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EMBRACING EMERGING TRENDS WHILE GROUNDED IN TRADITIONAL FINANCIAL SERVICES

The Bahamas continues to be an innovative financial center focused on providing bespoke solutions to meet client needs. It is certainly not a "one product shop" but a mature centre with a diverse toolkit catering to both private and institutional clients. It upholds a strong commitment to remaining relevant and competitive as a well-regulated jurisdiction underpinned by expertise and in an enviable location. It is against this backdrop that we examine some of the emerging trends in The Bahamian financial services sector, including ESG and Climate Finance as well as the evolution of digital assets business.

CARBON TRADE REGULATION IN SIGHT

As the attention shifts globally to environment, sustainability and governance factors across the world of investment, so too is the jurisdiction now also focusing its efforts on this area. Executive Director of The Securities Commission of The Bahamas, Christina Rolle draws attention to these endeavours: "A notable work of innovation the Commission has been driving is the development of the Carbon Credits Trading Act, 2022, which was passed in August. The passage of the legislation makes The Bahamas among the first jurisdictions in the world to attempt the regulation of the trading of carbon in the secondary market. This has the potential to once again establish The Bahamas as a forward-thinking jurisdiction with the capacity and will to develop robust, pragmatic, innovation-embracing regulation."

Vanessa Hall, associate, McKinney Bancroft & Hughes, also comments on The Bahamas' ability to keep abreast of industry trends: "Right now 'climate change' and 'carbon credits' are buzz words that are getting a lot of attention worldwide and they are also a focus here in The Bahamas. The Office of the Prime Minister has expressly stated that a carbon credits system would help the planet and such regulation, if implemented, will not allow for greenwashing." She explains the Climate Change and Carbon Markets Initiatives Bill, 2022 and the Carbon Credit Trading Bill, 2022 are currently

being circulated among stakeholders and if passed, would regulate all carbon trade in the country and would require reports of carbon emissions.

THE DIGITAL ASSETS BUSINESS CONTINUES TO EVOLVE

Even considering what is being referred to as the “crypto winter” and all of the surrounding events, The Bahamas is focused on what lessons can be learned from this experience. The regulatory agencies here remain focused on maintaining our position as a forerunner in the regulation of digital assets. This is a fast-paced area and as such, The Bahamas’ ability to be agile and responsive has served it well. Integrity and soundness underpin The Bahamas as an international financial centre. This has always been a core element of its value proposition.

Rolle stated recently that, “there are a number of developments we are progressing in the digital assets space, although I do not know that I would call all of them innovations. A number of these will address some of the lessons we have learned from the crypto winter, as well as from our other work in this space to keep current with its ongoing evolution.”

Before the end of this year, the Securities Commission of The Bahamas will put forward major amendments to the Digital Assets and Regulated Exchanges (DARE) Act. A key goal will be to provide a full regulatory framework for stable coins. The commission will also address the issue of staking and how customer assets are held -- making it very clear that they must be held off balance sheet, in an account segregated from the firm’s operational accounts.

“The efforts by the Government and the Securities Commission of The Bahamas to establish The Bahamas as a leader in the digital assets space has been well received by the industry in The Bahamas,” outlines Christel Sands-Feaste is a partner, Higgs & Johnson, ”The passage of the DARE Act, 2020 and the publication by the Government of its Policy White Paper on the Future of Digital Assets in The Bahamas in April, 2022 demonstrates the commitment by the policy makers in The Bahamas to the development of the digital assets space, in a well-regulated framework.”

Hall also shares her views on the recent developments: “In the last two years, The Bahamas has proven to be conducive to innovative disruption. The traditional financial system is currently being enhanced and modernised through FinTech. Methods that we were once accustomed to are now taking a different approach with the introduction of FinTech such as savings/holding and or investing and trading in digital assets. FinTech is now proven to be one of the fastest growing areas within the financial services industry that also allows for the transfer of value through different forms of cryptocurrencies.”

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Executive Director Rolle notes that in the light of the crypto winter, firms that are in the market will look at how they structure their business after this turbulence has died down. Whether that will result in firms hiring more or letting some staff go, it is still too early to say, in terms of the impact in The Bahamas. She adds that for the domestic market, the number of investors in the crypto space is not significant, so the number of market players that may have been impacted is small.

The uncertainty in the crypto world may have given rise to other shifts. Carl Christian Illing of ActivTrades gives his opinion on how the digital assets space could transform: “There seems be to a consolidation in the crypto market where a few strong players survive and will integrate smaller cap companies into their company fold. The Bahamas is well positioned to welcome new crypto companies and assure the investor that this industry is well regulated and constantly being monitored.”

