A presentation to the UN ITU Digital Currency Global Initiative

Digital Currencies and Financial Inclusion

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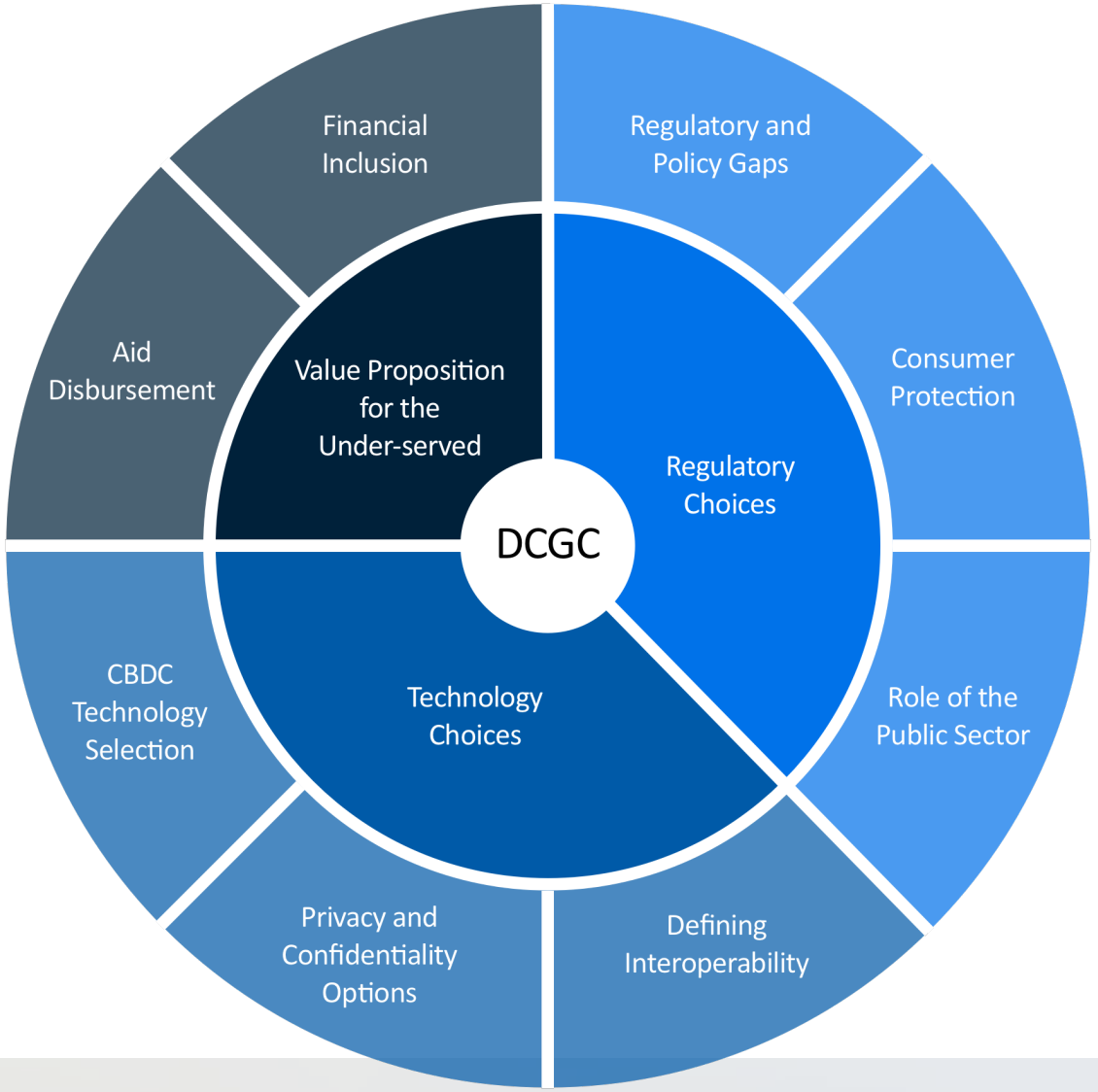
Email ashley.lannquist@weforum.org with feedback and input!

