



## Gross Economic Contribution of The Financial Sector in The Bahamas (2004) \*

\*Published in the *Quarterly Economic Review*, March 2005,  
(Vol. 14, No.1) Pages 33-41.

---

## GROSS ECONOMIC CONTRIBUTION OF THE FINANCIAL SECTOR IN THE BAHAMAS (2004)

### INTRODUCTION

This report summarizes the results of the Central Bank's 2004 survey on the gross economic contribution of the financial sector to The Bahamas. The data series on the banking sector's activities within the economy extends more than two decades into the past. In 2001, the Central Bank began surveying other segments of the financial sector to draw more comprehensive conclusions about sector trends. The quality of this information continues to improve, and the Bank expects to be able to consolidate this picture soon, particularly as regards the insurance sector, investment funds activities and credit unions. More extensive work is still needed, however, to assess the contribution from the activities of corporate and financial services providers.

The financial sector is the second most important pillar of the Bahamian economy, contributing to approximately 15 to 20 percent of the gross domestic product (GDP). The international sector, which represent a sizeable share of this total, is still undergoing a transformation, as it adjusts to regulatory reforms initiated in 2000. External economic trends have returned to a more favorable position for growth, but the policy environment is still adjusting.

The financial sector's contribution to the economy was moderately increased in 2004. In the banking sector, the number of licensed operations continued to decline in adjustment to the new physical requirement policy for licensees; however, employment and expenditures increased. Expenditure contribution from credit unions and insurance companies also rose during the year, with a more stable outcome for employment. While the business outlook was improved for investment fund management activities, operations outside of banks recorded some reduction in total employment and expenditures, owing to the relocation of a major licensee outside of the jurisdiction.

### BANKING SECTOR

Although licensing activity continued to adjust to the Central Bank's physical presence policy, the banking

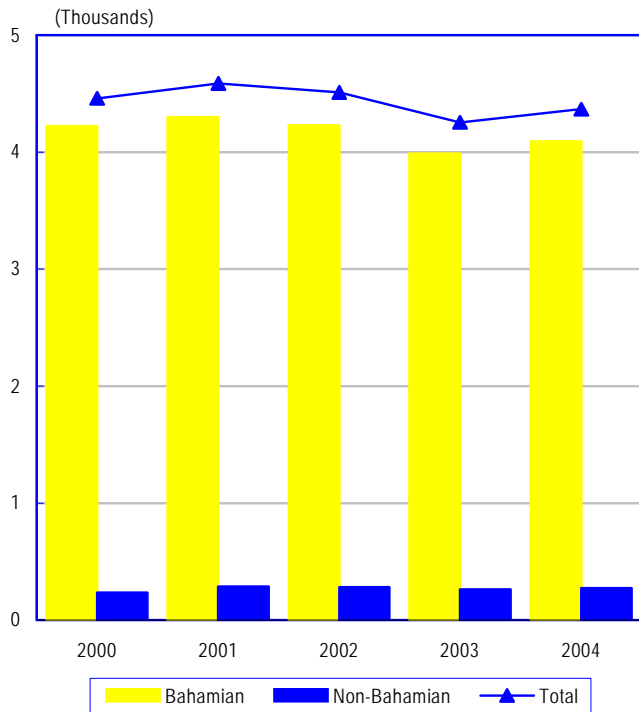
sector's economic contribution increased during 2005. Under the Central Bank's physical presence policy introduced in 2001, all licensed operations were required to establish a physical presence in The Bahamas by end-June 2004. Other than exceptions outlined in the policy, most institutions had completed this process by the end of the year, including a further number of licensees which choose to close down their operations. As a result, the number of banks and trust companies licensed to operate from or within The Bahamas stood lower at 266 compared to 284 in 2003. Licensed public banking and trust operations fell by 12 to 157 and restricted and non-active operations by 6 to 109. The public licensees in the international sector comprised 38 euro-currency branches of foreign banks and trust companies and 95 Bahamian incorporated institutions. Of the remaining 24 institutions, which represented domestic operations, there were 8 Authorized Dealers (mainly commercial banks), 15 Authorized Agents (trust companies) and 1 active Authorized Agent and Dealer. Impacted both by closures and merged operations, the number of entities with established physical presence in The Bahamas stood at 213 at end-2004, down from 216 at end-2003.. Some 47 institutions continued under restricted management arrangements approved by Central Bank, and 6 were still in transition to comply with the policy.

