Gross Economic Contribution of The Financial Sector in The Bahamas (2003) *

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GROSS ECONOMIC CONTRIBUTION OF THE FINANCIAL SECTOR IN THE BAHAMAS (2003)

INTODUCTION

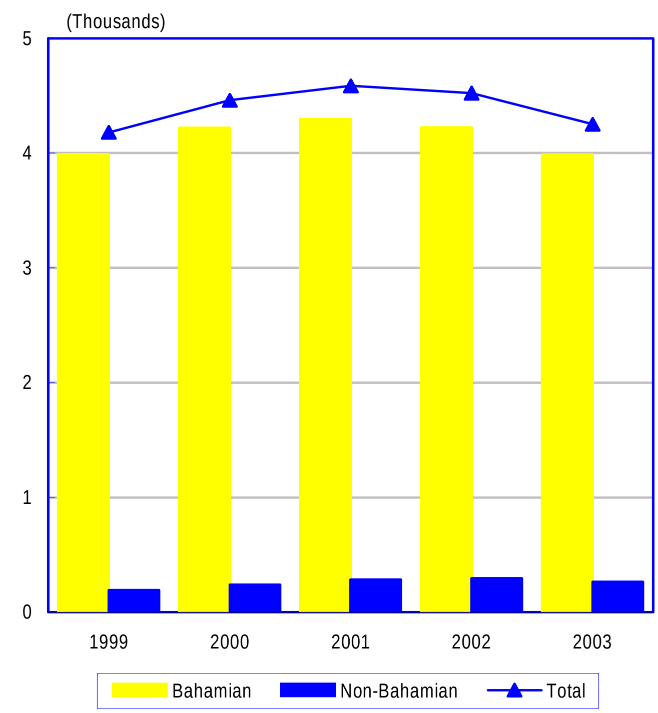
This report summarizes the results of the Central Bank's 2003 survey on the gross economic contribution of the financial sector to The Bahamas. Data on the banking sector's involvement in the economy have been collected from as early as 1977. Since 2001, attempts have been made to expand the coverage to capture the contribution among other financial sector entities, including insurance, credit unions, mutual fund administrators and financial and corporate services providers. Although improving, non-bank responses, which are more complete in respect of insurance, mutual funds and credit unions, still only permit partial inferences about this segment's salary and employment contributions.

The financial sector's contribution to economic activity, estimated at 15 to 20 percent of Gross Domestic Product (GDP), was upheld in 2003, even as the industry experienced a significant reduction in the number of licensed banks and trust companies, the volume of international business generated for financial and corporate services providers and consolidation in the insurance sector. Industry wide expenditures appeared to be slightly recovered over 2002, when employment reduction and accompanying redundancy payments were more widespread. Ongoing adjustments, which further reduced employment within banking, were partly offset by a more stabilized situation in insurance and the investment funds industry and signs of growth among credit unions. Developments in the regulatory sphere, meanwhile, continue to position The Bahamas more strongly for future growth opportunities relative to less functional offshore centres.

BANKING SECTOR

The banking sector has, for the most part, made all of the necessary adjustments required under the new regulatory regime introduced in 2000. Most noteworthy has been the response to the requirement imposed by the Central Bank in 2001, for all managed or "shell" licensees to establish a physical presence in The Bahamas, with a minimum level of staffing and onshore record keeping by June 2004. Since the transitioning began, a significant number of institutions decided not to satisfy the requirement and to instead have their licenses revoked. Accordingly, the number of licensed banks and trust companies declined for the third consecutive year, to 284 in 2003 from 301 in 2002 and 356 in 2001. During 2003, licensed public banking and trust operations decreased by 20 to 169, while restricted and non-active operations rose by 3 to 115. The public licensees in the international sector consisted of 42 euro currency branches of foreign banks and trust companies and 103 Bahamian incorporated institutions. The remaining 24 institutions represented domestic operations, comprising 9 Authorized Dealers (commercial banks) and 14 Authorized Agents (trust companies) and one savings and loans bank providing mortgage financing.

