



**COMMONWEALTH OF THE BAHAMAS**  
**REPORT ON 2022 MONEY LAUNDERING RISK ASSESSMENT SUMMARY OF KEY FINDINGS**



**NATIONAL IDENTIFIED RISK FRAMEWORK STEERING COMMITTEE**

**DECEMBER 2024**

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## **Foreword by the Honourable Attorney General**

### **Chairman of the Ministerial Council**

The Commonwealth of The Bahamas, as a founding member of the Caribbean Financial Action Task Force (CFATF) in 1990, has demonstrated its longstanding commitment to international standards in the fight against money laundering. The jurisdiction has undergone four mutual evaluations by the CFATF with the latest conducted during the period 30 November - 11 December 2015. The mutual evaluation report was published in July 2017. This mutual evaluation was based on the revised Financial Action Task Force's (FATF) 40 Recommendations of February 2012, and the Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems - February 2013 ( "the Methodology"). After the publication of the mutual evaluation report, The Bahamas was placed into enhanced follow-up by CFATF and FATF monitoring process - International Cooperation Review Group Americas' Region.

Over the last seven (7) years, the legal, enforcement and regulatory AML/CFT/CFP framework was revamped and enhanced to meet the challenges and international standards in the fight against money laundering/terrorist financing/proliferation financing. The Bahamas introduced strengthened legislation including the Proceeds of Crime Act, 2018, Financial Transactions Reporting Act, 2018 and subsequent regulations, Register of Beneficial Ownership Act 2018, and the Anti-Terrorism Act, 2018.

Noteworthy is the country's accomplishments in obtaining delisting from the FATF Jurisdictions Under Increased Monitoring List in December 2020 and the European AML Blacklist in January 2022. Further, The Bahamas achieved 40 for 40 compliant and largely compliant ratings for the FATF 40 Recommendations in December 2022, becoming only the second jurisdiction in the Americas and Caribbean and the sixth in the 206 member FATF Network of territories to attain the lofty goal.

On behalf of the Government, I am pleased to present the summary results of The Bahamas' third Money Laundering National Risk Assessment (NRA). The NRA was conducted in 2023 covering a review period of 2017 - 2022 with technical assistance rendered by the World Bank. A collaborative approach to the NRA was taken: seven working groups assessed national threats and national vulnerabilities, as well as the vulnerabilities within the various financial and non-financial sectors. Sectoral working groups had the benefit of industry participation in assessing ML risks. It is anticipated that the NRA will be updated periodically. The Bahamas Government wishes to extend its appreciation to those individuals, within both the private and public sectors, who contributed to the NRA process.

Summary results of the NRA are presented in this report. The Bahamas is committed to upholding the international standards and best practices in the fight against ML. It is in our best interest to exercise continued vigilance so that the jurisdiction is protected from abuse and misuse by money launderers and terrorist organizations. By doing so, The Bahamas will remain a competitive financial services jurisdiction with a stable and safe environment to conduct business.

## Background

The Bahamas is one of the few remaining countries worldwide with an Exchange Control Regime<sup>1</sup>. This is noteworthy because the exchange control regime places a firewall between the domestic economy and international business originating from and conducted within the country. The Central Bank of The Bahamas (CBB) enforces strict controls designed to prevent foreign cash and other monetary instruments from penetrating the local (Bahamian Dollar) financial system.

Over the last ten years, the country has commenced a series of steps to liberalize the regime. Owing to the vast volume of business conducted for international clients, and The Bahamas' openness as an international transshipment hub, the country is exposed to inherently high cross border ML risks. The more vulnerable sectors are those which are internationally oriented and cash-intensive on the domestic level. These include retail and private banks, trust companies, credit unions, money-transmission providers, financial corporate service providers, securities firms (e.g. Administrators, Brokers, etc.), casinos and gaming house operators.

The bulk of The Bahamas' exposure to ML risks arises from predicate offences initiated overseas. The Bahamas is not known for the financing of terrorism and there have been no reports of domestic terrorist incidents. The Bahamas, as an international transshipment hub and offshore financial center, is a potential transit point for illicit drugs and smuggling of migrants and firearms. Therefore, The Bahamas has an important part to play in the global effort against ML.

The national ML risk assessment has found that authorities have enhanced and strengthened their preventative measures and are continuing to review and update their regulatory and supervisory regimes. To better manage cross-border ML risks, The Bahamas maintains its three (3) Mutual Legal Assistance Treaties (MLATs) with the United States of America, Canada and the United Kingdom. The Bahamas also maintains Tax Information Exchange Agreements, and other formal cooperation channels via the Financial Intelligence Unit, the law enforcement authorities, Courts and the regulatory authorities. In addition, the Office of the Attorney General (OAG) has facilitated requests for information exchange through MLATs and Letters Rogatory<sup>2</sup>. Moreover, the OAG established an International Unit dedicated to information exchange, as did the Ministry of Finance for the facilitation of tax requests from overseas partners and other requesting jurisdictions. This framework for international cooperation is continually being strengthened to tackle new and emerging ML threats.

In the recent past, December 2020 and January 2022, The Bahamas was delisted from the Financial Action Task Force's List for Jurisdictions Under increased Monitoring (Grey List) and the European Union's AML Blacklist respectively. The country has strengthened and enhanced its legal, regulatory and enforcement AML Framework by repealing and replacing AML/CFT 2000 and 2004 legislation with a suite of laws in 2018. The country has also improved and maintained the AML and prudential regulatory environment for financial institutions, related financial sector service providers and designated non-financial businesses and professions ("DNFBPs"). Notably in December 2022, The Bahamas became the 2<sup>nd</sup> jurisdiction in the

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<sup>1</sup> Exchange Controls are a set of rules, regulations and procedures which govern all foreign currency transactions between residents of The Bahamas and residents of foreign countries, referred to as non-residents. Their legal basis reside in the Exchange Control Regulations Act, 1952 and the Exchange Control Regulations, 1956 but their actual roots reside in the early economic and monetary relationship that existed between the United Kingdom and other British Commonwealth countries, including The Bahamas.

<sup>2</sup> Letters Rogatory - These are Letters of requests from countries who do not have a MLAT with The Bahamas but are requesting cooperation and information exchange from The Bahamas with regards to civil or criminal matters.

Caribbean, North and South American region and the 6<sup>th</sup> in the Financial Action Task Force (FATF) Global Network of 206 jurisdictions, to attain 40 for 40 compliant and largely compliant technical ratings for the FATF 40 Recommendations.

## **Executive Summary**

The Government of the Commonwealth of The Bahamas has conducted this assessment to identify current inherent money laundering, (ML) risks in The Bahamas. The assessment will be updated periodically in keeping with international best practice. This report provides an overview of the ML risks before and after the application of any mitigation measures, which include a range of legislative, regulatory, and operational actions to prevent, detect and disrupt ML. This document also includes an assessment of the ML threats and inherent ML vulnerabilities in key economic sectors and financial products in The Bahamas, while considering the consequences of money laundering, terrorist financing, and proliferation financing.

The Anti-Money Laundering/Countering Financing of Terrorism/Countering Financing of Proliferation (AML/CFT/CFP) regime in The Bahamas is implemented and overseen by eleven (11) government agencies (CBB, SCB (inclusive of the Inspector for Corporate Service Providers (IFCSP), ICB, CC, LEAs (RBPF, RBDF, Customs and Immigration), GB, FIU, OAG) supported by Ministry of Finance, Ministry of Economic Affairs and Ministry of Foreign Affairs, three (3) self-regulatory bodies (BBA, BREA, BICA) and trade organizations such as AIBT, CBA, BACO and BFSB. The inherent risks identified are being addressed through a regime that focuses on both domestic and international policy coordination; the prevention and detection of ML/TF in The Bahamas; disruption activities, including investigation, prosecution, and the seizure of illicit assets; and the implementation of measures to ensure the ongoing improvement of the anti-money laundering and countering the financing of terrorism and proliferation (AML/CFT/CPF) regime.

This report is meant to provide critical risk information to the public and, in particular, to the financial and non-financial service providers that have reporting obligations under the Proceeds of Crime Act, 2018 (POCA) and Anti-Terrorism Act, 2018 (ATA). These stakeholders must understand the foundational risks inherent to their businesses when applying the preventive measures and controls required to effectively mitigate them. The Government of Commonwealth of The Bahamas encourages all stakeholders to use the findings in this report to inform their efforts in assessing and mitigating risks.

FATF sets global AML standards embodied in the 40 Recommendations initially released in 1990 and have been amended over the last 35 years. Recommendation 1 is foundational to complying with the other 39 Recommendations and mandates countries to undergo ML risk assessments. This finalized report addresses this requirement and allows The Bahamas to comply with critical criteria of Recommendation 1 of the FATF 40 Recommendations.

