

IMF Working Paper

July 2, 2002

Subject: **Caribbean Offshore Financial Centers: Past, Present, and Possibilities for the Future**

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

CORRIGENDUM

The following corrections to WP/02/88 (May 2002) have been provided by the staff.

Page 10, Table 1, stub St. Vincent and the Grenadines,

columns 1 and 2: for “Ministry of Finance” read “Offshore Finance Authority”

column 3: for “Ministry of Finance” read “blank”

columns 4 and 5: for “Ministry of Finance” read “Offshore Finance Authority”

Page 13, Table 2, stub St. Vincent and the Grenadines,

column 1: for “10,135” read “10,075”

column 2: for “45” read “38”

column 5: for “902” read “896”

Page 14, Table 3, column 4, line 1: for “blank” read “100”

line 2: for “blank” read “100”

line 3: for “...” read “blank”

line 4: for “...” read “3,000”

line 5: for “blank” read “1,000”

line 6: for “blank” read “10,000”

line 7: for “...” read “150”

line 8: for “...” read “150”

line 9: for “...” read “250”

Page 32, stub St. Vincent and the Grenadines, column 3: for “blank” read “Proceed of Crime (Money Laundering) Regulations 2002; Financial Intelligence Unit Act 2001”
column 5: for “blank” read “International Insurance Act, 1996; Amendment and Consolidation Act 1998”

Corrected pages are attached.

Att: (4)

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rivals, this need cannot be allowed to take priority over the supervisory responsibilities and the investigative powers of the authorities.

Table 1 gives the institutions (bodies) responsible for supervising the various financial institutions in each ECCU member country. In general, the countries just beginning to create offshore sectors seemingly are lacking in terms of institutions which can regulate and supervise the offshore bodies; in many of these countries, the same agency is assigned the responsibility for regulating all the various offshore activities. In the new international architecture, increased secrecy or confidentiality is no longer an acceptable option, and the current atmosphere is one in which sanctions can be imposed on countries which do not conform, or at least work seriously toward conforming to international standards in the operations of OFCs. Succinctly stated, in the case of the banking sector, the standards for supervising and regulating of offshore banks should be the same standards as for domestic banks; in areas where there do not yet exist international standards, such as mutual funds, then best practice guidance should be implemented. What this implies is that countries will need to improve supervision, regulation, and sharing of information with other countries, and generally will need to promulgate and staff more institutions for these purposes, as well as broaden the scope of those that exist. One major development is the need for additional professional staff, such as auditors and supervisors, which will require additional expenses for training, or for paying for consultants in the meantime. One new institution, which can illustrate current thinking, is the Financial Intelligence Unit (FIU), which should be established to follow and share information on suspicious transactions with domestic bank supervisors and official enquirers.

Since the issuing of the FSF and FATF reports in 2000, several countries have indicated that their financial sectors and/or economies have suffered owing to the adverse publicity. Although Antigua and Barbuda received a good report from the FATF, the relatively poor evaluation of the FSF (even prior to the publication of the report) resulted in financial advisories issued by the United States and United Kingdom under which the banks in these countries were warned to refrain from doing business with financial institutions in Antigua and Barbuda. Banks that undertook transactions with financial institutions in Antigua were subjected to increased scrutiny by supervisors in their home country. The FATF recommended that financial institutions pay special attention to transactions with noncooperative countries, essentially increasing the scrutiny paid to these transactions that are more likely to be related to money laundering.

In light of heightened scrutiny following the reports issued by the FSF and the FATF, many countries took measures to address the concerns raised so as to avoid the imposition of sanctions. In June 2001 the FATF reviewed the progress made by the countries identified as noncooperative and at that time, inter alia, The Bahamas and Cayman Islands were removed from the list. In the meanwhile, Dominica, St. Kitts and Nevis, and St. Vincent and the Grenadines, as well as Grenada, which was added in September 2001, remained classified as noncooperative beyond end-2001.

