



**BENCHMARKING AND PROPOSED STRATEGY FOR THE  
ELIMINATION OF CHEQUES IN THE BAHAMAS**

*For Consultation*

**Prepared by**

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**December 2021**

## Table of Contents

1	Introduction .....	1
2	International Experiences .....	1
2.1	European Examples.....	2
2.2	South Africa.....	2
2.3	Namibia.....	3
2.4	New Zealand .....	3
2.5	Other Countries.....	3
3	The Bahamian Payments System Trends .....	4
3.1	Structure of the Payments Systems.....	4
3.2	Domestic Payments Trends .....	6
3.2.1	Commercial Bank Cheques .....	7
3.2.2	ACH Clearance of Cheques and other Payments.....	7
3.2.3	Usage of Automated Banking machines (ABM).....	8
3.2.4	Card Payments and Electronic Funds Transfers.....	8
4	Existing Attitudes toward Digital Payments.....	10
5	Drivers and Inhibitors to Cheque Elimination.....	12
6	Financial Inclusion Implications and Alternative Payment Methods.....	14
7	Implications for Cheque Reduction or Elimination.....	14
8	Towards A Cheque Elimination Strategy for The Bahamas .....	14
8.1	Fixed Timeline for Cheque Elimination .....	14
8.2	No-Fee Basic Banking for Individuals of Reduced Economic Means .....	15
8.3	Simplified Due-Diligence for On-boarding of Business Accounts .....	15
8.4	Promoting Increased Use of Direct Debits and Credit Payments .....	15
8.5	Increasing Legal Certainties around Finality of Payments .....	15
8.6	Demonstrating the Value Proposition for Safe, Digital Payments.....	16
8.7	Promoting Mobile Wallets Usage .....	16
9	Next Steps .....	16

## **1 INTRODUCTION**

This paper outlines proposals for the elimination of all domestic forms of cheques in The Bahamas, by the end of 2024. The Bahamian dollar instruments so impacted would include personal and business cheques and any residual instruments issued by the public sector. While foreign currency cheques are not considered, it is also expected that use of these instruments would also diminish or cease circulation. Extensive consultation on this process has already started with banks and credit unions, and it is now being expanded to include the wider stakeholder group of the National Payments Council.

In The Bahamas, electronic fund transfers and other non-cash transactions are increasingly substituting for cheque payments. It reflects both payer preferences and deliberate decisions by recipients (individuals, business and the government) to discontinue acceptance of cheques. In addition, the fee structure for electronic settlements has favoured non-cheques, with the Bahamas Automated Clearing House (BACH) charging more for cheque settlements than for other fund transfers. The COVID-19 pandemic also fuelled increased demand for non-cash and contactless payments, setting the stage for faster change. In the meantime, mobile wallet payments are poised for greater adoption, providing more financially inclusive and interoperable substitutes, enabled by the Central Bank's digital currency, the Sand Dollar.

Outside The Bahamas, digital payment alternatives have completely replaced cheques in many countries and concurrently supported reduced cash transactions. In some important instances, many countries are in the process of completing this transition. The alternatives to cheques also emphasise more secure, efficient and faster (even instant) means of making payments. However, such transformation processes underscore the importance of deliberate policy interventions and stakeholder engagement to embrace change. They provide valuable insights for The Bahamas to consider.

The rest of this paper is organised as follows. The presentation first considers selective international experiences around cheque elimination strategies, followed by recent trends in the domestic payments landscape. Next, it tackles the drivers and inhibitors to cheque elimination in The Bahamas, followed by the implications of change for financial inclusion. The final section presents an outline of the cheque elimination strategy for the Bahamian domestic financial sector.

## **2 INTERNATIONAL EXPERIENCES**

In the various international experiences highlighted below, the elimination of cheques represented outcomes from national initiatives that took account of the respective financial sectors' already evolving progress towards alternative instruments. The accounts also underscore the importance of interventions to improve other parts of the payments systems; and education to prepare the

public for change. Some approaches also featured multi-year sequencing to reduce the maximum face values for which cheques could be issued. In some country examples, financial institutions managed their transitions flexibly within the terminal national timelines, although more commonly, the cut-off date was uniformly set. Transformation has been particularly widespread in Europe, with selective examples also emerging in Africa and Asia. Closer to The Bahamas, Barbados is also signalling to move more in this direction.

## 2.1 European Examples

Cheque usage is rare in European countries, with the giro system commonly deployed to make payer initiated transfers. Similar to cheques, the system uses a standardised bank transfer form, containing the payee's account details and the amount to be transferred from the payer's account. Within the giro system, some countries such as the Nordic states, have eliminated cheques. For example, Finland abandoned cheques in 1993, while Dutch banks stopped accepting the instruments in 2001<sup>1</sup>, and Denmark largely ceased the practice in 2017. As a case study, Finland's strategy was to ensure that a more efficient payment method was available to users and that financial institutions encouraged the alternative's adoption. Decreased cheque use was also related to deliberately higher costs, as banks began to charge fees on cheques and actively promoted debit cards that were free of transaction charges.<sup>2</sup> In Denmark, costlier pricing of chequing services helped to discourage usage during the 1990s. In Poland, a non-Nordic example, cheques were eliminated in 2006, due to the decline in the instrument's popularity, coupled with the widespread adoption of debit and credit cards.

## 2.2 South Africa

South Africa, decided to target the final elimination of cheques by the end of 2020<sup>3</sup>, with an eight-month time line between the announcement and elimination dates. It was a collaborative decision on the part of the South African Reserve Bank (SARB), the Financial Sector Conduct Authority (FSCA), the Payments Association of South Africa (PASA) and the Banking Association of South Africa (BASA). This process, though, began as early as 2012, when the PASA agreed to reduce the maximum value for which a cheque could be written, from R5 million R500,000.<sup>4</sup> In 2020, the limit was further reduced to R50,000.<sup>5</sup> South Africa's reform was also anchored in a national payments system strategy of advancing safer, cost-effective and efficient electronic payments.<sup>6</sup> The 2020 pivot also considered the lengthy processing period for cheques, fraud, high costs,

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<sup>1</sup> <https://www.bis.org/cpmi/paysys/netherlandscomp.pdf>

<sup>2</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=444460&download=yes](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=444460&download=yes)

<sup>3</sup> <https://www.gov.za/speeches/south-african-reserve-bank-discontinuation-cheques-18-nov-2020-0000>

<sup>4</sup> <https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/ad-hoc-news/2011/4895>

<sup>5</sup> [http://www.pasa.org.za/docs/default-source/default-document-library/pasa-media-statement-\\_-cheque-item-limit-reduction\\_may2019v2\\_final.pdf?sfvrsn=2](http://www.pasa.org.za/docs/default-source/default-document-library/pasa-media-statement-_-cheque-item-limit-reduction_may2019v2_final.pdf?sfvrsn=2)

<sup>6</sup> [https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/Documents-for-Comment.aspx](https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/Documents-for-Comment.aspx)

limited education and consumer protection, and the impact of the coronavirus pandemic. The strategy mandated that banks communicated to their clients the decision to eliminate cheques in the lead up to their discontinuation, and that banks educated clients on the alternative electronic solutions that were available.