The NRA process involved extensive stakeholder engagement, covering financial and non-financial service providers, and representatives from both the public and private sectors. The NRA was largely conducted by members of the Identified Risk Framework Steering Committee (the IRF Steering Committee). The IRF Steering Committee is charged with assisting in the identification of national-level vulnerabilities and threats to protect our financial system from misuse from money laundering, terrorist, and proliferation financing. It is comprised of senior representatives from government, regulatory and law enforcement agencies, government ministries (Foreign Affairs, Finance and Economic Affairs), and is steered by the Attorney General (AG) of The Bahamas. This NRA process serves to enhance and deepen the awareness and understanding of The Bahamas' ML threats and vulnerabilities and focus resources to address

identified gaps in our AML regime, including laws, regulations, and guidance/codes as well as supervisory and enforcement frameworks.

The publication of the NRA summary of findings will also allow public and private sector stakeholders to better understand the ML risks in the financial and non-financial sectors. This will allow them to more accurately assess the adequacy of their internal AML controls in mitigating the risks identified. The public at large will also benefit from greater awareness of the ML risks in The Bahamas.

## Overview of the Risk Assessment Methodology

Pursuant to section 6 of the POCA, the IRF Steering Committee is responsible for ensuring that the various law enforcement, legal and regulatory authorities, collaborate and cooperate to maintain The Bahamas' knowledge and understanding of its ML risk profile. Moreover, the IRF Steering Committee develops and proposes to Cabinet via the Ministerial Council's Chair, any amendments to laws and regulations, national AML/CFT/CPF strategies, etc., to assist the country in mitigating identified risks. Accordingly, in mid - 2022 the IRF Steering Committee commenced conducting The Bahamas' second (2<sup>nd</sup>) comprehensive Money Laundering National Risk Assessment (NRA) covering the period 2017 - 2022.

The NIRFC was tasked with coordinating the NRA with the assistance of the International Legal Cooperation Unit of the Attorney General's Office. The key government agencies involved are:

- The Bahamas Customs Department (BCD)
- The Bahamas Gaming Board (GB)
- The Royal Bahamas Police Force (RBPF)
- The Central Bank of The Bahamas (CBB)
- The Compliance Commission of The Bahamas (CC)
- The Financial Intelligence Unit (FIU)
- The Bahamas Immigration Department (BID)
- The Insurance Commission of The Bahamas (ICB)
- The Office of The Attorney General (OAG)
- The Registrar General's Department (RGD)
- The Securities Commission of The Bahamas (SCB)

Two chairpersons hailing from the Group of Financial Services Regulators (GFSR), were appointed to spearhead the risk assessment of the financial and non-financial sector assessments. A co-chair was appointed for each financial and non-financial sector working group covering securities industry licensees and registrants, financial and corporate service providers; bank and trust companies, money transmission providers, credit unions; insurance service providers; other DNFBPs (lawyers, real estate brokers / developers, dealers in precious metals and stones, accountants, etc.) and gaming licensees. Technical guidance was sourced from the World Bank and from the FATF risk assessment publications.

The methodology used for this NRA is developed on the foundation that ML risk results from a combination of money laundering threats and vulnerabilities. Moreover, the process of a money laundering risk assessment includes the efforts to identify, analyze and understand ML risks to enable a jurisdiction to address the challenges these risks present in securing its financial system.

The 2017-2022 assessment also used the World Bank risk assessment model, allowing for continuity and comparability, since this tool was also used in the 2016/2015 ML NRA. However, it is noted that although the World Bank designed the risk assessment tool used, the entity did not participate in The Bahamas' ML NRA. Furthermore, the World Bank's role was limited to delivery of the tool, providing guidance on the technical aspects of the tool and as well as providing review/feedback to assist with the accurate use of the tool. The data, statistics and information inserted in the Money Laundering Risk Assessment Tool

templates, the interpretation and judgment within the scope of the National Money Laundering Risk Assessment process, as well as any other results, belong entirely to the authorities of the Government of the Commonwealth of The Bahamas and do not reflect the views of the World Bank.

The assessment was conducted using the World Bank Model's seven (7) ML modules, namely:

- MODULE 1 National Money Laundering Threat;
- MODULE 2 National Vulnerability;
- MODULE 3 Banking, Banking and /or Trust Companies Sector Vulnerability;
- MODULE 4 Securities Sector Vulnerability;
- MODULE 5 Insurance Sector Vulnerability;
- MODULE 6 Other Financial Sectors Vulnerability - Money Service Business, Credit Unions,
- MODULE 7 Non-Financial Sectors Vulnerability - namely Designated Non-Financial Businesses and Professions (DNFBPs) and others that is:
  - Financial & Corporate Service Providers;
  - Casino and Gaming Houses;
  - Real Estate Brokers and Developers;
  - Lawyers;
  - Accountants;
  - Dealers in Precious Metals and Stones;
  - Government owned financial service providers (Bahamas Development Bank, Bahamas Mortgage Corporation, Post Office Savings Bank)

The NRA project team comprising senior officers of the Financial Intelligence Unit and the Royal Bahamas Police Force Financial Crime Investigation Branch utilized Module 1 to evaluate the national ML threats and rank such threats using the various predicate offenses. Further, the Module was used to rank sector ML threats and to identify and rank cross-border threats. The International Legal Cooperation Unit of the Office of the Attorney General led the effort to evaluate the national ML vulnerability utilizing Module 2.

MODULES 3-7 were utilized to assess the ML vulnerability of The Bahamas through examining principal features of the national and sectoral AML framework, and the products each financial and non-financial sector offers. The five (5) Working Groups assigned quantitative ratings to each sector and products assessed, which were utilized and interpreted by the tool resulting in the computations representing vulnerability ratings.



## **THE NATIONAL RISK ASSESSMENT ( “NRA” ) SCOPE**

### **FINANCIAL AND NON-FINANCIAL SECTORS**

The 2021/2022 ML NRA focused solely on assessing The Bahamas’ ML risk and was conducted as a follow-up to the 2015/16 NRA. The agreed review period was from 1 January 2017 through to 31 December 2021. In the midst of planning the NRA with the working groups, The Bahamas was battling the COVID Pandemic. Note is made that parts of the country’ s economy was literally closed, movement of the population limited and operations in the tourism industry, which is the main industry , was severely restricted. Due to the challenges encountered due to the 2020 - 2021 COVID pandemic and issues with securing source materials, we experienced delays in completing assessments. As such, it was decided to include the 2022 data in the NRA.

As was the case in 2015/2016, the 2017-2022 ML NRA comprised reviews of the financial and non-financial sectors relevant to AML regulation and oversight, i.e. Banking &/or Trust Companies, Credit Unions, Securities, Insurance, Money Service Business, Financial and Corporate Services Providers, the Legal and Accounting professions, Real Estate Brokers, Dealers in Precious Metals and Stones, Government financial service providers, as well as the Casino and Gaming House sector. GFSR members were tasked with conducting vulnerability assessments for their respective sectors with the oversight of two co-chairs. GFSR members sought direct or indirect input from their respective regulated sectors.

### **DIGITAL ASSET BUSINESS, LEGAL PERSONS AND ARRANGEMENTS**

#### **DIGITAL ASSET BUSINESS**

The Digital Asset and Registered Exchange Act, 2020 was enacted by The Bahamas’ parliament to establish a regulatory framework for digital businesses being developed within and from within its borders. The Act was repealed and replaced in 2024 with more robust provisions to strengthen the regulatory and enforcement powers of the Securities Commission of The Bahamas and to enhance the legal provisions in place to meet revised international AML standards for virtual assets. A comprehensive risk assessment of the digital assets sector was conducted and completed in 2022 by international consultants. As such, ML risks associated with digital assets were not included in this NRA exercise.

#### **LEGAL PERSONS AND ARRANGEMENTS**

The legal persons and arrangements risk assessment was not included in this NRA as it was decided to conduct a stand-alone assessment. The working group responsible for this assessment is currently in the planning stages for the assessment and upon completion industry stakeholders will be advised of the results and a copy published on relevant webpages.

**STEP ONE. THE WORKING GROUPS:** Working Groups were established to conduct the assessments required by Modules 1, Module 2 and for each of the financial and non-financial sectoral assessments utilizing Modules 3-7. The Working Groups encompassed representatives from all stakeholder government competent authorities with AML responsibility for the various financial and non-bank

financial sectors, law enforcement /prosecution, maintenance of the AML/CFT/CFP legal framework, and International Cooperation.

