



SUMMARY OF AML/CFT SURVEY RESPONSES
FROM
BANKS & TRUST COMPANIES

BANK SUPERVISION DEPARTMENT

APRIL 20, 2018

EXECUTIVE SUMMARY

The Central Bank of The Bahamas (the Central Bank) has moved from periodic to continuous supervision of AML/CFT risks. As a first step, in December 2017, a consultation paper was issued immediately followed by a survey on AML/CFT risk management by Supervised Financial Institutions (SFIs). The survey's results have given the Central Bank an appreciably improved perspective on different areas of AML/CFT, including governance, MLRO/CO functions, training, policies and procedures, cash transactions, clientele, and composition of transactions.

Moving ahead, the Central Bank will seek to regularly improve its AML/CFT supervision regime. This regime collects relevant data, performs risk-focused assessments, and supports targeted examinations of SFI financial crime risk management. The Central Bank also supports inter-agency co-operation in the AML/CFT space, including participation in any national and international assessments of risk.

This note summarizes, on an aggregate basis, some findings from the survey.

ON-TIME COMPLIANCE

The overall response rate to the survey was 100%. 70% responded by the January 31, 2018 deadline. 28% responded by February 9, 2018. Two SFIs responded after February 9, 2018.

We also received responses from five restricted SFIs that carry out business only for specified named persons on their licenses. These SFIs are excluded from the aggregate survey results, as the results are meant to summarize the state of play for public SFIs. One credit union responded to the survey. The response from this credit union will be included in a separate summary paper dealing with credit unions and money transmission businesses.

ANALYSIS OF RESULTS BY QUESTION

For the purpose of this analysis, the SFIs have been grouped into three buckets and two aggregates:

1. Domestic SFIs – 8 commercial banks making loans and taking deposits within the Bahamian economy
2. Home SFIs – 19 international banks and/or trusts conducting business on an international level and with their home country as The Bahamas
3. Host SFIs – 53 international banks and/or trusts conducting business on an international level and with their home countries in jurisdictions other than The Bahamas
4. International SFIs – 72 Home SFIs plus Host SFIs
5. All SFIs – 80 Domestic SFIs plus International SFIs.

A small number of these SFIs do not exhibit material AML/CFT risk. These SFIs are either strictly intra-group consolidation centres that have no third party clients, or they are currently winding down their operations and have zero or near-zero customers and transactions.

GENERAL FINDINGS

SFIs provided extensive documentation and well-considered, detailed responses. Although the documents and responses indicate that the industry has room for improvement in AML/CFT risk management, most SFIs are starting from a reasonably strong base, including the completion of AML/CFT risk self-assessments.

PART ONE: POLICIES & PROCEDURES

ASSESSMENT OF DOCUMENTATION

Policies, procedures and other documents such as compliance and internal audit reports provided to the board were received from the SFIs. In general, SFIs have appropriate AML/CFT policies and procedures in place. The policies and procedures submitted totaled over 10,500 pages in length. A few documents were approved as far back as 2010, with others being approved as recently as 2018. The majority of the documents were created or updated within the last 2 years. Overall, the documents had the appropriate sign-off, either at the Board or Compliance Officer/Money Laundering Reporting Officer (CO/MLRO) level.

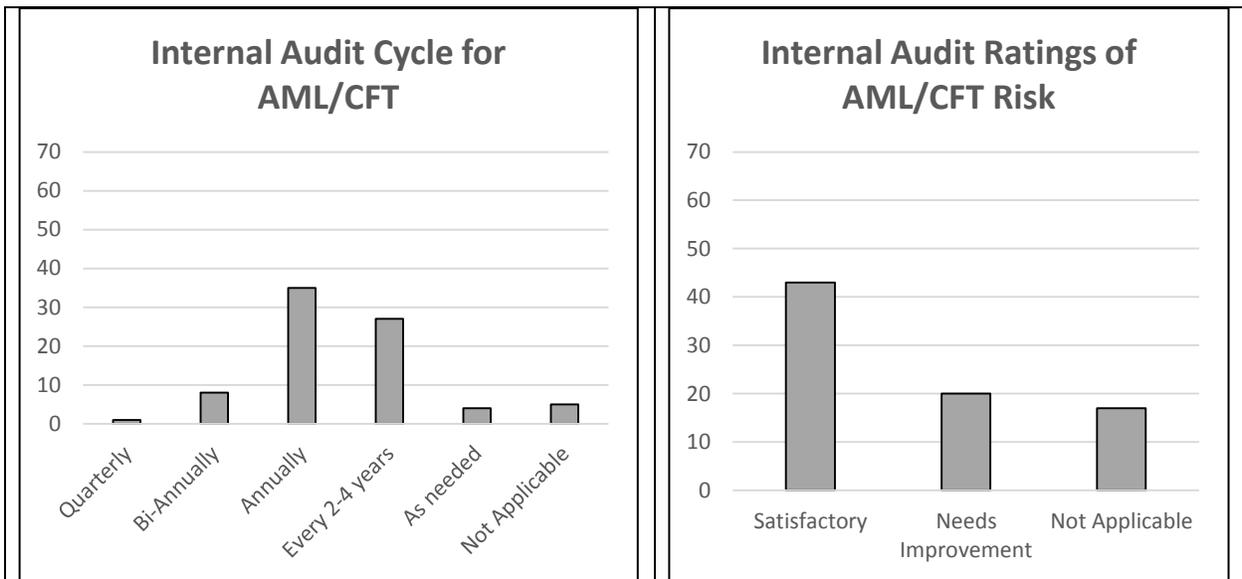
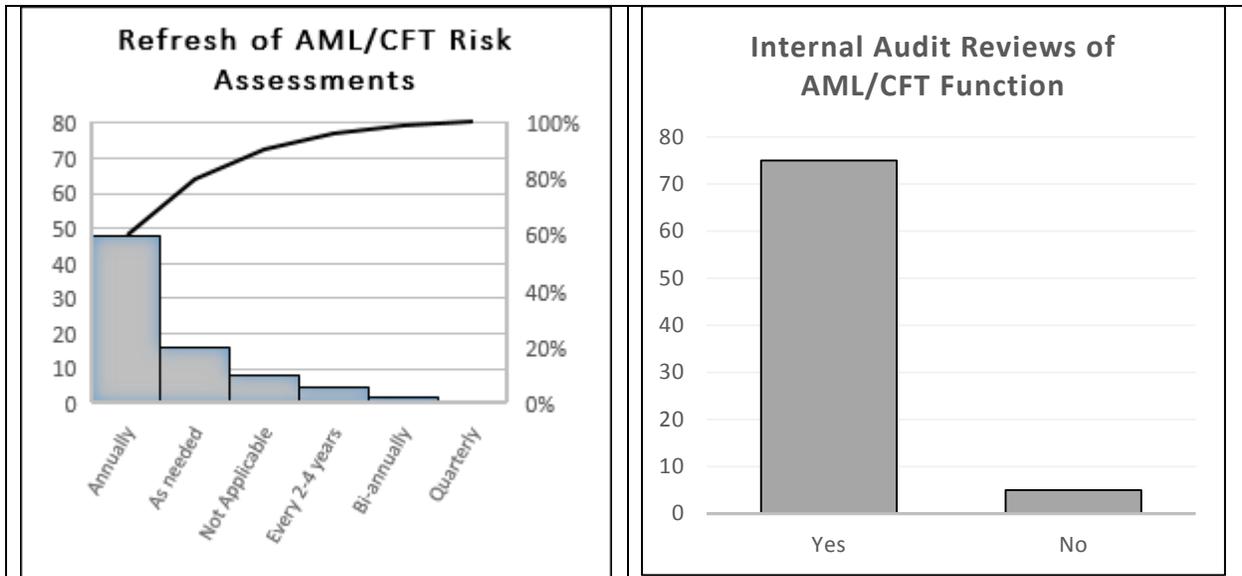
PART TWO: SUMMARY RESULTS - AML/CFT SURVEY

