



Gross Economic Contribution of the Financial Sector in
The Bahamas (2007)

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GROSS ECONOMIC CONTRIBUTION OF THE FINANCIAL SECTOR IN THE BAHAMAS (2007)

INTRODUCTION

The 2007 survey of the gross economic contribution of the financial sector, with a data pool spanning almost 35 years, highlights the sector's continuing significance to the local economy—estimated at an average 15%-20% of the country's gross domestic product (GDP). While the analysis of bank and trust operations remains the key focus of this exercise, recent attempts to both enhance and broaden the scope of survey information entailed greater emphasis on the contribution of other financial services, including credit unions, insurance companies and investment funds.

Generally, banking sector activities during 2007 pointed to increased outlays for both domestic and international segments, alongside employment gains. Similar trends were noted for other non-bank financial sector institutions. Regulatory and legislative efforts continued to be geared towards increasing the sector's competitiveness and soundness by ensuring compliance with international standards and best practices.

BANKING SECTOR

The banking sector in The Bahamas represents one of the most important pillars within the local economy. Based on the results of the 2007 survey conducted by the Central Bank, the sector's performance featured sustained employment and spending growth, combined with increased capital investments. The total number of banks and trusts companies licensed to operate from or within The Bahamas decreased by 3 to 245 over the previous year, following the cessation of business by 8 licensees and the issuance of 5 new licenses. Of the 245 licensees, more than three quarters (214) had a physical presence in the jurisdiction, a decline of one from the previous year's total; and the remaining 31, which are mainly G-8 branches, operated under managed arrangements approved by the Central Bank, and consistent with international best practices. The number of public banks and trust companies tapered by 5 to 138, while restricted and non-active entities increased marginally by 2 to 107. Among the public banks and trusts, Bahamian incorporated companies fell by 3 to 87; euro-currency operations declined by 1 to 30; whereas, the surrender of an

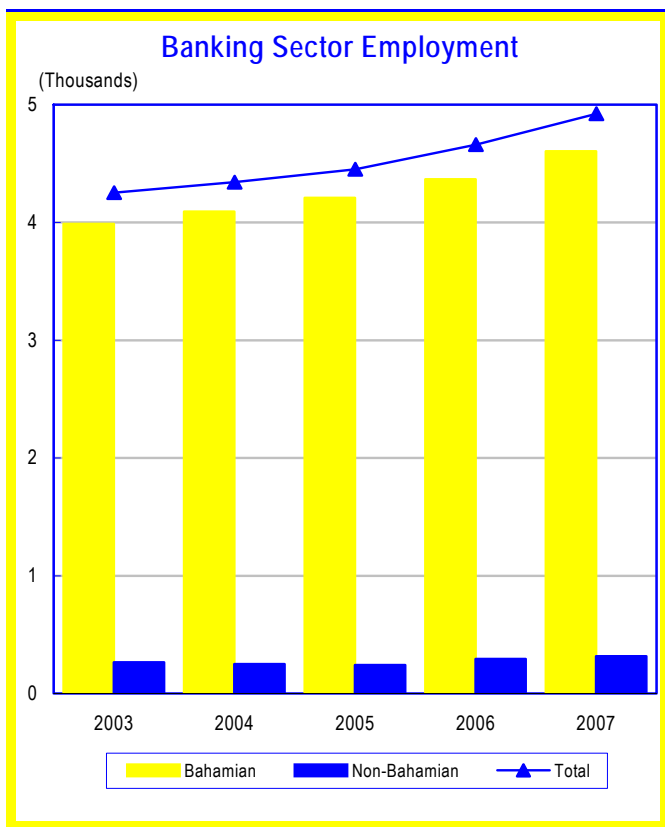
authorized dealer and agent designation decreased the number of domestic banks to 22.