These stakeholders included law enforcement agencies (RBPF (Financial Crimes Investigative Branch), RBDF; Financial Intelligence Unit; Office of the Director of Public Prosecutions; supervisory authorities (GFSR): Registrar General's Department; Office of the Attorney General, Ministry of Legal Affairs (International Legal Cooperation Unit - responsible for mutual legal assistance and international exchange of information); Ministry of Finance (Legal and Regulatory Unit) responsible for tax information exchange; and border control (Customs and Immigration Departments). Working Groups comprised the members of the IRF Steering Committee, and the project was coordinated by the NIRFC. Working Groups were established for all sectoral assessments which were coordinated by the relevant supervisory authority.

**STEP TWO.** Customized surveys were developed to gather information about the various bank, financial and non-financial industry sectors regarding product and service offerings, method of payment for such services and products, delivery channels, and other critical variables.

**STEP THREE.** Sessions with various industry stakeholders were held to analyse the data and information received from survey and interview responses. Information sourced from regulatory files and other reputable depositories was also analysed. The data and information were fed into the World Bank modules for the analysis. The resultant assessments reviewed the various sector vulnerabilities, and the efficiency and effectiveness of the risk mitigation measures established within each sector and resident in the regulatory agencies. These assessments were then discussed with industry stakeholders, the resulting feedback in turn discussed by the assessment team and IRF Steering Committee. Where appropriate the feedback was included and integrated into the overall report.

**STEP FOUR.** The draft report was submitted to the World Bank for comments on the completeness of the NRA in late May 2024 with comments being received by mid-July 2024.

**STEP FIVE.** The National Threats and Vulnerabilities were discussed. Data and information were gathered from several resources - (1) the financial sectors' regulators, (2) the AML/CFT legal, law enforcement and regulatory framework including operational, functional processes, policies, guidelines, and procedures established to mitigate ML/TF and (3) statistical data from LEAs and FIU. Based on their expert knowledge and merits of the review, ratings were given to threats and vulnerabilities. The NRA was substantially completed by October 2024, and discussed with the Attorney General, senior members of the Office of the Attorney General, government officials and approved by the Cabinet of The Bahamas for dissemination to all industry stakeholders in early December 2024. The Bahamas Government intends to refresh the NRA every 3 - 5 years coordinated through the IRF Steering Committee.

## Money Laundering Threats

### Domestic Money Laundering Threats

The primary threats of **domestic origin** within The Bahamas include fraud, human, gun and drug trafficking. Based on the statistics received, drug trafficking and fraud are the number one and two, respectively, most prevalent money laundering predicate offences committed in The Bahamas. LEAs advised that fraud cases included: fraud by false pretenses, stealing by reason of employment, possession of forged documents, counterfeit currency, and forgeries. The total number of fraud cases reported to law enforcement for 2017-2022 is 2747. Further, analysing the Suspicious Transaction Reports (STRs) received for that period, the Financial Intelligence Unit (FIU) indicated that fraud, particularly internet fraud, posed a higher risk within the jurisdiction. For the period 2017 – 2022 there have been a total of **2,771** financial crime matters reported to the RBPF. For that same period, the value of reported financial crimes is approximately **\$34,619,649**.

For the period 2017 – 2022 there has been a total of 35,369 cases as reflected in the table below. However, when the data is reviewed for ‘before’ and ‘after’ the COVID 19 Pandemic, there is a notable overall decrease in crime rate of 11% with declines being registered in crimes against the persons (-5%) and crime against property (-23%). Drug interdiction statistics also reflect decrease in criminality as this category saw a significant 24% fall-off.

**Table 1: Comparative Crime Statistics for 2017–2022**

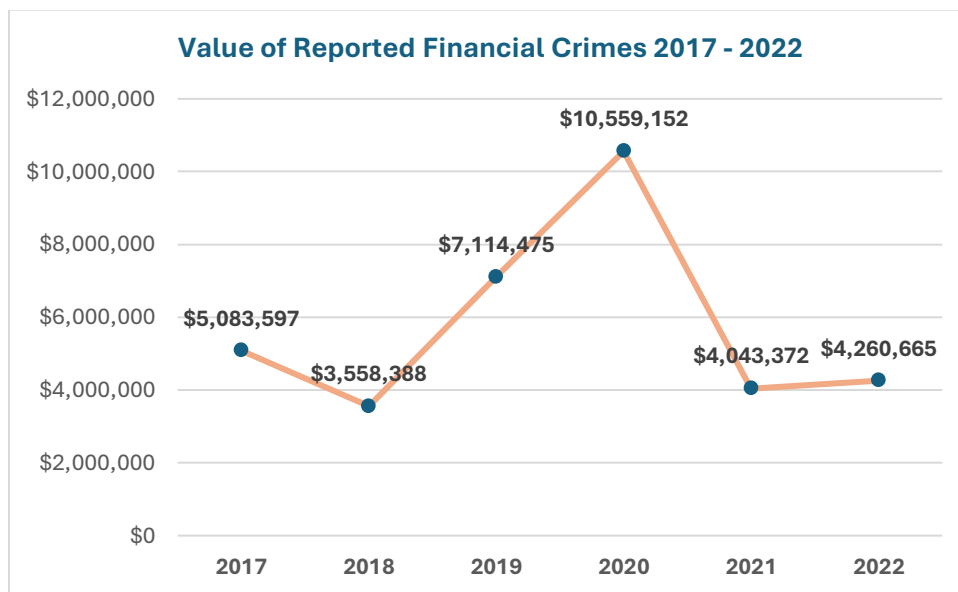
<b>RBPF Crime Categories</b>	<b>2017 – 2019</b>	<b>2020-2022</b>	<b>% Change</b>
Crime Against Property	12,548	9,637	-23
Crime Against Persons	2,831	2,678	-5
Drug Enforcement	4,349	3,326	-24
<b>Total</b>	<b>19,728</b>	<b>15,641</b>	<b>-11</b>

In assessing the money laundering threat level emanating from the various predicates the following was considered –

- (i) the number of cases detected, investigated or prosecuted for each type of predicate for money laundering;
- (ii) the number of STRs forwarded to RBPF for investigations;
- (iii) the value of property seized, restrained or confiscated; and
- (iv) the number and nature of international cooperation requests linked to money laundering offences.

Based on the information received from the police and the FIU, drug trafficking followed by fraud were the primary predicates identified as ML threats domestically. The value of drugs seized over the 2017 – 2022 period amounted to more than \$250 million. The value of fraud cases amounted to \$35 million. In the 2020 – 2022 period Cyber Crime surpassed fraud due to the significant number of STRs filed as a result of the FTX Digital Markets Limited operations. Further, there was a notable increase in STRs filed in the categories of tax matters, corruption, and bribery. It is apparent that the threats domestically are broadening to include the aforementioned offences.

Examination of the period 2017 – 2022 revealed notable trends in relation to Financial Crimes and identified a prevalence of **Bank Transfer Fraud, Business Email Compromise, Romance Scams, Job Scams, Credit Card Fraud,** and more recently **Cheque Fraud.**



Drug Trafficking and the potential to illegal drug trafficking proceeds are rated as a major domestic money laundering threat. Dollar value of drugs seized is noted below –

**Table 2: Dollar Value of Drugs seized 2017 - 2022**

Type of Drugs	2017	2018	2019	2020	2021	2022
<b>Cocaine</b>	2,075.59 lbs. <b>\$49,814,160.00</b>	184.04 lbs. <b>\$4,416,960.00</b>	36.69 lbs. <b>\$880,560.00</b>	165.21 lbs. <b>\$3,965,040.00</b>	4,672.96 lbs. <b>\$112,151,040.00</b>	1,137.10 lbs. <b>\$27,290,400.00</b>
<b>Marijuana</b>	17,634.74 lbs. <b>\$17,634,740.00</b>	10,287.15 lbs. <b>\$10,287,150.00</b>	5,882.49 lbs. <b>\$5,882,490.00</b>	4,301.71 lbs. <b>\$4,301,710.00</b>	6,323.97 lbs. <b>\$6,323,970.00</b>	9,659.86 lbs. <b>\$9,659,860.00</b>
<b>Hydroponic Marijuana</b>	Nil	Nil	Nil	Nil	33.14 lbs. <b>\$66,280.00</b>	417.45 lbs. <b>\$834,900.00</b>

As a result of intelligence gathered, for the period in review (2017 – 2022) numerous search warrants were executed on persons suspected to be involved in drug use/ sales and on several occasions, officers discovered large quantities of cash. Money laundering investigations have been initiated in such instances, which can result in either criminal or civil proceedings. Over the 2017 – 2022 period, in connection with drug trafficking there were 9,309 persons interdicted, 7,675 persons charged, 8259 cases prepared with 5,832 cased prosecuted.

The predicate categories of armed robbery, robbery, stolen vehicles and firearms, cybercrime, bribery and corruption based on statistics received from the RBPF and FIU, also represent substantial areas of concern and present medium to high potential ML threats.

