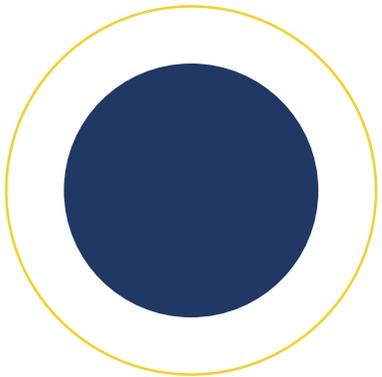


# Industry Briefing

## REGULATORY & SUPERVISORY UPDATE

13 February 2024



# INDUSTRY BRIEFING REGULATORY & SUPERVISORY UPDATE

VIRTUAL – VIA ZOOM

13 February, 2024 – 10:00am to 12:00pm



## Meeting Agenda

10:00 a.m.	10:10 a.m.	Welcome & Opening Remarks	Karen Rolle, Inspector
10:10 a.m.	10:20 a.m.	Overview of the Financial Sector	Sherrece Saunders, Deputy Inspector
10:20 a.m.	10:35 a.m.	Economic Outlook	Sharon Branch, Economist Research Department
10:35 a.m.	10:45 a.m.	Thematic Trends from On-Site Examinations	Anita Bain, Chief Examiner
10:45 a.m.	10:55 a.m.	AML Supervision	Bonnielyn Adderley, Deputy Manager
10:55 a.m.	11:05 a.m.	Resolution Framework	Cindy Thompson, Deputy Manager
11:05 a.m.	11:15 a.m.	Policy Initiatives	Carl Culmer, Deputy Manager
11:15 a.m.	12:00 p.m.	Q & A	

CLOSING

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# Welcome & Opening Remarks



## Central Bank of The Bahamas - 2024 Industry Briefing

### Welcome Remarks by: Ms. Karen Rolle, Inspector of Banks and Trust

#### Companies

Good morning all and welcome to the Central Bank's 2024 Annual Industry Briefing. This morning, senior representatives of the Bank Supervision Department, and Research Department will unpack a fulsome agenda which will shed light on some of our key observations, supervisory priorities and our policy agenda for 2024. I also take this opportunity to apprise you of the following senior management changes that have occurred in the Bank Supervision department since our last industry briefing:

- 1) Ms. Candace Thompson has been appointed as Deputy Manager and head of the Authorization and Administration Unit;
- 2) Mr. Carl Culmer has been appointed as Deputy Manager and head of the Policy Unit; and finally
- 3) Ms. Cindy Thompson has been appointed as Deputy Manager and head of the newly created Resolution and DIC Operations Unit.

Our annual work program for 2024 continues to be guided by the Central Bank's five-year strategic plan as well as observations and outcomes from our previous year's work program and other emerging risk issues. We continue to follow closely the work of international standard setters to determine how it will shape our policy and regulatory agenda. This year you can expect to see



more intentional focus on topics such as Climate Risk, Technology Risk, and Sandbox Arrangements just to name a few. Last year, we highlighted some of the proposed legislative reforms to the Central Bank Act, the Banks and Trust Companies Regulation Act, the Payments Act and the Bahamas Cooperative Credit Union Act. This year we will continue our efforts to progress some of these changes and invite industry's feedback through the normal consultative process.

On the supervisory front, as a part of our Supervisory Effectiveness Assessment, the Central Bank monitors the pace at which SFIs resolve directives and requirements emanating from our inspections and offsite monitoring. I am pleased to say that broadly, remediation of directives and requirements continue to reflect a satisfactory result. From September 2022 to September 2023, the total number of directives outstanding decreased from 21 to 6, after 5 additional ones were issued and a total of 20 were resolved. This result is reflective of the fact that SFIs are continuing to make steady progress to reduce the number of "stale" Directives. Additionally, we are seeing progress by SFIs to lower the timelines to close out Directives with none of the outstanding directives showing slow progress towards remediation. The number of requirements due for resolution showed a slight uptick as at September 2023 despite the closing of a substantial majority of the previously slower progressing requirements. This uptick does not create a significant concern as it still falls within the range of 50 to 80 new requirements on average identified annually through our examination process. As regards to regulatory reporting, we are seeing a marked improvement in SFIs' timeliness of regulatory reporting for 2023. Ultimately, we want to raise the industry's average to 95%



on-time reporting. In the future we will be issuing progress reports to SFIs, particularly those that are woefully below this benchmark.

Last year, I mentioned that the Central Bank will be boosting its supervisory processes through enhanced digital transformation. This continues to be a strategic priority in 2024. We anticipate the “go live” for the Online Applications Portal by the third quarter of this year. We plan to have orientation sessions to sensitize all SFIs on how to navigate this new operating environment. Finally in January 2024, the Central Bank released its RFP for a new AML risk assessment software that would create analytical efficiencies, robust reporting by the Bank and more timely engagement with SFIs. We hope to have this tool in place before year-end 2024.

I will now turn things over to my colleagues to provide you with more updates. We trust that you will benefit from our briefing this morning and please note that we will be sharing the presentation with you. There is a Q&A session after the last presentation, at which time we will address any questions you may have. Throughout the session you may use the chat function to place your questions.

Thank you!



