

Public Lecture:

Topic: Modernising the Financial System

Date: Tuesday, 1 October 2024

Talking points/guidance notes delivered by Mr Johannes !Gawaxab, the Governor of the Bank of Namibia

Professor Frednard Gideon, Pro-Vice Chancellor of the University of Namibia,

Faculty,

Students,

Esteemed stakeholders in education

Captains of industry,

Our Audience joining us via Livestream,

Members of the media,

Ladies and gentlemen,

Good morning,

1. **It gives me great pleasure to welcome you all to yet another Bank of Namibia public lecture, which, this time around, focuses on the theme: Modernising Namibia's Financial System.** We have chosen to deliver this talk at Namibia's premier institution of higher learning - a cradle of innovation and the birthplace of transformative ideas. Here, in these very lecture halls, the future architects of our society are being moulded. It is within these walls that the seeds of tomorrow have groundbreaking ideas, concepts, and systems.
2. **The rationale for modernising the financial system in Namibia requires an understanding of the core mandate of the Bank of Namibia.** This responsibility revolves around promoting and maintaining monetary and financial stability while fostering sustainable economic development. This stability, in my view, should co-exist with innovation. We must find a balance between stability and innovation, two forces often seen as opposites. Without innovation, regulation becomes a lifeless tradition. Yet without regulation and stability, innovation lacks the trust needed for lasting impact. Trust is the sine qua non of stability. Both are essential, working together to create a sustainable future.
3. **We should view this lecture, split into four distinct sub-themes, through this prism—the mandate of the Bank and the stability-innovation oxymoron.** The sub-themes of the talk are: first, the need for modernisation and the role of the financial system in modern

economies; second, the challenges faced by the financial system, which we understand can be daunting; third, technological advances; and lastly, the Bank of Namibia's response to these changes.

4. **“A tree that cannot bend breaks.”** This timeless African proverb reminds us that adaptability is not just a survival strategy but a pathway to growth and progress. Today, we live in a world where technology is transforming every facet of our lives at an unprecedented pace—and the financial sector is no exception. As we look to the future, the need for a modern, inclusive, affordable and accessible financial system has never been more urgent. Just as a tree must bend with the wind to avoid breaking, we, too, must embrace change and innovation to thrive in this evolving financial landscape. This is a necessity and an opportunity to shape a better inclusive future. As technology advances, the expectations of consumers and businesses continuously evolve and become different. They now demand seamless, fast, secure, affordable and inclusive financial transactional services that reflect the realities of a modern integrated world.

Ladies and gentlemen,

5. **In the course of global economic history, financial transformation has often been a precursor to the rise of successful economies.** These transformations, characterised by the modernisation and innovation of financial systems, have played a causal role in promoting economic development, stimulating growth, and encouraging innovation.
6. **The depth and breadth of a nation's financial system – alongside other historical factors such as education – can thus be seen as a determinant of its economic progress.** Key components of a robust financial system include sound public finances, prudent public debt management, stable banking systems, effective central banks, and well-regulated non-banking financial institutions like pension funds, insurance companies, medical funds, and collective investment schemes. The financial system is crucial in driving economic growth and stability in our society by efficiently allocating resources, facilitating investments, and promoting wealth creation. It serves as the backbone of the economy, linking savers with borrowers, enabling businesses to access capital for expansion, and providing consumers with the means to manage and grow their wealth.
7. **Namibia's financial sector is growing.** According to the National Accounts, the financial sector has managed to recover from the negative impact of COVID-19, expanding by 3.2 percent in 2023 and constituting about 7.0 percent of GDP during the same year. I should, however, re-iterate that the importance of the financial sector is not about its direct contribution to economic growth, but rather that it performs a critical function and connection between private and public sector by being an enabler in the economy. Through a network of banks, financial institutions, capital markets, and payment systems, the financial system supports the smooth functioning of commerce, business, industry, and government operations. It also ensures liquidity in the market, fosters innovation through financing new ventures, and supports job creation. Moreover, managing risks through tools like insurance and hedging, it strengthens resilience against economic shocks. A well-functioning financial system is essential for maintaining confidence, encouraging savings,

supporting investments, and sustaining long-term economic development. While these basic functions and the role of financial systems remained essentially unchanged, the methods of delivering these services have evolved dramatically, driven by advances in information and communication technologies.