## International Money Laundering Threats

The Bahamas has three Mutual Legal Assistance Treaties: United States of America, Canada and The United Kingdom. The International Legal Cooperation Unit (ILCU), Office of the Attorney General is responsible for attending to these requests along with those received via Letters Rogatory. The requests for information from partner countries span a variety of matters. Over the review period 2017-2022, there were 204 requests for information regarding cases inclusive of 11 tax fraud cases. Further, for the period 2017 – 2022 the Legal Unit of the Ministry of Finance received 395 exchange of information requests from 26 TIEA partners. As such, tax fraud from non-resident clients poses a significant potential money laundering threat to the Bahamian financial center. This assessment is based on the number of international letters of request and exchange of information requests received by the Government coupled with the number of requests received from Foreign FIUs on tax matters.

Material statistics (2017 – 2022) on other predicate ML threats identified from the foreign FIU (FFIU) requests, were noted as corruption (58 cases), fraud (78 cases), money laundering (97 cases), and bribery (16 cases). The major portion of the Mutual Legal Assistance Requests received by the OAG for the period were submitted by France, Spain, Peru and The United States of America, while the FFIU requests primarily hailed from United States of America, Ecuador, Argentina, Germany, and the United Kingdom.

Border Control together with the RBPF continued to confiscate drugs, firearms and ammunition from the Freeport Harbour, several Airports, marinas, and business locations pointing towards possible transshipment of drugs and importation of firearms.

The data / information reported by the ILCU (OAG), Legal Unit (MOF), the FIU and Customs Department bear evidence that the country's international money laundering threats predominantly stem from the predicate offences of fraud (inclusive of tax fraud), bribery, corruption, , firearms smuggling and drug trafficking. Accordingly, the ML threat level is considered **HIGH** for these predicate categories.

## VULNERABILITIES

### Background and mandate

Post the publication of The Bahamas' CFATF Mutual Evaluation Report in 2017, the government of The Bahamas followed an aggressive legislative agenda which resulted in the enactment of several major legislative AML/CFT/CFP related legislation. Chief among them were the Proceeds of Crime Act (POCA), 2018, the Financial Transactions Reporting Act (FTRA), 2018 and its Financial Terrorist Reporting Regulations (FTRR) (2018); and the Anti-Terrorism Act, 2018, the Digital Assets and Registered Exchanges Act (DARE), 2020, the Financial Corporate Service Providers Act, 2020 and the Register of Beneficial Ownership Act, 2018.

The enactment of POCA made provision for the establishment of a National Ministerial Council, the National Identified Risk Framework Committee (NIRFC), and the multi-agency Steering Committee consisting of operational representatives of 13 governmental agencies. The IRF Steering Committee is responsible for the regular review and implementation of national policies and activities designed to mitigate identified risks.

The regulatory and enforcement frameworks were also revamped with risk-based supervision being instituted for all service providers where hitherto only the banks, trust companies, insurance companies and financial and corporate service providers were regulated on a risk-based approach. Enforcement regimes of the RBPF, FIU, and regulators were all revamped to include persuasive, effective and appropriate enhanced criminal and administrative sanctions and penalties for non-compliance with legislation and regulatory guidelines, etc.

The national AML vulnerability score was calculated at 0.49 (medium) which resulted from a composite sectoral ML vulnerability score of 0.65 when moderated by national ML combatting ability of 0.66. The Bahamas is addressing these vulnerabilities to ensure that its AML systems stay abreast of international standards and are adequate to prevent the abuse of its financial system by those wishing to profit from disreputable activities. Sectoral vulnerabilities have been identified and briefly indicated below.

The national vulnerabilities (in order of priority) were identified as –

- i. the need to further boost resources (manpower, IT tools, formal procedures, specialized training for financial crime investigators - LEAs (Border Control - Customs, Immigration, and RBPF-FCIB);
- ii. the need to boost further prosecutorial resources at the Office of the Director of Public Prosecutions to facilitate efficient management of caseloads;
- iii. the need to continue with the boosting of judicial resources (manpower, specialized training including sensitization to anti-money laundering and international AML standards);
- iv. the need to ensure appropriate manpower requirements are being met in regulatory agencies;

- v. the need for the FIU to produce – a) timely STR data analysis and dissemination to stakeholders (feedback to FIs and data to financial crime investigators), and b) strategic analyses on an ongoing basis on cross-cutting trends to assist law enforcement and regulators to meet emerging risks and to effectively carry out their responsibilities;
- vi. the need for the continued focus on consistent and appropriate data collection by all agencies involved in the maintenance of the AML legal framework;
- vii. the need for enhance staff training on AML requirements with emphasis on STR obligations in the Gaming House Segment of the Gaming industry, as well as the jewellers and precious stones industry;
- viii. the need to boost experienced compliance resources in the Gaming House segment of the Gaming Industry;
- ix. the need for consistent and ongoing supervisory enforcement by all regulators of administrative penalties for non-compliance with the AML legal requirements in accordance with section 57 of the FTRA and the administrative penalty schedules issued in 2018;
- x. on-going review of ML financial and non-bank financial sector risks to ensure that licensees / registrants keep abreast of emerging threats or risks and challenges in the particular sectors; and
- xi. The need for periodic regulatory briefings and outreaches to financial and non-financial sector licensees and registrants.

## Summary Results of the Financial Sector Money Laundering Risk Assessment

### Banking Sector - Commercial Banking

The commercial (onshore) banking sector consists of ten domestic banks, all of which are licensed, supervised, and monitored by the Central Bank. These include seven clearing banks that hold the predominant share of the domestic retail market. Of the ten domestic banks, five are foreign-owned banks, which comprise four subsidiaries of Canadian banks and one branch of a U.S.A. bank. This sector of foreign-owned commercial banks consists of large global banking conglomerates. As such, these banks are subject to consolidated supervision, applying the same policies and procedures in The Bahamas that they apply globally. The remaining four banks are domestically owned.

Commercial banks' inherent ML risk is identified as **Medium**, post a review of governance, operational, and internal control models, market focus, clientele, delivery channels and services offered. These banks have been identified as domestic systemically important banks ("D-SIBs") providing a range of products and services to both corporate and individual customers. The commercial banks mainly engage in traditional banking business comprising deposit taking, lending for residential and commercial mortgages, corporate lending, and consumer finance, as well as related activities such as foreign exchange business predominantly to Bahamian citizens and residents (with a small portion to non-residents).

Commercial banks have a robust three lines of defense operational model, including internal audit and compliance functions. Overall, the institutions maintain a quality level of corporate governance, including vetted regulated management functions and detailed internal AML policies and procedures. The banks prepare AML self-risk assessments and have a good understanding of their respective ML risks. Additionally, the required annual AML training has been undertaken for staff as noted in the data return collection since 2019. For 2022, training within this sector was approximately 96% of the total staff complement.

Considering the mitigating supervisory risk-based program coupled with the governance and operational model, and AML controls demonstrated by the commercial banks, the sub-sector's overall ML risk is assessed as **Medium low**.

### Banking Sector - International Banks and Banks and Trust Companies

International banks and international banks and trust companies totaled 14 and 32, respectively as of 31 December 2022, with corresponding balance sheet assets of US\$83.3 billion and US\$38.3 billion. The Central Bank considers that the international banking sector is exposed to **Medium-High** inherent ML risk due to the nature of the business: international transactions, cross-border transfer flows and non-resident customers, where there may be financial opportunities for financial crime to launder proceeds of crimes – such as fraud or corruption through its products. The product and service offerings related to deposits and wire transfers are generally considered higher risk. However, it should be noted that the sector includes a number of international banks that provide primarily treasury management services for affiliate entities.

Noteworthy is the statistic that high-risk customers accounted for approximately 25.4% of accounts and 11% relationships in the international banking sector on 31 December 2022; with PEPs accounting for 11.6% and 3.7% respectively, reflecting a slight increase in high-risk customers. Additionally, the use of



third parties/agents in the international arena presents some risks to this sector. AML surveys submitted annually since 2019 have reflected that there is some level of cash receipts in this sector which can present some level of ML risks.

The quality of the AML/CFT Controls in the international banking sector has been assessed as **strong**. The legislative framework is comprehensive, and monitoring of operations is ongoing via a risk-based AML supervisory framework which requires appropriate customer due diligence, mandatory ongoing training, effective compliance systems, and suspicious transactions monitoring and reporting by SFIs. The Central Bank requires that International Banks have robust first, second and third lines of defense, including experienced audit and compliance functions that review AML processes within those SFIs.

Considering the mitigating supervisory risk-based program coupled with the governance and operational model, AML controls and assurance studies conducted periodically the sub-sector's overall ML risk is assessed as **Medium**.

