Welcome to this **Dunod podcast** to help you with your studies. Today, we are going to talk about **de-risking.**

De-risking is a term used in the financial world to describe the practice of terminating or restricting business relationships with clients, or categories of clients, to avoid risks altogether, rather than manage them. The term “de-banking” is also used. The financial institutions most likely to make de-risking decisions are mainly those providing credit, insurance, payment and electronic money. Stockbroking firms and central securities depositories can also be included.

This practice of de-risking has been adopted by global financial institutions to mitigate risks and better deal with financial crimes. It is particularly the case when there are concerns about profitability, prudential requirements, anxiety after the global financial crisis, reputational risk, crypto-currencies, and money laundering, for instance.

While that sounds like a good idea, de-risking practices have drawbacks. Indeed, they threaten to cut off access to the global financial system for remittance* companies and local banks in certain regions, putting them at risk of losing access to the global financial system. In addition, smaller countries with limited financial markets are particularly vulnerable to de-risking practices. They threaten the progress made on financial inclusion and can even reverse some of the progress made in reducing remittance prices and fees. Some humanitarian organisations have also reported and denounced the loss of access to financial services as a result of de-risking. They estimate that de-risking should never be used as an excuse for the private sector to avoid implementing a risk-based approach, and neglect those people, organisations, and countries relying on vital financial support and services.

Indeed, de-risking can actually foster further risk and opacity into the global financial system, as the termination of account and financial relationships has the potential to force entities and persons to opt for less regulated or unregulated channels, including criminal, underground and black-market channels. It is obviously always better to move and transfer funds through regulated, traceable channels: this facilitates the implementation of what are called AML/CFT measures. AML stands for Anti-Money Laundering and CFT stands for Countering the Financing of Terrorism. All this is related to the Bank Secrecy Act (BSA), a series of laws and regulations the United States enacted to trace and fight against money laundering and the financing of terrorism.

Financial institutions all over the world also must comply to the FATF recommendations. FATF stands for Financial Action Task Force. It is an intergovernmental policy-making body and basically a global money laundering and terrorist financing watchdog. It sets international standards aiming at preventing all illegal activities and their harmful impact on society. It offers a comprehensive framework of 40 measures to help countries tackle illicit financial flows, including laws, regulations and operational measures to ensure national authorities can take effective action to detect and disrupt financial flows that fuel crime and terrorism, and punish those responsible for any kind of illegal activity.
FATF recommendations are not binding like laws or contracts do. Rather, the relevant authorities have the power to investigate based on the frameworks of their respective jurisdictions. This power allows them to track down money tied to illegal drugs, human trafficking, and other crimes. The FATF also works to stop funding used to purchase weapons of mass destruction.

According to FATF recommendations, financial institutions should only terminate customer relationships on a case-by-case basis, when money laundering and terrorist activity financing risks are proven. Extreme care should always be taken to prevent entire categories of customers from being cut loose and account for the level of risk or risk mitigation measures for individual customers within a particular sector.

In a nutshell, to avoid the risk of administrative sanctions and civil or criminal procedures and convictions when their customers abuse their business relationship, it is highly recommended that financial institutions implement the appropriate and effective protection and prevention measures, especially in situations where risks are high. They are expected to have a solid and effective AML/CFT framework with adequate policies, procedures, internal control measures and an adequate record-keeping procedure.

*A remittance is money sent to another party, usually in another country. Typically, the sender is a foreign worker, and the recipient is a relative in the sender's home country. Remittances represent one of the largest sources of income for people in low-income, developing, and emerging countries.