In line with the overall growth in the sector, the asset holdings of international banks and trust companies maintained an upward trajectory. For the period ending June 2007, the total asset base of these entities firmed by 1.1% (\$3.7 billion) to \$351.2 billion. On the domestic side, banks' assets strengthened by \$692.7 million (8.9%) to \$8.4 billion, with the average return on asset ratio steady at 3.7% in 2007, and profits higher by 10.3%. In contrast, due to reductions in deposit balances as well as investments in capital market instruments, the total value of fiduciary assets under management contracted by an estimated 11.6% (\$33.2 billion) to \$254.1 billion, following gains of 26.0% (\$59.3 billion) a year earlier.

Since the coming into force of the new legislation on Private Trust Companies, the Central Bank approved two (2) Financial and Corporate Service providers to act as Registered Representatives of Private Trust Companies and seven (7) Private Trust Companies were certified to be exempted from having to obtain a trust licence, as mandated by the Banks and Trust Companies Regulation Act, 2000, while five (5) of the Bank's licensees indicated that they planned to act as Registered Representatives for Private Trust Companies.

EMPLOYMENT

Buoyed by sustained growth in the financial sector, the banking industry's workforce grew by 5.6% (261) to 4,923. The 5.4% (238) increase in the number of Bahamians employed to 4,606, outpaced the year earlier 3.8% gain, and the 0.8% average expansion for the five year period ending 2006. Following a 22.0% spike a year earlier, aligned with the servicing of new business demands, growth in the number of expatriate workers slackened to 7.8% (23) to 317 at the end of 2007—although exceeding the 1.0% average gain for the previous five years. The share of expatriate and Bahamian workers within the total workforce stabilized at 6.4% and 93.6%, respectively.



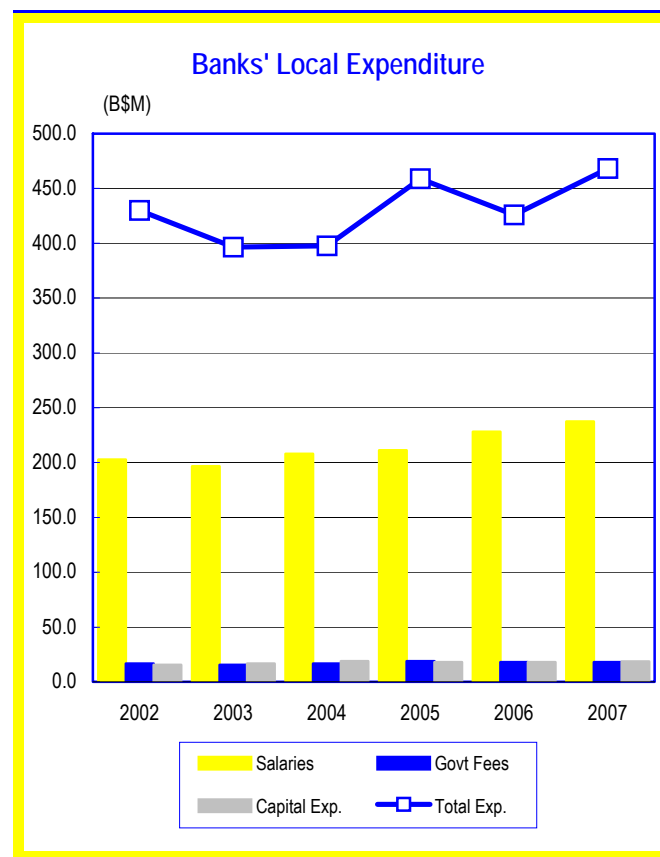
EXPENDITURE

Despite a slight reduction in the number of branches, by 3 to 108, higher operational and capital expenses elevated banks' total expenditures by 2.2% (\$10.2 million) to \$478.3 million, although below the 9.9% upturn in the previous period and the average 4.2% increase noted from 2002 - 2006.

Operational expenditures, which accounted for approximately 94.5% of total spending, rose by a reduced 2.1% (\$9.4 million) to \$451.9 million, compared to the 8.4% and 4.1% respective gains registered in 2006 and over the five years to 2006. In particular, outlays for Government fees, which were stable in 2006, advanced by 3.5% to \$18.7 million, attributed primarily to gains in licensing expenses (16.1%), stamp duties (106.6%) and real property taxes (32.3%), which offset cumulative declines (16.8%) in other fees incurred. The category Other Administrative Costs also declined by 2.9%, in contrast to a 12.3% advance in 2006.