Banking Sector Employment



Despite the overall decline in the number of licenses, entities having established physical presence in The Bahamas increased to 216 at end-2003 from 203 in the previous year, with another 29 operations in transition to full physical presence. This would be the largest number of entities that have ever maintained a stand-alone presence, placing the sector in a stronger position to generate future employment as balance sheet opportunities expand.

The reduction in the number of licensees has not had a significant impact on the asset base of the banking sector, which stood close to $300 billion in 2003. Preliminary results also indicate a sizeable business in fiduciary assets under management which, in the 2003 Survey, approximated $121.7 billion. However, the important corporate services business in company registration and management decreased further during 2003, with an estimated 15,130 companies (mainly IBCs) under management compared to 16,114 in 2002 and 27,896 in 2001.

Employment

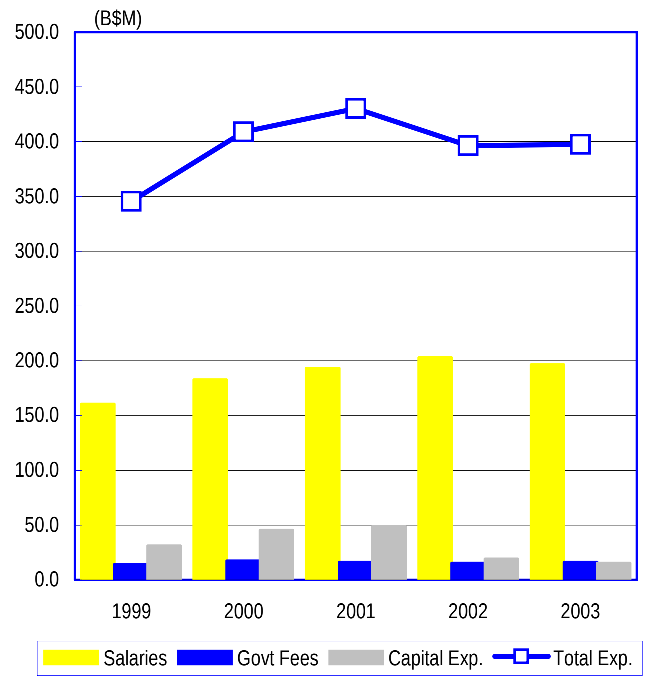
In contrast to average annual jobs growth of 2.5% during 1998-2002, banking sector employment decreased further by 257 (5.7%) to 4,253 persons in 2003. Most of the reduction occurred in Bahamian staffing, by 239 (5.7%) to 3,988, after a loss 73 (1.7%) positions in 2002 and a more favourable average annual increase of 108 positions (2.1%) in the five years through 2002. Expatriate employment also decreased during 2003, by 18 (6.4%) to 265 persons, relative to a more neglible reduction (1.0%) in 2002. Given the more marked decline in expatriate jobs, the respective share of total banking sector employment fell slightly to 6.2% from 6.3%.

Expenditure

While the employment reduction resulted in lower staff expenses, and investment outlays also declined, banks' total expenditures in the local economy increased marginally by 0.3% to $397.5 million in 2003. This contrasted with a 7.9% decrease in 2002, and continued the five years average annual growth of 7.8% through 2002.

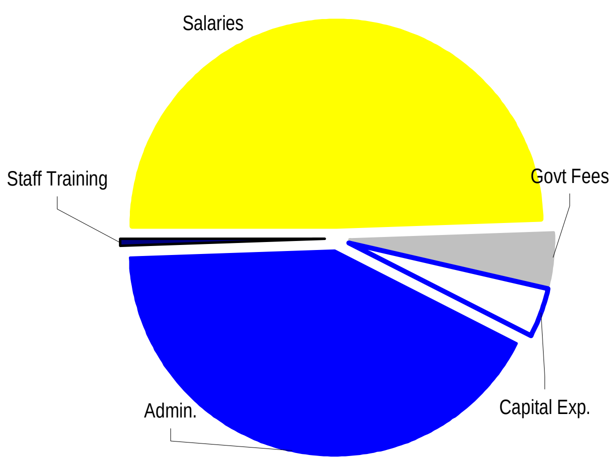
Operation costs represented a slightly increased 96.1% of expenditures, which was also above the 91.5% average in the five years through 2002, when institutions undertook significant investments in new premises. These costs rose by $5.1 million (1.4%) to $382.0 million during 2003, reversing the 2002 contraction of $4.5 million (1.2%). The increase, however, was still well below the average yearly growth of 8.1% for 1998-2002.