Section A: Governance

Survey responses indicated that 94 per cent of SFIs conduct AML/CFT risk self-assessments and Internal Audit reviews. For foreign-owned (host) SFIs, assessments are usually conducted as part of the SFI's regional or global group assessment. For the most part, SFIs that have undergone internal audit reviews were rated as Satisfactory by their internal auditors. A substantial minority of internal audits, however, indicated that the SFI needed to improve its risk management.

The Central Bank expects that all SFIs will regularly complete AML/CFT risk self-assessments, as well as engage a third line of defense to review the adequacy of controls surrounding AML/CFT risks.

The Central Bank already reviews SFIs' internal audit reports. We intend to regularly collect and assess AML/CFT self-assessments as part of our continuous supervision regime. Additional guidance will be provided to SFIs on completing the self-assessments.



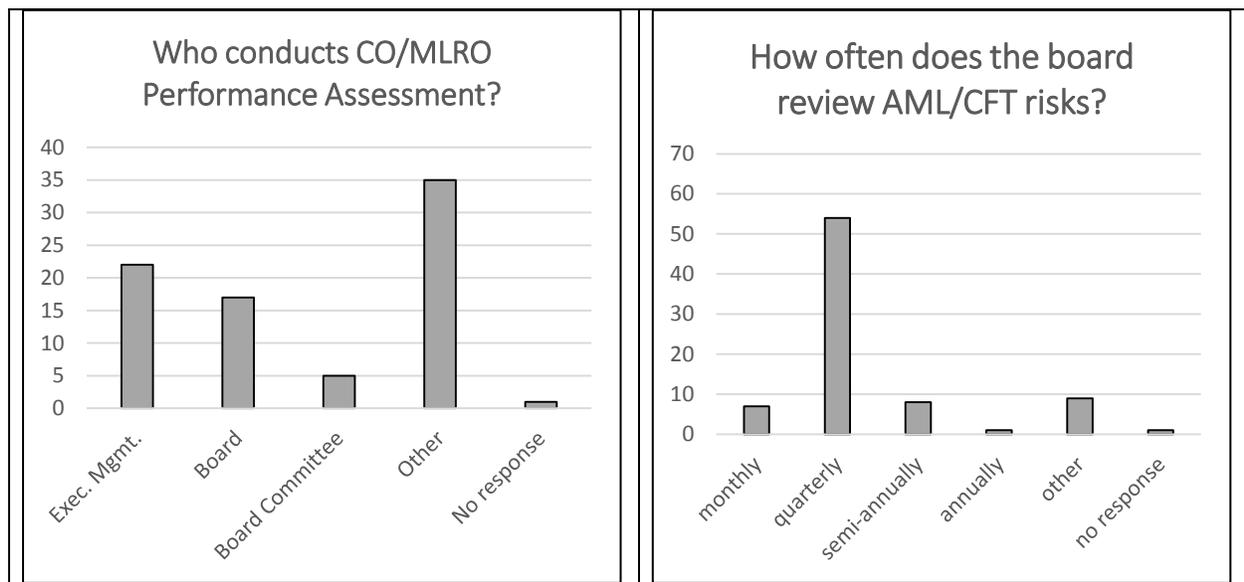
Section B: CO/MLRO function

More than 75 per cent of SFIs indicated that there is one individual executing both the CO and the MLRO roles. The Central Bank is comfortable with this “dual hat” approach.

68 per cent of the reporting population provides quarterly reporting from COs/MLROs to the board on AML/CFT matters. The Central Bank intends to look more closely at the quality and depth of board reviews on AML/CFT risk. We consider that a quarterly board review is reasonable in many cases. The Central Bank will expect to see evidence, however, that in addition to regular reviews, boards are conducting at least an annual, in-depth review of their SFI’s AML/CFT risks, controls, and realized outcomes. We also intend to commence with more regularity, in-camera sessions with the CO/MLRO function.

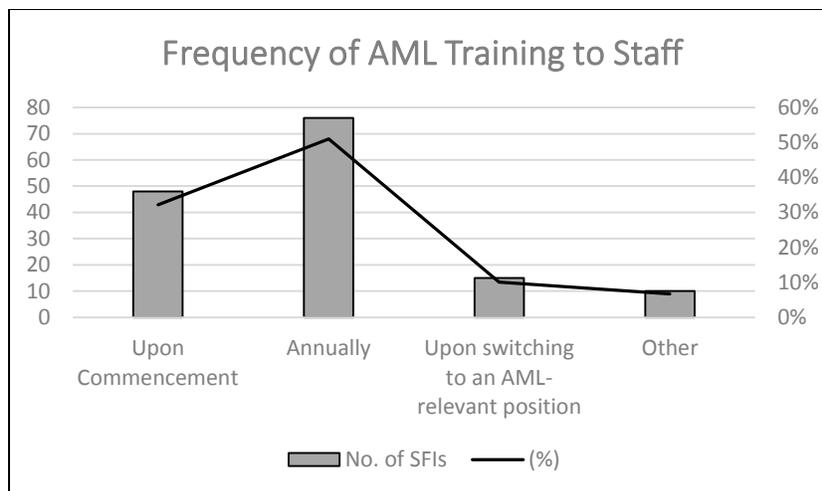
Executive Management completes 28 per cent of the performance assessments for COs/MLROs. The Board or a Board Committee is responsible for completing another 28 per cent of assessments. The “Other” category completes 44 per cent of the assessments. “Other” represents functions such as the Chief Compliance Officer, Senior Director of Compliance, Head of Group Compliance, etc.

