

Much progress was made in financial inclusion towards Universal Financial Access 2020.

But de-risking is undermining these efforts.

Derisking, why?

1. High fines, high costs

Banks are scared. Fines, aside from the reputational damage, are close to back-breaking. Most major US banks were or are under the consent order, e.g. Wells Fargo, as recently as Apr 2018. Others are under continued investigation, like JP Morgan Chase. Most international banks, like HSBC, Deutsche, BNPP, etc. have paid billion-level fines. As a result of enforcement actions, correspondent banking KYC/AML costs are up 300-500%, as Citigroup and Deutsche stated in IMF Derisking seminar in 2016.

2. Inability to assess financial crime risks

No effective instrument exists today to monitor KYC risk born of the 3rd parties in financial supply chain. International banks are afraid of being used as a transit point for large scale drug trade and other illicit trade, like was in the case of hundreds of billions laundered through Wachovia (part of Wells Fargo now).

3. Corruption and drug trade

LATAM and Caribbean are hit especially hard by the derisking. Bahamas, Belize, Haiti and Jamaica were named as major drug-transit countries in the U.S. 2018 Narcotics Control Strategy Report. Jamaica is the largest Caribbean supplier of marijuana to the US. According to the report, Jamaica failed to introduce meaningful anti-corruption laws and enforcement regime. IADB is researching the basis for derisking and possible remedies.

Forms of de-risking

1. **Reduced Access (15%-20%)**

closure of (or refusal to open) bank accounts for certain individuals and firms

2. **Cutting off remittances**

withdrawal or restriction of banking services to remittances facilities

3. **Severing of correspondent banking relationships (CBR)**

threat of disconnect from global financial system

Source: [Wilson Center](#)

Why it is difficult to fight derisking?

1. **Lack of local capital**

and expertise

2. **Information Flow barriers**

analog data, data silos, privacy restrictions,
data residency laws, BSA limiting exchange between banks

3. **Fragmentation**

each derisked company or customer segment is suffering alone

Source: [Wilson Center](#)

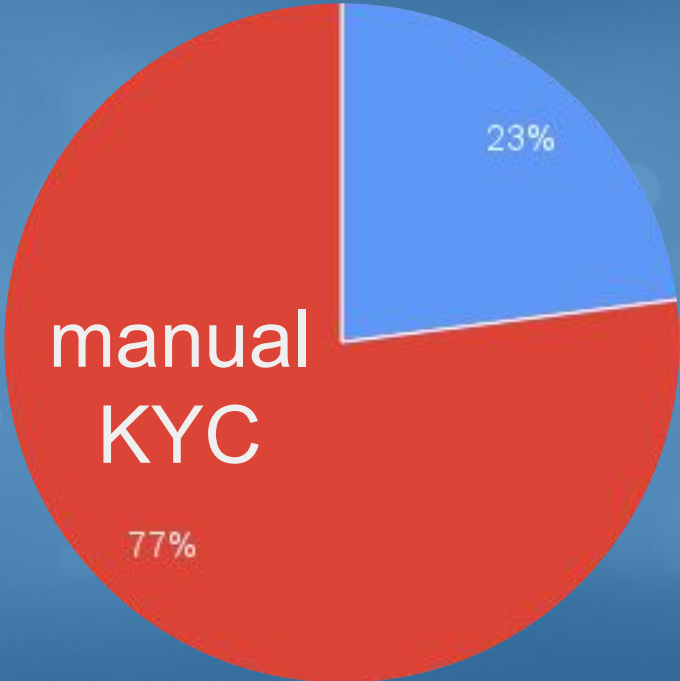
Bad effects of derisking

Capital moves outside of the mainstream financial system, to grey and black markets.

As a result FATF's pressure aimed at curtailing illicit activities has the opposite to the desired effect.

Source: Wilson Center

Derisking will continue until we address this



Source: Goldman Sachs





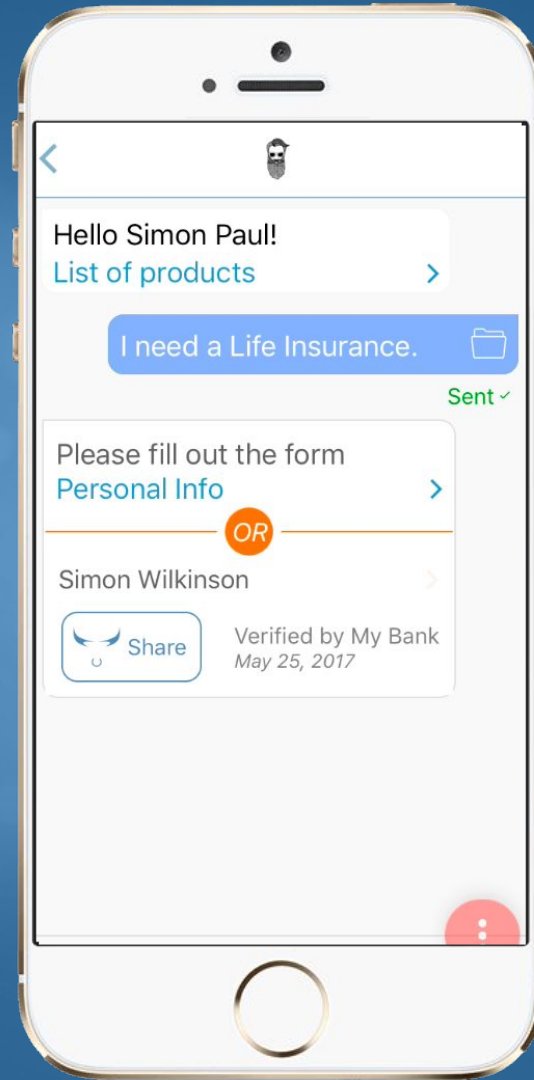
We are Tradle, we reverse derisking
with the help of the blockchain