### 2.3 Namibia

With less than a year's notice, in 2018, the Bank of Namibia, the Payment Association of Namibia and Namclear—the country's cheque payment stream—announced a discontinuation date for cheques of June 30, 2019. Within this timeline individual banks were allowed to initiate their own cut-off dates.<sup>7</sup> However, the country had also embarked on a strategy from 2009 of incrementally decreasing the face value limit of cheques. These efforts helped to reduce fraud risks relating to the instrument, and enabled a phasing out approach that encouraged sharp reduction in total usage before the 2018 announcement.<sup>8</sup>

### 2.4 New Zealand

New Zealand followed a less regulated approach with a growing momentum of banks announcing that the practice of cheque issuance would cease over the course of 2020 and 2021. There were also deliberate efforts to train the public to use digital banking products. The COVID-19 lockdown protocols, with increased resort to digital and online payments services, further expedited transition. Nevertheless, even prior to 2020, New Zealand was experiencing rapid decline in per capital cheque use.<sup>9,10</sup> Some banks began the process of phasing out cheques in February 2020<sup>11</sup>, and supported the strategy with intensive in-branch customer education about internet banking.<sup>12</sup>

### 2.5 Other Countries

Several other countries considering eliminating cheques have also taken approaches that highlight the importance of preparing and educating the public for the alternative digital options. These include Australia, where in 2020, the Reserve Bank (RBA) signalled that the end of cheques might

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<sup>7</sup> [http://www.xinhuanet.com/english/2018-11/16/c\\_137612096.htm#:~:text=Namibia%20to%20phase%20out%20cheques%20as%20payment%20method%20by%20June%20next%20year,-Source%3A%20Xinhua%7C%202018&text=16%20\(Xinhua\)%20%2D%2D%20Namibia%20will,country's%20Payments%20Association%20\(PAN\).](http://www.xinhuanet.com/english/2018-11/16/c_137612096.htm#:~:text=Namibia%20to%20phase%20out%20cheques%20as%20payment%20method%20by%20June%20next%20year,-Source%3A%20Xinhua%7C%202018&text=16%20(Xinhua)%20%2D%2D%20Namibia%20will,country's%20Payments%20Association%20(PAN).)

<sup>8</sup> In Namibia with cheque volumes processed contracting by 79.81% just between 2014 and 2018. (<https://allafrica.com/stories/201907040465.html>)

<sup>9</sup> [https://innovationfund.co.nz/sites/default/files/2021-01/exploring\\_cheque\\_use\\_in\\_NZ.pdf](https://innovationfund.co.nz/sites/default/files/2021-01/exploring_cheque_use_in_NZ.pdf)

<sup>10</sup> <https://www.paymentsnz.co.nz/resources/articles/nz-payments-stats-2018-in-review/>

<sup>11</sup> <https://www.stuff.co.nz/business/125289630/checking-out-last-day-for-anz-customers-to-use-cheques>

<sup>12</sup> <https://www.stuff.co.nz/business/money/112775502/kiwibank-to-ditch-cheques-risks-backlash>

be approaching with coronavirus speeding up the use of digital banking.<sup>13</sup> Singapore, aims to further reduce the use of cash and become cheque-free by 2025.<sup>14</sup> In Australia, the payments industry embarked on several initiatives to manage the decline of cheque use, including identifying measures to assist current cheque users to take part in the digital economy;<sup>15</sup> and measures to improve the infrastructure for digital payments.<sup>16</sup> Meanwhile, the Kingdom of Eswatini, announced a January 1, 2022 deadline to eliminate cheques,<sup>17</sup> considerate of available safer, faster and more cost effective digital alternatives. Closer to The Bahamas, Barbados introduced legislation in February 2021 to support the country's move toward e-commerce and digital banking. The legislation has been formalised as part of the government and financial authorities' thrust to diminish cash usage, eliminate cheques and promote increased competition in the payments system<sup>18</sup>.

### 3 THE BAHAMIAN PAYMENTS SYSTEM TRENDS

A relative shift away cash and cheques, towards digital alternatives is also underway in The Bahamas, although the process could benefit from more purposed interventions, that are anchored in strengthening the financial inclusion outcomes and focused public education. While the available data series are of relatively short length, the acute contraction in The Bahamas' economy in 2020 reduced all modes of payments, while demonstrating a further shift away from relative dependence on cheque and cash usage in favour digital options. However, the cumulative pace of change has been slower than observed in some of the international country examples, owing to structural impediments in the Bahamian landscape around the cost of alternatives, financial inclusion limitations, and less coordinated efforts to promote alternatives.

#### 3.1 Structure of the Payments Systems

All Central Bank supervised domestic financial institutions have a role to play in the payments system transformation. The system is comprised of participating financial intermediaries and the infrastructure for transmitting and settling payments. The intermediaries are banks and money transfer businesses (MTBs) (licensed under the Banks and Trust Companies Regulations Act,

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<sup>13</sup> <https://www.smh.com.au/business/banking-and-finance/checking-out-banks-actively-considering-end-of-cheques-rba-20200603-p54z2g.html>

<sup>14</sup> <https://www.businesstimes.com.sg/banking-finance/singapore-can-reduce-cash-use-and-be-cheque-free-by-2025-ong-ye-kung>

<sup>15</sup> <https://www.rba.gov.au/publications/bulletin/2017/jun/7.html#box-a>

<sup>16</sup> Australia's New Payments Platform (NPP), was launched in 2013 and was to provide a new infrastructure for fast, flexible and data-rich payments; and to enable some of the features of cheques to be better replicated electronically.

