Payments System Modernisation and a Retail Central Bank Digital Currency: An Overview from The Bahamas

By Governor John A Rolle

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Distinguished guests, central bankers, fintech enthusiast, welcome to The Bahamas. It is our pleasure to host you at this 2025 CBDC Conference, and to be collaborating with the organisers for this event. As you take in the conference, we encourage you to also enjoy the beauty and hospitality of our country.

This conference, which has a very stimulating line up of topics and participants, is happening at a juncture when there continues to be strong interest in exploring whether countries should issue retail or wholesale CBDCs. Very important deliberations are also ongoing over the future role of central bank issued public money, versus commercial bank money and private virtual currencies (whether they are reserve-backed-stable coins or other digital currency instruments).

The Bahamas has positioned itself as a regulated jurisdiction for virtual private assets, building on its role as an international financial centre, and responding to the needs of investors and users to access these instruments under internationally benchmarked standards for prudential supervision, investor protection and market conduct. This space is overseen by our securities market regulator, and partitioned from our domestic financial space through capital controls. Nevertheless, the Central Bank has issued guidance, aligned with international benchmarks on the role that the banking sector should play, which continues to be mostly providing fiduciary and custodial services for virtual assets. Subject to private innovation, and given the tourist dependent nature of our economy, it is expected that some virtual assets will be accepted for payments, once local merchants are able to manage the exchange risk, and convert the receipts (over established exchanges) into traditional fiat currency deposits.[1]

Today, I want to speak about retail CBDCs, from the perspective of the SandDollar, examining some of the key issues for The Bahamas and how, in my view, they define The Bahamas' journey.

[1] In its 2023 guidance note and position paper on Digital Assets 2023 the Central Bank of The Bahamas , treats these instruments as foreign assets, and requires that use of domestic currency to purchase virtual assets take place, via convertibility of the local currency into fiat foreign currency, and only secondarily, that the convertible fiat currency be used to transact in the virtual assets.

In short, the SandDollar is a progression in the modernisation of the Bahamian payment system landscape and how we define certain imperatives. The process of implementing the SandDollar continues to be a valuable capacity building experience, as well as a reform-oriented activity, as we insisted on being anchored in core principles around the role of key stakeholders, defining the core role of the Central Bank, and our focus on the attributes of money in a classical sense.

National context is important. The Bahamas is a small country: a scattered archipelago of approximately 400,000 people. In the Central Bank supervised domestic space, there are just six retail commercial banks, eight non-bank payments providers or money transfer firms, and six credit unions. The collective assets of credit unions sum to about the size of the smallest retail bank. Collectively, the non-bank payments providers account for less than two percent of retail payments, even though in terms of transactional accounts, they impact about one-fifth of the account holders in the system. They also correspond to the early reach and impact of the SandDollar; and reflects the most modernised part of the Bahamian landscape in terms of mobile payments, as well as the still very nascent use of mobile phone technology for payments.

The modernisation of the Bahamian payments system, like other countries, first addressed automation the of interbank transfers and settlements, through digital platforms for wholesale and retail value transactions (RTGS and ACH). This was more than a decade-long process, which brought about a new era of innovation in the payments landscape around 2012. Through legal reforms, the acceleration afterwards prepared the system for electronic or digital money services; and for the admission of non-bank payments services providers.[2] The CBDC made the non-bank platform interoperable, and was partly inspired with this critical purpose in mind. Now the Central Bank of The Bahamas has set its focus on developing a fast payments platform, fully interoperable with the SandDollar, with a mandate that all retail providers of domestic payments must be direct participants—all banks, credit unions, and other electronic money services providers. The Government will also be a direct participant in fast payments, and ahead of this, we will work to integrate them more into the CBDC platform. Interoperability, means that those PSPs that reside on the SandDollar platform, will not have to do any significant extra technical work for fast payment integration, but can instead focus more on building out their business models within an expanded ecosystem.

Payment system modernisation, in which a retail CBDC fits squarely, highlights several themes, into which financial inclusion has also been tightly woven for The Bahamas.

