DERISKING POLICY AND FINANCIAL ACCESS ISSUES

The U.S. sanctions regime has been cited as one of several factors contributing to bank derisking, the practice of financial institutions limiting or ending their relationships with customers due to perceived risk of antimoney laundering and combating the financing of terror (AML/CFT). The trend has well-documented, widespread effects on all stakeholders, including two-thirds of U.S. nonprofit organizations (NPOs) that operate internationally, according to research published in 2017. Whether it is U.S. banks closing accounts of clients they perceive as high-risk, or the decline in correspondent bank relationships making it more and more difficult to send international wire transfers, many NPOs cannot fund vital programs overseas that alleviate human suffering and build resilience against terrorism.

What is Derisking?

As an unintended consequence of heightened counterterrorism measures after 9/11, as well as the impact of the 2008 global financial crisis, banks confronted a far tougher enforcement and regulatory environment, both domestically and internationally. This, in turn, diminished banks' appetite for risk and led to a tendency to avoid rather than proportionally manage it. Further compounded by the fear of increasingly stringent fines, loss of banking licenses, and reputational damage, banks took measures to minimize their risk exposure by excluding categories of customers deemed high risk: a practice termed "derisking." This practice disproportionately affected certain sectors including money service businesses, embassies, correspondent banks, charities, and NGOs).

What are the Impacts on Nonprofits?

Nonprofit organizations have found themselves increasingly impacted by derisking practices, often intensified by their limited profitability for banks. The most often cited challenges include delayed or frozen wire transfers, increased transfer costs, account refusals or closures, and increased disclosure requirements. To address these obstacles, NPOs are having to develop a range of strategies to ensure continuation of their programs including increased operating budgets to fund additional compliance staff, due diligence tools, staff screening, legal expenses, and licensing requirements. The use of alternative financial channels, beyond the formal banking system, has become more prevalent. These channels often prove to be higher-risk, less transparent, more expensive, and less well regulated. In some cases, the impacts of derisking have led to the complete closure of programs in high-risk areas as NPOs have found themselves unable to pay staff salaries, suppliers, and program services.

Combating Derisking?

InterAction's Together Project has worked with NGO members of the nonprofit community to address ongoing challenges related to derisking and debanking since 2017.

Governments, regulators, financial institutions, and NPOs need be able to proportionally manage and share the risk. All stakeholders must engage in action-based dialogue to ensure reciprocal education and accountability for their role and responsibility in delivering humanitarian assistance. This includes AML/CTF procedures and legislation; challenges facing NPOs and their risk management strategies; as well as standardization of banking procedures and information requests.

Solutions require a balance between the dual objectives of effectively reducing the financing of terrorism and facilitating vital humanitarian support to fragile and broken states. Balancing these aims will ensure that the U.S. government is able to fulfill its commitment to get humanitarian assistance to its intended purpose in poor communities around the world.

Key Pending Legislation

Financial Institutions Examination Fairness and Reform Act
Amends the Federal Financial Institutions Examination Council Act of 1978 to improve the examination of depository institutions.[231]

Counterterrorism and Illicit Finance Act
Updates dollar amount thresholds for certain currency transaction reports and suspicious activity reports to improve the sharing of suspicious activity reports within a financial group, and for other purposes.[232]

Treasury's Role in Coordinating AML/CFT Policy
Requires the treasury to take a more prominent role in coordinating AML/CFT policy and examinations across the government, and for other purposes.[233]

Resources for Congressional Staff

- **Humanitarian Assistance: USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Banking Challenges.** *U.S. Government Accountability Office, September 2018.*[234]
- **Study and Report: Financial Access for U.S. Nonprofits.** *Charity & Security Network, February 2017.*[235]
- **Read-out: Stakeholder Dialogue on De-risking, Supporting Financial Access for Humanitarian Organizations and Charities.** *The World Bank and ACAMS, January 2017.*