In the Central Bank’s view, boards of SFIs managing material AML/CFT risks would be well-advised to provide performance assessment input for COs/MLROs, either directly or through a board committee.



Section C: AML Training

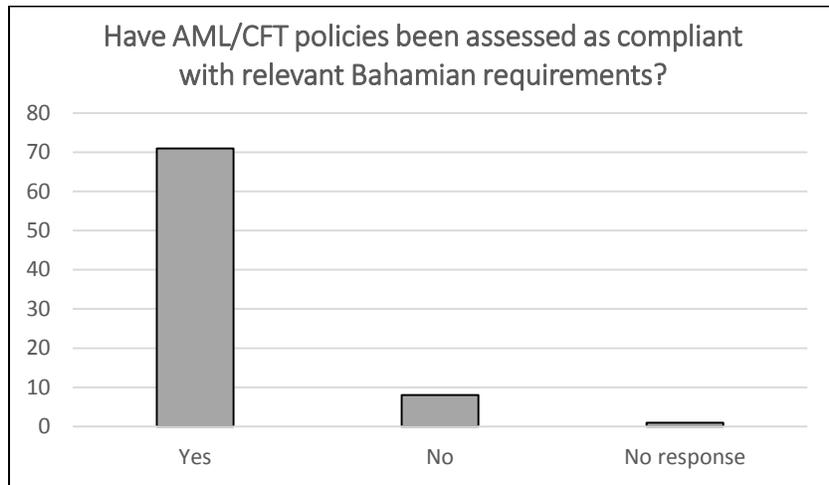
Training for AML typically occurs annually for employees of SFIs, which reflects the relevant legislative requirement. Both internal and external training is deployed. Many SFIs provide near-immediate AML training upon commencement of employment or switching to an AML-relevant position. The Central Bank regards such policies as good practice for SFIs managing appreciable AML/CFT risks.



Section D: Documented Policies & Procedures

Question 16 – *Have your institution’s Policies and Procedures been assessed as compliant with the relevant Bahamas legislation and applicable Regulation and Guidelines?*

All SFIs document policies and procedures for AML/CFT risk. 85 per cent of SFIs indicated that the documents have been assessed for compliance with the relevant Bahamian legislation, regulations, and guidelines. The Central Bank will follow up with the remaining 15 per cent of SFIs to ensure that they also perform this assessment.



Question 17 - *Who performed the most recent assessment?*

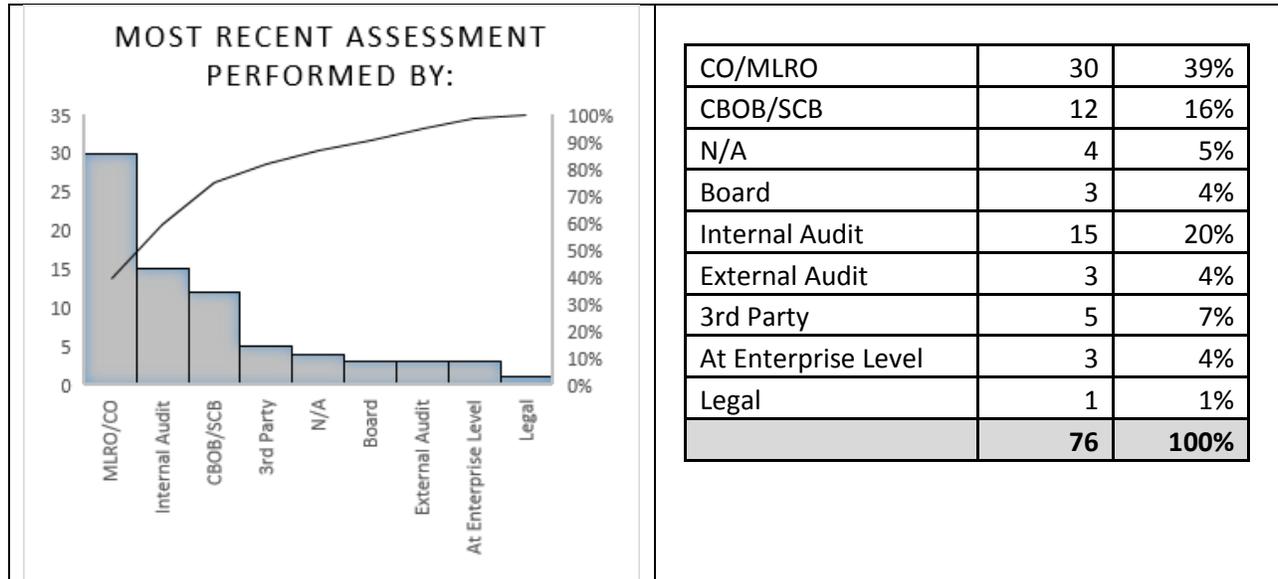
Of the 80 respondents, four did not complete this question. For the other SFIs, either the MLRO or CO, Internal Audit, or third parties assess SFI policies and procedures to determine whether they are compliant with the relevant Bahamian legislation and applicable regulations and guidelines. 39 per cent of the assessments were performed by the CO/MLRO and 20 per cent by Internal Audit. 16 per cent of SFIs asserted that a regulator performs the assessment. This is a point of clarity to be communicated to SFIs. SFIs cannot rely solely or primarily upon regulators for such assessments. The assessments performed by other groups or third parties were each under 10 per cent.

