



**QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS**

**BANK SUPERVISION DEPARTMENT**  
**27 June, 2022**



## QUARTERLY LETTER

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### Farewell and best wishes

My engagement as Inspector concludes on 30 June. I wish my successor Karen Rolle and her team every success.

From 2017 to 2022, we progressed in notable ways:

- 1) Increased our focus upon rapid and effective intervention;
- 2) Lifted AML and financial crime supervision to parity with prudential soundness supervision;
- 3) In conjunction with industry, lifted our operational resilience; and
- 4) Materially improved the Central Bank's international engagement and reputation in bank supervision and financial crime suppression.

In achieving these results, we have benefitted greatly from enthusiastic cooperation and great competence from our Central Bank colleagues, other Bahamian public agencies, and the financial services industry. I thank all of you for your help in progressing our reforms.

### Rapid and effective intervention

In 2017 and 2018, the Central Bank amended its previous language for intervention towards the now familiar "Directives, Requirements, and Expectations" approach. At the same time, we undertook several steps to streamline internal decision-making, to reduce the time from closing an on-site examination to issuing results, and to responding more rapidly to emerging risk signals such as whistle-blower reports.

Table 1 outlines the results for our core intervention category, Requirements. Industry has roughly halved outstanding Requirements, even in the face of several hundred new items identified in recent years. As shown in the second half of Table 1, however, the remaining Requirements may prove tougher nuts to crack. Time will tell.

**Table 1: Requirements Over Time**

REQUIREMENTS	Starting Requirements			Added Requirements			Closed Requirements			Ending Requirements			Avg. Closing Time
	AML	Non-AML	AML	AML	Non-AML	AML	Non-AML	AML	Non-AML	AML	Non-AML		
31/12/17 to 31/03/18	76	216	140	33	44	11	17	38	21	92	222	130	15.6 months
31/03/18 to 30/09/18	92	222	130	74	88	14	57	116	59	109	194	85	15.2 months
30/09/18 to 31/03/19	109	194	85	74	115	41	47	87	40	136	222	86	18.2 months
31/03/19 to 30/09/19	136	222	86	30	57	27	88	140	52	78	139	61	15.8 months
30/09/19 to 31/03/20	78	139	61	57	70	13	72	102	30	63	107	44	12.7 months
31/03/20 to 30/09/20	63	107	44	27	54	27	38	58	20	52	103	51	17.2 months
30/09/20 to 31/03/21	52	103	51	40	71	31	29	62	33	63	112	49	13.6 months
31/03/21 to 30/09/21	63	112	49	32	77	45	30	56	26	65	133	68	16.7 months
30/09/21 to 31/03/22	65	133	68	25	51	26	33	79	46	57	105	48	12.4 months

  

REQUIREMENTS	Total Requirements			Too New to Assess			Progress Satisfactory			Progress Slow			Progress Not Satisfactory		
	AML	Non-AML	AML	AML	Non-AML	AML	AML	Non-AML	AML	AML	Non-AML	AML	AML	Non-AML	
31-03-18	92	222	130	43	54	11	39	110	71	10	57	47	0	1	1
30-09-18	109	194	85	21	34	13	82	109	27	6	50	44	0	1	1
31-03-19	136	222	86	49	59	10	69	109	40	18	51	33	0	3	3
30-09-19	78	139	61	8	15	7	33	66	33	35	54	19	2	4	2
31-03-20	63	107	44	0	3	3	47	74	27	16	28	12	0	2	2
30-09-20	52	103	51	19	45	26	25	32	7	0	8	8	8	18	10
31-03-21	63	112	49	38	62	24	19	32	13	4	11	7	2	7	5
30-09-21	65	133	68	24	63	39	28	51	23	13	15	2	0	4	4
31-03-22	57	105	48	25	51	26	4	7	3	28	44	16	0	3	3

It is clear from our supervision and examination that supervised entities are far from perfect, but in recent years they have cleared several hundred Requirements (and about fifty Directives) that might otherwise have proven problematic under stress.

The industry’s ability to absorb the shocks associated with Hurricane Dorian and a historic challenge in Covid demonstrates that Bahamian banks and associated institutions are generally in sound shape to face any reasonably foreseeable challenge. It is worth noting that the Government’s fiscal response to both the above shocks materially eased the potential for short term losses. We urge the industry not to rely upon any assumption that public spending will always be available to make up for catastrophe and economic losses.

