



# FCIB

The Finance, Credit & International  
Business Association

*Service, Development, Growth*



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# ***An Overview of International Correspondent Banking***



***Presented By:***

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# Topics

- Transactional /account relationships
- Geographical access
- Credit support
- SWIFT relationships
- Compliance – KYC and EDD
- Bank Relationships decision-making
- Current challenges



# Purpose of Global Bank Relationships

- Act on behalf of another bank
- Facilitate international payments
  - Access to in-country, local currency payment networks
- Provide in network credit support
- Support reputational identity
- Transmit authenticated SWIFT messages
- Outsource additional services
- 3 Levels/Types
  - Account relationship
  - Credit relationship
  - SWIFT relationship



- Visibility of correspondent
  - White Label, provide back end services
- Front end services
- Other services
  - Loan participations
  - Cash Mgmt./ Treasury
  - Fed Funds lines
  - Investment services



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## **Definitions – *Learning the lingo***

- **Correspondent Banking** – 2 banks trading services
- **Nostro Account** (*Latin*) – account held with another institution (*our account with you*)
- **Vostro Account** (*Latin*) – Account held on behalf of another institution (*your account with us*)
- **RMA / Relationship Management Application** - SWIFT bilateral key which allows message authentication between 2 banks
- **Upstream/Downstream Correspondent** – provider/receiver of services





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# SWIFT RMA

- Bilateral SWIFT key – authenticated messages
  - Facebook “friending” of the financial industry
- Request issued from one bank to another
- Receiving bank must accept/reject
- Acceptance typically requires reciprocal compliance review, generates internal cost to bank
- No transactional messages can be exchanged without RMA
  - 99 series messages (information only) can be sent for general inquiries

# Correspondent Relationships in Banks without SWIFT

- Larger, SWIFT-member bank offers services and access to global banking network to community banks without SWIFT
- Typically one bank can provide all services to access international payments, FX and global trade transactions





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# Global Payment Clearing

Using Nostro Accounts –

- Local currency accounts to support payment transmission to in-country beneficiary banks or clear local currency checks
- SWIFT MT103 (payment order message) passed to nostro correspondent
  - Book Transfer
  - Third Party Payments
  - Multiple intermediaries in more remote locations
  - USD nostro correspondent frequently used for international, serial payments (leverage high book transfer rates)



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# Mechanics of Currency Movement

## EUR Example



1. Customer EUR wire transfer request
2. Local Bank prices and sells EUR, debits acct. USD equivalent
3. Customer provides payment instructions
4. Bank sends SWIFT MT103 message with payment instruction to EUR nostro correspondent (intermediary)
5. EUR correspondent bank credits beneficiary bank's account through direct book transfer or through local payment network (equivalent to Fed Reserve)
6. Beneficiary bank credits final beneficiary

Note: Currency is always held in its home country.

Note: Fees can be debited along the way



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# Correspondents in Trade Transactions

- LC Issuance and Advising
  - Both require RMA
  - MT700 Message

Issuance

Standby – credit

Import – reputation, visibility

Export - RMA



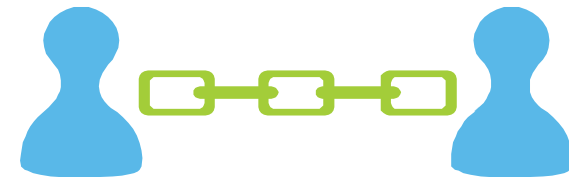


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## LC Issuance (Importer)

- MT 700 authenticated message
- Requires RMA
- Credit acceptance by receiving bank
  - Less credit risk due to trade transaction
- OFAC and sanctions concerns
- Advising through the right correspondent





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# Utilization of Credit

- Standby/Guarantee Issuance –
  - Length of SBLC availability
  - Requires credit line/approval with upstream bank
  - Receiving/beneficiary banks requires comfort level or relationship with issuing bank

# Export Letters of Credit

## Controlling the LC transmission

- Advising LC to RMA correspondent
- Global bank strategic relationships
- Correspondent bank strategic global relationships



