



Industry Briefing

REGULATORY & SUPERVISORY UPDATE

28 February 2023



INDUSTRY BRIEFING
REGULATORY & SUPERVISORY UPDATE
VIRTUAL – VIA ZOOM
28 February, 2023 - 9:30am to 12:00pm

Meeting Agenda

9:30 a.m.	9:40 a.m.	Welcome & Opening Remarks	Karen Rolle, Inspector
9:40 a.m.	9:55 a.m.	Overview of the Financial Sector	Karen Rolle, Inspector
9:55 a.m.	10:10 a.m.	Economic Outlook	Sharon Branch, Senior Economist
10:10 a.m.	10:25 a.m.	Thematic Trends from On-Site Examinations	Anita Bain, Chief Examiner
10:25 a.m.	10:40 a.m.	AML Supervision	Sherrece Saunders, Deputy Inspector Bonnielyn Adderley, Deputy Manager
10:40 a.m.	10:55 a.m.	Policy Initiatives	Eva Etienne, Deputy Manager
10:55 a.m.	11:20 a.m.	Proposed Legislative Amendments	Rochelle McKinney, Legal Counsel Vandera Carey, Assistant Legal Counsel
11:20 a.m.	12 noon	Q & A	

CLOSING



Welcome & Opening Remarks

Overview of the Financial Sector



Supervised Financial Institutions				
	2019	2020	2021	2022
Banks & Trust Companies	221	217	214	203
Banks & Trusts	50	50	50	47
Banks	24	24	22	21
Trusts	147	143	142	135
Non-licensee Registered Representatives	6	6	6	7
Private Trust Companies (Registered)	142	136	140	155
Money Transmission Businesses	5	5	5	5
Cooperative Credit Unions	10	10	10	8
Payment Services Providers	3	3	3	3