One overarching theme has been that digitalisation is the most effective way to promote more efficient payments, throughout our scattered archipelago; but, it must be coupled with providing inclusive digital access. As the Central Bank envisions, more accessible retail payments over digital platforms, coupled with online access to performs, other financial transactions would improve the terminal reach of banking and payments services. This will empower businesses and individuals to reduce their reliance on cash and cheques; and the strain of not having yet achieved an acceptable critical mass of access to cash services in less densely populated parts of The Bahamas. The Central Bank of The Bahamas is also developing an agency banking framework, which is expected to extend the physical reach of some services, but still be grounded in a digital infrastructure that ensures access to the SandDollar.

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[2] The space was also expanded, through the Central Bank of The Bahamas Act, 2020, by giving all Central Bank-supervised financial institutions access to the RTGS and mandating the commercial banks to admit non-banks to the ACH, which is owned and operated by the banks. There is already progress: the Public Treasury and at least 2 two other participants are in the process of joining the ACH.

The next point, digitalisation is also geared towards increasing the resilience of the payment infrastructure, to enable communities to recover swiftly after natural disasters. As soon as wireless communications are restored, our island communities need to be able to engage in commerce. Some of this may still involve a default to cash, but the logistics of providing cash in our Family Islands is very costly, and with heightened security concerns. Interestingly, with SandDollar, we are beginning to see a potential to structure more affordable, but admittedly subsidised, access to cash services. Ideally, this should serve as a medium-term bridge to promote digital payments adoption. In the aftermath of a category five hurricane in 2019, affected communities in Abaco were without the functioning of some physical banking services for nearly 24 months. The deprivation during this period, was most severe for businesses and individuals who had limited or no flexibility to operate outside of cash and cheques.

The third imperative for The Bahamas is maintaining an internationally effective, peer-rated profile for managing and supressing financial crimes risks.[3] Successful outcomes in this space, affect how easily we integrate within the global correspondent banking network, the lifeline for any modern economy is dependent on international trade and commerce. Such outcomes also counter the harmful effects that crime perpetuated through the financial system can have on the legitimate economy. This also speaks to ensuring that no one is forced to be confined to the informal sector, or confined to only using cash, where they can be exploited by bad actors. We addressed this through policies that simplify the due diligence process for low-risk transactional accounts, at payment services providers, banks and credit unions.

So then, what does financial inclusion mean in these contexts?

Beyond access to a bank account or deposit facility, which is already case for the majority of adults,[4] financial inclusion is about making the system in The Bahamas more equitable and inclusive around the conditions and cost of access to services, especially for those who reside outside of the island of New Providence and the capital of Nassau. It also extends to inclusion of a greater fraction of micro, small and medium-sized enterprises, in greater proportion, in the digital payments landscape,[5] with more affordably priced merchant services and increased access to tourist spending. The SandDollar can inspire accelerated private solutions to tackling costs and extending the reach of services within a more modernised ecosystem. Moreover, digital wallet providers have shown greater agility in implementing simplified due diligence guidelines than Banks, in part because they were taken on at the inception stages of their business. Whereas, for banks and credit unions, it has been more gradual, because the standards have required changes to more complex internal compliance systems.

While our work on retail CBDCs still has some foundational issues to address, that would increase the upside for adoption, the experience thus far has been incredibly useful in strengthening our policy framework. For example, we acknowledge that a retail CBDC is supposed to be a digital representation of cash, just like cash in every aspect, except anonymity. Since cash is accessible to all, by design, work on the SandDollar has helped to reshape how we use AML and other compliance rules to govern

[3] Anti-money laundering, counter-financing of terrorism and anti-proliferation, as recommended in standards adopted by the Financial Action Task Force.

[4] The Analysis of The Bahamas Financial Literacy Survey 2018 estimates that more than 90 percent of the adult population has access to banking facilities. However, access levels in the population drops closer to 80 percent, when estimated undocumented immigrants are factored.

