



65<sup>th</sup> Anniversary of the Bank of Nova Scotia Trust Company  
Baha Mar Convention Centre, Cable Beach, The Bahamas  
9 December 2023

## **Keynote Address by Governor John Rolle**

Good evening.

Thank you for inviting me to speak at this gala celebration, which marks the 65<sup>th</sup> anniversary of the Bank of Nova Scotia Trust Company (Bahamas) Ltd. (Scotia Trust) as a financial institution operating from within The Bahamas.

While there are challenges, The Bahamas is still a centre of choice in the Western Hemisphere for private wealth management. In that respect, I believe that Scotia Trust's 65 years of operations in The Bahamas is a testament to a sound business model that has successfully adapted, as our financial sector continues to align itself with evolving global regulatory and compliance standards.

### **A Brief History of the Financial Services Centre**

In the six and one half decades since this entity was established, the International financial services sector, which is the main focus of Scotia Trust's business, has undergone a series of significant transformations. While the employment and direct economic contribution have held up better than most of the other indicators of the sector's footprint, although we would like to see a comprehensive growth trend re-established.

Transitioning out of the 1960s, the Bahamian register of banks and trust companies was drastically reduced to weed out hundreds of entities that were damaging to the reputation of the centre.

From the 1990s onwards in response to multilateral efforts, not always pleasant, global standards on AML/CFT became more pressing. The Bahamas tightened supervision again to emphasise physical presence requirements and increase human resources capacity to staff compliance functions within supervised institutions. Again, licensee numbers trended lower. Overlapping with this adjustment, the emphasis also shifted from a bilateral emphasis on tax transparency and cooperation with the US, to embrace the multilateral efforts of the OECD—which now also has a strong EU component.

The industry impact of these initiatives has been felt in terms of the shift of some institutions and clients back to their home countries, especially to Europe. In addition, there has been an efficiency-driven consolidation in global banking and trust operations that has also reduced the scale of presence in The Bahamas.

As a result, especially in the last decade, the economic contribution of international banking and trust services has decreased. However, as a testament to the depth of skill and talent that support physical presence activities, the adjustments were of significantly lower magnitude than balance sheet reduction. Likewise, a positive trend has been the increased ownership of financial services firms by Bahamians.



In terms of the outlook for the sector, there is now positive momentum for wealth management business from Latin America, and firms also see increased opportunities in Asia, although the shift of business back to Europe is still overshadowing this trend.

### **Positioning the Sector for Future Growth**

At the industry level, there is an established understanding of how to position The Bahamas for more growth in a transparent, globally compliant environment, both in terms of financial integrity and tax transparency. In particular, it is important that we continue to upgrade enabling product regulations and the operational ease of doing business. Our standards and regulations also have to continue to evolve, always tailored to what is the best fit for The Bahamas, while achieving the intended international results. Further, we have to give ourselves space to be more proactive to emerging threats.

At the Central Bank, our approach is to ensure that our supervisory and regulatory standards remain fit for purpose and supportive of the sound reputational environment in which both domestic and international financial services are conducted. We continue to do so in a consultative approach with industry and in close collaboration with other regulators and the critical stakeholders within the government.

I will say more in a moment about financial transparency and international cooperation, but I think it is also important to note some examples of the work we are continuing to do in the product space.

For example, for more than several decades now, there has been added flexibility through new vehicles that facilitate private wealth management, such as the private trust company, which is steadily increasing in use.

We are particularly cognizant of the expanded product offering and enhanced regulations under the mandate of the Securities Commission of The Bahamas (SCB), most recently highlighted by progress on digital assets. Banks and trust companies that elect to be in the space as digital assets services providers, are subject to the established regulatory framework for licensing and registration of the SCB. However, they can also take on direct balance sheet exposures, which would be subject to the capital adequacy and other prudential rules that the Central Bank sets. We expect some mixture of this approach across banks and trust companies, although, to date, most of our supervised institutions have stayed out of the space. To ensure clarity, the Central Bank has consulted on digital assets guidelines, which will be released in final form this December. These set out expectations around prudent risk management for our supervised institutions wishing to operate in this space and the prudential treatment for capital purposes in various categories of virtual assets. There is no prohibition for any of our supervised institutions being involved or exposed, but the overarching principle is that they must demonstrate, from a corporate governance standpoint, that all dimensions of the risks are understood, monitored, and controlled.