DIGITIZE KYC

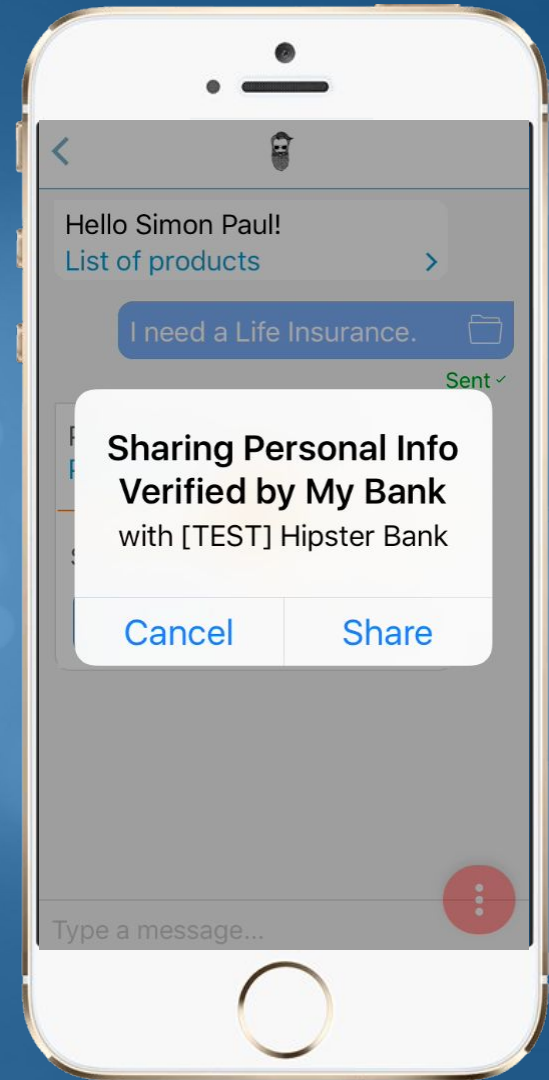
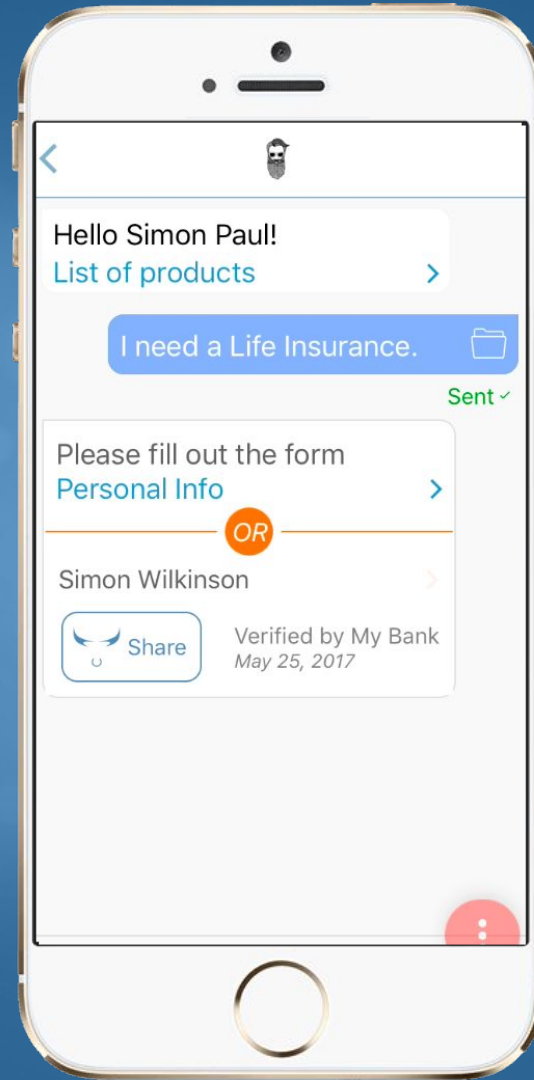
COLLECTION and VALIDATION

