



Public Update

The Sand Dollar is on Schedule for Gradual National Release to The Bahamas in mid-October 2020

The Central Bank of The Bahamas will gradually release a digital version of the Bahamian dollar nationally, outside of the pilot regions of Exuma and Abaco, through authorised financial institutions (AFIs), beginning on 20th October, 2020. This initiative has acquired the name Project Sand Dollar, with the sand dollar also being the name assigned to the central bank digital currency (CBDC).

Project Sand Dollar is a continuation of The Bahamas' Payments Systems Modernization Initiative (PSMI), which began in the early 2000s.

The first phase of the national rollout, focused on the immediate readiness within the private sector, will cover all three tiers of authorised accounts. These account tiers are each subject to risk-based customer due diligence or "KYC" requirements. These are low-value personal wallets with the least demanding account opening requirements but with more restricted transaction limits; regular personal accounts in line with the established, flexible customer due diligence for existing banking and financial services; and business or enterprise accounts, subject to further KYC rigour and with higher limits for transactions and holdings of the digital currency.

Engagement and outreach with key private stakeholders will intensify in the months ahead, extending into the first quarter of 2021.

The second phase of national engagement will target Government services and public utilities, becoming more intensive over the course of the first and second quarters of 2021.

Although average measures of financial development and access in The Bahamas are high by international standards, pockets of the population are excluded because of the remoteness of some communities outside of the cost-effective reach of physical banking services. While the Central Bank is participating in the development of a broader national financial inclusion strategy that would address these issues, improved access to payments services would provide the conduit through which other financial services could be more easily reached. This strategy would also rely on sustained financial literacy campaigns to boost product awareness and encourage more positive behaviour around personal finances. Embracing electronic payments at higher rates will also require education around cyber safe financial behaviour. In fulfilling Central Bank's mandate to provide greater access to financial services to these communities, substantive efforts will focus on Family Island engagement, which will see a prioritisation in the initial period following the launch.

Financial intermediaries include all Central Bank Supervised Financial Institutions that would be allowed to operate as sponsors of mobile payment wallets and are eligible to maintain clearing accounts with the Central Bank, including commercial banks, credit unions, money transmission businesses (MTBs), and

payment service providers (PSPs). Within this group, MTBs and PSPs have already invested in technology platforms to offer mobile wallets to the public from the outset. So far, four MTBs, three PSPs, and one commercial bank have been onboarded as Sand Dollar authorised financial institutions (AFIs). These AFIs are enabled to offer Sand Dollar services to stakeholders either through their custom apps (after successful completion of a cybersecurity assessment) or through the generic Sand Dollar app.

Banks and credit unions are also Sand Dollar AFIs. At the onset, these institutions are expected to contribute to the customer due diligence regime and facilitate connectivity of deposit accounts with mobile wallets. The Central Bank maintains separate engagements with banks and credit unions to assist with their readiness to offer clients Sand Dollars on schedules that more closely align with 2021 and tailored retail engagement strategies adopted by each institution. Banking sector integration is enabled in the first instance through the ACH that will link deposit accounts with digital currency wallets.

Recent surveys document that the public requires assurances around the safety of conducting online transactions. As such, the Sand Dollar platform has undergone a rigorous cybersecurity assessment. Further, all Sand Dollar AFIs are required to complete robust and intensive cybersecurity assessments by an independent international firm before receiving approval to integrate the Sand Dollar platform with their custom applications. Six AFIs are in the final stages of this cybersecurity assessment, which evaluates their custom apps, the overall security posture of the business, and reviews the coding practices applied in application development.

As to security, Sand Dollar-integrated wallets are enabled with multi-factor authentication features. All mobile devices are required to support a device passcode or biometrics to access the app and complete transactions. These, of course, will be supplemented by the due care and attention that each digital payment user will be required to observe for all transactions which they undertake.

Although the anonymity feature of cash is not being replicated, the Sand Dollar infrastructure incorporates strict attention to confidentiality and data protection. Each wallet provides a unique set of data encryption to ensure privacy and confidentiality. However, all transactions are linked to an anti-money laundering/counter financing of terrorism (AML/CFT) engine to safeguard regulatory compliance and governance.

The Bahamian digital currency framework will rely on an evolved regulatory structure for domestic payments and other financial services. The Central Bank remains actively engaged with stakeholders to ensure that the legal framework develops in tandem with payments systems needs. The Central Bank is also ensuring that adequate safeguards and policies are imposed to address the integrity of financial transactions, aligned with best international standards for AML/CFT and that resilient mechanisms are instituted to preserve financial stability and maintain private financial institutions' central role in the financial intermediation process. As such, draft regulations are under final review and will be crystallised in the public space over the month of October.

The intended outcome of Project Sand Dollar is that all residents in The Bahamas would have use of a central bank digital currency, on a modernized technology platform, with an experience and convenience—legally and otherwise—that resembles cash. It is expected that this will allow for reduced service delivery costs, increased transactional efficiency, and an improved overall level of financial inclusion.

