The great unbanking

Swingeing fines have made banks too risk-averse

It is time to rethink anti-money-laundering rules

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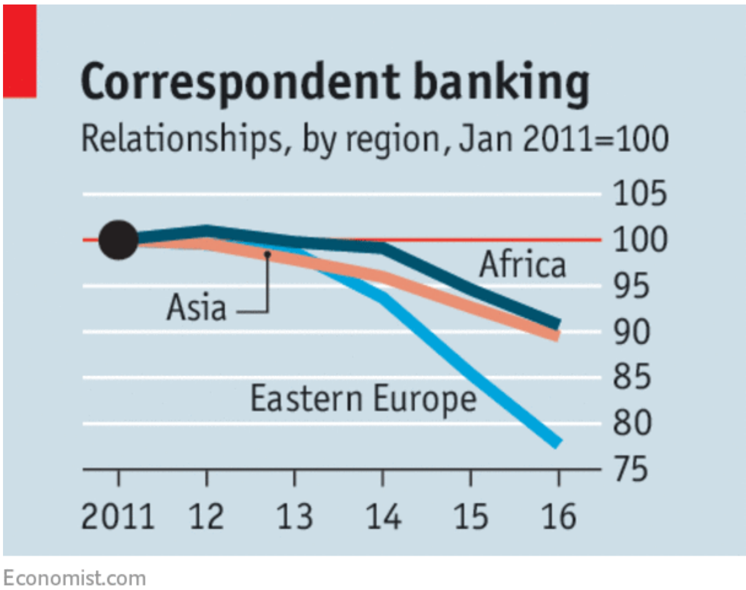

IN THE go-go years before the financial crisis, banks grew careless about dirty money. BNP Paribas helped sanctions-busters, HSBC channelled Mexican drug takings and Deutsche Bank moved cash for Russian launderers. When regulators began to take oversight seriously, the moneymen paid a high price. BNP alone was fined $8.9bn and temporarily barred from dollar clearing (see article). Dozens of other banks have faced stiff penalties.

The crackdown was merited. But some of its results have been perverse. Banks have pulled away from clients they fear might commit financial crimes and therefore regard as too dangerous to serve. Many have done so indiscriminately (see article). Money-transfer firms, especially those handling remittances to poor countries, and charities that work in conflict zones, have been hit hard by this “derisking”. So have banks in Africa, eastern Europe, Latin America and the Caribbean, which have been dropped by the Western correspondent banks they relied on to clear dollar and euro transactions.

Some of the organisations and countries that have been abandoned deserve it. In Belize correspondent banks have even pulled away from the central bank—a reasonable consequence of the country’s sloppy money-laundering controls. But others are better seen as collateral damage.

The harm goes wider than specific institutions. People have frozen to death in Afghanistan and gone without medical supplies in Syria because legitimate aid groups had transfers delayed or their bank accounts closed. Derisking chokes off financial flows that parts of the global economy depend on. It undermines development goals such as boosting financial inclusion and strengthening fragile states. And it drives some transactions into informal channels, meaning that regulators become less able to spot suspicious deals.

Popular though it has become to bash banks, they have been acting rationally. The blame for the damage that derisking causes lies mainly with policymakers and regulators, who overreacted to past money-laundering scandals. They issued dire warnings about the dangers of serving entire classes of client, such as money-transfer firms, and imposed swingeing penalties for infractions. No wonder banks dumped less-profitable clients tainted by the merest hint of risk.

Financial technology offers the prospect of filtering suspicious transactions from legitimate ones. People are excited about the blockchain, a distributed-ledger technology that underpins bitcoin, a digital currency. The blockchain could turn out to be a cheap, clean way to verify customers and transactions. But it will not be widely used for some time, if ever.

The Financial Stability Board, an international group of policymakers, is aware of the problem. It is co-ordinating efforts to reverse the trend. But so far it has done little except diagnose what is wrong. Persuading banks to “rerisk” will take more than toning down the warnings in regulatory guidelines.

Diligence where it’s due

Banks deserve a new approach to financial regulation—one that accepts mistakes can be made in good faith. Multilateral institutions such as the IMF should do more to help the countries worst affected by derisking to improve their financial oversight. Regulators should create “white lists” of reputable charities, which banks can serve without fear. Most important, banks that can show they have strong anti-laundering controls and have done their due diligence should get credit for that if an occasional illicit payment slips through.

A financial system that lets dirty money flow freely is a bad one. One that blocks clean money is even worse.

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