



## **The Evolving Landscape of AML/CFT in The Bahamas**

**Remarks by Governor John A Rolle, Central Bank of The Bahamas (*as prepared for delivery*) at the 2019 AML/CFT Risk Management Seminar of The Bahamas Group of Financial Services Regulators, 26 June, 2019.**

### **Introduction**

Good morning Ladies and Gentlemen.

Once more, on behalf of the Group of Financial Services Regulators, it is a pleasure to welcome you to today's anti-money laundering and countering the financing of terrorism risk management seminar. We are grateful to have the support of the Honourable Attorney General, and both the Minister of Finance and the Minister of Financial Services for this important event.

We are setting the standard for continuous engagement with financial sector stakeholders, with the expectation that, as practitioners, we will collectively strengthen and maintain national defenses against the use of Bahamian financial services for illicit purposes.

If we have learnt anything in getting to this point, it has been that we have to do a thorough job in quantifying, rather than just speculating, about the risk posed by illicit activities; and that we have to make measurable progress in managing both our actual and perceived risks.

Today, I will touch upon three topics related to these themes:

- Where the Central Bank is seeing material money laundering risks in the Bahamian economy, and what the responsible authorities are doing about these risks;
- Summarising recent progress on AML/CFT risk management among supervised financial entities (SFIs) licensed by the Central Bank; and
- The Central Bank's plans to improve both the reality and the reputation of Bahamian AML/CFT risk management.

### **Money laundering risks in the domestic economy**

Money laundering arises when illicit funds are converted to, apparently, illicit assets usually through the financial system. In the Bahamian case, we need to consider both the domestic economy and our international financial firms.

Let's look first at the domestic banking system. The Central Bank has just released a study of domestic deposit inflows across 17 sectors that have been identified globally as potential money laundering or terrorism financing problem areas. The bottom line from this work is

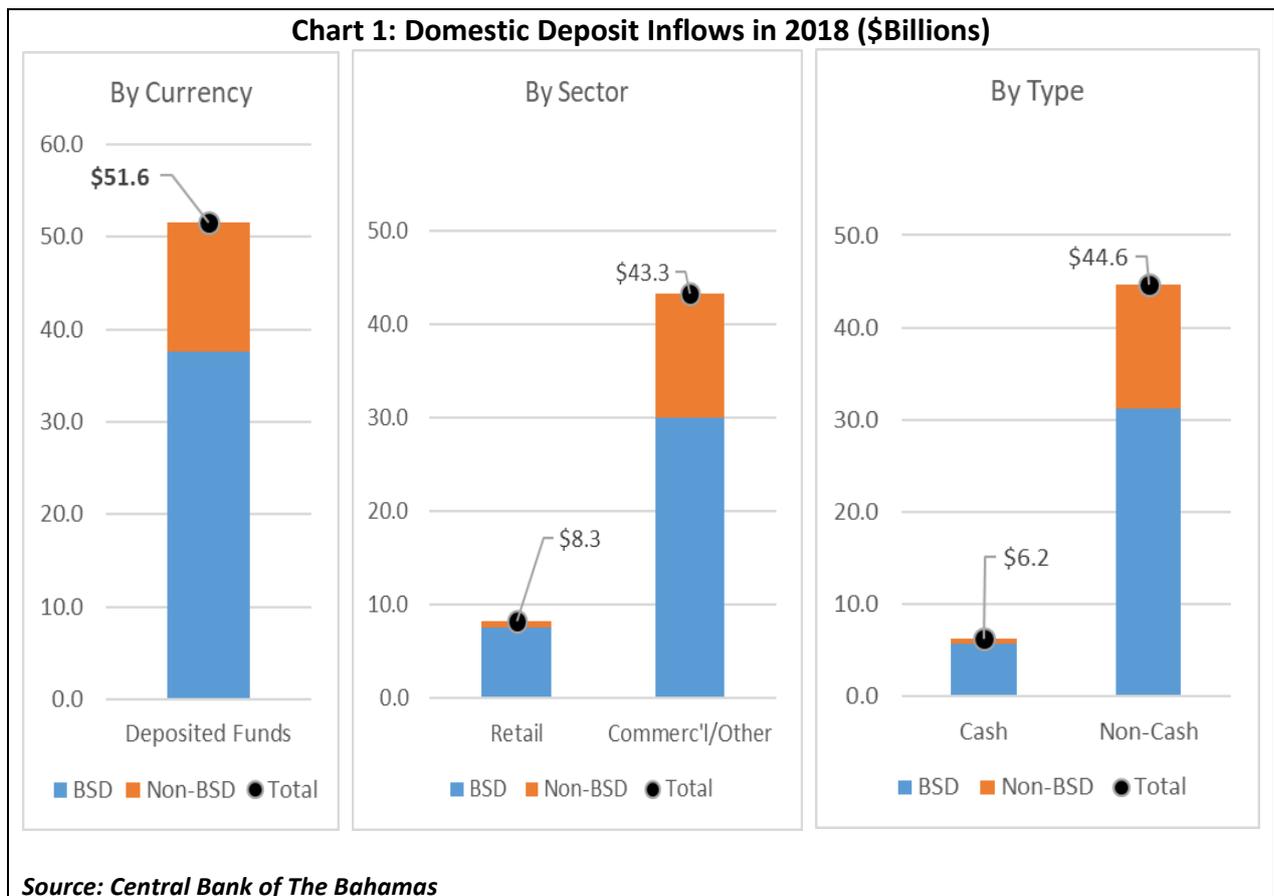
that with limited exceptions, headed by real estate, there is no evidence that any element of the domestic banking industry or that industry’s clients is facilitating material money laundering.

