

## Ahmed Naseer: The need to regulate virtual currency

Keynote speech by Mr Ahmed Naseer, Governor of the Maldives Monetary Authority, at the 5th Maldives Islamic Banking & Finance Industry Conference, Malé, 27 November 2018.

\* \* \*

Chairperson, Distinguished Speakers, Distinguished guests, Ladies and Gentlemen, Assalam Alaikum. Good Morning.

I am deeply honored to speak at this important and significant Conference, one which is very relevant and important in the development of the financial sector of the Maldives. As the regulator of banks, and financial institutions in the country, Maldives Monetary Authority is grateful to the organizers of this Conference, and congratulate you all for completing five years of this series. MMA is proud to be a partner in promoting and developing Islamic finance in the Maldives, and assure you that we will continue this journey together with all our stake holders.

Ladies and Gentlemen.

Bitcoin, the world's first cryptocurrency (or virtual currency), long obscured with a reputation as a fringe economic phenomenon, has gone mainstream. The skyrocketing price in late 2017 has made Bitcoin a household name. Proposed in a 2008 white paper by software developer Satoshi Nakamoto, Bitcoin was an attempt to enable peer-to-peer "electronic cash" as an alternative to conventional banking in the wake of the global financial crisis. When released in 2009, the virtual currency had a value of less than one U.S. penny per "coin." However, just nine years later, one bitcoin reached \$ 17,900 in the middle of December 2017, and the cryptocurrency's market capitalization is now over \$200 billion.

One might think this as a normal product cycle, but the reality is, cryptocurrency has been a favorable payment instrument over the decade. And the usage of cryptocurrencies will be as common as the use of normal bank notes and payment instruments. Just recently, Canada's first Bitcoin-backed loan has been issued during the first week of November this year.

It is not a false assumption that some of the Maldivians even own cryptocurrencies such as Bitcoin. We have already seen some business entities even trying to introduce cryptocurrency wallets into Maldives. It is just a matter of time before someone starts mining cryptocurrency in the Maldives. Therefore, it would be unwise not to consider the emergence of cryptocurrency in Maldives as an acceptable payment instrument. Likewise, as policy makers, we should not ignore financial technology and regulatory technology in our future economic and monetary policy implementation. More importantly, we should not discourage technology and innovation in our financial sectors.

Ladies and Gentlemen.

What are cryptocurrencies? I have been asked several times over the past one year. Well, it is a technological development that utilize a technique better known as cryptography. And what is cryptography? The technique of protecting information by transforming it (encrypting) into unreadable format, that can only be deciphered (decrypted) by someone who possess a secret key. Cryptocurrencies such as Bitcoins are secured via this technique using an ingenious system of public and private keys.

Ladies and Gentlemen.

Let me take a step back and talk a little bit about the Cyberspace, the vast new domain of interaction, where we are all connected in the modern world. A place where we are all unified, and totally free. A place where we now spend increasing hours of our day. Where we do more of

our shopping. More of our dating. More of our learning. Commerce, Broadcasting, and news making. Selling of goods and services, and ideas.

A place where we are all unified, and totally free. Free from filters. Free from values. And free from true governance.

Sometimes some of us act as though, no one is watching in the cyberspace, with tweets trashing people, hate speech, gambling, pornography, and other cybercrimes, it has become important for us to pause a little bit for some moral reflection.

As Tom Friedman puts it in his recent book, we need to balance technological progress with a sense of humanity, and moral values.

As Former US President Obama said when he visited Hiroshima in May 2016,

“Technological progress without an equivalent progress in human institutions can doom us. The scientific revolution that led to the splitting of an atom requires a moral revolution as well”.

Ladies and Gentlemen.

Cryptocurrency, like any other payment instrument poses, a variety of risks to the economy, and more importantly, to the financial sector of any country. The risk factor is heightened now, because the use of cryptocurrency, has expanded to mortgage and security lending.

Due to the nature and the specific features of cryptocurrency, it has long been understood that cryptocurrency has been a somewhat attractive form of payment instrument for money laundering, terrorist financing and tax evasion.

Now, what are those features?

- ♦ Anonymity: The anonymity surrounding cryptocurrencies, prevents transactions from being adequately monitored, allowing shady transactions to occur outside the regulatory perimeter.
- ♦ Cross-border nature: Transaction occur cross-border, and are nearly instant in the network and are confirmed in a couple of minutes. Since they happen in a global network of computers, they are completely indifferent of any physical location. There are no third parties involved in verification or validation.
- ♦ No gatekeeper: The software that everybody can download is for free and there is no centralized coin issuer or an intermediary to oversee the coin trading activities. Anyone can receive and send cryptocurrencies as soon as a cryptocurrency software is installed without being monitored by a central government authority.

Due to these factors, countries are concerned about the misuse of cryptocurrency, especially to launder proceeds of crime, fund terrorist activities and evade taxation. In a recent report by a data security company, CipherTrace, \$761 million has already been laundered via cryptocurrencies so far this year.

Therefore, international organizations such as the IMF and EU are advocating for regulating cryptocurrency, despite challenges such as anonymity, cross-border nature of use cryptocurrency, lack of central intermediary to regulate, etc. In February 2018, Ms. Christine Lagarde, head of IMF said in an interview on CNN that due to the potential illicit use of cryptocurrency, cryptocurrency regulations are inevitable. Her remarks echoed the initiatives of countries to bring cryptocurrency into a regulatory framework to combat money laundering and terrorism financing.

In April 2018, the Parliament of the European Union passed changes to anti-money laundering legislation that will impose new regulations on cryptocurrency exchanges and custodians

operating in Europe. The US has already extended its AML regulatory framework to cryptocurrency. Other countries include, Australia, Canada, Japan, Mexico and Switzerland.

Therefore, it is important to recognize the role cryptocurrencies play in the financial markets, and to start thinking about allowing emerging technologies to have a level playing field in these markets.

To conclude, I would like to stress on the importance of allowing financial technologies into our financial markets and at the same time implementing proper regulatory regimes to ensure such technologies, market players and our economy is not abused for illicit purposes.

Blockchain technology, if properly used, can be applied in a large variety of sectors, including, trade, commerce, healthcare and governance. It could be used in pledging of collateral, registration of shares, bonds and other assets, and operation of land registers, and many more.

I wish you all a successful Conference.

Thank you. Wassalam Alaikum.