### **Trust & Corporate Service Providers**

On 31 December 2022, there were 177 trust licensees, comprising: 41 public bank and trust companies<sup>3</sup>, 17 public trust companies; 1 restricted bank and trust company<sup>4</sup>; 6 restricted trust companies and 112 nominee trust companies (restricted acting on behalf of parent companies)<sup>5</sup>. Most trust licensees are subsidiaries of foreign or local banks and/or trust companies. As at end-December 2022, fiduciary assets under trust licensees were estimated at \$274.4 billion and were almost exclusively held by international financial firms, external to The Bahamas.

In addition to trust licensees, there were 155 private trust companies<sup>6</sup> operating in The Bahamas' trust sector as at end-December 2022<sup>7</sup>, which are all required to be registered with the Central Bank. Financial and corporate service providers that act as Registered Representatives (RRs) of PTCs is at 7. 22 of existing Bank and Trust licensees also act as RRs for PTCs.<sup>8</sup>

The overall inherent ML risk for Trust and Corporate Services Providers (TCSP) is assessed as **High**. The international nature of the business and complex services legitimately provided by TCSPs may expose parts of the sector to an inherently higher vulnerability of money laundering.

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<sup>3</sup> BSDLA-2005-1 General Information and Guidelines for License Applications defines a public bank and/or trust company is one which is permitted to carry on banking and/or trust business with members of the public.

<sup>4</sup> Ibid p.16 Definition: A restricted bank and/or trust company is one which is allowed to carry on business for certain specified persons who are usually named in the license.

<sup>5</sup> Ibid p. 16 Definition: A nominee trust company is a licensee whose activities are restricted to the provision of nominee services only. Such services are defined to include the holding of securities and other assets in the licensee's name and the provision of corporate directors and officers on behalf of its parent company's clients. This category of licensee is also subject to the same licensing requirements as trust companies, however more than 90% of these companies are owned by existing licensees of the Central Bank

<sup>6</sup> BSDLA-2005-1 General Information and Guidelines for License Applications defines A private trust company is established to provide trust services to a defined class of trusts, all of which must be created by or at the direction of persons linked by a blood or family relationship. Private trust companies operate as private wealth management vehicles and are prohibited from soliciting trust business from third parties.

<sup>7</sup> Ibid, p.21

<sup>8</sup> Ibid, p.21

TCSPs have been identified as having the highest vulnerability score across all the Central Bank’s supervised sectors due to the risk profile of beneficial owners, the use of legal entities and arrangements, the non-face-to-face relationships, the use of TCSPs to provide director and shareholder activities within corporate structures that may obscure ownership, the use of professional intermediaries and the complex nature of some of the structures involved. In recent years, the FATF explored the issues related to the use or abuse of TCSPs for financial crime and considers TCSPs possible lack of transparency around beneficial ownership as the key risk pertaining to TCSPs.<sup>9</sup>

In recognizing the inherent risks of TCSPs, the Central Bank collected data to identify the most common services provided by TCSPs operating in The Bahamas. Such services include acting as sole trustee in relation to an express trust (including the administration of such trust), and “forming companies or other bodies corporate.”

The misuse of legal entities to evade tax features as a predominant ML risk associated with TCSPs. Pursuant to the Automatic Exchange of Financial Account Information Act, 2016 and its related amendments, the automatic exchange of information for direct tax purposes under the Foreign Account Tax Compliance Act (“FATCA”) and the Common Reporting Standards (“CRS”) materially reduces these risks. With the emergence of the new law, SFIs have identified and de-risked non-compliant businesses, resulting in only tax-compliant businesses remaining within the jurisdiction. This is more likely to reduce the ML risks of receiving the proceeds of foreign corruption or organized crime.

Considering the mitigating risk-based supervisory program, institutional AML control measures, risk profile of licensees / registrants, inherent ML risk level, the final ML risk level of the TCSP sector is reduced to **Medium-High**.

## Credit Unions

As of 31 December 2022, the number of financial co-operative credit unions remained at 8, inclusive of The Bahamas Cooperative League Limited.<sup>10</sup> Total credit union assets rose by \$9.4 million (2.0%) to \$484 million, owing to the net growth in member loans, cash and statutory deposits, since the pandemic.<sup>11</sup> Similarly, membership based has increased by 5.1% to 49,658<sup>12</sup> persons.

The members of the credit unions generally comprise low to middle-income members, and thus have a relatively smaller number of higher-risk and domestic PEP customers. Through its financial intermediation, credit unions principal objectives are as follows: the provision of financial services at affordable and competitive rates of interest; creation of a pool of funds to provide credits/loans to members, and mobilization of savings and deposits amongst its membership. Business is mainly conducted on a face-to-face basis.

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<sup>9</sup> Financial Action Task Force (2019), Guidance for a Risk-Based Approach to Trust and Company Service Providers, available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/RBA-Trust-Company-Service-Providers.pdf> p.9

<sup>10</sup> 2022 CBB Annual Report 2021 CBB Annual Report [p.21] available here: <https://www.centralbankbahamas.com/viewPDF/documents/2022-05-05-11-51-31-CBOB-2021-Annual-Report-and-Financial-Statements.pdf>

<sup>11</sup> Ibid [p.21]

<sup>12</sup> Ibid [p.21]

The inherent risk for ML for the sector is assessed as **Medium**. This is due to the cash intensive nature of this sector, tempered by the nature and risk profile of the client base, the low value, Bahamian dollar and limited transactional activity conducted and the size of the sector. With a year-end balance of B\$484 million, the credit union sector accounted for 0.3% of the total balance sheet assets, and 0.1% of balance sheet and fiduciary assets of all Central Bank SFIs on 31 December 2022.

Considering the mitigating risk based supervisory program which focuses on the institutions' AML/KYC controls, corporate governance, and credit risk management frameworks coupled with the market focus and product offerings, the sector's final ML risk rating is reduced to **Medium-Low**.

### **Payments Sector**

On 31 December 2022, payment service providers consisted of five (5) non-bank Money Transmission Businesses (MTBs) and three (3) Payment Service Institutions (PSIs). The number of related agents for MTBs and PSIs stood at 18 and 24, respectively.

Money Transmission Businesses and their agents are in the business of accepting cash, checks, other monetary instruments, or other stores of value in one location, and the payment of a corresponding sum in cash or other form to a beneficiary in another location by means of communication, message, transfer or through a clearing network to which the money transfer business belongs. Remittances may be domestic or international. Additionally, MTBs facilitate the payment of local utility and other bills. Due to the nature of the business, MTBs are assessed as having **Medium-High** inherent ML risks.

Payment Service Institutions (PSIs) represent an emerging segment of the payments arena, evidencing steady gains since the first PSI was licensed in August 2018. The Central Bank began collecting data on this particular sub-sector in 2019, which offers digital wallets, bill payment and B\$ money transfer services. There has been growth in this sector attributed to greater adoption by consumers and merchants of electronic money services, as well as the use of payment services institutions to channel disbursement of pandemic-related social assistance payments from the Government<sup>13</sup>. Due to the nature of the business, the inherent ML risk was assessed as **Medium**.

Considering the risk-based supervisory program, institutional governance and internal controls, the level of STR activity, the final ML risk rating for the PSIs and the MTBs are assessed as **Medium-low** and **Medium**, respectively.

### **Securities Sector**

The Bahamas' securities markets consist of both domestic and international sub-sectors. The domestic sector focuses on Bahamian clientele with mostly Bahamian denominated securities. Some domestic firms also provide their Bahamian clients with access to internationally traded securities. The inherent ML risk for the securities sector is assessed as **Medium-High**.

The industry is made up of 176 registered firms, of which approximately 29 are joint licensees with the Central Bank of The Bahamas having a banking and/or trust license. Registered firms provide investment management, investment advising services or financial intermediary services in the form of dealing or arranging deals in securities. In 2022, the total income of all registrants marginally

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<sup>13</sup> *ibid*

decreased by \$3.8 million from \$855.4 million as of December 31, 2021, to \$851.6 million as of December 31, 2022. Firms managing and advising in securities are the largest category of registered firms.

The main risks identified for the sector are associated with the number of clients, cross-border clients, use of corporate vehicles and legal arrangements, the dollar value of assets under management (“AUMs”) as well as the range and complexity of products and services offered by larger firms registered and operating in the sector. The AML controls that contributed significantly to lowering the overall risk-ratings heavily relied on the effectiveness and technicalities of the National and Securities Commission Board’s AML framework; Internal processes and compliance functions of firms; and Internal processes and enforcement controls of the Commission. Generally, all categories of securities business were assessed as having strong AML controls.

Considering the supervisory risk-based program, institutional strong AML controls, governance and operational models, the risk profiles of the licensees, the final ML risk is assessed as **Medium**.

### **Investment Funds Sector**

The investment fund categories identified for the risk assessment exercise were Restricted and Unrestricted Investment Fund Administrators. As at the end of 2022, 682 Investment Funds were registered under the IFA.