The responses to questions 16 and 17 indicate that at least a minority of the industry needs to improve its performance in two ways:

- First, reasonably regular self-assessment against Bahamian legislation and other requirements is a necessary aspect of good AML/CFT risk management. We note that the relevant legislation and AML Guidelines are scheduled for material reforms in 2018. In addition, the Central Bank in conjunction with the Securities Commission of The Bahamas, the Compliance Commission of The Bahamas and the Insurance Commission of The Bahamas have recently collaborated and developed a *Guidance Note on the Sound Management of Risks Related to Financial Crime in The Bahamas* which strongly mandates a risk-based approach from both a macro and micro level.

This will offer a strong reason for all SFIs to conduct such self-assessments from the second half of 2018.

- Second, there is not yet a clear consensus on who conducts these self-assessments. The Central Bank is comfortable with any of the CO/MLRO, internal audit, or qualified third parties conducting such assessments. No SFI should rely upon its regulators to perform this task.

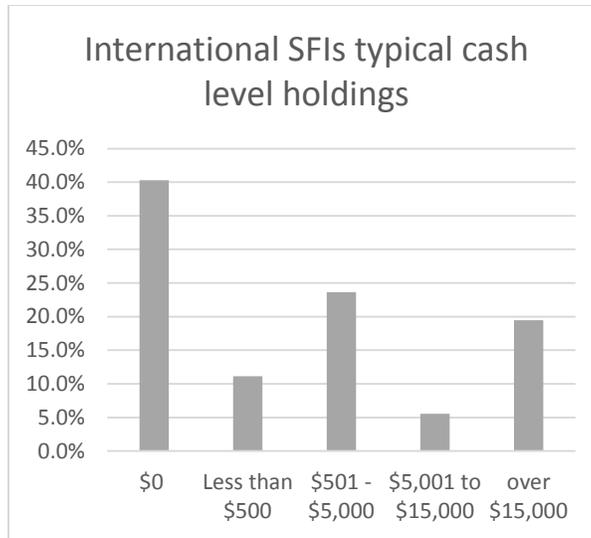


The Central Bank expects that the small number of SFIs that have not yet conducted an assessment of their policies and procedures to ensure compliance will rectify this shortcoming during 2018.

Section E: Cash Procedures

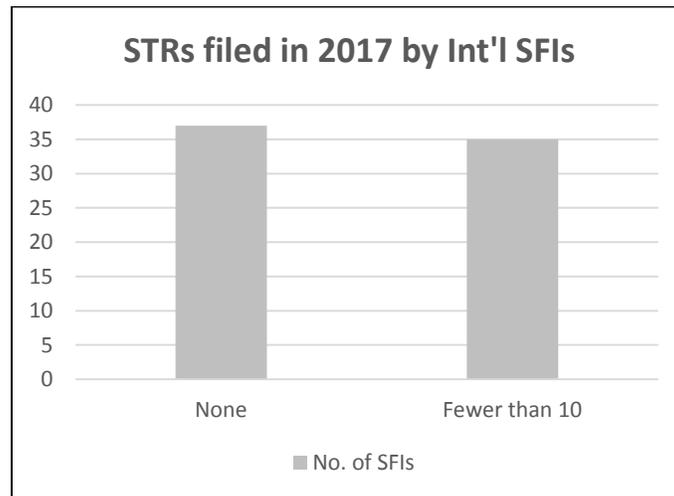
Only 6 of 72 international SFIs reported accepting cash deposits. Upon follow-up, the Central Bank discovered that four of the six had already ceased taking cash deposits, and the other two were reconsidering their position. The Central Bank intends to take additional steps to clarify that the Bahamian international banking and trust sectors do not accept cash. This is perhaps an obvious but important signal that this sector not only does not launder cash, it cannot launder cash.

About 60 per cent of international SFIs hold some cash for the convenience of clients visiting The Bahamas and for their own petty cash needs. It is allowable for international SFIs to provide cash withdrawal services to clients, at the modest levels currently applicable.



Section F: STRs

Results indicate that domestic SFIs reported a wide range of STRs during 2017, ranging from 0 to over 100. On the international side, 37 SFIs (51%) did not file any STRs and 35 SFIs (49%) reported fewer than 10 STRs filed.



SFIs gave multiple reasons for filing an STR, including: CDD obligations, lack of beneficial ownership information, PEPs and Other, which included fraud, suspected money laundering, suspected tax evasion, unduly complex structuring, unable/unwilling to provide satisfactory corroboration for payments, production orders, activity (transactions) outside of indicated parameters or risk profile.

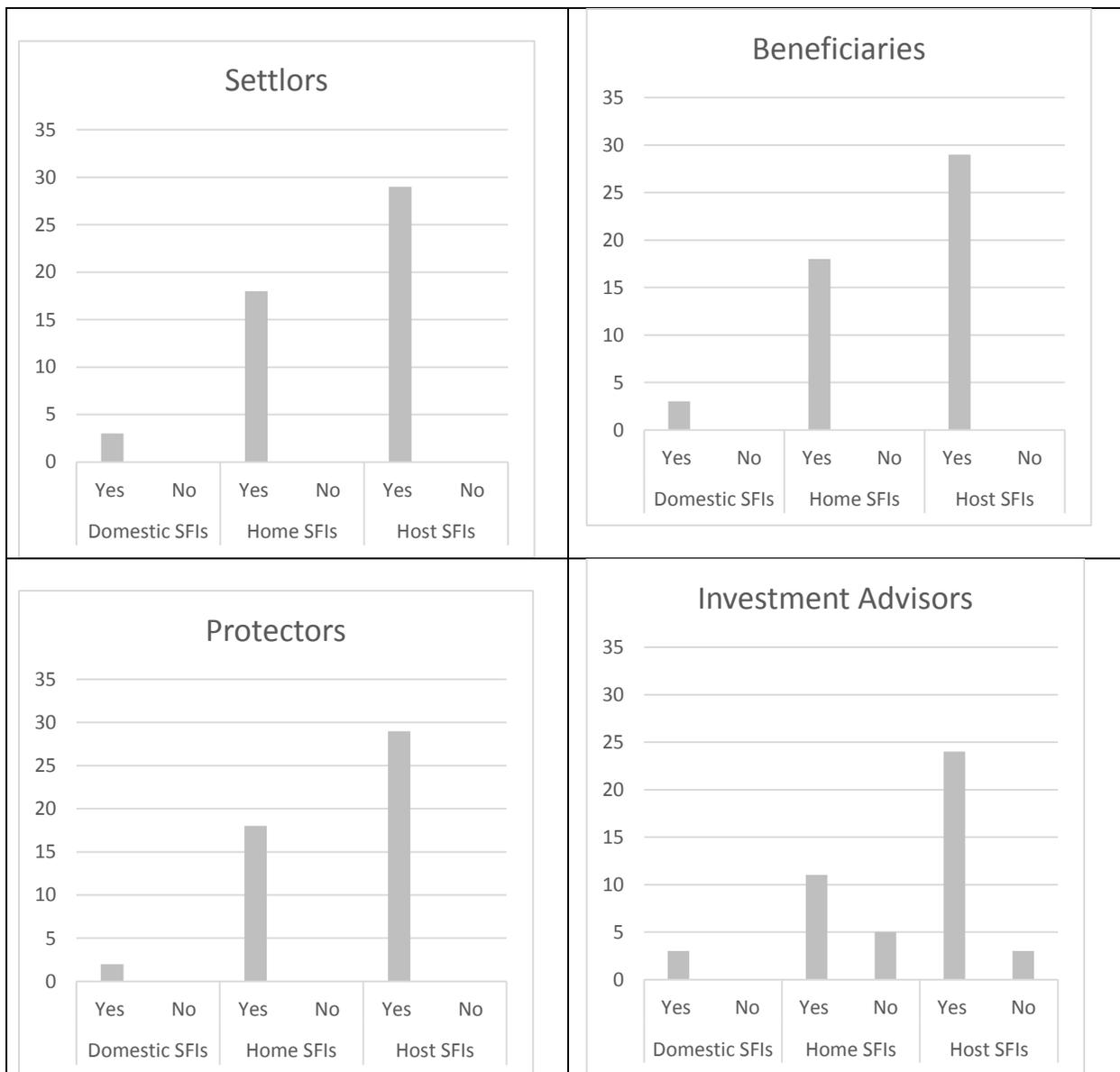
Section G: Client Onboarding/Client Base

