

## PALAU STABLECOIN FAQs

Feb 17, 2023

### **1. What is the Palau Stablecoin (PSC)?**

A stablecoin is a token that is fixed in value to another asset. The Palau Stablecoin (PSC) is a digital asset fixed in value to the U.S. Dollar. It can be used just like you use fiat currency, but instead of using a wallet, users will hold their PSC using a digital wallet.

### **2. What is a digital wallet or e- wallet?**

An e-Wallet is a secured digital repository with a wallet owner, just like the physical wallet you may now carry in your pocket or handbag.. A digital wallet can hold a stablecoin, digital currency , CBDC or electronic money which can be accessed by the user with their credentials via mobile devices or computers.

### **3. Why does the Palau Ministry of Finance believe this is needed in Palau?**

The Palau Ministry of Finance has sponsored the Stablecoin project to explore ways to make payments easier and more affordable for the Republic of Palau. The goal is to make financial services more widely available through digital access to under-served communities and socio-economic groups. Another goal of the Palau Stablecoin is to reduce service charges for transaction costs like cash transfer, credit card payment fees etc... The implementation of PSC will increase the efficiency of financial services across the Republic of Palau.

A benefit of Stablecoin use in the Republic of Palau is to help reduce energy consumption it takes to transport currency, i.e. between stores and banks or even between family members. This will help reduce the Republic of Palau's carbon footprint.

### **4. Is the issuance of the PSC part of a plan to make the country cashless?**

No. Cash (the US Dollar) will still be used in the Republic of Palau.

### **5. Is the Palau Stablecoin a cryptocurrency?**

In simple terms, a Stablecoin is a cryptographic token. Stablecoins are usually issued by privately-owned enterprises and have been introduced to take advantage of many of the advantages of cryptocurrencies whilst addressing the high price volatility of cryptocurrencies (i.e., bitcoin, ether, etc.). Leveraging the underlying blockchain technology, they can be easily transferred from one digital wallet to another and may be used to facilitate faster and cheaper cross-border fund transfer and remittances. Stablecoins are also used in Decentralized Finance (DeFi) to leverage opportunities in cross-exchange arbitration, lending and borrowing. A stablecoin is not a cryptocurrency, it is considered more stable than a cryptocurrency because its value is pegged against a fixed asset-security, typically a fiat currency.

### **6. Where will Palau Stablecoin be accepted?**

In the initial pilot, only select retailers and government users will accept the Palau stablecoin. The goal is to test the technology and get feedback from the people to see how they feel about

it, how useful it is, before we consider a larger deployment

**7. Is the system secure?**

Yes, the system is highly secure. Blockchain, by its nature, is a highly secure technology. Access to the Republic of Palau Stablecoin uses multi-factored authentication, high level encryption protocols and enhanced KYC/AML standard.

**8. How long do we anticipate for the pilot to continue before we transition to deployment?**

The pilot is planned for a three-month period where we will test it in a limited scope and collect feedback from the participants.

**9. How will using stablecoin differ from using other virtual payment options i.e. PayPal or Google?**

Paypal, Venmo and Google are commercial products and as such they charge user fees for some payment services. The Palau Stablecoin is sponsored and managed by the Palau Ministry of Finance, not a commercial vendor. There will be no charges with PSU.

According to research conducted by [Forbes](#), "PayPal and Venmo charge an extra fee (1.75%) for instant transfers when moving money to your external bank account or card account. And both charge for sending money with a credit card: 3% with Venmo and 2.90% on PayPal. PayPal and Venmo also charge fees for business transactions."

Google Pay and Apple Pay also have fees associated with their use. There is also more privacy protection for transactions using PSU, as third parties can't access your transactions. With commercial services, data is always vulnerable to hackers and scams.

**10. There's a lot of controversy surrounding bitcoin. How is stablecoin different?**

A stablecoin doesn't have as many market fluctuations as the cryptocurrency market. Bitcoin is a cryptocurrency. Stablecoins differ from other cryptocurrencies because their value is linked to government-issued currency or "stable" assets (which can include cash, bonds, gold, or any number of assets, even other cryptocurrencies.) Stablecoins are generally considered to be less volatile in market fluctuations than other forms of cryptocurrency. Bitcoin necessitates cryptocurrency mining, which uses incredible amounts of energy. The Palau Stablecoin is built with Ripple's technology which doesn't involve cryptocurrency mining and is therefore energy efficient.

**11. Is a Stablecoin safe? Could I lose my money?**

It is safe. The Palau Stablecoin is aligned to and backed by the U.S. dollar. This means that one PSC is backed by a dollar in cash, treasury securities or other safe assets, and thus redeemable on demand.

**12. How can a Stablecoin help Palau's economy?**

The stablecoin will provide a universally available value store and payment option for Palau citizens that is not dependent on a commercial institution (bank), does not include banking fees and accelerates the transaction and payments time - think a digital form of physical cash. This can help avoid "late fees" and other bank surcharges. No bank account is necessary for citizens

to use the Palau stablecoin. This will facilitate greater financial inclusion for those who have been unable to open a bank account. With a Stablecoin, money transfer can happen without the sender and the recipient being in the same physical location.

**13. How are the government employees being selected and what if there are more than 200 volunteers?**

It will be limited to 200 people and the selection process will be first on a voluntary basis, then with random selection if less than 200 people. It will help determine if Palau government wants to roll it out, hence the success criteria draft document we created.