



**IS THE BAHAMIAN DOMESTIC BANKING SYSTEM A MATERIAL
MONEY LAUNDERING RISK?**

**Bank Supervision Department
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The Central Bank of The Bahamas (CBOB) has conducted a special survey of domestic bank deposit cash flows for the 2018 calendar year. This survey applied to all the material domestic banks, and is intended to better identify industry segments that are, and are not, potential sources of material money laundering risk. The Central Bank takes this opportunity to thank the domestic banks contributing to this paper, as they undertook substantial work in preparing this data.

The criteria for “potentially material” are:

- Total deposit volumes. Very small industry segments are unlikely to be material, at least in their engagement with the domestic banking system.
- The split between Bahamian dollar (BSD/B\$) and foreign currency accounts. The former are unlikely to figure in cross border money laundering, given exchange control restrictions.
- The split between cash, and all other deposit forms (cheques, cards, electronic) for both BSD and foreign currency accounts. Higher levels of currency note deposits indicate more potential for cash-based money laundering.

This paper is focused upon identifying industry segments that are low money laundering risks. Other documents cover the Bahamian approach to addressing higher risk sectors. Readers of this note are cautioned that the information presented here covers only the domestic retail banks, and not the international banking and trust sector. This study also does not touch directly upon international business companies (IBCs).

The data collection

CBOB has collected the total deposit inflows into the domestic Bahamian banks for 2018. Summary results are given below:

Table 1: Domestic deposit inflows (Rounded \$million)

	BSD	Non-BSD	Total
Total Deposits Received for 2018	\$ 37,635	\$ 13,944	\$ 51,579
<i>of which</i>			
— Retail/Household	\$ 7,594	\$ 672	\$ 8,266
— Commercial/Other	\$ 30,041	\$ 13,272	\$ 43,313
<i>of which</i>			
— Notes & Coins	\$ 5,687	\$ 520	\$ 6,207
— Other	\$ 31,176	\$ 13,412	\$ 44,589

The summary table generates several inferences:

- Commercial cash flows dominate household cash flows, particularly (and unsurprisingly) in the foreign currency sector.
- Non-cash deposits dominate cash deposits, and again unsurprisingly, particularly in the foreign currency sector.
- Foreign currency denominated accounts are a material minority of the domestic banking system, although several domestic banks have no or immaterial foreign currency accounts.

Some data issues

The Central Bank is satisfied that this the data collected for this exercise provides a sound basis for the assessments that follow. Nevertheless some reporting issues were identified as stated below:

- One bank discovered as a result of this collection that its data mapping customers to industry segments is faulty. That bank's results have been included in the total deposit inflows above, but have been excluded from the industry analysis below. The bank in question has already commenced a remediation project on this issue.
- Another bank's data does not distinguish between notes and coins deposited, and cheques deposited. To present a more accurate segment position, we have assumed that this bank's deposit composition for attorneys matches the average for its two closest peers. Otherwise the data has not been adjusted, which means that the proportion of cash reported in the segment results is somewhat higher than would otherwise be the case. In the Central Bank's assessment, this over-statement of the cash position is not material other than in the legal sector, for which the noted adjustment applies, and possibly the insurance sector, in which the proportion of cash deposits to total deposits is overstated by an unknown amount.
- Some banks have needed to make manual adjustments to some aspects of their reporting, but the CBOB has no reason to consider that any of these adjustments have produced material errors.
- Some banks were allowed to exclude segment aggregation for customers depositing under \$25,000 per annum. The Central Bank does not consider that this exclusion has materially affected the aggregate results.

The Canadian angle

Table 2: Canadian bank share of Bahamian deposit inflows

	Canadian Banks/Total		
	BSD	Non-BSD	Total
Total Deposits Received for 2018	82%	98%	87%
<i>of which</i>			
— Retail/Household	68%	96%	70%
— Commercial/Other	86%	98%	90%
<i>of which</i>			
— Notes & Coins	85%	96%	86%
— Other	84%	98%	88%

The three Canadian banking groups account for 90 per cent of commercial deposits, and nearly all non-Bahamian Dollar deposits. On the commercial and particularly the cross-border side, the standard of AML/CFT risk management in The Bahamas is essentially the same as in Canada. Based upon international peer group assessments, this is a comfortably high standard.

Bahamian-owned banks are less engaged in commercial banking, but have about 30 per cent of deposits from individuals.

Segment results: total deposits

The global AML/CFT community has identified many industries as potentially high risk. For this exercise, the Central Bank received deposit flow data for 17 industry segments, as outlined in the following table.

