

Fintech Initiatives & Challenges



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REGIONAL PAYMENTS WEEK
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CFTWGW & DIGITAL INITIATIVES

The CARICOM FinTech Work Group (CFTWGW) was established on the instruction of the CARICOM Central Bank Governors in 2016, to function as an advisory group to the Central Bank Governors on Fintech related matters. General objectives are to review:

- Emerging technology and the possible impact on the financial services industry; Central Bank policy framework on Fintech;
- Appropriate legal/regulatory framework required to support FinTech innovation; and FinTech public awareness program framework.

New digital products continue to emerge in our region and are being developed by domestic companies as well as international business companies that are offering these solutions in other markets, inter alia:



Digital identification solutions
Electronic money & digital wallets
Crowdfunding offerings
AML Blockchain solution
P2P lending
ICO issuance
CBDC pilots
Government E-payments

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PRIMARY OBSERVATIONS

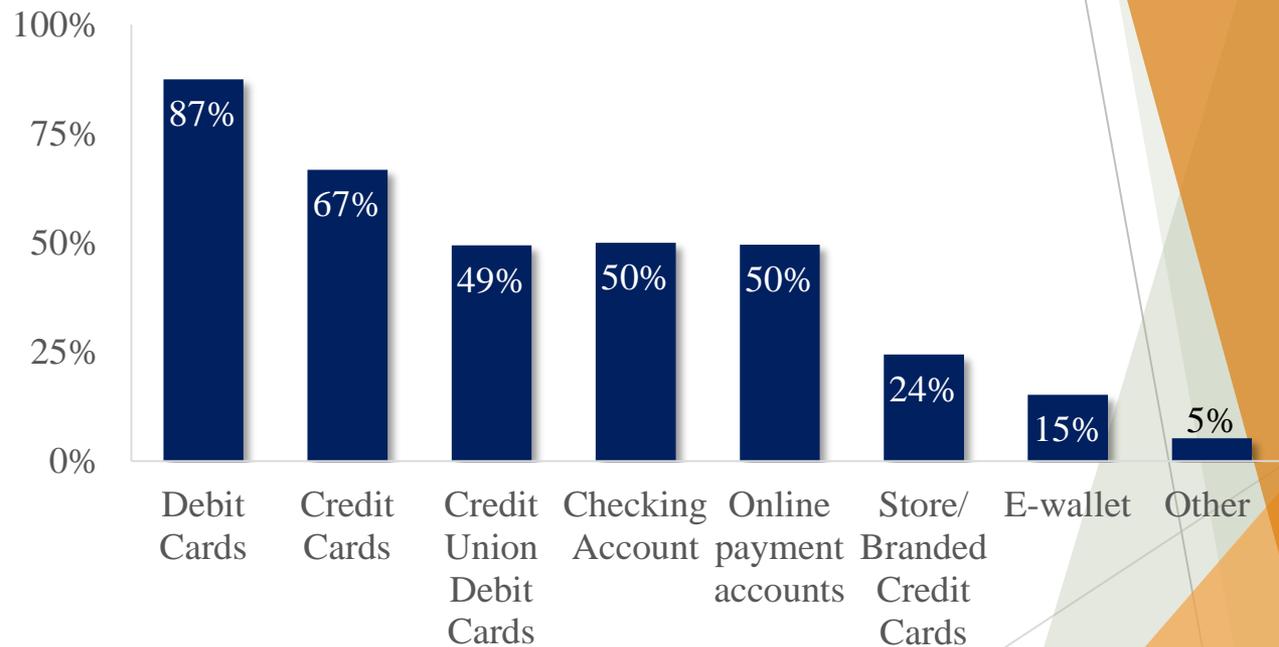
- ▶ To-date private money issuance has not been proven to pose an immediate risk to financial stability but consumer protection and AML/CFT concerns exist. Some jurisdictions have issued Public Awareness Statements, accordingly.
- ▶ As small-island states with a combination of fixed and floating exchange rate regimes and restrictions on select cross-border flows, we are cognizant of the global reach of digital payment solutions. Thus far, these solutions have mostly facilitated payments in the local market.
- ▶ No significant shift away from cash observed as yet due to it being:
 - ▶ easily availability and widely accepted
 - ▶ anonymous
 - ▶ security concerns and a lack of trust of digital payment methods
 - ▶ no associated fees and costs for cash payments
 - ▶ cultural preference and personal preference