Overview of the Financial Sector

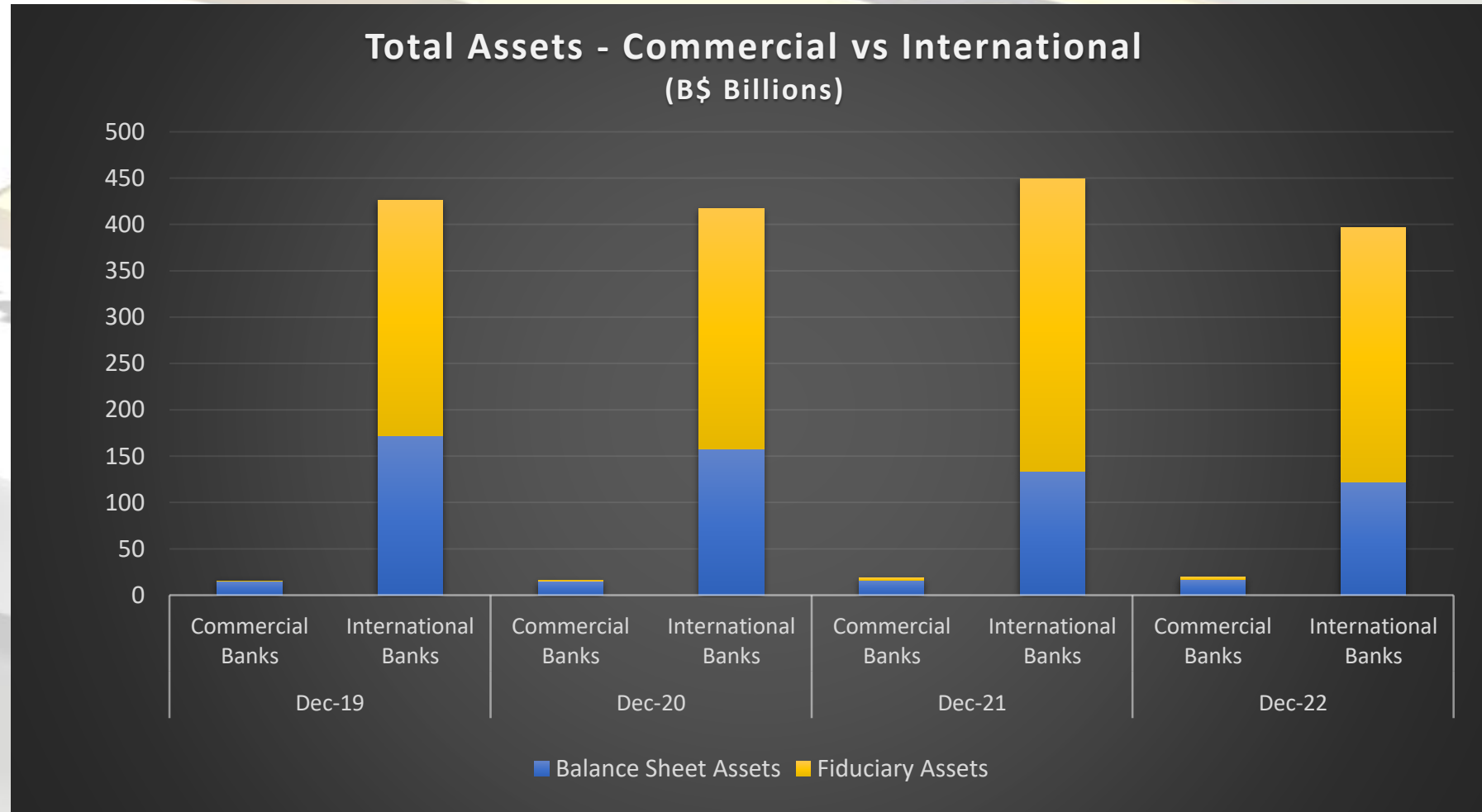


Total Assets - ALL SFIS

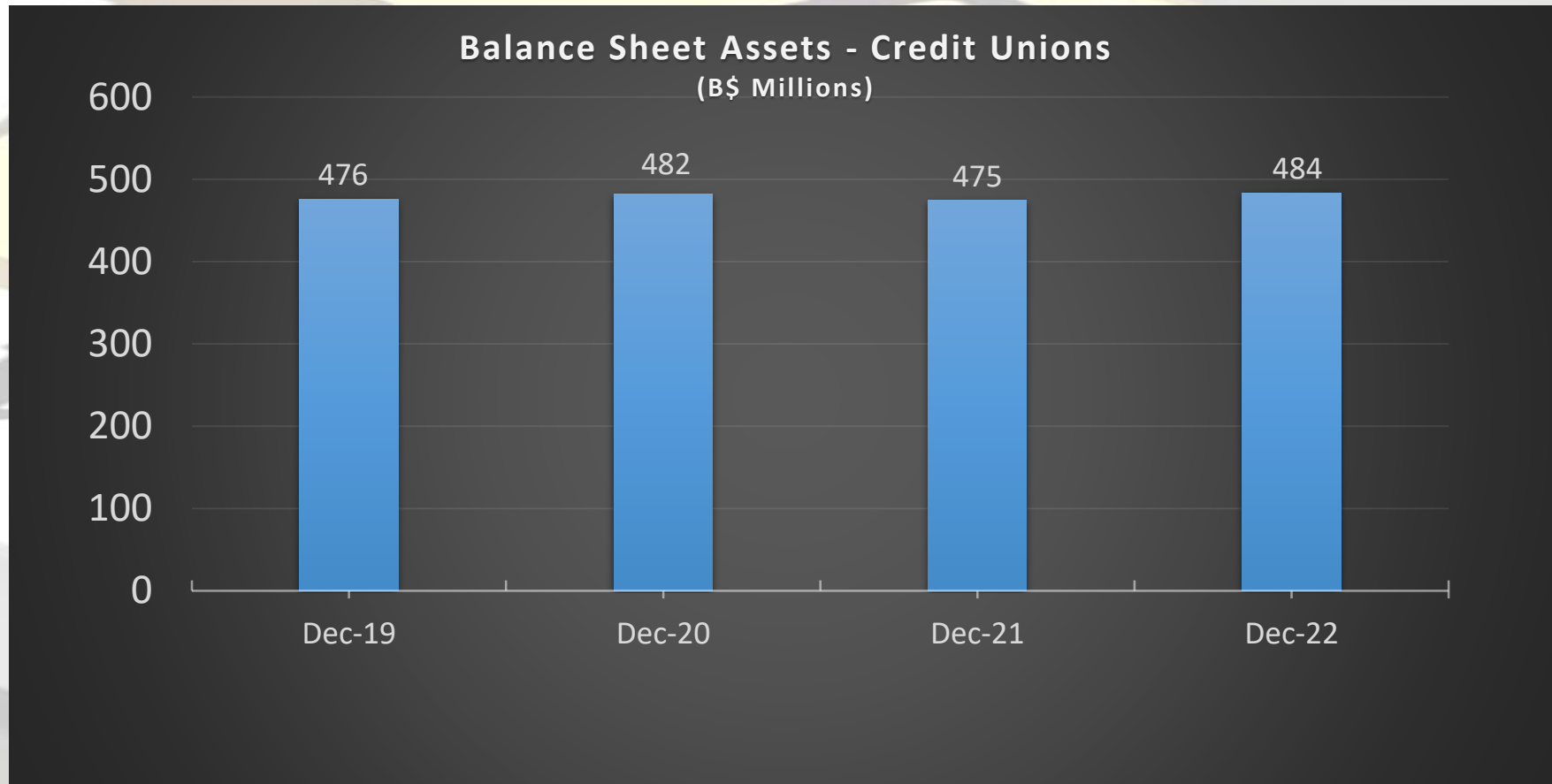
SFI TYPE	# of SFIs as at Dec-22	Dec-22		
		Balance Sheet Assets (\$ Millions)	Fiduciary Assets (\$ Millions)	Total Assets (\$ Million)
Banks & Trust Companies (Public)				
Authorized Dealers (including 10 Clearing Banks)	10	16,806	2,985	19,790
Authorized Agents (OLFIs)	11	4,133	146,925	151,059
International Home	19	770	35,073	35,843
International Host	35	117,217	92,354	209,570
Total Banks & Trust Companies	75	138,926	277,336	416,262
Credit Unions	8	484	-	484
Money Transmission Businesses	5	24	-	24
Electronic Money Service Providers	3	8	-	8
Registered Representatives	7	2	-	2