avoiding human errors, bias and wrongdoing

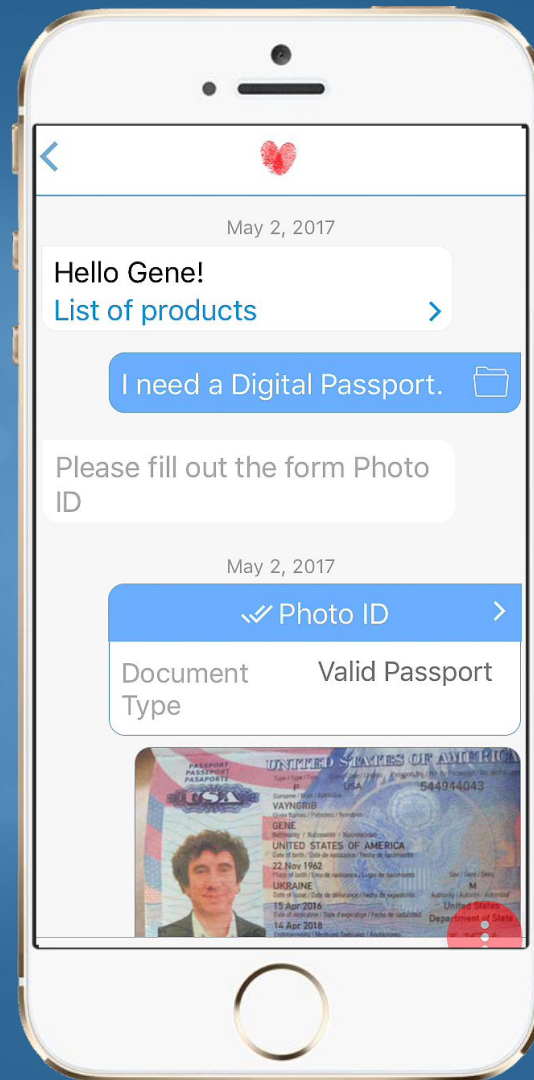
Like photos



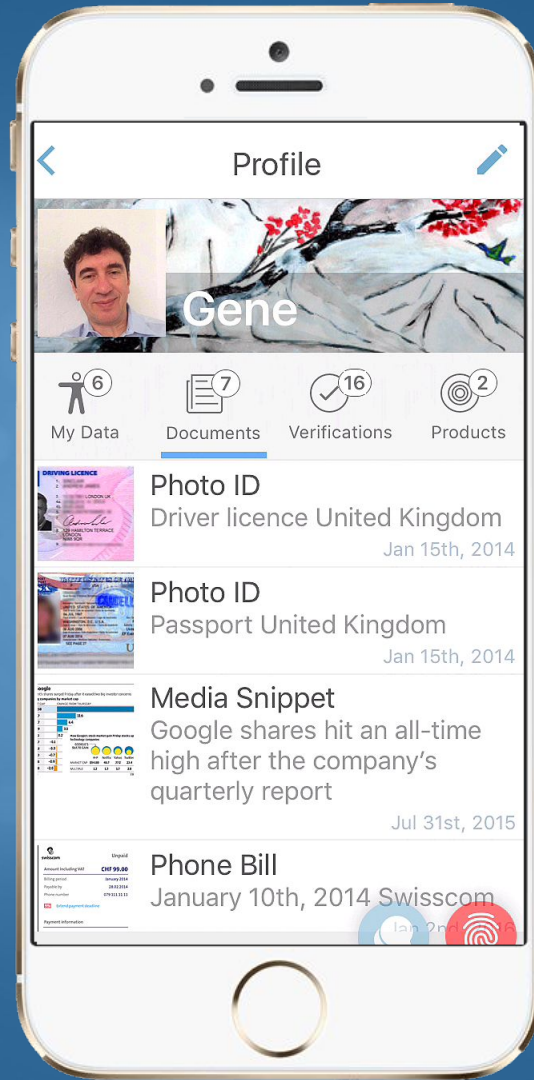
Capture & share



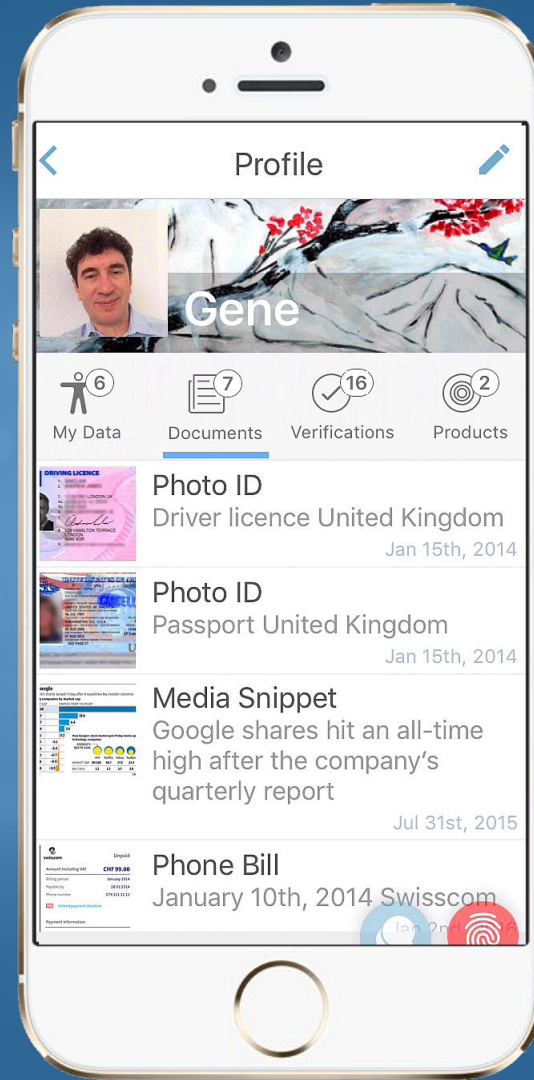
Validate docs



All in your profile

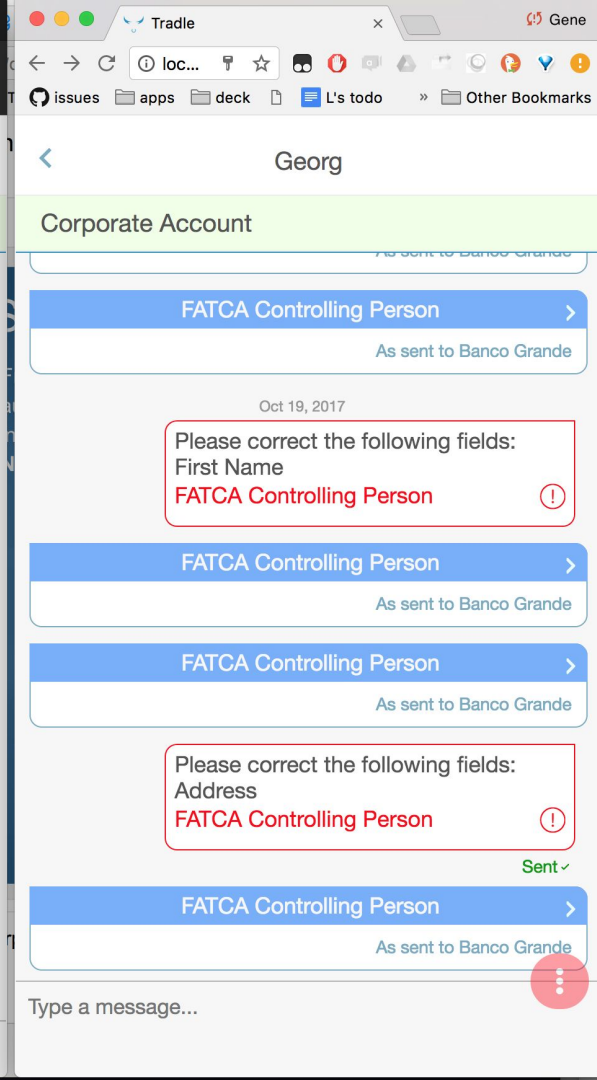
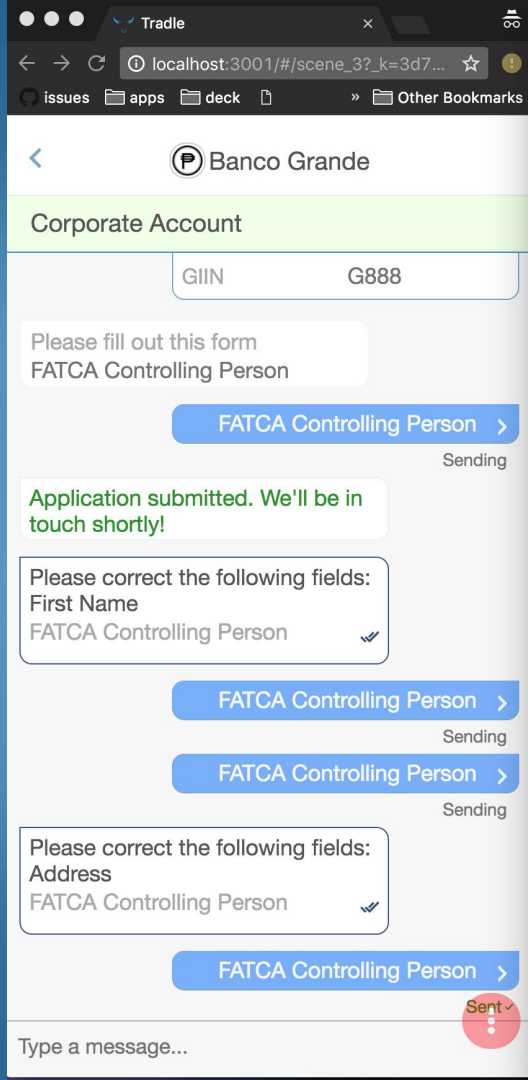