World Economic Forum

Digital Currency Governance Consortium (DCGC)



Learn more at:
https://www.weforum.org/communities/digital-currency-governance-consortium

and:
http://www3.weforum.org/docs/WEF_Digital_Currency_Governance_Consortium_2021.pdf

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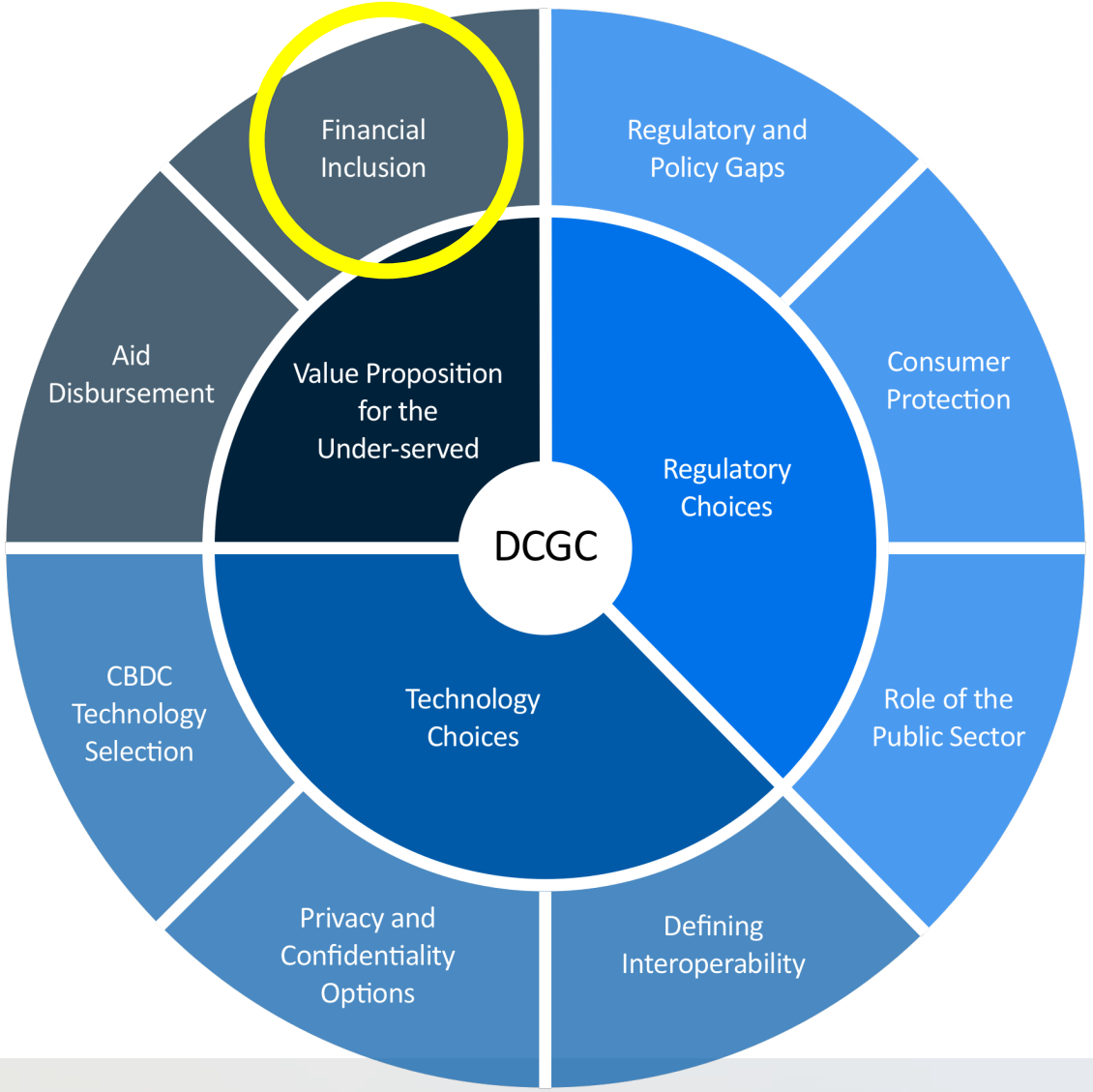

WEF DCGC Investigation

WORLD ECONOMIC FORUM

Financial inclusion workstream:

In what ways do **stablecoins or cryptocurrency** improve financial inclusion in a *unique* or *superior* manner relative pre-existing options (e.g., mobile money, commercial bank money, e-money)?

