

# The BVI fintech transformation

From a traditional financial services centre to a global fintech hub, Simon Gray charts the emergence of the BVI as an innovation and investment hotspot across the fintech and digital space

**T**he British Virgin Islands (BVI) is emerging as a global hub of fintech innovation and investment, evidenced by the arrival of several exciting fintech start-ups and providers over the last few years. Increasingly, businesses in the sector are recognising the advantages of the BVI, attracted by fit-for-purpose regulations, ease of doing business and a growing talent pool across the fintech and digital space.

### **Regulatory innovation**

One of the BVI's most significant regulatory innovations to date is the BVI Fintech Regulatory Sandbox. This initiative was conceived to support fintech innovation while ensuring that digital products and services comply with regulatory standards.

The sandbox was developed in anticipation of the needs of financial services providers and innovators striving to succeed in an increasingly digitised global commercial environment. This regulatory framework facilitates the testing of 'innovative fintech,' which refers to technology that creates, enhances, or promotes financial products or services.

The sandbox tests the operational efficiency of new financial products, detecting problems, and envisioning improvements.

But in tandem with efficiency testing, the sandbox enables the BVI Financial Services Commission (FSC) to assess the product for essential compliance with legal and regulatory requirements. Companies undergoing sandbox testing are afforded 18 months to conduct business in the BVI without a licence.

The regulatory sandbox is currently accessible to BVI financial services providers and start-up businesses. The facility is also intended for a varied and expanding range of financial services and banking applications, as digital banking

and credit sector applications are expected to feature strongly in response to calls for more advanced virtual banking and credit services in the wake of the COVID-19 crisis.

The sandbox represents another future-focused strand of the BVI's innovative regulatory framework. It puts ongoing digitisation of banking and wider financial services at the centre of the jurisdiction's offering.

The support of fintech through the sandbox regulations initiative has contributed to the BVI's reputation as a progressive hub for digital asset centred opportunities. This standing is set to continue through the BVI's culture of evolving regulatory provision by benchmarking with the best.

*The position of the British Virgin Island financial services centre as a global hub for financial technology development is only set to grow*

## **Evolving fintech**

Examples of future fintech developments extend to the promotion of smart contracts such as the Limited Liability Autonomous Organizations (LAO). A LAO is a digitally organised business – a Decentralized Autonomous Organization (DAO) within a corporate structure – with legal standing invariably structured as a limited liability company.

DAO activities are defined by rules that decide on the actions the organisation will take. The decision making within a DAO is made electronically by a computer code or through the votes of its members.

A key problem with first generation DAOs was rooted in their lack of clear legal basis, which resulted in issues including vulnerability to fraudulent attacks that in turn threw up difficult questions regarding liability for the loss of funds.

To address such problems, the DAO concept has progressed into a next generation form, the Limited Liability Autonomous Organization (LAO), which is essentially a DAO within a corporate wrapper. LAOs represent a model for the next generation of digital disruption in business registration.

## **Digital assets**

The BVI is also focussed on the delivery of quality service provision to the rapidly growing digital assets market. Working hard to position itself as a fintech hub, the BVI became the jurisdiction of choice for token generation.

Tokens are issued through Initial Coin Offerings (ICOs) or Initial Token Offerings (ITOs). The token issuer will raise funds by issuing the coin or tokens on a blockchain network in return for investment in the form of conventional fiat currency or even cryptocurrencies.

The BVI subsequently expanded its offering from token generation into related areas such as token exchanges and investment funds focussed on cryptocurrency and other blockchain-based digital assets.

The BVI has striven to become a force in the new capital raising wave, which has led to increased interest in BVI companies as ICO issuer vehicles. The advantages offered by BVI company registration has seen the jurisdiction become an ICO hub of choice over other financial centres.

The BVI's range of legislative advantages and territorial benefits mean that BVI companies benefit from the corporate flexibility and efficiency enshrined in the modern and commercially minded BVI Business Companies Act (BCA).

In addition, a range of other jurisdictional company laws, the BVI's tax neutrality, the absence of capital control and maintenance rules, low incorporation and annual company maintenance costs, and efficient company maintenance, are among a range of additional benefits.

The BVI instinct for services innovation is demonstrated by the approach taken by the BVI Financial Services Commission (FSC) to the regulation of cryptocurrencies, tokens, and other digital assets. The BVI FSC has chosen a progressive approach as outlined in its Guidance on the Regulation of Virtual Assets in the British Virgin Islands 2020.

