

DRAFT - Bahamas Position Paper on FinTech 2018



Prepared By: BFSB FINTECH Working Group - January 2018

Introduction

1. The BFSB FinTech working group
2. The Bahamas Government strongly supports technological innovation
3. FinTech is changing the way financial transactions done and how financial markets operate
4. Broader adoption will usher in a new Digital Age, the next industrial revolution



Introduction

1. Disruptive technologies present new demands from traditional financial services clients
2. Embracing challenges from alternative investments by harnessing new technology
3. Uncertainty -
 1. Regulations?
 2. Tax implications?
 3. Valuation?
4. Conducive environment for financial services must be attractive to emerging technologies
5. Allow for innovation and open collaboration between the public and private sectors to build a bridge into the **Digital Age** of financial services



The Opportunities



Wealth Management & Banking

Changing UHNWI and HNWI demographic and expectation for digitization:

- ▶ 3-5 billion “unbanked” will likely be integrated into the financial services sector within the next decade
- ▶ New kinds of digital Wealth in digital assets is being created and requires services
- ▶ Digital savvy end clients are the new cross-generational norm
- ▶ Payments (POS, P2P, remittances)
- ▶ Product and Delivery service of new technologies
 - Roboadvisors - algorithms providing financial advice to customers with little or no human intervention
 - Cryptocurrencies
 - Smart contracts

Blockchain Technology

- ▶ Relatively simple technology to develop, requires more time than capital
- ▶ Improve data security and transactions
- ▶ Most efficient “time-stamp” and for use in authentication processes (sign-off and notarization)
- ▶ More secure data management (less prone to hacking, fraud and theft)
- ▶ Pledging of assets on the blockchain to secure lending
- ▶ Exploring Blockchain technology for unique uses (custody of cryptocurrencies)



Securities and Investment Business

Specific gaps to be filled in The Bahamas as a lead into doing FinTech business:

1. Online trading and portfolio management services
2. Initial Coin Offerings:
 1. Platforms to facilitate an easy launch
 2. Registration of intellectual property
 3. KYC Due diligence portals
 4. Data protection
 5. Auditing of ICO process
3. Crypto-exchanges
 1. Fully online with automated KYC portals
 2. Crypto-ATMs kiosks
 3. OTC exchanges for big ticket purchases (real estate and large-scale investments)
4. Portfolio management and Investment advice
5. Financial planning considering cryptocurrencies as a new asset class



Cryptocurrencies

Types

- ▶ Bitcoin
- ▶ Altcoins
- ▶ Commodity Tokens
- ▶ Securities Tokens

Uses

- ▶ Savings
- ▶ Payments / Transactions
- ▶ Investing / Speculating
- ▶ Tokenization of assets (e.g. stocks, private equity, etc.)
- ▶ Earn income (get paid in crypto)



ALL USES REQUIRE SUPPORTING FINANCIAL SERVICES

Blockchain for Funds and Companies

Funds touch all aspects of financial services and they tend to be laborious and can be expensive to launch, and there is room for innovation.



Crypto-Funds

- ▶ Funds investing in cryptocurrencies

Crypto Funds of Funds

- ▶ Funds investing in other crypto funds to further diversify risk and gain access to big ticket managers

Digital Incorporation

- ▶ New Public Registry for the digital incorporation of companies, funds and other entities to be incorporated and publically registered on a public blockchain

SMART Contracts

- ▶ Automation of fund admin operations
- ▶ Transactions that can be streamlined and will benefit from SMART contracts are:
 - Subscriptions
 - Redemption
 - Share transfers

SMART CONTRACTS

Use of SMART Contracts to improve and automate existing processes:

- Holder of identity information (encrypted)
- Execution of Documents (encrypted private key)
- Corporate Governance (automation)
- Corporate Actions (automation)
- Accounting (automation)
- Central Repository of all company activity
- SAFE = Simple Agreement for Future Equity (equity options contracts) used in ICO's for security tokens

Ease of Doing Business:

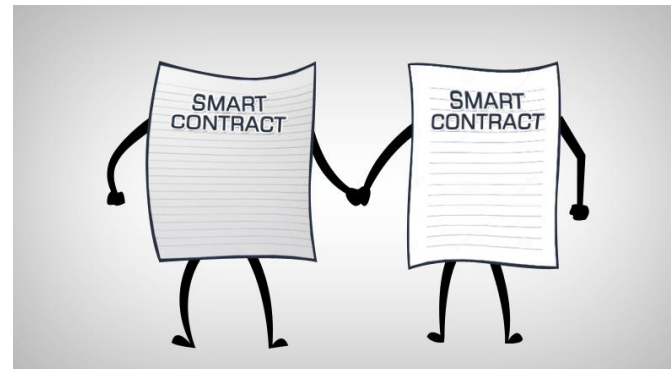
- Opportunities for processes improvement:
- Efficient entity incorporation and registration
- Digitalization of constitutive documents (3rd party validation)
- Digital Asset Registry (e.g. real estate)

Better Operational Risk Management:

- Automation provides for better quality controls
- Processes cannot be circumvented and retroactively changed
- Proof of communication

Additional Risks:

- Software bugs
- Cyber crime / attacks
- No central responsibility or control of some blockchains



Fiduciary & Advisory Services

1. Succession planning for a new asset class - cryptocurrencies and other digital media (e.g. social media accounts and data)
2. Succession planning for fund managers and directors holding Private Keys
 - Highlights the need for independent directors
3. Asset Protection structures
4. Escrow Services to support OTC exchange of crypto to fiat and fiat to crypto
5. Trustees



Education and Training

1. Community awareness involvement is where innovation begins
2. The government can also learn and solicit feedback on what policies would encourage growth in FinTech
3. Blockchain developers and analysts are already in high demand as well as executive training
4. Academy School of Blockchain (just acquired UniSoft 150,000+ students), @ Kingsland University - A SACS accredited school
5. Increased awareness and knowledge can be achieved through the launch of an education series that can include:
 - ▶ Lunch & Learn Sessions
 - ▶ Fintech Seminars
 - ▶ National Tech Seminar/Symposium
 - ▶ Online knowledge core



Policy Objectives



- ▶ **Ensure that The Bahamas takes a leading role in the region in the development/regulation of Fintech**
- ▶ Create an environment (from a policy and regulatory perspective) which promotes responsible FinTech development
- ▶ Facilitate the development of new products
- ▶ Mitigate/minimize risk associated with Fintech

Policy Objectives



- ▶ Consumer protection
- ▶ Provide recommendations to improve the ease of doing business through the use of FinTech
- ▶ **Establish a Bahamas FinTech Development Group comprised of public and private sector representatives**
- ▶ Secure funding for FinTech education and training

Next Steps

1. Encourage the establishment of a Bahamas Fintech Development Group - with all key stakeholders and relevant regulators represented:
 - ▶ BFSB
 - ▶ Bahamas Chamber of Commerce and Employers Confederation
 - ▶ Financial Services Regulators - Securities Commission, Central Bank of The Bahamas, Insurance Commission, Compliance Commission
 - ▶ BISX
 - ▶ Ministry of Finance and Ministry of Financial Services



Next Steps



2. Formulate a strategic plan for the development of FinTech
3. Establish a development and regulatory sandbox
4. Leverage the Commercial Enterprises Act, 2017

Next Steps

5. Review Legislative Framework

- ▶ Consumer protection
- ▶ Securities legislation
- ▶ Incentives for FinTech Development
- ▶ Review the definition of “currency” and “money”
- ▶ Inclusion of cryptocurrencies in AML/CFT and funds laws and regulations

6. Focus on Education and Training

7. Consider implementation of sandbox approach



Next Steps

Sandbox Approach

- ▶ National FinTech Development Group to identify areas of activity and functions within FinTech that should eventually be regulated, but do not currently fall within the existing legal or regulatory framework
- ▶ Regulatory sandbox could be developed to allow firms to make new products/services available in a restricted environment before being introduced to the market
- ▶ Persons or companies seeking to conduct business in these areas would have to register with the appropriate regulator prior to commencing business and would be permitted to offer products to a restricted number of clients whilst appropriate regulatory safeguards are developed

Next Steps

- ▶ No regulatory approval is required for the registration of firms however registration may be rescinded in the event of fraud, misconduct or abuse (e.g. AML breaches)
- ▶ A list of registered persons and firms participating in the sandbox would be published online
- ▶ A periodic communication/reporting feedback loop would be established based on the dynamics of the firm's business model
- ▶ After a specified period a determination would be made by the regulator whether to allow the firm to grant full approval to operate outside of the sandbox
- ▶ Transition mechanism for firms not granted full approval

QUESTIONS???