



# Mexican authorities' actions to support efficient provision of correspondent banking services

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BANCO DE MÉXICO

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## Background

- The rate at which correspondent relationships are being restricted or severed has increased in recent years. This de-risking phenomenon has been especially harsh for banks in jurisdictions perceived as higher risk, as is the case for Mexico.
- In this environment, it is of the essence to promote actions aimed at improving the functioning and efficiency of cross-border payment systems. Such actions must be taken by financial entities and authorities in a coordinated fashion, and must consider domestic and international participation.
- In this context, the following summary describes the main actions taken by Banco de México and other Mexican authorities.

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## 1. Tighter supervision and regulatory framework

- From 2008 to 2013 Mexican financial authorities imposed about 100 fines on commercial banks (45 banks in the system) and brokerage firms (35 entities in the system) related to AML/CFT issues. During 2014 and 2015, the number of fines imposed on banks and brokerage firms reached more than 300.
- The regulatory and supervisory framework for non-bank financial institutions has also been strengthened.
- In addition, Banco de México introduced AML/CFT requirements on the participants of the payment systems that it operates.

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## 2. Implementation of a centralized database of cross-border transactions and know-your-customer information

- Since March 2016 all Mexican banks have been reporting to Banco de México information on all outbound cross-border wire transfers that they originate.
- Since the data uniquely identify each sender, it is possible to show his or her system-wide transactional behavior to authorities and individual banks that have a relationship with that customer.
- For example, in the table below, we can see that, as far as Bank B is aware, Firm A has a low transactional behavior with it and thus likely requires less KYC information than it would if that bank were aware of Firm A's system-wide transactions.

Real examples of customers that operate through three different banks			
Customer	Total amount with Bank A	Total amount with Bank B	Total amount with Bank C
Firm A	\$ 814,863.00	\$ 205,856.00	\$ 48,231,114.00
Firm B	\$ 2,738,000.00	\$ 300,000.00	\$ 454,112.00
Individual A	\$ 3,019.00	\$ 339,804.00	\$ 12,704.00
Individual B	\$ 694,300.00	\$ 60,336.00	\$ 283,981.00

- If banks have controlled access to this database, they could know each customer's real level of operation and may therefore have a more appropriate knowledge of each customer. For that purpose, the bank-secrecy and AML/CFT regulation was amended to allow banks to retrieve from the database managed by Banco de México certain statistics on their customers involved in cross-border wire transfers processed by such banks.

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- In addition to the transactional database, the Central Bank is developing a database for KYC information on customers who send and receive wire transfers that banks will be required to submit and query according to each customer's system-wide operational level. This database will standardize the KYC information that banks have on their customers and will make information sharing among Mexican banks more efficient.
- The KYC database is expected to be functional by mid-2018.

## 3. Information sharing regulation

- In December 2014 the Ministry of Finance amended its AML/CFT regulation to allow Mexican banks to share certain information on customers involved in transactions with foreign banks under authorization by the Mexican Ministry of Finance.
- In addition, Banco de México collaborated with the Ministry of Finance on the drafting of the regulation issued in February 2017 to allow Mexican banks to share wire-transfer and related KYC information among themselves for AML/CFT and fraud prevention purposes through the transactional and KYC databases operated by Banco de México.

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## 4. Development of a domestic USD credit transfer payment system (SPID)

- In April 2016 Banco de México began operating a payment system for domestic wire transfers to US dollar-denominated deposit accounts opened by Mexican firms in Mexican banks.
- Participation in the system is conditioned on strict AML/CFT measures relating to: i) infrastructure and oversight, including a uniform risk assessment methodology for customers, ii) KYC and identity validation, iii) screening (including against OFAC lists) and monitoring, iv) including specific information in payment messages (e.g. IP addresses from which transfer orders are instructed), and v) penalties and mandatory corrective programs for non-compliance.
  - These requirements do not override other obligations and requirements imposed on banks' by other applicable AML/CFT regulation. SPID requirements should be considered a second layer of requirements.
- Since May 2017 all USD wire transfers between US dollar-denominated deposit accounts kept by firms in Mexican banks are processed through SPID.

## 5. Monitoring of payment systems' transactional databases

- As operator of the main domestic payment systems for peso- and dollar-denominated wire transfers among Mexican financial institutions (FIs), Banco de Mexico created a department to analyze, from an ML/FT perspective, transactions processed through such systems to assess their related risk and assist authorities in the investigation of cases and supervision of FIs' compliance with relevant regulation.

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## 6. Information included in international transfer messages

- Mexican banks comply with international payment messaging standards; on top of this, Banco de México is preparing regulation to impose mandatory use of certain message types and fields to encompass detailed information on the ordering and beneficiary customers.
- Currently, Banco de México is working with SWIFT to establish a local standard to require banks to include the purpose of payment field in messages and the relevant information on ordering and beneficiary customers.

## 7. Promotion of AML/CFT culture within the Mexican banking system

- Mexican authorities and banks are promoting a culture among the latter in which AML/CFT is present throughout the whole institution and in all business decisions.
- The Mexican Bankers Association worked to have, at an industry level and with the advice provided by a US specialized consulting firm, a deeper uniform understanding of the expectations of US authorities on international correspondent transactions, and to identify measures that Mexican banks could implement to further mitigate the risk perceived by US banks that handle such transactions.

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## 8. Mandatory examination for compliance officers

- The Mexican Banking and Securities Commission has mandated that individuals working as compliance officers pass an examination to certify their knowledge of the regulation and its application to banks' operations.

## 9. Adoption of LEI for financial entities and large firms

- Banco de México issued in September 2015 regulation to allow the establishment of local units authorized to issue LEIs for certain transactions that Banco de México will designate in the future.
- Banco de México contemplates that such transactions would initially include certain OTC derivative transactions and would be extended to other operations as needed.
- In December 2016 the Global LEI Foundation certified a Mexican firm as a Local Operating Unit.



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## 10. International cooperation

- Banco de México actively participates in international groups aimed at understanding and discussing efficient solutions to the main drivers of de-risking.
- One of these groups is the FSB's Correspondent Banking Coordination Group, set up in response to the call made by the G20 to assess and address the decline in correspondent banking relationships, its causes and effects.
- As chair of the work stream on data collection and analysis, Banco de México:
  - Coordinated a survey to fill in remaining gaps in the knowledge of the decline and analyze issues of concentration within jurisdictions.
  - Coordinated the analysis of both, the results of the survey and the aggregated and anonymized information provided by SWIFT to the FSB.
- The FSB Correspondent Banking Data Report was published in July 2017.



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