

JOURNEY INTO FINTECH

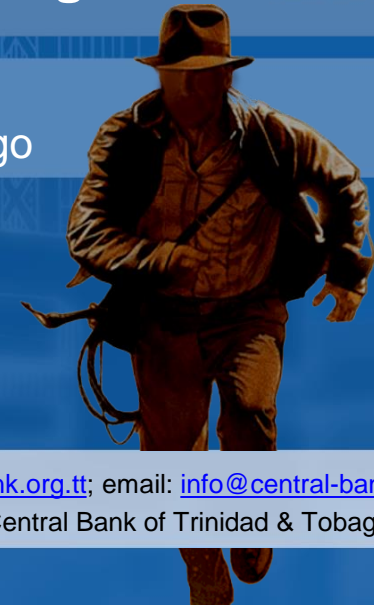
The Central Bank of Trinidad & Tobago



CENTRAL BANK OF
TRINIDAD & TOBAGO

Alvin Hilaire,
Governor, Central Bank of Trinidad and Tobago

Panel Discussion: Digital Currency Revolution:
Architecting the Future of E-Money Systems
2024 Annual Meetings,
IMF headquarters in Washington, D.C.,
October 22, 2024



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Journey into Fintech: The Central Bank of Trinidad & Tobago: Key Points*

A. Our journey to date:

- Cash and cheques dominated domestic financial transactions.
- Collaboration with international agencies influenced our approach to fintechs.
- Key building blocks included legislation, staffing and public communication.
- The domestic impact of fintechs to date has been limited but encouraging.

B. Five lessons:

1. There are many lessons to be learnt from those who have learnt many lessons.
 2. “Build it...” doesn’t (necessarily) imply “...and they will come.”
3. Supervising fintechs is not the same as supervising traditional financial institutions.
 4. The central bank’s role as fintech “broker” becomes paramount.
 5. Public policy choices ultimately shape the path and rhythm of fintech activity.

C. The journey continues...

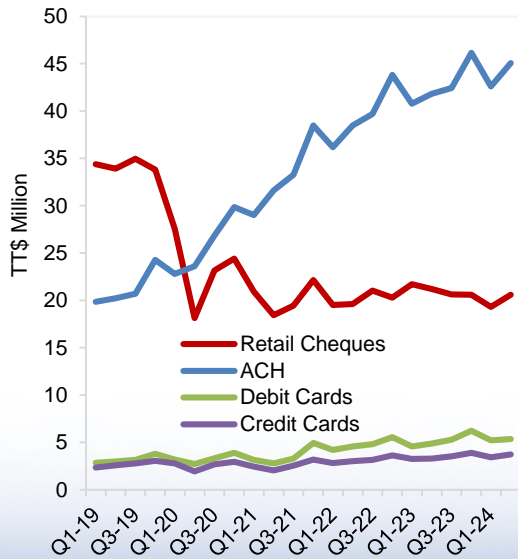
- A key priority is introduction of an efficient, safe and low cost fast payments arrangement.
 - The IMF’s MCM & other collaborators can continue to help in concrete ways.

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Cash and cheques dominated domestic financial transactions.

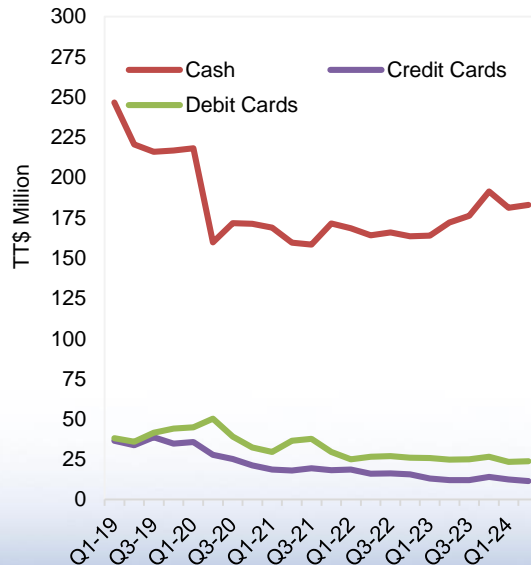
- For many years, **cash** and **cheques** have been the preferred methods of payments in Trinidad and Tobago.
- A surprise **demonetization** of the largest denomination banknote **in December 2019** unearthed the heavy dependence on cash for transactions and as a store of value.