Restricted fund administrators had an overall risk rating of **Medium** with an inherent risk of **Medium-High**. Unrestricted Investment Fund Administrators, however, presented an overall risk rating of **Medium-High** and an inherent risk rating of **High**. The sector overall is a **Medium-High** ML risk due to the weighting given to the larger unrestricted segment. The difference in rating of the sub-sectors is mostly due to the average size and volume of business conducted by unrestricted investment fund administrators, use of legal persons and arrangements, a more diverse client base which includes PEPs, cross border delivery channels and the larger numbers of subscriptions and redemptions presented.

### **Financial & Corporate Service Providers**

The inherent ML risk for the Corporate Service Providers Sector has been assessed as **High**. This ML risk stems from the potential for corporate structures to be used for illicit international activity. Licensees that incorporate and manage companies for domestic and international customers have a higher risk that such customers may misuse products and services to set up complex structures for illicit activities. Licensees under the FCSPA, 2020 can be registered in multiple categories across both financial and corporate services. As of 31 December 2022, there were 271 FCSP licensees.

Licensees which offer financial services to their customers typically handle cash and are attractive vehicles for ML. They are considered to have a **Medium - High** inherent risk. SCB notes that this rating is lower than corporate service providers with the main difference being that the client base is predominantly resident and the level of cash transactions per client is considerably insignificant in terms of value of transactions.

Considering the risk-based supervisory programs, institutional strong AML controls and client onboarding procedures, the final ML risk ratings are assessed as **Medium** for financial services providers, and **Medium-High** for corporate service providers.

## **Insurance Sector**

### **General insurers**

General insurers account for 47% of domestic premiums and 28% of domestic sector profits, with assets and liabilities at 27% and 25% of the domestic totals, respectively. The external general insurance market, mainly captives, is smaller, representing 8% of premiums and 15% of the combined sector assets.

### **Intermediaries**

All insurance products in the domestic market must be distributed through intermediaries, resulting in an advanced intermediary market with 772 agents, sub-agents, brokers, and salespersons. Life insurance products are distributed through registered salespersons, agents, sub-agents, and brokers, who also handle premium payments. Property and Casualty insurance products are sold exclusively through registered agents, sub-agents, and brokers, including "employed" or "commissioned" agents.

The vulnerability of most non-life insurance products was identified as **Medium --Medium-Low** except for the property class, which is rated as **Medium** based on the use of agents and the higher valued risks for commercial properties and vacation homes. Non-life insurance products have no cash value, nor do these products have any investment features or components. As such, the risk of utilizing a general insurance product to launder money or finance terrorism is low. Due to AML due diligence procedures administered by intermediaries on behalf of the insurers, the use of general insurance products for money laundering is not attractive.

### **Long-Term Insurers**

Long-term insurers primarily focus on individual life, group life, individual health, group health, and annuities. Variable life products, including unit linked and universal life insurance, as well as annuity products, pose higher money laundering risks due to their cash value components and investment-linked features. Conversely, sickness and health products and other life products, such as term life insurance, carry lower money laundering risks since they lack cash values and cannot be withdrawn.

### **Intermediaries**

This sector also uses intermediaries as The Bahamas is an intermediary market. However, long-term insurers have their own salespersons who are employed with the insurance companies and receive commissions. In addition, these insurers also use brokers to distribute business. The contract negotiated with the broker will determine whether the insurer or the intermediary is responsible for carrying out due diligence.

The inherent ML risk for long-term insurance products is generally **Medium-High to Medium-Low**. These findings and the **Low to Medium** transaction money laundering risks coupled with the

**Medium – Medium Low** money laundering risks of the General insurance sector’s products, services, customer and delivery channels, contributed to the overall risk rating.

Considering the risk based supervisory program, **Medium High – Low** money laundering risks of the sector’s products, transactions, services, customers and delivery channels, coupled with the licensees’ AML programs, the final ML risk of the sector has been assessed **Medium**.

## Designated Non-Financial Businesses and Professions

### Real Estate Sector

Luxury properties including upscale condominiums, tourist resorts and second home developments have long drawn wealthy foreign investors. The large sums associated with this market, along with the enhanced lifestyle make Bahamian luxury property a potentially attractive option for laundering the proceeds of crime. For this reason, the high-end real estate market presents a substantial inherent ML risk.

A survey of registrants revealed that international customers reside primarily in the USA & Canada, and a smaller percentage in Europe and Latin America and do not originate from high-risk countries or are linked to high-risk countries. Generally, real estate brokers do not accept cash or deposits and only receive commissions on the transactions. Developers receive deposits via the banking system and AML procedures apply. The use of eligible introducers, third party agents, is low and beneficial owners are identified. Most registrants reported that record keeping policies and procedures are in place and where CDD cannot be completed policies and procedures require considering submission of an STR to the FIU.<sup>14</sup> non-face-to-face operations are available for transactions but most take place face-to-face. The survey results reflected that it is customary for registrants to establish face-to-face relationships with customers.

There are currently one hundred and twenty-eight (128) known real estate brokers and land developers registered with Compliance Commission and eight hundred and forty-nine (849) realtors registered with BREA.

The real estate sector is assessed as having inherent **medium - high** ML risk for money laundering. However, due to the comprehensive controls in the sector at all stages of a real estate transaction for domestic and foreign transactions, limited exposure to high-risk countries and clients and the fact that real estate brokers rarely accept cash, the sector is rated **medium**. ML risk is mitigated further by the substantial involvement of banks and financial companies in real estate transactions which are highly regulated and subject to AML obligations. Other mitigating measures include strong market entry controls and regulatory monitoring to prevent criminals and their associates from acquiring ownership or management functions or abusing the operations for money laundering. Lastly, the majority of real estate brokers and land developers do not receive funds for the settlement of real estate transactions and the lawyers typically receive the settlement for property purchases.<sup>15</sup>

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<sup>14</sup> FTRA 2018, s 11

<sup>15</sup> Based on research conducted by the CC.

## Precious Metals,

Precious metals and stones such as gold and diamonds are more commercialized and recognized as having the highest vulnerability compared to other precious metals and stones. Finished jewelry that is of high value presents some vulnerabilities as they can be a luxury item purchase for criminals. The low value finished jewelry products sold in retail stores are less vulnerable, as they are a less attractive method for transferring value. Loose stones are not sold by major jewelry stores in The Bahamas. Only finished jewelry products are available for sale. The Bahamas is not known as an international center for the trade of wholesale precious metals and stones transactions.

The DPMS sector in The Bahamas consists of retail jewelry businesses. Low value jewelry is the dominant product in the retail market. There are fourteen (14) retailers registered with the CC consisting of two (2) pawn shops and twelve (12) jewelry stores predominantly owned by Bahamians. Registration numbers in the sector have declined due to the negative impact of the COVID-19 pandemic on business activity. Retail stores in the downtown area of Nassau where the cruise port is located conduct a significant percentage of sales with tourists and domestic customers. During high tourist seasons, sales of jewelry increase due to the tax-free status of these items.

Based on a survey by the CC, five (5) of the twelve (12) jewelry store registrants conduct transactions at or above the threshold for CDD of \$15,000 and account for approximately seventy-five percent (75%) of the business in the sector.<sup>16</sup> (Three of the five are associated with chains that have locations across the Caribbean.) Further, more than fifty percent (50%) of transactions at or above the threshold are conducted with international clients. Transactions conducted over \$15,000 represent approximately ten to fifteen percent (10-15%) on average of total revenues from jewelry sales.

## GLOBAL BLUE

The government of The Bahamas implemented a tourism shopping tax refund system called Global Blue, which is a VAT refund product known for tax free shopping, currency conversion and point of sale technology. This system electronically registers all tax-free transactions made by merchants to tourists and allows customers (non-citizens/residents) to shop tax free. The system was implemented by the government of The Bahamas to track (tax free) purchases and purchasers' identity. For a tax-free transaction to take place, the purchaser must submit a government issued ID (passport or driver's license) along with an address if they are not a cruise ship passenger. (Cruise ship passengers only have to show IDs and a cruise room card to salesperson.)

- IDs must be present for the transaction to be successful.
- IDs must match any card being used.

If a customer decides that they do not want to produce identification to receive a tax break this would raise a red flag to the salesperson, result in consideration of filing a STR, and the transaction may be terminated.

The DPMS sector is assessed with an inherent ML risk of **Medium-High**. The sector is characterized by a low level of cash transactions, high-value products that are attractive for ML and are portable. However, it

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<sup>16</sup> Some stores have branches or operate stores under different trade names.

is noted that the major portion of sales are at the low-value end of the market. Note is made the sector has a potential client base of 9 million plus individuals due to the significant number of tourists visiting The Bahamas yearly. However, considering the regulator's risk-based supervisory program, the government's Global Blu program which acts as a control for high value purchases, outreach to the sector, sector materiality and the verified usual tourist spend of \$60 - \$100, the final ML risk is recorded as **Medium**.