CERT MICRO-SURVEY OF REGIONAL PAYMENTS

▶ Caribbean Economic Research Team (CERT) issued a micro survey to understand the regional payment profile & why people choose certain methods to pay for goods and services.

▶ For select islands there is a low use of E-wallets and other online payment solutions, compared to the use of cards and checks to a lesser extent.

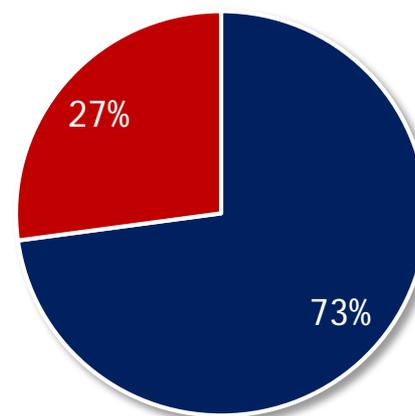
Preferred Payment Methods



CERT MICRO-SURVERY OF REGIONAL PAYMENTS

- ▶ 73 percent of respondents are likely to reduce cash usage overtime.
- ▶ Interestingly, approximately 70 percent of respondents were of the view that digital payments are not likely to be cheaper.

Are you likely to use less cash in the future?



■ Yes ■ No

LEGAL REVIEW SURVEY

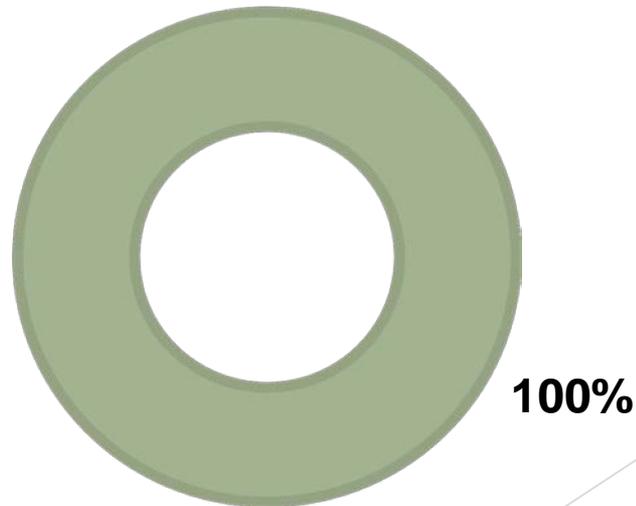
CARICOM Central Banks

- ▶ Purpose was to capture and access data on the status of developments in the legal and regulatory frameworks for digital currency and to identify common areas of work
- ▶ Consisted of seven (7) open-ended questions divided into four (4) sections - Existing legislation, its applicability, amendments and the development of new provisions or legislation
- ▶ Administered to 11 Central Banks (73% response rate)

Applicability of Legislation

Question: Does your Payment System Law apply to digital currency?

■ No

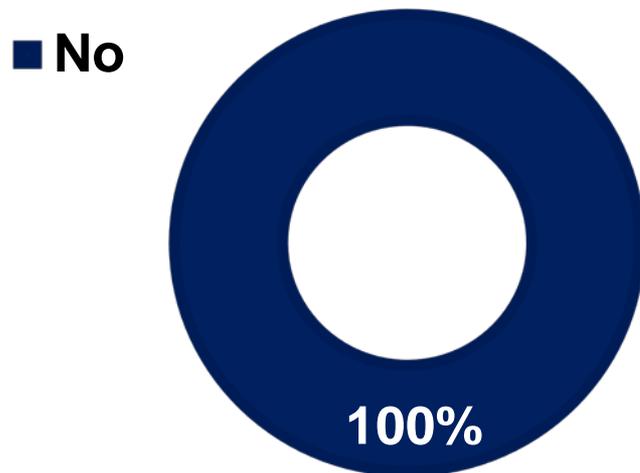


LEGAL REVIEW SURVEY

CARICOM Central Banks

Applicability of Legislation

Question: Are there any other laws applicable to digital currency?