Table 1. Eastern Caribbean Countries: Regulatory Bodies for the Offshore Sector

	International Business Corporations	Offshore Banking	Money Laundering	Trust Companies	Insurance Companies	Gaming Establishments
Antigua and Barbuda	International Financial Sector Authority	International Financial Sector Authority	Office of the National Drug and Money Laundering Policy	International Financial Sector Authority	International Financial Sector Authority	Free Trade Zone
Dominica	International Business Unit of the Ministry of Finance, Industry and Planning	International Business Unit of the Ministry of Finance, Industry and Planning	International Business Unit of the Ministry of Finance, Industry and Planning	International Business Unit of the Ministry of Finance, Industry and Planning	International Business Unit of the Ministry of Finance, Industry and Planning	International Business Unit of the Ministry of Finance, Industry and Planning
Grenada	Grenada International Financial Services Authority	Grenada International Financial Services Authority	Grenada International Financial Services Authority	Grenada International Financial Services Authority	Grenada International Financial Services Authority	Grenada International Financial Services Authority
Nevis	Financial Services Commission	Financial Services Commission	Financial Services Commission	Financial Services Commission	Financial Services Commission	Financial Services Commission
St. Kitts	Financial Services Commission	Financial Services Commission	Financial Services Commission	Financial Services Commission	Financial Services Commission	Financial Services Commission
St. Lucia	Financial Services Supervisory Unit, Ministry of International Financial Services	Financial Services Supervisory Unit, Ministry of International Financial Services	Financial Services Supervisory Unit, Ministry of International Financial Services	Financial Services Supervisory Unit, Ministry of International Financial Services	Financial Services Supervisory Unit, Ministry of International Financial Services	Financial Services Supervisory Unit, Ministry of International Financial Services
St. Vincent and the Grenadines	Offshore Finance Authority	Offshore Finance Authority		Offshore Finance Authority	Offshore Finance Authority	Offshore Financial Authority

Sources: International Financial Sector Authority, Antigua and Barbuda; Ministry of Finance, Dominica; Nevis Financial Services Department; Financial Services Supervision Unit—Ministry on International Financial Services, St. Lucia; Ministry of Finance, St. Kitts; KPMG, Review of Financial Regulation in Caribbean Overseas Territories and Bermuda, October 2000; Offshore Financial Authority (OFA), St. Vincent and the Grenadines.

Table 2. Size of the Offshore Financial Sectors, 2000 and 2001 1/

	Number of International Business Companies	Number of Offshore Banks	Offshore Banks with Onshore Affiliates	Number of Offshore Insurance Companies	Number of Trust Companies	Number of Gaming Companies	Foreign Sales Corporations	Mutual Funds
ECCB Area								
Anguilla	1,876	1	0	18	6	0	0	0
Antigua and Barbuda 2/	8,000	22	1	0	6	77	0	0
Dominica 2/	7,536	5	0	2	5	6	0	...
Grenada 2/	3,400	44	0	6	11	0	0	...
St. Kitts and Nevis 2/	22,450	1	1	0	2,020	9	75	0
St. Vincent and the Grenadines 2/	10,075	38	0	1	896	0	0	5
Rest of the Caribbean								
The Bahamas	100,092	415	0	0	0	0	0	600
Barbados	3,399	45	0	239	0	0	2,857	0
British Virgin Islands 2/	314,158	0	0	395	0	0	0	2,013
Cayman Islands	49,456	450	51	502	25,000	190	0	2,298

Sources: International Financial Sector Authority, Antigua and Barbuda; Ministry of Finance, Dominica; Nevis Financial Services Department; KPMG, Review of Financial Regulation in Caribbean Overseas Territories and Bermuda, October 2000; Offshore Financial Authority (OFA), St. Vincent and the Grenadines.

1/ St. Lucia has not commenced activities in the offshore sector and is therefore not included in the table.

2/ Reflects data for 2001.

Table 3. Schedule of Fees for Offshore Services

(In U.S. dollars)

	Antigua and Barbuda	Dominica	St. Kitts and Nevis	St. Vincent and the Grenadines	British Virgin Islands	Cayman Islands
International Business Companies						
Annual Renewal	300 300	90 150		100 100	300 - auth. capital < \$50,000 1000- auth. capital > \$50,000	
Offshore Banking						
Annual Renewal	15,000	8,000	20,000	3,000	20,000	102,500-123,000
Application Fee		8,000	20,000	1,000		
Licence			1,500	10,000		
Offshore Trust Companies						
Annual Renewal	7,500	4,000	1,000	150	200-500	102,500-123,000
Application Fee		4,000	1,000	150	200	
Due Diligence Fee			1,500	250		
Licence			600 per shareholder			102,500-123,000
Internet Gaming						
Annual Renewal		15,000	...	...
	US\$75,000 for sports betting and US\$100,000 for casinos	The maximum of 5 percent of gross revenue or US\$50,000 or a flat fee of US\$75,000	...	...
Exempt Insurance						
Annual Renewal	10,000	2,500 2,500	...	...	500	
Management Company						
Annual Renewal		2,500 2,500	...	...
Holding Company						
Annual Renewal		2,500 2,500	...	...
Mutual Funds				800	500	

Sources: International Financial Sector Authority, Antigua and Barbuda; Ministry of Finance, Dominica; Nevis Financial Services Department; KPMG, Review of Financial Regulation in Caribbean Overseas Territories and Bermuda, October 2000; Offshore Financial Authority (OFA), St. Vincent and the Grenadines.

Additional financial advisories issued by the United States and Canada with respect to money laundering laws prompted the authorities to address weaknesses in their regulatory and supervisory framework. In November 2000, a Financial Services Commission Act was passed to establish a commission as the ultimate regulatory body for financial services. In early 2001, a Financial Intelligence Unit (FIU) was established to analyze suspicious activity and initiate inquiries into suspected money laundering. The FATF recognized progress made in strengthening supervision and regulation and will review the situation in June 2002.