MTB Services		
Service Provided	2022	
	# of Trnx	Value (\$000)
Money Transmission Inward	156,714	68,575
Money Transmission Outward	285,159	136,074

Overview of the Financial Sector



Overview of the Financial Sector



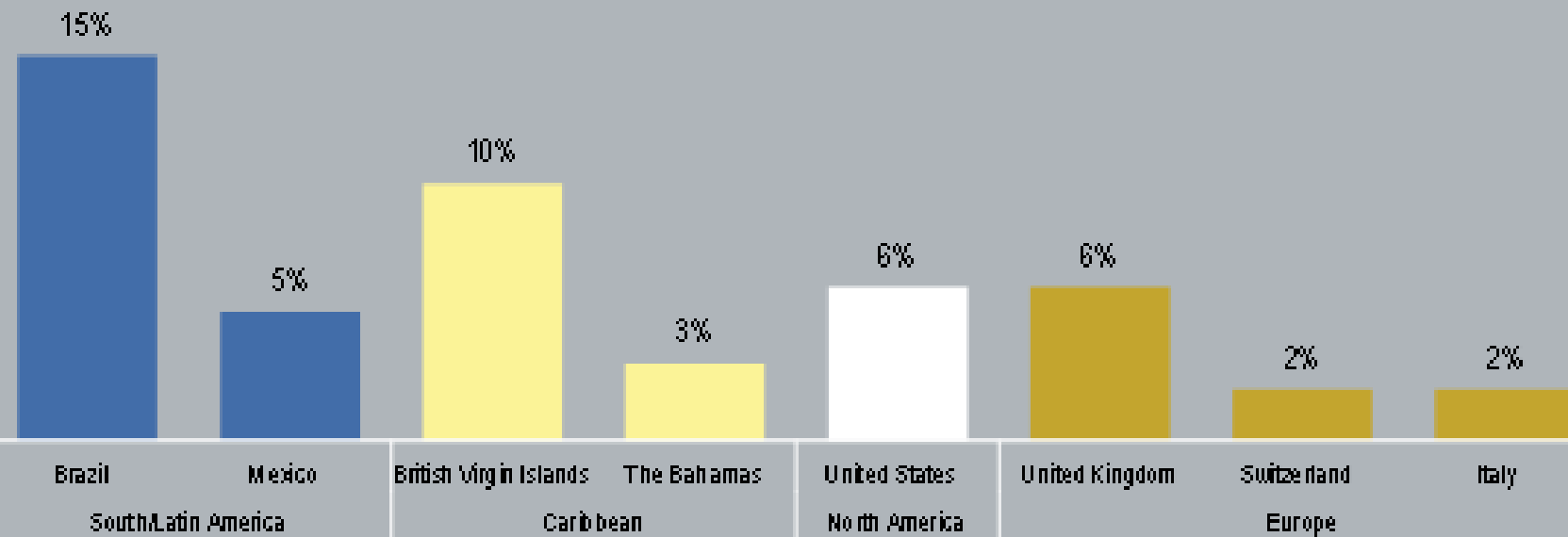
Overview of the Financial Sector



International Banks & Trust Companies

Country Concentration - 2021

Deposits & Fiduciary Assets



Economic Outlook



- Domestic Economic Developments
- The Real Sector
- Domestic Inflation
- Monetary Sector Developments
- Lending Conditions
- Financial Sector Developments
- Near-Term Outlook for the Domestic Economy

Domestic Economic Developments



Overview

Indications are that the domestic economy sustained its recovery trajectory in 2022, from the negative effects of the Novel Coronavirus (COVID-19) pandemic. As a result, the International Monetary Fund (IMF) forecasts that the domestic economy will register a growth of 8.0% in 2022, from 13.7% in 2021, as tourism output continued to register strong growth.

Tourism Developments

On an annual basis, total arrivals grew to 7.0 million—the first time since 2019—relative to 2.1 million in 2021 when a 17.1% growth was posted.

- Air passengers strengthened to 1.5 million, extending the 111.9% expansion in the comparable period last year.
- Sea arrivals rebounded to 5.5 million following the 11.8% reduction in 2021.