Staff related expenditures trended higher, as salaries firmed by 6.3% to \$237.5 million, extending the previous year's 5.8% growth and pacing above the 2.5%

average increase for the five year period through 2006. The average annual salary paid to employees was slightly higher by 0.7% at \$48,250 building on the gains registered during 2006 and over the last five years, of 1.0% and 1.6%, respectively. The improvement was solely in the non-Bahamians component, whose average salary level grew by 5.8% to \$107,959; whereas Bahamian employees registered a modest fall-off of 0.3% to \$44,141. Indications are that training outlays grew by 11.2% to a six year high of \$3.1 million.



Following a 45.0% surge in 2006, accretions to capital expenses moderated by 3.4% to \$26.4 million. Investments were primarily focused on renovations to existing premises, which at \$6.9 million, almost doubled the previous year's outlays. Capital spending on new premises advanced by 13.2% to \$1.3 million; with spending for office equipment and furniture increased marginally to \$14.9 million while land purchases declined by almost 50% to \$3.3 million.

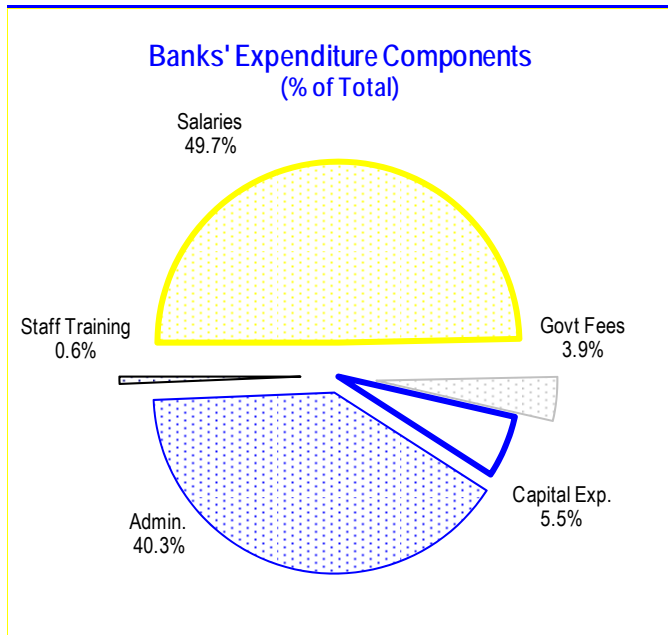
DOMESTIC VERSUS INTERNATIONAL BANKING

Reflecting growth in local banking activities, employment in the domestic banking sector, where the focus is predominantly on retail services strengthened by 5.9% (209 persons) to 3,766 persons at end-2007. Employment for the offshore institutions, which typically require a higher degree of technical and multilingual skills to assist in the provision of wealth management-oriented services and products, rose by 4.7% (52 persons) to 1,157. Consequently, the proportion of total employment accounted for by domestic entities rose only marginally to 76.5%.

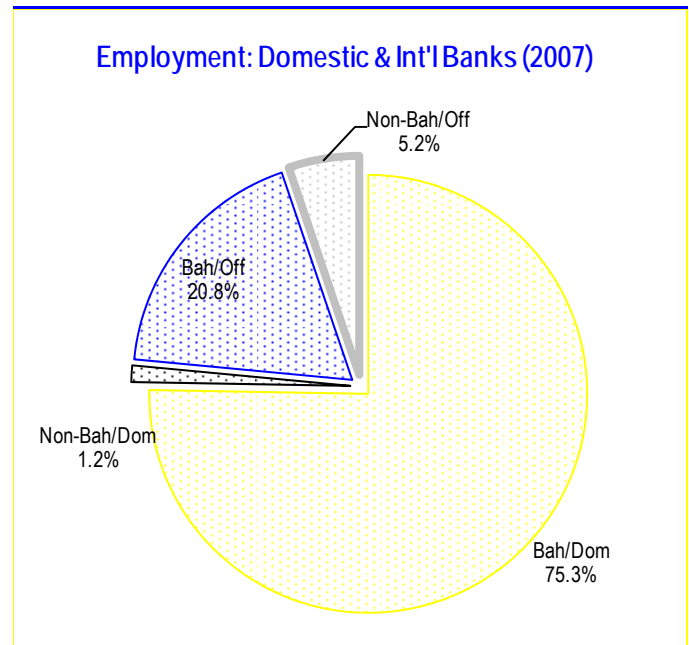
There was a slight firming in the ratio of Bahamian to non-Bahamians employed by domestic banks, to 61:1 from 60:1 in 2006, as the growth in Bahamian workers of 207 to 3,706, surpassed the gain in the expatriate component of 2 to 60. Offshore banks increased Bahamian hires by 31 (3.6%) to 900 persons and non-Bahamians, by 21 (8.9%) to 257—with the ratio of Bahamians to non-Bahamians stable at 3:1.