The asset base of the international banking sector was stable, near \$300 billion at end 2004. Business generated from company registration and management increased, as evident from a disclosed 18,601 companies (mainly IBCs) under management, compared to 15,147 in 2003 and 16,115 in 2002. In the domestic sector, the more favourable business climate also supported increased profitability, as the estimated net income of local banks rebounded by 36.6% during 2004, and the average return on assets ratio firmed to 2.71% from 2.14% in 2003. The institutions operated with a net domestic asset base of \$6.4 billion.

**EMPLOYMENT**

Employment conditions among banks and trust companies were more ameliorated during 2004. The average annual employment growth of 0.4% during 1999-2003 strengthened further by 113 (2.6%) to 4,366 persons in 2004. Total Bahamian staff recovered by 104 (2.7%) to 4,092 in 2004, following a 239 (5.7%) reduction in 2003. The gain in non-Bahamian staff of 9 (3.4%) to 274 contrasted with a decrease of 18 (6.4%) expatriate jobs in 2003. The slightly firmer increase in the latter marginally boosted expatriates' respective share of employment to 6.3% from 6.2% in 2003.

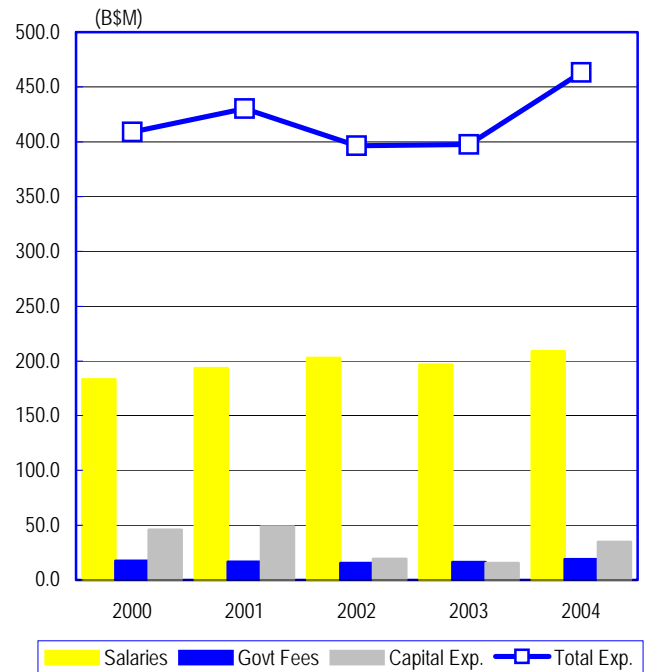
**Banking Sector Employment**



mated 1.4% increase in 2003, and pacing ahead of the average yearly gain of 5.0% during 1999-2003.

Given employment trends, banks' total salary outlays rose by \$12.6 million (6.4%) to \$209.1 million in 2004, recovering from a 3.1% decline in 2003. Average annual compensation per employee also firmed, by 3.7% to \$47,893, pacing marginally below the 4.7% average annual increase during 1999-2003. Adjusted for inflation, the average real increase in salaries, since 1999, was pegged at 2.7% per annum. For Bahamians, average annual pay was augmented by 3.9% to \$43,760 during 2004, relative to a 1.2% rise in 2003. Average compensation for expatriates rose by 1.9% to \$109,620.

**Banks' Local Expenditure**



**EXPENDITURE**

Employment growth, average salary gains and increases in other operating and investment outlays boosted banks' total expenditures in the economy by 16.5% to \$463.1 million in 2004, outpacing the five years average annual uptrend through 2003 of 3.6%.