Tourism Developments 2022 vs. 2021

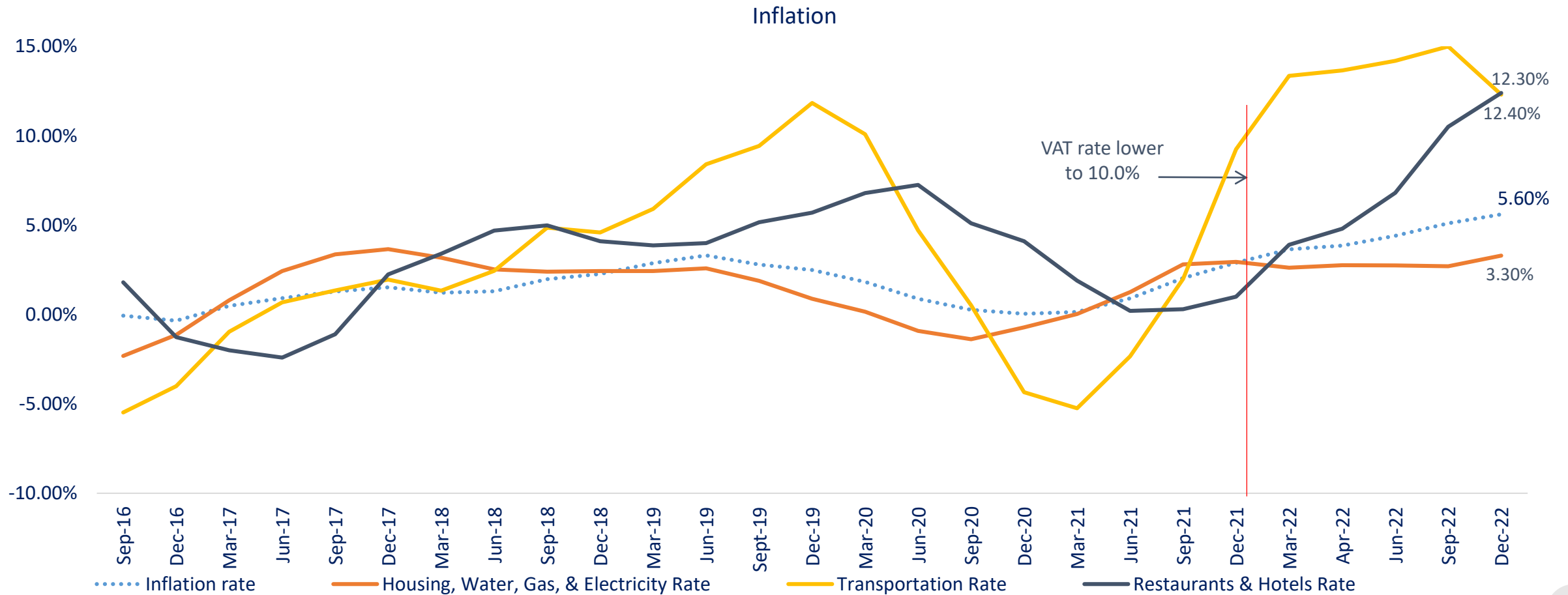


	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2021	2022	2021	2022	2021	2022
Arrivals						
Air	102.1	74.6	68.7	100.1	155.6	36.2
Sea	-21.5	360.5	-35.2	433.6	0.0	344.7
Total	22.2	193.5	-24.4	356.4	17.1	270.9

Retail Price Index



Inflation increased to 5.6% in 2022 from 2.9% in 2021, attributed to the pass-through effects of higher global oil prices and the rise in costs for imported goods.



Source: Department of Statistics and Central Bank of The Bahamas

Monetary Developments: Liquidity Conditions 2022 vs. 2021



Liquidity

During 2022, the growth in liquidity was supported by the receipt of proceeds from Government external borrowings and foreign currency inflows from real sector activities.

- Excess liquid assets rose by \$333.9 million, exceeding the \$209.1 million expansion in the prior year.
- Similarly, excess reserves grew by \$387.2 million, extending the \$104.0 million accumulation in the preceding year.