ries of 4.3% (\$6.5 million); in fees paid to the Government, of 5.3% to \$9.3 million and a 42.9% hike in staff training costs to \$2.1 million. Other administrative outlays contracted by 3.1% to approximately \$110.8 million. Capital spending grew by 12.7% (\$2.0 million), based on elevated expenditures for the renovation of existing premises, the acquisition of new premises as well as for office furniture and equipment purchases, which contrasted with reduced land investments.

Offshore banks and trust companies increased their expenditures by 2.3% to \$181.2 million, which was below the previous year's 10.9% capital-led upturn. Operational expenses were extended by 3.1% to \$173.2 million, in comparison with a more robust 8.7% gain in 2006. Salary-related costs, at 44.7% of the total, advanced by 10.3%, followed by a more moderate 1.8% gain in payments for Government fees. Capital spending tapered off significantly, by 13.2%, following the previous year's broad-based expansion of 80.1%.



With regards to expenditure, domestic banks' total outlays rose marginally by 2.1% (\$6.2 million) to \$297.1 million, trailing 2006's 9.3% upswing to \$290.9 million and the 4.6% average growth of \$46.8 million achieved between 2002 and 2006, which was supported by capital investments. The 1.5% (\$4.1 million) gain in spending for operational activities included a firming in wages & sala-



The survey results also indicated that the average salary dispersion between employees of international banks and trust companies vis-à-vis those of domestic operations widened, as the remuneration of employees in the offshore sector advanced by 5.4% to \$70,031 per annum, while domestic salaries declined by 1.4% to \$41,562 per year.

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

Period	2002p	2003p	2004p	2005p	2006p	2007p
A. TOTAL EMPLOYMENT						
1. Non-Bahamians	4,511	4,253	4,343	4,451	4,662	4,923
2. Bahamians (of which:)	283	265	251	241	294	317
i) Local Banking	4,228	3,988	4,092	4,210	4,368	4,606
ii) Offshore Banking	2,678	2,605	2,691	2,826	2,969	3,146
iii) Trust Administration	627	584	672	616	627	652
iv) Other	422	455	393	455	494	500
	501	344	336	313	278	308
			(B\$ Millions)			
B. TOTAL OPERATIONAL COSTS (1+2+3+4)						
1. Salaries	376.9	382.1	424.1	408.3	442.5	451.9
2. Government Fees	202.8	196.6	207.9	211.1	223.5	237.5
	15.5	16.5	18.9	18.0	18.0	18.7
i) Licence	7.3	6.6	6.9	9.6	8.4	9.7
ii) Company Registration	2.8	1.4	1.4	1.9	2.5	2.3
iii) Work Permits	2.3	2.3	2.5	2.4	2.7	2.6
iv) Other Government Fees	3.2	6.1	8.1	4.2	4.5	4.0
3. Staff Training	2.9	2.3	2.4	2.7	2.8	3.1
4. Other Administrative Costs	155.7	166.8	194.8	176.4	198.2	192.5
C. CAPITAL EXPENDITURE¹⁾						
	19.4	15.4	34.8	17.6	25.5	26.4
D. TOTAL EXPENDITURE (B+C)						
	396.3	397.6	458.8	425.9	468.1	478.3
E. AVERAGE SALARY (B\$'000)						
	44,956	46,215	47,870	47,437	47,932	48,250

Source: The Central Bank of The Bahamas

¹⁾ Includes construction, renovation expenses and other fixed assets.

