

WELCOMING REMARKS BY THE GOVERNOR OF THE BANK OF NAMIBIA: JOHANNES IGAWAXAB AT THE CBDC AND CRYPTO ASSETS THOUGHT LEADERSHIP EVENT ON THURSDAY, 22 SEPTEMBER 2022, WINDHOEK.

Directors of ceremonies;
Invited speakers from the Central Reserve Bank of El Salvador,
Bank of Ghana,
Central Bank of Nigeria,
South African Reserve Bank
Deputy Governors of the Bank of Namibia, management, and staff;
Members of the banking and non-banking industries industry present;
Members of the media;
Distinguished guests, ladies, and gentlemen.

Good morning,

- 1. It is my distinct pleasure to address this esteemed audience present here today and those who have joined us online.** I welcome you all today to be part of this Thought Leadership event. We welcome speakers who have taken the time to join us virtually and in person to deliver the topics provided on the programme.
- 2. In the face of a fast-changing, digitally transformed world, financial systems are equally changing.** A vivid example is how the payment landscape has undergone a disruptive transformation, owing in part to the Covid-19 pandemic as digital payment channels have proliferated. People are paying digitally rather than with cash. E-commerce does not accept cash, and many physical stores prefer cashless payments. This digital money trend is convenient and opens a plethora of new opportunities, particularly for financial inclusion and innovation. Is this, however, a rosy picture? Is there anything on the horizon that should worry us? Are we exaggerating the advantages of these innovations while ignoring the risks?
- 3. The timing of this event is thus opportune for us to set the tone and assess the benefits and risks of Central Bank Digital Currencies (CBDCs) and Virtual Assets.** This session is meant to exchange ideas and learn from the journeys of various leading countries on the subject matter. We approach these topics carefully and pragmatically as

we explore the lay of the land and chart our own course, keeping in mind our own set of realities and objectives.

Ladies and gentlemen,

- 4. The future of money is at an inflection point.** The battle between regulated and unregulated money on the one hand and sovereign versus non sovereign money on the other. To ensure trust and stability in the financial system and manage risks associated with digital forms of money we should defend the regulated money and rein in unregulated finance. Given our constitutional obligation to carry out central bank functions such as currency issuance, as the central bank entrusted with this responsibility, we shouldn't shy away from assessing the significance of money in all its manifestations and future in this rapidly changing world. Technologists, inventors, and futurists offer creative answers to the question, "What does money mean in the digital age?" Some believe that money and finance will be supplied by a small number of large institutions in the future. Others, on the other hand, believe that the current financial system is antiquated and advocate for a more decentralized financial system with minimal regulatory oversight. With new service providers coming in all shapes and sizes, regulators will have their hands full. Another complication is that we are gradually but steadily entering a territory where we must regulate and scrutinize financial activities more closely than financial entities, as the latter no longer fits the traditional box.

Ladies & Gentlemen,

- 5. In the wake of these developments, we have not folded our hands.** The changing landscape of finance was an imperative that informed the Bank of Namibia's various initiatives and overarching objectives when it developed its Strategy for 2022-2024. We've long concluded that "listening perceptibly to the music of the future and dancing to it today" must be an unwavering endeavor for us. Our goal is to further modernize Namibia's financial system so that it remains relevant and keeps up with, if not outpaces, other leading central banks and the rest of the world. In light of such strategic foresight and the rapid digitalisation of the financial system, the Bank of Namibia has been considering whether a potential CBDC could play a role in the future digital payment landscape and its potential properties, costs, and benefits. However, the case for CBDCs is different in each country and we shouldn't blindly follow what others implemented as solutions for their countries. Furthermore, given the risks associated with these particular innovations, we

have also considered effective oversight of the burgeoning virtual asset space in its various manifestations.

6. **Our position on these concepts and innovations is not static and constantly evolving, informed by surveying the domestic landscape and pairing this view with global standard setters.** We are determining where our limited resources should be directed, and which aspects of digital innovation are a source of concern in order to protect consumers and safeguard financial stability as chief considerations. Namibia's population is small, but its challenges are diverse and often one-of-a-kind. While global trends may speak to innovation in a specific way, we must ensure that our efforts always align with the realities of innovation within our landscape and that the financial system of the future solve our own challenges and one that is fit for our purposes.

7. **However, we are not in the process of reinventing the wheel.** In every way, we are building on the foundation of a resilient and dynamic traditional payment landscape, which has resulted in a dynamic payments landscape open to innovation and diverse players. While cash remains a significant part of our economy, the National Payment System (NPS) aims to drive Namibia toward a cash-lite society, as stated in the National Payment System Vision and Strategy 2025 developed by the payments and banking industry, the Payments Association of Namibia, and the Bank as the overseer of the payment system. New business models are created daily, recent technological advances continue to change our landscape, and new operating models establish themselves in almost every sector - all thanks to digital transformation. Some of these technologies have a great deal of promise to facilitate improved financial inclusion, cut down on transactional costs and frictions, boost competition, facilitate faster trade, and make it easier for more people to participate in the financial system.

8. **As we drive this digital transformation agenda and embrace innovation, we must focus on instilling confidence and trust in the national payment system and the financial sector.** People are willing to trust and accept money today because everyone else will do the same tomorrow. Therefore, trust and acceptance of currency is the fundamental element that ensures the stability of the monetary system. It is essential for the smooth running of society that trust and acceptance of the Namibian Dollar in whatever form, whether notes, coins, or a CBDC, be preserved. For there to be trust, institutions must be strong and able to endure the passage of time. Institutions that protect the value of the currency as the fundamental unit of account, legal tender, medium of exchange, and

store of value for the economy, in addition to the safety and reliability of monetary transactions.