External Reserves

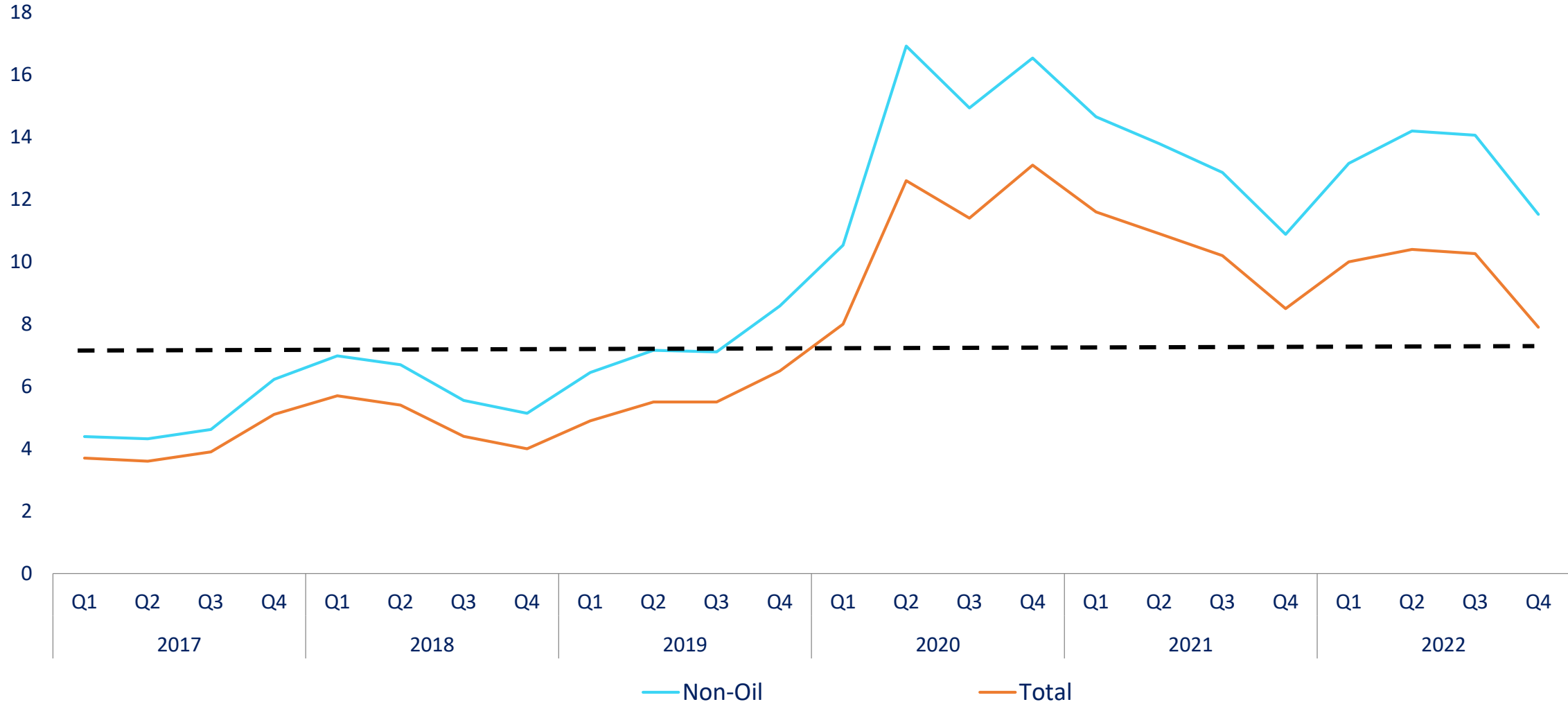
External reserves expanded by \$137.4 million, for an ending balance of \$2,596.53 million in 2022, extending the \$78.6 million accumulation in 2021.

- Balances were equivalent to an estimated 7.9 months of the current year's total merchandise imports, vis-à-vis 8.5 months in 2021.

Import Cover Ratio (Months) 2022 vs. 2021



Months

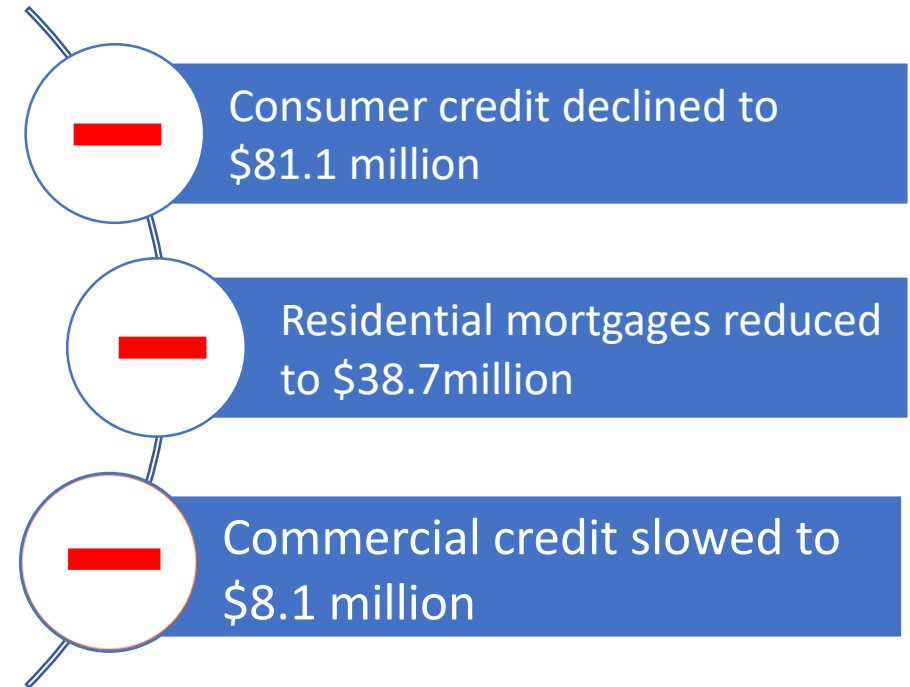


Lending Conditions 2022 vs. 2021



- In 2022, total Bahamian dollar domestic credit contracted by \$2.8 million to \$8,523.9 million, a reversal from a \$303.4 million accumulation in the prior year.
- Net claims on the Government increased by \$92.3 million, trailing the \$420.9 million buildup in 2021.
- Credit to public corporations grew by \$32.8 million, outpacing the \$10.5 million growth in the preceding year.