Operations costs, which comprised a moderately decreased 92.5% of total expenditures, rose by \$46.3 million (12.1%) to \$428.3 million, augmenting an esti-

Non-staff administrative expenses in the banking sector increased by 18.6% to \$197.8 million during 2004, continuing the previous year's 7.1% advance and the five year average annual growth of 5.2% through 2003. The sector's contribution to Government revenue increased by \$2.5 million (15.0%) to \$18.9 million, partly extending a 6.0% increase in 2003, and was due to higher outlays for work permits, real property taxes, stamp duties and

**TABLE A. GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES IN THE BAHAMAS**

Period	1998	1999	2000	2001p	2002p	2003p	2004p
<b>A. TOTAL EMPLOYMENT</b>							
Bahamians	4,080	4,181	4,460	4,586	4,510	4,253	4,366
Non-Bahamians	3,895	3,991	4,223	4,300	4,227	3,988	4,092
	185	190	237	286	283	265	274
<b>B. TOTAL OPERATIONAL COSTS (1+2+3+4)</b>							
1. Salaries	275.8	314.2	363.1	381.4	376.9	382.0	428.3
2. Government Fees	147.5	160.8	182.9	195.3	202.8	196.5	209.1
i) Licence	14.2	14.4	17.4	16.5	15.5	16.4	18.9
ii) Company Registration	7.8	8.2	8.7	8.0	7.3	6.6	6.9
iii) Work Permits	0.6	1.0	1.0	2.6	2.8	1.4	1.4
iv) Other Government Fees	1.1	1.3	2.2	2.2	2.3	2.3	2.5
3. Staff Training	4.7	3.9	5.5	3.7	3.2	6.1	8.1
4. Other Administrative Costs	2.5	2.7	3.1	2.2	2.9	2.3	2.5
	111.6	136.3	159.7	167.4	155.7	166.8	197.8
<b>C. CAPITAL EXPENDITURE<sup>1)</sup></b>							
	17.4	31.2	45.7	48.7	19.4	15.4	34.8
<b>D. TOTAL EXPENDITURE (B+C)</b>							
	293.2	345.4	408.8	430.1	396.3	397.5	463.1
<b>E. AVERAGE SALARY (B\$'000)</b>							
	36,161	38,452	41,010	42,578	44,966	46,203	47,893

**Source: The Central Bank of The Bahamas**

<sup>1)</sup> Includes construction, renovation expenses and other fixed assets.

**TABLE B. GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES**

Period	1999	2000	2001p	2002p	2003p	2004p	1999	2000	2001p	2002p	2003p	2004p
	<b>DOMESTIC</b>						<b>OFFSHORE</b>					
<b>A. TOTAL EMPLOYMENT</b>	3,203	3,274	3,341	3,284	3,192	3,252	978	1,186	1,245	1,226	1,061	1,114
Bahamians	3,155	3,232	3,299	3,240	3,149	3,208	836	991	1,001	987	839	884
Non-Bahamians	48	42	42	44	43	44	142	195	244	239	222	230
	(B\$ Millions)											
<b>B. TOTAL OPERATIONAL COSTS</b>	203.2	216.4	227.7	227.3	224.6	257.2	111.0	146.8	151.7	149.7	157.5	171.1
(1+2+3+4)												
1. Salaries	113.0	119.9	121.5	128.8	128.9	132.4	47.8	63.0	71.7	74.0	67.7	76.7
2. Government Fees	6.5	6.2	6.6	6.3	6.7	7.5	7.9	11.2	9.9	9.2	9.7	11.4
i) Licence	3.0	3.0	3.0	3.1	2.7	2.8	5.2	5.7	5.0	4.2	3.9	4.2
ii) Company Registration	0.6	0.3	1.1	0.7	0.7	0.7	0.4	0.7	1.4	2.1	0.7	0.7
iii) Work Permits	0.5	0.4	0.5	0.4	0.5	0.6	0.8	1.8	1.8	1.9	1.8	1.8
iv) Other Government Fees	2.4	2.5	2.0	2.2	2.7	3.4	1.5	3.0	1.7	1.0	3.4	4.7
3. Staff Training	1.5	1.7	1.2	1.3	1.2	1.3	1.2	1.5	1.0	1.6	1.1	1.1
4. Other Administrative Costs	82.2	88.6	98.4	90.9	87.8	115.9	54.1	71.1	69.1	64.9	78.9	81.9
<b>C. CAPITAL EXPENDITURE 1/</b>	15.9	14.2	25.3	13.2	11.8	27.9	15.2	31.4	23.3	6.2	3.6	7.0
<b>D. TOTAL EXPENDITURE (B+C)</b>	219.1	230.6	253.0	240.5	236.4	285.0	126.2	178.2	175.0	155.8	161.1	178.1
<b>E. AVERAGE SALARY (B\$/000)</b>	35,270	36,619	36,381	39,217	40,379	40,723	48,874	53,134	57,603	60,367	63,808	68,840