In 2018, Bahamian domestic banks accepted \$52 billion in deposited funds, mainly from commercial customers.

**Table 1: Domestic Deposit Inflows in 2018 (Rounded \$Millions)**

	BSD	Non-BSD	Total
<b>Deposited Funds</b>	37.6	13.9	51.6
<i>of which</i>			
<b>Retail</b>	7.6	0.7	8.3
<b>Commercial/Other</b>	30.0	13.3	43.3
<i>of which</i>			
<b>Cash</b>	5.7	0.5	6.2
<b>Non-Cash</b>	31.2	13.4	44.6

Source: Central Bank of The Bahamas

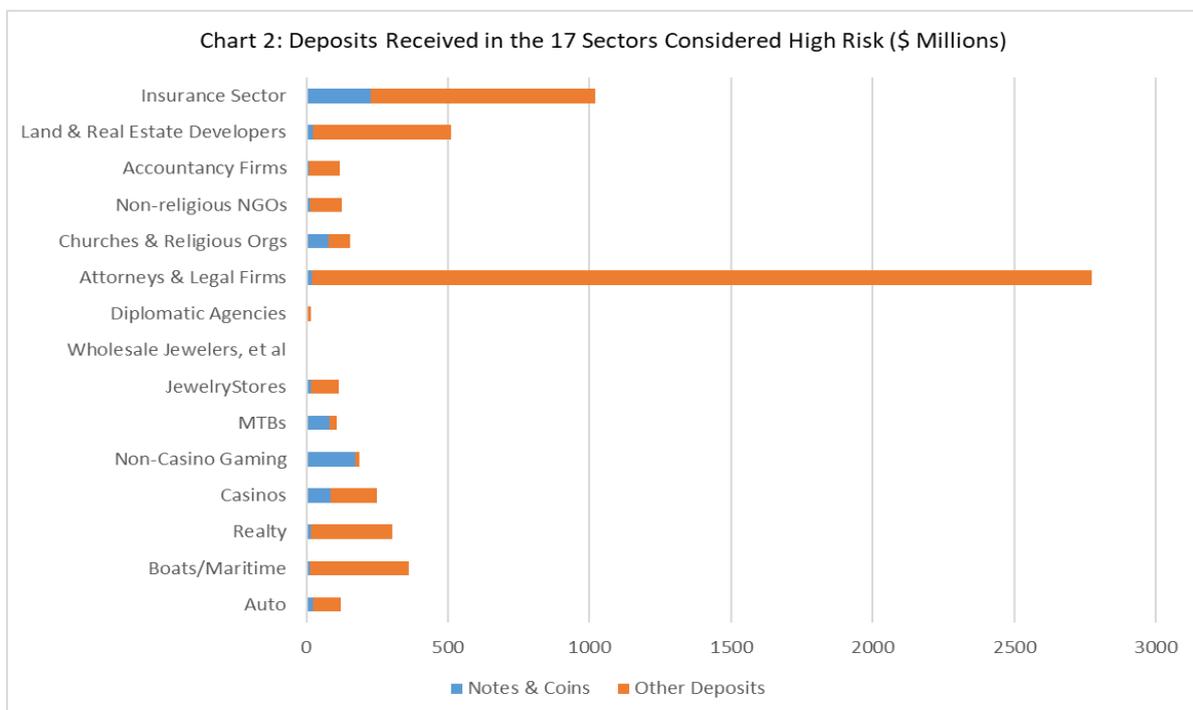


**Table 2: Canadian Banks' Share of Domestic Deposit Inflows, 2018 (%)**

	<b>BSD</b>	<b>Non-BSD</b>	<b>Total</b>
<b>Deposited Funds</b>	82%	98%	87%
<i>of which</i>			
<b>Retail</b>	68%	96%	70%
<b>Commerc'l/Other</b>	86%	98%	90%
<i>of which</i>			
<b>Cash</b>	85%	96%	86%
<b>Non-Cash</b>	84%	98%	88%

We can see that the three Canadian banking groups accounted for 90 per cent of the funds placed in commercial deposit accounts, and nearly all non-Bahamian dollar gross deposits. On the commercial and, particularly, the cross-border side, the standard of AML/CFT risk management in these operations in Nassau or Freeport would be the same as in Toronto or Winnipeg. Bahamian-owned banks are less engaged in commercial banking, but have about 30% of the deposits placed by individuals.

Let's now look at the 17 individual categories where global experience suggests we should be looking hardest for money laundering.



Source: Central Bank of The Bahamas

The aggregate 2018 deposits in each segment can be viewed from several perspectives: by Bahamian dollars versus foreign currency accounts, and split by cash versus non-cash deposits. Broadly speaking, cash carries more AML risk than non-cash deposit.

That said, only about 10 per cent of the funds deposited in Bahamian banks in 2018 fell into these 17 sector categories, with the remainder in less potentially troublesome areas.