Banks' Local Expenditure



Owing to reduced staffing, salary outlays fell by 3.1% to $196.5 million, reversing a 3.8% advance in 2002, when significant job separation packages were paid out, and extending the 8.3% average annual increase for the five years through 2002. The average compensation per employee, although increasing during the review period by 2.8% to $46,203, moderated from the 5.6% rise to $44,966 in 2002, which was linked to the separation payments. Given average salary growth during 1998-2002 of 5.6% per annum and the 2003 gain, wages were some 17.3% higher in real terms vis-à-vis 1998, after adjusting for average inflation of 2.0% per annum over this period 1998. Meanwhile, the average salary gain for Bahamians was marginal at 1.2% to $42,137 during 2003, compared to a 2002 increase of 6.4%. Average compensation for expatriates increased by 13.6% to $117,120, owing to bonus payments, placing payments closer to the 2001-2002 average annual compensation of $106,000.

Banks' Expenditure Components
(% of Total)

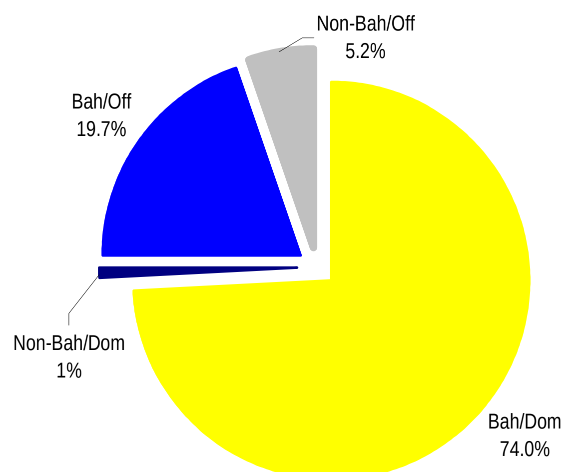


Non-staff administrative expenses rose by $11.1 million (7.1%) to $166.81 million, partially reversing the previous year's $11.7 million (7.0%) decrease. Despite shrinkage of license and company registration fees, direct revenue to the Government from the banking sector rose by 5.8% to $16.4 million, following a 6.1% fall off in 2002, and was mainly attributed to growth in "other" government fees of $6.1 million relative to $3.2 million in 2002. Increased payments were also noted for real property taxes (17.8%) and custom duties (22.1%). Conversely, license and company registration fees decreased by 9.9% and 49.5% respectively, in line with the reduced number of licensees. Since 1998, the direct revenue benefits to Government from the banking sector amounted to an estimated $94.4 million.

With the stagnation in employment, banks also recorded a reduction in training expenses, to $2.3 million from $2.9 million in 2002. Since 1998, annual training outlays averaged $2.6 million, fluctuating between $2.2 million and $3.1 million. A growing share of the economy's expenditure on financial sector training, however, is not captured in bank's direct expenses, but rather in the industry's support (including the Central Bank's) for training provided by the Bahamas Institute of Financial Services, and in self-initiated and financed courses at local tertiary-level institutions.

After significantly elevated spending on renovations and new premises during 1999-2001, capital expenditures among banks and trust companies fell for the second straight year, to $15.4 million from $19.4 million in 2002 and the surge to $45.7 million in 2000. Expenditures on new premises, which have an important impact on construction, decreased to $1.7 million from $2.2 million in 2002 and $18.6 million in 2001. Investments in office equipment and furniture, the largest component in the 2003 total, also declined, by almost one-third to $9.3 million. Conversely, renovation outlays and land purchases recovered by 16.3% to a combined $4.4 million.