Table 3: Deposit inflows by segment (Rounded \$million)

Total Deposits, all currencies			
Industry Segments	Total Deposits Received	Notes & Coins	Other Deposits
Auto dealers	\$ 123	\$ 24	\$ 98
Boat and maritime dealers	\$ 363	\$ 13	\$ 349
Real estate Brokers & Agents	\$ 305	\$ 16	\$ 288
Casinos	\$ 247	\$ 84	\$ 163
Non-casino gaming businesses	\$ 187	\$ 173	\$ 13
Money transmission businesses	\$ 108	\$ 80	\$ 28
Jewelry stores	\$ 116	\$ 15	\$ 100
Wholesale jewelers, precious metals, and loose stone dealers	\$ 3	\$ 2	\$ 1
Pawnshops	\$ -	\$ -	\$ -
Embassies, consulates, and other diplomatic posts	\$ 17	\$ 0	\$ 17
Attorneys and legal firms	\$ 2,775	\$ 21	\$ 2,754
Crypto-asset promoters or businesses	\$ -	\$ -	\$ -
Churches and religious organisations	\$ 155	\$ 77	\$ 78
Non-religious NGOs	\$ 127	\$ 12	\$ 114
Accountants and accountancy firms	\$ 115	\$ 7	\$ 109
Land and real estate developers	\$ 509	\$ 24	\$ 485
Insurance brokers and agents	\$ 1,021	\$ 227	\$ 794
TOTAL	\$ 6,170	\$ 777	\$ 5,392

The \$6 billion in total deposit inflow for the potentially high-risk industry segments represent only about 15 per cent of 2018 total non-household deposit inflows. The large majority of non-household deposits to the banking sector come from lower risk segments, such as grocery stores, retailers, and government transfers.

Attorneys and legal firms are by some distance the largest segment among the 17 under consideration, with close to half the deposit inflows. This reflects the legal industry's engagement in real estate settlements. Other large segments include insurance brokers and agents, land and real estate developers, real estate brokers, gaming operations, and churches. Real estate-related deposits comprise more than half the deposit flow across the 17 sectors.

By contrast, some segments are clearly immaterial, notably wholesale jewelers, pawnshops, diplomatic establishments, and (so far) crypto-asset businesses.

In currency note terms, we see that gaming businesses, money transmission businesses, and churches have large flows.

Table 4: BSD-denominated inflows (rounded \$ million)

Deposit Breakdown: BSD Accounts			
Industry Segments	Total Deposits Received	Notes & Coins	Other Deposits
Auto dealers	\$ 122	\$ 24	\$ 98
Boat and maritime dealers	\$ 159	\$ 13	\$ 145
Real estate Brokers & Agents	\$ 256	\$ 16	\$ 239
Casinos	\$ 36	\$ 6	\$ 30
Non-casino gaming businesses	\$ 187	\$ 174	\$ 13
Money transmission businesses	\$ 107	\$ 79	\$ 28
Jewelry stores	\$ 115	\$ 15	\$ 100
Wholesale jewelers, precious metals, and loose stone dealers	\$ 2	\$ 1	\$ 1
Pawnshops	\$ -	\$ -	\$ -
Embassies, consulates, and other diplomatic posts	\$ 15	\$ 0	\$ 15
Attorneys and legal firms	\$ 902	\$ 21	\$ 880
Crypto-asset promoters or businesses	\$ -	\$ -	\$ -
Churches and religious organisations	\$ 155	\$ 77	\$ 78
Non-religious NGOs	\$ 102	\$ 12	\$ 90
Accountants and accountancy firms	\$ 97	\$ 7	\$ 97
Land and real estate developers	\$ 232	\$ 15	\$ 216
Insurance brokers and agents	\$ 870	\$ 218	\$ 652
TOTAL	\$ 3,356	\$ 680	\$ 2,676

There are no surprising revelations in the Bahamian Dollar deposit inflows. Web shop operators are the dominant form of domestic gaming. 80 to 95 per cent of auto dealer and boat dealer deposits are non-cash. In the former case, this suggests that many cars are financed, rather than purchased for cash. Jewelry stores are similarly placed, with about 85 per cent of deposits flowing from non-cash payments. The opposite applies to money transmission businesses, which are by and large a cash industry.