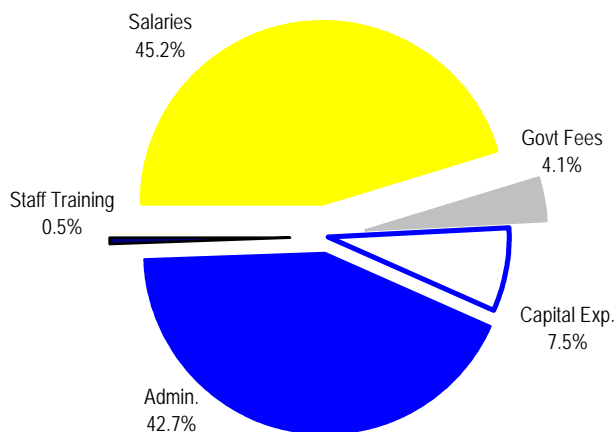
**Source: The Central Bank of The Bahamas**

1/ (includes construction, renovation expenses and other fixed assets)

license fees. During 1999-2004, total direct revenue benefits to Government from the banking sector was estimated at approximately \$100 million.

Banks and trust companies also increased outlays on staff training by 5.6% to \$2.5 million in 2004, restoring some of the estimated 19.0% reduction which occurred the previous year. In addition to these direct outlays, emphasis on training in the financial sector is also reflected in institutions' support of tertiary level programmes at local institutions, and training provided by the Bahamas Institute of Financial Services. These programmes also feature significant self-funded study, by persons already employed within or aspiring to careers in the financial sector.

**Banks' Expenditure Components**  
(% of Total)



In contrast to the previous two year's slowing, banks intensified their capital expenditure programmes in 2004, with investments elevated to \$34.8 million from \$15.4 million in 2003, and \$19.4 million in 2002. Contributing to added support for the local construction sector, investments in new premises were boosted by 57% to \$2.6 million and renovation expenses rose by 59% to \$6.6 million.

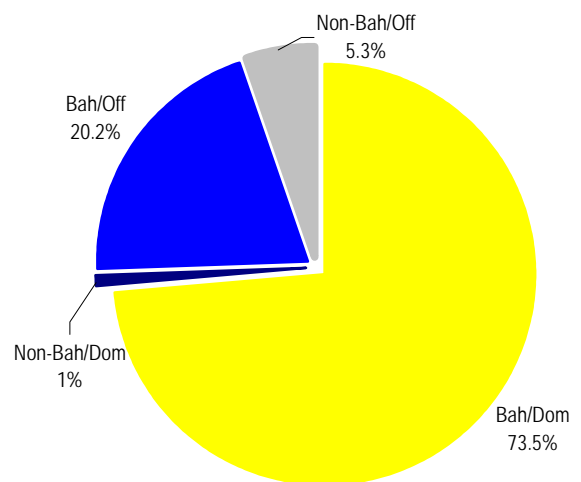
**DOMESTIC VERSUS INTERNATIONAL BANKING**

It is also useful to analyze banks' contributions separately, relative to activities in the domestic and

international sectors. While there is some overlap, because some institutions have local and international operations, the latter are distinguished by the more skill intensive private banking and investment functions undertaken, relative to the labor intensive, retail focus of domestic operations.