Employment: Domestic & Int'l Banks (2003)



Domestic versus International Banking

While it is useful to compare the contribution of banks and trust companies in the local sector against those in the international sector, such comparisons are influenced by important differences in the nature of operations in the two sectors. The domestic sector is very labor intensive and retail in nature, as compared to the international sector's more skilled, and specialized private banking and wealth management activities. It should be noted, nevertheless, that some domestic banks also have substantial international operations with

TABLE A. GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES IN THE BAHAMAS

Period	1997	1998	1999	2000	2001p	2002p	2003p
A. TOTAL EMPLOYMENT	3,942	4,080	4,181	4,460	4,586	4,510	4,253
Bahamians	3,763	3,895	3,991	4,223	4,300	4,227	3,988
Non-Bahamians	179	185	190	237	286	283	265
B. TOTAL OPERATIONAL COSTS (1+2+3+4)	275.5	275.8	314.2	363.1	381.4	376.9	382.0
1. Salaries	139.5	147.5	160.8	182.9	195.3	202.8	196.5
2. Government Fees	15.3	14.2	14.4	17.4	16.5	15.5	16.4
i) Licence	7.7	7.8	8.2	8.7	8.0	7.3	6.6
ii) Company Registration	0.6	0.6	1.0	1.0	2.6	2.8	1.4
iii) Work Permits	1.1	1.1	1.3	2.2	2.2	2.3	2.3
iv) Other Government Fees	5.9	4.7	3.9	5.5	3.7	3.2	6.1
3. Staff Training	2.0	2.5	2.7	3.1	2.2	2.9	2.3
4. Other Administrative Costs	118.7	111.6	136.3	159.7	167.4	155.7	166.8
C. CAPITAL EXPENDITURE[1)]	21.1	17.4	31.2	45.7	48.7	19.4	15.4
D. TOTAL EXPENDITURE (B+C)	296.6	293.2	345.4	408.8	430.1	396.3	397.5
E. AVERAGE SALARY (B$'000)	35,381	36,161	38,452	41,010	42,578	44,966	46,203

Source: The Central Bank of The Bahamas

[1)] Includes construction, renovation expenses and other fixed assets.

TABLE B. GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES

Period	1998	1999	2000	2001p	2002p	2003p	1998	1999	2000	2001p	2002p	2003p
	DOMESTIC						INTERNATIONAL					
A. TOTAL EMPLOYMENT	3,178	3,203	3,274	3,341	3,284	3,192	902	978	1,186	1,245	1,226	1,061
Bahamians	3,123	3,155	3,232	3,299	3,240	3,149	772	836	991	1,001	987	839
Non-Bahamians	55	48	42	42	44	43	130	142	195	244	239	222
						(B$ Millions)						
B. TOTAL OPERATIONAL COSTS	180.5	203.2	216.4	227.7	227.3	224.6	95.3	111.0	146.8	151.7	149.7	157.5
(1+2+3+4)												
1. Salaries	105.8	113.0	119.9	121.5	128.8	128.9	41.7	47.8	63.0	71.7	74.0	67.7
2. Government Fees	4.6	6.5	6.2	6.6	6.3	6.7	9.6	7.9	11.2	9.9	9.2	9.7
i) Licence	2.1	3.0	3.0	3.0	3.1	2.7	5.8	5.2	5.7	5.0	4.2	3.9
ii) Company Registration	0.3	0.6	0.3	1.1	0.7	0.7	0.3	0.4	0.7	1.4	2.1	0.7
iii) Work Permits	0.4	0.5	0.4	0.5	0.4	0.5	0.7	0.8	1.8	1.8	1.9	1.8
iv) Other Government Fees	1.8	2.4	2.5	2.0	2.2	2.7	2.8	1.5	3.0	1.7	1.0	3.4
3. Staff Training	1.6	1.5	1.7	1.2	1.3	1.2	0.9	1.2	1.5	1.0	1.6	1.1
4. Other Administrative Costs	68.5	82.2	88.6	98.4	90.9	87.8	43.1	54.1	71.1	69.1	64.9	78.9
C. CAPITAL EXPENDITURE 1/	9.3	15.9	14.2	25.3	13.2	11.8	8.2	15.2	31.4	23.3	6.2	3.6
D. TOTAL EXPENDITURE (B+C)	189.8	219.1	230.6	253.0	240.5	236.4	103.5	126.2	178.2	175.0	155.8	161.1
E. AVERAGE SALARY (B$'000)	33,296	35,270	36,619	36,381	39,217	40,379	46,255	48,874	53,134	57,603	60,367	63,808

