

# BANK OF JAMAICA CBDC - SYNTHESIS OF OPPORTUNITIES AND RISKS

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## **Bank of Jamaica - CBDC**

In July 2020, Bank of Jamaica launched its Central Bank Digital Currency (CBDC) initiative.

The proposed CBDC will be a digital form of central bank-issued currency that will constitute legal tender (fiat currency).



# CBDC OPPORTUNITIES

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## Key Opportunities Anticipated:

1. Enhanced **financial inclusion** using tiered KYC.
2. **Creating the digital economy**, in particular as it relates to allowing efficient distribution of Government payments (PATH, NIS and CARE Programme) to beneficiaries.
3. No **additional cost to consumers**.
4. Greater **efficiency in the currency management process** of BOJ.
5. Increased efficiencies for banks – costs for handling cash and courier cost for distribution.
6. Providing a socially **optimal mix of retail payment instruments**.
7. **Interoperability** between existing electronic retail payment systems.
8. Pricing Policy – Issue.



# CBDC & RISK

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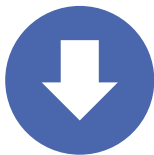
AML/CFT



DATA PRIVACY &  
PROTECTION



DISINTERMEDIATION



SLOW TAKEUP



CYBERSECURITY

01

**OPPORTUNITY - FINANCIAL  
INCLUSION**



# Financial Inclusion

- Financial inclusion is a significant component for sustainable growth, which has the capacity to drive the wide-ranging and hidden potential of formal savings, investment and effective consumption of financial products and services, for those excluded from the formal financial system.
- CBDC will enhance financial inclusion, by bringing the unbanked into the formal banking space to access financial products and services.

# Enhanced Financial Inclusion Using Tiered KYC

- ❖ Bank of Jamaica contributed to the amendment to the Proceeds of Crime Act (POCA) to accommodate reduced requirements for opening bank accounts – Effected November 2019
- ❖ Risk-based approach to opening accounts - Tiered Know Your Customer (KYC) has streamlined and simplified KYC requirements.
  - ❖ This approach will be less onerous on persons opening a CBDC Wallet relative to the opening of a bank account.
    - ❖ For example, if 5 pieces of documents are required to open a bank account, depending on the value of the CBDC Wallet at minimum only 2 documents may be required for onboarding.

# Enhanced Financial Inclusion Using Tiered KYC

- a. Simplified KYC requirements applicable to the establishment of CBDC wallets will make it much easier and simpler for customers to establish and hold CBDC wallets with financial intermediaries, thereby becoming formal participants in the financial system.
- b. Households and businesses will be able to use CBDC to make payments and store value.
- c. Consumers will be able to make online and offline payments with CBDC anywhere, anytime, on any compatible device, unlike cash.
- ❖ While persons who already have bank accounts will be able to automatically obtain a CBDC wallet.



02

**OPPORTUNITY - EASE OF  
ACCESS**



## KEY BENEFITS – EASE OF ACCESS

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Some key benefits that are anticipated include:

1. The Bank has envisioned an easy to use system.  
The sheer convenience, from a broadened and more modern payment system, of a digital alternative to cash that is seamless, secure, and simple to use.
2. Low KYC requirements.
3. No additional cost to consumers.

# Key Benefits cont'd

4. No bank account needed.  
Greater financial inclusion, as persons who do not currently have regular bank accounts will be able to access CBDC wallets in a way that will be easier and simpler than accessing regular bank accounts.

**03**

**OPPORTUNITY - INCREASED**

**EFFICIENCIES**

**FOR BOJ**



## EFFICIENCIES FOR BOJ

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A CBDC will:

- i. Remove cost for the issuance of physical notes and coins.
- ii. Increase efficiency by removing the time and effort it takes to forecast currency needs and order new currency in advance.
- iii. Facilitate the modernization and expansion of BOJ's currency minting and issuance processes.
  - Allows for near real time issuance and destructions of currency in circulation.
- iv. Support distribution of the CBDC through financial intermediaries and facilitates immediate integration with existing legacy and payment systems.

# EFFICIENCIES FOR BOJ

- v. Provide significant long-term cost savings. There will be no ‘wear and tear’ on digital currency, and it cannot get ‘lost in circulation,’ so there will never be a need for replacement. In addition, there will be no cost in increasing supply to the system if demand increases over time.
- vi. Further expand and modernize the national retail payments infrastructure in keeping with the desired increased digitalization of the economy.
- vii. Support the digital economy (in particular as it relates to allowing efficient distribution of Government payments to beneficiaries).