# Overview of the Financial Sector

# Overview of the Financial Sector



Supervised Financial Institutions				
	2020	2021	2022	2023
Banks & Trust Companies	217	214	202	197
Banks & Trusts	50	50	46	46
Banks	24	22	21	20
Trusts	143	142	135	131
Non-licensee Registered Representatives	6	6	7	8
Private Trust Companies (Registered)	136	140	155	169
Money Transmission Businesses	5	5	5	5
Cooperative Credit Unions	10	10	8	8
Payment Services Providers	3	3	3	3

# Overview of the Financial Sector



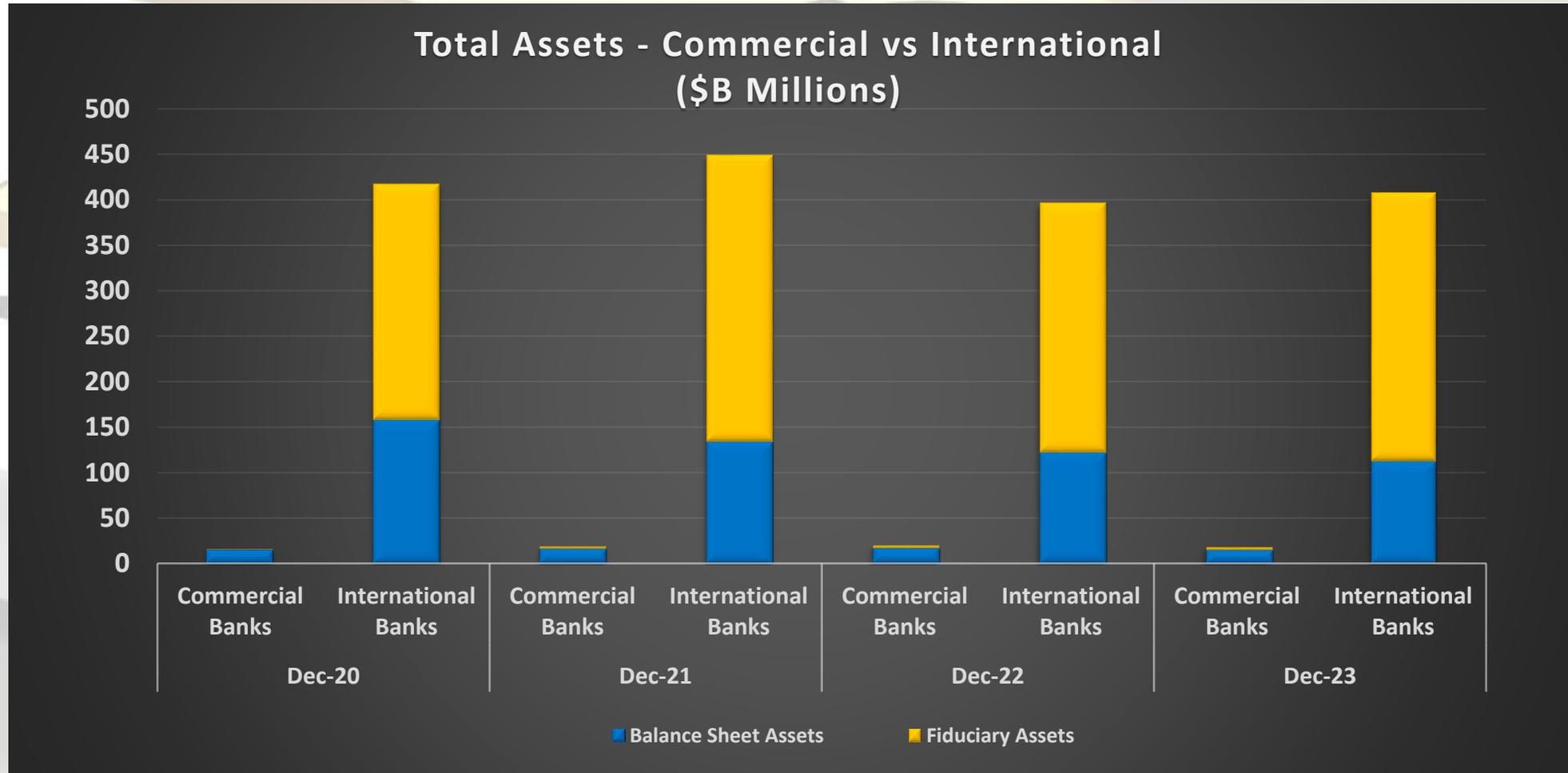
## Total Assets - ALL SFIS

SFI TYPE	# of SFIs as at Dec-23	Dec-23		
		Balance Sheet Assets (\$ Millions)	Fiduciary Assets (\$ Millions)	Total Assets (\$ Million)
<b>Banks &amp; Trust Companies (Public)</b>				
Authorized Dealers (including 10 Clearing Banks)	10	14,899	3,105	18,004
Authorized Agents (OLFIs)	10	4,537	148,154	152,691
International Home	18	713	47,187	47,900
International Host	34	107,196	96,846	204,042
<b>Total Banks &amp; Trust Companies</b>	<b>72</b>	<b>127,345</b>	<b>295,291</b>	<b>422,636</b>
<b>Credit Unions</b>	<b>6</b>	<b>495</b>	<b>-</b>	<b>495</b>
<b>Money Transmission Businesses</b>	<b>5</b>	<b>17</b>	<b>-</b>	<b>17</b>
<b>Electronic Money Service Providers</b>	<b>3</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Registered Representatives</b>	<b>7</b>	<b>2</b>	<b>-</b>	<b>2</b>