<sup>17</sup> <https://www.centralbank.org.sz/elimination-of-cheques-in-eswatini/>

<sup>18</sup> <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/barbados-introduces-legislation-for-national-payments-system-62816486>

2020), credit unions (under The Bahamas Cooperative Credit Unions Act, 2015), and payments institutions (licensed under the Payment Systems Act, 2012<sup>19</sup>). As to their role, commercial banks provide payments settlement services directly to their clients and provide correspondent banking services, to conclude settlements for the other mentioned providers of payments. At the centre of this framework, the Central Bank maintains reserves for the commercial banks, which permit inter-bank settlement of payments. Under the reformed Central Bank of the Bahamas Act, 2020, other supervised entities can also maintain balances at the Central Bank for inter-financial institutions settlements.

Direct participation in inter-financial institutions payments is also contingent on access to the electronic clearinghouses. In this regard, The Bahamas has both a real-time gross settlement system (RTGS), the Bahamas Inter-Bank Settlement (BISS), owned and operated by the Central Bank, and a retail automated clearinghouse (ACH), the Bahamas Automated Clearing House (BACH), owned and operated by the commercial banks. The RTGS, established in 2004, permits real-time settlement of inter-bank transfers of B\$50,000 or more between banks. The same institutions use the ACH, established in 2010 to settle batches of low-value transfers across account holders in different institutions. ACH processing occurs at fixed intervals during each business day. Each bank presents its gross claims on the other respective entities. These are netted on a bilateral basis, and a transfer for the difference is instructed and cleared through the RTGS. The ACH is undergoing governance changes to admit non-owners to participate in direct settlement. Such participants would include interested credit unions, MTBs and payments institutions that are already enabled to use the RTGS. The Central Bank is also a direct participant in the ACH and RTGS.

The legislative framework for non-bank entities to provide electronic retail payment services and instruments was completed in July 2017. As of 2021, three entities were licensed under the Payments Instruments (Oversight) Regulations, 2017. Along with four MTBs, these characterise active participants in the mobile wallet space. However, activity in the space is still at an infancy stage, with 10 entities having completed the technical assessments to participate in the Sand Dollar space. During 2020, most entities were still actively developing their mobile wallet platforms, with some providing stored value products still not fully integrated to the digital currency platform. Some providers were nevertheless active in distributing Government assistance payments to the public. By end-July 2021, these entities distributed their services through 231 agents. As at end 2020, payment providers enrolled 38,101 personal accounts and 168 business customers. The services however, largely accommodated withdrawals of personal funds deposited into the accounts. In 2020, top ups, or predominantly third party transfers into these accounts, were registered at 88,601 transactions valued at \$10.7 million per month. Person-to-person transactions averaged 2,951 monthly, for an average value of \$0.9 million, and person-to-business transactions,

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<sup>19</sup> The Payments Instrument (Oversight) Regulations, issued under the PSA provides for this category of non-bank and non-MTB payments providers.

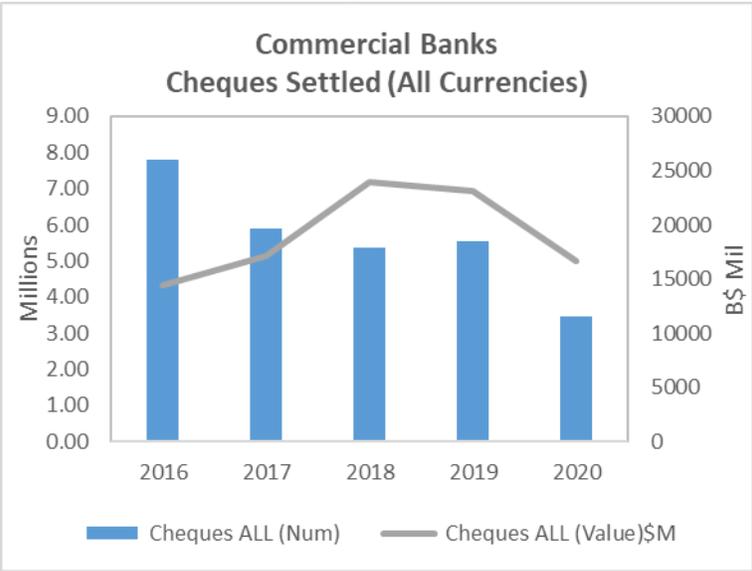
averaged 14,792 monthly, with a corresponding value of \$3.4 million. Conversely, withdrawal transactions averaged 19,549 monthly, valued at \$7.2 million.

Through the Sand Dollar infrastructure, mobile money services providers are also scheduled to be integrated into the rest of the banking system for payments and transfers. In particular, the Central Bank is on target to complete the integration of the digital currency platform with the ACH and RTGS systems by the end of 2021. This will provide interface for transfers between the banking system and for peer to peer payments as a substitute for personal cheques. Commercial bank presence in the mobile money space is also being actively targeted for 2022.

### 3.2 Domestic Payments Trends

While the ACH and RTGS record payments transiting between financial institutions, significant activities also occur between account holders within the same institutions. As such, data reported by commercial banks are the most comprehensive as regard the payment volumes of both an inter-bank and intra-bank nature. Reliable data at this level is available only since the middle of the last decade. These along with the inter-bank summaries, point to some shift away from cheques towards digital payments. In the meantime, the latest surveys conducted of businesses and consumers underscore both a greater shift towards digital transactions and the expectations among businesses and consumers that their use patterns will become more digital in the future.