## **Accountants**

There are forty-one (41) accounting firms in The Bahamas that perform audit services. As of March 2024, there were five hundred and sixty (560) members of The Bahamas Institute of Chartered Accountants (BICA). Only two (2) accounting firms are registered with the CC due to the vast majority of the accountants' shunning services noted in section 4 of the FTRA. The two (2) registrants with the CC do not offer the regulated services using a separate firm and are not involved in real estate transactions.<sup>17</sup>

The NRA survey results reveal that customers reside mostly in The Bahamas, USA, and Canada. Customers do not originate from high-risk countries or are linked to high-risk jurisdictions. Clients are mostly corporate and domestic. The use of eligible introducers/third party agents is low and beneficial owners are identified. Registrants report that record keeping policies and procedures are in place and where CDD cannot be completed they consider filing a STR to the FIU.<sup>18</sup> No PEPs reported, and customers are mostly low risk. Non-face-to-face delivery channels are available, but the majority of transactions take place face-to-face.

AML risk-based examinations of registrants reveal that the two (2) registrants are highly compliant with AML obligations in areas such as the firm's written policies and procedures, beneficial ownership identification and verification. In addition, there is staff training and awareness, and further these registrants have implemented STR procedures, procedures for PEPs recognition, senior management approval of high-risk clients and procedures for UN Sanctions and Targeted Financial Sanctions.<sup>19</sup>

The inherent ML risk for the sector is recorded as **Medium**. However, considering the regulator's risk-based supervision program, onsite examination results, the aversion of the FTRA captured financial services, the profile of clientele and procedures governing same, the final ML risk of the sector is deemed **Medium-Low**

## **Lawyers**

There are one hundred and fifty-nine (159) law firms registered with the CC. The sector consists of many sole practitioners, small and medium size firms, and several large firms. There are many legal professionals in The Bahamas and the number continues to grow. There were one thousand two-

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<sup>17</sup> Accountants may provide services under a FCSP license supervised by Securities Commission of The Bahamas (SCB)

<sup>18</sup> FTRA 2018, s 11

<sup>19</sup> Covers the examination period 2019-2022



hundred and forty-two (1,242) members of the Bahamas Bar Association as of June 2022.

The high value of real estate transactions in this sector and large international clientele present significant potential ML risks. Professional money laundering (for example lawyers who willfully assist money launderers to launder their tainted funds) may also pose a substantial threat. However, no cases to date have been identified by the RBPF statistics and industry reports.

Law firms offer the creation of legal persons or arrangements and company management which can be attractive to criminals that may wish to use such structures to obscure ownership and source of funds. Non-face-to-face transactions have increased during the restrictions on travel due to the COVID-19 pandemic but no material issues arising have been reported. Clients are primarily from USA, Canada, and Europe with limited exposure to high-risk countries or clients. Large international clientele requires constant AML vigilance.

According to the Central Bank's deposit flow study the level of cash activity in the sector is low. This study, however, identified that attorneys and legal firm deposits accounted for forty-five (45%) of total deposits of the industry segments in all currencies. This significant volume of deposits was primarily due to cross-border transactions involving real estate and commercial dealings. These material facts had a substantial impact on the inherent ML risk in the sector which is deemed **High**.

Key findings for the sector were revealed as (1) most customers reside in The Bahamas, USA, United Kingdom, Europe, Canada, and Asia – countries that are not high-risk for ML; (2) about fifty percent (50%) of law firms registered with the CC reported most of the income was derived real estate transactions; (3) cash activity is low and law firms receive funds via the banking system where AML controls apply; (4) the use of eligible introducers is limited, and beneficial owners are identified; (5) the record keeping procedures are in place and where CDD cannot be completed their procedures require considering submission of an STR to the FIU<sup>20</sup>; (6) awareness of AML obligations is highest among the large and mid-size law firms; (7) there are strong entry controls in the legal sector; (8) there are comprehensive AML controls in place to mitigate ML risks such as senior management clearance for high risk clients; and, (9) the use of eligible introducers/third parties is limited.

The regulator's AML risk-based program, the key findings from the review of the sector inclusive of the strong entry controls, the presence of AML controls in large to mid-sized firms, were all considered. Additionally, the low cash use in the sector with the major portion of receipts received via bank transfers and subject to review by financial institutions subject to AML requirements, influenced the final ML risk in the sector, which was deemed **Medium**.

### **Persons Acting the Capacity as Trustees**

There are two registrants with the CC in the capacity of providing persons to act as a trustee. One registrant is a government owned entity that maintains a provident fund that provides a defined contribution plan in Bahamian dollars for employees.<sup>21</sup>The second registrant acts in the capacity of trustees for a book of business with an established corporate services provider. Clients originate primarily from Canada and a small percentage from the United Kingdom.

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<sup>20</sup> FTRA 2018, s 11

<sup>21</sup> This is a retirement scheme.

The Bahamian trustee business is deemed to be inherently **Medium-Low** ML risk due to the closed pension fund that it is administering for Bahamian employees. Considering the regulator's AML risk-based supervision program, and the local client base coupled with the fact that the Board of the provident fund manages the investments, and all investments are in Bahamian dollar shares, real estate and other investments, the final ML risk is assessed as **Low**.

The business of the trustee for the international clientele is rated as having inherent **Medium-high** ML risk due to diverse cross-border clients, and volume of assets under administration. Considering the regulator's risk-based supervision program, the fact that the service is not being marketed, there is a clear intent not to grow the business, and the market focus of the book of business (Canadian and UK clients), the final ML risk is deemed **Medium**.

### **Designated Government Agencies**

**Bahamas Mortgage Corporation (BMC)** – The inherent ML risk is assessed as **medium-low** with the money laundering risk considered as **Low**, as borrowers are limited to low-income Bahamian citizens who qualify for housing administered or developed by BMC.

**Bahamas Development Bank (BDB)** – The BDB is assessed as having **medium- low** inherent ML risk and **Low** for money laundering risk as most of the existing loans are paid by salary deductions, payments from government contracts, and cash transactions are limited. Based on FIU reports, there have been no STRs filed. Domestic PEPs are few with most customers rated low risk. The size of loans is small compared to the size of the domestic loan market.

**Post Office Savings Bank (POSB)** – POSB maintains a presence in the largest 16 family islands. A review of POSB's operations by the Auditor General identified weak internal controls and inefficient manual processes. Moreover, the regulator - Compliance Commission – conducted a review and identified that there were insufficient experienced staff to run the operations effectively. Further, in recent years there have been cases of money laundering detected and reported to the RBPF. Due to the current challenges including weak internal controls and AML policies coupled with ML incidences, the inherent ML risk is assessed as **High** and the money laundering risk for POSB is considered **High**.

### **Gaming Sector**

The Gaming Sector consists of two sub-sectors, namely Casinos which cater to international patrons and Gaming Houses which cater to domestic patrons. The Gaming Board has a strong entry control regime as it seeks to prevent Casinos and Gaming Houses from being owned, controlled, or operated by criminals. Further, the Gaming Board has implemented a risk-based supervisory program since 2018 inclusive of onsite and off-site surveillance. The Board is supported by a real-time online monitoring and surveillance system for all Gaming Houses and Casinos. Moreover, in 2019 a Special Investigations Unit was instituted in law. The authorized officers of the Special Investigations Unit have the powers of a peace officer, power of arrest with a warrant; and it is mandated to report to the Commissioner of Police any evidence found tending to show the commission of any identified risk activity under the POCA.

Notwithstanding that the customer base is predominantly Bahamians with relatively small transactions, the client base risk profile of Gaming Houses is considered to be **Medium-High** due to the nature of the operations and the attractiveness of gaming to money launderers. The client-based profile for Casinos is considered **High** due to the existence of high-net-worth patrons, patrons who

are predominantly international clientele, and the potential for such international clients to emanate from high-risk jurisdictions.

The Inherent Money Laundering Risk of the Gaming Sector is assessed as **High**. Although the inherent risk of the gaming sector is generally rated high for ML risks due to the level of cash activities and volume of transactions flowing through Casinos and Gaming Houses; there exist stringent supervisory measures and institutional internal controls in place which are geared towards mitigation of the risks, effectively moderating the sector's ML risk to **Medium-high**.

## **PRIORITIZATION- ACTIONS TO STRENGTHEN AML CONTROLS BY SECTOR**

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**Given the key findings and risks identified above, the following next steps are prioritized over the next three (3) to six (6) months:**

### **BANKING, TRUST, CREDIT UNION, AND PAYMENT SERVICE PROVIDERS SECTORS**

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**(I) ENFORCEMENT**

The Central Bank will enhance its enforcement and intervention measures; including publishing key enforcements/penalties imposed.

