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Derisking London's Remittance Marketplace

BRIEF 2

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Executive summary

This is the second in a series of four briefs communicating findings from the Leverhulme-funded project '*Disciplining London's Remittance Marketplace*: *the financialisation of Small and Medium size Money Transfer Businesses (SM-MTBs) in the aftermath of the financial crisis in London'*.

This brief provides a critical overview of derisking – the sudden off-boarding and exclusion of certain businesses from the formal banking sector, which had echoes across the globe, but took a particularly acute form in the case of MTBs registered in the UK.

Drawing upon an evidence base comprising of 52 questionnaires and 30 in-depth interviews with consultants, directors, and senior managers of money transfer firms, we trace (i) the extent to which London's remittance businesses are being excluded from banking services, (ii) their experience of this process, and (iii) how SM-MTBs have responded to and coped with banking exclusion.

Overall, this brief evidences that derisking presents an important issue for London's money remittance firms at the level of perception, where a vast majority reported operating in a banking culture that is averse to their sector, but also at the level of real barriers to finance. There was a visible disparity between Payment Institutions (PIs), where 86.7% of firms had bank accounts, compared to smaller Money Transfer Operators (MTOs), where almost one in two lacked an account in the UK. The number of times SM-MTBs were refused a bank account ranged from 1 to as many as 50, with a mean of 7 times, while the incidence of closures fluctuated between 1 and 24, with a mean of 5

Probing into firms' actual experience with derisking, interview responses indicate that to many MTOs the closure of accounts came as a shock after years of operating profitably and, by their own admission, lawfully. Regardless of compliance systems, staff, and policies in place, firms reported receiving notices of account closures with minimal explanation, and no recourse for actual contestation.

Several firms adapted to this climate. For those who could afford it, opening a bank account in Europe, or operating via an intermediary financial institution in the UK, offered a costly but workable solution. Others adopted tactics which straddled the bounds of formality, such as running the activities of a licensed MTO through personal bank accounts, or operating an MTO completely below the radar of the regulator. Others still, who could not afford the services of intermediaries but were also reluctant to engage in any form rule bending, questioned their ability to stay within the money transfer sector altogether.

The brief concludes by pointing to the erosion of trust between SM-MTOs, banking and the regulator, noting the danger of driving business underground, as well as perpetuating stereotypes of migrants' money as 'dirty money'.

1. Introduction

In 2013, a leading UK bank shut the accounts of 250 Small and Medium sized Money Transfer Businesses (SM-MTBs) as part of a broader suite of 'de-risking' initiatives aimed at 'high risk low value' clients. Among them was Dhabshiil - Somalia's largest MTB, credited with sustaining as much as a third of the country's GDP (Hatcher, 2015). Protests staged by community members outside bank branches, together with warnings by trade associations and a very public intervention by British-Somali athlete Mo Farrah, pointed to the dire effects this decision would have upon Somalia's economy, and the individual families who relied upon Dahabshiil's service to receive remittances. Similar account closures continued to take place however, in the UK and across the world.

'Derisking' is a term used by actors in the financial sector to describe the process whereby banks and other financial institutions end relationships with clients considered 'too risky' to justify the cost of compliance (Durner and Shetret, 2015, p. 3). Since 2012 a range of cash intensive businesses such as charities, travel agencies, small banks in low-income countries, and MTBs in particular, have experienced the closure of corresponding banking relations, or rejection from accessing the financial sector. To international organisations who view remittances as a vital part of development finance, derisking initiatives undertaken in concert across the banking sector pose a danger of concentrating the market, undermining the goal of lowering the cost of transfers, and eroding financial inclusion (FSB, 2018; World Bank, 2015). To regulators, the avoidance of *possible* risk across the banking sector can articulate *real* vulnerabilities in the rest of the economy, as businesses shut out from formal finance are pushed underground, or concentrated into harder to control agent networks (HM Treasury and Home Office, 2017; National Crime Agency, 2017).

What is less clear, however, is just how MTBs navigate the process of derisking, and how this shapes their relation to the regulator, the banking sector, and indeed to the communities they serve. These are some of the questions this project set out to explore. This Industry Brief, the second in a series of four, presents preliminary findings into how London's remittance businesses navigate derisking. Beginning with a short outline of the drivers and global impact of derisking, we detail the methodology and evidence base which underpin this project. In the findings section, we focus on three key aspects: (i) showcasing the extent of MTBs' exposure to derisking; (ii) detailing their experiences of derisking, and (iii) reviewing how they respond to, and cope with, banking exclusion.