8. **While Namibia boasts a sophisticated financial system, it is currently confronted with a range of complex challenges that hinder its ability to serve all segments of the population and adapt to rapid technological and economic changes.** Informal and rural Namibia remains largely excluded from the formal financial system, with significant portions of the population—particularly in informal sectors, rural and low-income urban areas—facing barriers to accessing essential financial services like banking, credit, and insurance. We have as our main objective, to transform this exclusion narrative and provide accessible and affordable access to financial services for all segments of society, including underserved and marginalised communities in our population. Namibia has made significant progress, with a financial inclusion rate of 78%, according to the latest financial inclusion survey. However, the rural-urban divide remains stark, with 59.3% of the rural population still excluded from financial services.
9. **Other drivers for change include a changing population demographic, economic transformation, and climate change.** Namibia's young population is going to play a central role in shaping the future of our financial system. The Youth's relationship with money, materially differs from that of previous generations, as they are driven more by digital-first solutions. Financial institutions, therefore, must rapidly adapt to these evolving needs and preferences. Furthermore, Namibia is on the cusp of a significant economic transformation driven by the rise of renewable energy, oil and gas, critical minerals, and green hydrogen. As these sectors grow, the financial system must be equipped to support new capital flows, investment opportunities, and trade dynamics, ensuring Namibia remains integrated within the global economy. Moreover, considering the impact of climate change— as evidenced in re-occurring droughts, floods, and veld fires causing widespread destruction— with associated macroeconomic and financial challenges, sustainability must be prioritised to ensure the financial sector's resilience to these disruptions.
10. **To address the challenges of exclusion and dynamics within the country's economic structure, the Bank of Namibia has adopted a strategy to modernise the financial system. In this regard:**
 - A. We must build an innovative, agile central bank responsive to an ever-changing operating environment.
 - B. We need to build a resilient and more inclusive financial sector.
 - C. We must ensure the financial sector lays the foundation for a diversified and transformed economy.

Thus, our **modernisation** and **innovation** journey is underpinned by a focus on – innovation in our business processes, innovation of the banking sector we regulate and supervise, innovation within the Namibian economy, and innovation in the payment

system environment, particularly cross-border payments and capital outflows, which requires collaboration within the Common Monetary Area. I will expound on these aspects in my address this morning.

11. **By championing modernisation, the Bank not only safeguards the economy from potential disruptions but also better positions Namibia to capitalise on global financial innovations, ensuring long-term prosperity and stability.** It also entails ensuring that monetary policy supports development efforts to transform the Namibian economy and address poverty, inequality, and unemployment. We must leverage technology and innovation to make the financial sector play its role effectively.
12. **Imagine your grandmother in a remote village, receiving her pension funds with a simple tap on her mobile phone, regardless of whether it is a smartphone or a device that can accommodate USSD functionality.** No longer needing to travel long distances to a bank or post office, her pension arrives instantly, securely, and reliably through a mobile payment app. This isn't just an individual leap—it's a transformation of Namibia's financial landscape, reaching the country's most remote corners. In another village, a small shopkeeper uses digital payments to buy stock from a wholesaler in Windhoek, utilising blockchain technology for secure and transparent transactions. Meanwhile, a fisherman in Walvis Bay monitors his earnings. He sends school fees directly from his AI-powered banking app, which not only helps him manage his income cycles but also offers budgeting tools for future planning. These vivid examples of digital innovation demonstrate how Namibia's financial system can improve access and enhance customer experiences.

Ladies and gentlemen,

13. **The rise of Central Bank Digital Currencies (CBDCs), stablecoins, and cryptocurrencies will change both domestic and cross-border transactions.** These innovations will streamline and democratise financial interactions, fundamentally changing how we perceive and use money.
14. **However, cash remains central to the financial system despite the growing shift toward digital payments. In 2023, Namibia's currency in circulation (CIC) reached a record N\$5.2 billion, reflecting a 7.6% year-on-year increase.** This trend echoes across other African nations like Kenya, Egypt, and Algeria, where cash continues to represent a significant portion of GDP due to limited digital adoption. Cash retains its resilience even in countries with advanced digital payment systems, suggesting that full cashless societies remain a distant pursuit. Namibia's financial system is expecting to see both cash and digital payment methods coexisting. While the Bank of Namibia continues to issue currency and ensure price stability, digital payments are steadily rising, though cash remains a key player across global economies.
15. **For this reason, fast payments, also known as instant payments, enabling real-time transfer of funds between bank accounts 24/7, will be introduced in Namibia with a Go-Live date slated for September 2025.** This system will ensure recipients receive funds almost immediately, enhancing financial efficiency, convenience, and inclusion. Clients of