There are several lessons apparent from the data.

First, many segments which the international community and standards setting bodies flag as susceptible are simply too small in The Bahamas to constitute a material money laundering risk in the domestic economy. Examples include diplomatic establishments, pawnshops, and wholesale jewellery stores. The domestic banks have yet to commence taking deposits from crypto-asset sources, but this may change in the future.

Second, nearly all segments are dominated by non-cash deposits. When looking at retail jewellery stores, auto dealers, and maritime sectors, for example, very low cash flows were evident, with electronic payments such as credit and debit cards, and other traceable instruments settled through the wholesale and retail clearing houses more notable.

Third, adding up the real-estate relevant sectors, which include the legal industry holding settlement funds, identifies over half of the gross funds deposited across the 17 sectors.

Meanwhile, the material sources of cash deposits are in limited sectors:

- Gaming
- Money transmission
- Religious organisations
- Insurance

On the gaming front, the Gaming Board has already published a paper<sup>1</sup> which demonstrates that retail gaming through web shops gives no indication of material money laundering activity. The Central Bank agrees with this assessment. Casinos are the only material source of foreign currency inflows in the domestic banking industry. The Gaming Board regulates casinos to the same standards held in, for example, Las Vegas. I will discuss about money transmission businesses in the next segment of this presentation. As for religious organisations, most, if not all us have been experienced the churches' weekly collection take up, which is heavily cash-based, but hardly risky for money laundering.