2. Contexts and consequences of derisking

The Financial Action Task Force defines derisking as the process of 'terminating or restricting business relationships [..] *to avoid*, rather than manage, risk' (FATF, 2016, p. 3 our emphasis). A survey of governments, banks, and MTBs conducted by the World Bank in cooperation with the Financial Stability Board (FSB), Committee on Payments and Market Infrastructures (CPMI), and the G20 Partnership for Financial Inclusion, provides evidence of the global reach of this phenomenon (World Bank, 2015). Between 2010 and 2015, respondents reported an increase in the number of closed accounts across all the jurisdictions surveyed. Third sector organisations operating in high risk countries, MTBs, but also local banks who relied upon correspondent banking relations to provide cross-border payment services to their customers, experienced the closure of accounts. This was echoed by further investigations in the British and international money market (Artingstall et al., 2016; Durner and Shetret, 2015; FSB, 2018).

Why does derisking happen? Research points to the institution of a general environment geared towards risk reduction and cost cutting (Artingstall et al., 2016; World Bank Group, 2018). The rise in legal and regulatory actions in Anti-Money Laundering and the Combatting of Terrorist Financing (AML/CTF), governments' appetite for stricter financial regulation in the aftermath of the financial crisis, as well as the monetary and reputational costs of incurring fines have created a culture of trimming non-core business and jurisdictions. In the UK, the Financial Conduct Authority (FCA) calls this mix of higher compliance costs, liquidity thresholds, and a tougher environment in which to achieve a profitable relationship a 'perfect storm' (Artingstall et al., 2016, p. 7). This is echoed by the World Bank (2015) and FSB (2018), which attribute the process to a similar concern with profitability, fear of regulatory scrutiny and reputational risk, but also the banking sector's lack of confidence in MTBs' procedures. It is significant that neither the banks

nor the MTBs surveyed by the World Bank cited AML/TF violations as a top reason for terminating the relationship (World Bank, 2015, p. 11). According to the FSB Report furthermore, what appeared to drive the off-boarding of the MTB sector was a perception of high risk, due to the handling of cash, involvement with high-risk jurisdictions, and mode of operating via agents, rather than an actual history of AML violations (FSB, 2018, p. 18)

Why does derisking matter? While the extent of macroeconomic consequences is still being determined, numerous investigations document how in cases where derisking affects charities and NGOs involved in aid relief (Gordon et al., 2018), as well as in cases where remittance companies are used to deliver funds to areas marked by political conflicts or natural disasters, disruptions to their banking relationships can result in health threats and even death from starvation, exposure, and disease (El Taraboulsi-McCarthy, 2018). In addition to the humanitarian problem, the process also poses a threat to the long-term objectives of financial inclusion. According to the World Bank, the exclusion of MTBs from banking may shrink competition and inadvertently concentrate the market, undermining the industry's well-documented potential for international development (Fajnzylber and Lopez, 2008; Giuliano and Ruiz-Arranz, 2009; Kamuleta, 2014; Orzoco and Yansura, 2015). A limited availability of MTBs, they note, can increase the cost of transfers and reduce the overall volume of remittances, with particular effects upon low and middle income countries, which are both most dependent upon remittances, and most exposed to seeing the payment institutions which service them de-risked (World Bank, 2015, p. 23).

The exclusion of remittance businesses from global finance also poses a challenge to the security of the global financial system. Turning higher risk transactions away from the regulated framework, regulators warn, poses a threat to the integrity of financial markets by driving transfers underground. A reduction in the availability of registered operators can push transfers into more opaque, informal channels, which becomes difficult to monitor and thus poses a real vulnerability to crime. Considering this evidence, regulatory and enforcement authorities have been vocal in expressing concern with derisking, particularly in the 'acute' form experienced by MTBs. The exclusion of remittance providers and other Money Service businesses (MSBs) from the global financial system, the FATF notes, is not a reflection of the standard of risk management it sought to impose, but a misapplication which trades risk *management* for risk *avoidance* (Durner and Shetret, 2015 our emphasis). Echoing this stance, the second Payment Services Directive issued by the EU in 2015 explicitly prohibits unjustified discrimination in access to finance, including an article which grants payment institutions the right to appeal in the courts.

