Fear of Being “Outed”: Why Banks Are Deserting Developing-Country Clients

3/10/15 | Rajesh Mirchandani

CGD Podcast | Illicit Finance, access to finance, Finance

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20:38

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Rules to name, shame, and punish banks, whose clients may funnel money to terror groups, are denying much-needed funds to developing countries. It’s a clash of two sets of sound policies, says Clay Lowery, former assistant secretary for international affairs at the US Treasury and the chair of a CGD working group on this problem of “de-banking.” “Those two policies are in conflict with each other,” Lowery says, “and that’s a very difficult thing to overcome.”

The first set of policies was designed to curb money laundering and the financing of terrorism, especially in the wake of the 9/11 attacks on the United States, Lowery told me in a new CGD podcast. Faced with the obligation of trying to track the final destination of money flows they service — and the reputational risk involved if their clients are less than law-abiding — a string of big-name financial institutions have simply been closing down the accounts of legitimate businesses that offer remittance services to millions of people working in different countries.

One of the primary aims of those rules, Lowery says, “was to hurt the reputation of financial institutions: so if they were going to be doing business with bad people we were going to ‘out’ [them]. So that reputational risk became something that banks worried about a lot.”

CGD Working Group Chair Clay Lowery discusses de-banking

The second set of policies was focused on how to facilitate finance flows into developing countries in an efficient way that aids economic growth and development. Remittances — money sent home by workers overseas — are estimated to total $400bn annually through formal channels and another $130bn through informal channels. They have become a huge source of revenue for developing countries — far greater than official aid. Money transfer organizations are often the only route available to send funds to poor countries. De-banking may deny revenue to some criminal or terror groups but it also stops innocent people sending much-needed money to their families.

As Lowery and I discussed, central banks in the United States and United Kingdom, as well as regulators and policymakers are among many key players examining these unintended consequences of rich countries’ anti–money laundering policies, along with CGD’s working group which aims to report later this year.

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Felipe P. Manteiga • 21 hours ago

Opportune discussion and well crafted in Clay's always clear statements. The U.S. should try to enforce its anti-laundering legislation in a more homogeneous fashion. It causes confusions when laundering in Honduras goes unpunished while our Moroccan allies suffer harsh treatments. Current state of the arts allow the transfer of small amounts almost point to point (from a Manahattan borough to a hamlet in Cape Verde) while satellite based software allows tracking, aggregations and parsing of those flows. And this is good. However, but for the golden days of Pablito in Medellin, remittances are usually modest, and the aggregators must answer for every "packet" in the total transferred to a country, or their counterpart base. Usually is not terrorism based, but drug, weapons, Federal fraud, and slavery related. And we have some fine agencies monitoring those "emitters."

The Al Qaeda financial network was totally disrupted by fairly basic technology. The same can now be applied to solve this quandary. Because, as it is well noted, often those remittances make the difference between hope and despair. And also, those remittances must come to take the human traders off the back of the "sending" family or community. If they do not get paid, a lot of suffering will be endured and daughters and do not get paid, a lot of suffering will be endured and daughters and handsome young kids sold into prostitution. Migrants do not work three jobs at a time because they must save, they usually do so to pay for the debts incurred in theirs or relatives trek al Norte. So this "quandaruy" is causing signficant human pain.

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Luc Lapointe • a day ago

Hopefully not limited to remittances!!!

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FFR • a day ago

IFAD FFR have recently launched a 'Virtual Forum on Remittances and Development' - one of the topics currently being discussed is MTO bank account closures. It would be great if CGD Working Group could share this link and further insights on the Virtual Forum. Please register at www.remittancesgateway.org and follow the links to the 'Virtual Forum'. The Virtual Forum is informal and free to partake in. The de-risking by banks has extremely concerning consequences.

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Matt Juden ➦ FFR • 4 hours ago

Thanks for this link! I've joined this discussion on behalf of the CGD secretariat of the working group, though I see our member Louis De Koker has already been involved.

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