**AML and financial crime suppression**

Through 2017, the Central Bank relied upon an examination-led approach to AML. From 2018 we have converted to a supervision-led response. As shown in the “Added Requirements” columns of Table 1, this led to a few years where there was a need to catch up on identified shortcomings on AML matters, but it seems that AML and prudential soundness measures are more or less equal at this point.

We have yet to become fully satisfied with our supervisory strategy for AML and financial crime suppression. Our efforts in recent years have led to literally hundreds of improvements, but the fact that

we found so many areas requiring improvement, suggests that we and industry have more work to accomplish here.

I expect that the Central Bank will continue refining its AML supervisory approach, with a focus on third-party expert support as well as our internal activities. I expect too, that the Bank will continue to make better use of the information sources available to it, including the increasingly useful annual AML data collection. It seems clear that AML warning signals are more likely to emanate from people and documents compared to prudential supervision, where numbers such as financial statements have historically proven more predictive.

In any event, the Central Bank's AML supervision has been recognised by leading external parties, including the FATF and the IMF, as meeting the relevant international standards. The Central Bank considers it essential that we not only meet but we demonstrably exceed these standards, but on a basis of sensible risk management. We have communicated repeatedly with industry that documentary and procedural overkill on low risk clients is a waste of time and money that would be better directed to larger and higher risk clients.

### **Operational resilience**

Over the past decade the industry and the Central Bank have striven to become more operationally resilient, and from March 2020 we experienced a rather substantive stress test of those improvements. By and large, both we and industry have passed this test.

It is important to remember, particularly for domestic institutions, that at some point we will face a catastrophic hurricane impacting directly upon New Providence. We have yet to demonstrate operational and financial resilience in the face of that challenge. More work lies in front of us.

I also note for domestic institutions that the sooner the Sand Dollar digital currency is widely adopted, the sooner The Bahamas will be better insulated from catastrophes including hurricanes and pandemics.

### **International reputation management**

In recent years the Central Bank has striven to contribute to the Attorney-General's Office coordinated efforts as The Bahamas succeeded in exiting the FATF and EU sanctions lists. We have discovered that it is critical not only to deserve approbation, but to proactively engage with international bodies in this area.

The Central Bank from 2018 identified a particular problem in the international AML community: too many influential opinions were based upon unfounded and often wrong analysis, and too little upon empirical or fact-based analysis. As our contribution to this issue, the Central Bank sponsors what has become in short order the world's leading international research conference on empirical approaches to AML and financial crime suppression. The fourth edition of this conference is scheduled for January 2023, with annual events planned thereafter.

From the 2020 inaugural conference to now, we have seen a useful transition in views on many essential elements in the AML debate:

- 1) It is now clear that in economic terms, the global AML effort is not effective to demonstrably reduce predicate crime, or recover an appreciable share of dirty money and assets;

- 2) It is also clear that the costs of the international AML effort are massive, and may well exceed the current benefits;
- 3) The untested assumption in the international AML debate has been that most of the world's AML problems lie in small, less affluent countries. In fact, the vast majority of the world's dirty money, and the institutions servicing this dirty money, are associated with larger wealthy countries;
- 4) On a happier note, we are seeing several useful analytic tools emerging that will give more accurate readings on where suspect customers, transactions, assets, and jurisdictions might be identified.

All of the above, which we emphasise evolved from many sources as well as our conference, has given the international AML movement the impetus to re-think its approach. In the Bahamian context, we are hopeful that our sponsorship of this conference better associates the Central Bank and The Bahamas with real solutions to AML challenges, rather than imagined problems.

The Central Bank has also striven to become known for robust but simple approaches to bank regulation. Among other things, and after a long Dorian and Covid-based deferral, we intend to roll out the world's simplest fully Basel III compliant bank capital regime. In 2021, the Central Bank and the Bank for International Settlements, which hosts the Basel Committee, co-produced an international conference on engagement between small states and the world's rule-making bodies. We hope to continue as a prominent and positive representative of the interests of small states in international forums.

### Next steps

I am returning to Australia shortly. For the next several years I intend to remain associated on a part-time basis with the Central Bank's efforts on the annual AML research conference, improved on-time reporting, and improved AML supervision tools, among other things.

For nearly a century, the banking, trust, and financial services industry more generally has helped lift Bahamian incomes and the Bahamian economy. I see no reason why, with proactive supervision and prudent management, the industry cannot continue in this critically helpful role for the foreseeable future.

*Charles Littrell*

**Charles Littrell**

Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

**Inspector of Banks & Trust Companies**

Bank Supervision Department

Central Bank of The Bahamas

Nassau, Bahamas

Email: [banksupervision@centralbankbahamas.com](mailto:banksupervision@centralbankbahamas.com)