The same critical stance is visible in reports by the UK regulators. According to the 2015 National Risk Assessment, the financial exclusion experienced by the money remittance sector prompted a reduction in the number of principal business registrations, and a subsequent increase in the number of agents (HM Treasury and Home Office, 2015). Retail MSBs, the authors posit, may find it more difficult to maintain effective oversight of their agents, contributing thus to the creation of a money laundering and terrorist financing vulnerability. This is evidenced by the significant fall in the number of Suspicious Activity Reports (SARs)[1] the sector submitted to the HMRC. Annual figures from the National Crime Agency indicate a constant reduction in the SARs submitted by the sector. In response, the 2017 National Risk Assessment raised the remittance industry's money laundering, citing 'the persistence of the risks identified in 2015, in addition to recent changes affecting the structure of the sector and leading to firms increasingly looking to operate outside of contact with the regulatory regime' (HM Treasury and Home Office, 2017, p. 68).

[1] Regulated payment institutions have an obligation to alert the National Crime Agency of any suspicious transactions by submitting a Suspicious Activity Report (SAR). Notably, rather than simply turning a customer away, payment institutions must file SARs without raising the customer's suspicion, thus processing their details as usual, but refraining from completing the transfer until security clearance is obtained. Payment institutions which 'tip off' customers risk criminal prosecution.

3. Methodology and evidence base

This brief is based upon three key sources of data: (i) searchable on-line registers; (ii) an on-line and in person questionnaire survey (52 completed to date); and (iii) in-depth interviews (30 interviews completed). In the first stage of the research, publically available information from the FCA and Companies House was cross-referenced to provide a database of Money Remittance firms in London. A questionnaire survey was then distributed online, to the firms identified in our database, and in person, to firms with a high-street presence which advertised a money transfer service. This dual approach to sampling in the second stage of fieldwork was an attempt to prevent an over-representation of firms which featured on public registers. The survey partly sought to capture the extent and experience of derisking in this sector, and included questions pertaining to ownership of accounts in the UK and abroad, experiences with account closures and barriers to on-boarding, as well as attempts at, and outcomes of, contesting bank account closures.

The third and on-going research phase has entailed interviews with two sets of actors. In-depth interviews with owners and managers of MTBs have explored personal migration and career trajectories, knowledge acquisition and transfers, financial investment and resources, relations with banks, adherence and circumvention of financial regulations, evidence of diversification of financial services, and implications of changing modes of operation on migrant clients. To date a total of 16 interviews have been conducted with representatives from Money Transfer Operators (MTOs), which we define as smaller entities focused on intra-household transfers, and another 9 interviews with Payment Institutions (PIs), comprising larger entities with a range of financial services (see Brief 1, Datta and Vicol, 2019a). A further 5 key informant interviews have been conducted with compliance and development consultants, and representatives of trade associations.

The methodology is not without its caveats. In the previous brief we reflected upon the limitations of building a database from scantly available public information, and of reproducing, through our sampling methods, an over-representation of formal business. A second methodological caveat derives from the fact that new regulations pertaining to access to finance were being discussed, introduced, or anticipated while our data was being collected. The General Data Protection Regulations (GDPR), for instance, came into force in May 2018. There was a clear sense of anticipation among interviewees, which may subside or develop with time, as businesses gain a clearer idea of how their new data protection duties are likely to affect everyday practice. Brexit was also a much-anticipated moment of political and regulatory change, which featured as a point of interest but, realistically, proved difficult to analyse given that the terms of the UK's exit from the European Union were still unknown at the time of our interviews. Most notably, a second Payment Services Directive (PSD2) was adopted in July 2018, at the time of our interview collection. Since one of the key promises of the PSD2 was to enable payment institutions to contest their financial exclusion, there is a likelihood that the picture of derisking outlined in this brief will be reconfigured as firms seize these new powers, and new avenues for contestation emerge.

It is important thus to note that all research is a product of its time. The relationships between money remittance businesses and their banking partners remain part of a dynamic process of political, financial, and commercial change. This brief reflects findings as they emerged at the point of writing, and welcomes input from industry practitioners.

4. Derisking London's remittance marketplace

4.1. The extent of derisking

Survey responses indicate that derisking presents an important issue for London's money remittance firms at the level of general perception, but also de facto access to banking. Asked whether they viewed derisking as a threat to the sector, over 80% of respondents answered affirmatively – with reason to believe that the remainder, who reported 'did not know', were unfamiliar with the term rather than unaffected by the process. Well-resourced PIs, which catered for global destinations from their central London offices, and smaller, single-corridor MTOs with offices nested, at times, at the back of a hair salon, expressed similar

levels of concern in the questionnaire, and went to great lengths to voice it during interviews.[2] The example below, taken from an interview with a compliance consultant with over 10 years of experience in the sector, captured a sense of alarm articulated by the vast majority of respondents:

> If you walked into any branch of any bank today as a business, as a corporate entity, and said, "Look, I'm a financial institution, I want to open a bank account," they will say no. -- the first thing they have on their webpage when you do the online application, the first thing they ask you, is whether or not you're a financial institution--. So they're already saying to you, "No, we're not interested in working with you." **Laora, Compliance Consultant.**

As the excerpt above illustrates, derisking was not only a matter of perception, but also one of real barriers to the most basic part of the remittance chain. Of the 52 questionnaire respondents, a vast majority of participants (78.8%) reported being turned down from opening a bank account, and 44.2% reported having an account shut at least once in the lifetime of their business. Overall at the time the survey was completed, only 65.4% of businesses reported having a bank account in the UK – and as it will become apparent in the course of this brief, the figure may be an overestimate, due to the possibility that firms ran a money remittance service using a personal bank account, or the account of a different business.

It is significant to highlight the fact that the aggregate rate of access to banking rested upon a visible disparity. Our first brief (Datta and Vicol, 2019) drew attention to the distinction which lies between Money Transfer Operators (MTOs), for whom remittances are the main financial service on offer, and Payment Institutions (PIs), who offered money remittance as part of complex range of financial services which included foreign exchange, brokerage, or trading. This distinction had implications upon the capital, volume of transactions, and profit firms recorded, and continued to be reflected in firms' ability to access banking. If a majority of 86.7% of PIs had a bank account in the UK, in the case of MTOs almost one in two lacked it (56%). Concurrently, while for the majority of PIs derisking was a market threat to be buttressed by investment in compliance officers and software, the rates and experience of financial exclusion reported by traditional migrant business indicated that their barrier was much harder to climb, regardless of the compliance mechanisms they reported adopting.

The extent of MTOs' exposure to derisking is most visible in the number of times they were refused a bank account, or off-boarded from existing banking relationships. Among MTO respondents who reported being turned down from opening a business bank account, rejections ranged from 1 to as many as 50, with an average of 7 rejections. In the case of account closures, numbers reported ranged between 1 and 24, with an average of 5. Given how the ability to change providers is one of the key principles of well-functioning financial market, the indication that small MTOs may experience a form of blanket rejection across the banking sector poses a serious cause for concern.

4.2. Experiencing derisking

A closer look at respondent firms' interactions with their banking partners reveals that underneath the reference to 'high risk' which accompanied their off-boarding, the reasons, legitimacy, and opportunities for improvement were rarely clear. It is important to note first, that to many MTOs the closure of accounts came as a shock. Iris, who was the senior compliance manager of a firm with a focus on Latin America, had been running the firm since 2010 together with a business partner. They had established corresponding relations with countries in Europe, the USA, Central and South America, set up the infrastructure and bought a lease for the central offices in London. Within three years, their API was turning over £2 million

[2] It is important to note that the figure may be an under-estimate. Several businesses which claimed to have been denied access to banking during interviews, reported '[not knowing]' whether derisking was an issue in the questionnaire. This may be due to respondents' lack of familiarity with the term. Only one respondent noted that derisking did not present an issue to the sector.

per month, and registering monthly growth. In 2013 however, the same year the issue of derisking acquired media attention through the case of Dahabshiil, their bank served them a notice of closure. As the excerpt below indicates, it was not the poor standard of practice which seemed to motivate the bank's decision, but rather the MTOs' 'turnover' - the volume of transactions processed which, according to Iris, was deemed too low to justify her banking partners' compliance costs.

> A few months before that they came to the office, they did the audit, all the check-up, everything was fine, all our manuals and forms, and procedures, and policies in place. We didn't do anything wrong. It was because of the turnover, and was quite unfair because you are closing the opportunity for small people to grow as a business.
>
> **Iris, MTO to Latin America.**

Similar to Iris, other respondents reflected upon the apparent unfairness of their off-boarding, after years of operating lawfully and, by their own admission, on a small but profitable scale. Having gone to great lengths to acknowledge regulators' warnings that poorly managed money remittance business could indeed present 'risks of financial crime', they found the disconnect between their efforts to invest in compliance and the opaqueness of their banking partners' decisions disconcerting. Gabriel, the founder of an MTO which processed electronic transfers to Nigeria, illustrates this in the excerpt below.

