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Overall Conclusions for Barbados

The enhancement of the international business and financial services sector of Barbados is a key component of its long-term development strategy. Therefore, improving the standards of regulation and supervision in accordance with global developments, in particular the growing concerns about money laundering and the financing of terrorist activities, is critical if Barbados is to maintain its long-standing reputation for high levels of regulation and supervision and a highly branded jurisdiction. Indeed, the aim is to create a more effective and enabling environment in line with international best practices, without increasing the compliance costs of both government regulators and private providers of international business and financial services.

Against this backdrop, the main objective of the study was to ascertain how the adoption of the new KYC/DD regulatory requirements for compliance with the CFT/AML laws has impacted on the IFS in Barbados during the period 2000–2005. To this end, both qualitative and quantitative survey data was collected from government regulators and private sector service providers. From this data, estimates of the incremental costs and benefits that resulted from compliance with the new regulatory measures were examined for an overall assessment of the net impact on the respective stakeholders, the industry and the domestic economy.

Based on the survey responses, it appears that the incremental costs of adopting the new regulatory measures outweighed the benefits. The main costs cited by survey respondents were the hiring of staff, the renting of additional office space and the purchasing of new hardware and software for the information technology systems needed to comply with the KYC/DD and AML/CFT initiatives. Additionally, both public and private sector entities incurred higher costs relating to the retraining and training of staff, staff attendance at conferences and consultations with domestic accounting and auditing firms and local and foreign lawyers. Furthermore, most private sector firms reported that the measures exerted excessive demands on managerial and support staff to the extent that they have had to divert resources away from other important matters concerning diversification and firm growth. Most noteworthy was the response that compliance costs were at such a high level that some firms were considering exiting from the international financial services sector.

In terms of the benefits, however, it was difficult to find consensus among regulators and private sector entities. In particular, there were conflicting views on whether Barbados' reputation or its competitiveness as an IFC improved as a result of the KYC/DD requirements. Some private sector firms reported increased business activity, while government regulators reported a marginal improvement in efficiency/productivity.

Notwithstanding the preponderance of responses of higher costs relative to benefits, over 90 per cent of the respondents mentioned that the new KYC/DD regulatory requirements resulted in the greater due diligence/knowing their customers and the strengthening of overall financial system regulation.

Going forward: policy implications

The survey highlights the sensitivity of small economies to the prescriptions of international regulatory agencies and some industrialised countries. With their limited resources, small countries are particularly challenged to expeditiously implement changes in international best practices without compromising the achievement of their other development objectives. Indeed, the costs associated with these measures may exceed the incremental benefits, as appears to be the case with Barbados' international financial services sector. Barbados' high branding, its low tax rate, double tax treaties, good infrastructure and its highly educated and trainable workforce are among the reasons why many international firms have chosen Barbados to locate their operations. Nevertheless, there are inherent obstacles that have to be corrected if the purported benefits are to accrue to Barbados. Competitiveness is key to the success of this sector and greater emphasis must be placed on ensuring an enabling environment for business activity. Enhancing the ease with which firms can set-up and do business is critical and should form an important part of the overall strategic plan for further development of the sector.

As previously mentioned, labour market issues and human resource development also need to be addressed. The educational level of Barbados is good and generally fits into the needs of the sector, but there is some scope for more specialised training in areas such as trading, treasury operations, actuarial science and information technology. These should be coupled with formal links with tertiary institutions and representatives of the international business sector.

Fiscal reform will be vital to the process of engendering a competitive private sector. With the higher administrative costs, policy-makers must explore other fiscal incentives to encourage and attract businesses to Barbados.

Both the government and the private sector in Barbados recognise the importance of collaboration in addressing the critical issues facing the international financial services sector, as evidenced by the initiative of the Ministry of Industry and International Business to form a joint working committee with the broad mandate of identifying and recommending feasible solutions to improve facilitation and support for the IFS industry in Barbados. Already consultations with the BIDC, BIBA, the international business community and the various sub-committees have yielded some useful results and are expected to provide a road map for better positioning the industry. It is also important for there to be continued dialogue and consultation by international authorities with small states like Barbados, particularly in the initial stages of strategy formulation. This, coupled with ongoing technical assistance with the implementation of new initiatives, would ensure the continued growth and viability of the international financial services sector and would enhance the sector's contribution to the overall growth of the domestic economy.