Figure 1

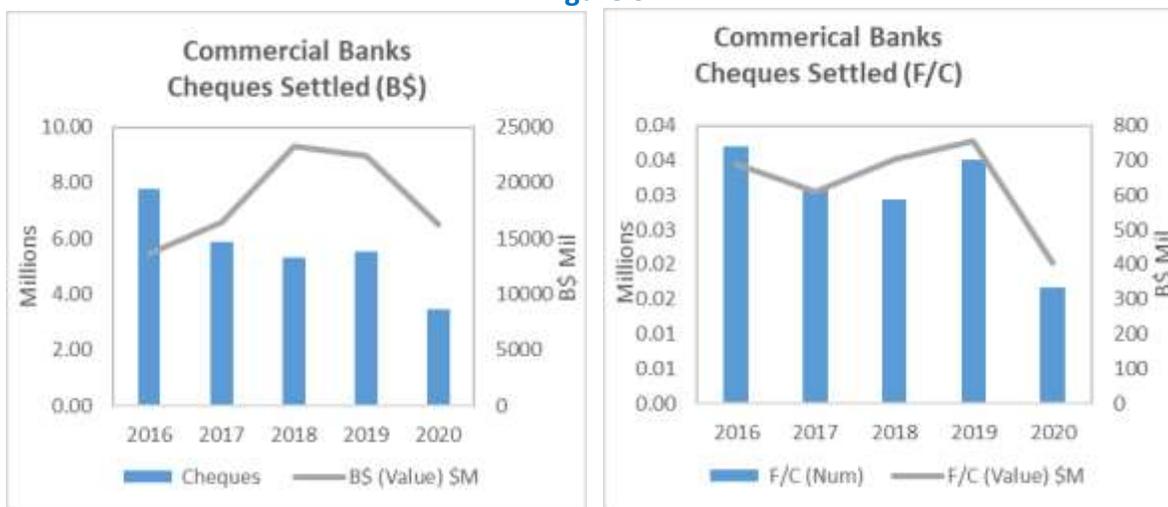


Source: Central Bank of The Bahamas

### 3.2.1 Commercial Bank Cheques

At the aggregate level, commercial banks revealed that during 2016-2019, the total number of cheques presented for payment fell by an average rate of 1.3% annually, to 3.5 million transactions, albeit the corresponding value grew by an annual average of 4.7% to \$16.7 billion, as cheques remained a preferred method for some larger-value payments. Given the pandemic’s outsized impact on the 2020 trends, it is estimated that on a normalised basis, the reduction was closer to 5 million transactions with the post-pandemic value likely closer to \$20 billion. These estimates exceed the ACH processed activity, as payments transferred between customers within the same institutions or presented for collection over-the-counter, do not pass through the ACH. By currency type, the volume of B\$ transactions processed by banks averaged 5.6 million annually over the five-year period, with a corresponding average value of \$18.4 billion. Volume decreased by 1.2% each year, while the associated value was increased on average by 5.2% per annum. The number of foreign currency instruments fell on average by 13.1% each year, and the value of such payments by 8.5% per annum. Both estimates are expected to rebound post-2020, but not to the extent that would erase the overall trend of shrinkage.

Figure 3



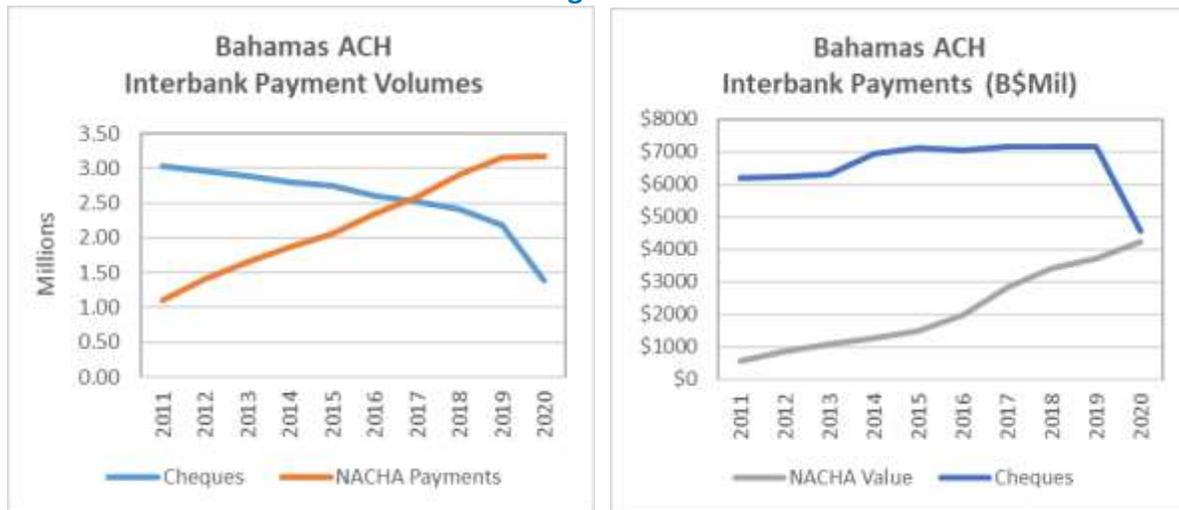
Source: Central Bank of The Bahamas

### 3.2.2 ACH Clearance of Cheques and other Payments

At the ACH level, for the interbank component of transfers, the available data which span a longer period, further underscore a more entrenched shift toward electronic transfers. Between 2011-2020, the volume of ACH cleared cheques declined steadily—but against incremental rising values, other than in 2020—as increased electronic settlements via direct debits and credits had a more dominating effect. Taking 2020 into account, both cleared volumes and values contracted notably, due to the pandemic. More specifically, the number and value of cheques cleared fell vis-à-vis 2011 at an annual average rate of 7.5% and 2.3%, respectively, with the pandemic year drop-

off at 35.9% and 36.3% to 1.4 million and \$4.6 billion, respectively. Conversely, over the decade period, electronic transfers (direct debits and credits) in the NACHA format rose steadily in number and value, by an average annual 12.5% and 24.9% respectively, reaching 3.1 million instructions valued at \$4.2 billion in 2020.

Figure 4



Source: Bahamas Automated Clearing House

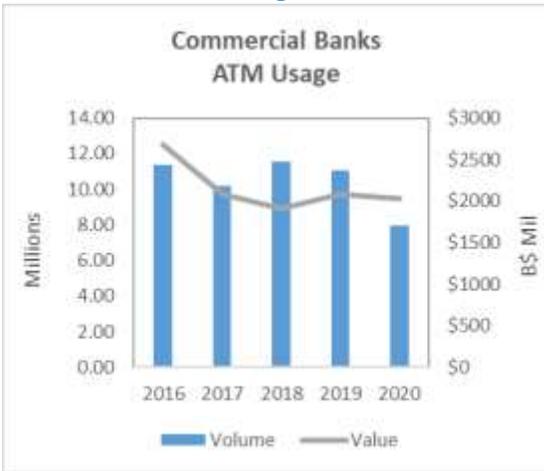
### 3.2.3 Usage of Automated Banking machines (ABM)

The volume and value of transactions processed at ATMs can be taken as an indicator of the level of cash activity as well substitution for over-the-counter banking transactions. ATM usage fluctuated over the five years through 2020, with the reduction evident through 2018, punctuated in 2019, and the pandemic inducing further falloff. In 2020, the total volume and value of transactions contracted by 28.0% and 2.9%, to 8.0 million and \$2.0 billion, respectively.