> […] we're going through a lot of steps to show that we are clean when we had the [regtech provider] platform, to make sure that we do strict KYC. They don't even want to look at our business model insofar as we are a Money Service Business […] they really won't give us a chance to prove our platform to them and let them know that, okay, this is what we have, this is what we do, this is how strict we follow on the compliance issue --, it's just like a gentlemen's club more or less, I don't think bigger companies are doing more compliance checks than we are doing.
>
> **Gabriel, MTO to Nigeria.**

Far from following the case-by-case risk *management* approach required by the FATF, respondents' experience with access to banking was one of definitive *rejection* with minimal explanations. If there was room for remittance providers in the banking sector, it was for a select group who resembled, as Gabriel put it, 'a gentleman's club' – or who were, as our first Brief indicated, well-resourced Payment Institutions.

Several firms reported that access to global finance was the privilege of big actors with transaction volumes high enough to counter the cost of compliance. It is a lot easier to monitor a few big businesses, consultants noted, than it is to monitor a lot of small ones. The sheer expense of organising separate audits for each small business makes encouraging concentration more cost effective, since principals with a vast agent network do, in effect, take up a lot of the supervision duties and underlying expense. 'We're not talking about a conspiracy', noted Alberto, a Venezuelan economist who was trying to set up an electronic money transfer business to his home country, after years of working in the City of London. 'I am at the suffering end of the stick', he continued. 'But it isn't a conspiracy or anything like that. By design, banks and the regulator share a systemic bias against small and medium enterprises'.

Other respondents reflected upon the fact that the apparent privilege enjoyed by large companies was ingrained in a system which sought to derive a public good of global financial redistribution, from an

infrastructure which was, in effect, private. The excerpt below, derived from an interview with a compliance officer at a PI, captures the way in which the right to off-board unprofitable clients is embedded in the operational freedoms of a private commercial entity.

> I mean it's annoying, but then you see that I wouldn't want anyone to come in and say that I couldn't cut a client that was unprofitable [laughs]. So if you look at the bank's point of view it's just like: they don't have a mandate to provide social justice or social, you know social benefit. They're not state owned so I can understand where they're coming from when they might want to do that. But then they probably should just do it and not use money laundering as an excuse.
> **Alex, PI to China.**

To consultants and respondents from PIs, who had spent years working across a range of financial institutions before launching into the money remittance sector, the inequalities in access to finance were a question of design, rather than choice. Throughout our interviews we heard them outline the complex reasons which lay behind banks' reticence towards the money transfer sector with the patience of actors who were, generally, able to mobilise the monetary, social, and knowledge resources to fit the criteria. Not without a degree of empathy for smaller MTOs, some respondents from the PI sector even remarked that in a climate of risk-aversion, the ability to mobilise the economic, technological, but also the reputational capital of big business, had come to represent a competitive advantage.

For those who had been shut out however, the opaqueness of former banking partners' decision had created a feeling of injustice, and a loss of trust in the regulator. 'Nobody listens', was what the owner of an MTO to Nigeria noted, echoing a frustration we had encountered across several interviews. Examples of this experience of being shut out with little room for manoeuvre abounded. While most survey respondents reported appealing to their bank (76.5%) and even to government regulators (23.5%) the moment they were threatened with closure, only one was successful in preventing it. The owner of a Latin American MTO recounted how upon contesting her bank's decision to off-board her firm after more than 10 years of activity, and noting that she was aware of other MTOs which were still on its books, she was told: 'tell me who they are, and I will close them too'. Another director of a PI with a £100million turnover believed that: 'they definitely didn't want any MSBs, so I don't think it mattered what you did'. The exclusion of MTOs from banking, a Bangladeshi MTO entrepreneur noted, simply appeared to have become 'a matter of policy'.

It is not surprising in this sense that derisking was experienced as a form of injustice and, in some cases, overt discrimination on racial or xenophobic lines. MTOs which had been subjected to the closure of an account with just 60 days' notice, recounted losing clients, suffering reputational damages, experiencing periods of business inactivity, and having to downsize by cutting staff, branches and, most frequently, by turning the business into an agent or 'master-agent'[3] for one of the top remittance providers. This is a significant finding. Given how state regulators and banks surveyed by the FSB both reported that vast agent networks increase a firm's risk factor, there appears to be counterintuitive dynamic in the ways in which banks' risk aversion towards small MTOs creates, in fact, riskier business models. As small operators are shut out of banking, risk is transferred onto the networks of big principals.

A few respondents saw banks' apparent coordination in rejecting MTOs as a means of taking over a profitable business. More importantly, interviewees who had set up businesses which catered for African corridors, and who were themselves African migrants to London, regarded the rejection of their business

[3] A master-agent is an agent who may negotiate a better commission from every transaction, on account of operating a large client base, and who may also operate with other agents below them. Some, though not all, of the biggest money remittance businesses operate this model.

as a reflection of a quiet but prevailing racism at a systemic level; a racism which tolerated the presence of diversity, to the extent that African enterprise posed no threat to the status quo. The exchange below, which took place during an interview with the directors of two Nigerian MTO, captures this best.