TABLE B. GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES

Period	2002p	2003p	2004p	2005p	2006p	2007p	2002p	2003p	2004p	2005p	2006p	2007p
	DOMESTIC						OFFSHORE					
A. TOTAL EMPLOYMENT	3,309	3,208	3,185	3,424	3,557	3,766	1,201	1,045	1,181	1,027	1,105	1,157
1. Non-Bahamians	44	43	38	49	58	60	239	222	214	192	236	257
2. Bahamians (of which:)	3,265	3,165	3,147	3,375	3,499	3,706	962	823	967	835	869	900
i) Local Banking	2,675	2,602	2,689	2,824	2,964	3,146	3	3	2	2	5	0
ii) Offshore Banking	103	101	136	85	79	83	524	483	555	531	548	569
iii) Trust Administration	251	291	206	267	287	293	171	164	190	188	207	207
iv) Other	236	171	116	199	169	184	265	173	220	114	109	124
	(B\$ Millions)											
B. TOTAL OPERATIONAL COSTS (1+2+3+4)	230.1	225.4	250.2	253.7	274.6	278.7	146.8	156.8	177.6	154.6	168.0	173.2
1. Salaries	129.9	129.5	126.4	142.5	150.0	156.5	72.9	67.1	82.8	68.6	73.5	81.0
2. Government Fees	6.4	6.7	7.4	8.8	8.8	9.3	9.1	9.7	11.6	9.2	9.2	9.4
i) Licence	3.2	2.8	2.8	4.9	4.4	5.1	4.1	3.9	4.2	4.7	4.0	4.6
ii) Company Registration	0.7	0.7	0.7	0.7	0.7	0.9	2.1	0.7	0.7	1.2	1.8	1.5
iii) Work Permits	0.4	0.5	0.6	0.6	0.6	0.6	1.9	1.8	1.9	1.8	2.1	2.1
iv) Other Government Fees	2.2	2.7	3.3	2.6	3.1	2.8	1.0	3.4	4.8	1.5	1.4	1.2
3. Staff Training	1.3	1.3	1.3	1.5	1.5	2.1	1.6	1.1	1.2	1.2	1.4	1.0
4. Other Administrative Costs	92.5	87.9	115.1	100.9	114.3	110.8	63.2	78.9	82.1	75.5	83.9	81.7
C. CAPITAL EXPENDITURE I/	13.2	11.9	27.8	12.5	16.3	18.3	6.1	3.6	7.2	5.1	9.2	8.0
D. TOTAL EXPENDITURE (B+C)	243.3	237.2	277.9	266.2	290.9	297.1	153.0	160.3	184.8	159.7	177.2	181.2
E. AVERAGE SALARY (B\$/000)	39,250	40,352	39,699	41,618	42,172	41,562	60,717	64,214	70,082	66,838	66,472	70,031

Source: The Central Bank of The Bahamas

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

OTHER FINANCIAL SECTOR ACTIVITIES

Indications are that the non-bank financial sector maintained its growth momentum during 2007, buoyed by continued expansions in household and business incomes, improved technology, further staff training and new financial product offerings.

INSURANCE SECTOR

The latest information available for the insurance industry suggest that the total expenditure level increased by 11.5% to \$129.9 million, following a 4.2% contraction in 2006. Provisional data from the Central Bank's annual survey showed that employment in the sector firmed, on a yearly basis, by 83 persons to 1,474, with the Bahamian component increasing by 80 to 1,447, for approximately 98.2% of overall employment. Non-Bahamian workers in the sector rose marginally by 3 to 27.

