



QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT
29 September, 2022



QUARTERLY LETTER

Introduction

As the newly appointed Inspector of Banks and Trust Companies with effect from 1 July, 2022, I am delighted to take this opportunity to share the continuing supervisory priorities of the Central Bank that emerged from the Bank's strategic plan. Work that will have an impact on our supervisory agenda in the near to medium-term include:

- AML/CFT External Engagement and other Initiatives;
- Transforming supervision through technology;
- Reforming our policy architecture; and
- Setting the appropriate balance for 'fit for purpose' supervisory practices.

AML External Engagement and Other Initiatives

In the past few years, the Central Bank has invested significantly in improving its AML/CFT supervision and raising the reputation of the jurisdiction as a world-class leader in hosting a conference dedicated to AML/CFT research. This will continue to be one of our flagship events. The fourth annual AML/CFT Empirical Research Conference will be held on 26 and 27 January, 2023. As in prior years, we expect the conference to bring together the world's leading researchers, experienced practitioners and policy makers to present and discuss research papers related to anti-money laundering and financial crime.

The Central Bank is currently engaging with the business community through the Bahamas Chamber of Commerce and Employers Confederation to quantify and address concerns around challenges faced by businesses in opening operating deposit accounts with commercial banks. The Central Bank will use this input to develop a framework to provide a more streamlined, but still risk-based approach to Customer Due Diligence for businesses. As a part of our AML examination process, we will also be introducing a segment that assesses and rates operating practices within each commercial bank that impact the Ease of Doing Business and Financial Inclusion. It is expected that the scorecard produced for each institution would be published.

The Central Bank will continue to engage with the Compliance Officers and Money Laundering Reporting Officers of our SFIs as well as BACO, as the professional body. The Bank plans to move to an approval regime for Compliance Officers. Draft Guidelines around this framework will be issued for industry consultation. This is an area where we will engage closely with BACO.

Transforming Supervision through Technology

It's important that the Central Bank's supervisory toolkit, policies and practices continuously adapt to the changing risk environment. We have already started to introduce new technology layers to our supervisory platforms that will inform our risk monitoring, data collection and risk assessment processes. More robust data analytics, stress testing and risk modelling will be a paramount feature in terms of our technical upgrades. In this regard, we are also strengthening staffing capacity within Bank Supervision, though increased emphasis on training and where necessary recruiting additional skillsets.

As an outcome from the Bank's IT Modernization Project, by the end of the fourth quarter of 2022, we expect to introduce an Online Portal to receive and process the suite of applications for regulatory approvals. This project is now in the pilot testing stage. Once implemented, the portal will streamline the process of interacting with the Central Bank for approvals and provide added transparency around the documentary requirements for regulatory approvals. We thank all SFIs who have participated in the testing to date; and we look forward to the full implementation of this application.

Reforming Our Policy

Architecture

Over the last two decades, the Central Bank has issued a large compendium of prudential standards set out in Guidelines or Guidance Notes, which require a more tailored, streamline presentation. Our goal is to ensure that the policy framework is clear, simple and adaptable—yet effective in setting out the minimum standards for SFIs. To this end, the Central Bank is embarking on a multi-year programme to review all existing Guidelines and Guidance Notes, to amend and condense them while keeping all guidance aligned with international best practices and Bahamian legislation. In this regard, the Central Bank will release an information paper which sets out what SFIs can expect from the programme. Throughout this process, the Central Bank will stay engaged with industry stakeholders.

Setting the appropriate balance for 'fit for purpose' supervisory practices

In our risk-based approach, the intensity of our supervision is tailored to the assessment of the risk that each SFI poses to the financial sector and the jurisdiction. The Central Bank will therefore continue to assess whether our practices are truly aligned with a risk-based methodology and not conveying a "one size fits all approach". This does not diminish the fact that all SFIs are held to the same regulatory standards as appropriate. On balance, a '**fit for purpose**' approach will enable us to take an introspective assessment of our practices and make the necessary adjustments to ensure that The Bahamas maintains a transparent and defensible framework that meets the test of effectiveness against international standards. Included in this work stream is the Central Bank's plans to release a high-level Guidance Notes on Enterprise-Wide Risk Assessments. This is an important management tool that SFIs have been submitting to the Central Bank over the past two years. Overall, our analysis to date suggest that a framework outlining our minimum expectations would improve the depth of the submissions particularly for some of our smaller SFIs. We will engage with industry to inform how we continue to shape our practices.

The Central Bank will also continue to work with other domestic regulators on harmonization of practices that lead to better coordinated supervision that meets our individual objectives.

Policy Updates

We were pleased to release the [Bahamas Capital Regulations, 2022](#) which came into effect on 15 July, 2022 and the accompanying Guidelines for the Management of Capital and the Calculation of Capital Adequacy. Work continues on progressing proposed amendments to other legislation and guidelines impacted by the new Capital Regulations which includes: the Liquidity and Large Exposures Regulations and Guidelines, Credit Risk, Market Risk and Operational Risk.

The Recovery and Resolution Framework is also receiving significant attention. The [Recovery Planning Guidelines, 2022](#) were released to take effect on 20 September, 2022. The second stage of this process is the resolution aspect for which we are developing a toolkit to inform and guide our actions. Operational enhancements to the Deposit Insurance Corporation and legislative amendments to the Bahamas Cooperative Credit Union Act will also be addressed under this framework. As with the recovery segment of the framework, we are also benefiting from technical assistance provided by the International Monetary Fund (IMF).

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