All SFIs that accept business via Intermediaries or External Asset Managers conduct their own customer due diligence, rather than relying upon their third party contacts.

Question 31 - For trust and fiduciary arrangements (if applicable to your institution), does your institution request beneficial ownership information on the following persons/parties of a trust; that is, settlors, beneficiaries, protectors and investment advisors?

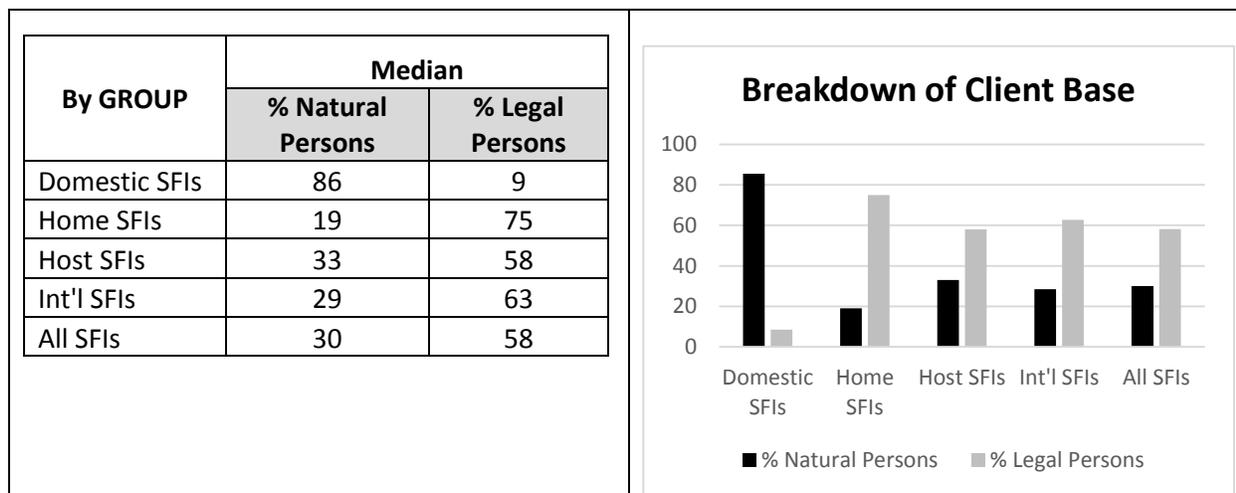
68 SFIs are licensed to conduct bank & trust or pure trust operations. All these SFIs collect beneficial ownership information. The SFIs conducting trust business collect information on all settlors, beneficiaries, and protectors. A majority collect information on investment advisors.

In accordance with the Central Bank’s *Guidelines For Supervised Financial Institutions on the Prevention of Money Laundering & Countering the Financing Of Terrorism*, SFIs must request beneficial ownership information on settlor(s) and other such person(s) exercising ultimate effective control over the trust, inclusive of investment advisors. The industry is generally performing strongly in this area, but a few SFIs will need to improve their processes regarding investment advisors. The Central Bank will make this a point of supervisory focus during 2018.



Question 32 - Breakdown of client base by natural and legal persons.

Unsurprisingly, the domestic SFIs reported the highest median of natural persons at 86 per cent. The home SFIs reported the highest median of legal persons at 75 per cent.



Question 33 – Top 10 home jurisdictions of ultimate beneficial owners.

The customer base of the domestic SFIs is overwhelmingly Bahamian.

Domestic SFIs	
	No. of Accounts
Bahamas	457,863
Other Countries	5,182
Haiti	4,856
United States	4,347
Jamaica	3,287
United Kingdom	1,952
Phillippines	995
Canada	2,572
Total:	481,054

The survey asked international SFIs to provide information on account numbers and balances for their top ten jurisdictions, including The Bahamas. The table below lists the number of international SFIs reporting “top ten” client concentrations. 14 jurisdictions featured with relatively large concentrations

34 international SFIs have reported business with clients in The Bahamas. The rationale for eight of these SFIs is that they are allowed to conduct business with permanent residents &/or Bahamian

citizens. In the majority of remaining cases, SFIs have indicated that they conduct business with clients that are domiciled in The Bahamas but who are considered to be “non-resident” for Exchange Control purposes. Additionally, some SFIs misinterpreted the question and reported on the residence of clients rather than the nationality of clients.