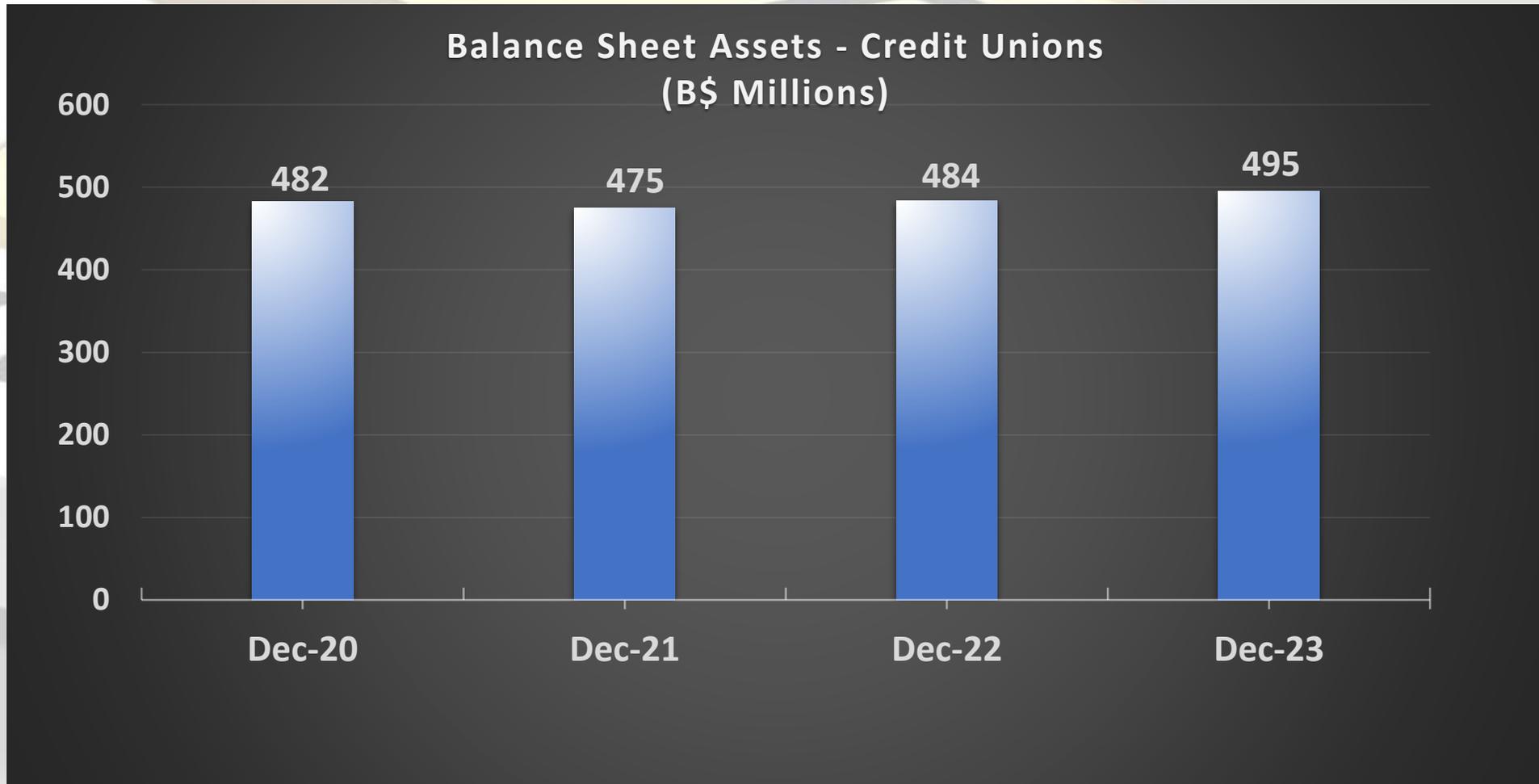
## MTB Services

Service Provided	2023	
	# of Trnx	Value (\$000)
Money Transmission Inward	200,690	69,637
Money Transmission Outward	328,603	115,874

# Overview of the Financial Sector



# Overview of the Financial Sector



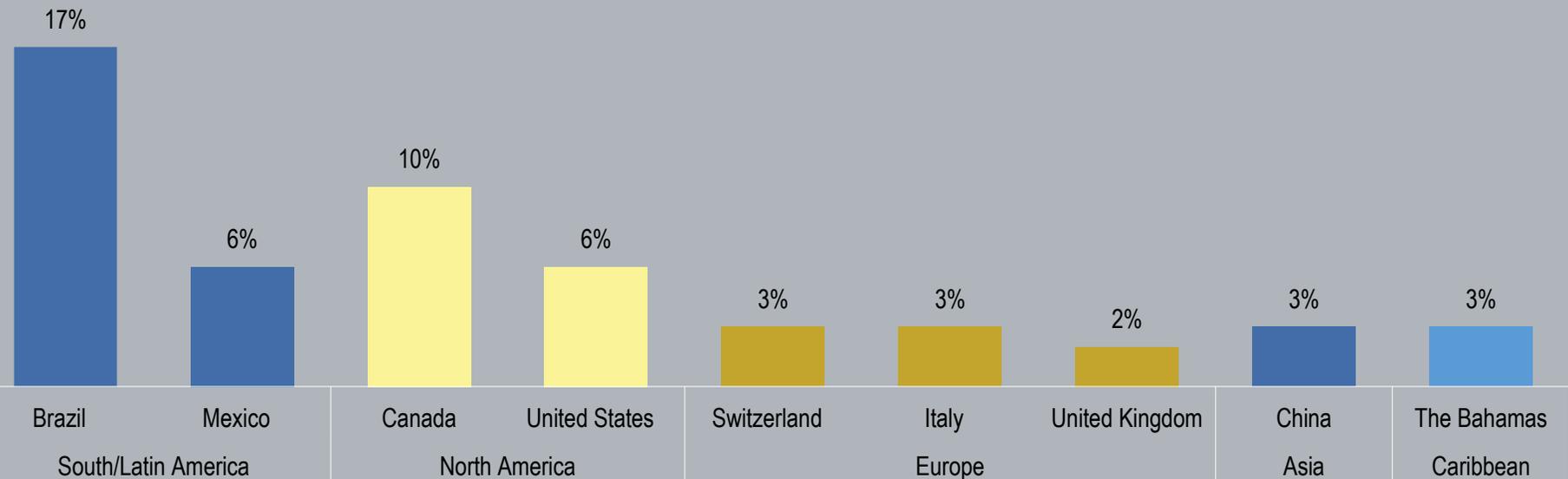
# Overview of the Financial Sector



## International Banks & Trust Companies

Country Concentration - 2022

Deposits & Fiduciary Assets





# Economic Outlook

# 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

Economic indicators suggest that the domestic economy growth trajectory persisted in 2023, albeit at a moderated pace, with economic indicators returning closer to the expected medium-term potential, as the recovery from the COVID-19 pandemic neared completion. Consequently, the International Monetary Fund (IMF) forecasts that the domestic economy will register a growth of 4.3% in 2023, vis-à-vis 14.4% in 2022, undergirded by ongoing gains in tourism output.

