

COVER STORY

Upbeat FinMin says digital currency shows power of policy

Only NCB on board so far for CBDC pilot

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Minister of Finance Dr Nigel Clarke.

Minister of Finance Dr Nigel Clarke is bullish about the proposed central bank digital currency, CBDC, that is planned for roll-out around the start of the next financial year in April 2022, after a six-month pilot that is expected to get under way next month.

Clarke is touting the still-to-be-named digital currency, along with the national identification system, NIDS, as being “the foundation of the digital transformation of our society”, a remark he made via Twitter earlier this week.

Natalie Haynes, deputy governor for banking and currency operations and financial markets infrastructure divisions at the Bank of Jamaica, BOJ, says participation in the digital currency pilot is open to all wallet providers, which

includes all deposit-taking institutions, or DTIs, and non-DTI authorised payment service providers that have tested payment products in the BOJ fintech sandbox designed to encourage fintech innovations. There are four non-DTI wallet providers.

But so far only one company, National Commercial Bank Jamaica, is fully on board for the pilot, having finalised a contractual agreement with E-Currency Mint, the technology service provider that is building out the CBDC system for the BOJ.

“Another DTI will come on in November,” Haynes told the **Financial Gleaner** on Thursday. “We expect others to come on board by year-end. They can come in at any time,” she said.

Finance Minister Clarke, in a separate interview with the **Financial Gleaner**, characterised the quick turnaround by BOJ in bringing the technology to the market, albeit on a test basis, as a reflection of the power of policy.

On August 9, BOJ minted \$230 million of the digital currency as the first batch of the country’s central bank-backed CBDC.

“It was in September 2020 that we gave the BOJ the unequivocal mandate to get this done – develop the CBDC as a means of using technology as a ladder of development. We pivoted to address the needs of the society as they are today,” Clarke said, referencing the urgency of moving financial transactions to digital platforms against the background of the COVID-19 pandemic.

“It shows that as a government, we are serious about what we say we are going to do. This move is a conscious policy choice of the government. CBDC is a brave new world, and there are lots of possibilities in the future,” he said.

The finance minister pointed out that the experience of the state in getting financial assistance to needy Jamaicans through online sign-up and disbursement by direct deposit to bank accounts, revealed that a large segment of the population is unbanked, highlighting the need for a payment method such as the CBDC to be employed as a way of broadening financial inclusion.

“The graphic exposure of the size of the unbanked population from the CARE programme demonstrated the efficiency of this reality-influenced policy. CBDC offers a more secure, more efficient form of currency with the potential of significantly broadening financial inclusion,” Clarke noted.

The CARE programme was the initiative under which the government provided one-off cash assistance to persons who were deemed to have been among the most vulnerable groups negatively impacted, economically, by the pandemic.

Independent of national ID

While Clarke’s public juxtaposition of the national ID with the digital currency roll-out created some negative feedback, the financial minister was quick to point out that the CBDC was independent of the move to introduce a national ID.

“I made that link to demonstrate that it is not isolated. We are doing a number of things. We are rolling out public broadband and strengthening connectivity as part of a number of initiatives geared towards digitising the society, but the CBDC will exist on its own. We don’t need to have a national ID to make this work,” he made clear.

He added that users of the digital currency, which will be equal to the value of Jamaican dollar cash, will be onboarded after providing and having verified their name, address, telephone number and tax registration number, as were the requirements for the CARE programme.

Meanwhile, the finance minister is promising that further legislative amendments making the CBDC legal tender and establishing BOJ as the sole authorised issuer of the currency will be brought to Parliament and enacted before the end of the current fiscal year in March 2022.

“The CBDC will not be issued to the public at large until we give the central bank the legal mandate that they are the exclusive provider of the CBDC.

Technologically, everything is ready,” Clarke said.

His take on the pilot is that it provides an opportunity to iron out kinks, amass experience in the new area of digital payment, and enable participating financial

institutions and other authorised payment providers time to develop their mobile wallets – typically mobile phone apps through which transactions will be possible.

“With this pilot, those who are lagging can accelerate and get their infrastructure in place so that when it is launched, they will not be left behind and they can then sign up as many customers as possible,” Clarke explained.

The authorities expect the CBDC to drive down the costs of financial services, facilitate more economic activities and be an easier-to-access and more efficient and secured way of making payments. For deposit-taking institutions and the BOJ, CBDC is also seen as an opportunity to improve cash management processes and lower cash handling costs. An explosion in new products created by tech firms and financial institutions is another expected offshoot of the CBDC.

While some financial analysts and global institutions have been mulling the possibility of CBDCs assisting to simplify cross-border payments, Clarke is not venturing there just yet.

“There are some who speculate that cross-border transactions will be easier, but we are not focused on that right now. The focus is financial inclusion – the revolutionary impact that we will have by bringing hundreds of thousands of Jamaicans into the financial system. That, by itself, is of tremendous value,” said the finance minister.

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