- Private sector credit contracted by \$127.7 million in 2022, albeit slightly lower than the \$128.0 million reduction in 2021.



Financial Sector Developments in 2022



Banks' credit quality indicators improved during 2022.

Total private sector loan arrears reduced by \$169.6 million (21.8%) to \$610.2 million, lowering the corresponding ratio by 2.9 percentage points to 11.4%.

Non-performing loans decreased by \$113.0 million (21.4%), as the relevant ratio fell by 1.9 percentage points to 7.7%.

Short-term arrears declined by \$56.6 million (22.5%), resulting in the attendant ratio narrowing by a 1.0 percentage point to 3.6%.

Mortgages still accounted for the majority of arrears, at 62.5%, followed by consumer arrears (28.4%) and commercial arrears (9.0%).

Outlook for 2023



- The **growth** in domestic economy is anticipated to sustain its upward trajectory in 2023, buoyed by the ongoing strengthening in the tourism sector.
- The **unemployment** rate is projected to remain above pre-pandemic levels, with any job gains concentrated mainly in the construction sector and the full rehiring of tourism sector employees.
- **Domestic inflation** is expected to remain elevated, on account of the rise in international oil prices, increased costs on other imported goods due to supply chain shortages and ongoing geopolitical tensions in Eastern Europe.
- In the **fiscal sector**, the Government's net financing gap is expected to stay elevated, though trending downwards. The estimated budgetary gap is anticipated to require a combination of both domestic and external borrowings, but with an increased proportion of the total funding from domestic sources.
- **Banking sector liquidity** is anticipated to remain high in 2023, as commercial banks uphold their cautious lending stance.
- Banks' **capital levels** are forecasted to remain well above the Bank's minimum requirement of 17.0%, thereby mitigating any financial stability concerns.

Outlook for 2023



- **External reserves** are projected to remain at healthy levels in 2023, staying well above international benchmarks, supported by anticipated foreign currency inflows from tourism, and other net private sector receipts.
- Balances are expected to remain at satisfactory levels to sustain the **Bahamian dollar currency peg**.

Risk to the Outlook



- **Tourism:** further mutations of the COVID-19 virus, which could potentially undermine the progress made on the international health front and disrupt travel sector activity; and the rise in global fuel prices could constrain the travel industry's competitiveness, while the major central banks' counter inflation policies could curtail the travel spending capacity of key source market consumers.
- **Employment:** Insufficient or slowed pace of private investments, particularly FDI, could hinder jobs creation.
- **Inflation:** ongoing geopolitical tensions in Eastern Europe, a decrease in oil production and food supply disruptions could result in higher prices.
- **Fiscal:** diminished access to credit markets could limit the fiscal capacity to stimulate the economy.
- **External Reserves:** heightened demand for foreign currency for rebuilding works and constrained tourism output could accelerate the drawdown in reserves.

Thematic Trends from ON-SITE EXAMINATIONS

Common Themes (Deficiencies) - Examinations

- Periodic self-assessments of the Board and Independent Non-Executive Director (INED)
- Annual AML training for all stakeholders
- Comprehensive review of policies and procedures
- Enterprise wide risk assessment (EWRA)
- AML Risk Assessment

AML Supervision



AML Data Returns

- 2022 Returns due 28 February

Notable findings from the 2021 Returns include:

- The domestic sector was found generally to have a low concentration of high-risk customers; while in the international sector, approximately 17 percent of accounts were associated with high-risk customers.
- There has been notable improvement in staff and director training across the industry;
- There has been a reduction in the time taken to file STR reports with the FIU.



AML Supervision



SFIs ML/TF Risk Assessments

- Feedback provided during the fourth quarter of 2022 explaining our ML/TF risk assessment minimal expectations, where necessary.
- Guidance Note to assist with the preparation of SFIs ML/TF risk assessment is expected to be released during the first quarter of 2023.
- ML/TF Risk Assessments due 30 June 2023.