Source: The Central Bank of The Bahamas

1/ (includes construction,renovation expenses and other fixed assets) larger balance sheet exposures than their local operations.

With some effects from sector consolidation still being felt, total hiring among domestic banks decreased by 92 (2.8%) to 3,192 during 2003. Because of proportionately greater job losses in international banks however, the domestic share in total employment increased to 75.1% from 72.8% in 2002, and also placing the ratio above the estimated 74.7% for the five years through 2002. Bahamian employment fell by 91 (2.8%) to 3,149 and the number of expatriates employed, by 1 to 43. These trends resulted in a reduced ratio of Bahamians to non-Bahamians in domestic banks, of 73:2 compared to 74:1 in 2002.

Impacted mainly by closures and mergers affecting five institutions with physical presence, employment among international banking and trust operations decreased further by 165 (13.5%) to 1,061 positions and contrasted with a recent peak of 1,245 persons in 2001. While jobs held by Bahamians were most significantly impacted, reduced by 148 (15.0%) to 829, positions held by expatriates also decreased by 18 (7.5%) to 221.

Domestic banks' gross expenditures during 2003 lessened by 1.7% to $236.4 million, representing 59.5% of the sector's aggregate, and slightly below the 60.8% average for 1998-2002. Operating costs contracted by 1.2% to $224.6 million, marked by a further, but more tempered, 3.4% reduction in non-staff administrative costs to $87.8 million. Salaries, the largest component, stabilized at $128.9 million, while fees and other payments to Government increased by 6.3% to $6.7 million, with reduced license payments offset by marginally higher charges on other expenses, including work permits. Conversely, capital outlays decreased by 10.6% to $11.8 million, reflecting lowered expenditures on new premises, office equipment and furniture.

Total expenditures within international operations recovered moderately by 3.4% to $161.1 million, extending the 10.8% average annual increase for 1998-2002. Operational costs, which accounted for 97.8% of the total, rose by 5.2% to $157.5 million, with non-staff administrative costs increased to $78.9 million from $64.9 million, and fees and other payments to Government higher by 5.4% at $9.7 million. However, in line with reduced staffing, salary expenses decreased by 8.5% to $67.7 million and training outlays fell by a third. International banks' capital outlays declined by 41.9% to $3.6 million, inclusive of reductions for renovations (76.6%), new premises (27.3%) and other fixed assets (31.4%).

The higher-end skills used in international operations continued to attract premium salaries relative to the domestic sector, increasing to 58.0% of average local salaries compared to 53.9% in 2002. In this regard, average pay gains in the domestic sector of 3.0% to $40,379 per annum, trailed the 5.6% average increase to $63,773 for employees in the international sector, where more sizeable bonus payments were noted in 2003.

OTHER FINANCIAL SECTOR ACTIVITIES

Table C summarizes selected information on other financial sector activities, including some results from the Central Bank's survey for 2003.

CREDIT UNIONS

The Department of Cooperative Development reported a decline in the number of credit unions by one (1) to 19 at end-2003. During 2003, total assets of these entities rose by a healthy 13.3% to an estimated $150.1 million, 85.0% of which was concentrated among the five largest unions having hotel and public sector membership. Gains during 2003 were mainly underpinned by the ability of unions having public sector affiliations to attract more deposits, through aggressive promotional membership drives and marketing efforts to expand the range of services offered.