Grenada

Size and economic impact of the offshore sector

The sector commenced in 1997 and currently has 3,400 IBCs, 44 offshore banks, and 11 trust companies as of end-2001. The sector is estimated to employ 300 people and contributed EC\$7.4 million (1.2 percent of GDP) in fees to central government.

Supervisory and regulatory framework

The development of the offshore financial sector commenced in 1997 with the enactment of The International Insurance Act, 1996, The Companies Act, 1996, The Offshore Banking Act, 1996, The International Trusts Act, 1996 and the International Companies Act, 1996. The IBC Act was however amended in 2001 to require registration and the declaration of beneficial ownership of bearer shares. Until January 2000 the Offshore Services Division of the Ministry of Finance was responsible for all aspects of the sector. However, with the collapse of First International Bank of Grenada (FIBG) an offshore bank in mid-2000, the Grenada Financial Services Authority (GIFSA) was established. GIFSA is responsible for supervising and regulating the sector. Promotion activities were vested in the Grenada Industrial and Development Corporation (GIDC). GIFSA has since revoked the licenses of 17 banks, commenced an audit of all banks by Price Waterhouse Coopers, and tightened due diligence in the issuance of licenses. The latter are now conducted by a private sector firm outside the jurisdiction.

Table 3. Existing Laws Governing the Offshore Sector

	International Business Corporations	Offshore Banking	Money Laundering	Trust Companies	Insurance Companies	Other	Mutual Funds
Anguilla	Amendments to International Business Companies Act 2000	Amendments to Offshore Banking Act 2000	Money Laundering Prevention Act 2000	Amendments to International Exempt Trust Act 2000	Amendments to Exempt Insurance Act 2000, Insurance Amendment Act 1998		
Antigua and Barbuda	International Business Companies Act 1982—amended August 2001	Legal Assistance Treaty Act	Money Laundering Prevention Act—amended 1999, 2000, May 2001			Proceeds of Crime Act, 1996	
Dominica	International Business Companies Act 1996—last amended January, 1998	Offshore Banking Act	Proceeds of Crime Act, Money Laundering Prevention Act, 2001				
Nevis	Nevis Business Corporation Ordinance 1984—last amended April, 1999	Nevis Offshore Banking Ordinance, 1996	Proceeds of Crime Act, 1993	Nevis International exempt Trust Ordinance, 1994		Offshore Service providers Supervision Ordinance, foreseen by end-1999	
St. Kitts	Nevis Limited Liability Company Ordinance 1995—last amended April, 1999						
	The Companies Act, 1997	Financial Services (Regulations) Order, 1997	Proceeds of Crime Act, 1995			Betting and Gaming Act, 1969	
St. Lucia	International Business Act, foreseen for 1999	International Banks Act, foreseen for 1999	Money Laundering (Prevention and Control) Act, foreseen for 1999	International Trust Act, foreseen for 1999	International Insurance and Reinsurance Act, foreseen for 1999	International Mutual Funds Act, foreseen for 1999; Registered Agents and Trustee Licensing Act	
St. Vincent and the Grenadines	International Business Companies Act 1996	International Banks Act 1996; Amendment 2000	Proceed of Crime (Money Laundering) Regulations 2002; Financial Intelligence Unit Act 2001	International Trust Act 1996	International Insurance Act, 1996; Amendment and Consolidation Act 1998		Mutual Funds (Amendments) Act 1998; Regulations 1999
British Virgin Islands	International Business Companies Act 1984		Criminal Justice International Cooperation Act 1993 and the Proceeds from Criminal Conduct Act 1993	Bank and Trust Companies (Amendment) Act 1995	Insurance Act 1994	Partnership Act 1996	Mutual Funds Act 1996, Mutual Funds Amendment Act 1997
Bermuda			Proceeds from Crimes Act 1997 and The Criminal Justice International Cooperation Act 1994		Insurance Act 1978, Insurance Accounts Regulations 1980		
Cayman Islands		Banks and Trusts Law 2000 Revision	Proceeds from Criminal Conduct Law 1997 and Amendments in 2000 to included Anti Money Laundering Regulations	Special Trusts (Alternative Regime) Law 1997 and Trusts Law 1999 (Revision)	Insurance Law 1999 Revision		Mutual Funds Law 1999 Revision

Sources: International Financial Sector Authority, Antigua and Barbuda, Ministry of Finance, Dominica; Nevis Financial Services Department; KPMG, Review of Financial Regulation in Caribbean Overseas Territories and Bermuda, October 2000; Offshore Financial Authority (OFA), St. Vincent and the Grenadines; and Fund staff estimates.