In line with the increased employment, salaries expanded by an estimated 8.7% to \$67.2 million in 2007. Buoyed by increased gross premium collections and higher stamp duty payments, Government fees firmed by 20.9% to \$14.8 million. In addition, office space renovation costs surged three-fold to \$2.8 million; other administrative expenses rose by 12.9% to \$30.2 million, and outlays for staff training expanded by 17.1% to \$0.4 million. In contrast, other capital expenditures fell by 5.8%, due mainly to a reduction in office equipment and furniture purchases.

CREDIT UNIONS

Preliminary results from the Central Bank's 2007 survey on credit unions confirmed the continued importance of these activities in providing alternative financial services, with assets gaining \$20 million to \$236.0 million in 2007. Overall outlays firmed by 7.1% to \$6.6 million, inclusive of salaries, which accounted for 44.2% of the total at \$2.9 million. Moderate increases were registered for administrative related expenses (\$0.7 million), fees for renovation expenses (\$0.03 million), and public utilities (\$0.04 million). In contrast, other "miscellaneous" capital expenditures fell by \$0.2 million (33.7%) to \$0.4 million, as no land acquisitions were made in 2007, compared to net purchases of \$0.3 million in the previous year. Payments of Government fees also fell marginally by \$0.01 million (19.7%) to \$0.06 million.

Employment increased marginally by 4 (3.8%) to 110 persons, bringing the average annual growth rate to 2.76% over the past five years. Average salaries for the industry were estimated at \$26,555 per worker.

INVESTMENT FUNDS INDUSTRY

The Securities Commission of The Bahamas compilation of investment funds data for 2007 showed that the number of active mutual funds under management grew by 59 (8.2%) over the year to 782. Growth in assets under management surged by US\$92.9 billion to \$297.6 billion. By end-2007, the number of investment fund administrators had increased by 2 to 65.

CAPITAL MARKETS DEVELOPMENTS

The end of year statistics on trade and index performance for the Bahamas International Securities Exchange (BISX) indicated an overall improvement in share values, as the BISX All Share Index rose by 23.2% to 2,066.75 points in 2007, trending in line with the 24.1% increase in 2006. The Fidelity Capital Market Index (FINDEX), which reports on the over-the-counter market trading, was boosted by 26.4% to 938.3 points, although slowing from 2006's 34.5% expansion to 742.2 points. However, the 24.3% gain in market capitalization to \$3.9 billion surpassed the 20.8% year-earlier advance. Meanwhile, the trading volume of shares declined by 9.2% to 4.8 million, and the value fell by 1.6% to \$28.3 million; whereas the number of publicly traded companies remained at 19.

In other capital market developments, two new Bahamas Depository Receipt (BDR) products were offered to the public, following from the Central Bank's Exchange Control liberalization measures, which came into effect in January 2006. Under the current BDR programme, BISX registered broker dealers are allowed to purchase a portion of the Central Bank's foreign exchange reserves under a specific formula, which is then utilized to purchase foreign assets. The assets are subsequently packaged into BDR products, which have been approved by the Securities Commission, and offered for sale to resident investors. One BDR offering totaled \$10.0 million, and the other amounted to \$100,010 divided into 10,000,000 non-voting Class 'A' shares, with a par value

of \$0.01 per share and 10,000 voting Class 'B' shares with a par value of \$0.001 per share, respectively.

RECENT REGULATORY DEVELOPMENTS

Regulatory initiatives continued to support The Bahamas' goal of maintaining a robust and progressive regulatory regime. In this regard, amendments were proposed to the Central Bank's two primary acts, the Central Bank of The Bahamas (Amendment) Act, 2007 and the Banks and Trust Companies Regulation (Amendment) Act, 2007¹ to allow, for the sharing of information with other domestic regulatory authorities—considered important to the proper functioning of the financial sector.

Other notable proposals included legislative changes to the existing Banks and Trust Companies Regulation Act, 2000: to bring the supervision of non-bank money transmission businesses under the authority of the Central Bank; to clearly define the rights and duties of the auditors of licensees in reporting significant information to the Inspector of Banks and Trust Companies; and to modify the documentary requirements for applicants, specifically as it relates to net worth and character references requirements.

¹ These amendments came into effect on May 2, 2008.