### 3.2.4 Card Payments and Electronic Funds Transfers

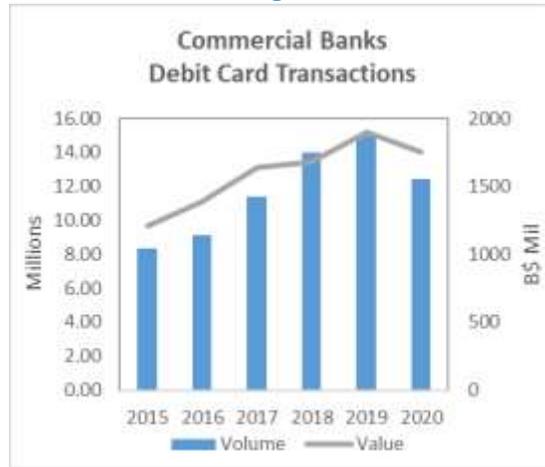
Electronic payments, including use of credit and debit cards and electronic funds transfers, increased during the last half decade, a trend preserved even after the pandemic's effects. Since 2016, the volume and value of debit card transactions rose on average by 9.5% and 7.0%, respectively. Credit card transactions growth was also evident for most of the period, although there was also significant substitution towards debit cards in 2020 as consumer relied more on income and savings as opposed to credit to sustain their expenditures. Between 2016 and 2019, the number of credit card transactions rose at an average yearly rate of 17.5%, while the total value of transactions rose at a more modest average annual 3.0%. However, in 2020, there was a reduction in volume of 26.4% and in the corresponding value of 30.9%.

**Figure 5**



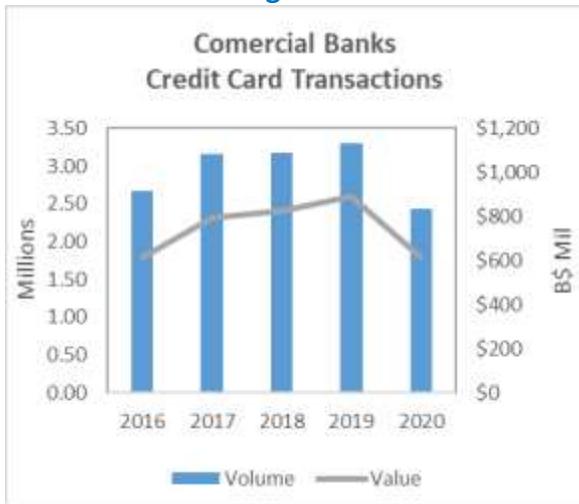
Source: Central Bank of the Bahamas

**Figure 6**



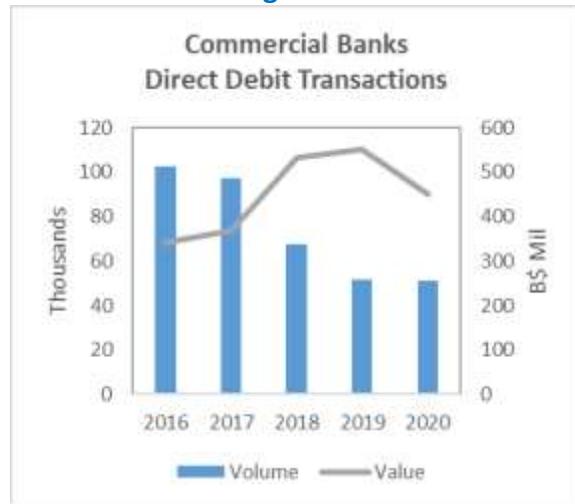
Source: Central Bank of The Bahamas

**Figure 7**



Source: Central Bank of The Bahamas

**Figure 8**

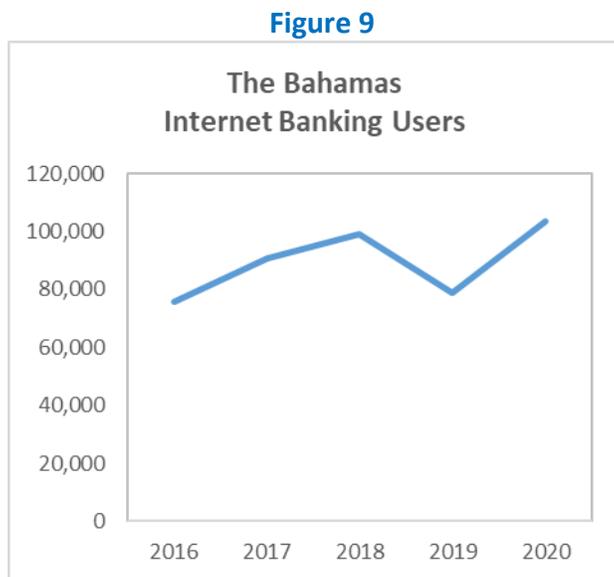


Source: Central Bank of The Bahamas

Although the pandemic moderated the cumulative trend, since 2016, the number of direct debit payments declined modestly, by an average 1.0% per annum, but were reportedly stable in the pandemic year. Nevertheless, the value of the payments firmed by an average of 7.9% per annum, peaking at \$0.5 billion in 2019, before dipping by 18.0% in 2020.

Meanwhile, growing reliance on internet banking, underscore a strengthening foundation for digital financial transactions. Since 2016, the number of internet banking users trended upwards on average by 10.5% per annum, from 75,000 registered users to 103,379 accounts in 2020. This

outweighed a 20.4% correction in 2019, after banks audited their records and closed inactive user accounts.