Based on the Central Bank's survey, credit unions collectively employed more than 100 employees in 2003, showing a slight increase over 2002. After some reduction in investment outlays, estimated expenditure decreased marginally (1.4%) to $86.1 million during 2002. However, operational expenses grew as a result of recovered non-staff outlays, which represented almost 90.0% of the total. In this regard, salaries accounted for 38.3% of operational outlays and were boosted by almost 15% in response to new hirings and greater utilization of existing part-time resources. Although the industry indicates that credit union pay scales are competitive with the rest of the local financial sector, average salaries approximated $22,394 per annum in 2003, up by 5.9% from a revised $21,146 per annum in 2002—owing to the presence of part-time workers.

Insurance Companies

Data from the Office of Registrar of Insurance Companies indicate that the number of licensed insurance companies, brokers, agents and managers increased by 1 to 163 at end-2003. Licensees operating in the domestic sector rose to 137, while the number of external insurers remained at 26. Combined assets of the domestic companies (life, health, property and casualty) for 2002, the latest date for which information was available, were $740.7 million—an increase of 2.5% over 2001. Approximately 75% of the total was concentrated among life and health insurance companies.

Data from the Ministry of Finance indicate that the Government's direct benefit from insurance activity was nearly doubled at $11.7 million in 2003. Most of this was in the form of the gross premium tax, as the yield was boosted following an increase in the assessment rate, as was provided for in the Government's 2003/04 Budget.

The survey results for 2003 were based on data from 19 companies employing an estimated 1,188 employees and representing more than 80 percent of the life and health operations and a modest number of brokers and agents. In response to improved business conditions, total employment among the reporting operations increased by 3.8%. Similar to domestic banks, non-Bahamians represented an extremely small, but important fraction of the work force (less than 3.0%), providing specialized higher-end services. Meanwhile, average salaries in the sector approached $40,000 per annum, remaining competitive relative to local banks.

Although employment appeared to be slightly higher, total expenditures in the sector decreased by 2.9%, after some rebound in 2001. Operating expenses comprised more than 95% of the total, with salaries, which represented a nearly stable 53.2% of the operational total, increased by 3.6%, as non-staff administrative expenses were reduced. Capital outlays for insurance companies increased slightly.

Employment and growth prospects for the domestic insurance sector are expected to improve in line with the rest of the economy during 2004 and 2005. Nevertheless, the effects of consolidation could still be important in the local sector. During 2003, the Colina Insurance Company Limited applied to acquire Canada Life Insurance Company, receiving final regulatory approval in January 2004. In December 2003, Colina also applied for regulatory approval to acquire the operations of Imperial Life Financial Bahamas, a branch of the Canadian Desjardin Financial Security Life Assurance Company. The application is being reviewed by a committee of financial services regulators, including the Office of the Registrar of Insurance Companies, the Central Bank, the Securities Commission and the Ministry of Finance, who will make a final recommendation to the Minister of Finance on the transaction during 2004.

Securities Industry

The Securities Commission reported an increase in the number of active investment (mutual) funds operating from or within the Bahamas to 721 in 2003 from 669 in 2002, with a corresponding 18.9% growth in the value of assets under management to $107.4 billion. Other than banks, a more limited number of firms provide employment opportunities in the securities industry—inclusive of 3 firms that participate in the domestic sector. Survey and estimated results for 16 investment fund administrators, employing 145 persons, suggest that administrators concentrated less on IBC management, as a decreased number of companies were in existence, although comparatively more competitive the number of mutual funds under administration increased. Higher revenues from the latter, which sustained most of the industry's operations, alongside stabilized employment, provided for an average salary of nearly $60,000. As regard expenditure patterns, salaries of the surveyed firms accounted for approximately 45.6% of operational expenses which, in turn, represented more than 95% of total costs.