any bank or fintech will be able to send money instantly, whether through wallet-to-wallet, wallet-to-bank, or bank-to-wallet transactions, in addition to conventional bank account transfers. Cross-border payment blueprints using instant payments are also at an advanced stage with some regions in the world, already having fully implemented same. This enables the instant transfer of value from an instant payment user in country A, to an instant payment user in country B, without the transaction having to settle via any correspondent bank and SWIFT at a fraction of the price. This solution will significantly improve access to financial services, especially for those in remote or underserved areas with only basic mobile phones.

16. **By integrating embedded finance with instant payments, we can address long-standing challenges in extending financial services to informal and micro-enterprises.** Leveraging financial services footprints, transactional data and technology-enabled business models lowers the cost of reaching these underserved enterprises and expands financial access. Furthermore, integrating digital ordering platforms with instant payment systems will revolutionise how rural businesses restock, making the process more convenient and efficient while partnering with third-party providers to offer cost-effective financial services.
17. **And we are not alone.** With over 70 countries already exploring, piloting, and implementing Fast Payment Systems (FPS) and another 20 in advanced stages, Namibia is well-positioned to benefit from reduced transaction costs and increased accessibility. This evolution will enhance cross-border payments, boost trade, and provide greater financial inclusion, ultimately transforming how businesses and individuals engage in the global financial system.
18. **Allow me to conclude my point on payments through the words of the Spanish poet Antonio Machado: “ Traveler, your footprints // Are the path, and no more; // Traveler, there is no path, // The path is made by walking.”** Let us keep walking, co-creating and experimenting together. One thing we can be sure of is that if we don’t pave the way for the future payment infrastructure, others will. And we are determined to mark out a Namibian payments path.

Ladies and gentlemen,

19. **At the Central Bank, we fully embrace innovation and lead by example. Let me share some of the achievements we managed to record in a short space of time by executing our digital transformation strategy:**
 - We have re-engineered all our business processes by embracing automation and creating an Automation Centre of Excellence to enhance operational efficiency and minimise manual interventions.
 - We have deployed virtual bots, which have enabled us to free our staff from cumbersome, manual work that took days to complete.
 - We use chatbots and other similar tools to improve the stakeholder experience for our regulated entities and the public on our website.
 - Another notable achievement is the development of the Government Payment Portal, which has drastically reduced paperwork and increased operational efficiency. The

manual process required officials from the Ministry of Finance to physically visit the central bank to process local and foreign payments, a process which took weeks if not months. This process was entirely redesigned and automated, with an online portal for payments to be uploaded and a robot now automatically processing the transactions, reducing the processing time per transaction from 30 to 2 minutes.

- Furthermore, we have implemented advanced data analytics, which has provided us with greater visibility into our operations, enabled data-driven decision-making, and facilitated a culture of continuous improvement.
- We also enabled an AI driven Non-Performing Loan prediction capability, and currently can predict Non-Performing Loans up to four quarters ahead, without any human intervention.
- Regarding our monetary policy mandate, we have automated the collection of mineral data, offering a significant advantage in speed and data accuracy. This system's benefits include improved data quality and the ability to deliver quick, reliable insights, ultimately enhancing the institution's overall efficiency and analytical capabilities. In addition, we are currently automating other economic data collection, including the rest of the balance of payments and real sector data, as well as monetary and financial statistics, with some of these already in advanced stages.

Ladies and gentlemen,

20. As you can see, we have not shied away from utilising technology to meet our business objectives. Still, I am pleased to share that through our efforts; we are modernising our financial sector by enabling a robust and future-fit legislative framework. In addressing concerns that existing regulations might stifle innovation, we have taken significant steps to ensure our financial sector thrives in the digital age.