In addition to this deposit survey, the Central Bank has been gathering data from its own and other Bahamian public sector resources. Examples include commencing publication<sup>2</sup> of information on Bahamian dollar denominated and US dollar denominated currency notes moving through the economy.

Without going into details today, the US dollar currency flows are substantial but highly consistent with tourism activities rather than money laundering. The median note value is

---

<sup>1</sup> <https://www.centralbankbahamas.com/download/056332100.pdf>, page 13

<sup>2</sup> <https://www.centralbankbahamas.com/download/056332100.pdf>, page 35

\$10, and there are 40 times more \$1 bills collected than \$100 bills. This contrasts with global experience, where the United States has<sup>3</sup> issued more \$100 bills than \$1 bills. As for Bahamian dollar cash, again the median note is \$10, which limits any material capacity for cash-based money laundering.

The Central Bank also analysed vehicle import data provided by the Customs Department, which reveals that the total and average value of vehicles imported into The Bahamas show little if any evidence of vehicle-based money laundering. This is also consistent with our auto dealer deposit data, which reveals a heavy non-cash industry.

In summary, it is the case and, doubtless, will remain the case that some Bahamian criminals will use the domestic financial system to launder some funds. The police and the courts deal with a reasonable number of such cases per year. But, more importantly, it is generally the case that the domestic banking system provides no evidence that it is being used in any material way for money laundering.

### **Money laundering in the international financial sector**

When the rest of the world looks at The Bahamas for AML/CFT risk, in a risk-based sense, they really should focus on the international banking, trust, funds management, and international business company segments. The Bahamian international financial sector, by balance sheet, measures around twenty times larger than the domestic banking sector. Domestic banks, for example, have about \$20 billion in assets, while international banks and trust companies control close to \$400 billion in assets. While, as mentioned, domestic bank had gross deposit receipts of \$52 billion in 2018, SWIFT data reveal that gross cross-border funds movement amounted to several trillion US dollars.

There are four large and essentially permanent sources of AML/CFT risk in the international sector. Our national strategy is not to remove the underlying risks, but, instead, to control them such that the sector is overwhelmingly focused on clean business. The four relevant sectors are:

- International banking/trust/funds management, for which the Central Bank and the Securities Commission are the lead regulators;
- Cross-border real estate;
- International business companies; and
- Money transmission businesses.

From January 2018, the Central Bank has moved to continuous supervision of AML risks, in the same way that we continuously supervise financial failure risks. Our current assessment is that all our substantial licensees are at least tolerably well placed for AML/CFT risks, with the typical entity not displaying any critical deficiencies, but also exhibiting a number of areas needing improvement.

---

<sup>3</sup> See for example the Harvard Kennedy School paper from Sands et al: *Making it harder for the bad guys: the case for eliminating high denomination notes*, February 2016.

Most hearteningly, our industry has converted from a business model which historically included a large element of hiding money from foreign authorities, to one in which hiding money is no longer possible or desired. Instead, The Bahamas offer what is intended to become and remain the western hemisphere’s jurisdiction of choice for legitimate private wealth preservation.

As for real estate, the Bahamian public sector’s challenge is that we have many data sources on cross-border and luxury real estate purchases, but these have not yet been fully integrated. Data directly available to the Central Bank, notably our Exchange Control approvals for foreigners purchasing real estate, reveal nothing worrisome. At this point, however, we lack a comprehensive database of all property in The Bahamas. The Department of Inland Revenue and the Ministry of Finance have commenced a major project to remedy this data shortage. As a substantial side benefit of this work, we expect that a full registry of Bahamian property ownership would facilitate a universal approach to preventing real estate-based money laundering. In the interim, the Central Bank will work with several other agencies to better coordinate real estate-relevant data. I am hopeful that within three years, The Bahamas can demonstrate that we have a world-leading and fully data-driven approach to preventing real estate-based money laundering.