All in your profile



Protected by behavioral analytics and AI, with the help of the blockchain

SME & Corporate

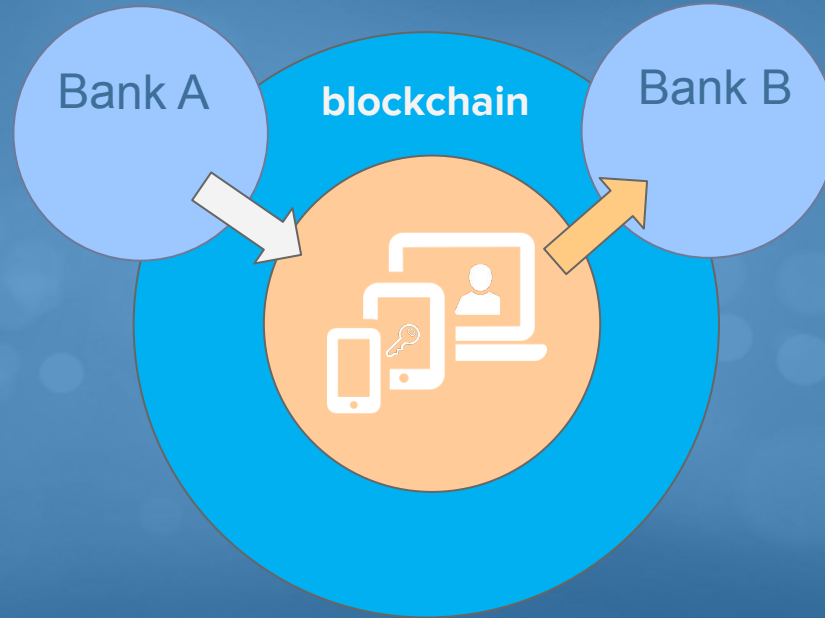


Solution 2

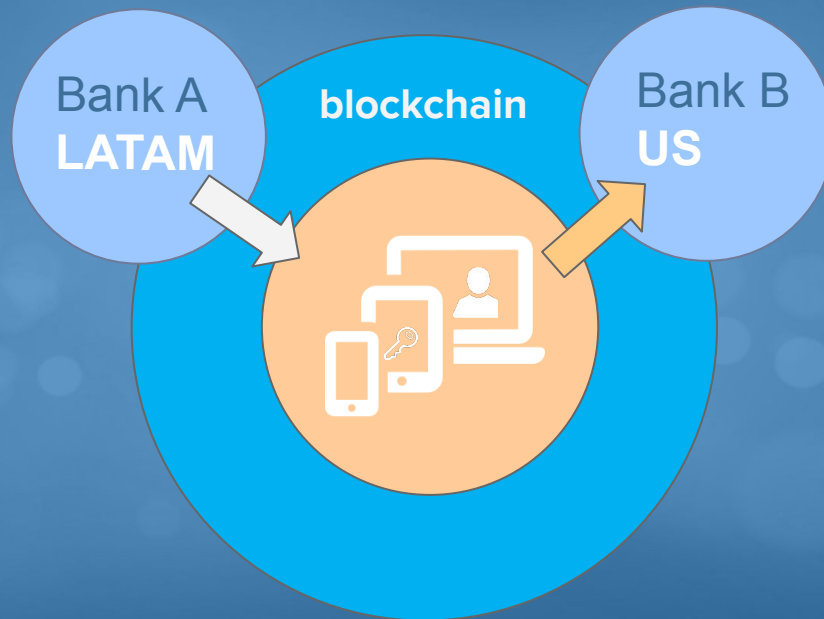
KYC PORTABILITY

which allows network-wide co-validation of
KYC records of each entity

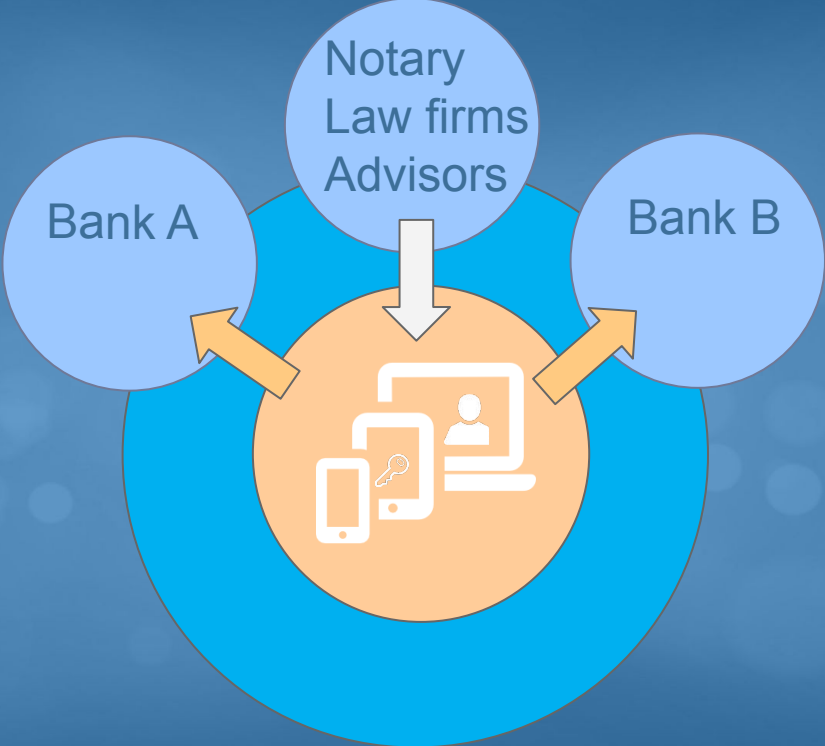
Co-validate KYC profile presented by the client