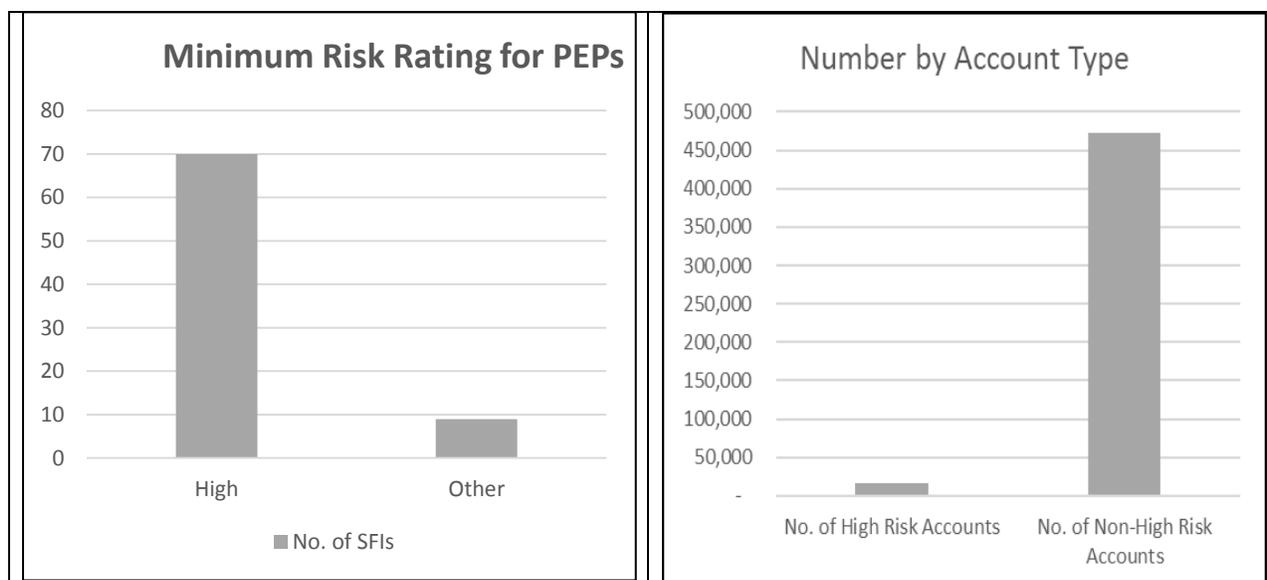
Top 14 Jurisdictions of Clients for Int'l SFIs	
Bahamas	34
Brazil	29
United Kingdom	29
Switzerland	28
United States	28
Panama	24
Canada	22
Argentina	20
Uruguay	17
Mexico	16
France	13
Cayman	11
Italy	11
British Virgin Islands	10

Generally, the results indicate that the international sector’s historic focus upon European clients is shifting to a focus upon North and Latin American and other regional clients. This reflects the substantial decline of The Bahamas as a jurisdiction for tax avoidance, and its growing importance as a preferred western hemisphere center for private wealth preservation. A substantial Swiss and British base of business, however, has remained with The Bahamas, on a tax-compliant basis.

Question 34 - Please complete the below table relative to your institution's account information and risk rating framework as at 30 November, 2017.

International SFIs reported that approximately 15 per cent of their accounts are risk rated as ‘High’, while domestic SFIs reported approximately 1 per cent as ‘High’.

In general, SFIs gave a risk rating of ‘High’ to Politically Exposed Persons (“PEPs”). International SFIs reported 2.9 per cent of their total accounts to be PEP accounts. Domestic SFIs reported less than 1 per cent as PEP accounts.



	Domestic SFIs	Home SFIs	Host SFIs
Total Accounts	438,962	13,985	35,527
High Risk (%)	5,181 (1.2)	1,968 (14.1)	5,243 (14.8)
PEP (%)	1,885 (0.4)	478 (3.4)	963 (2.7)

	No. of High Risk Accounts	Value of High Risk Accounts (in \$millions)	No. of Non-High Risk Accounts	Value of Non-High Risk Accounts (in \$millions)	No. of PEP Accounts	Value of PEP Accounts (in \$millions)
Domestic SFIs	5,181	-	431,896	-	1,885	-
Home SFIs	1,968	\$ 10,512	11,539	\$ 20,396	478	\$ 8,212
Host SFIs	5,243	\$ 56,520	29,321	\$ 90,751	963	\$ 13,767
Int'l SFIs	7,211	\$ 67,032	40,860	\$ 111,147	1,441	\$ 21,979
All SFIs	12,392	\$ 67,032	472,756	\$ 111,147	3,326	\$ 21,979

Some domestic SFIs provided both the number of accounts and the value of accounts while others only provided the number of accounts. Therefore, we have shown the data in the above table, which was most complete. Also, due to limitations with current risk rating systems, the entire population of accounts have not been provided with a system-accessible rating. The relevant SFIs are moving to correct this deficiency in their data systems.

Question 39 - Please estimate the average number of total customer transactions between Bahamian and non-Bahamian business undertaken by your institution in a typical month.

Of the International SFIs, four home SFIs and 14 host SFIs reported a “0” transaction number. Some of these are holding companies, pure trusts, or their main business is capital markets, without traditional banking transactions.

Average Number of Total Customer Transactions per Month					
	0 - 1000	1001 - 2000	2001 - 3000	3001 - 4000	over 4000
Int'l SFIs	58	7	1	2	4

	Home SFIs	Host SFIs
<i>Average Transactions per month</i>	14,240	52,846
<i>Total Number of Accounts</i>	13,985	35,527
<i>Transactions to Accounts</i>	1.0	1.5

On average, international SFIs report 931 customer transactions per month or a collective gross average of 67,086 customer transactions per month, with host SFIs reporting the largest average number of customer transactions per month. Of note is that 58 international SFIs reported conducting between 0 to 1,000 customer transactions per month. The typical international SFI account conducts around 1 to 2 transactions per month.

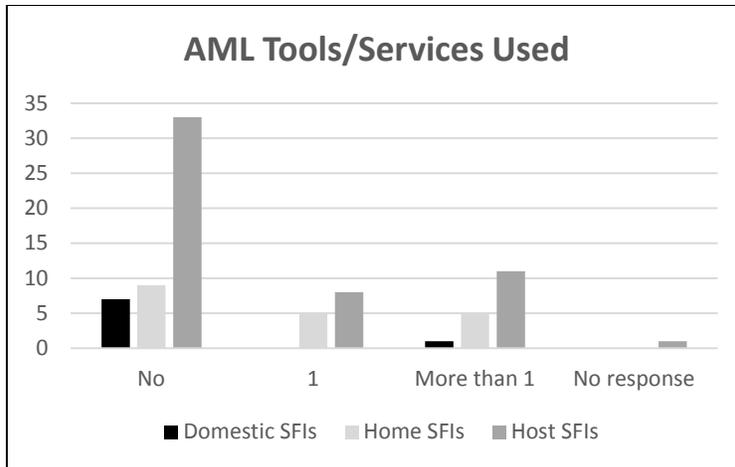
The Central Bank cautions readers that the above figures may be affected by differences in definitions across SFIs for transactions and accounts. But in any event it is clear that by and large, Bahamian international banking and trust clients are not conducting their main operating accounts in The Bahamas. Instead, they are using this jurisdiction as a repository of wealth.

