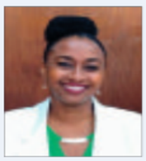
FinTech Enhances Digital Payment Solutions



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MANY CARIBBEAN ECONOMIES have been grappling with how best to leverage technology to solve the challenge of costly and inefficient payment services, including for cross-border transactions. Remittances and other funds being sent from one island to another island, that can be virtually seen on the horizon just across the water's edge, tend to be routed through an extra-regional counterparty bank for onward settlement to the recipient in a neighbouring island. Not surprisingly, while there has been the moderate adoption of embryonic FinTech solutions, this has predominantly concentrated on payments innovation. Anecdotal reviews indicate that cash remains the main form of payment for small-value transactions up to US$50, and tends to switch to other forms of payment for large-value transactions. Naturally, this reality presents a potential efficiency gain that could be spurred by FinTech innovation in the Caribbean region's financial markets.

Reports suggest that it is cheaper and faster to transmit funds through distributed ledger technology (DLT) than through traditional means, such as electronic wire transfer. Financial institutions have accelerated the introduction of online and mobile banking services, which tend to attract either no or minimal fees, based on the use of mobile apps to execute financial transactions. These recent developments have motivated thinking around Barbados' 'financial inclusion' characteristics. Even though financial services are widely available and there is opportunity to access banking, loan, equity, and insurance products, the market has not evolved to a stage where all services can be appropriately accessed through digital means. The objective of 'digital financial inclusion' in a system that allows persons to readily access digital payments and services in an affordable and timely manner is a noteworthy cornerstone of enhanced productivity and sustainable economic growth for Barbados.

In 2015, an e-wallet FinTech start-up catapulted payments innovation into the Barbadian financial landscape. At the time, the business model served to delineate the role of the regulator to promote innovation and encourage financial inclusion, while simultaneously maintaining the sanctity of a well-regulated space. A deconstruction of this public policy mandate to evaluate operational and systemic risks, as well as consumer protection concerns, must be balanced with an avoidance of the debilitating effigy of overregulation. Achieving that balance requires that the regulatory framework establishes a level playing field for financial market participants, based on the type of activity being undertaken and not the technology being employed by entrants.

Regulatory Sandbox

Demands for regulatory clarity around FinTech activity were formulated under the rubric of a Regulatory Sandbox by the two Barbadian financial regulators – the Central Bank of Barbados and the Financial Services Commission. The Sandbox presents the opportunity for mutual understanding between the regulators and the companies adopting untested, innovative technology. In addition, the applicability of the existing regulatory framework is examined to determine if a new type of regulation or legislation is required, in response to nascent FinTech proposals.

To-date, private digital money issuance in Barbados has not been proven to pose an immediate risk to financial stability. The e-wallet product observed facilitates payments in the local market only, and represents a small but growing segment of mobile payment solutions. As such, a no-objection letter has been issued to a Sandbox participant. Thus far, this and other engagements with FinTechs have demonstrated the need for vigilant monitoring by regulators to safeguard financial integrity, especially in the case of companies that act as nodes for convertible digital currency at the intersection with the regulated fiat currency financial system.

Efforts to further embrace FinTech solutions in Barbados have extended to other cohorts of financial service providers that offer, inter alia: peer-to-peer lending; a blockchain framework

for regulatory and due diligence mandates for Know-Your-Customer (KYC) and Anti-Money Laundering (AML) requirements; and a digital asset custody service. There is also great interest in a local FinTech's ability to offer an interoperable blockchain network solution that interconnects permissioned blockchain systems, even if they are built on different architectures. Last year, the Barbados Stock Exchange (BSE) launched a pilot project to trade digitised assets which will deliver security-token trading capabilities on the exchange, along with the listing of regulated Security Token Offerings (STO). This digital asset business solution, through the BSE's International Securities Market, has the potential to provide access to capital and liquidity for both local and international companies. In the future, the success of these initiatives and the adoption of change in the way business is conducted will be heavily dictated by reduced transactions cost and the enhanced security and convenience of product offerings to customers.