Co-validate as moved by clients cross-borders



Co-validate by certifiers and validate certifiers



KYC SUPERVISION without violating privacy and BSA

Addressing need for Information Asymmetry

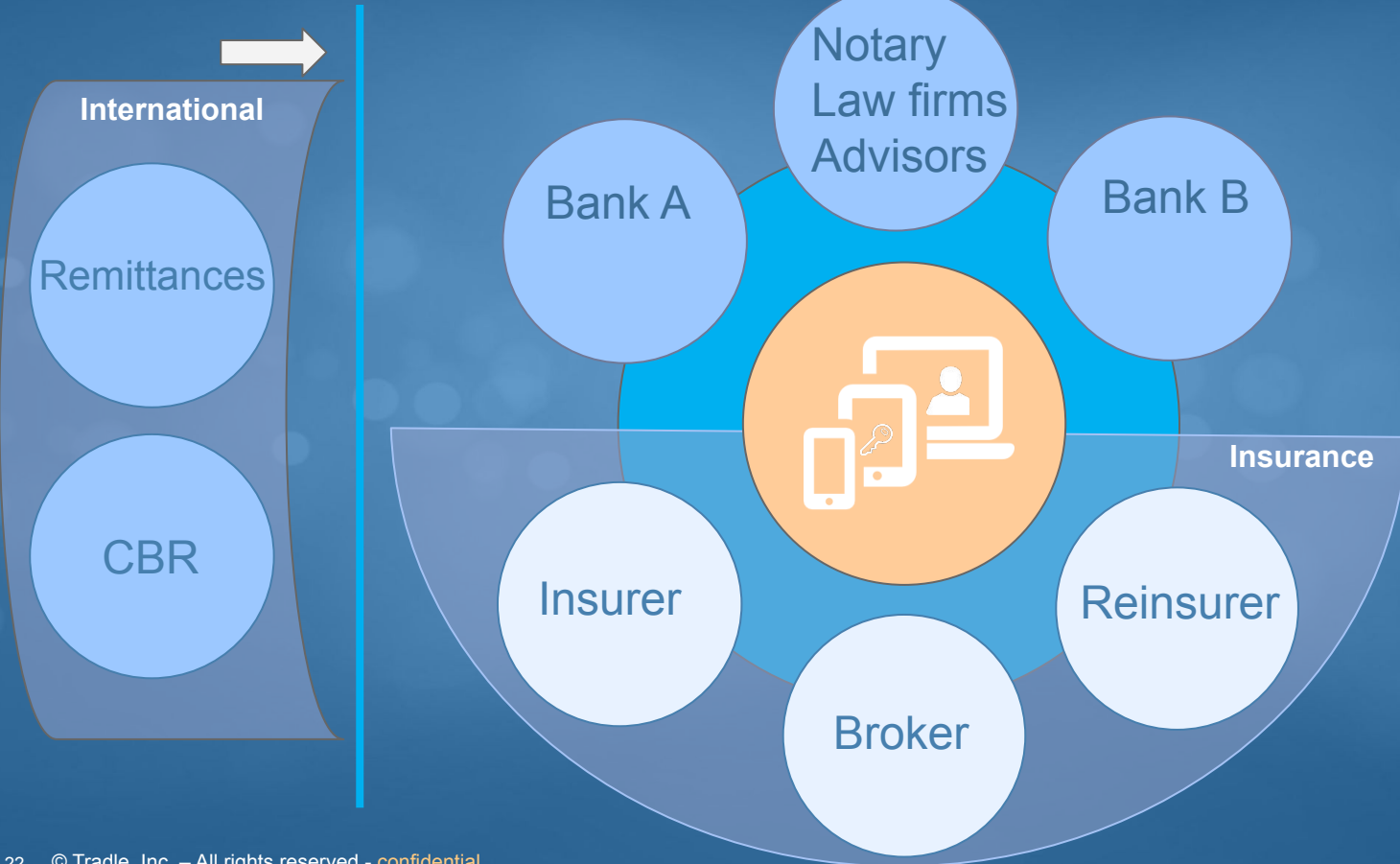