According to Iyandra Smith of Quantfury Trading, the outlook for crypto is largely positive: “Stronger optimism around the economy, less geopolitical tension, and control on inflation will lower market uncertainty and give us a better expectation of what is to come in the future which could only be a positive for crypto investors.”

CATALYST FOR REVITALISATION

This focus on innovation and the embracing of emerging trends has led to a revitalisation of the local real estate and construction sectors as a result – especially in high-end real estate. Rolle comments: “We are also seeing a rise in employment in the financial services sector. The historic contraction in the private banking sector left quite a void in financial services as a whole. As a result of DARE, we are seeing new opportunities emerging.

“This is a good time for The Bahamas as it relates to opportunity and growth in all industries. The implementation of the DARE Act was instrumental in this. Crypto enthusiasts are in the real estate market for their own personal use, leveraging real estate as an investment tool or both.”

Looking ahead, Smith, notes: “The financial industry in The Bahamas will continue to expand, with digital asset service providers being a significant area of opportunity and growth going forward. Digital asset service providers offer an alternative asset class and seek regulatory certainty and appropriate governance surrounding such alternative asset classes. The Bahamas continues to adapt and evolve its regulatory framework to provide the necessary regulatory certainty, giving players the ‘rules needed to play the game’.”

Discussing the further penetration of digital assets, Sands-Feaste says: “With the global economic uncertainty and record inflation levels, my outlook for the industry generally is cautiously optimistic. With regard to the FinTech sector in particular, I am of the view that the regulatory framework will continue to evolve as we see an increase in the number of businesses in the digital asset space, including token issuers, applying to be regulated in and/or establishing operations from within The Bahamas.”

As part of its innovative approach, The Bahamas was also one of the first countries in the world to create a central bank digital currency (CBDC). The Sand Dollar is a centralised, regulated, stable, private, and secure unit of account and means of exchange.

Illing of ActivTrades outlines the way this is being used: “The Bahamas has now

put a focus on a further implementation of the Sand dollar into our daily life. New innovative tech companies are working on the integration of the Bahamian digital currency and introduce it to thousands of added merchants and consumers in the upcoming months.

“In the future Bahamian traders will be able to easily send funds to their trading accounts and will be able to take advantage of trading global stocks, commodities, and other financial instruments from the comfort of their home on their mobile devices.”

GROWTH OUTLOOK

According to Sands-Feaste: “In addition to leveraging our core strength in trust and fiduciary services, other opportunities for growth in the financial services sector include the establishment of single and multi-family offices and of investment funds within a flexible but well-regulated framework.”

The new Bahamian economy however is much more than digital asset leadership and companies being incorporated into the wide range of financial service providers in the country. Wendy Warren, Managing Director with Caystone Solutions comments that the sector’s sustainability has implications for the broader economy: “The diversity within the financial services sector in terms of product offerings contributes in a meaningful way to the livelihood of the Bahamian people and the country’s economy. This contribution will become more pronounced as the country pivots to invest in diversification with a focus on the ‘blue and orange’ economies, which have been identified as pathways for greater economic expansion, new business opportunities and wealth creation for Bahamians and international investors alike.

She adds: “The Bahamas is looking to modernise its fishing industry, generating ocean sciences and marine conservation opportunities while sustainably developing marine biotechnology, aquaculture, and deep-sea exploration initiatives. Renewable energy industries are also on the horizon. Meanwhile, as a vital component of the Bahamian economy, the tourism sector is looking to design a new tourism model which fully integrates culture and the creative industry in The Bahamas.

“Both tourism and financial services are actively supporting these initiatives both domestically and internationally. This foreshadows deploying the linkages when the country’s traditional economic engines engage the country’s New Economy with benefits accruing to both.”

Beyond the deep well of financial service offerings in the Bahamas and underpinning the past, present and future growth and success of the sector are a couple key attributes according to Warren. “When you look at The Bahamas, three words ring true … relevant, responsive and resilient ” she says, “We have proven time and again, whether it’s in the investment fund area or fiduciary services for wealthy families or individuals, that we are a relevant financial centre that recognises the constant changes in the international landscape which requires us to be proactive in introducing compliant but innovative solutions. This type of responsiveness, especially over the past 20 years, is the basis for our resilience, one that is continues to make The Bahamas a relevant and preferred international financial centre, and more importantly a highly responsive one to client needs and regulatory requirements. The global market is ever evolving. We are acutely aware that we must evolve with it.”

From her perspective, Executive Director Rolle asserts the broader objectives The Bahamas has in its sights: “In terms of The Bahamas’ role as an international financial centre, I see us continuing to position ourselves as the place to be for persons who want to grow their businesses in a legitimate yet practical regulatory environment. We have all of the elements to make this happen.”

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