Source: Central Bank of The Bahamas

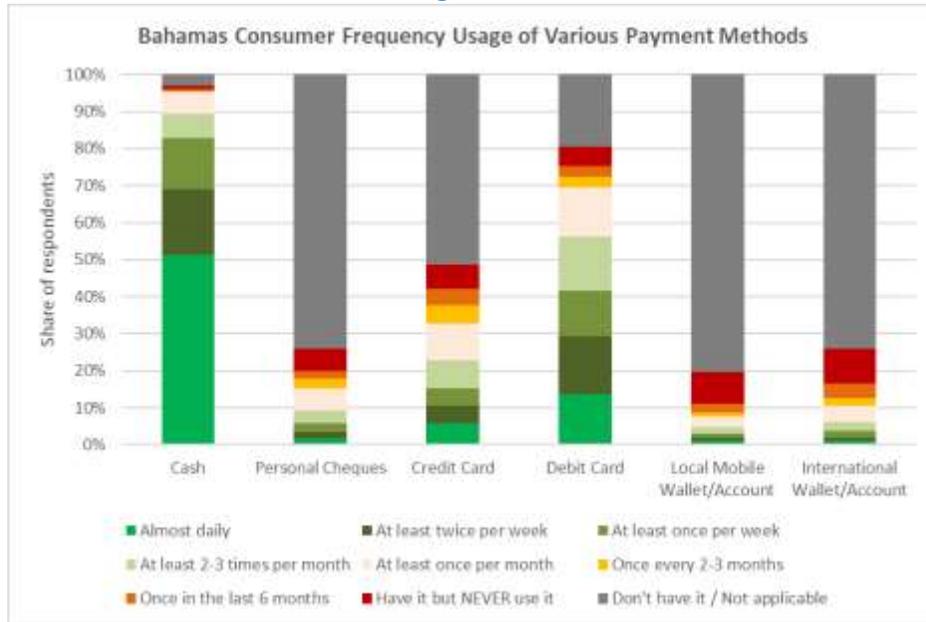
#### **4 EXISTING ATTITUDES TOWARD DIGITAL PAYMENTS**

In 2020, the Central Bank surveyed both businesses and consumers to ascertain the pattern of use of payments instruments and the outlook that respondents maintained concerning their likely future pattern of transactions.<sup>20</sup> The surveys revealed that between 20% to 30% of consumers still used cash for all bill payments. For all categories of payments, however, the average frequency of cheque usage was significantly lower than for transactions through electronic (online) banking channels and use of credit and debit cards. Meanwhile, mobile wallet products were documented to be at a very early stage of adoption. There was also evidently a greater shift away from cash and cheques during the pandemic. Further, more than a majority of surveyed persons expected to use less cash in the future. Where hesitance still existed around acceptance of digital delivery channels, members of the public expressed concerns around cybersecurity, fraud, and the ease of use.

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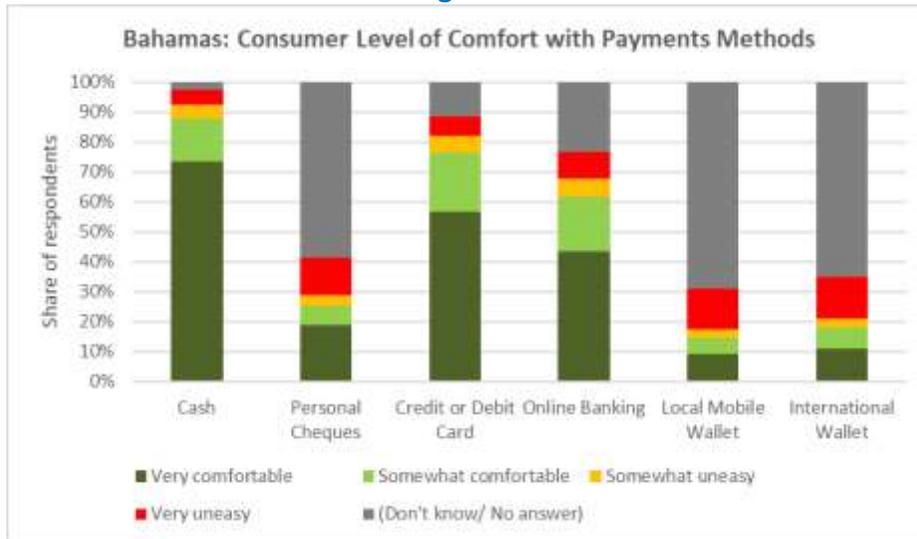
<sup>20</sup> Central Bank of The Bahamas, *2020 Survey of Consumer Payments Practices and 2020 Survey of Business Payments Practices*

**Figure 10**



Source: Central Bank of The Bahamas, 2020 Survey of Consumer Payments Practices

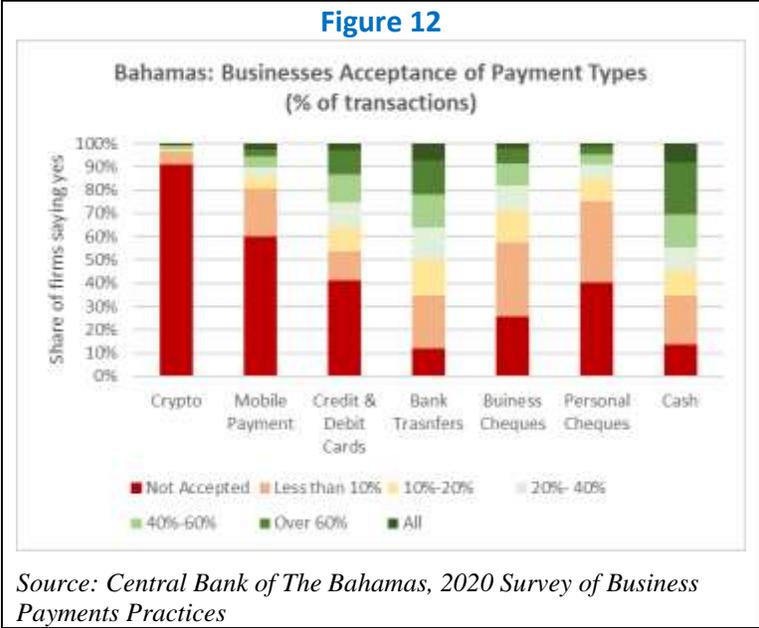
**Figure 11**



Source: Central Bank of The Bahamas, 2020 Survey of Consumer Payments Practices

Among enterprises and organisations, indications are also that the combined preferences for electronic payments outweigh usage of any single physical instrument, with larger enterprises even less concentrated in physical instruments than was the case for micro, small and medium-sized enterprises. Moreover, the tendency to accept cheques in particular, was skewed lower than the willingness of enterprises to make payments in such forms. Credit and debit card usage, along with electronic banking channels were the more predominant overall means of making payments.

When there was hesitance or resistance to going digital, businesses expressed disincentives, including around costs, cybersecurity and fraud. However, costs ranked lower as a single factor compared to the combined weight of other concerns.