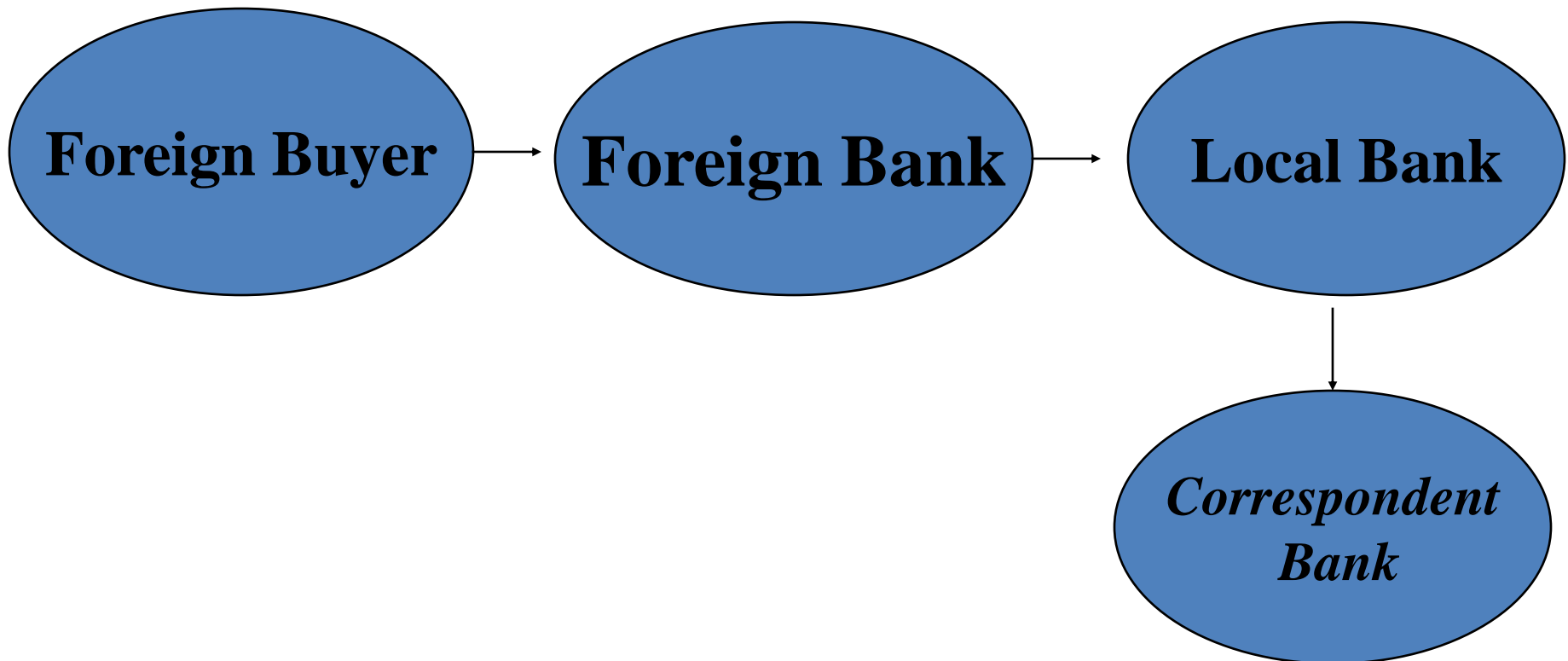




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## Export Example - Using Correspondents in Transferring Risk in L/C Confirmations





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# Identifying Risk in Correspondents

- AML / BSA Risk
- Credit Risk
- Geographical Risk
- Reputational Risk
- Beneficial Ownership
- Financial





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# Compliance between Correspondents

- Due diligence requirements between banks
- Ensure BSA/ AML procedures are sufficient
- KYC versus KYCC
- Regulator guidance
- Reputational risk
- SWIFT KYC Registry





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# De-risking Challenges

- Cost of extensive compliance
- Concern of regulator examination
- Depth of KYC / KYCC
- Global geographical de-risking
- US-based “de-costing” of correspondent banks
- Limiting reach of small–medium sized banks
  - Trickle down effect to small business



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**Tak**

**Merci**

**NAMASTE**

**Xie xie**

**Arigato**

**Kamsa hamnida**

**Danke**

**Grazie**

**Doje**

**Gracias**

***Thank you!***

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*Bringing our global reach to  
your local markets.*