- For instance, financial institutions will soon leverage cloud computing, enhancing innovation, productivity, and cost-efficiency while prudently managing risks.
- We are addressing increased cyber threats, supported by establishing the Financial Sector Cyber Security Council to enhance our cyber risk response capabilities and operational resilience.
- We are revising regulations to support a digital economy and elevate the usage of electronic wallets by broadening the range of products and services, including savings, credit, and insurance.
- We have issued Guidelines on the Standardisation of QR Codes to ensure interoperability of QR code payments, further enabling innovations like QR code payments from e-money wallets.
- To spur innovation but, most importantly, to allow virtual asset activities to operate without posing risks to the public through scams, we sponsored the Virtual Assets Act, 2023 (No.10 of 2023). The Act gives the Bank the powers to license, regulate, and oversee virtual asset service providers and related activities to prevent market abuse and protect the public.
- Another exciting venture launched this year is the **Digital Identity** Project, as part of Namibia's overall Digital Public Infrastructure, which aims to propel the Government's

services into "e-Government" by establishing a robust, modern, and secure electronic and verifiable digital ID system. Once completed, this platform will enable numerous government services to identify individuals, streamlining various processes efficiently. Financial services, in particular, will benefit by utilising this e-ID system for secure authentication and precise KYC verification. Beyond convenience, this system enhances security, reduces fraud, and promotes greater inclusivity in accessing essential services.

- **In addition, the Bank is supporting the introduction of the first Central Securities Depository (CSD) in the country.** The Central Securities Depository is an important financial market infrastructure. It will hold financial securities, such as stocks and bonds, in electronic form, facilitating the role of securities ownership depository and record. Once operational, the CSD is expected to enhance efficiency and transparency in trading Namibian securities while reducing associated risks and improving the user experience. This advancement will foster a new era of trading efficiency in Namibia, ensuring that our financial markets are more robust, diversified, secure, and user-friendly.”
- **We implement and promote all these technological advances by adhering to the wise counsel of the Nobel Laureate Christian Lange, who once remarked:** *“Technology can be a useful servant, but if left unchecked, it can also become a dangerous master.”* This balance between opportunity and risk will be crucial as Namibia continues to modernise its financial system for a prosperous future.

Ladies and gentlemen,

21. **Namibia has experienced good growth in the most recent years, but the contribution of Total Factor Productivity has been declining.** The decline in TFP limits the long-term potential growth of the economy. To address this, innovation must be at the forefront of Namibia's economic strategy. Promoting a culture of innovation requires investment in research and development, upskilling the workforce, and creating a supportive regulatory environment. Namibia can accelerate Total Factor Productivity growth by encouraging industries to adopt cutting-edge technologies, streamlining operations, and exploring new markets. Innovation is not only about technology but also about new business models, processes, and partnerships that drive efficiency and unlock new opportunities. By prioritising innovation, Namibia can build a more diversified and sustainable economy, ensuring it remains competitive globally.
22. **We also see innovation playing a catalytic role in Cross-Border Payments and Capital Flows, which play a pivotal role in Namibia's economic strategy, particularly through enhanced regional collaboration within the Common Monetary Area (CMA).** By streamlining cross-border payment processes, Namibia reduces transaction costs and time delays associated with international trade, making it easier for businesses to engage with regional partners. Our projects related to instant payments and CBDCs that I discussed earlier, can be leveraged for this purpose. These innovations can foster stronger economic ties with neighbouring countries by promoting regional trade, investment, and financial cooperation.
23. **Thus, efficient management of capital flows is essential for Namibia’s economic growth and regional integration.** As digital technologies advance, capital movements across

borders will become more seamless, increasing investment opportunities. By facilitating more efficient cross-border capital flows, Namibia can further enhance access to foreign direct investment and boost its competitiveness in global markets. These improvements will support large businesses and provide micro, small, and medium enterprises (MSMEs) with greater access to international capital, driving overall economic growth and financial inclusion.

Ladies and gentlemen,

24. The current climate presents a favourable opportunity for FinTech companies to provide tailored solutions to address these and other challenges within the financial system.

Globally, Fintechs are driving transformation across all aspects of financial services, including payments, lending, insurance, and investments, significantly enhancing financial inclusion by improving accessibility and affordability. They bring about efficiency through automation and data-driven insights while offering intuitive, user-friendly platforms and real-time services that elevate the customer experience. However, the rapidly evolving world of technology also introduces challenges, particularly in money and capital markets. Cybersecurity threats like data breaches and fraud, operational risks such as technical failures and system outages, and reliance on third-party providers pose significant concerns. Moreover, the speed at which FinTech innovations develop often surpasses the current regulatory frameworks, creating compliance hurdles.

