GAO Highlights

Highlights of GAO-18-642T, a testimony before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, House of Representatives

Why GAO Did This Study

In recent years, some Southwest border residents and businesses reported difficulty accessing banking services, including experiencing bank account terminations and bank branch closings in the region. In addition, the World Bank and others have reported that some money transmitters have been losing access to banking services with depository institutions.

This statement is based on findings from GAO's February 2018 report on access to banking services along the Southwest border (GAO-18-263) and March 2018 report on the effects of derisking on remittance flows to fragile countries (GAO-18-313). GAO discusses (1) the extent to which banks are terminating accounts and closing branches in the Southwest border region, (2) the extent to which money transmitters serving selected fragile countries are facing banking access challenges, and (3) actions relevant U.S. agencies have taken to respond to these challenges. For those reports, GAO surveyed more than 400 banks, developed an econometric model on the drivers of branch closures, and conducted case studies on four countries to assess the effects of derisking on remittances flows.

What GAO Recommends

GAO made five recommendations in the two reports: to Treasury and the federal banking regulators to conduct a retrospective review of BSA/AML regulations and their implementation, and to Treasury to assess shifts in remittance flows to nonbanking channels. Banking regulators agreed with the recommendations. GAO requested comments from Treasury, but none were provided.

View GAO-18-642T. For more information, contact Michael E. Clements at (202) 512-8678 or ClementsM@gao.gov.

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BANK SECRECY ACT

Further Actions Needed to Address Domestic and International Derisking Concerns

What GAO Found

"Derisking" is the practice of depository institutions limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering or other criminal activity such as financing to terrorist groups. In its February 2018 report, GAO found that money laundering risk is high in the Southwest border region because of the high volume of cash transactions, the number of cross-border transactions, and foreign account holders. According to GAO's nationally representative survey of banks, an estimated 80 percent (+/- 11) of Southwest border banks limited or did not offer accounts to customers that are considered high risk for money laundering because the customers drew heightened Bank Secrecy Act/anti-money laundering (BSA/AML) oversight—behavior that could indicate derisking. Nationally, GAO's econometric analysis suggested that counties that were urban, younger, had higher income, or had higher money laundering-related risk were more likely to lose branches.

In March 2018, GAO found that money transmitters (businesses that facilitate global money transfers) serving Haiti, Liberia, Nepal, and especially Somalia—countries it identified as fragile—all reported losing bank accounts or having restrictions placed on them during the last 10 years. As a result, 9 of the 12 money transmitters GAO interviewed, including all 4 that served Somalia, reported using channels outside the banking system (hereafter referred to as nonbanking channels), such as transporting cash to transfer funds, and that this increased their operational costs and exposure to risks. Furthermore, some banks GAO interviewed reported that they closed the accounts of money transmitters because of the high cost of due diligence actions they considered necessary to minimize the risk of fines under BSA/AML regulations. Department of the Treasury (Treasury) officials noted that despite information that some money transmitters have lost bank accounts, Treasury saw no evidence that the volume of remittances was falling or that costs of sending remittances were rising.

To address concerns about derisking, Treasury and federal banking regulators (the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation), have taken actions including issuing guidance to banks and conducting some evaluations to assess the extent to which derisking is occurring. While agencies were engaged in BSA/AML regulatory reviews, these were limited in scope and had not evaluated how regulatory concerns may influence banks to engage in derisking or to close branches. Without assessing the full range of BSA/AML factors that may be influencing banks to derisk or close branches, Treasury, the federal banking regulators, and Congress do not have the information needed to determine if BSA/AML regulations and their implementation can be made more effective or less burdensome. Moreover, in March 2018 GAO reported that Treasury could not assess the effects of money transmitters' loss of banking access on remittance flows because existing data did not allow Treasury to identify remittances transferred through banking and nonbanking channels. Nonbanking channels are generally less transparent than banking channels and thus more susceptible to the risk of money laundering and terrorism financing.