Capital Markets

Although less significant for employment and expenditures, domestic capital markets solidify the intermediary channels through which financial institutions operate, and through which benefits could be derived from international securities listing on the stock exchange. Added to increased investor confidence and domestic trading activities, a number of new securities listings were added to the local and international sides of the Bahamas International Stock Exchange (BISX). The number of publicly traded companies in The Bahamas remained at

Table C: Other Selected Financial Sector Statistics

	Unit	2000	2001	2002	2003
Investment Funds Adminstrations					
Licensed Mutual Funds	Number	757	673	706	721
Licensed Administrators	**Number**	**57**	**58**	**61**	**66**
Asset Under Management	*B$ Billions*	*95.02*	*94.47*	*97.34*	*107.39*
Average Annua1 Salaries	*B$*	*n/a*	*57,344*	*58,807*	*58,022*
Operating Costs / Total Expenditures	*%*	*n/a*	*88.9*	*98.0*	*98.0*
Insurance Companies and Agents	**Numebr**	**144**	**147**	**153**	**154**
Domestic Companies and Agents	**Number**	**117**	**120**	**126**	**127**
Total Domestic Assets	*B$ Millions*	*620.40*	*682.55*	*740.70*	*n/a*
Average Annua1 Salaries	*B$*	*n/a*	*38,165*	*37,971*	*38,023*
Operating Costs / Total Expenditures	*%*	*n/a*	*97.3*	*98.1*	*97.4*
External Insurers	**Number**	**27**	**27**	**27**	**27**
Credit Unions					
Number of Unions	**Number**	**18**	**19**	**20**	**19**
Total Assets	*B$ Million*	*110.9*	*120.4*	*132.5*	*150.1*
Employment	*Number*	*n/a*	*99*	*96*	*104*
Average Annua1 Salaries	*B$*	*n/a*	*20,339*	*21,146*	*22,394*
Total Expenditres	*B$ Million*	*n/a*	*5.12*	*6.17*	*6.08*
Operating Costs / Total Expenditures	*%*	*n/a*	*89.9*	*65.4*	*89.5*
Bahamas International Securities Exchange (BISX)					
Listed Public Companies	**Number**	**15**	**17**	**16**	**17**
Shares Traded	*Thousands*	*3,720*	*3,958*	*2,748*	*3,569*
Market Capitalization	*B$ Billion*	*1.74*	*1.68*	*1.76*	*1.66*

Sources:
The Central Bank of The Bahamas, Bahamas International Securities Exchange (BISX),
The Securities Commission of The Bahamas and The Registrar of Insurance Companies.

23; and BISX listed entities were unchanged at 16. Including two investment companies, four mutual funds and two preference share issues, available public securities trading locally increased by 1 to 29 during the year. The addition reflected a real estate investment company which listed on BISX in September 2003. BISX also attracted its first international funds listing (5), with combined net assets of approximately $90 million. During 2004, the Exchange also expects to attract listings for at least three other previously established domestic mutual funds.

Investor confidence market was more upbeat in domestic capital markets during 2003, gaining momentum in the second half of the year. Although the volume of shares traded on BISX increased by 17.8% to 3.569 million, the estimated value fell sharply by 50.6% to $7.4 million, partly reflecting the mix of securities that were traded. The second half upturn softened the decline in the BISX All Share Price Index to 2.0% from the year-earlier drop of 13.0%. After losses of more than 10% in 2002, the fall-off in the broader Fidelity Capital Market Index, which also captures over-the-counter trading, narrowed to 0.6%. Total market capitalization on BISX decreased by 5.5% to $1.7 billion.

As regard market infrastructure issues, the appointed Select Committee on BISX, chaired by the Governor of the Central Bank, with responsibility for formulating a Government financial support strategy for the Exchange, presented its proposal to the Government in the fourth quarter of 2003. A decision on the Government's involvement is expected during 2004.

RECENT REGULATORY DEVELOPMENTS IN THE FINANCIAL SECTOR

Regulatory developments during 2003 were headlined by amendments to the legal framework for combating money laundering and the introduction of a more comprehensive legal framework for the investment funds industry.