**5 DRIVERS AND INHIBITORS TO CHEQUE ELIMINATION**

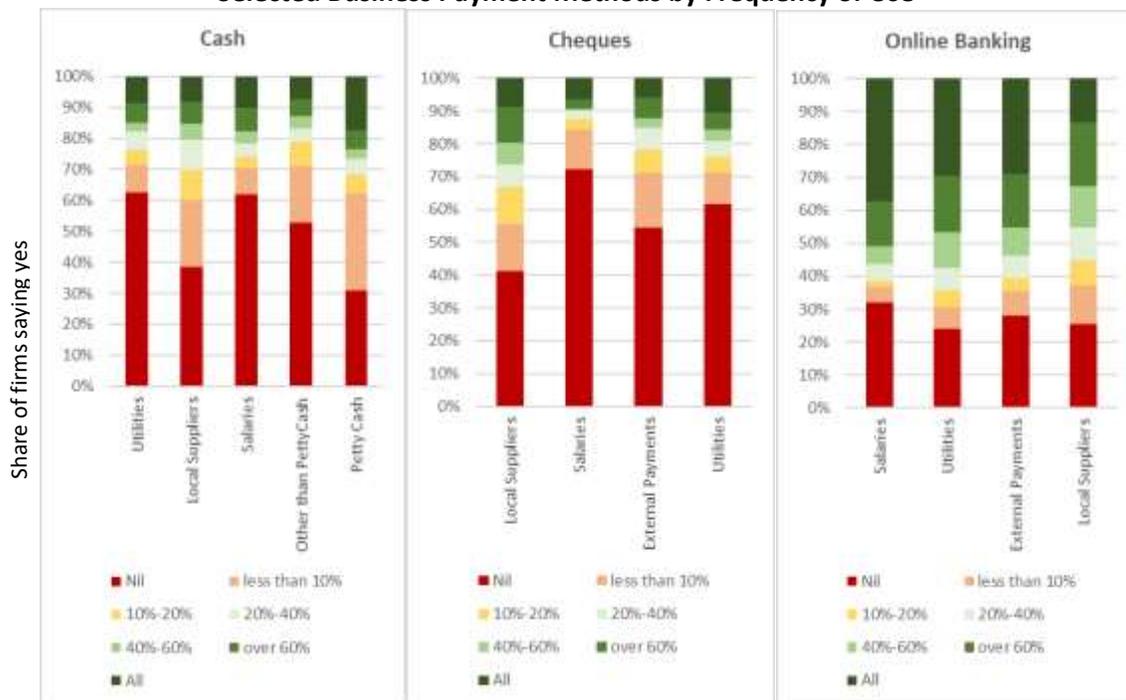
Alternatives to cheques have increased in attractiveness, due to factors such as efficiency, speed and reduced risk fraud. For example, the length of time it takes to settle transactions can create challenges for both business and consumers, particularly in instances where transactions are time sensitive. Cheque fraud is also a challenge. These relate partly to criminal forgeries, publicly disclosed at \$3.2 million in 2020—more than double in value and representing 52 disclosed cases—but likely significantly underreported. Cheque acceptance risks also surface due to instances of insufficient funds that leave commercial payees in the involuntary position of creditors. Such risks have helped propelled businesses and the Bahamian public sector to reduce or eliminate the privately drawn categories of cheques accepted for payments. The Central Bank’s 2020 survey of business payment practices revealed that because of such risks business-to-business (B2B) cheque payments are more commonly trusted than acceptance of person-to-business (P2B) payment by cheques. Administratively, the cheque settlement delay process also introduces reconciliation costs in the accounting systems of enterprises.

There are, nevertheless, financial inclusion and financial access issues around the removal of residual reliance on cheques. Some enterprises still make payroll transfers by cheques, and a fraction disclosed that such payments are still made with cash. On the consumer side, indications

are that a fraction of individuals still receive wages in cheques or in cash. In this subset, the access to bank accounts to receive the electronic transfer format is not universal. Interventions must therefore provide accessible alternatives for remaining enterprises to transition away from cheques, and provide the access for all recipients of payments to receive funds through electronic channels.

**Figure 13:**

**Selected Business Payment Methods by Frequency of Use**



Source: Central Bank of The Bahamas, 2020 Survey of Business Payments Practices

Aside from access to non-physical instruments, comfort in the use of digital channels is also important to incentivise use. Among individuals, a recent survey by the Central Bank<sup>21</sup> revealed that 91.0% of the adult population had access to smart phone devices that can be used to access internet banking or mobile payments applications, if these channels were to provide alternative interfaces for transactions. This leaves an estimated 9.0% of the surveyed adult population excluded from smart devices. Even where access exists, close to an estimated one-fifth of surveyed members of the public still expressed some discomfort with the ease of use of digital services channels, and concerns lingered about cybersecurity and fraud. Some individuals also expressed hesitancy around the cost of services, but this is a lower ranked disincentive than the other collective set of disclosed factors. For businesses and organisations, cost is an inhibitor to moving

<sup>21</sup> Central Bank of The Bahamas, 2020 Survey of Consumer Payments Practices.

further towards digital channels for financial transactions, such as payroll transfers. However, for some users of the financial system, the disincentives also include ease of use of technology.

## **6 FINANCIAL INCLUSION IMPLICATIONS AND ALTERNATIVE PAYMENT METHODS**

Personal hesitancy to adopt digital payments also has age and income characteristics. As evidenced from the Central Bank's survey on Financial Inclusion, some 47% of participants disclosed that they were unlikely, on some level, to make a mobile payment, but such unlikelihood increased as the population ages. Of those 55 and older, 65% disclosed that they are least unlikely to make a mobile payment. The shift is also witnessed in lower income earners, as 50% of those earning less than \$30,000 annually, revealed that they were unlikely, on some level, to go digital compared to 30% of those earning more than \$50,000 annually, who were unlikely, on some level, to make a mobile payment. This highlights the importance of education to address hesitance.

## **7 IMPLICATIONS FOR CHEQUE REDUCTION OR ELIMINATION.**

A Bahamian reduction and elimination strategy has to proactively address financial inclusion and provide legitimate access to alternatives. Moreover, financial inclusion interventions have to address both the needs of individuals and businesses. As the international approaches show, the elimination strategy must also provide adequate public education around the use of digital alternatives. Consideration must also be given to a positive and consistent pricing incentive structure across the financial sector. Transition to digital payments also raises issues around the legal clarity of settlements that are projected increasingly to be instant or faster in nature, around the finality of the process, and recourse of payers and payees in the event of errors or fraud.

## **8 TOWARDS A CHEQUE ELIMINATION STRATEGY FOR THE BAHAMAS**

It is proposed that the elimination strategy for The Bahamas would encompass the approach outlined below. The Central Bank will coordinate with commercial banks and credit unions to provide more details on intermediate timelines and thresholds before the end of the first quarter of 2022. Subject to public consultation, some intermediate dates may be adjusted.

### **8.1 Fixed Timeline for Cheque Elimination**

Working with financial institutions, the Central Bank is targeting December 2024 for the elimination of Bahamian dollar cheques. Intermediate dates will be established for end-2022 and end-2023 to terminate acceptance or issuance of instruments of decreasing intermediate face values, leaving lower-value payments as the last to be eliminated. In this regard, it is expected that there would be universal preparations for these values to be settled through wire transfers, including flexibility around the existing limits maintained in internet banking platforms. A firm universal date should also be set to eliminate all cheque cashing activities, with payments only accepted for deposits after such cut off. This universal cut-off is anticipated to be end-2022. Financial institutions will be allowed flexibility within their operations to set firm dates no later

than the beginning on 2024, the final year of transition, to cease reordering of printed cheques. Within banks and credit unions, branch level and online educational resources are to be developed on a coordinated industry basis to instruct the public on how to extract and share related banking details to receive or send payments to other deposit accounts or mobile wallets. The Central Bank will also incorporate complimentary messaging in its financial literacy campaign.