Chart 1: Trends in Domestic Retail Payments



Source: Central Bank of Trinidad and Tobago

Chart 2: Trends in Domestic Bill Payments



- But the **COVID-19** pandemic made people/businesses more aware of the **benefits** of using **electronic transactions**.

Collaboration with international agencies influenced our approach to fintechs.

- The Central Bank reviewed the growing **literature** on fintech issues.
- We had an excellent **Technical Assistance** exercise in 2023 with the IMF's Money & Capital Markets and Legal Departments:
 - The TA covered **e-money licensing**; **institutional arrangements** for fintech regulation; and a **legislative review** of crypto assets.
 - Key recommendations included:
 - Adopting an **entity-based regulatory approach** for EMIs;
 - **Streamlining the licensing process** and sharpening the payments and EMI regulatory perimeter;
 - Targeted **legal amendments** and/or regulation of crypto activities.
 - To demonstrate transparency, the Central Bank agreed to **publish** the entire Report.
- This **engagement** with the Fund is **ongoing**, alongside **dialogue with other agencies**.



IMF-FSB
Synthesis Paper,
September 2023



WEF, Digital Assets
Regulation paper
October 2024



IMF Country Report No. 23/322

TRINIDAD AND TOBAGO

TECHNICAL ASSISTANCE REPORT – TECHNICAL ASSISTANCE ON FINTECH REGULATION AND LEGISLATION

September 2023

This technical assistance report on Trinidad and Tobago was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on July 2023.

Copies of this report are available to the public from

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Key building blocks included legislation, staffing and public communication.

- The **E-money Issuer (EMI) Order** was passed in 2020. Wallet sizes and transaction limits were amended in 2023, following feedback from the industry.
- A new **(Payments and Financial Markets Infrastructure) Department** was established in 2021 alongside weekly inter-Departmental meetings on fintech.
- Central Bank **public communication was stepped up**, including via a **Parliamentary Committee**, a **public crypto panel discussion** and a layout of main **considerations in fintech supervision**.



LICENSING OF **FINTech** COMPANIES IN TRINIDAD & TOBAGO

A. BASIC REQUIREMENTS THAT COMPANIES MUST DEMONSTRATE:

- 1. Incorporation under the laws of Trinidad and Tobago.**
 - applications can be considered from companies not yet incorporated locally but this incorporation must take place before registration is approved.
- 2. Financial soundness.**
 - evidence will include Audited Financial Statements, projected Profit and Loss Statements, Bank accounts etc.
- 3. Adequate capital and liquidity to cater for their proposed operations.**
 - the capital and liquidity required will depend on the proposed scale of operations and clientele, in order to cater for potential financial risks, especially to customers.
- 4. A clear and detailed business plan on the proposed products, services and client base.**
 - the precise product line, how it works and the safeguards, accompanied where possible by demonstrations; some presentations may be via interactive sessions with the Central Bank.
- 5. A formal risk management framework.**
 - the plan for integrating consideration of key financial and operational risks including anti-money laundering/financing of terrorism, data protection etc. in the organization structure and processes.
- 6. Robust technology infrastructure that is standards based.**
 - information technology equipment, personnel, and framework that are state of the art, reliable and conform to industry standards.
- 7. Policies and procedures to ensure proper governance in conducting day to day operations.**
 - qualified directors and managers who implement proper work practices and business standards; this includes effective communication with customers involving avenues for dealing appropriately with complaints and for redress.

B. OTHER OVERALL CONSIDERATIONS BY THE CENTRAL BANK:

- 1. The expected contribution of the activity to financial innovation and development in Trinidad and Tobago.**
- 2. Ease of use and interoperability of the proposed activity with other financial instruments.**
- 3. Market conditions, including the amount of firms offering similar products.**

The domestic impact of fintechs to date has been limited but encouraging.

- So far **five companies were registered** under the EMI Order, and **one recently relinquished** its registration, citing other priorities.

