Financial Inclusion Objectives Benefits and Challenges

A BAHAMIAN PERSPECTIVE

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“ *Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.*

Source: The World Bank

FINANCIAL INCLUSION

The essence of financial inclusion is access, including access to transaction accounts operated by regulated payment service providers in order to:

- Make and receive payments, and safely store some value;
- Serve as a gateway to other financial services, including:
  - small savings product suited to the pattern of cash flows of a poor household
  - money transfer facilities
  - insurance products (life and non-life)
  - small loans and overdrafts

Universal Financial Access (UFA) by 2020

2 Billion

Approximate number of people who do not use formal financial services

50% of Adults

in the poorest households are unbanked

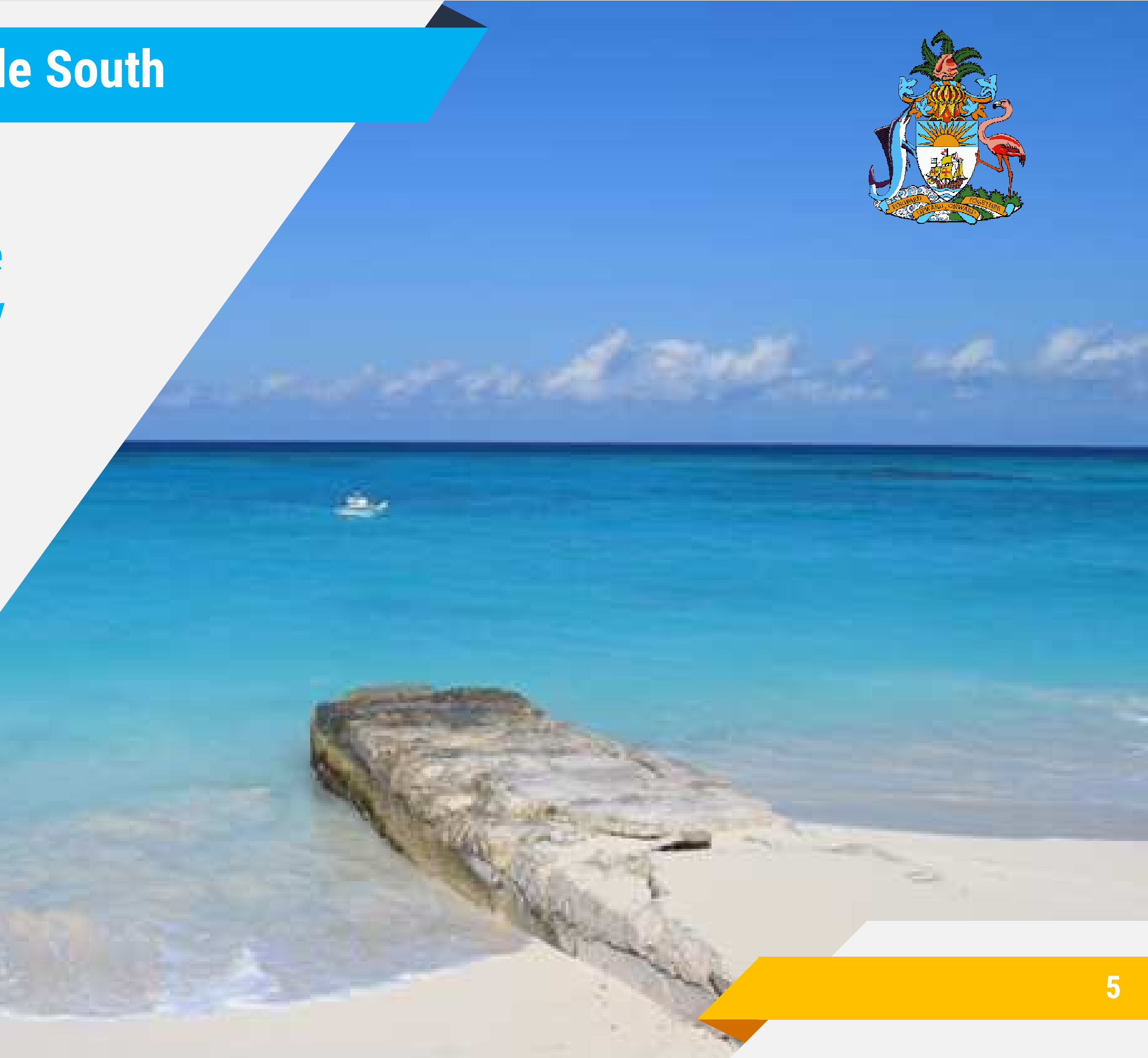
200 million

micro, small and medium-sized enterprises lack adequate financing to thrive and grow