AML Supervision



AML Requirements



AML REQUIREMENTS				
Period	Beginning	Added	Closed	Ending
1 Jan 18 to 31 Mar 18	76	33	17	92
1 Apr 18 to 30 Sep 18	92	74	57	109
1 Oct 18 to 31 Mar 19	109	74	47	136
1 Apr 19 to 30 Sep 19	136	30	88	78
1 Oct 19 to 31 Mar 20	78	57	72	63
1 Apr 20 to 30 Sep 20	63	27	38	52
1 Oct 20 to 31 Mar 21	52	40	29	63
1 Apr 21 to 30 Sep 21	63	32	30	65
1 Oct 21 to 31 Mar 22	65	25	33	57
1 Apr 22 to 30 Sep 22	57	35	32	60

At 30 Sept 22	
Domestic Banks	23
International Host	21
International Home	16
	60

AML Supervision



AML Supervisory Initiatives

- Enhanced Risk Assessment Tools.
- Issuance of Risk Assessment Letters, inclusive of ML/TF Risk Assessments.
- Meetings with Compliance Officers/ MLRO - Ongoing and Exit Meetings.
- AML Focused On-site Examination.



AML Supervision



AML External Engagements

Significant projects and initiatives include:

- AML Empirical Research Conference held January 2023.
- Engagement with Correspondent Bankers.
- Enhancement of the Central Bank's website to include a robust AML/CFT section is expected to be released by the third quarter 2023.
- Participation in The Bahamas' Identified Risk Framework Steering Committee (IRFSC) and National Risk Assessment.
- The Group of Financial Services Regulators (GFSR) -
 - *2022 AML/CFT Report Publication*
 - *Joint Guidance Note on SFIs Sanctions Reporting*
 - *Updated Joint Guidance Note on Proliferation Financing*
 - *Joint Guidance for the treatment of Politically Exposed Persons*



AML Supervision



Update on The Bahamas' Mutual Evaluation Report (MER)

- In December 2022, The Bahamas was successfully re-rated by the CFATF on the last two FATF Recommendations. The country is now the second jurisdiction in the Caribbean region, and sixth in the FATF global network to achieve the status of '40 for 40' compliant and largely compliant ratings in technical compliance with the FATF's 40 recommendations.
- The fourth round of the FATF Mutual Evaluations is beginning to come to an end globally; with the fifth round commencing shortly thereafter.



Policy Initiatives

Basel III Implementation

- Dividends Regulations
- ICAAP
- Large Exposure Regulations & Guidelines
- Liquidity Framework
- Market Risk
- Operational Risk



Bank Resolution Framework

- Business Continuity Planning
- Ladder of Supervisory Intervention
- Liquidation & Revocation Procedures
- Resolution Toolkit



Governance

- Compliance Officers Guidelines
- Corporate Governance Guidelines
- Fitness & Propriety of Applicants for Regulated Functions
- Guidelines on the Relationship between External Auditors and the Central Bank



Emerging Risks

- Climate Risk
- Cyber Risk
- Digital Assets





Proposed Legislative Amendments

- **Central Bank of The Bahamas Act, 2020**
- **Banks & Trust Companies Regulation Act, 2020**
- **Bahamas Co-Operative Credit Union Act, 2015**
- **Payment Systems Act, 2012**
- **Payments Instruments (Oversight) Regulations, 2017**

Improvements to the Crisis Management Framework

Streamline the role of the statutory administrator and empower the Central Bank to determine the resolution strategy for a failed bank

Enable a statutory administrator to be appointed to a bank holding company or bank's subsidiary

Crisis Management

Propose a framework for Government funding of bank resolutions and the triggers or criteria for provision of such funding

Framework may include a levy on systemically important banks to recover public funding from banks in resolution.

Distinguish between the Central Bank's role as supervisory authority and its role as resolution authority

Money Transmission Service Providers



Monetary Transmission Services Providers

- The proposed legislative revisions seek to move the supervisory and regulatory framework for money transmission service providers from the BTCRA and place the framework under the Payment Instruments (Oversight) Regulations, 2017.

Consolidated Supervision

- The Central Bank proposes to introduce a regulatory and legislative framework for consolidated supervision of licensee groups.

Agency Banking



- Introduce a legislative and regulatory framework for Agency Banking which involves the provision of banking services by a third party agent of a bank to customers of the bank.

Bahamas Co-Operative Credit Union Bill, 2023



To strengthen the Resolution framework
(appointment of a Statutory Administrator,
stabilization options, liquidation provisions,
powers to execute resolution transactions,
protection of depositors and creditors)