The international business company or IBC story is somewhat similar. The Attorney-General’s Office is the responsible authority for introducing and administering the 2018 register of beneficial ownership legislation. During the second half of 2019 and into 2020, The Bahamas will make rapid progress in demonstrating good global practice for monitoring AML risk for cross border legal entities.

Money transmission businesses are negligible in balance sheet terms but generate appreciable cross border cash flows, which are, in turn, mainly driven by currency notes in the underlying transactions.

**Table 3: October through December 2018 MTB Cross-Border Payments -- Selected Statistics**

Transaction Number (000s)	Transaction Value (\$million)	Largest Transaction (\$000)	Average Transaction (\$Actual)	Main Countries
172	50	44	290	USA, Haiti, Jamaica

**Source: Central Bank of The Bahamas**

As these statistics demonstrate, the MTB transaction flow is dominated by payments averaging a few hundred dollars, with no payments over \$50,000. The main source and destination countries are consistent with Bahamian economic engagement with the United States and our Caribbean neighbours.

The Central Bank is the regulatory authority for MTBs. As we have ramped up our AML supervisory focus since January 2018, we have discovered a number of areas for necessary

improvement in MTB risk management. This work is in progress, and we expect it will require a year or two to reach a fully satisfactory outcome.

So, to summarise the international sector:

- The biggest segment, banking, trusts, and funds management, is in reasonable shape but still requires improvement;
- The current extensive controls on foreign real estate purchases seem to be effective, but we are probably two to three years away from being able to definitively prove this;
- The IBC sector’s data infrastructure will improve over the next year or so to a point where we can demonstrate world-class surveillance of legal persons; and
- The MTB sector needs to improve its controls, and this work is in progress.

### Current supervisory focus

In the Central Bank’s supervisory arrangements, the word “requirement” has special meaning, referring to a deficiency which the Central Bank is prepared to deploy statutory force if needed to correct. The ebb and flow of requirements, and particularly the quick and comprehensive clearance of outstanding Requirements, is an essential element in effective supervision. The Bank has formally measured progress on requirements since the end of 2017.

**Table 4: Supervisory AML Requirements by Sector**

	<i>Domestic Banks</i>	<i>Domestic Other</i>	<i>International Home</i>	<i>International Host</i>
<i>December 2017</i>	15	13	20	28
<i>March 2018</i>	14	10	48	20
<i>Sept 2018</i>	43	8	35	23
<i>March 2019</i>	29	22	59	26

**Source: Central Bank of The Bahamas**

Unsurprisingly, the volume of new requirements over this period has increased, as the Central Bank has intensified its AML supervision. Gratifyingly, the industry has, in general, lifted its focus on these issues, and is clearing Requirements, more or less, as fast as we are identifying them. This pattern, plus other information, suggests that Central Bank regulated entities are in reasonable shape for AML/CFT risks, but with material areas where they could get better, and they are in fact getting better.

On the other hand, in the domestic sector, there is a disproportionate concentration of requirements among the nonbank sector, comprising credit unions and MTBs. Over the past 18 months, the Central Bank has concentrated heavily on lifting the AML performance of banks and trusts companies, which account for over 99 per cent of the relevant industry assets. From late 2019, we will deploy more supervisory attention on the smaller domestic licensees.

In the international sector, the Central Bank has identified relatively more requirements among home-supervised rather than host-supervised institutions. This is, to some extent, an

artefact of our 2018 and 2019 onsite examination schedule, which has focused more on Bahamian-owned vs. foreign-owned banks and trust companies.

In summary, the Central Bank is working with generally cooperative and competent SFIs to rapidly improve the quality of Bahamian AML/CFT risk management from acceptable to good.