Source: The World Bank

Acklins Island and the Vulnerable South

The Bahamas might be a large global financial center, but given the archipelagic structure of the country and the uneven distribution of wealth, achieving financial inclusion is still a work in progress. Acklins Island – one of our rural southern islands, is also a world-class bonefishing destination.
It is currently unbanked, and unable to maximise its participation in this high-value sector.



The Islands of The Bahamas

As an archipelago, with approximately two dozen inhabited islands, the population of The Bahamas is spread across a vast seascape. 30% of the population lives in the Family Islands. This is our collective name for the less developed island communities outside of New Providence, where the capital is located. These communities in particular, need to feel the benefits of financial inclusion.

At least 7 of 17 Sustainable Development Goals include financial inclusion goals

- Elimination of poverty
- Zero hunger
- Good Health and Well Being
- Gender equality
- Economic growth
- Industry, innovation and infrastructure
- Reducing inequality

DE-RISKING

Overview | Impact | Action Now

> *The negative "high-risk" perception of the region exists despite the significant amount of investment – investment of time, effort and funds – made by regional governments to ensure we are compliant with international standards and best practices.*

Source: K. Peter Turnquest, Deputy Prime Minister and Minister of Finance, The Bahamas

Bahamian Legislative Efforts Demonstrate Commitment

- The Banks and Trust Companies Regulation Act, 2000
- The Financial Intelligence Unit Act, 2000
- The Proceeds of Crime Act, 2000
- The Financial and Corporate Service Providers Act, 2000
- The Financial Transactions Reporting Act, 2000
- International Business Companies Act, 2000
- The Evidence (Proceedings in other Jurisdictions) Act, 2000
- The Criminal Justice (International Cooperation) Act, 2000
- The Financial Transaction Reporting Amendment Act, 2018
- The Proceeds of Crime Amendment Act, 2018
- In recent months, we tabled the Travellers Currency Declaration (Amendment) Bill, 2018

Challenging the Historical Bias

- Countries in the region are treated as though they are not cooperative partners; as if our business models are inherently harmful
- There is no respected regional government or institution that is not committed to mitigating the adverse effects of criminal economic activity, and promoting integrity and stability in financial markets.

Keeping Current with the Changing World

- Historically our entry into the financial services sector as an offshore banking jurisdiction was once based upon tax avoidance, not unlike like Delaware, New Jersey and Switzerland.
- The world has evolved since then: Business models have shifted and the Caribbean has shifted with it.
- The Bahamas is not a tax haven. We are a transparent, compliant and cooperative wealth management jurisdiction, providing competitive services to international markets for financial services.

We must reckon with the historical bias that leads to a skepticism about our financial practices and an intense focus on the Caribbean. It has the power to undermine our collective efforts. Simply put, it is time for advanced economies to take the mark off the back of the Caribbean.

Source: K. Peter Turnquest, Deputy Prime Minister and Minister of Finance, The Bahamas

ABOUT DE-RISKING

1.

Global financial institutions have developed a reduced risk appetite in the Caribbean. They are increasingly terminating or restricting business relationships with local banks and money transfer operators.

2.

De-risking has impacted the region's cornerstone correspondent banking relationships (CBRs) and critical access to money transfer operations. De-risking threatens progress that has been achieved on financial inclusion, and in reducing remittance prices and fees..

3.

If the current trend continues, people and organizations in the region with limited financial markets could be completely cut off from access to regulated financial services.