Barbados Data Protection Act

The development of Barbados' market infrastructure continues to move in the right direction, to better manage the inherent risks of FinTech activity, such as cyber security, money laundering, and the data privacy concerns of these decentralised operations. One such example, is the Barbados Data Protection Act 2019, which was enacted by Parliament and is awaiting proclamation to bring it into force. The construct of the Act is heavily influenced by features of the General Data Protection Regulation (GDPR (EU) 2016/679), which has become the de facto gold-standard for data protection. Other key elements in the evolution of an enabling environment for FinTechs remain works-in-progress, inclusive of the discourse on how best to allow FinTechs to have access to banking services and to integrate into the payments' ecosystem.

The 2017 initiative by CARICOM Central Bank Governors' to form the CARICOM FinTech Work Group (CFTWG) has catalysed a regional approach to some of the regulatory issues around the FinTech phenomena. The genesis of the CFTWG motivated the group's 2019 survey of the status of legal and regulatory developments for digital currency, which served to confirm that the Payment System legislation in most territories does not apply to digital currency. To address this deficiency, some territories have started to amend existing legislation or introduce new legislation, while others have adopted a wait-and-see approach. In some instances, such as that of Barbados, efforts to enhance the regulatory and legislative framework have been informed by learnings from the Regulatory Sandbox that was established.

The absence of clear protocols on how central banks should treat digital currencies has led each jurisdiction to independently address this new phenomenon. The CARICOM Central Bank Governors' recent approval of a 'Guideline for the Treatment of Digital Currency', is expected to advance the adoption of eight requirements for the evaluation of digital currency issuance in jurisdictions. Generally, the guide refers to key elements, *inter alia:*

- Entities being registered or licensed with the respective central bank or authority;
- The provision by the entities of detailed company information;
- The adoption of a robust cyber security programme and adequate customer disclosures; and
- The setting of requirements, operational limits and reporting criteria.

By promoting a minimum level of assessment rigour for digital currency proposals, the risk exposure to unfettered digital currency operations in a jurisdiction is likely to be limited. Furthermore, the legislative and regulatory framework is likely to evolve to better accommodate digital or virtual currency issuance.

The recognition of regional interconnectedness and the propensity for cross-border trade and remittances have motivated thinking around a digital intra-regional payment facility that could serve the Caribbean by effecting the low-cost settlement of retail and wholesale transactions and better business facilitation. There is consensus that adequate interoperability across the region must be considered in the event that many small territories adopt their own digital currency. These domestic digital currencies will not be traded internationally, necessitating some form of foreign currency conversion or international currency settlement. What is yet to be determined, amidst the varied currency regimes in the region, is how best to develop a mechanism that would settle various cross-border digital currency transactions. This mechanism will need to facilitate the settlement principle of a 'stablecoin', with a class of virtual currencies that offers price stability and is backed by reserve assets.

The paradigm of COVID-19 presents a 'sea-change' for digital activity, compelling us to think about the next step to building greater efficiency in our new normal. It behoves those in the payments arena to ensure that digital payments are fully accessible and function safely alongside other traditional stores of value. As a precursor to the imminent decrease in cash usage, several imperatives must be evaluated, including: the cost and settlement efficiency of electronic payments; the feasibility of central bank issued digital currency as a secure supplement to cash; and the interoperability of new digital payment solutions with legacy systems.

How Barbados, as a small island developing state, advances in this new normal to adopt digital payments and deepen the range of FinTech offerings will be dictated by its willingness to embrace new technology to create opportunities for low-cost, secure, easily executed, and quick settling transactions. Undoubtedly, this is a key element to business facilitation and to building greater resilience in the financial sector. Only by embracing these technological financial solutions can we truly chart the path to a financially inclusive, digitally-based economy. ■

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