share only proofs

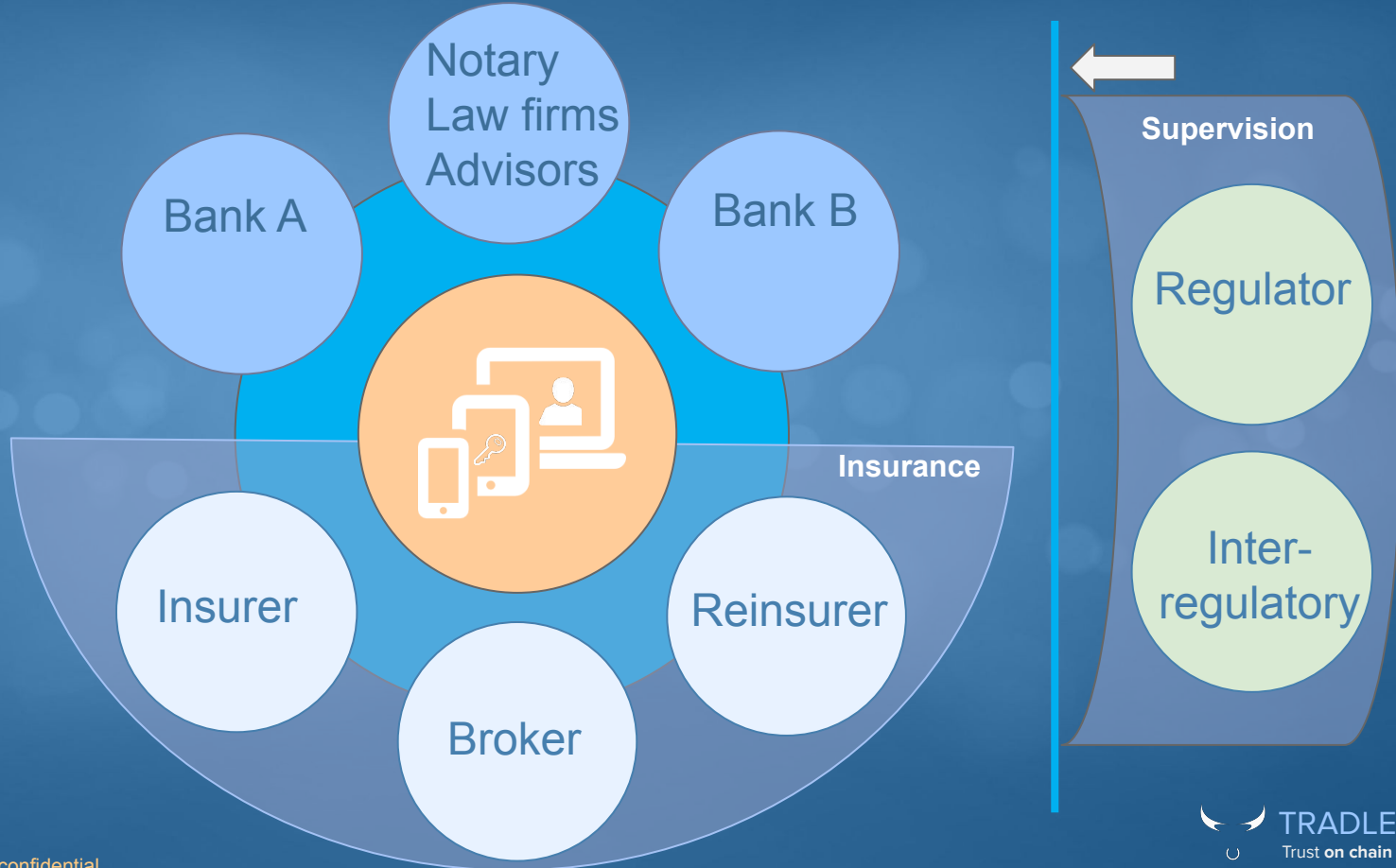


not customer details

Allows now to supervise partners



Allows supervision with anti-corruption controls



1. Digitizing KYC collection