> A: I see so much racial injustice when it comes to the financial industry in this country. […] There is a red line. You must not go beyond that.
> A2: […] You know if you go to a bank you need their money to get a mortgage, you might have access to it. If you need money to go for holiday you might have access to it as a loan. But go to bank and tell them you need some money for business, then they'll not give it to you, never. Because they know when you have access to these--,
> A: You become a voice.
> A2: Then you become a voice. And that voice they don't want.
> **Samuel and Ezekiel, MTOs to Nigeria.**

A significant body of academic literature documents the ways in which minority applicants have been historically excluded from formal finance. From explicit redlining, where lenders refused to make credit available to applicants from neighbourhoods with large ethnic minority-populations (Squires, 1992), to the imposition of higher standards for minority candidates in applications for loans (Berkovec et al., 1994), property insurance (Squires, 2003), or mortgages (Dymski, 2009) research has shown that finance is not colour blind.

In the absence of publically available criteria for the assessment and classification of risk, it is difficult to determine with certainty what motivates banks' stance against MTO clients, and whether the exclusions identified by Samuel and Ezekiel are the result of subjective choices by account managers in positions of power, or the outcome of algorithms buried into the black box of privately-owned software. When we probed into the question of racism in an interview with another Nigerian director, he noted that exclusion from banking was not so much a question of race, but one of migrant 'denizenship': an in-between, second class status, which affords its bearers a modicum of rights, but deprives them of the protections and voice associated with full citizenship. 'It's a migrant business' he stated, 'and nobody cares about migrants'. Other informants, furthermore, were adamant that banks' decisions were purely commercial. 'The big firms', Iris concluded, 'are swallowing the small'. Or as the compliance officer of another MTO put it:

> okay, we're not massive, we don't employ millions of people, but, you know, the little businesses are the ones that keep the country going. They keep it interesting. But it's always the big ones, the blue-chip companies who push the little ones out with compliance because they can afford it. They can *afford* to stay compliant.
>
> **Andrea, MTO, multiple corridors.**

4.3. Navigating derisking

Beyond the question of exclusion along axes of race and capital, what we can remark from participants' extensive accounts of their experience with banking partners, is that in the absence of detailed explanations, and faced with what seemed to have become a normalised antagonism between banks and the MTB sector, navigating derisking become something they took upon themselves. For firms who had the capital, one approach to improving credibility and preventing the closure of a bank account was by investing in complex

regulatory technology. Consultants and interview participants across the MTOs and PIs we surveyed, described in great details the qualified staff, external audits, and software they had adopted to screen transactions against government sanctions lists and other indicators designed to flag suspicious financial behaviour. Some respondents, such as the Latin American MTO, even argued that they would be willing to pay more in banking fees, and effectively absorb the costs of audits and other additional security measures, if that is what it took to maintain access to a bank account.

As we noted earlier however, neither the capital, nor the compliance platform itself guaranteed access to banking. Another preventative strategy was to change the business model towards the sole processing of bank-to-bank transactions. Aware of the reputation of 'cash as king for money laundering', as a compliance officer for a PI put it, several interviewees reported making a conscious choice the moment they set up the business, to only ever service clients who had bank accounts. At times, the director of an MTO focused on Latin America recounted, this took an active intervention in migrants' relationship to their money, nudging them towards particular financial behaviours.

> our type of product is high risk, we deal with cash you know, and I think the world now is seeing cash in a different way […] so we start to work on how we could, you know, divert these people in cash to the banks --'I'm going to give you a better rate if you do not bring the cash to me', or ' I'm not going to charge you three pounds of fee if you deposit this money in your bank account and you transfer, you know via bank to us'. But it's really hard.
>
> **Marcela, MTO to Latin America.**

It is interesting to remark the parallels between Marcela's excerpt, and the global initiative towards instituting a digital economy. A vast consortium of governments and international organisations have been advocating for the adoption of digital payments, citing the anonymity of cash as the ideal vehicle for criminal transactions (Rogoff, 2017). This is a position which is robustly critiqued by academics (Darlinghaus, 2016; Mader, 2017, 2016; Maurer, 2012). Though motivated pragmatically, by the need to minimise costs, rather than inspired by an ideological belief in the superiority of digital transactions, it is notable that Marcela's nudging of clients towards electronic transactions echoes this drive. Other participants explicitly linked their avoidance of cash with the general climate of derisking. As Anik, the Bangladeshi business owner noted: 'money remittance business is a very risky business because […] millions and millions of pounds have been laundered through cash involvements business'.