Impact of De-Risking in The Bahamas

- In 2016, The Bahamas was one of the countries impacted when 16 banks located in the Caribbean region lost relationships with correspondent banks.
- 26% of licensed financial institutions in The Bahamas lost at least one correspondent banking relationship between 2014-2016.
- Withdrawal of CBRs has not reached a critical level to threaten the overall stability of the banking sector

Impact of De-Risking

- The promotion of financial exclusion rather than inclusion
- Shrinkage of the financial sector
- Thriving underhand economies
- Increased use of unregulated payment options, and
- Increased barrier to attaining Sustainable Development Goals

ACTION NOW

Global regulators and international standard setters (FATF, CPMI, OSFI, UST, etc.) need to take specific steps toward a long-term solution to this urgent policy challenge by addressing:

- the complexity of regulations and risk exposures which are contributing to biases n the incentive structure against certain classes of business
- the costs of ensuring that international transactions do not violate national sanctions and prohibitions in the USA and elsewhere

CARICOM Central Bank Governors Technical Working Group on De-risking, 2016 Working Paper

THE DIGITAL ECONOMY

The Bahamas in Progress

THE FUTURE IS DIGITAL BANKING

- Across The Bahamas, the branch network for commercial banks is decreasing
- Banks are seeing compressed returns on weaker credit portfolios and pressure on their operating costs
- Some banks are not just signaling the digital future of banking. They are moving full steam ahead on that trajectory, forcing their customers to get on board or get left behind

Cultural barriers to adopting digital banking

Mobile penetration is around 84%, but this implies a level of technological adoption and comfort that is not the cultural reality. In The Bahamas we still have challenges with:

- Financial literacy
- Public mistrust of financial institutions
- Phobia about the safety of using electronic transactions

“Bahamians might be well accustomed to mobile usage for social media and entertainment purposes, but the leap to digital banking is exactly that: it is still a leap for a population that has large segments without access to basic deposit accounts. That being said, we do have to bite the bullet as a culture to realize the promise of the technology. And that promise has always been to empower people and communities with access.

Source: K. Peter Turnquest, Deputy Prime Minister and Minister of Finance, The Bahamas

THE GOVERNMENT’S LEADERSHIP ROLE

Championing an enabling environment through the government’s regulatory work, investment policies, and its very own service delivery.

- Tax payments currently available online: VAT, business license and real property tax, as well as driver’s license payments.
- We will soon be engaging the range of national stakeholders with a view to creating a robust and secure national cradle-to-grave identification system, as part of our e-Government initiative.

THE CENTRAL BANK'S EFFORTS

- Recently joining the international Alliance for Financial Inclusion (AFI) as a principal member
- Developing a simplified customer due diligence (CDD) procedure for low-value e-money products to ease the complexity around opening basic deposit accounts due to KYC requirements
- Spearheading the Bahamas Credit Bureau Project
- Examining the possibility of a digital Bahamian currency

FINANCIAL RESILIENCE

Managing the Disaster Threat

IMPACT OF CATASTROPHIC NATURAL DISASTERS

- Hurricane Ivan, Grenada, 2004: Total damages were estimated around US$900 million, equivalent to 200% of national GDP at the time
- Hurricane Frances, Grand Bahama, The Bahamas, 2004: Total associated costs were $1.2 billion, or 14% of GDP
- Hurricane Matthew, The Bahamas, 2016: Total damages over $600 million, equivalent to 40% of The Bahamas' national budget.
- Hurricane Maria, Dominica, 2017: Total damages of US$931 million, amounting to 226% of GPD

Mitigating the Threat in The Bahamas

- Active participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF)
- Exploration of a disaster savings fund with resources set aside every year in the budget
- Possible increased reinsurance
- Examination of disaster bonds, as are used elsewhere in the world

> “ *To ensure the viability and resilience of small island developing states, the notion of financial inclusion has to be extended globally to ensure that these vulnerable nation-states can easily access the financial products and credit they need to enable them to respond to natural catastrophes and thereby remain productive contributors to the global economy.*

Source: K. Peter Turnquest, Deputy Prime Minister and Minister of Finance, The Bahamas

CONCLUSION

Dialogue and Action

The importance of financial inclusion as a vehicle to enable and empower the people and communities of the Caribbean region cannot be overstated.

SAVE THE DATE

The Bahamas AML/CFT Conference

September 16-18, 2018

Nassau, The Bahamas

BahaMar Convention Centre

FINANCIAL INCLUSION OBJECTIVES
BENEFITS AND CHALLENGES

“The Caribbean region is not sitting back while these urgent demands bang at our door. We are hard at work, organizing, mobilizing, taking action: project by project, programme by programme, building the infrastructure and rolling out services. We must keep the financial inclusion conversation at the forefront by increasing financial literacy, and continuing to meet clear and measurable targets along the way.

Source: K. Peter Turnquest, Deputy Prime Minister and Minister of Finance, The Bahamas

THANK YOU

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