**(II) SUPERVISION/RISK ASSESSMENT**

- i. The Central Bank will enhance its risk assessment processes via the implementation of additional automated tools and processes to increase efficiencies and effectiveness in this area.
- ii. Continued efforts will be made in relation to analyzing and monitoring Supervisory Effectiveness
- iii. Additional guidance will be provided to enhance SFI's preparation of self-risk assessments.
- iv. Issuance of GFSR coordinated guidelines for Politically Exposed Persons (PEPs), Proliferation Financing, and Sanctions Reporting

**(III) MANPOWER ASSESSMENT**

The Central Bank will undertake a manpower assessment to ensure that it has the necessary resources to carry out effective risk-based supervision of licensees and registrants.

### **SECURITIES SECTOR**

**ENFORCEMENT**

- 1) The Securities Commission will enhance its enforcement and intervention measures and consistently apply them to curb non-compliance for AML requirements by licensees and registrants.
- 2) Complete its Project Butterfly - the Commission's data and software transformation project aimed at updating software and other technology to fully automate the regulatory monitoring and tracking functions to ensure compliance and a consistent and timely response to breaches.
- 3) Enhance data management capabilities.

## INSURANCE SECTOR

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**Table 3: Proposed AML Controls to Mitigate the Assessed Vulnerabilities of the Sector**

#	Theme of Strategy	Priority Ranking	Objective of Strategy
1	Supervision Procedures and Practices	1	To strengthen ICB's follow-up, reporting and recordkeeping procedures for assessments. See below for more details.
2	Suspicious Activity Monitoring and Reporting	2	Conduct thematic assessments of insurance companies to improve the effectiveness of monitoring and recordkeeping systems.
3	Integrity of Staff in Insurance Companies	3	Conduct thematic assessments of insurance companies to review the effectiveness of staff and intermediary screening and training processes.
4	Data Collection and Analysis	4	Ensure appropriate data regarding the components of the AML/CFT/CPF framework is collected and analyzed to assist with the development of supervisory controls.

## DESIGNATED NON-FINANCIAL BUSINESS PERSONS (DNFBPS)

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### (I) REAL ESTATE SECTOR

- i. The Compliance Commission will continue with the active AML training program to improve AML awareness.
- ii. Ensure that AML Examinations are carried on a risk-based basis for the sector.
- iii. Ensure that RegTech solutions are developed and implemented to support and facilitate the onsite examinations program.
- iv. Collaborate with the FIU to provide focused training on suspicious transactions, typologies in the sector and STR reporting procedures to improve awareness of this important AML obligation.
- v. Continue to build relationship with BREa to ensure registrants adheres to FATF standards for the AML/CFT/CPF obligations for the sector. Such as, introduction of a mandatory annual survey which will be required to be completed to be licensed to conduct business.

### (II) DEALERS IN PRECIOUS METALS

- i. Conduct risk-based AML examinations on the few firms that are conducting transactions above the \$15,000 transaction threshold in the first half of 2025.
- ii. Focus on raising awareness of AML obligations and in particular: red flags, suspicious transactions procedures, implementation of compliance programs, and best practices via e-sessions, notices and periodic newsletter.
- iii. Continue to maintain relationships with the major companies to ensure an open line of communication to address any uncertainty or query via quarterly minuted

- calls with standard agenda items.
- iv. Encourage the formation of an industry association to represent industry and promote best practices.
- v. Introduce an annual risk survey / questionnaire.

**(III) ACCOUNTANTS**

- i. Continue to focus on AML training and in particular suspicious transactions.
- ii. Maintain a strong relationship with BICA to ensure best practices are communicated to members and monitoring business lines of members to ensure that all practitioners who are conducting business listed in section 4 FTRA 2018 are referred for registration to CC.
- iii. Introduce an annual risk survey / questionnaire in collaboration with BICA.

**(IV) LAWYERS**

- i. Ensure onsite examinations on a risk-based basis via upgraded examination program using RegTech solutions to ensure that the sector is meeting obligations.
- ii. Collaborate with BBA to identify law firms or lawyers who fall within the parameters of FTRA 4.
- iii. Introduce annual submissions to BBA of an annual AML return in early 2025 to monitor compliance with FTRA and emerging risk i.e. risk survey and work with the BBA to ensure all relevant law firms and sole practitioners conducting the services in section 4 of the FTRA 2018 are registered with the CC;
- iv. Collaboration with BBA for the submission of lawyers' details to CC for registration follow-up where business line falls with Sec. 4 FTRA 2018.
- v. Focus on AML training and in particular suspicious transactions and procedures to boost STR reporting.

**GAMING SECTOR**

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The Gaming Board will seek to mitigate the vulnerabilities in the sector by undertaking the next step actions.

- Lack of Training
  - Require gaming licensees to produce more comprehensive training materials so that the training syllabus is adequately geared towards addressing specific ML risks that can possibly face a gaming operator.
  - Ensure AML training is given annually to all staff inclusive of supervisory and line staff.
- Suspicious Transactions Reporting
  - Collaborate with FIU to conduct training sessions for all Gaming House licensees focusing on detection of unusual transactions and suspicious activities.
- Limited Staff Resources
  - Mandate Gaming Houses to boost adequately trained staffing resources knowledgeable of AML procedures particularly as it relates to gaming agents conduct of "over the counter" transactions and their need to adequately

- address CDD requirements in relation to the said transactions.
- Focus on ensuring that Gaming Houses are fully aware of persons excluded from gaming as an avenue to assist in mitigating the problem gambling and ML risks.

## **LAW ENFORCEMENT**

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The Royal Bahamas Police Force will seek to address the vulnerabilities in law enforcement by undertaking the following actions.

- Human resources – to be identified to boost staff levels for the Financial Crime Investigation Branch (FCIB). A commitment was secured from the Police Commissioner to direct 15 officers for training and settlement for the FCIB deployment from the incoming cohort of the 2024 current graduating recruit class.
- Increase focus of manpower to consistently conduct parallel ML investigations alongside the investigations of the predicates of armed robbery, robbery, stolen vehicles, firearms interdiction, drug trafficking, human smuggling, cybercrime, bribery, and corruption.

## **FINANCIAL INTELLIGENCE UNIT**

The Financial Intelligence Unit to address the following items –

- Producing strategic analyses consistently to inform regulators, law enforcement, Office of the Attorney General, Director of Public Prosecutions and other stakeholders of crime and emerging risk trends and related intelligence.
- Giving timely feedback to financial institutions and designated non-financial businesses and professions.

## List of Acronyms

### Glossary – Key Abbreviations

*Note:* This section provides key abbreviations consistently used throughout this publication.

AIBT	Association of International Banks and Trust Companies
AML	Anti-Money Laundering
AML/CFT/CPF	Anti-Money Laundering / Countering the Financing of Terrorism / Countering Proliferation Financing
ATA	Anti-Terrorism Act
BACO	Bahamas Association of Compliance Officers
BICA	Bahamas Institute of Chartered Accountants
BFSB	Bahamas Financial Services Board
BREA.	Bahamas Real Estate Association
CBB	The Central Bank of The Bahamas
CC	Compliance Commission of The Bahamas
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CFT	Countering the Financing of Terrorism
CO	Compliance Officer
CPF	Countering Proliferation Financing
DRO	Designated Reporting Officer
DNFBP	Designated Non-Financial Businesses and Professions
EU	European Union
FATF	Financial Action Task Force
FI (TR)R	Financial Intelligence (Transactions Reporting Regulations, 2018)
FIU	Financial Intelligence Unit
FIUA	Financial Intelligence Unit Act, Ch. 367
FTRA	Financial Transactions Reporting Act
FTRR	Financial Transactions Reporting Regulations, 2018
GB	Gaming Board
GFSR	Group of Financial Services Regulators
ICS	Internal Control System
ICB	insurance Commission of The Bahamas
IFCSP	Inspector of Financial Corporate Service Providers
IRFC	Identified Risk Framework Coordinator
KYC	Know Your Customer
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance
MLAT	Mutual Legal Assistance Treaty
MLRO	Money Laundering Reporting Officer



NRA	National Risk Assessment
NIRFC	National Identified Risk Framework Coordinator
OAG	Office of the Attorney General
OSE	On-Site Examination
PEP	Politically Exposed Person
PF	Proliferation Financing
POCA	Proceeds of Crime Act
RBDF	Royal Bahamas Defence Force
RBPF	Royal Bahamas Police Force
SCB	Securities Commission of The Bahamas
STR	Suspicious Transactions Reporting
TF	Terrorist Financing
UNSCR	United Nations Security Council Resolution