Table 5: Non-BSD denominated account inflows (rounded to nearest BSD million equivalent)

Industry Segments	Total Deposits Received	Notes & Coins	Other Deposits
Auto dealers	0	0	0
Boat and maritime dealers	204	0	204
Real estate Brokers & Agents	49	0	49
Casinos	212	78	133
Non-casino gaming businesses	0	0	0
Money transmission businesses	1	1	0
Jewelry stores	0	0	0
Wholesale jewelers, precious metals, and loose stone dealers	0	0	0
Pawnshops	0	0	0
Embassies, consulates, and other diplomatic posts	2	0	2
Attorneys and legal firms	1,874	0	1,874
Crypto-asset promoters or businesses	0	0	0
Churches and religious organisations	0	0	0
Non-religious NGOs	24	0	24
Accountants and accountancy firms	18	0	18
Land and real estate developers	277	9	268
Insurance brokers and agents	151	9	142
TOTAL	2,814	98	2,716

In the foreign currency denominated accounts, many segments drop close to zero, as the relevant business is nearly entirely domestic. The substantial deposits flow to real estate-related fields (lawyers, developers, brokers), casinos, and maritime dealers. Excepting casinos, cash makes up less than 1 per cent of total deposit flows.

Implications for Bahamian AML strategies

This exercise has concentrated on identifying industry segments that are, as a practical matter, unlikely to present material money laundering risks.

In the Central Bank’s assessment the wholesale jewelry, diplomatic, pawnshop, and crypto-asset sectors are simply too small to pose a material financial crime threat to the Bahamian domestic banking industry.

On the other hand, the real estate industry, broadly defined, is big enough to constitute at least a potential threat. That threat could arise from either Bahamian dollar or foreign currency flows, but evidently not from cash-based transactions.

The data suggests that cash-based money laundering risks are a more material exposure for gaming and money transmission activities. In this area, however, the Gaming Board has recently published a study demonstrating that although the domestic gaming houses generate a great deal of cash, there is immaterial evidence of money laundering. It is also the case that the Central Bank requires the domestic bank providing deposit services to the gaming houses to conduct special testing of this risk. There is no current evidence that retail gambling in the gaming house sector is a material money laundering risk.

Automobile and maritime dealers have sometimes been suggested as vectors for money laundering via cash purchases of vehicles and boats. The evidence to hand suggests that these sectors are heavily non-cash based. In separate work, the Central Bank received data from the Bahamas Customs Department. This data documents few incidences of expensive or exotic car imports to The Bahamas.

Churches and other NGOs have been raised from time to time as money laundering or terrorist financing risks. In The Bahamas, churches are a reasonably large and cash-heavy business, but have essentially zero incoming foreign currency flows. In the absence of any evidence of ML/TF crime in the church sector, the local facts suggest that this segment is not a ML/TF risk. Similar considerations apply to other NGOs, which are about the same size as the church sector, with much less cash, a bit more international funds flow, but zero evidence of support for terrorism.

What should we worry about in the domestic market?

In the domestic financial system, there are three industries that are large enough to sustain material money laundering volumes:

- Real estate and related professional services, where there is a large overlap with the international sector;
- Gaming; and
- Money transmission businesses.

All three of these areas are subject to supervision by (respectively) the Compliance Commission, the Gaming Board, and the Central bank.

Currency note denominations

In its annual report on Bahamian AML risks, the Central Bank included analysis on Bahamian and USD notes in circulation. That report suggested that there is little evidence of material cash-based money laundering, based upon the mix of currency denominations. The same inference can be drawn from the data in this note. There are doubtless many cases of Bahamian petty criminals self-laundering cash proceeds. Bahamian authorities prosecute and secure convictions on several such cases per year. There is little if any evidence, however, of wholesale, third party cash money laundering in the domestic banking industry.

It is worth noting that there is no cash money laundering in the international banking and trust sector, which absent rare exceptions is barred from accepting cash deposits or investments.

SUMMARY

The Bahamian authorities have in recent years considered money laundering and terrorist financing risks throughout the Bahamian economy. We have now accumulated sufficient information to increase our focus on areas where the risks are higher, and reduce focus on areas where risks are low or insignificant.

In the Bahamian domestic banking context, the major AML/CFT risks are likely to reside in real estate, gaming, and money transmission, and the risks in the first two of these segments are shared between domestic and international clients. As regards money transmission, the Central Bank is taking steps to lift the intensity of its supervision in this industry.

With the above exceptions, the Central Bank's view is that domestic money laundering risks in the banking sector are quantitatively small, and in character (excepting small-ticket self-laundering) are qualitatively low risk. This leads to the conclusion that the Central Bank, in conjunction with other Bahamian authorities, should focus its AML/CFT efforts on the relatively few areas of the domestic banking system that may present material risk, while concentrating most of our efforts upon the much larger international financial sector.

Central Bank of The Bahamas

Bank Supervision Department

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