



Guest Speaker

Deputy Prime Minister and Minister of Finance

The Hon. K. Peter Turnquest

The Caribbean Association of Banks Inc. (CAB)

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[PROTOCOL]

Good Evening,

I want to begin by welcoming all of our visitors to the Islands of The Bahamas. As regional counterparts, you are not strangers to our general style of island living. But, do I hope you get to experience the uniqueness of Bahamian culture and hospitality while you are here. Do try our local cuisine; perhaps, soak in our local art and music scene; and enjoy our beaches and natural landscapes. Many of you will notice there are no hills on our horizon lines: Only, sky and open ocean, dotted with many small, and flat, islands.

I know we are gathered here this week to speak about banking in the era of digitization, and I do have a few things to share that are directly on the topic. But, I would like to begin by speaking to some of the universal threats faced by the financial services sector in virtually all of our jurisdictions.

- **Major Concerns affecting the Regional Financial Sector**
- The number one **external concern** appears to be the imbalance of pressure and scrutiny from the international regulatory framework.
- Regardless of the progress made, no matter the commitment, the goal posts seem to keep moving.

- Countries in the region continue to be discredited due to negative perceptions that do not accurately reflect the current strength of their local regulatory regimes.
- The consequences that black and grey lists have on access to correspondent banking at the micro level, and economic stability at the macro level needs to be quantified and rationalized
- Earlier this month, I called on the IMF to take a more active role in developing objective data on *AML/CFT* reforms in Caribbean jurisdictions in two specific areas:
 - 1) Independently quantifying the economic and fiscal costs posed by international financial services regimes in the region particularly to the European Union and countries in the OECD;
 - 2) Quantifying how the returns to the OECD and EU from their emphasis on our jurisdictions line up with the costs they continue to impose on us relative to the tax base and financial crimes base which they seek to impact

We must increase our collective efforts to challenge the system that disproportionately costs the region, undermining our efforts to attract foreign investments, to promote economic diversity and resilience and development for our people.

Perception of Weak Enforcement Mechanisms

- You may be aware that the latest knock to the region came from the inclusion of The Bahamas and Trinidad and Tobago on a UK watchlist for money laundering. This was a direct consequence of the FATF list of jurisdictions that it deemed as having strategically deficient anti-money laundering measures.
- There are a few things we can say about this:
 - Governments in the region are not blind to the needs for enhanced enforcement when it comes to AML/CFT
 - Our standards of enforcement must reinforce the no-tolerance stance of our governments and the quality of our domestic regulatory regimes
 - While there is clearly room for improvement, we cannot let the perception stand that our financial regulatory agencies and the financial intelligence units somehow lack competence or quality; that they are failing to produce any results.
 - Speaking for The Bahamas, we have had quantifiable progress since 2015.
 - Between 2016 and 2017 there was a 46% increase in the number of suspicious transactions received and a 69% increase in the number of cases sent to the Royal Bahamas

Police Force; we opened 115 more cases in 2017 than we did in 2016. That's a 131% increase in the number of cases that were under active analysis.

- Finally, between 2015 and 2017, suspicious transactions that were analyzed and reported closed by our financial intelligence unit represented between 35% and 60% of all cases received.
- In one complex case, involving \$3 Million Euros worth of laundered money, the Government of Argentina publicly commended The Bahamas for the effectiveness of its international cooperation. News reports stated: “The case demonstrates an excellent example of international legal cooperation between the Republic of Argentina and The Commonwealth of The Bahamas as well as their commitment to effectively tackle transnational money laundering and corruption, in line with international conventions and standards.”
- Of course, we can and we will do more. We want to see more prosecutions and more convictions, and we want to see stronger communication and follow up with financial institutions. After all, when the perception of our enforcement is weak, the financial institutions are ultimately

the ones that directly suffer. I am sure this is something all jurisdictions can relate to.

- To strengthen these efforts we must all buckle down and increase our assessments and improve the outturns of our enforcement teams to bolster their efforts and to add greater technical resources and infrastructural support.
- In the end, the enormous reputational damage on small nations caused by blacklisting and watchlisting mechanisms is a penalty too high to impose on the region.
- No matter how we strengthen our regimes, we will not be able to lift the deeply entrenched stigma on our nations if we are constantly viewed as injurious to the international banking system.
- I am sure you will all agree: It is time for the international community to act in true partnership in the true spirit of harmonious and respectful cooperation towards transparent and mutually accepted goals
- Each country has its own unique circumstance when it comes to enforcement, but we can all appreciate the broader point: There is an imbalance of international pressure and scrutiny on countries in the region that have demonstrably high levels of political will, and are doing the work and producing results in line with our shared values and international commitments.

- The model of blacklisting and watchlisting is causing our countries disproportionate and unjustifiable harm, and it is time to create a better way for international cooperation.

Technological Innovations

Lastly, to the theme of the conference: “Banking in the Era of Digitization”. Much will be covered over the course of the week, but I want to highlight a few initiatives in The Bahamas that can be a model for the region to improve our AML risk profiles.

With all of the changes in the industry, we all have to contend with the potential loss of correspondent banking relations (CBRs). Technological innovations will not replace these, but they can help to improve our AML risk profiles, and make it easier to retain or expand access to CBRs.

- 1) For the Bahamas, the Central Bank has embarked on a project to pilot a digital version of the Bahamian currency that will close gaps that still leave us more vulnerable to money laundering and related risks.
- 2) The central bank’s approach is to maintain and safeguard integration with retail banking services.
- 3) The central government is supporting this initiative with a commitment to develop a digital national identity infrastructure,

which would stress the sovereignty of the individual over the access to and use of their personal data.

- 4) The public sector will also be a dominant user of the digital infrastructure to make and receive payments.
- 5) The design of a digital currency system, foremost for retail transactions, addresses several key needs for The Bahamas.
 - a. Aside from reducing cash dependence, it would accelerate the push for a more interoperable domestic payments system, and provide access to domestic financial services on a more even footing for all persons.
 - b. Our scattered archipelago has given rise to fragmented banking services, that are missing from many remote communities, and has made it costly to deliver government payments to some parts of the archipelago.
- 6) From an inclusion and access perspective, the Central Bank has introduced more simplified customer identification and diligence requirements for low-risk clients to open bank accounts, and eliminated exchange control restrictions which hindered the ability of migrants and non-residents to open transactional deposit accounts in local currency.
- 7) In 2017, the Central Bank also introduced a regulated framework to allow non-banks to provide electronic money services — not cryptocurrency.

The New Normal?

The reality today is that digitization is not just the new normal in banking; it is the new normal in life. It is a part of the global shift towards openness, transparency, access and engagement. Technology is the engine fueling these shifts. It is the vehicle being used to drive more productivity, efficiency and added value in ways that are quantifiable. The private sector is being pushed to adapt and so are governments. We must embrace the opportunities presented by these changes. We must be at the forefront of innovation to secure our position in this normalized, not new, digital era.