



**KINGDOM OF CAMBODIA**  
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**NATIONAL BANK OF CAMBODIA**

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**Keynote Address by H.E CHEA SEREY**  
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**at Central Bank of the Future Conference**  
**the evolving role of central banks in currency, data, cybersecurity,**  
**and supervision**

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Good morning, good afternoon and good evening!

It is really an honor to be at this Central Bank of the Future Conference sharing the stage with so many prominent speakers and panelists. I would like to thanks the organizers The University of Michigan’s Center on Finance, Law & Policy and The Federal Reserve Bank of San Francisco for inviting me and allowing me to share my view on the evolving role of central banks from a developing country perspective.

Since the global financial crisis in 2008, the world has never been the same. The damaged left by the crisis goes beyond financial aspect, reaching far deeper to the fundamentals of our regulatory framework, economic models as well as our society. In the pursuit of profits and advantage, imbalances and inequities were largely ignored: exponential growth of people who think they will be worse off than their parents, widening disparities between metropolis and regions, educated and uneducated. This year Covid-19 pandemic has further deepened this divide with the most severe impact seen on daily wage earners, low-income families and Small and medium businesses in developed countries and to a stronger extent developing economies. As societies become polarized, anger, frustration, trust deficit in the regulators, public institutions and the media become common scenes.

In this regard, it is not surprising that a Trust Protocol like Blockchain Technology that allowed the transfer and storage of assets of value independently from these institutions was popularized in 2008.

So in the mid of these developments, what has the National Bank of Cambodia learnt?

There are many but 2 are particularly striking to me: inclusiveness and restoring trust and confidence. As a central bank, we can do our part in building an inclusive and trust worthy financial system.

As part of Association of South East Asia Nation (ASEAN), Cambodia's economy enjoyed significant growth in the past 2 decades averaging around 8%. As of 2019, the size of our economy (GDP) is around USD 25 billion driving largely by five major sectors such as tourism, textile export, construction, agriculture, and banking sector. In 2020, due the pandemic economic projection is bleak and expected to contract by minus 1.9%. Cambodia achieved significant progress in reducing poverty rate from 53% in 2004 to around 13% in 2019. UNDP warned, however, with this year pandemic, Cambodia could see its poverty rate double.

The banking sector has also been developing rapidly with credit growing around 25% on average in the past 5 years in 2019. Financial sector in Cambodia has grown very interconnected domestically and internationally. This wasn't the case 10 years ago. As such, it is now more exposed to external shocks. A shift in policy rate by the Federal Reserve System can affect the liquidity markets in the region and thus in Cambodia. This situation is made worse when more than 90% of the economy is dollarized. Rebuilding the trust and confidence of the people on the national currency, riel, is therefore our priority. Without the use of local currency, our monetary policy tools are limited and could put us in a vulnerable position in case of a financial crisis. In term of inclusiveness, only 50% of Cambodian adult population have access to formal financial services, leaving the other half lacking basis financial services or exposed to the usury practice of the informal sector.

Obviously, maintain price stability and financial stability is the National Bank of Cambodia's main objective. But financial stability is better maintained when the system is inclusive and well diversified. Here one should be cautious that too fast financial inclusion could have negative impact on financial inclusion as well, a lesson learnt from the last GFC. Too easy, too fast access to credit can be counter-productive.

Nevertheless, financial inclusion holds the promise of boosting growth and reducing poverty and inequality, notably by mobilizing savings and providing households and firms with greater access to resources. Indeed, inclusive financial system is understood to provide better opportunities for economic agent to better manage its cash flow, smooth spending overtime and potentially grows existing business and eventually graduating from a small enterprise to the large enterprise. For low income segment, access to financial services can improve their living standard, lift them out of poverty and provide better education and health care for their family. Nonetheless, according to the World Bank, financial inclusion remains a challenge in many countries due to regulatory barriers, limited financial literacy, and inefficient banking system. Research and policy debate on how countries should promote financial inclusion remain essential.

It is true that for some countries financial inclusion which is considered as an important tool to reduce poverty by the United Nations, is considered a developmental task and not financial

stability's task. As a central bank, we don't exist in silo, our price stability and financial stability should be maintained in order to contribute to economic growth. But economic growth without improving the life of the people at large is meaningless.

In this regard, the National Bank of Cambodia made financial inclusion its mission. In 2019, National Financial Inclusion Strategy was endorsed by the Royal Government, in line with its poverty reduction objective.

Financial inclusion should be addressed from both the supply side and the demand side, with the latter one often neglected. Financial literacy and consumer protection should be prioritized or at least be providing equal importance as other measures such as access to quality, affordable and transparent financial products. In Cambodia, beside the various financial literacy campaigns, our central bank and the ministry of education are working to embed financial literacy into the general education program for students from grade 1 to grade 12. Prior Covid-19 we were expecting to roll out this program in 2021. The National Bank of Cambodia has also set up helplines to address public's questions and complaints regarding financial services. These helplines are intended to better understand challenges to financial inclusion's efforts but also to build trust and relationship between the central bank and the public.

