

**THE BAHAMAS
INTERNATIONAL BANKING CENTRE**

Presented by

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Governor**



on

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Ladies and Gentlemen, I am indeed privileged to have the opportunity to participate in today's events and to speak to you about The Bahamas as a center for international banking services

I will tell you why we feel that The Bahamas is a preferred international banking center, and once I have completed my formal comments, I trust that you will feel most welcome to ask questions and make comments regarding our country and its place in the rapidly expanding global market for international banking services.

Historical Perspective

The genesis of international financial centers dates back to just after World War II, a period characterized by intense efforts on the part of major corporations to expand their international trade frontiers. You recall that this was the era which gave birth to the multinational corporation. This period was also characterized by a surge in both individual and corporate wealth, along with increased taxes and bureaucracy in many of the developed countries. To avoid these constraints and protect their wealth and profits, individuals and corporations alike began to seek offshore locations from which to operate. In response, countries such as The Bahamas, who in the post war era were themselves seeking sustained economic development for already growing, though still relatively small populations, began to reach out and welcome foreign business.

The first formal banking institution was established in The Bahamas in 1835. The first entity purely devoted to international as opposed to domestic banking, a trust banking entity, was established in 1937, and operates today as SG Hambros of the Societe General Group, one of the largest international banking operations based in The Bahamas.

Current Environment

The Commonwealth of The Bahamas is a sovereign country within The British Commonwealth of Nations, consisting of an archipelago

lying south of Florida and north of Hispanola in The Caribbean Sea. The political structure is based upon the Westminster system of government, with a legislature comprised of two “houses”. The Governor General is the official representative of the British Monarch, who is the titular Head of State of The Bahamas. The Bahamas has record of more than 300 years of continuous political stability, which has earned the confidence of foreign investors, particularly the community of international banks and trust companies.

The Bahamas is one of the world’s premier international financial jurisdictions, having a history of more than six decades of continuous growth in banking and trust activities. There are currently more than 400 licensed international banks and trust companies with combined balance sheets estimated in excess of \$300 billion. Accurate statistics relating to assets under administration are not kept, but these are substantial by international standards. Branches and subsidiaries of the world’s largest and most renowned financial institutions are established in The Bahamas.

The Bahamas is a functional international banking center as against a location characterized by “brassplate” operations, with nearly half the licensed entities having a physical presence in the country.

The activities of Bahamian banks and trust companies encompass almost the entire range of banking services. Notable, however, during the past ten to fifteen years has been the development in administration of assets, trust and advisory services, and in mutual fund marketing and administration. There are currently some 600 mutual funds domiciled and under management with Bahamas based institutions, representing assets of approximately \$75 billion. There are some 200 captive insurance companies licensed and in excess of 75 thousand international business companies (or IBCs) on the register at this time. Not only is the IBC a preferred vehicle for the management of mutual funds, but it is also of growing significance for a wide range of publicly and privately held

investments. There is currently no estimate of the assets held by Bahamian IBCs.

Apart from the very strong accounting and legal resources present in our system, is the availability to the financial services sector of an increasingly large pool of professionals well trained in international banking. The Bahamas Institute of Bankers, in cooperation with The College of The Bahamas, provides an extensive formal training program which is heavily pursued by young persons in the industry. The private banking industry also contributes heavily to this training which takes place both in The Bahamas and in numerous home jurisdictions, such as Switzerland.

Supervision and Regulation

The philosophy which guides our supervisory and regulatory approach is the pursuit of the highest professional standards, while observing an appropriate degree of flexibility, so as to ensure the healthy growth and development of the Bahamas' financial services sector, the second most important sector of the economy.

The legislative framework that governs financial services in The Bahamas is robust. In addition to a well tried Banking Act, implemented in 1965, is a new, modern Trustees Act introduced only last year; a comprehensive Mutual Funds Act enacted in 1995; and a new Securities Act to be enforced probably before the end of April of this year, having already been approved by Parliament. There is also a range of "product" legislation intended to make the provision of banking and trust services from The Bahamas competitive worldwide. I will discuss The Bahamas' substantial anti-money laundering regime later in my remarks.