Having implications for all financial sector licensees, on 31 December 2003, the Government enacted amendments to the Financial Transactions Act (FTRA), 2000 and the Financial Transactions Reporting Regulations (FTRR), 2000, to align The Bahamas' anti-money laundering regime and "know-your-customer" (KYC) standards with the new risk-based approach of the FATF's Revised 40 Recommendations on money laundering. Of most immediate significance, the deadline for verification of existing customer identities was extended to April 4, 2004, with the discretionary authority on how to deal with unverified accounts decentralized from the Central Bank and delegated to the respective sector regulators. Financial institutions are required to have established their respective risk-based KYC frameworks by June 30, 2004, through which they would be required to undertake additional due diligence, whenever the nature of existing business relationships with clients change significantly. In the case of local banking, the threshold value for account facilities which have to undergo KYC verification was increased to $15,000 from $10,000, thereby easing the compliance burden.

Strengthening of the regulatory infrastructure and oversight for banks and trust companies was highlighted by continued phasing out of managed or shell banking operation, expected to be completed by June 30, 2004. Since 2002, the Bank has, in consultation with the industry, developed and issued a number of important prudential and operational guidelines for licencees addressing, among other things, management of liquidity, large exposure and operational risks; corporate governance and minimum financial disclosure requirements. Issues being addressed in other draft guidelines circulating for industry comment include credit risks, and the relationship between licensees and their external auditors. The Bank itself also forged closer consultative relationship with the external auditors of licencees, establishing an Auditors Advisory Committee in 2003.

As evidence of ongoing international cooperation, the Central Bank provided responses to 24 of 29 regulatory requests for assistance from foreign agencies in 2003–the remainder still being under active consideration at the end of 2003. The Bank also negotiated additional Memorandums of Understandings (MOU), to facilitate examinations by foreign supervisory authorities of banking entities with operations originating in these country.

Developments in the securities industry were marked by the enactment of the Investment Funds Act (2003) and associated Regulations, which repealed and replaced the Mutual Funds Act, 1995. While encompassing the narrow definition of international funds, which The Bahamas sought to attract under the 1995 law, the Act introduces a distinction between funds marketed and administered for sophisticated wealthy investors, standard funds—which may be sold to less sophisticated, investors but subject to tighter supervision—and Specific Mandate Alternative Regulatory Test (SMART) funds. The regulatory structure for SMART funds will be industry driven, and tailored to the development and marketing of new products. Provisions have also been made for investment funds which have been constituted in other recognized jurisdictions to be registered to carry on business from within The Bahamas. The legislation retains provisions which permit only unrestricted fund administrators to license and administer multiple funds and with this, having to satisfy, among other things, more stringent capital and net worth requirements.

Conclusion

The financial sector's outlook has significantly stabilized and improved in some cases, relative to the 2001-2002 period, when both global political and market conditions were less favourable. With the impact of regulatory adjustments continuing to unwind during 2004 and economic conditions more ameliorated, the industry is likely to have increased growth opportunities in both the domestic and international sectors. Ongoing efforts to strengthen the supervisory framework should enhance The Bahamas' reputation as a safe, well regulated jurisdiction. Efficiencies and increased transparency are also being realized as a result of greater cooperation and exchange of information among Bahamian regulators. The more comprehensive regulatory framework for the investments funds industry is expected to solidity The Bahamas' ability to attract modern investment vehicles, which complement banking sector growth. Along these lines, the Government is also considering legislation that would allow for the establishment of foundations under Bahamian law, providing an alternative to the trust vehicle for wealth management.

Recent regulatory changes, nevertheless, underscore the evolving nature of competitive forces which could emerge in the future, particularly for the international sector. The trend towards increasing international cooperation is eroding the importance of secrecy and tax shelters in attracting offshore business. As such, The Bahamas is expected to experience more competition to provide increased value-added through capitalizing on the enhanced productivity and skills of the financial sector workforce. The jurisdiction is already well positioned to build productive capacity, having a highly functional center with a diverse core of trained professionals, and with tertiary level training facilities to address specific operational needs of the financial sector.