9. **As mentioned, despite the convenience and innovative brilliance of digital payment instruments, we are alive to the fact that some pose significant risks to both individuals and entire economies.** As the Central Bank of Namibia, we see the role of the Bank as a catalyst in advancing a digital economy. Therefore, we must modernise the financial system and not restrict our thinking to the financial systems of the past while ensuring that we bring along everyone from all corners of Namibia to ensure prosperity for all.
10. **With that said, let me address the elephant in the room: virtual assets.** Since the introduction of Bitcoin, one of the most popular decentralized virtual assets, in 2009, the market for virtual assets has grown exponentially, owing to increased market liquidity, the expansion of the blockchain ecosystem, and the emergence of stablecoins. Because of the close relationship between virtual assets and the real economy, the Bank of Namibia must manage any potential risks to monetary policy and financial stability in a proactive manner. We have seen some specific positive user cases of virtual assets. We are well aware, however, that some uses have occurred through the criminal front, such as fraud, theft, money laundering (ML), and terrorism funding (TF). As a result, the Financial Action Task Force (FATF) anti-money laundering/counter-terrorism financing (AML/CFT) has mandated standards for handling virtual assets. These should be carefully considered and effectively implemented to mitigate threats to financial integrity.
11. **For this reason, Namibia has agreed to review its legislative framework to pave way for an appropriate framework that is conducive to this sector.** The relevant prudential regulators are working to regulate virtual assets and draft a framework for virtual assets and virtual asset service providers. A technical committee has been established between the Bank of Namibia and NAMFISA to develop a prudential licensing and regulatory framework for Virtual Assets (Vas) and Virtual Asset Service Providers (VASPs). The Committee is charged with developing a prudential licensing and regulatory framework. Until such a time that it is finalised and operationalised, the public remains cautioned to be careful when investing in virtual assets, as there is no protection should funds so invested be forfeited.
12. **However, through our newly established Innovation Hub, we have made significant progress proactively meeting this small but growing sector.** The Hub recently

conducted a survey to engage FinTech players and better understand the landscape of Virtual Assets and Virtual Asset Service Providers in Namibia. We are pleased to report that the discussions between the service providers and the Hub were fruitful and gave us a better understanding of their operations. To continue forging this relationship, the Bank is prepared to bring Virtual Assets and Virtual Asset Service Providers under its Fintech Framework in place since last year in a phased and structured manner for increased dialogue and to assess potential risks through its Innovation Hub. The precise plan is that the Bank will, in the short term, register Virtual Asset Service Providers (VASPs) and, in the long term, as mentioned, amend applicable laws and regulations diligently in consultation with other relevant authorities such as NAMFISA.

13. **As an outcome of these engagements, we are updating the position paper on Virtual Assets and Virtual Asset Service Providers.** While Virtual Assets in Namibia remain without legal tender status, the acceptance of virtual assets for the payment of goods and services will be at the discretion of any merchant and buyer willing to participate in such an exchange or trade. Our position remains that Initial Coin Offerings (ICOs) leave themselves up to the possibility of fraud, manipulation, and misrepresentation. As a result, the Bank does not advocate nor support the general public's engagement in initial coin offerings (ICOs) related to virtual assets.
14. **Now, let me briefly turn to CBDCs.** As we consider the meaning of money in the digital age, some central banks are no longer discussing CBDCs as futuristic ideas. Central banks have begun investigating the implications of issuing CBDCs; the Bank of Nigeria is one such forerunner, and you will hear from them today. Even though CBDCs are still in their early stages, with much uncertainty, central banks are building up their ability and technological capability to explore and optimally use these new technologies in order to prepare for the future. We believe that if CBDCs are explored and implemented with due care and caution, they have the potential to be far more stable, safer, widely available, and less expensive than private forms of digital money.
15. **As a responsible institution, it is only natural for us to thoroughly investigate whether a CBDC could play a role in preserving some of the current financial system's secure and functional components in a complementary fashion to private sector innovations that are reshaping the future financial ecosystem.** The ultimate goal of contemplating the implementation of a CBDC is to ensure that individuals operating in an increasingly digitalized economy continue to have access to the safest form of money - central bank money. The Bank will continue to exercise caution to ensure that technology

is not simply adopted because it is available but that each digital transformation initiative is directly linked to the Bank's mandate and the promotion of financial inclusion. However, it is still early in the game. Today's session is meant for us to understand the legal, technical, technological, and social impacts of CBDCs from the trailblazers in the room.

Ladies and gentlemen,

16. **Patrick Dixon once remarked, “In banking/finance, trust is the only thing you have to sell.** As I answer the question of the meaning of money in the digital age, I have come to the conclusion that the meaning of money still serves the same purpose; that of a *safe and secure* medium of exchange regardless of whether it is cash or digital format. The essence of currency is backed by the trust that it is a safe and secure medium of exchange. Consequently, the issue thus becomes which institution is best positioned to inspire confidence. I would argue that even in this digital era that we are living in, the organisations most equipped to provide trust have been and continue to be central banks. This is also the best way to guarantee an inclusive and effective financial system for everyone's benefit.

Ladies and gentlemen,

17. The purpose of this session is to initiate a dialogue about how we envision the future of money in Namibia, with all stakeholders on board - playing a meaningful role in ensuring the stability and integrity of our financial system while also embracing innovations that will further modernize the system for the prosperity of our Namibian people. I welcome all perspectives and encourage you to express yours as we continue to build on the solid foundation and progress we've made over the years.

Thank you for your kind attention.