Unlike some other jurisdictions where specific regulations in relation to digital assets and related activities have been introduced, the BVI guidance for virtual assets examines each major piece of BVI financial services legislation on a case-by-case basis to assess how it should be applied in relation to tokens, cryptocurrencies, and other digital assets. The FSC will be regulating VASPs soon.

## **Innovation and support**

The BVI's innovative approach to regulation has seen the territory become one of the largest cryptocurrency markets in the world, featuring in the top five geographical markets by US dollar denominated trade volume.

According to figures from PwC, the BVI is now home to one in six of the crypto hedge funds currently in place globally. In 2015, the BVI launched its Incubator and Approved Funds regimes. The BVI Incubator Funds regime proved to be ideal for light-touch, short term crypto vehicles – many of which are also hedge funds.

The regime has become known as the '20-20-20 fund' due to its structure, which takes a maximum of 20 investors, a minimum initial investment of US\$20,000, and net assets of up to US\$20 million.

This product appeals to the increasing number of pioneer managers who are looking to gain a track record before converting the Incubator Fund to a more sophisticated fund product. It works well for the growing fintech and crypto-asset fund type.

Crypto hedge fund managers are often attracted to this structure as offshore funds are typically subject to significant administration costs and high levels of supervision, whereas the BVI incubator fund minimises initial requirements so as to enable start-up crypto managers to come to market faster and more seamlessly.

The BVI Approved Funds framework facilitates a maximum of 20 investors, an aggregate maximum investment not exceeding US\$100 million, requires no minimum subscription, and has an evergreen duration. An approved fund is very flexible and may operate without appointing a custodian, investment manager, or auditor, but unlike an incubator fund will need an administrator.

In 2020, the BVI launched its Private Investment Funds regime, which brought a new regulatory framework for closed-ended funds, including private equity and venture capital funds.

A private investment fund (PIF) is a company, limited partnership, unit trust, or any other body that collects and pools investor funds and issues proportionate interest calculated on the net asset value of the fund. A PIF must be recognised by the BVI Financial Services Commission (FSC) prior to carrying on business.

The popularity of the BVI's innovative funding regimes has helped to secure the jurisdiction's position as one of the top global hubs for crypto hedge funds provision.

### **Adapting to market needs**

The BVI financial services centre has nurtured success through diligent attention to the needs of its companies. This focus brought about the establishment of the Bank of Asia in the BVI in 2014, which was launched as a fully digital institution signifying the importance of the Asian market to the jurisdiction.

The bank represents one of the jurisdiction's most direct contributions to the digitisation of global banking, offering essential support to corporate service providers through a cost-effective banking solution for their customers.

### **Safeguarding growth**

The BVI believes that at a time of unprecedented digital proliferation, industry change and opportunity, it is essential to safeguard growth through adherence to international standards.

To this end, the BVI Financial Services Commission follows the regulatory principles of the Basel Committee (Banking), the IAIS (Insurance), IOSCO (Securities, Investments, and Funds), the OECD (Corporate Governance), as

well as adhering to recommendations by the Financial Action Task Force (FATF), to combat money laundering and terrorist financing.

This adherence to standards safeguards investment in innovation, BVI companies, the territory, and wider business markets.

To further demonstrate its commitment to operational transparency and accountability, the BVI created the BVI Beneficial Ownership Secure Search System Act (BOSSs) in 2017.

The Act requires registered agents and financial service firms in the BVI to create a database of beneficial ownership information relating to in-scope entities they represent.

The BOSS system acts as a highly secure depository for essential business data. The BOSS is indicative of the BVI's commitment to legislative and services innovation at a time of exponential digital and fintech growth.

The acceleration in global digitization resulting from the COVID-19 pandemic will make the role of the BVI in global finance as a facilitator for innovation and investment ever more relevant.

Just as important is the BVI's example to other jurisdictions on the essential role of regulation and meeting international standards in safeguarding innovation and growth. Rather than stifle enterprise with unnecessary bureaucracy, smart regulation acts to safeguard success.

The example of the BVI Sandbox underpins this point. The position of the British Virgin Island financial services centre as a global hub for financial technology development is only set to grow. ■

**Simon Gray is Head of Business Development and Marketing at BVI Finance**