Client A



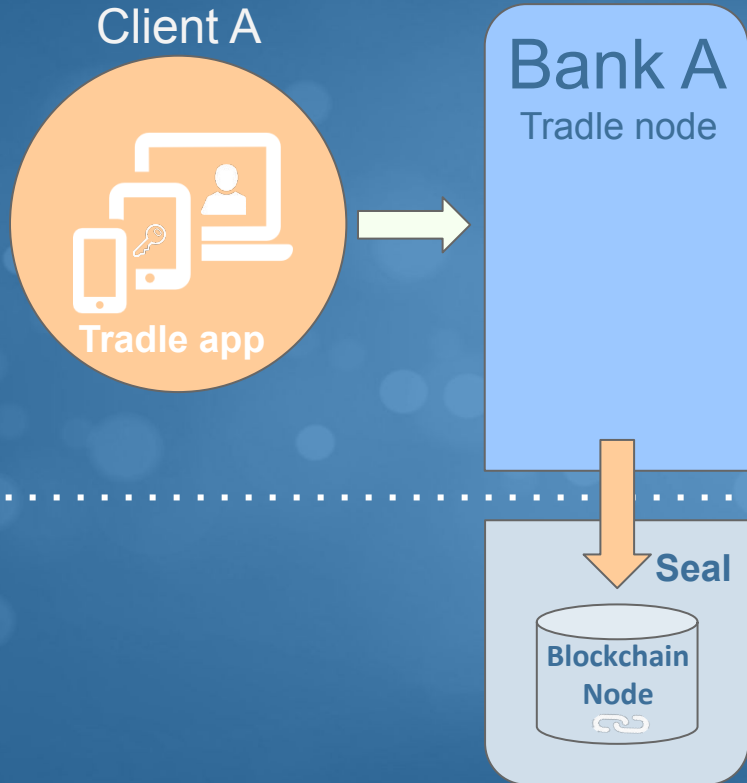
Tradle app



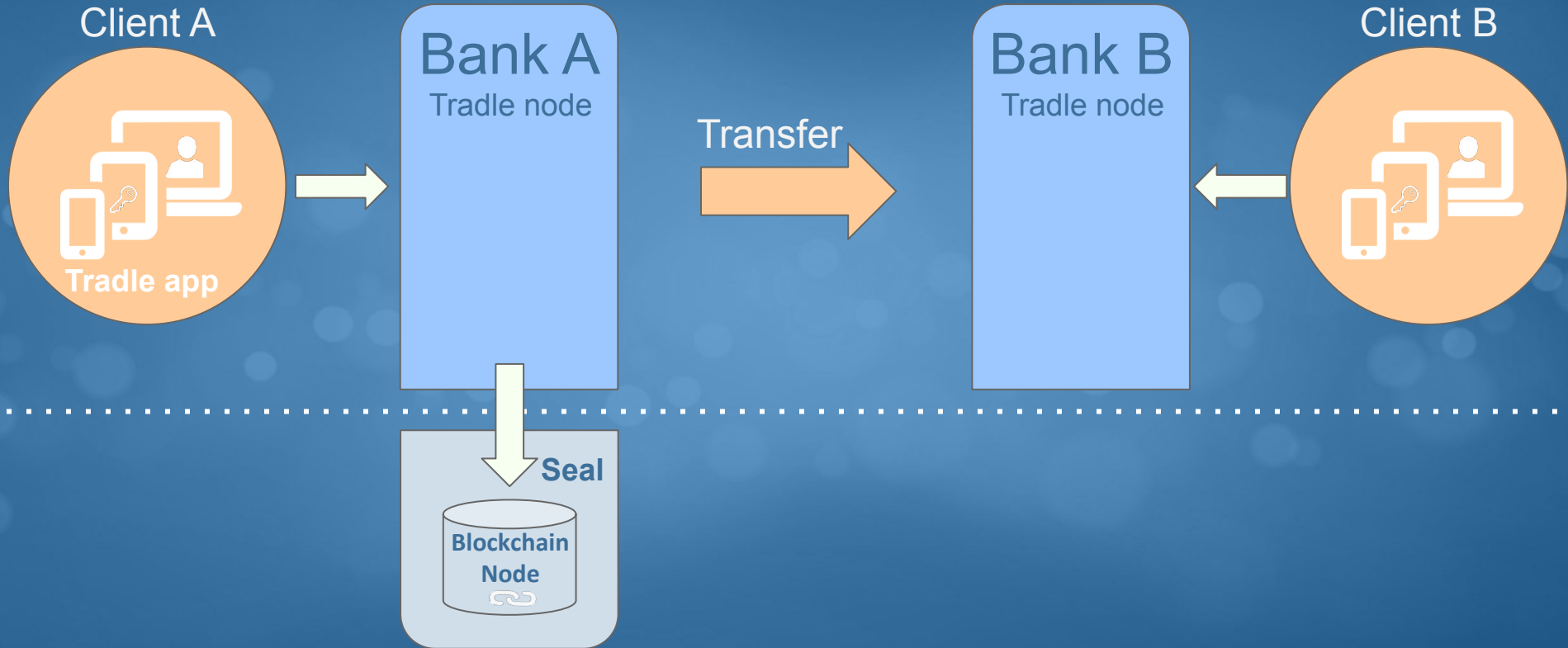
Bank A

Tradle node

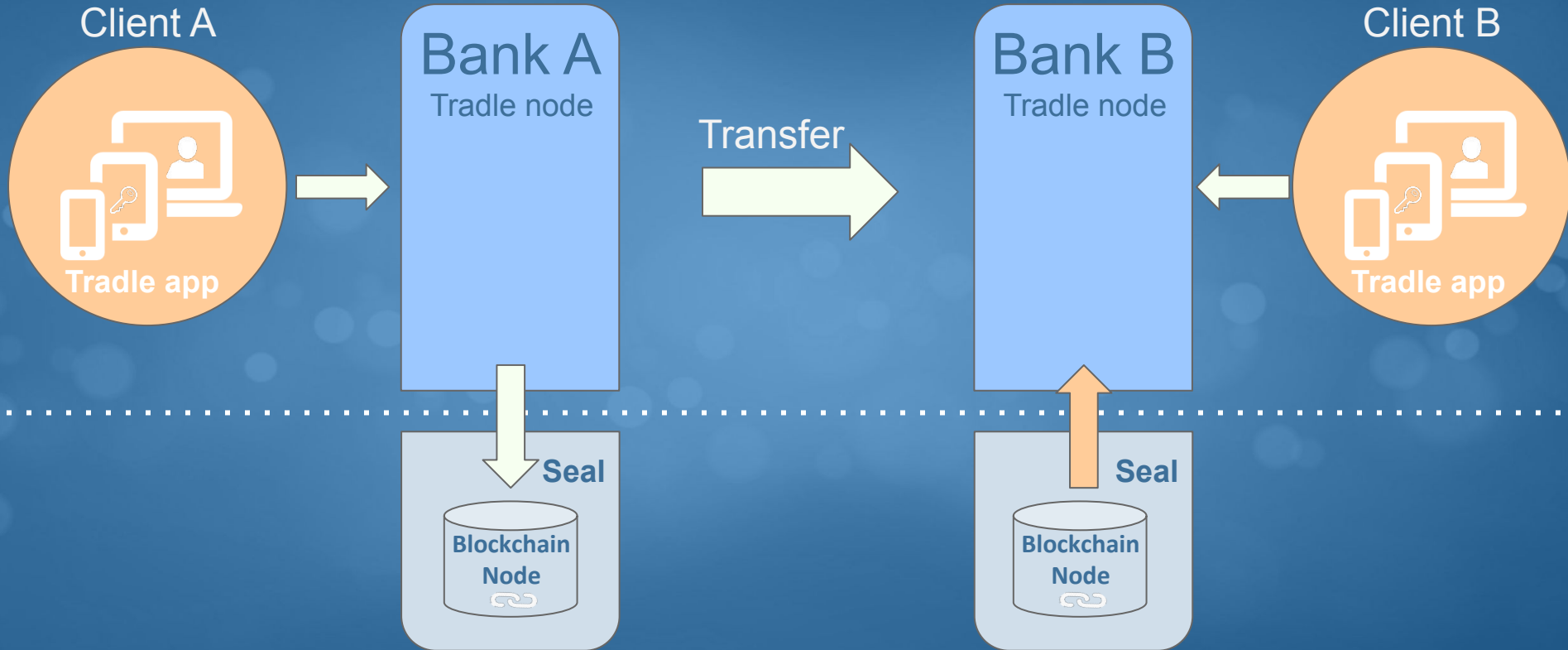
2. Sealing KYC & detailed verifications list