Going digital, however, even if desired, was in itself dependent upon access to banking. If a firm with a UK bank account could find it relatively easy to tell its customers to transfer money digitally, those without one had to appeal to the services of various intermediaries. One tactic was to pay for a sub-account with a UK-based financial institution which, despite not being a bank, could act like one. An MTO which adopted this service, reported paying $15,000 per month in fees to its intermediary. Another tactic was to operate the business through a bank account abroad, then find means of either transferring customers' money in cash, via authorised cash processors, or by creating an account with a merchant who could process card payments.

Half of the survey respondents who did not have an account in the UK had one elsewhere in Europe. In the case of firms with a customer base who preferred paying cash, running a London-based money remittance business through a Poland-based bank account meant, in effect, having to cover the costs of licensed cash processors, and extending the time it took to clear the transaction to a whole week. Even when customers could be persuaded to make card payments, which had shorter delays, the delay incurred in the transfer exposed the firm to fluctuations in the exchange rate. As another director of the Latin American MTO noted:

> if I have a customer that wants to transfer to my bank account because he sold his house, he has 100,000 GBP to be transferred to Brazil […] it takes at least two working days to receive this money. And we deal with the currency exchange, the market is now giving you this today, [..] so I can offer to my customer this amount. In two working days I don't know what's going to happen, if it's going to go up, if it's going to drop. But I have, you know made a deal with the customer, and if he's not happy with my exchange rate that means he's going to go to the competitor or another company.
>
> **Natalia, MTO to Latin America.**

A vast market of intermediaries seemed thus to have accompanied the process of derisking. Cash processors, merchant providers, and non-bank financial institutions which offered sub-accounts, presented payment solutions for remittance providers which could afford to foot the monthly costs of intermediation. Similarly, software firms and consultancies promised businesses to help them build their compliance capital, and navigate the logistics of operating with accounts elsewhere. Regularly sponsoring trade associations, advertising their services after hours during which attendees listened to panels on derisking, financial intermediaries built their business around big banks' rejection of the sector.

It is important to note, however, that this solution was not within everyone's grasp. In the absence of capital, or knowledge, of how to make use of the intermediaries market, other companies had devised alternative measures of their own, which straddled the bounds of formality. A common tactic, shared by the owners of three MTOs, was to operate the money transfer business by using either a personal bank account, or the account of a different business. There was no denying the fact that this tactic was short lived, and involved a level of dissimulation. Samuel, the owner of one of the businesses who adopted it, was frank about the 'cat and mouse' game that he and his banking partners ended up engaging in. It was only a matter of time until his bank would notice the unusually high volume of transactions, and his money remittance business would be placed on hold again. Yet as a local accountant who counted several MTOs among his clients noted: 'at the end of the day, as long you are regulated you're not breaking the law'. The very fact that the criteria for obtaining a license as a Small Payment Institution does not necessitate a segregated bank account for client funds, another experienced consultant noted, permits this form of rule bending.

In other cases, business owners had resorted to operating below the radar altogether. We were in the room when two MTO directors were debating the utility of registering with the regulator. Weary of breaking the law, the younger among them was comfortable with concealing the nature of his business from his banking partners, but insisted on renewing his license and authorisation. To operate below the radar, he noted, would have meant risking criminal prosecution, and the future of the business he had set up from scratch. The older however, was less trusting. Dissatisfied by the banking sector, which he viewed as just another facet of the 'hostile environment' created by the Home Office's, he feared that applying for a registration might in fact draw attention to his name and make it harder to access any bank account at all, even for personal use. He preferred therefore to operate below the radar altogether, noting that 'money remittance is a community business'. He processed low volume payments from friends, acquaintances, and church members he had come to know through the vast transnational networks which connected London and his home country, and was adamant that his personal knowledge and standing in the community were enough to weed out suspicious transactions. As Laora, one of the consultants we interviewed remarked critically: 'It's a family business. I need to send money to my family, to my brother or whatever […] it's such a small community and it's all down to trust, because with culture comes trust. So they've created a completely unregulated under the bridge money transfer business through Facebook'.