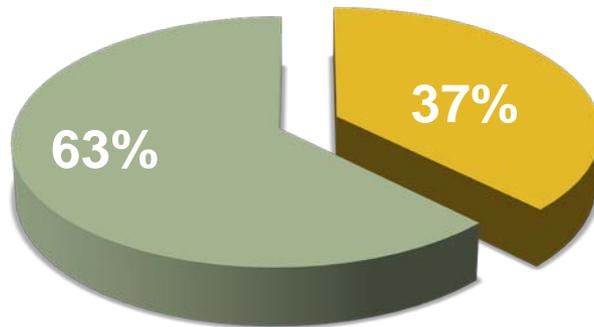
LEGAL REVIEW SURVEY

CARICOM Central Banks

Amendments to Existing Legislation

Question: Is new legislation being considered for digital currencies?

- **Considering New...**
- **Not Considering New...**



Launch of a Regulatory Sandbox to determine whether new legislation is required.

Concerns arising from AML and FX risks inhibiting the consideration for new legislation.

Reliance on Regulatory Sandbox to inform new legislation.

Address digital currency in Payment System Act.

IMPERATIVES FROM SURVEYS

- ▶ Eminent decrease in cash dictates several imperatives for regional regulators:
 - ▶ Enhance efficiency of electronic payments
 - ▶ For others, careful consideration to CBDC issuance as a supplement to cash
 - ▶ Interoperability of new digital solutions with legacy systems
 - ▶ Banking services for Fintechs
 - ▶ Policy/legislative formulation to create regulatory clarity - regulatory sandboxes being administered in some jurisdictions to examine KYC, AML/CFT compliance, operational risk, etc
 - ▶ Clear monitoring framework until relevant regulation has been enacted

REGULATORY CHALLENGE

- ▶ Policy/legislative formulation to create regulatory clarity:
 - ▶ Legislative changes: Central Bank Act, Payment Act, Securities Act, Data Privacy legislation
 - ▶ Regulatory sandboxes being administered in some jurisdictions to examine KYC, AML/CFT compliance, etc
 - ▶ Cybersecurity and consumer risks - data protection legislation is becoming more prevalent
- ▶ Recent survey of legislative frameworks across the region reveals that at least eight territories do not have provisions for digital currencies
- ▶ Most countries are in the process of undertaking legislative amendments or developing new legislation - can be a lengthy process
- ▶ Challenge for regulators to balance creating enabling regulations that do not stifle innovation and create a level playing field for all market participants, while adequately protecting the public policy mandate of financial stability.

OTHER KEY CHALLENGES

Central banks' capacity building to monitor Fintech initiatives & to develop appropriate regulatory guidelines - avoid regulatory arbitrage across islands

Protocols for Fintechs & Non-banks to have access to banking services & the domestic settlement system

