raise the jurisdiction's risk profile, and potentially erode efforts to reestablish CBRs. Also to be taken into account as a result of the restrictions placed and U.S.-dollar credit union accounts and their closures is the possible impact on financial inclusion, particularly for citizens who only hold accounts at these institutions.

Reduction in the volume of business conducted through existing correspondent bank accounts

The loss of CBRs and de-risking delays reduce the volume of business transacted through domestic and correspondent accounts. Some banks face restrictions and limitations on the use of these accounts in terms of the volume of wire transfers and other transactions. This may create less profitable CBRs, further worsening their risk-reward (cost-benefit) equation.

Furthermore, the processing delays and restricted availability in foreign exchange from banks are changing the patterns of supplies, acquisitions, and related payments. Prepayments and non-invoice specific payments (i.e., rounded amounts) for imports attracts further scrutiny by foreign suppliers, with the potential for suspicious activity reporting and closure of supplier bank accounts in other countries. Should this trend continue, it would not only disrupt import supply channels, but also would compound the de-risking challenge.

Operational costs

To better clarify the relationship between country size and the de-risking impact, it is essential—perhaps in a subsequent study—to assess the compliance costs to the banks as a percent of total expenses or income. From a public sector perspective, the amount of resources allocated to compliance would also require analysis, as would the limitations, lack of fiscal space, and other effects on government resources.

Conclusions

When considering the cause of de-risking in general, most of those with whom discussions were held were of the opinion that de-risking is occurring mainly because of Belize's disadvantage in terms of risk-reward calculations, given the size of its economy. Some also believe that Belize could take additional measures to improve its image as a well-regulated jurisdiction that is visibly improving its compliance with international AML/CFT requirements. The need to enter into and implement more cross-border information exchange agreements and applicable anti-corruption conventions was cited. Two discussants stated that Belize should take additional action to address organized crime and corruption, and more effectively enforce AML/CFT laws and regulations by, for example, confiscating illegal assets. It was suggested that Belizean authorities should review the overall crime and ML risk environment in key areas (i.e., trafficking of drugs and arms, corruption, smuggling, cross-border fraud) so as to integrate practical solutions for de-risking and related issues. Belize can neither significantly affect the reward variable of the CBR equation in the short to medium term nor modify the size of its economy and the volume of business it transacts through foreign correspondent accounts. It can, however, improve the risk variable by strengthening compliance with international AML/CFT standards.

It is important to underscore that since the fieldwork for this paper was completed, the government of Belize has already undertaken important steps to prevent and mitigate the effects of de-risking. The main updates are reported below.

With respect to CBB's interim assistance to banks impacted by de-risking, by August 2016 only check clearing services were being provided by the CBB, and only one bank in Belize did

not have at least one correspondent bank. Check clearing services to de-risked banks by the CBB were fully discontinued in 2017.

The government of Belize has also boosted efforts to streamline and upgrade Belize's regulatory framework and financial infrastructure. While the reform of anti-money laundering and combatting the financing of terrorism laws was prioritized, with the Money Laundering and Terrorism (Prevention) Act (MLTPA) amended in February 2016, more recently preparations were initiated to facilitate the CFATF fourth round evaluation, currently scheduled to occur in 2021 or 2024. These preparations include the drafting of Belize's first National Risk Assessment exercise which was launched in July 2016 under the auspices of the National Anti-Money Laundering Committee with the Financial Intelligence Unit.

Additional amendments to the legislative and regulatory framework included enhancements to the customer due diligence process and the reporting of relevant information to the FIU, as well as improved provisions for the investigation and prosecution of money laundering, financing of terrorism and other related crimes. Other amendments aimed to bring Belize’s legal framework into further alignment with the FATF Recommendations were also completed in 2017. These included the International Business Companies (Amendment) Act No 36 of 2017, which prohibits the issuance of bearer shares in an international business company and provides for a Register of Directors and a Register of Beneficial Owners; and the Money Laundering and Terrorism (Prevention) (Amendment) Act No 37 of 2017, which grants powers to the FIU to conduct a Money Laundering and Terrorist Financing National Risk Assessment.

Finally, as a step toward improving DCC processes, the CBB and all domestic banks in Belize also joined the SWIFT Know Your Customer (KYC) Registry, as a means of strengthening the AML compliance regime in the country. KYC due diligence information on domestic banks and the CBB is updated to the KYC Registry continuously, and is made available to correspondent banks that are a part of the SWIFT community.

Recommendations

In addition to the steps already undertaken, the findings of this report help identify measures that Belizean authorities may consider implementing that, over the long term, could help further strengthen the country’s access to the international payments system through its CBRs. As noted, the period of this analysis (early 2015 to end-August 2016), encompasses the most serious but not the first de-risking occurrence in Belize. Future measures should therefore aim at not only at strengthening existing CBRs, but also at preventing the withdrawals of CBRs by foreign banks in the future.

To this end, a long-term, holistic perspective is appropriate, one focusing on both external and domestic factors. Recent developments, such as those mentioned above, clearly show that Belize recognizes the need to strengthen its AML/CFT regime, and has already taken important steps in this direction. Additional steps could include the following:

- Review of the international (offshore) sector to address deficiencies in laws, regulations, compliance and supervision, so that compliance with international standards is enhanced. A cost benefit analysis of this sector would be useful.
- Review ML/TF and related risks associated with free zones, in particular those that border Mexico and Guatemala, and adopt appropriate risk mitigation measures.
- Strengthen the resources and operational independence of the Financial Intelligence Unit and other financial sector regulators, including the International Financial Services Commission.
- Implement a stricter transaction reporting regime, as well as an investigative, prosecutorial and confiscation regime for ML offences. This should be accompanied by concrete results that include sanctions for noncompliance.
- From a communication standpoint, promote Belize as a well-regulated and supervised jurisdiction that has a credible risk mitigation system in place. Efficient regulation is a marketing tool for access to international business and CBRs.

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