Judging from these instances, but also an abundance of second-hand accounts, the informal market was booming. We heard descriptions of money transfer businesses organised on social media, were directed to independent individuals who were simply picking up clients on the street, and heard of money transfer services disguised as tourist shops in central London locations. This assessment by a compliance consultant with decades of experience in the sector, captures the danger of driving business underground:

> When you derisk you drive legitimate money underground and, believe me, I have no qualms about social injustice, I'm no campaigner, but I'm still a human being and I understand that if, er, Mrs A wants to send money home to feed her extended family in Kenya, if she does it through a legitimate money service provider she'll be charged a fee 'cause they're a business, fine. Everybody knows that you have to pay for what you're getting.
>
> If […] because of the banks derisking and refusing that MSB an account that MSB closes, she'll be forced to go underground for it, she'll be charged three times the fee. -- and also, by the way, that same underground provider doesn't pay tax which is the big issue. […] So she suffers, her family suffers, society generally suffers and the exchequer suffers because they don't get his tax. […] So every time a bank says no, money laundering increases because there's nobody managing it.
>
> **Jack, AML/TF Compliance Consultant.**

It is important to recognise, as regulators and international organisations have done in their reports, that the expansion of the informal market is both harder to oversee, and harmful to legitimate businesses which, faced with ever increasing costs of compliance, struggle to compete with underground rates (HM Treasury and Home Office, 2017, 2015; World Bank, 2015). Two of the interviewees who participated in our research had already closed their independent business, resorting to working as employees or agents for one of the bigger players, and leveraging their existing connections to the community to negotiate a better commission. Many more confessed that, unless there was a radical change in the banking sector's openness to MTOs, in five years' time they would likely be out of the market. The model where the principal takes responsibility for compliance, while the agent works on a self-employed basis, receiving a commission for every transaction, but not for the transaction processing time, appeared unappealing.

With the exception of Natalia, who was open to becoming an agent if she had to, admitting though that all her staff would be made redundant, interviewees from the MTO sector confessed that they would rather sell the business. Being an agent, they noted, was a learning opportunity for those who were new to the remittance business, or a commercial opportunity for someone who was running an adjacent service, such as a corner shop or courier business. When the majority of respondents were highly educated entrepreneurs however, who valued the independence of running their own firm, and could mobilise their skills to other ends, working for a commission was hardly appealing. In most cases, the likely options for our interviewee respondents were to exit the money remittance business altogether.

5. Conclusion

This brief has illustrated that London's MTB sector is experiencing a particularly intense form of derisking. At the level of perception, where survey respondents believed there was an antagonism between banks and the remittance industry, as well as the level of actually existing barriers to banking, a majority of survey and interview respondents identified derisking as an issue. There was a visible disparity between Payment Institutions, which had access to an account in a proportion of 86.7%, and the smaller Money Transfer Operators, where almost one in two lacked an account in the UK.

Probing into firms' experiences of derisking, to many MTOs the closure of accounts had come as a shock after years of operating profitably and, by their own admission, lawfully. Firms reported that regardless of compliance systems, staff, and policies in place, they were issued notices of account closures with minimal explanation or recourse for actual contestation. Judging by the responses of MTOs, who were at the receiving end of derisking, but also considering the interventions of consultants and compliance officers at PIs, who reflected upon the systemic bias towards concentration, it appears that derisking was a process targeted at low volume businesses, rather than actual histories of non-compliance.

Firms have adapted their business strategies in response. Those who could afford it, adjusted by opening a bank account in Europe or operating via an intermediary financial institution in the UK.. This entailed an absorption of additional costs, as well as taking a cut in the speed of their service, and their ability to respond to fluctuations in foreign exchange rates. Other firms, however, adopted tactics which straddled the bounds of formality. When the banking sector appeared impenetrable, and regulators' stance complacent, some directors had resorted to rule-bending, such as running the activities of a licensed MTO through personal bank accounts, or even rule breaking, by operating an MTO below the radar of the regulator altogether.

It is important to regard these adaptations critically, by situating them within the political, economic and commercial imperatives which govern global finance, and not reducing them simply to something migrant businesses choose to do. The risk-based approach has been portrayed as the quintessentially modern form of government, premised on case-by-case assessments and objective calculations. The FATF encourages businesses to manage risk, not to avoid it, and regards the evidence of financial exclusion as a misapplication, rather than a manifestation of its risk-based approach. Judging by our respondents' experience with their banking partners however, and in particular considering the opaqueness of their rejection from formal finance, risks seems to have become more akin to a narrative, than to an objective calculation open to scrutiny or contestation, which leaves room for the perpetuation of inequalities in size, at the level of access to finance.

In light of this evidence, our next brief considers the relationship between money remittance firms and the regulator, with a focus on what part state institutions may play in preventing further financial exclusion.

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