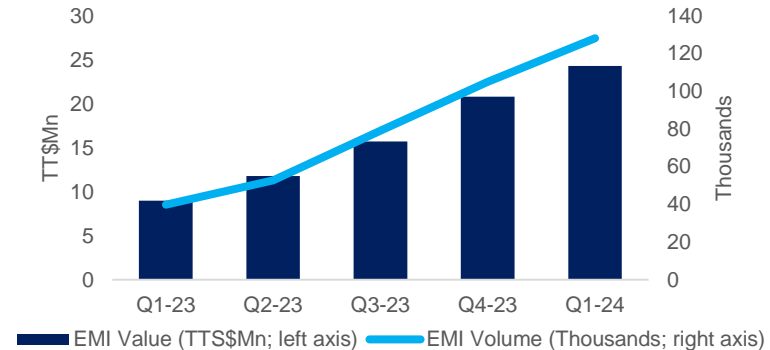


- Meanwhile other players (**banks** that issue e-money, credit/debit card companies etc.) have been **improving their service and/or lowering fees.**



- The **registrants** have **started to make inroads** into the e-money market in niche areas.

Chart 3: Volume and Value of E-Money Transactions



Source: Central Bank of Trinidad and Tobago



Lesson 1: There are many lessons to be learnt from those who have learnt many lessons.

- In determining issues such as **legislation**, **public reactions** and **pragmatic choices**, there is a **rich set of country experiences** already available.
 - This richness is enhanced due to the **variety in country size**, **economic** and **political systems**, **culture** and **stages of fintech implementation**.
 - Gaining **first-hand understandings** of country experiences **requires effort** to **cultivate relationships**.
- 
- A faint, light-colored world map is visible in the background of the slide, centered behind the text.

Lesson 2: “Build it...” doesn’t (necessarily) imply “...and they will come.”

- The **market** ultimately determines what succeeds; it’s therefore not enough to simply build the perfect system and install it.
- Need to clinically investigate and respect **reactions and feedback to various e-money options**.
- **People must see clear value added:** that it’s worth the effort to get into the new solutions, learn new things, and integrate into their other payments mechanisms.
- **Success can be measured more broadly** than the amount of business for new fintechs—building awareness, consciousness and impact on efficiency of other actors.



Lesson 3: Supervising fintechs is not the same as supervising traditional financial institutions.



- The playbook for supervising traditional financial institutions has become fairly **standard**.
- Fintechs however, are a **motley crew**, in terms of size, risks, interests and behavior, with uncertainty and experimentation a normal part of life.
- Supervisory staff need to adopt a **flexible and proportionate approach**:
 - Can't expect to keep up with all technical details.
 - Need to rely on more experts;
 - Spend more time understanding the companies' products, key risks and potential impact.



Lesson 4: The central bank's role as fintech “broker” becomes paramount.

- Like it or not, people look to the central banks for **guidance and policy explanations**.
- The central bank has to tread a **fine line between promoter and supervisor** of fintechs.
- The central bank may wish to actively **encourage or discourage certain activities** taking the big picture into account. Proper communication is essential so that the central bank's actions are not viewed as arbitrary.
- Hopefully the central bank gets it right, but should be **prepared to modify course** if necessary.



Lesson 5: Public policy choices ultimately shape the path and rhythm of fintech activity

- Big decisions on a **country's policy directions** aren't determined by the central banks e.g. the varied approaches to encouraging cryptocurrencies by El Salvador, China and Singapore.
- **Central bank's role** is to give **technical guidance and options and try to influence**; elected parliamentarians determine the framework in a bigger context.
- In Trinidad and Tobago, **public policy is being finalised** on the approach to virtual assets and virtual asset service providers and an impact analysis is underway.





A key priority is introduction of an efficient, safe and low cost fast payments arrangement

- The plan is to adopt a fast payments solution based on the **Unified Payments Interface (UPI)** model.
- How will the five lessons learnt help us?



1. We are reaching out to **India, Peru** and other countries at various stages of implementation.
2. A **pilot** will be set in motion shortly to gauge practical reaction and feedback.
3. Our **Payments, IT, Banking, Research**, and **Supervision Departments** are combining efforts to effectively supervise the arrangement.
4. The Bank is preparing to adopt a frontal role in the exercise, utilising our **External Relations** communications team.
5. The project is part of a wider **Trinidad and Tobago/India Government collaboration**, possibly including national electronic identification along the lines of India's AADHAAR.



The IMF's MCM & other collaborators can continue to help in concrete ways

- Cold, independent assessments—**the more direct, the better.**
- **Brokering engagements with country authorities** (central banks, fintech agencies etc.).
- **Continuing to coordinate training/knowledge sharing** on a regional basis.
- Further embracing a mode of **more real time interaction** (virtual meetings, short specific visits etc.) to complement the more comprehensive country missions.



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