The Central Bank is one of the principal agencies charged with the responsibility of administering the provisions of these acts. In so doing, as it relates to bank and trust activities, the Bank subscribes to the supervisory standards established by the Basle Committee on Bank Supervision, is a member of the Offshore Group of Banking Supervisors, and the Commission of the Latin American and

Caribbean Banking Supervisory and Inspectors' Organization. The Bahamas' participation in these and other international supervisory bodies reflect a commitment to global supervisory practices and a desire to be always abreast developments in this domain.

Some of the regulatory and supervisory specifics by which the Bank carries out this responsibility include the following:

- i) The scrutinizing and processing of applications for bank licenses is, we think, the most important element of our supervisory system. The theory being that good institutions require less hands-on monitoring and control. Examination is made into the credentials and antecedents of the prospective promoters, applying a rigorous approval criteria. As a matter of policy, the Central Bank favors the granting of licenses to branches and subsidiaries of well-established, reputable international banks and trust companies whose parents themselves are located in well-supervised jurisdictions.
- ii) An ongoing system of conducting annual critical assessments of the condition of each licensee, based on audited financial statements and regular interim accounts. A supplement to this critical analysis is the conduct of prudential interviews, which typically are held with the bank's management at least once a year, and often deal with issues brought to light during the critical analysis and would cover business plans, policies and performance; internal control and reporting systems, authority levels, etc.
- iii) Capital adequacy is of course a most important yardstick in determining the strength of a bank. The Basle Committee Capital Convergence Accord, and recent revisions to this system, are the minimum standards applied in our jurisdiction. In determining appropriate levels of initial capital, the Bank gives careful

consideration to the intended scope of the business of public institutions and the financial strength of the sponsors.

- iv) In order to perpetuate high standards of conduct amongst its licensees, The Central Bank controls the quality of bank management by approving the appointment of all directors and top management. Approval is based mainly on character, training, and experience.
- v) The issue and transfer of shares of banking institutions may occur only with the approval of the Minister of Finance. This statutory requirement ensures that the ownership of banks rests with reputable institutions and individuals of high integrity.
- vi) The Central Bank encourages a policy of self-regulation and self-discipline amongst the members of the banking community and endorses the observance of the Code of Conduct adopted by the Bahamas Association of International Banks and Trust Companies to which all banks and trust companies are encouraged to adhere.
- vii) A long-standing cornerstone of Bahamian banking is the safeguard and respect for the principle of bank confidentiality. This fundamental principle of banking is enshrined in our laws and intended to protect the right of persons and legitimate business to confidentiality in their banking affairs. The Bahamian courts only are empowered to order a bank to provide information necessary to carry out proper sanctions against illegitimate activity. The Government of The Bahamas has repeatedly reaffirmed its commitment to protecting the bank confidentiality provisions of our banking laws. The Bahamas has foregone certain economic benefits available from the United States, in particular, to adhere to this determination.

RECENT DEVELOPMENTS

Bank Supervision

During recent years, The Bahamas has cooperated actively with the international bank regulatory network to ensure on one hand that this center is not used by irresponsible or ill-meaning parties to escape proper oversight and on the other, that institutions established and based in The Bahamas conform fully to accepted minimum international standards of bank management.

This cooperation is a part of the response led by the major western countries, and their regulatory authorities, to the growth and development of the international economy that has been mirrored in the globalization of financial institutions.

There is concern that certain home country authorities may be motivated in their need for information with respect to their banking establishments by other than the need to properly regulate banks originating in their jurisdictions. As a tax-neutral environment, The Bahamas has had to give careful consideration to how an appropriate balance could be crafted between cooperation with our international partners, on one hand, and preserving the integrity of our jurisdiction on the other.