25. We have established a comprehensive framework to address these challenges and harness the benefits of FinTech.

This framework allows FinTechs not yet governed by existing regulations to test their innovations safely within the financial system through a Regulatory Sandbox or an Allow-and-See approach. By doing so, we ensure that innovation progresses responsibly, enabling us to manage risks and uphold the financial system's integrity. Additionally, the insights gained from these initiatives will inform the development of future regulations, ensuring they evolve in line with technological advancements in the FinTech sector.

Ladies and gentlemen,

26. Another technological advancement set to reshape the economy and financial sector is artificial intelligence (AI).

AI is a high-priority area now. We would be mistaken to wait until we have gained absolute certainty about its benefits. Earlier this year, the IMF ventured a preliminary estimate about the impact of AI – almost 40% of jobs around the world may be affected by AI acting either as a substitute or as a complement to labour. US and commercial banks already use AI, and we use ML to detect fraud in financial transactions. We use natural language processing tools to enhance our analytical capabilities. We approach this threefold: understand and master these models and their outputs, gradually integrate them where relevant, and collaborate with other central banks and authorities both domestically and globally.

27. According to the same report, Namibia ranks ninth among African countries in the AI Preparedness Index (API) for 2024.

Namibia's position reflects significant progress in these

areas, demonstrating the country's commitment to digital transformation and innovation. This ranking highlight Namibia's potential to leverage AI for economic and societal development, placing it alongside other African nations and making strides in AI preparedness.

28. **As we move into this new era, the intersection of policy, technology, and innovation will define the future of Namibia's financial system.** The adoption of digital money can potentially transform the structure of our international monetary system, raising new policy questions, opportunities, and trade-offs. One significant consideration in this context is seigniorage, which refers to the profit generated by issuing currency, particularly the difference between the value of money and the cost of producing it. As digital money gains traction, it may impact traditional mechanisms of seigniorage, affecting central bank revenue and monetary policy.
29. **An important development to consider is the potential impact of the widespread adoption of digital money on commercial banks.** This adoption is expected to lead to heightened competition for deposits, compelling banks to offer more attractive deposit rates in order to draw in customers. Consequently, this shift introduces new risks. Furthermore, there is a likelihood of a shift of credit intermediation from banks to non-deposit-taking institutions, particularly BIG Tech, which are poised to assume a more substantial role in the distribution and aggregation of digital money.
30. **These intersections highlight the necessity for careful policy crafting that balances innovation with financial stability.** Ultimately, effective policymaking will be crucial, as tomorrow's economy depends on the foresight and wisdom of the decisions we make today, ensuring that the benefits of digital transformation are realised without compromising financial integrity or public trust.
31. **The future of Namibia's financial system stands at a critical juncture.** As I have shown today, we have entered an era defined by rapid technological advancements, shifting demographics, and the urgency of climate resilience. A vision of a "*Finternet*"—a financial system where multiple ecosystem platforms are interconnected, much like the internet—will inevitably shape the future of finance, potentially leading to cheaper, faster, and more accessible payments, seamless cross-border payments, and financial inclusion. Over the next two decades, digital currencies—whether in the form of e-money or cryptocurrencies—will become entrenched in everyday transactions. The choices we make today—how we harness innovation and balance risk and opportunity—will shape not only our economy but the lives of every Namibian in the decades to come. The financial system is more than a mechanism for wealth; it is the backbone of our collective prosperity, a pathway to opportunity for every individual, and a foundation for sustainable growth. By embracing the dynamic forces of change, modernising our institutions and policies, and ensuring that no one is left behind, we will build a financial system that is not only resilient but genuinely inclusive.

32. **As we look toward the next twenty years, one thing is clear: success will depend on our ability to stay ahead of the curve, be adaptable, and foster innovation without compromising stability.** The transformation ahead is vast, but so is Namibia's potential to emerge more robust, more connected, and better equipped to face the challenges and seize the opportunities of the 21st century.

Thank you for listening to me, and I look forward to our interaction this afternoon.