Employment among domestic banks increased by 60 (1.9%) to 3,252 during 2004. With stronger job growth among international operations, this marginally reduced the local operations' share in total employment to 74.5% from 75.1% in 2003; albeit, maintaining it slightly above the estimated 74.2% employment share for the five years through 2003. Bahamian employment in local operations rose by 59 (1.9%) to 3,208 and the number of expatriates, by 1 to 44. Consequently, the ratio of Bahamians to non-Bahamians in domestic banks remained near 73:1 in 2004.

**Employment: Domestic & Int'l Banks (2004)**



Partly in response to staffing requirements of the physical presence guidelines, employment among international banks and trust companies recovered partially by 53 (5.0%) to 1,114 vis-à-vis a 165 (13.5%) decline in 2003 which was mainly due to closure and consolidation of some operations with physical presence. The sector recorded growth in Bahamian positions of 5.4% to 884 and non-Bahamian jobs of 3.6% to 230.

Influenced by investments, domestic banks' gross expenditures recovered by 20.6% to \$285.0 million during 2004, and represented a moderately elevated share of the sector's aggregate (61.5%). Operating costs increased by 14.5% to \$257.2 million, with salaries, the largest component (51.5%), advancing by 2.7%. The Government benefited from a 12.9% hike in direct receipts, while non-staff administrative expenses firmed by 7.7%. Capital outlays rose significantly to \$27.9 million from \$11.8 million the previous year. This was partly attributed to land purchases, following a two year absence of spending on this area; a sizeable hike in investments in office equipment and boosted construction outlays on renovation of premises.

Total expenditures attributed to international operations continued to rebound, increasing by 10.6% to \$178.1 million, and outpacing the 6.3% average annual increase for 1999-2003. Operational costs rose by 8.6% to \$171.1 million (96.1% of the total), inclusive of a 13.3% rise in salaries and a 3.7% hike in non-staff administrative costs. Also, international banks' capital expenditure nearly doubled to \$7.0 million, representing marked increases in spending on renovations, new premises and fixed assets.

In comparison to the domestic banks, the higher skills content of international operations continued to be rewarded with above average salaries. Average pay in international operations rose by 7.9% to \$68,840, outpacing the domestic sector's average gain of 0.9% to \$40,723 per annum. The premium on average earnings per employee in international operations consequently firmed to 69.0% from 58.0% in 2003.

## OTHER FINANCIAL SECTOR ACTIVITIES

Table C summarizes selected information on other financial sector activities, including some results from the Central Bank's expenditure and employment survey for 2004.

### CREDIT UNIONS

The Department of Cooperative Development reported that the number of registered credit unions remained at 19 during 2004. Total assets of these coop-

eratives increased by 13.4% to \$170.2 million, 86.1% of which was shared among the five largest unions, which had memberships drawn from the hotel and public sectors.

Based on the Central Bank's survey, credit unions employed an approximately stable 105 persons in 2004. Following increased investments in land, which resulted in a more than three-fold boost in capital spending, estimated expenditures among credit unions rose by 31.3% to \$8.0 million in 2004. Operational expenses were extended by 6.9% to \$5.8 million, with salaries, which accounted for 49.8% of these outlays, higher by 24.4%. In this regard, the cooperatives utilized more full-time resources, which elevated the average annual salary expense per employee to \$27,602 from \$22,394 in 2003. Although this remained lower than the average estimate among other financial institutions, indications are that credit unions continue to operate, nevertheless, with competitive pay scales, and use a significant number of part-time resources.