"Financial inclusion:" The ability for individuals and businesses to access and use valuable and affordable financial products and services that meet their needs.

WEF DCGC Investigation

Study of 4 scenarios:

1. Individual in urban USA sending remittances home to Honduras

2. Individual in ‘banking desert’ in Kenya making domestic payments and benefiting from other services where possible (e.g. savings)

3. Small business in rural India making domestic and international payments and benefitting from other services where possible (e.g. insurance)

4. Digitally savvy ‘gig economy’ individual in urban Cameroon receiving wages from USA and benefitting from other services where possible (e.g. loans)

Early Conclusions – 4 areas of potential value-add by stablecoins/cryptocurrency

1. Open and interoperable DLT-based ecosystem could drive higher competition and more open-loop payment options.

- *Question:* Is there a strong difference in openness, interoperability and composability between non-blockchain open-source software that can liberally grant API access and blockchain software?

2. New publicly accessible or visible data sources for payment history and account balances for credit and insurance underwriting.

- *Note:* Requires good privacy protocols
- *Question:* How to demonstrate ownership of account balances for collateral in efficient manner? How to prevent against taking multiple loans off the same demonstrated collateral?

3. Potential to side-step consumer mistrust in traditional financial services or government.

- *Note:* Can cut both ways: people may also distrust cryptocurrency/stablecoins
- *Note*: Consumer protections generally lower in cryptocurrency and stablecoins currently vs. traditional regulated financial services

4. Provides an alternative to routing through banking networks where regulation concerns today prevent engagement with the domestic banking system (e.g., compliance de-risking in cross-border payments or KYC challenges on undocumented individuals)

- *Note:* Likely to dissipate as regulation catches up!
- *Note:* Unique opportunities for addressing ID issues through DLT?

Early Conclusions – what is not addressed?

Stablecoins and cryptocurrency do not inherently solve major roadblocks:

- Lack of identity documentation
- Lack of first/last mile digital infrastructure
- Poor digital and financial literacy and numeracy
- Lack of wealth
- Limited internet or mobile phone access
- Currency conversion costs in cross-border payments

May aggravate "digital divide" and gender gaps in finance and technology.

May negatively impact macroeconomic and monetary policy management: currency substitution, bank disintermediation, etc.

Early Conclusions – what is required?

Requirements for stablecoins/cryptocurrency to succeed in addressing financial inclusion, particularly in developing economies and the least-developed countries?

(1) More smartphone penetration or ability to operate on feature phones
(2) Digital and financial literacy, numeracy
(3) Digital trust and awareness
(4) Consumer protection and education on risks; minimum privacy and account recovery standards and capabilities so users are not made more vulnerable
(5) National ID system or other ID solutions in place to meet KYC requirements
(6) Acceptance with merchants (for shopping), government (for paying taxes or receiving benefits), employers (for receiving wages), and other relevant parties; interoperability with other services
(7) Physical agent networks to provide cash on-ramps and off-ramps?
(8) Adequate transaction scalability
(9) Sufficient technical resilience and robustness
(10) Adequate data and transaction security and privacy; sound technical governance
(11) Regulatory clarity; compliance with domestic regulations to protect customer funds

Are CBDCs Any Better For Financial Inclusion than stablecoins?

Probably, in at least a few ways:

- Much more likely to be accepted by merchants for everyday purchases
- Can have greater transaction scalability if it does not use distributed consensus for transaction verification
- Less likely to need a smartphone or smart device as it does not require use of blockchain
- More likely to be low or no-cost:
  - Central bank does not have requirements to breakeven or profit; rather, it can subsidize costs for users
  - Requires only one currency exchange transaction rather than two
- Can potentially provide more confidence and solve for safety issues and gaps through central bank backing
- Alleviates regulatory requirements related to holding customer funds in domestic commercial bank accounts with deposit insurance

- Challenges: 1) Success depends on if public trusts the central bank or government, 2) if CBDC is in country with negative nominal interest rates, it can cost consumers (but also, if stablecoin reserves are held at central bank with negative rates, that cost can also be passed on to customers)

*Note: This slide focuses on the use of domestic CBDC, not foreign CBDC

Thank you!

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