## Tourism Developments

Over the nine months to September 2023, total arrivals expanded to 7.2 million, relative to 4.8 million in 2022.

- Air passengers increased to 1.3 million, exceeding the 1.1 million recorded a year earlier.
- Sea arrivals accelerated to 5.9 million, from 3.7 million in the comparative 2022 period.

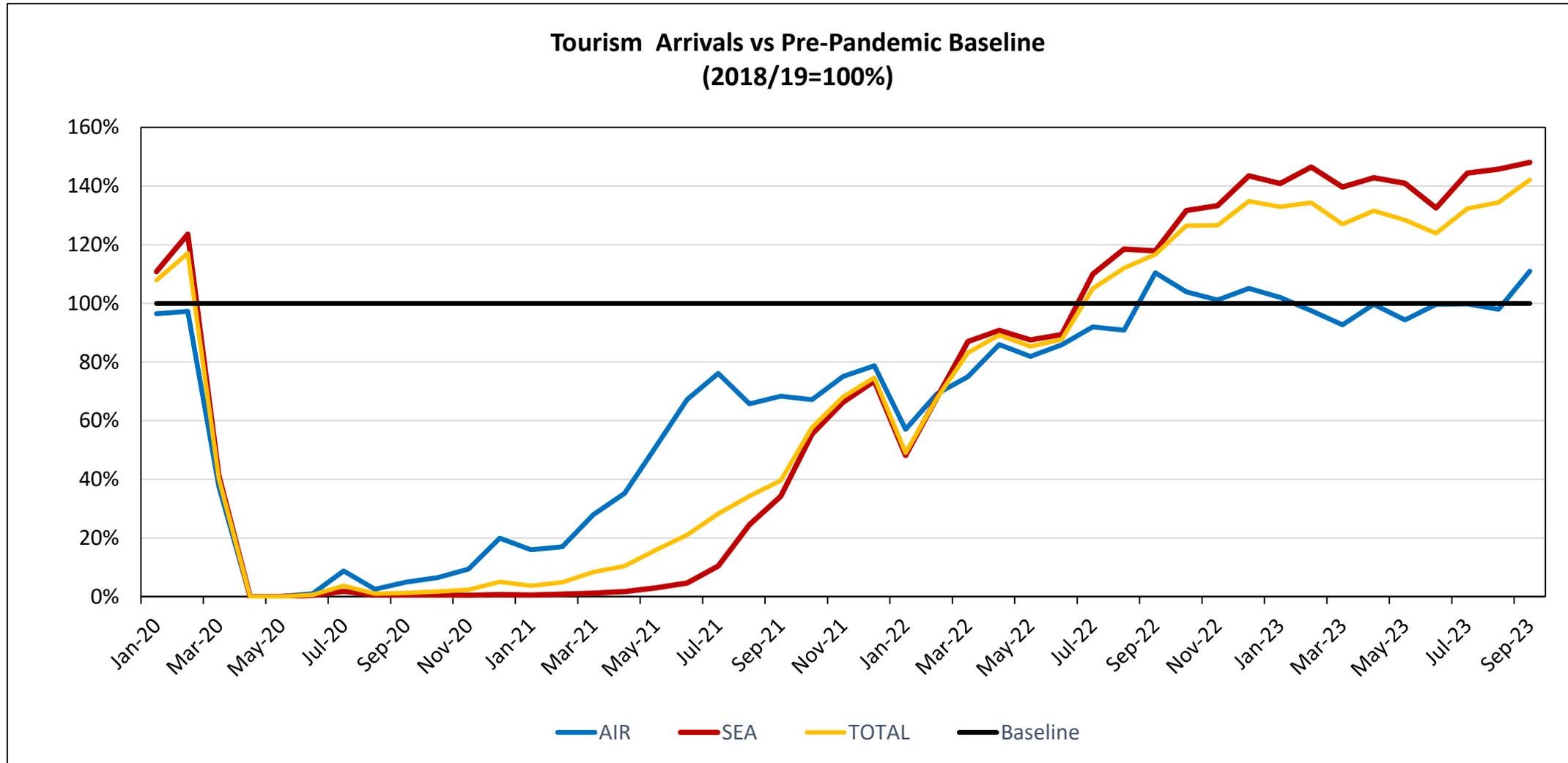
# Tourism Developments 2023 vs. 2022

(January-September)



	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2022	2023	2022	2023	2022	2023
<b>Arrivals</b>						
<b>Air</b>	90.6	20.0	98.2	43.6	39.1	21.5
<b>Sea</b>	1171.1	58.0	580.4	67.4	1037.1	59.2
<b>Total</b>	307.4	43.8	438.5	64.8	566.3	55.5

