Thomas Murray
Risk Intelligence | Due Diligence | Cyber Security

Post-trade risk and custody services

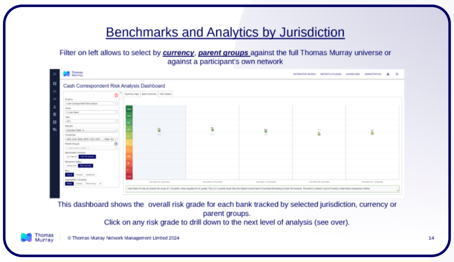
Cash Correspondent Bank Monitoring

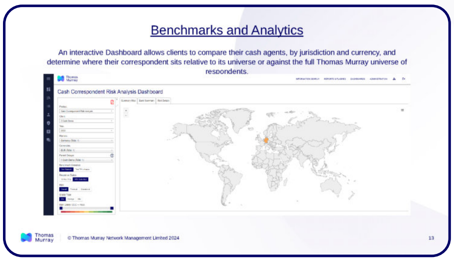
Correspondent banking whether traditional or digital, plays a vital role in the international financial system. However, it also involves significant risks, primarily due to the potential misuse of correspondent banking services for money laundering or financing illegal activities. Regulatory pressure and industry best practices are increasingly focusing on enhancing the on-going monitoring of these relationships. This is largely driven by persistent oversight from entities such as the CFTC, OCC, CASS, and Client Asset Protection rules, along with the European Banking Authority and Prudential Regulation Authority. The regulations categorise agents not as outsourcing entities but requires that non-outsourcing activities adhere to outsourcing standards in terms of risk reporting. Moreover, these activities must be reported if they are substantial.

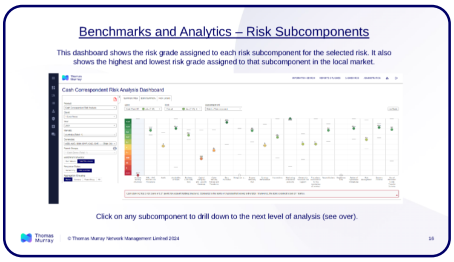
The financial services sector has recently experienced a rise in scandals involving anti-money laundering and sanction evasion activities. This has intensified public scrutiny and prompted regulatory authorities worldwide to demand more rigorous monitoring, meticulous due diligence, and robust benchmarking standards from service providers. The increased emphasis on accountability extends beyond financial and operational risks, urging organisations to implement comprehensive contingency plans capable of promptly addressing potential breaches or violations. Regulators are working tirelessly to promote transparency, integrity, and responsibility across the industry, fostering a culture of vigilance and proactive risk management within financial institutions.

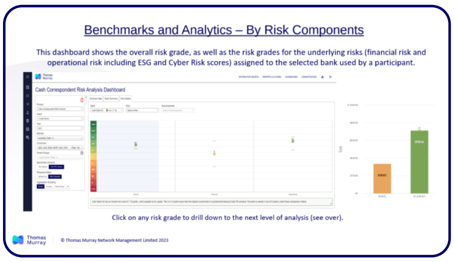
Several factors necessitate improved Correspondent Bank Monitoring. These include internal requirements for third-party oversight, respondents' reluctance to engage with an extensive array of disparate questionnaires, the lack of standardisation in technology platforms along with the unnecessary duplication of effort and resources in a non-competitive area. Alarmingly, monitoring of Cash Correspondent providers significantly lags behind that of securities, revealing a concerning inconsistency requiring rectification.

In response, Thomas Murray introduced its industry-specific Cash Correspondent Monitoring solution in 2020, focusing on financial and operational risk through a closed-ended questionnaire. By 2023, the assessments methodology expanded to incorporate ESG risk along with a dynamic Cyber Risk Assessments. The latter providing continuous monitoring of each cash correspondent's public network footprint, assigning security ratings, and providing actionable, objective analysis for remediation. The reporting output provides an assessment of each bank along with currency, market and global benchmarks.









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