BANK OF BOTSWANA

FINTECH, PAYMENTS AND FINANCIAL INCLUSION WORKSHOP - GABORONE

Keynote Address

by

Moses D Pelaelo
Governor, Bank of Botswana

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Distinguished Guests, Ladies and Gentlemen

It is my pleasure, once again, to indicate how delighted we are, here at the Bank of Botswana, to work together with the IMF and Bank of Canada on this important two-day Workshop on '**Fintech, Payments and Financial Inclusion: Unlocking the Potential of Financial Innovation for Sub-Saharan Africa**'.

As already mentioned by earlier speakers, yesterday and today, the central issue revolves around harnessing opportunities engendered by Fintech to enhance financial inclusion and as a factor in raising productivity and economic activity. Therefore, following the message from the Honourable Minister Mokaila and subsequent deliberations, my remarks will focus on the role of the central bank, as it is being affected by Fintech developments; and with a tilt towards a Botswana context, a small upper middle-income country in the Sub-Saharan Africa region. To set the scene, it is important to highlight the related developmental aspirations. As in other countries represented here today, in Botswana, the primary policy focus is to harness these technological developments for raising standard of living of the citizens, increase economic efficiency and sustainable development by raising factor productivity as well as the relative size and contribution of the financial services sector to economic activity or overall GDP. In turn, this process raises the extent of financial inclusion, and prospects for diversified and inclusive growth. Even, then such progress need to take place in an orderly, safe and stable environment in order to have the desirable positive, durable impact on social and economic advancement.

Background Information on Botswana

By way of background and to provide context, let me share with you selected statistics on Botswana, which are relevant to deliberations during this Workshop. Domestic financial services currently make up 4.4 percent of nominal GDP; and recorded growth of over 120 percent in the past ten years. Other pertinent data to share is that, in a country of 2.3 million people, mobile phone and internet connectivity is around 3.3 million and 1.5 million, respectively. In this environment, the use of Fintech related devices and platforms is now widespread in the management of bank accounts, remittances, payments for a variety of services, among others. Let me also add that the latest measures of financial inclusion show that 68 percent of the adult population have access to formal financial services in Botswana and a further 8 percent use informal services and 20 percent are totally excluded. The combination of these data and industry developments clearly show opportunity and role for Fintech in financial inclusion and economic activity.

Distinguished Guests, taking a central bank perspective, let me now elaborate on five areas of immediate interest that are associated with Fintech developments.

The Impact of Fintech on Development and Financial Institutions

First, the developmental impact and role of Fintech is not in doubt. It suffices, therefore, to emphasise that central banks should embrace and not stand in the way of the growth enhancing impact of Fintech on the banking industry and financial sector, generally. However, Fintech causes a disruption that can affect performance of central bank mandates and their traditional view of institutions that they oversee. For example, Fintech facilitates unbundling of traditional banking models and opens up an otherwise comfortably regulated industry to new entrants, potentially diffusing the regulatory coverage and effectiveness. At the same time, Fintech is driving banks and other financial institutions to either adapt the new technology and/or collaborate with Fintech companies and mobile network operators in order to remain relevant and adopt efficiencies. This could engender “smart risk-taking”, business models requiring equally smart and, I should add, proportionate regulation and supervision.

Evolution of the Relationship between the Commercial Banks and Central Bank Mandates

This leads me to the second area, which is the evolution of the relationship between the commercial banks and central bank mandates. In this regard one has to take cognisance of the debate, albeit sometimes exaggerated, about the continuing relevance of the banking sector in both intermediation and payments in the advent of Fintech; incidentally, functional areas that more clearly relate to the central bank's mandate.

The Bank of Botswana, like other central banks around the globe, takes interest in the potential impact of Fintech developments on the primary mandate of promoting and maintaining monetary stability, an efficient payments mechanism and the liquidity, solvency and proper functioning of a soundly based monetary, credit and financial system. To achieve its mandate, the central bank has specific instruments, operations and processes that assume certain causalities and relationships that, among others, facilitate transmission of monetary policy, effective management of banking system liquidity as well as continuing safety and resilience of the payments and settlement infrastructure. Thus, the need to understand or anticipate changes in the market that could alter the financial intermediation process and transmission of monetary policy, access to liquidity (central bank money), as well as disruptions in the payment and settlement systems.

Participants, the argument tends to tilt towards saying that, even with the impact of new technology and products, the various methods of holding money and transacting engendered by Fintech, ultimately "coalesce" into the banking system; thus the traditional broad definitions of money, money supply, liquidity, as well as the transmission channels of monetary policy are retained. There are nevertheless variations that can occur relating to internal relativities within the money supply definition, velocity as well as the range of institutions involved and their relationships. This suggests a need for continuous review and adaptation with respect to instruments and processes for the conduct of monetary policy and monetary operations, as well as the supervisory aspects for financial institutions. Notwithstanding, to the extent that the central bank has leverage over the so called reserve assets, as a deposit institution for commercial banks and regulator of their liquidity, it retains control over the principal instruments and channels for policy transmission. Any peripheral and/or emerging institutions that threaten or transgress this relationship would necessarily be excluded through prohibition of the specific offending activity or brought within the purview of the central bank; thus to retain control over the relevant policy instruments necessary to achieve the central bank mandates.