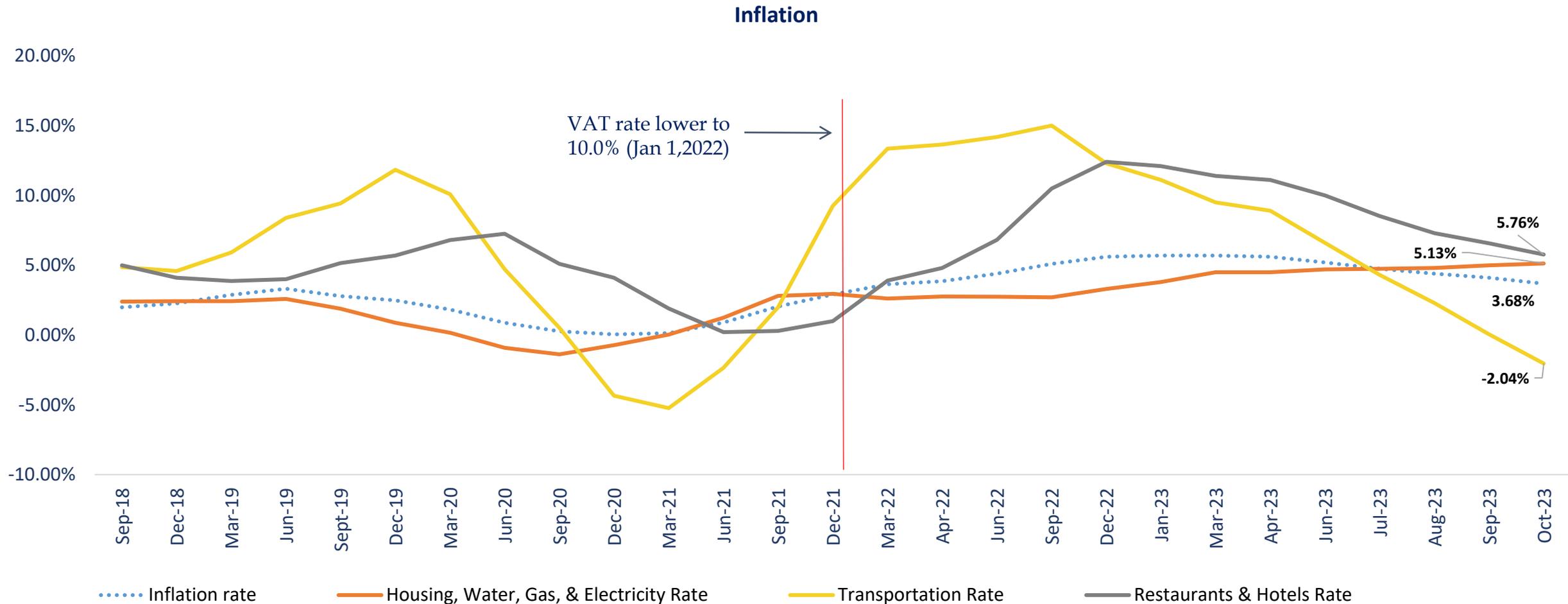
# Tourism Developments 2023 vs. 2022



# Retail Price Index



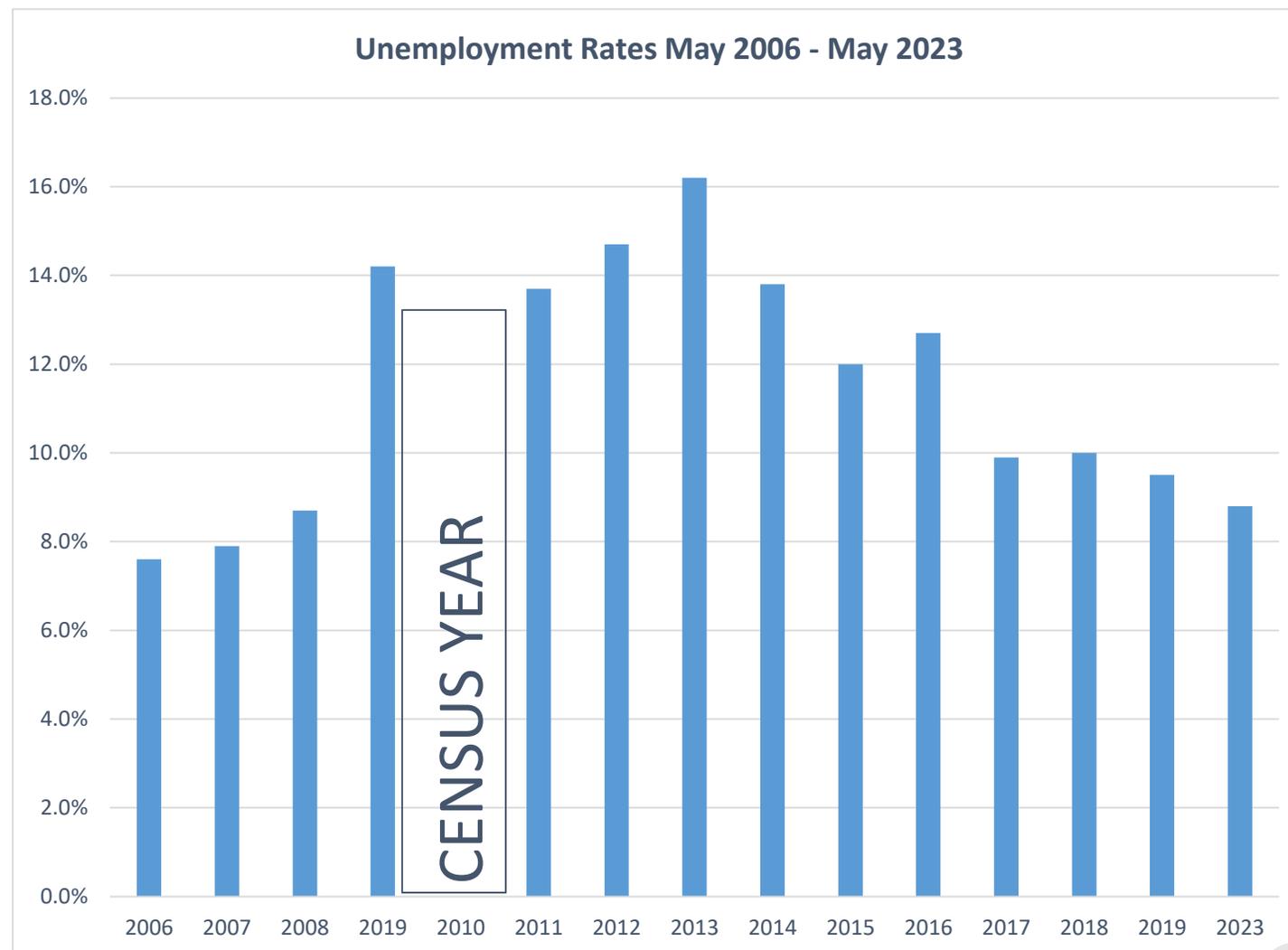
On an annual basis to October 2023, inflation softened to 3.7% from 5.4% in the same period of 2022. The outturn was led by decreases in average costs for transportation and communication.