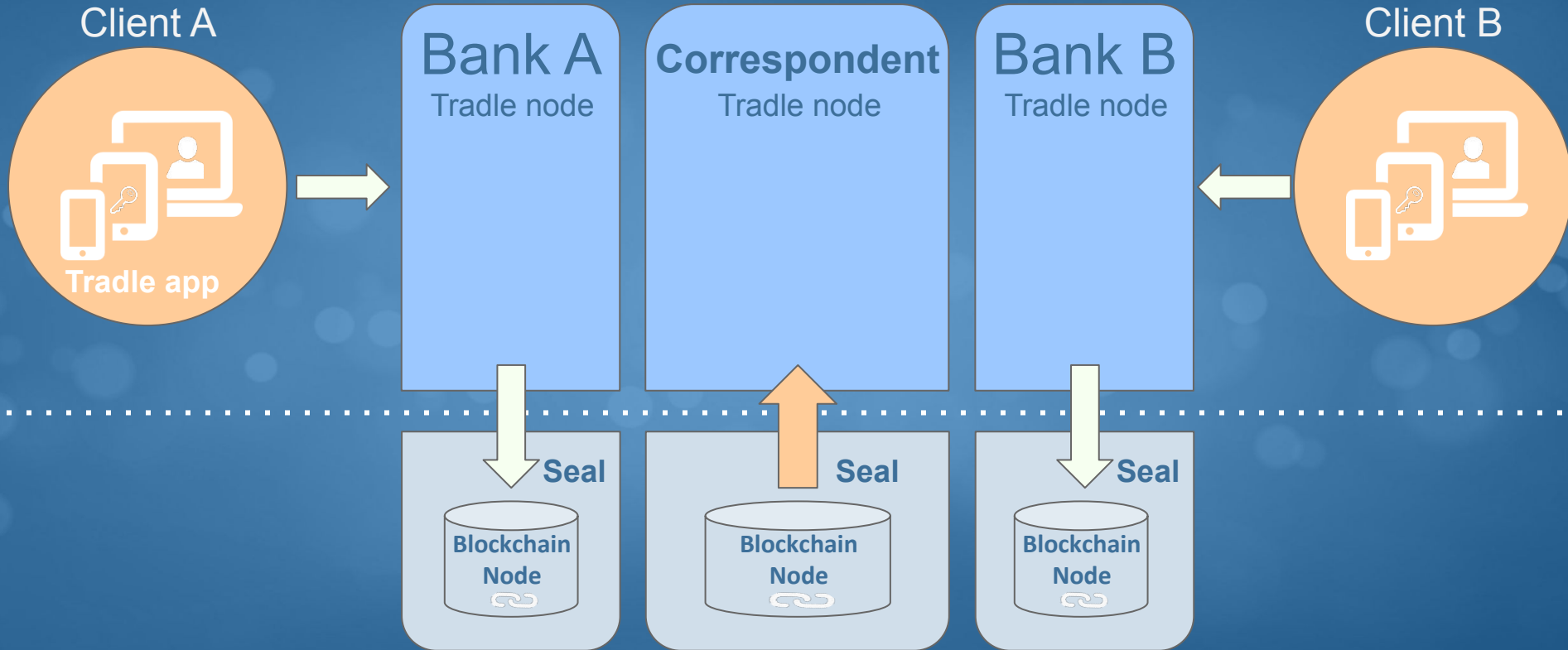
3. Payment instructions referring to KYC partials



4. KYC/AML verifications



5. Corresp. bank gets Client A & B's KYC partials



Correspondent can do AML analysis on more data without violating privacy & data residency

Solution summary

1. Digitize KYC at regional banks

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2. Share clients KYC and KYCC *partials* on transaction

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3. Make full KYC records available for investigations

From FI to country-level benefits

1. eKYC allows RPA for anti-fraud
2. Co-validation between FIs, promoting good actors
3. Country-wide, yet privacy-centric digital policy & supervision

Result: derisking reversal and more

1. **Regional banks** derive the usual Tradle KYC benefits: lower onboarding costs, speedier & better customer experience, *They get to keep the correspondent banking relationships.*
2. **Central banks & Development banks** can offer technical assistance for their regional banks to digitize KYC process.
3. **Correspondent banks** gain real-time supervision & risk visibility.
4. **Regulators** gain multi-jurisdictional real-time monitoring.
5. **Individuals and SMEs** gain access.
6. **Law enforcement & regulators** can investigate full KYC records.

Next step

Crime detection with AI / ML on full network analysis, at the **payments processor, FX clearer, etc.**