In the pursuit in bringing the remaining 50% of the population into the formal banking sector, the National Bank of Cambodia embarked in a project called Bakong, named after the first highland temple, build in the 7<sup>th</sup> century. The temple is a symbol of independence and sovereignty.

Access to credit, insurance or deposits required certain precondition from the users: credit worthiness, regular income and spare savings. But payment transactions happen everyday for low and high income, therefore bringing the excluded population to access formal payment services would be good beginning. Indeed, access to digital payment would create a cash flow history of the customer that would later allow financial institutions to better assess the credit worthiness of the consumer and establish a relationship with that customer. Use of data here is crucial for the low-income segment of the markets and farmers in developing countries, who lack basis official documentation.

Capitalizing on high mobile phone, with 20 million mobile phone subscription for a population of 16.5 and thanks to a conducive regulatory framework, mobile money transfers and mobile payments were rapidly developing during the last 7-8 years. As the central bank, enabling private innovation through issuance of enabling regulation is critical. But depending on specific context central bank should also provide basic infrastructure for the private sector to thrive. In the absence of an RTGS system, the National Bank of Cambodia provide basic infrastructure such as National Clearing System (NCS), Fast System (FAST, a real-time account to account fund transfer), and Cambodian Shared Switch (CSS, standardization of chip standard that allowed ATM and POS interoperability). Bakong Project is the latest adoption that allow interoperability between e-wallets and bank accounts holders. The efforts in intended to bring convenience and affordability to end users. It is also intended to bridge the urban population who mostly hold bank accounts,

and the rural population, who mostly have e-wallet accounts. E-payment enables small microfinance institutions to reduce its operational cost on repayment collection and allows any neighborhood shops acting as banking agent to collect on their behalf. Furthermore, the increase usage of digital payment is expected to help the use of local currency where, despite its relative stability against the USD, usage remain low most often due to loss of notional value, inconvenience (too many zeros, too many banknotes to carry). An efficient and interoperable payment system is also expected to contribute to better tax collection eliminating leakages that cash transaction could pose. And particularly during the period of pandemic could help reduce the spread of the virus through cash handling, facilitate government cash assistance to the poor.

How does Bakong work? Contrary to what has been raised by the media, Cambodia is not issuing a central bank digital currency. Although technology features have some similarities, legal and accounting treatments are somewhat different. Bakong is intended as a backbone payment system. The National Bank of Cambodia does not issue new money through Bakong, but merely exchanges fiat money against the digital version of it. Anyone in Cambodia with a local mobile phone number and a smart phone can download the application and register oneself with a participating financial institution. Once registered, the person becomes the customer of the bank he/she registered with, and the bank has full visibility of the transactional data of this customer and has the responsibility to do the necessary KYC on this person. With great power come greater responsibility, the central bank opted out from getting personal data of the users. Customers of participating financial institutions (banks and payment service provider) can now send money to each other's Bakong wallet free of charge using the telephone number as identifier. In addition, users can also transfer funds from their Bakong's wallet into other participating members' bank account or wallet account free of charge. We are now taking phase approach integration. With full integration expected next year, end users may not even have to use Bakong wallet as a manual transition. Cross institution fund transfer would be a straight through processing through Bakong engine.

Many question the choice of the technology used in our case. Bakong uses the Iroha Hyperledger that allows a peer to peer transfer, that was co-developed with a Japanese company, Suramitsu. I personally was not particularly interested in DLT or Blockchain but the peer-to-peer functionality was the main requirement. That is because we needed to integrate 2 different industries together. For the banking industry it was already integrated through the FAST system cleared by our national clearing house. To be able to participate in the clearing house banks must open a settlement account and have a stand-by liquidity lines with the central bank and maintain a certain standard of liquidity management. However, if we were to include the payment service providers in the national clearing house, the same level of due diligent must apply. This could be difficult as payment service providers are technology companies and we can't expect them to reach that same standard of liquidity management as banks. In fact, it would be counterproductive as regulatory compliance cost would be passed on to end-users. In this regards a peer- to-peer solution make sense for our project. The absence of a central clearing

house and the immediate finality allowed by the technology, means that Payment Service Provider don't have to worry about their liquidity management at the clearing house level.

Here I would like to stress that the choice technology should serve the problem, one wants to solve and not adding more. Furthermore, it is critical for the central bank to have internal human resource to understand the technology used. There is no point buying a 2 seaters Ferrari when you don't have a driving license. I was often asked why choosing a small company for such a project, perhaps naively, I responded that because my team understand that particular language of this technology better than others and therefore allow more control over it.

My time limited and I would conclude my remark by emphasizing the role of central banks has evolved from pure price stability, but also financial stability and financial inclusion. Central banks should build an inclusive financial system and aspire for trust and confidence from the public. Enabling regulation and provision of basic infrastructure are critical to stimulate competition and innovation. As a central bank from the developing country, the National Bank of Cambodia has been very pragmatic on its approach to financial inclusion and trust building. There is no one size fit all. Each central bank must understand its own challenges and opportunity bearing in mind that technology can help small countries to leapfrog many developmental steps. As far as the National Bank of Cambodia is concerned a central bank digital currency is a long way ahead but we won't exclude the possibility of should the need arise.

Thank you for your attention!