# Unemployment (May 2023)



- The unemployment rate fell by 70 basis points to 8.8% in May 2023, vis-à-vis 9.5% in May 2019, with the number of discouraged workers increasing by 2.3% to 2,035.
- The total number of employed persons decreased by 6.8% to 200,175, compared to 214,890 in May 2019.
  - A sectoral analysis revealed that the private sector held the largest share of employed persons at 61.0%, followed by the Government (16%).
- The number of self-employed persons grew by 5.0% to 34,095 relative to 32,485 in May 2019.



# Monetary Developments: Liquidity Conditions & External Reserves (2023 vs. 2022)



## Liquidity

During 2023, monetary developments were marked by a slowdown in the buildup in bank liquidity, as the growth in domestic credit outpaced the rise in the deposit base.

- Excess liquid assets grew by \$111.4 million, a moderation from the \$334.0 million expansion in 2022.
- Conversely, excess reserves reduced by \$61.0 million, a switch from a \$387.8 million accumulation in the previous year.

## External Reserves

External reserves contracted by \$247.3 million, for an ending balance of \$2,347.4 million in 2023, a reversal from a \$135.5 million growth in 2022, which had included proceeds from the Government's external borrowing activities.

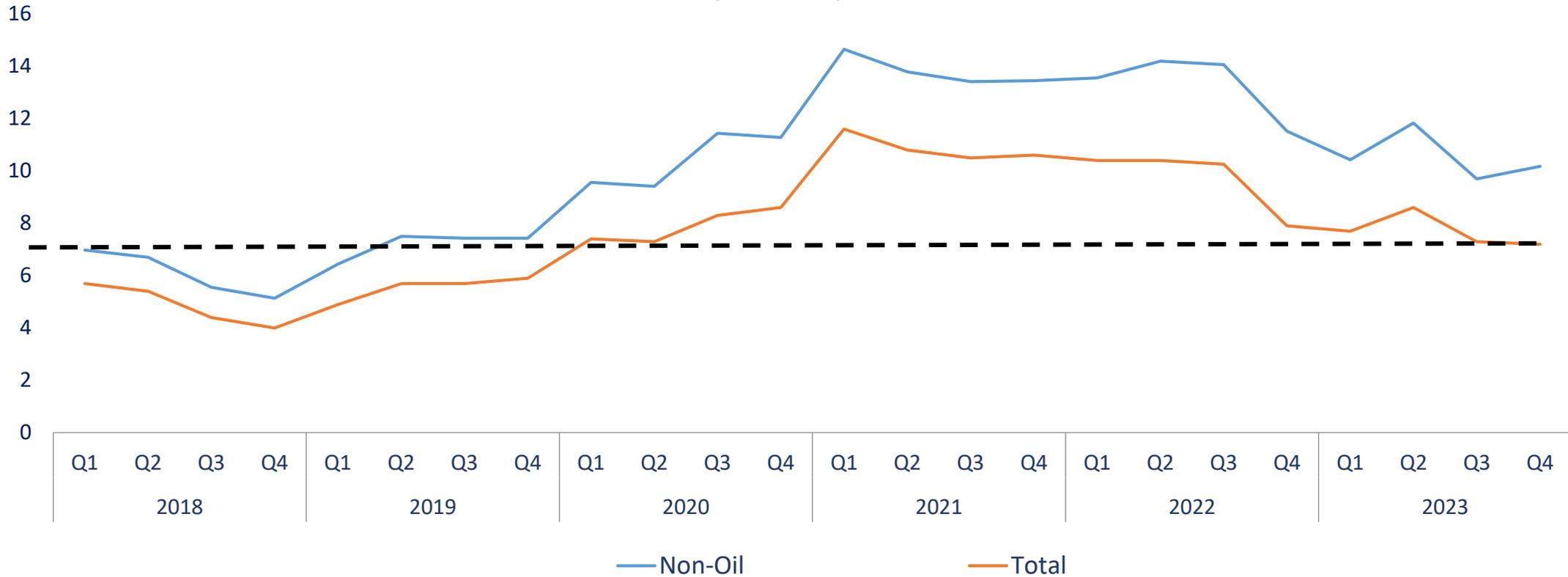
- Balances were equivalent to an estimated 6.3 months of the current year's total merchandise imports, vis-à-vis 7.8 months in 2022.

# Import Cover Ratio (Months) 2018 - 2023



Months

Import Cover Ratio (Months)

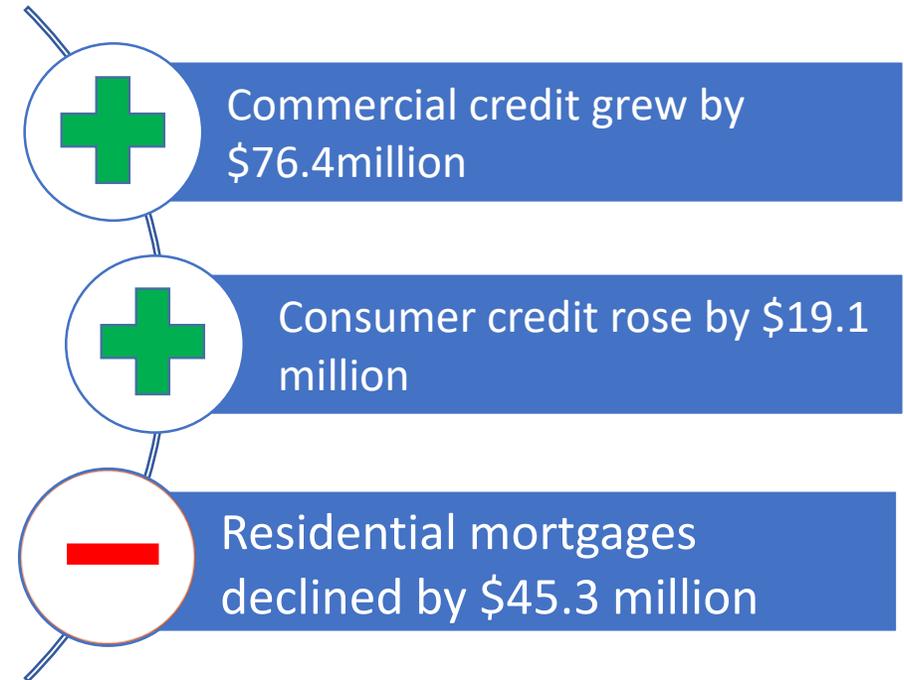


# Lending Conditions 2023 vs. 2022



- Total Bahamian dollar domestic credit expanded by \$222.0 million to \$8,751.9 million in 2023, following a muted increase of \$3.2 million in the prior year.
- Net claims on the Government rose by \$175.6 million, extending the \$98.3 million growth in 2022.
- In contrast, credit to public corporations decreased by \$3.9 million, a turnaround from a \$32.8 million buildup in the preceding year.

