

Big price tag for digital currency pilot

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BOJ Deputy Governor Natalie Haynes.

The Bank of Jamaica, BOJ, has received Cabinet approval to spend under \$1 billion over several months, starting in the middle of this year to early next year, in the pilot phase of the central bank digital currency or CBDC project being implemented with the support of chosen fintech partner eCurrency Mint Inc of Ireland.

Natalie Haynes, the BOJ deputy governor in charge of banking and currency operations and financial markets infrastructure division, told the **Financial Gleaner** in an interview that eCurrency was selected through a process of open bidding from among 40 local and foreign e-service providers that vied for the contract.

Haynes said only the cost for the pilot is known at the moment. Declining to disclose the precise figure, she preferred to locate the cost of the pilot within the general ballpark of being “significantly below what it costs annually to provide banknotes and coins”. That cost to replace and retire cash from the banking system each year was put at around \$1 billion.

Jamaica is entering the digital currency space for the first time through the CBDC, which will operate as an alternative option to cash. The country is ahead of large economies such as the United States, Canada, United Kingdom and Australia in development of a digital currency, but behind the Eastern Caribbean Central Bank, which will launch its CBDC, called DCash, today, March 31.

Jamaica's CBDC is yet to be assigned a name. It will be accessible to both banked and unbanked consumers via e-wallets or mobile wallets.

One of eCurrency Mint's strong points was its ability to seamlessly integrate its technology with the BOJ's existing real time gross settlement, or RTGS system, with the eight commercial banks, one merchant bank and two building societies it supervises.

The cost of the BOJ pilot project involves fees to the provider, including its man-hours for development, operation and training of BOJ staff, software deployment as well as the cost to buy the required hardware, the bulk of which is being frontloaded during the pilot.

Haynes does not expect the annual cost of the CBDC roll-out to rise above the funds spent on the pilot. It could possibly be less, given the biggest spend on equipment is taking place in the test phase.

The central bank is still going through the process of determining what additional in-house IT capacity it needs to build out, and the specialised skill sets it needs to add.

Founded in 2011, eCurrency Mint markets itself as a company formed specifically for the purpose of working with central banks to pioneer the development, issuing and operation of CBDCs safely and efficiently, utilising its digital symmetric core currency cryptography technology. The company started its work with the BOJ last week, having developed a project schedule.

The central bank says it will have control over the system being developed and deployed by eCurrency Mint.

“[BOJ] will have full control, basically. Using the analogy of the RTGSS, FX trading and all other systems used by the BOJ, these were developed by another provider, but these are Bank of Jamaica systems; BOJ has the ownership of the systems,” Haynes said. Technical issues that are beyond the capacity of the central bank’s technology personnel, she adds, would be resolved by the third-party tech provider.

The digital currency will rank in value with the Jamaican dollar, but won’t be tenable for international transactions. As such, its rate of conversion to the US dollar will be on par with JMD cash. The banks typically assign different foreign exchange rates for the trading of cash, cheques and wired funds.

The BOJ is also banking on the CBDC cutting costs and eliminating inefficiencies now currently embedded in the process of delivering cash to the financial system. These include what are said to be the huge costs paid to two mints in the UK and Germany to print Jamaica’s currency; shipment; and ground transport by courier to BOJ vaults as well as for distributions by the central bank to commercial banks, merchant banks and building societies.

The BOJ deputy governor was not able to give a figure for the expected savings, saying some of the offsets were non-quantitative.

“Cash is costly, not just to acquire it, but also in terms of inefficiencies,” Haynes said.

There is a nine-month lead time involved in forecasting cash demand by denomination type, placement of orders with the overseas printers, shipment to the BOJ, placement of orders by denomination type with the BOJ by banks and near banks, counting and packaging of cash at the BOJ, and distribution to financial institutions, she noted. These steps would be eliminated to some degree based on the eventual public take-up of the digital currency.

The BOJ is hopeful that each year there will be at least a five per cent replacement of cash with the CBDC, a replacement rate which it would deem a success. There is currently some \$170 billion of currency in circulation and the

BOJ estimates that it provides between \$16 billion and \$20 billion in cash to the financial system each month.

“With the CBDC, banks will call and place their orders with the BOJ, somebody goes into a room and within a split second, the money is ready and deployed. No need for forecasting except in a general sense for money supply,” said the BOJ deputy governor.

“We really would like to see that switch-out, over time, but we know that it will not happen even in the medium term,” she said.

The CBDC being developed for Jamaica will fall into what is called the hybrid category, under which the BOJ will do wholesale distribution of the currency to banks and other institutions, which in turn will distribute the digital currency at the retail level to their clients.

Microlenders and credit unions will also be included when those entities are onboarded as BOJ-supervised institutions. The Microcredit Act was passed in January; but the Credit Union (Special Provisions) Act and companion legislation amending the law under which cooperative societies are policed, to facilitate the transition to BOJ oversight for credit unions, are yet to reach Parliament.

The CBDC will not be issued by the central bank to individuals, the BOJ official made clear, and as such, no individual digital currency accounts will be held at BOJ.

“Financial intermediation affects the transmission of monetary policy and we don’t want to upset that dynamic,” Haynes said in explaining the importance of routing the CBDC through banks and near banks, where members of the public will be able to hold accounts.

These accounts will be non-interest bearing because they will be treated as a store of cash for exchange and not savings or investments. CBDC accounts may also be integrated into the existing point of sale payment systems and infrastructure of commercial banks and e-wallets provided by authorised payment providers.

Consumers can also expect to operate digital currency accounts from their mobile phones.

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