Toward a Solution to the Correspondent Banking Issue in Jamaica and CARICOM countries

THE EDITOR, Sir:

I have read with great interest a number of articles published in this newspaper and others within Jamaica and the wider Caribbean Community (CARICOM) about de-risking and the crippling effect it will have on our local and regional economies, if not addressed. These articles broadly define de-risking as the scaling down and closure of foreign correspondent banking relationships which connect local and regional banks and by extension our economies, with the international financial system. They remind us that de-risking can limit local and regional trade with the international community, reverse social development gains made in areas such as health and education, and restrict industry and economic growth.

De-risking is, therefore, a major socio-economic concern of not only indigenous banks, economic commentators, and industry leaders within the Caribbean, but also for national and regional governments. In fact, The CARICOM Secretariat takes de-risking seriously and an article in this newspaper on May 27, 2019, entitled "CARICOM chairman speaks out on correspondent banking", confirms that it has been lobbying Washington on the matter. This may well be welcome news for the national banking associations and Caribbean Bankers Association (CAB) who have long lobbied regional governments and CARICOM for international political action. However, despite years of lobbying at the local, regional and international levels, de-risking lingers and the prospect of political action providing a lasting solution seems unlikely.

One may consider that some de-risking is linked to increased correspondent banking compliance cost from, e.g., FATCA Regulation in the US, which could decelerate if lobbying provokes a softening of such laws. However, this may offer only temporary reprieve because it is subject to reinstatement and variation as the priorities of US political administrations evolve over time. Furthermore, as with the planned foreign bank exit from particular Caribbean countries, the bulk of de-risking is apparently attributable to the shrinking and lower-than-desired risk-return which correspondent banks derive, and expect to derive, from banking Caribbean banks.

Consequently, the de-risking of Caribbean banks is mainly a market consideration, which national banking associations and CAB have sought to address through lobbying and other political action. Considering this, I offer a suggestion which can hopefully stimulate new thinking on how local and regional banking associations and policymakers might reimage the de-risking issue, defuse the socio-economic threat, and create new value for their members. This necessitates that these stakeholders become less fixated on lobbying and other political action as a means of market protection and explore market-driven solutions, which can convert the de-risking threat into new market opportunities for Caribbean banks.

I am of the view that national and regional banking associations can encourage clusters of Caribbean banks to pool their resources to substantially acquire small community banks in the US and other markets from whence they face de-risking. Such an approach can yield positive socio-economic results at three levels. First, this would enable Caribbean banks to avail themselves of more stable correspondent banking access, internationalize, and create new stakeholder value by moving from being customers to penetrating foreign markets as investors. The new source of income from this market action can diversify the revenue streams of Caribbean banks and increase the incoming foreign exchange flows in CARICOM countries over time. Second, the acquisition of community banks in foreign markets can enable clusters of Caribbean banks, through these entities, to become correspondent bankers for well-managed banks elsewhere that also face de-risking – e.g., in Africa and the Pacific.

Third, the market action suggested could be pursued through special purpose vehicles, which can derive seed capital from particular banking clusters and substantial capital from listing on the world-beating Jamaica Stock Exchange and other exchanges across the Caribbean region. Such a move would undoubtedly enable the local and regional investing public to participate in, and derive economic benefits from, this opportune market-related solution. In this regard, the acquisition of community banks abroad can increase the participation of regional publics in the creation of new economic value and extend the depth of our capital markets and economies.

Overall, de-risking is largely a market consideration with far-reaching socio-economic implications and the lasting solution desired on this issue seems to be beyond the scope of political action. The acquisition of community or small banks in the US and elsewhere by clusters of Caribbean banks is a market action, which offers a solution and prospects for new socio-economic value creation for Caribbean publics. Like other market actions, this approach is not without financial and other risks. However, it can create new value by reimaging and pursuing a market action solution to the lingering threat of de-risking. Finally, such a move can potentially provide members of local and regional banking associations with a deeper knowledge of foreign markets, which may strengthen their own innovation capabilities, business models, and market positioning.

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