- Private sector credit grew by \$50.3 million in 2023, a switch from a \$127.9 million reduction in 2022.



# Financial Sector Developments in 2023



## Banks' credit quality indicators improved during 2023

Total private sector loan arrears decreased by \$48.5 million (7.9%) to \$561.7 million, with the corresponding ratio lower by 1.0 percentage points at 10.3%.

Non-performing loans decreased by \$53.5 million (12.9%) to \$361.5 million, as the relevant ratio fell by 1.1 percentage points to 6.6%.

Short-term arrears grew by \$5.0 million (2.6%) to \$200.2 million, resulting in the attendant ratio firming by 4 basis points to 3.7%.

Mortgages still accounted for the majority of arrears, at 62.3%, followed by consumer arrears (26.5%) and commercial arrears (11.2%).

# Outlook for 2024



- The **growth** momentum in the domestic economy is expected to be maintained in 2024, although at a moderated pace, bolstered by the ongoing gains in the tourism sector. This pace of expansion is expected to be closer in line with the economy's medium-term growth potential.
- The **unemployment** rate is projected to continue on a downward trajectory, with any job gains concentrated mainly in the construction and tourism sectors.
- Domestic **inflation** is expected to remain high in the near-term, due to the uncertainty surrounding global oil prices and supply chain shortages, related to geopolitical tensions in Eastern Europe and the Middle East.
- In the **fiscal sector**, the Government's fiscal deficit is expected to continue to trend downwards, as conditions remain favourable for consolidation. The estimated budgetary gap is anticipated to require a blend of domestic and external borrowings, with a higher proportion of the total funding from domestic sources.
- **Banking sector liquidity** is anticipated to remain high in 2024, 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 2024



- **External reserve balances** are expected to taper in 2024, although remaining at robust levels; holdings should remain well above international benchmarks, supported by robust trends in 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:* Any resumption in major central banks' counter-inflation policies could negatively impact the travel spending capacity of key source market consumers.
- *Employment:* Insufficient or slowed pace of private investments, could impede job creation.
- *Inflation:* ongoing geopolitical tensions in Eastern Europe and the Middle East, 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:* increased foreign currency demand for rebuilding activities and constrained tourism output could accelerate the drawdown in reserves.



# Thematic Trends from On-Site Examinations

# Thematic Trends from ON-SITE EXAMINATIONS

## Common Themes (Deficiencies)

### EMPS/PSPs

- Lack of an AML Risk Assessment as envisaged under paragraph 25 of the Central Bank's AML/CFT Guidelines;
- SFIs operations were not aligned, as appropriate with the Bahamian Dollar Digital Currency Regulations, 2021 requirements;
- An Independent Non-Executive Director (“INED”) approved by the Central Bank was not appointed to the Board of Directors, Section 4.5(b) Corporate Governance guidelines

# Thematic Trends from ON-SITE EXAMINATIONS

- The internal audit function and process needed to be enhanced to align with best practices and the Guidelines for Internal Auditors and Audit Committees, issued in December 2022.

## *International Banks and Trust Companies*

- Customer due diligence - source of wealth was not consistently obtained and independently confirmed for high-risk clients including PEPs, per paragraph 51 of the Central Bank's AML/CFT Guidelines.

# Thematic Trends from ON-SITE EXAMINATIONS



- A documented periodic assessment of the Board's effectiveness against its responsibilities, including that of the INED; as contemplated in sections 4.13 and 7.2 of the Central Bank's Corporate Governance Guidelines was not evidenced.

## *Credit Unions*

- Strengthening of the corporate governance regime to align with the Guidelines for the Corporate Governance of Credit Unions and industry best practices.

# Thematic Trends from ON-SITE EXAMINATIONS



- A comprehensive review of existing credit policies, procedures, and practices to ensure conformance with the Bahamas Co-operative Credit Union Act, the Central Bank's Guidelines for the Management of Credit Risk for Credit Unions and demonstrate sound credit underwriting and risk management practices; and
- Appropriate segregation of duties and a functioning three lines of defense strategy demonstrated throughout the credit unions key risk areas.

# 2023 Engagement Results

## ON-SITE EXAMINATIONS



	AML/CFT	Directive	Requirement	Expectation	Financial/ Other	Directive	Requirement	Expectation	TOTAL
Ending 30/Sep/22	131	9	60	62	170	12	52	106	301
Added	61	0	34	27	137	0	48	89	198
Closed	69	5	27	37	98	8	34	56	167
Ending 31/Mar/23	123	4	67	52	209	4	66	139	332
Added	61	4	33	24	138	1	53	84	199
Closed	77	3	41	33	92	4	42	46	169
Ending 30/Sep/23	107	5	59	43	255	1	77	177	362

# 2023 Engagement Results

## ON-SITE EXAMINATIONS

### Highlights

- This chart highlights the number of remedial measures in the form of Directives, Requirements and Expectations issued by the Central Bank for the twelve month period of September 2022 to September 2023 and the number of remedial measures cleared by the financial institutions.
- For AML/CFT, over the past year the number of remedial measures that are outstanding has decreased by 18%. We are issuing less remedial measures in this area which is a positive trend that we hope will continue.
- For Financial/Other, which covers a broad category of risk areas including corporate governance, credit, fiduciary and operational risks, the stock of remedial measures have increased by some 46%.
- The total number of Directives have also decrease over the 12 month period, which is we see as a positive indicator.