### INSURANCE COMPANIES

Information from the Office of Registrar of Insurance Companies reveals that the number of licensed insurance companies, brokers, agents and managers rose by 8 to 161 in 2004. The number of external insurers rose by 3 to 29, while locally licensed operations increased by 5 to 132. It is projected that total assets of the domestic sector trended above the \$870.0 million estimated at end-2003, indicating further expansion within the sector, when compared to \$740.7 million in 2002. Life and health insurance companies' balance sheets accounted for two thirds of this total.

Indications are that there was a moderate increase in total expenditures and employment, with average salaries estimated 3.1% higher at \$42,120. As regard employment and cost structure, the average share of insurance sector jobs held by Bahamians remained near 98.0%, while operating outlays approximated 94.6% of total expenditures as compared to 96.9% in 2003.

The domestic insurance sector continued its ongoing consolidation activities, with the Government approving Colina Insurance Company Limited's application to purchase the operations of Imperial Life Financial, a

**Table C: Other Selected Financial Sector Statistics**

	Unit	2000	2001	2002	2003	2004p
<b>Investment Funds Administrations</b>						
Licensed Mutual Funds	Number	757	673	706	721	838
<b>Licensed Administrators</b>	<b>Number</b>	<b>57</b>	<b>58</b>	<b>61</b>	<b>66</b>	<b>59</b>
<i>Asset Under Management</i>	<i>B\$ Billions</i>	95.0	94.5	97.3	107.4	163.4
<i>Average Annual Salaries<sup>1</sup></i>	<i>B\$</i>	50632	61,497	59,836	59,862	57,099
<i>Operating Costs / Total Expenditures</i>	<i>%</i>	96.5	88.8	98.2	98.2	96.8
<b>Insurance Companies and Agents</b>						
<b>Domestic Companies and Agents</b>	<b>Number</b>	<b>144</b>	<b>147</b>	<b>153</b>	<b>153</b>	<b>161</b>
<i>Total Domestic Assets</i>	<i>Number</i>	117	120	126	127	132
<i>Average Annual Salaries<sup>1</sup></i>	<i>B\$ Millions</i>	620.40	682.55	740.70	870.00	n/a
<i>Operating Costs / Total Expenditures</i>	<i>B\$</i>	39,806	41,721	40,529	40,845	42,120
	<i>%</i>	97.2	96.9	97.7	96.9	94.6
<b>External Insurers</b>	<b>Number</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>26</b>	<b>29</b>
<b>Credit Unions</b>						
<b>Number of Unions</b>	<b>Number</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>19</b>	<b>19</b>
<i>Total Assets</i>	<i>B\$ Million</i>	110.9	120.4	132.5	150.1	170.2
<i>Employment</i>	<i>Number</i>	99	99	96	104	105
<i>Average Annual Salaries</i>	<i>B\$</i>	18,857	20,339	21,146	22,394	27,602
<i>Total Expenditures</i>	<i>B\$ Million</i>	4.87	5.12	6.17	6.08	7.99
<i>Operating Costs / Total Expenditures</i>	<i>%</i>	85.57	89.9	65.4	89.5	72.9
<b>Bahamas International Securities Exchange (BISX)</b>						
<b>Listed Public Companies</b>	<b>Number</b>	<b>15</b>	<b>17</b>	<b>16</b>	<b>17</b>	<b>19</b>
<i>Shares Traded</i>	<i>Thousands</i>	3,720	3,958	2,748	3,569	7,996
<i>Market Capitalization</i>	<i>B\$ Billion</i>	1.74	1.68	1.76	1.66	1.90

**Sources:**

The Central Bank of The Bahamas, Bahamas International Securities Exchange (BISX),  
The Securities Commission of The Bahamas and The Registrar of Insurance Companies.  
<sup>1</sup> Revised



---

branch of the Desjardins Financial Security Life Assurance Company of Canada. This decision was made following an extensive review by a committee of financial services regulators, including the Office of the Registrar of Insurance Companies, the Central Bank, the Securities Commission and the Ministry of Finance.