## 8.2 No-Fee Basic Banking for Individuals of Reduced Economic Means

The Central Bank will develop regulations to require each financial institution to establish a basic savings account product for low-value, low-transactions customers, attached to a threshold number or value of cost free incoming and outgoing transfers. While existing no-fee accounts are commonly offered for pensioners and students, the Central Bank proposes that this eligibility against an annual or monthly number and value of transactions, also be tied to a uniformed and researched position around economic means in The Bahamas.

## 8.3 Simplified Due-Diligence for On-boarding of Business Accounts

Alongside payments solutions, banks and credit unions will be required to commit, within Central Bank regulatory guidelines, to provide low-risk due diligence systems to permit the opening of transactional accounts for proprietors and for micro, small and medium-sized enterprises. This would position such enterprises to make non-cash or non-cheque payments. The due-diligence systems would also require a commitment from the Government to provide business licence and other validation data to financial institutions, through secure, digital channels.

## 8.4 Promoting Increased Use of Direct Debits and Credit Payments

Direct debits and credits are already widely used forms of transfers in the financial system, which can be encouraged with increased frequency, especially for person-to-business (P2B) and business-to-person (B2P) payments. With the migration to the new customer initiated entry (CIE) transfer system expected to be universally completed on electronic banking platforms by the end of 2021, clearing banks will be enabled to promote simplified, increased use of electronic funds transfers. As a further enhancement, uniform standards will be developed to reduce the settlement timeline for interbank transfers, via the ACH and RTGS.

## 8.5 Increasing Legal Certainties around Finality of Payments

The Central Bank proposes to address, through legislation and regulation, any remaining legal impediments to wider-scale use of direct debits and credits, and faster settlement speed for such transactions. This would confront any issues identified by financial institutions, including around certainty and finality of payments, and liability in the event of fraudulent and erroneous transactions.

## 8.6 Demonstrating the Value Proposition for Safe, Digital Payments

While a cheque elimination strategy should provide positive price incentives to adopt other instruments, a fee structure, at a minimum for merchant services would continue. Therefore, a sustained, comprehensive public education campaign around the net benefits of digital payments adoption is essential. This will be informed by research on the net effective costs of cash and cheques, such as around accounting inefficiencies, security risks, insurance and fraud. Public education will also be deployed to build confidence in use of digital products. This would highlight, among other factors, the recourse mechanisms that auditable electronic systems afford customers in the event of fraud or errors, give assurances around cybersecurity standards, and promote customer initiated security practices.

## 8.7 Promoting Mobile Wallets Usage

The Central Bank will require all financial institutions commit to provide their retail customers with mobile wallet accounts that are interoperable with the Sand Dollar. Mobile wallets, QR scanning and near field technologies, with built-in user security features, enable simpler payments on a P2P and P2B basis. The Central Bank is providing access through the Sand Dollar “Sovereign” App for all payments institutions, including banks that do not offer a proprietary mobile wallet. Future versions of the “Sovereign Wallet” will allow financial institutions to apply their own branding to the on-screen appearance of the mobile displays. The Sand Dollar platform is also enabled for smart cards that support two-factor authentication of payments for users who are uncomfortable with using smart phones.

The Central Bank will intensify its efforts to expand the ecosystem of merchants who can accept payments from mobile wallets users. This would encourage increased public adoption of mobile wallets, by expanding the range of outlets at which payments can be made to business (P2B) and government entities (P2G).

## 9 NEXT STEPS

The Central Bank will continue to consult domestic stakeholders on the fine-tuned strategy for cheque elimination. Along with members of the Clearing Banks Association, credit unions and other stakeholders within the National Payments Council, the Central Bank will spearhead a working group to identify legal issues around further transformation of the payments and settlements system, particularly for direct debits and credits. This would focus on issues such as settlement process, risk management, and fraud and error handling standards. In addition, an industry-level working group is being established to formulate the education and communications strategy for transformation.

## Appendix

### Selected Country Experiences with Cheque Elimination

Country	Year of Reform	Motivating Factors	Alternatives Promoted
<b>Poland</b>	2006	<ul style="list-style-type: none"> <li>▪ General decline in cheque use</li> <li>▪ Widespread adoption of debit and credit cards</li> </ul>	Debit/Credit Cards
<b>Finland</b>	1993	<ul style="list-style-type: none"> <li>▪ Limited use of cheques</li> <li>▪ Rise in the adoption of the giro system</li> <li>▪ High costs associated with cheque-based operation systems</li> </ul>	Giro System
<b>Denmark</b>	2017	<ul style="list-style-type: none"> <li>▪ Decline in cheques use over a period of years</li> <li>▪ Increased use of plastic money solutions, such as debit cards</li> </ul>	National Debit Card: Dankort
<b>South Africa</b>	2020	<ul style="list-style-type: none"> <li>▪ Lengthy processing period</li> <li>▪ Cheque fraud</li> <li>▪ Restricted acceptance of cheques</li> <li>▪ Declining usage</li> <li>▪ Limited consumer education and protection</li> <li>▪ Ageing interbank cheque processing infrastructure</li> <li>▪ Impact of the coronavirus pandemic (covid-19) outbreak</li> </ul>	Internet banking, Debit and Credit Cards, Cash
<b>New Zealand</b>	2021	<ul style="list-style-type: none"> <li>▪ Businesses and individuals not obligated to accept cheques</li> <li>▪ General decline in cheque usage</li> <li>▪ Increase in the adoption of digital payments</li> </ul>	Internet banking, Debit and Credit Cards, Cash
<b>The Netherlands</b>	2001	<ul style="list-style-type: none"> <li>▪ Prolific use of the giro system</li> <li>▪ Introduction of non-cash instruments for POS payments</li> <li>▪ Reduction in cheque usage</li> </ul>	Giro System,
<b>Namibia</b>	2019	<ul style="list-style-type: none"> <li>▪ Diminished risk of alternatives to cheques</li> <li>▪ Rise non-acceptance of cheques</li> <li>▪ Significant decline in volume of cheques processed</li> </ul>	Electronic funds transfer (EFT), cards and electronic money