The interoperability of new & legacy systems

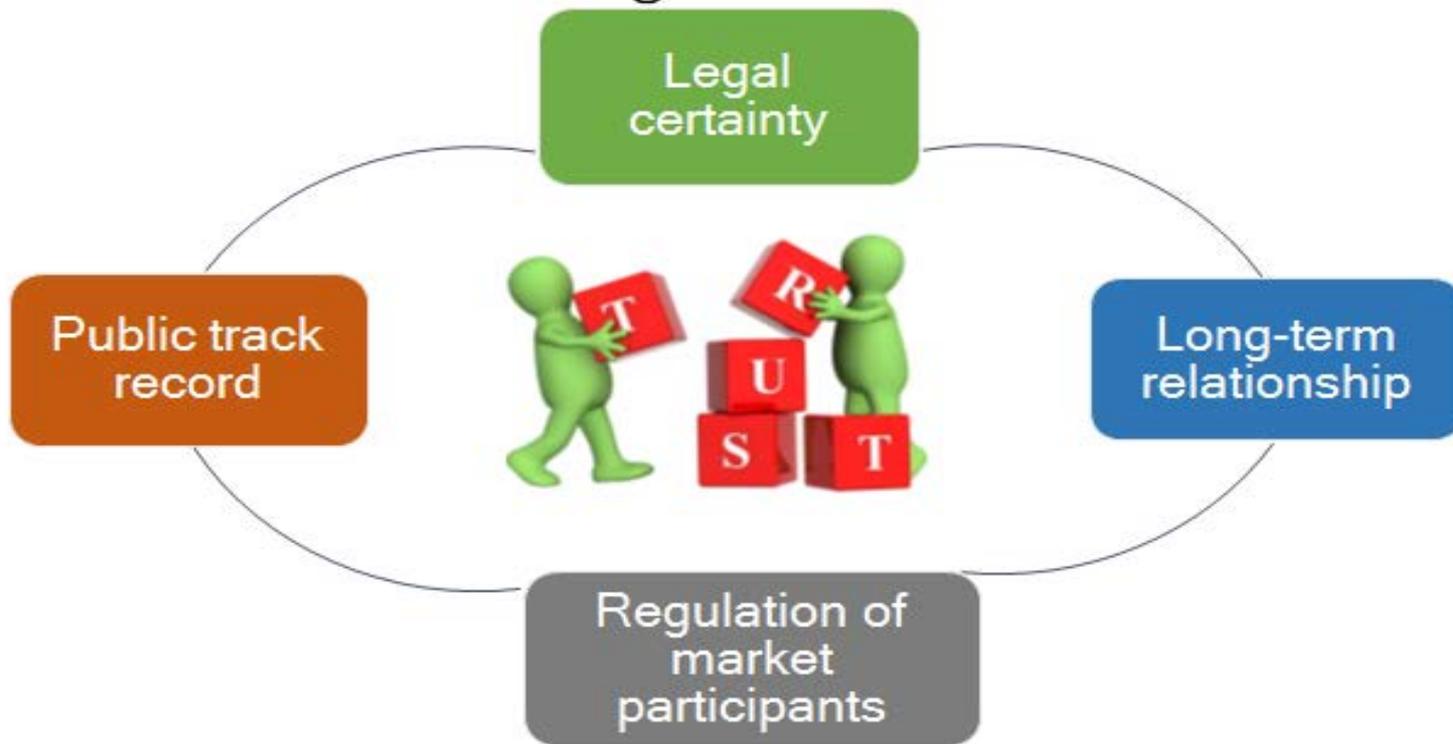
Address cyber security and data privacy concerns

The adoption and acceptance of digital identification to facilitate customer on-boarding

Potential impact of digital cross-border flows & related foreign exchange frictions for fixed and floating rate exchange regimes in the region

Regional digital settlement & implications for central banks' future clearing and settlement operations

BUILDING TRUST TO ENABLE USE OF DIGITAL SOLUTIONS



CFTWG WORK PROGRAMME

1. Guidelines for the Regulatory Treatment of Digital Currency
 - To ensure that legislation and regulatory frameworks can accommodate digital/virtual currencies and the risks associated with:
 - Public Policy safeguards - monetary policy, financial stability, AML/FT, consumer protection and cyber security
 - Provide broad recommendations in line with international requirements - FATF Standards on Virtual Assets (VAS) and Virtual Asset Service Providers (VASPs)
2. Annual Legal Review Survey
3. Reduction in Cash in Circulation
4. Digital Cross-border Payments (for 2020)
5. Banking services for Fintech companies (for 2020)

*Thank
you*