[5] The Central Bank of The Bahamas' Survey on the Cost & Access of Payment Methods at Commercial Banks June 2023 revealed that micro and small business transact in cash in greater percentages than larger enterprises, with the merchant fee structure cited as a dis-incentive to greater acceptance of credit and debit cards.

universal access to, rather than exclusion from, e-money.[6] Similarly, it has accelerated our thinking around policies that may need to be developed to promote digital inclusion for financial services, and access to digital government services. This could require new regulatory mandates to ISPs and mobile phone services providers, working with the regulators and industry stakeholders in that space, as well as an approach to defining costs and subsidies for basic universal access to data.

What is also a policy matter, regarding the higher standard for digital central bank money, is that it is expected to always work for payments, even when the communications network fail. I believe that this will be a crucial distinguishing factor between public money and private money in the era of digital payments. The Central Bank of the Bahamas has an active interest in this workstream. Overtime, I believe that it will draw out a complementarity rather than substitutability between retail CBDCs with other payments systems. Even though, according to the BIS, a lot of central banks are moving faster to explore wholesale CBDCs, which still leaves commercial bank money as the final leg in retail payments, the need for offline functionality could still emerge in these use cases and with it, the question of what common instrument would satisfy the offline settlement, which Central Bank money achieves.[7]

That said, the acceleration of work on wholesale CBDCs, in complement with further implementation of fast or instant payments is a good alignment with the G20 Roadmap to improve the efficiency and performance of retail cross-border payments, especially to the benefit of the most vulnerable who shoulder the high-cost structure for remittances—particularly, those in emerging markets and Developing Economies, including Africa, the Caribbean, Pacific, and Latin America.[8]

Even as offline functionality strengthens the use case for retail CBDCs, there are other issues to address. Financial literacy efforts must continue to be strengthened to tackle concerns about the security of digital payments. Also, from a Governance point of view, it is important to build trust, tackle privacy concerns, deploy solutions that give individuals sovereignty over their data, and enforce transparency and disclosure standards around safeguarding data from malicious or accidental breaches.

Central Bank money must be seen as a public good. Similarly, whether it is for issues of the scale or efficiency at which the private sector can provide solutions, aspects of our payment system and infrastructure become public goods. The platform for interoperable services that a retail CBDC provides for The Bahamas is a public good. The scale of what can be achieved efficiently, and for governance, will look differently in The Bahamas and small countries, in retail payments. Some of the solutions and tools we continue to explore, such as a central bank developed app, reflect on the basic infrastructure for digital payments adoption, and more of which could migrate to the private sector as our payments system matures.

Central Banks and public infrastructure are likely to continue to play pivotal roles in payments systems. What we witness now is a much swifter response to the needs of economic stakeholders, anchored in

[6] Anyone inside The Bahamas can the use the SandDollar, and on a limited basis have access on a Tier 1 basis, if simplified customer due diligence is not undertaken.

[7] This is a reference to the "singleness of money" concept discussed in the recent BIS Annual Economic Report 2025, around the unifying ledger in which commercial bank payments would be settled in central bank money. A unifying instrument might also be needed for offline retail payments.

[8] In the Caribbean, the Caricom Payment and Settlement System (CAPSS) is being explored as a real-time, low-cost platform operating in Caribbean currencies, to facilitate cross-border payments and reduce reliance on conventional correspondent banking, as well as promote regional trade and integration. The Bahamas, together with Barbados, and Eastern Caribbean Central Bank have committed to being a part of the pilot program.

the role that money should continue to play, and based on the varied maturity state of domestic payment systems across the globe. CBDCs should not be seen as redefining money—just how it is ported, stored and how it facilitates exchange. It is still up to the private sector to innovate and leverage how money is used in these core circumstances. I expect that the mix of experiences and perspectives at this conference from public and private sector stakeholders, including central bankers, will deepen our appreciation of these issues and provide solid lessons that can be incorporated into both our individual and collaborative initiatives.

Thank you to all of our partners and participants, Central Bank representatives, Bahamian stakeholders and guests. We look forward to engaging with all of you over the course of this conference.