How to deal with the Transformation of the Regulated Institutions and Sector as they Accommodate or Adapt to Fintech

Therefore, continuing with the linkages, the third area of relevance relate to how to deal with the transformation of the regulated institutions and sector as they accommodate or adapt to Fintech and those that provide financial services without being licensed as such, or just fall short of the definition of a regulated entity. The choices in this respect can include deciding to focus on regulating the activity (provision of financial services) rather than sole attention to category of regulated institutions/entities; but always with a focus on facilitating progress that is supported by orderly and ethical conduct. The central consideration is retaining the safety, soundness, stability and integrity of the financial sector; as well as efficiency and resilience of the payments and settlement infrastructure and processes; which is ultimately important for financial inclusion, effective policy transmission and sustained growth in economic activity.

Taking this into account, here in Botswana, we are in the process of promulgating the Electronic Payments Services Providers Regulations as a first step towards accommodating Fintech developments and providing for orderly conduct. However, it has become evident to us, that a new national payments law is necessary, which would be more consistent with recent and anticipated developments in both wholesale and retail payments space. We are also strengthening the framework for monitoring and responding to financial stability issues, to reflect the expanded range of institutions, services and delivery channels as well as cross-sectoral linkages.

The Potential to Harness the Underlying Processing Power and other Features of Distributed Ledger Technology (DLT)

Distinguished Guests, the fourth strand I would like to touch on is the potential to harness the underlying processing power and other features of distributed ledger technology and blockchain to enhance operational processes, data management and analytical capabilities of central banks. Most directly, this would relate to the payments and settlement processes, but could also improve the range, quantum, as well as speed of delivery of data used to estimate and project economic activity and other variables relevant for policymaking; therefore, improve policy response and calibration.

I hasten to note in this regard that, while Fintech relates to industry innovation, there are parallel developments in the form of Regulatory Technology and Supervisory Technology, styled RegTech and SupTech. RegTech affords the use of technology to enhance effectiveness and efficiency of meeting the regulatory and compliance requirements. Regulated institutions achieve standardised and consistent reporting, including common interpretation of regulations, as well as lowering of associated costs. The benefits to the regulators relate to better quality of information and monitoring. In turn, SupTech enables reduced periodicity of reporting, collection of much more granular financial and transactional data and expanding data utilised beyond institution-reported data, without facing undue costs. Let me also add to this the potential for technology in biometric identification and Fintech to enhance financial inclusion.

The Bank of Botswana's Position on Cryptocurrencies

Finally, as the fifth area of interest, let me briefly contribute to the discussion around cryptocurrencies or, more accurately, crypto assets. The first point to make is that, while there is monetary value attached to the various crypto assets, these are not money, certainly not legal tender backed by the central bank. Second, they are apparently limited in supply and very volatile. You will observe that these attributes are not a concern for the central bank, as would, for example, be for the exchange rate or prices (inflation), which are linked to protecting and preserving the value and integrity of the fiat currency, which is core to central banking.

Third, we have to acknowledge that there are people who choose to participate and hold crypto assets; however, such "entrepreneurs" should not expect protection by the central bank, beyond general public policy interest. We can, however, offer advice that participants in any cryptocurrency issuance or activity should exercise the necessary due diligence, including establishing the legitimacy of the venture and the promoters, the exact nature of related activity and ask for information on the licensing, registering or supervisory authorities, as the case may be. Such advice is proffered noting that it is common that cryptocurrencies are used as a cover for criminal and fraudulent activity, money laundering, pyramid schemes and other unlicensed or unauthorised ventures. Hence, the very significant risk of financial loss and unwitting participation in peddling fraudulent schemes.

Concluding Remarks

Distinguished Guests, let me conclude by recognising that Fintech is a reality and provides exciting opportunities that augur well for our aspirations for development and advancement. However, public policy requires orderly progress, especially in the area of financial services where any instability is widely disruptive and has a lasting negative impact on confidence and economic activity. For this reasons, central banks generally, subscribe to dealing with what they understand and can influence. Thus, the ongoing experimentation involving controlled activity, monitoring and regulatory sandboxes around Fintech. In this way, there are better prospects for central banks to facilitate and promote orderly provision of services, while putting in place the appropriate mitigation measures and resilience against misconduct, cyber-attacks, fraud and crime generally.

I thank you for your kind attention.