### **The national AML/CFT risk management reality**

From the Central Bank's perspective, the reality of Bahamian AML/CFT risk management is as follows:

- We have, as a nation, made tremendous progress on world class legislation and regulation, but much of this needs bedding down through experience;
- Our domestic sector is keenly aware of the relevant issues, and over all is not a material AML risk;
- Our international sector will always be a material potential risk, but we have at least acceptable and increasingly sound controls in place;
- There are material data issues in the cross border real estate and IBC areas, which are being addressed at the moment; and
- In general terms, larger and foreign-owned financial institutions are somewhat ahead of smaller and Bahamian-owned institutions in AML risk management.

Above all, as an industry and as a society, we are definitively out of the money-hiding business. Given that many jurisdictions cannot make this claim, the world's dirty money managers are on notice that they should take their business elsewhere. From what we can see, which vision is not yet as perfect as we would like, the world's dirty money managers are heeding this message.

### **What about reputation?**

On the reputation front, we are dealing with an essential and possibly existential global fallacy. That fallacy is that in the field of dirty money, small countries with large international financial sectors are the problem. Now it is true that countries such as The Bahamas have in the past been part of the problem, hence, our massive reforms since 2000 and more recently.

The other fallacy we are struggling with is that financial crime is an impossibly intractable problem, so, there is no point trying to empirically study the issue.

These two fallacies combine to create an environment in which it is very hard for jurisdictions such as The Bahamas to reap the reputational benefits from becoming highly resistant to money laundering and other financial crimes.

It is obvious to informed observers that:

- The world has been unable to appreciably intercept the flow of dirty money, which could be in the trillions annually and tens of trillions in embedded asset terms. This

compares with illicit asset recoveries, which could be generously measured in the low tens of billions.

- The world's large countries, starting with the United States, Great Britain, and the EU, are both the sources and the destinations for the great bulk of the world's dirty money<sup>4</sup>; although one of the lessons from the outside should be in how our jurisdiction mobilises its enforcement resources.

Put simply, life isn't fair when you are a small country daring to compete in international financial services.

So what do we do about this?

The Central Bank and the rest of the Bahamian public sector have adopted two obvious strategies. First, there is no point in even continuing this conversation unless we can demonstrate that our financial services industry and economy are under close control for AML/CFT purposes. We have made very large strides in this area—but the fact that we have had to make very large strides indicates that we started from a weak position.

In any event, our current actual position is reasonably good, and in two to three years will be world-leading.

The Bahamas must now be able to encourage the world's relevant opinion-makers, such as the FATF, U.S. authorities, EU, OECD, and correspondent banks, to give us fair credit for our actual position. There is no easy and cheap answer to this challenge. The Central Bank and the rest of the public sector are buckled down for a long, hard slog. The Central Bank's activities in this space include the following:

- With other Bahamian regulators and government agencies, we are publishing an annual report on Bahamian AML/CFT matters.<sup>5</sup>
- We will shortly commence regular direct communications with all correspondent bankers to Bahamian banks.
- We have sponsored the annual Bahamian AML conference, of which today's is the second edition.
- We intend to sponsor, every two years a major international and regional conference on AML risk management. Many of you attended the inaugural event in September 2018. We are co-sponsoring the 2020 version with CARICOM Secretariat and a very good international cast of speakers, anticipated in May 2020.
- We are introducing annual letters on financial strength and AML/CFT risk management to our supervised financial institutions, which are explicitly meant to be shared with current and potential correspondent bankers.
- From January 2020, the Central Bank will host the world's leading research conference on empirical approaches to AML and financial crime suppression. This will become an important tool to encourage data-driven as opposed to opinion-driven approaches to assessing national financial crime risks, and will usefully lift the Bahamian reputation

---

<sup>4</sup> See for example Oliver Bullough's 2018 book *Moneyland*

<sup>5</sup> <https://www.centralbankbahamas.com/download/056332100.pdf>

as a jurisdiction that is part of the solution rather than the problems of global AML/CFT management.

### **Conclusion**

The Central Bank and our public sector colleagues are doing quite a lot to improve both the reality and the reputation of The Bahamas as a high probity, low risk regime for AML and financial crime. We need industry's continued competence and cooperation so that we can collectively achieve the reality and the reputation we all want.

Thank you for your attention.