# IT Survey Update

## ON-SITE EXAMINATIONS



### Purpose of Survey

- Identify areas of technology risk from development of recent or emerging technologies or practices by supervised financial institutions; and
- Use the information provided to assist with updating the current Technology Risk Management Guidelines issued 15 January 2016

# IT Survey Update

## ON-SITE EXAMINATIONS



### Technology Risk from deployment of recent emerging technologies and practices

Our initial analysis across all respondents suggest significant deployment or imminent plans in the areas of :-

- Software Development and Management – Agile development methods, Devops practices for software development; and
- Emerging Technologies – Outsourcing of technology functions, usage of cloud based services, use of application programming interfaces (APIs), use of Artificial Intelligence (AI) and or Machine Learning (ML) tools, use of virtualization as part of the IT architecture, allowance for Bring Your Own Device(BYOD) access to information assets, continuing to allow remote working

# IT Survey Update

## ON-SITE EXAMINATIONS



### Technology Risk from deployment of recent emerging technologies and practices

Our initial analysis across all respondents suggest significant deployment or imminent plans in the areas of :-

Initial analysis of responses in the area of Cyber Resilience suggest opportunities for further focus and emphasis on policies and procedures in the areas of:-

- Performing scenario based cyber exercises ( such as social engineering, table-top or cyber range) on a periodic basis; and
- Performing adversarial attack simulation (red team) exercises on a periodic basis.

# IT Survey Update

## ON-SITE EXAMINATIONS



### Additional Takeaways from IT Survey (to be followed up on)

- 16% of SFIs do not have a formal Information Security Policy;
- Board Members are assessing and addressing technology risk including cyber security without necessary qualifications and
- While a small number of Senior Management have the necessary qualifications to assess and address technology risk including cyber security, responses suggest qualified Chief Information Officers (CIOs) and Chief Information Security Officers (CISOs) are in the minority compared to CIOs and CISOs without necessary qualifications.



# Overview of AML Supervision

# AML Supervision



## AML Data Returns

- 2023 Returns due 28 February

Notable findings from the 2022 Returns include:

- The domestic sector were found generally to have a low concentration of high-risk customers; while in the international sector, approximately 19 percent of accounts were associated with high-risk customers.
- There has been a significant increase in instances of fraud in the domestic sector.
- While there were slight reductions in staff and director training, the industry in broad terms is meeting its training requirements.

# AML Supervision



## ML/TF Risk Assessments

### Supervisory Risk Assessment

- Risk assessments continue to be refreshed for domestic and international banks and trust companies, credit unions and payment service providers.

### SFI Risk Assessment

- ML/TF Risk Assessments due 1 July 2024.
- Guidance Notes to assist with the preparation of SFIs ML/TF risk assessment published 1 June 2023.
- Feedback to be provided on SFIs ML/TF risk assessments, where necessary.

# AML Supervision



## AML Supervisory Initiatives

- Enhanced Risk Assessment Tools
- Streamlined Sanctions Reporting
- Meetings with Money Laundering Reporting and Compliance Officers - Ongoing and Exit



# AML Supervision



## AML Outreach External Engagements

- AML Empirical Research Conference held January 2024.
- Enhanced Central Bank website to create a dedicated section focused on Anti-Money Laundering, Countering the Financing of Terrorism & Proliferation Financing (AML/CFT/CFP).
- Participation in The Bahamas' Identified Risk Framework Steering Committee (IRFSC) and National Risk Assessment.
- The Group of Financial Services Regulators (GFSR) -
  - *2021-2023 AML/CFT Report Publication*
  - *Joint Guidance Note on SFIs Sanctions Reporting*
  - *Joint Guidance Note on Proliferation, Proliferation Financing*
  - *Joint Guidance for the treatment of Politically Exposed Persons*



# Resolution Framework

# Resolution and Crisis Management



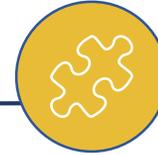
## Financial Stability

- Orderly resolution for financial system preservation
- FSB Key Attributes of Effective Resolution



## Continuity of Critical Functions

- Recovery Actions (solvency issues)
- Resolution (non-viability)



## Cost Minimization

- Assume Control
- Use of the appropriate resolution tools
- Effect orderly wind-down



## Avoidance of Moral Hazard

- Avoid government bail-outs
- Curb excessive risk-taking



# Role of the Deposit Insurance Corporation (DIC)



## Purpose

- Financial safety net and depositor protection
- Foster financial stability and public confidence in the financial system
- Manage the Deposit Insurance Fund



## Powers

- Levy premium contributions on member institutions
- Request an examination, information and documentation from members
- Provide capital for a Bridge Institution



## Paybox Plus

- Facilitate payment of claims to depositors
- Additional responsibilities such as resolution functions



## Premiums

- DIC membership consists of 12 Banks and 6 credit unions
- The DIC Fund is currently \$88.1 million

# Resolution & DIC Initiatives



✓ Deposit Insurance “Single Customer View” Template Exercise



✓ Deposit Insurance Public Relations Campaign



✓ Crisis Management Strategy Plan



✓ Resolution Toolkit



✓ Resolvability Assessments and Recovery Plans





# Policy Initiatives

# Policy Initiatives



## Basel III Implementation

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



## General & Operational Information

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



## Governance

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



## Emerging Risks

- Regulatory Sandbox
- Climate Risk
- Cyber Risk



# Policy Initiatives (2024)



## Basel III Implementation

- Liquidity Risk Guidelines
- Large Exposure Guidelines

## Corporate Governance

- Guidelines for Assessing Fitness and Propriety of Regulated Functions
- Guidelines for the Corporate Governance of Banks and Trust Companies
- Compliance Officer Guidelines

## Emerging Risk

- Regulatory Sandbox Framework
- Climate Change Risk

## General and Operational

- Ladder of Supervisory Intervention

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# Questions & Answers