Transaction volumes of the domestic SFIs greatly exceed those of the international SFIs, at a much lower average value. The transactional data for domestic SFIs have been excluded from the report to protect the confidentiality of the underlying institutions. To give an idea of the scale of transaction volumes, a single domestic SFI’s transactions can exceed 1 million per month.

Question 35 - When assessing the AML risk of new clients, does your institution use a third party AML Risk Analytics service/tool?

61 per cent of respondents indicated that they do not use a third party AML Risk Analytics service or tool. 16 per cent use one tool or service, and 21 per cent use more than one tool or service.

SFIs named 21 providers that are used for an AML risk analytics tool. The Thompson-Reuters World-Check product is the market share leader, with a 60 per cent use rate by the 30 SFIs that report using one or more of the AML risk analytics tools.



Section H: Unverified Accounts

Question 36 – *Does your institution have any unverified accounts or clients?* and Question 37 – *How many unverified accounts or clients does your institution have?*

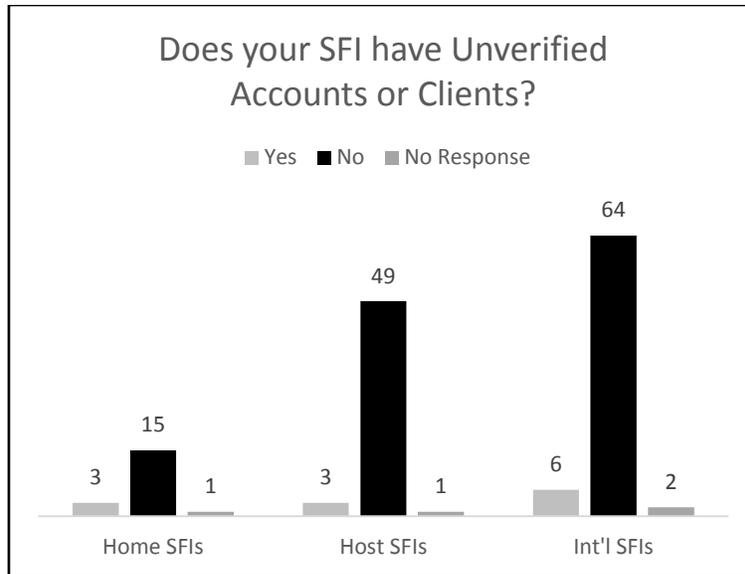
Domestic SFIs have been required to focus on ensuring that all active accounts have been verified. Historically, this has been a particular problem for accounts opened prior to 2000. The domestic SFIs are working proactively to bring these legacy accounts into compliance.

The results from the survey noted that seven of eight domestic SFIs still had unverified accounts at the date of the survey response. The data gathered from domestic SFIs indicated that three reported fewer than 100 accounts, one reported between 101 – 500 accounts, two reported between 501 – 1,000 accounts, and one reported over 1,000 accounts.

The reported unverified accounts included inactive accounts. Due to matters such as probate resolution, we expect that the industry will continue to report these, but they are frozen until closed.

In any event, the Central Bank understands that as of March 31, 2018, the domestic SFIs maintained zero unverified and active accounts.

Of the responding international SFIs, six reported holding very small numbers of less than fully verified accounts. These unverified accounts are due to non-receipt of updated documentation, legacy accounts, or heightened risk rating of the account, which required more KYC documentation. However, any unverified accounts are not operational. There are no active, unverified accounts reported in the Bahamian international banking sector.



Section I: Correspondent Banking

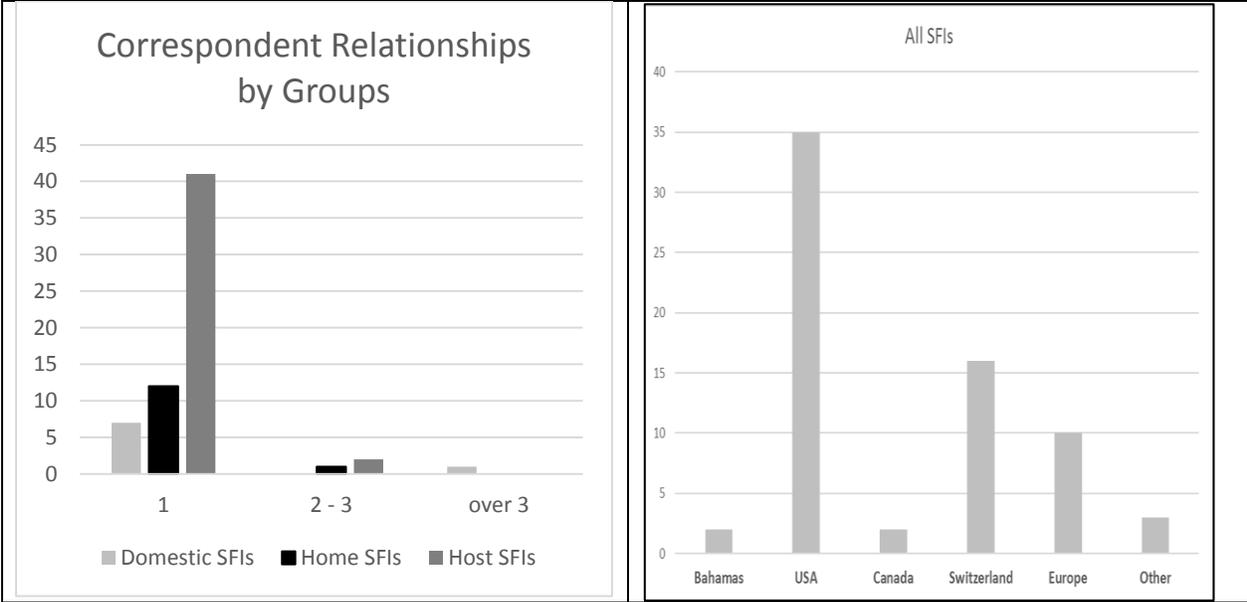
Question 40 - Please provide the name of your primary correspondent bank.