04

**OPPORTUNITY- INCREASED  
EFFICIENCIES  
FOR BANKS**



## EFFICIENCIES FOR BANKS

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A CBDC will:

- i. Remove the need to pay high courier fees to transport money to and from BOJ.
- ii. Increase the systemic efficiency and significant reductions in costs for cash distribution and storage.
- iii. Reduce cost of insurance for cash.
- iv. Allow the transfer of money between customers across banks to be more manageable and near real time.
- v. Improve cash management processes for deposit-taking institutions, inclusive of acquisition and handling of cash.



# EFFICIENCIES FOR BANKS

- v. Facilitate an increase in the menu items of services available to customers and an opportunity to innovate unique products and systems complementary to CBDC use.

# Other Opportunities

- ❖ CBDC will not be at a cost to consumers.
- ❖ CBDC will be a full complement to banknotes and coins issued by BOJ and will co-exist in the payment space.
- ❖ CBDC will have the major aspects of money, as now obtains with banknotes and coins, will be used primarily for transactions, and will not attract interest when stored in any CBDC wallet.
- ❖ CBDC will, like cash, be a store of face value, a medium of exchange, a single unit of account, and a standard of payment.
- ❖ As legal tender, CBDC can be exchanged on a one-to-one basis with physical cash.



05

# MITIGATING RISKS



## AML/CFT MITIGATION

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01

The financial intermediaries (DTIs and PSPs) through which the CBDC will be distributed to retail clients are all designated under the Proceeds of Crime Act (POCA) with BOJ being the Competent Authority;



02

The design of the CBDC allows for tracking of all payments by the FIs and by the relevant authorities, under POCA, when required.



## DATA PRIVACY MITIGATION

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Bank of Jamaica's CBDC solution supports the protection of personal identity through built in solutions such as encryption techniques, digital signatures and multi-factor authentication mechanisms.

## DATA PRIVACY MITIGATION

- It is a digital bearer instrument, like banknotes, which stores and validates the monetary value without the identity of an individual. Preserving privacy is very important to the Bank.
- The technology is designed in such a way that the central bank does not collect private information of the individuals. Transactions take place without the central bank knowing the identities of the transaction participants. Financial intermediaries, however, will know the identities of participants as part of the AML/KYC compliance. which are subject to the Data Protection Act promulgated July 2020.

## DATA PRIVACY MITIGATION CONT'D

- BOJ can monitor CBDC circulation without collecting or maintaining user identity and private information. As such the unique benefit of the eCurrency CBDC solution is that it allows for privacy to be protected while ensuring financial integrity and data availability for improved monetary policy formulation and implementation.



## CYBER SECURITY MITIGATION

The Bank's current cybersecurity framework is robust with multi-tiered and in-depth defence strategies to include independent vulnerability assessment and testing.

- These defence strategies undergo continuous improvements. Notably, to further minimize the Bank's risk exposure, additional internal and external monitoring tools are being introduced in 2021.
- The CBDC solution has high levels of administrative, physical and logical controls, allows for role-based user management in the minting and issuing processes by BOJ.





## SLOW TAKE UP MITIGATION

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- To mitigate slow take up, the Bank has implemented a robust Communication Plan
- The CBDC Project communication to date includes:
  - i. External exposure in the print media, radio and television;
  - ii. Presentations to international entities, BIS, World Bank, IMF, Fed Reserve Board;
  - iii. Internal Survey Focus Group sessions & Survey;
  - iv. National roll-out of Naming, Tagline, Logo and Currency Design Competition.
- Next Step

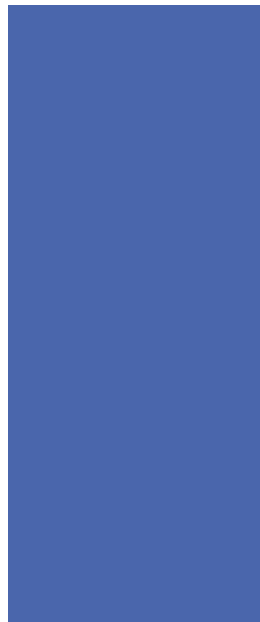
Engage key stakeholders to assist in educating and promoting CBDC.



## DISINTERMEDIATION MITIGATION



The Bank's design of its system implicitly mitigates against disintermediation as it employs a two tier model.





**THANK YOU**