Anti-Money Laundering Initiatives

An area in which there has been an equally significant rise in international standards has been the combat of money laundering. I alluded earlier to The Bahamas' enactment in 1996 of a new anti-money laundering law, which, with its accompanying Regulations and Guidance Notes issued to the banking sector, constitute, we think, a comprehensive set of standards for the oversight of our system in this regard.

This legislation places important responsibility on banking institutions with respect to maintenance of prudent commercial practices, identification of criminal activity, maintenance of records and internal reporting and training.

Banks and trust companies are expected to fully implement these arrangements and to ensure that they remain current.

Ladies and gentlemen, I can say without fear of serious challenge that The Bahamas today has in place an effective system for the oversight of our banking industry.

The perception of such an effective regulatory regime is more and more an essential, if a jurisdiction is to attract and keep first class business.

THE FUTURE OF INTERNATIONAL BANKING SERVICES

The world economy is, I don't have to tell you, on a globalization path, both as a result of the political determination of the major economic blocks to achieve a common trading space and as a result of the effects of technology, i.e., telecommunications in general and the internet, in particular, in rendering ineffectual national economic boundaries.

Unless industrial economies are able to effectively restrict the movement of capital so that it is obliged to remain within their borders, there is an inevitable globalization, also of the domicile of financial assets. This trend no doubt has as much to do with issues such as efficient management of assets, availability of innovative and profitable financial solutions, legitimate need for confidentiality with respect to the custody of assets, and perception of political risk, as it does with fiscal issues.

I would be less than complete in my presentation today if I did not emphasize that The Bahamas is a jurisdiction which imposes no type of tax whatsoever on income or the assets from which such income derives.

I don't have to tell you of the movement in Europe, but equally in North America, to question the legitimacy of tax-neutral jurisdictions.

My response to this issue as it relates to The Bahamas, is that there is absolutely no discrimination whatsoever in favor of international commerce which takes place from The Bahamas as compared with domestic Bahamian business and commercial activity. The tax-neutral regime in place in The Bahamas dates back to the origins of our existing system of administration and is as much a part of the native Bahamian make up as is our tropical island lifestyle. We do not accept the idea that our historical arrangements, which have served us well, given the peculiar nature of our small developing island economy, should be changed or adapted to suit our international partners, despite our complete commitment to a healthy and harmonious cooperation with them in all domains.

But I want to underline that The Bahamas has committed itself fully to the international fight against the movement of capital for illegal purposes and will not tolerate known instances of our financial system being involved in such activities.

Apart from having more than sixty years of experience in international banking, a stable political democracy which enjoys more than 300 hundred years of continuity, a legal system based on English common law, proximity to North America and the consequent facility of travel, a well-trained and ample professional work force, and a government and political process devoted to enhancement of The Bahamas' status as an international business center, let me remind you ladies and gentlemen, that The Bahamas has been a sovereign nation, within the British commonwealth since 1973. We are satisfied that this fact and the political stability and maturity which The Bahamas has enjoyed over these last 25 years has convinced the international community of The Bahamas' attractiveness as an international business/financial center, during this period of global, political and economic reorganization, and in much of the world, upheaval, which we are currently living.

This confidence of the international community is perhaps best demonstrated by: (1) the growth of international banking activity

domiciled in The Bahamas during recent years; (2) the increase in the number of major international banking institutions which have physically located in our jurisdiction, particularly institutions of European origin; and finally (3) the extent of capital investment into our economy, which during the last calendar year alone approximated 20 percent of our gross domestic product. It is no doubt for these reasons that The Bahamas enjoys the third highest standard of living among the sovereign nations of the Americas, after the United States of America and Canada.

Let me finish by reminding you that there are some 40 international banking jurisdictions existing today. The Bahamas does not necessarily wish to be the largest of these but my country is fully committed to providing the best possible environment worldwide for transaction of international business.