Of the reporting SFIs, which have a primary correspondent bank, 51 per cent reported using a bank in the USA. 24 per cent reported using a primary correspondent bank in Switzerland, 15 per cent elsewhere in Europe, and 10 per cent in other countries.

18 SFIs reported their main correspondent relationship with either parents or affiliates. Notably, one-third of the surveyed SFIs not using parents or affiliates have a relationship with one or both of two large American banks.

Of the surveyed SFIs, 17 SFIs have been de-risked during 2016 or 2017, though all reporting SFIs needing a correspondent have at least one.

Overall, 55 per cent of SFIs view the current Correspondent Banking landscape as remaining the same, 36 per cent as worsening, 5 per cent as improving, and 4 per cent did not report an opinion.



Correspondent Banking Relationships (CBRs)	
Total Respondents	80
Don't Have CBR	16
Use Parent/Affiliate	18
Use Third Party	46

Section J: Tax Compliance

52 SFIs conduct business with U.S. persons and confirm that they report under FATCA. 90 per cent of all SFIs have commenced reporting under FATCA, whether or not they have U.S. business.

33 per cent of SFIs report that they have completed preparations for CRS reporting. 63 per cent of SFIs report that preparation is in progress.

Of the responding international SFIs, 75 per cent require that clients evidence their tax compliance. Furthermore, SFIs that do not have a current policy in place indicate that in practice they are seeking to have clients certify their tax compliance. Where non-compliance is identified, SFIs are either in the process of ending relationships with these clients, or taking the necessary steps to require clients to become tax compliant.

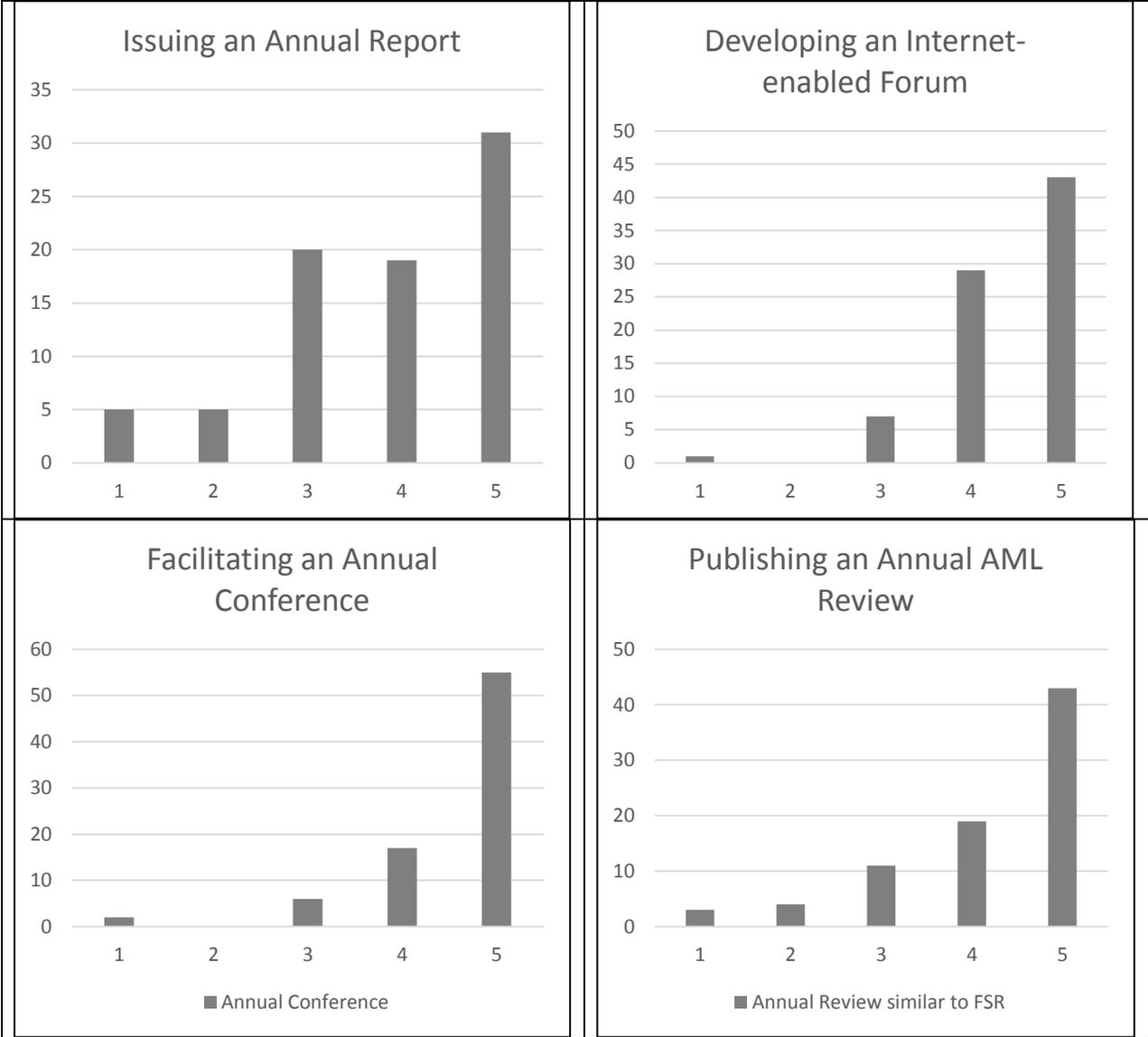


Section K: Public Information Environment

We requested industry indications of interest, on a scale of 1 (not at all helpful) to 5 (very helpful) on four potential initiatives from the Central Bank:

- Issuing an annual AML/CFT compliance report for each SFI;
- Developing an Internet-enabled forum for Bahamian AML/CFT matters;
- Facilitating an annual AML/CFT conference; and
- Publishing an annual AML/CFT review, similar in tone to the annual Financial Stability Review.

The balance of response indicated support for all four initiatives. The Central Bank proposes to proceed with all four initiatives. We note that the national AML/CFT conference is scheduled for 17 and 18 September in Nassau; the formal conference invitation will be issued shortly.



— END —