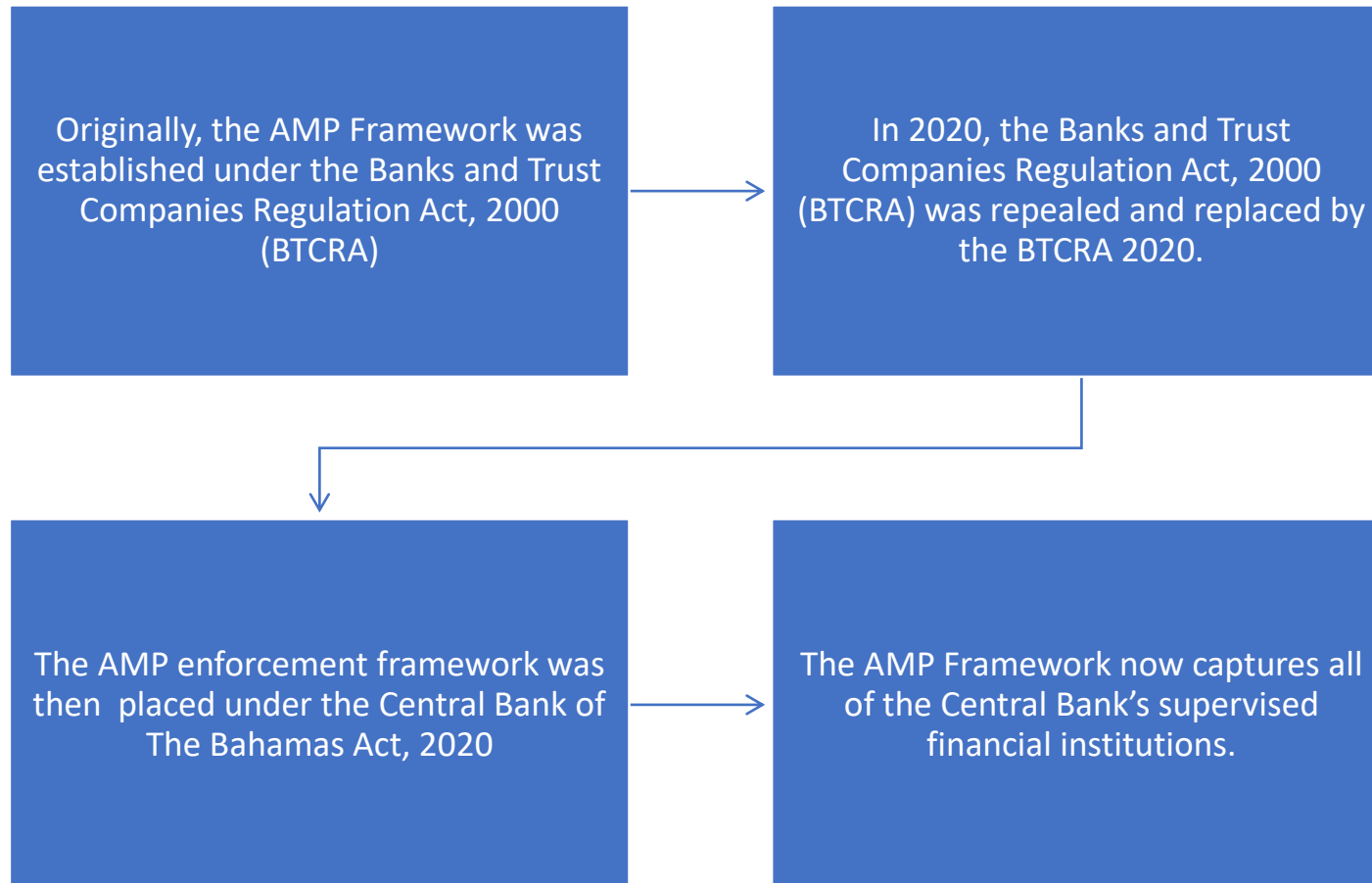
To enhance the supervisory powers of the Central
Bank
(Expand Bank's powers to issue directives)

Reasons for Legislative Reform

To implement a new Appeals Process
(The League to act as the appellate body for
disputes between credit unions and credit union
members)

To refine the corporate governance requirements
(pre-approval of directors/senior managers,
establishing board committees, appointment of a
Financial Expert to a committee of the Board)

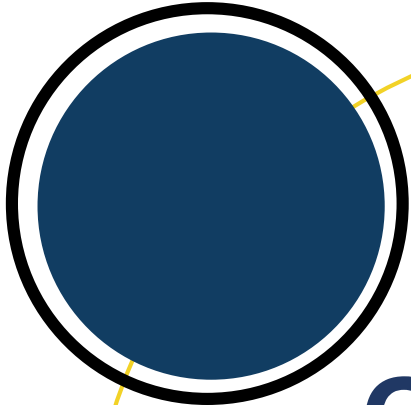
Administrative Monetary Penalties Framework



Administrative Monetary Penalties Framework



OLD REGIME	NEW REGIME
<ul style="list-style-type: none">▪ Banks and Trust Companies (Administrative Monetary Penalties) Regulations, 2016▪ Erroneous filings were considered to be late.▪ Late and erroneous filings used to attract a per diem penalty cycle.	<ul style="list-style-type: none">▪ Central Bank of The Bahamas (Administrative Penalties) Regulations, 2023▪ There is now a distinction between late and erroneous filings and penalties are applicable to each type of violation.▪ Erroneous filings will attract a lump sum payment.▪ New terms are defined, such as “large supervised financial institutions” and “small supervised institutions”.



Questions & Answers