The domestic clientele for expanded service offerings has not been omitted either. In recent years, there has been significant administrative relaxation of investment currency rules, under Exchange Control, that make it easier for Bahamians to invest abroad, taking better advantage of the services offered by entities such as Scotia Trust. Although our reform scope has been cautious and conservative by most prudent standards, we still expect investment transactions over the medium-term to be sustainably funded by over \$200 million annually, compared to less than \$50 million on average in the years just leading up to 2019. It is highly sustainable, in the context of gross annual forex inflows through the local banking sector,



now exceeding \$8 billion, and adequate foreign reserves outlook that supports the value of the B\$ fixed exchange rate.

### **Maintaining Compliance with International Standards**

Now, I would like to return to the subject of international standards and compliance.

How we manage The Bahamas' reputation is important on top of the technical compliance and effectiveness ratings we achieve, for transparency and cooperation in bilateral and multilateral matters. But we are still not convinced that the global process is either entirely effective or objective, and there is a sense that it harbours biases against smaller international financial centres that must be confronted. The Central Bank has been bringing this attention to light in its Annual AML research conference, which for the past three years has convened the leading scholars and standards setters on this topic, to uncover the empirical connections between global standards and methods and measures of success in deterring financial crimes.

What have the researchers uncovered so far? That the effort is desperately costly for smaller countries and that not enough data is being made available to link outcomes to the level of costs for efforts being exerted. In fact, the estimates are that just based on the value of assets confiscated or recovered, it is costing authorities more than ten times the amounts spent on enforcement. But the reforms in this respect would also have to take a multilateral approach.

As we continue with this effort, starting next year, we are also planning to work more closely across industry, with the government and other regulators to improve our international outreach and put a dent in misperceptions that could be harming our reputation. More will soon be announced regarding this collaborative initiative.

However, this does not detract from preparation already being made for the fifth round of the FATF mutual evaluations on AML effectiveness that will begin in 2024. The Bahamian regulators and other government stakeholders, under the lead of the Attorney General, have begun the self-assessment to identify and close gaps that might exist in our technical and effectiveness compliance with the FATF standards and to strengthen our readiness for the fifth round. Again, there will be intensive industry consultation so that all stakeholders can have a common understanding of any identified risks in our jurisdiction and how these are being managed.

In passing, I think it is also positive, as far as our international obligations and positioning are concerned, that discussions on corporate income taxes are at such a developed state in The Bahamas. With the right framing and safeguards, reforms of this nature would also have a favourable impact on public finances.

### **Conclusion**

This evening, I only sought to highlight some of the important issues that shaped the path The Bahamas took in arriving at this point in its development as a supplier of international financial services. With hindsight, there will always be areas in which we would have wished to have done things differently. However, this sector still has significant potential. One of our best traits is the non-political way in which the public and private sectors have consistently collaborated to evolve the product and regulatory landscape. This is the mindset and approach that must be sustained to open up the sector to expanded growth opportunities.



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Next year, the Central Bank will celebrate its 50<sup>th</sup> anniversary. If we add to this the time span covered for the existence of the BMA, The Bahamas would still not have had six decades yet under the regulatory footprint which we inherited.

But for Scotia Trust, it has been 65 years.

I would like to commend you and your parent, the Bank of Nova Scotia Canada, for your commitment and dedication to this jurisdiction. It sends a strong signal of your belief that The Bahamas still exists as a leading international financial centre for wealth management. Indeed, it also reflects that your clients are confident in your expertise and quality of services. You have developed the right formula--one that I trust you will continue to perfect over the decades to come. Again, congratulations on having achieved this significant milestone, and I trust you continue as a key player in the Bahamian financial services landscape.

Thank you!

**9 December 2023** ■