#### **SECURITIES INDUSTRY**

The Securities Commission reported an increase in the number of active investment (mutual) funds operating from or within The Bahamas, to 838 in 2004 from 721 in 2003. The corresponding value of assets under management rose to an estimated \$163.4 billion from \$107.4 billion in 2003. The Central Bank's survey obtained results from 17 of the 24 of the investment fund administrators which operate on a physical basis in The Bahamas, outside of licensed banks and trust companies.

Total employment and expenditures were negatively impacted by the relocation of one of these administrators outside of The Bahamas. For the sub-sector, average compensations remained the highest in The Bahamas; however, a reduction in the share of non-bahamians employed softened average salaries by an estimated 4.6% to approximately \$57,099 in 2004. Salaries and other operating expenses accounted for 96.8% of the total costs incurred by the surveyed firms, with the remainder expensed on investments.

#### **CAPITAL MARKETS**

During 2004, the domestic capital market registered increased activities, as the pickup in the economy stimulated higher trading volumes and values on local equities. Partly influenced by the Government's divestment of holdings in Cable Bahamas, The Bahamas International Securities Exchange (BISX) witnessed a doubling of its trading volume, to 8.0 million shares, with share values higher at \$24.3 million compared to \$7.5 million in 2003. The BISX All Price Share Index rebounded strongly by 19.7% to 1034.9 points, following a 2.0% decline in 2003. Continuing this recovery trend, the Fidelity Capital Market Limited's Index (Findex), that captures over-the-counter trading, recovered by 14.9%, following a tapered decline of 0.6% in 2003.

New private capital activity was highlighted by the July 2004 offering of Bahamian dollar depository receipts by Kerzner International Limited (KZL), which raised \$4.3 million, against shares of KZL listed on the New York Stock Exchange (NYSE). A total of ten BDRS was issued for each KZL share, with pricing fixed against the closing value of the shares for the previous day on the NYSE. The number of publicly traded companies on BISX increased to 19, with the addition of the Bank of The Bahamas, which previously traded over-the-counter, and the KZL BDRS. Consequently, total market capitalization was boosted by 17.2% to \$1.9 billion.

#### **RECENT REGULATORY DEVELOPMENTS IN THE FINANCIAL SECTOR**

There were no major regulatory developments during 2004, as compared to the 2003 when amendments to the legal framework for combating money laundering were introduced, and more legislation was adopted for the investment funds industry. In the banking sector, progress continued on the introduction of regulatory guidelines to extend the effectiveness of the new legislation introduced since 2000, and with the Central Bank's oversight of the transition of managed banking and trust operations to physical presence.

While domestic regulators continued to coordinate their responses to requests for assistance from foreign supervisory authorities, the Central Bank provided direct assistance in 28 cases originating from 19 foreign authorities. The Bank advanced negotiations and formalized additional Memorandums of Understandings (MOUs) with several foreign authorities to facilitate future cooperation in supervisory issues, continued to monitor international policy developments of importance to the financial sector, and represent The Bahamas in several important forums addressing such issues.

#### **CONCLUSION**

The outlook for financial services remains positive, providing ongoing opportunities for income and employment growth. The potential to extract increased benefits remains concentrated in the international sector. Towards this end, The Bahamas will continue to be chal-

---

lenged to respond effectively to policy developments originating in the major industrial economies that could affect the sector's viability. From an economic perspective, the improved global outlook and more stable financial markets already provide a stronger basis for business growth. However, continued innovations in product development, an effective regulatory framework and further strengthening of human resources and other domestic supports are also vital to ensuring that The Bahamas maintains a competitive global edge.

Meanwhile, ongoing developments in the domestic sector are also expected to have more positive long term impact on the economy. In particular, the sector is being positioned for efficient intermediation of local savings via deepening of the capital markets and modernization of the payments system. When viewed in the context of steady tourism and foreign investment activity, these trends suggest a stable outlook for employment and other opportunities in the domestic financial sector.