

Hong Kong is ripe for digital dollars

By Harvey Cheung

VIEWPOINT



Harvey Cheung, SVP, markets, at eCurrency.

Store value payment services such as Octopus, Wechat Pay and Alipay have been well touted for their innovativeness, popularity and success. There's a new story of fast-emerging leadership that remains as yet largely untold: the pioneering steps being taken to trial a digital fiat currency to spur further innovation, efficiency and economic opportunity.

In March 2017, Hong Kong Monetary Authority announced that it is studying a central bank-issued digital currency. Two months later, Hong Kong Financial Services Development Council also recommended Hong Kong to issue digital currency via the appropriate authority on an experimental basis. This puts Hong Kong among the camp of ninety other central banks around the world looking into the implications of a digital currency.

Like other central banks which have examined the what and if questions of digital fiat currency, the focus of investigations is shifting to solution must possess: it must enable HKMA, or its authorized institutions, to issue digital Hong Kong dollars as a payment instrument that can be distributed and accessed by stored value payment services running on various payment systems and operated by private entities.

In this way, the digital Hong Kong dollars are like the paper notes and coins that can be distributed via any channel and not tied to a specific payment system. Otherwise, it would be like allowing Hong Kong dollars to be distributed only by certain banks, merchants or some industries. A currency must flow smoothly through all parts of the economy to function properly. The issuance of a digital fiat currency essentially extends a central bank's statutory requirement to issue bank notes into the digital realm.

In this case, the HKMA or the Hong Kong government does not need to build its own retail payment infrastructure in order to distribute digital Hong Kong dollars, nor mandate one payment system that digital Hong Kong dollars will operate on. Thus, HKMA can delineate its role as the currency issuer and regulator from the role of retail payment service owners or operators in the digital financial arena.

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Digital Hong Kong dollars having this property will strengthen and expand, not interrupt, the stored value payment ecosystem. It preserves all existing stored value payment applications and infrastructure, whether card-based applications, like Octopus or smart phone based applications, such as Wechat Pay and Alipay. The existing point of sales infrastructure investments, business models, processes, user experience and customer relationships remain valid and usable. Digital Hong Kong dollars – like cash – is the common unit of account and legal tender. Transactions are settled directly between transactors without the need for subsequent settlement through bank accounts and central bank reserve accounts.

Digital Hong Kong dollars can accelerate innovation in the fintech ecosystem in two ways. Experience from other industries, notably mobile communications, has shown that interoperability – that is the ability of products and services to function seamlessly across multiple different technology platforms – can increase adoption, drive innovation and deepen transaction volume. Imagine if an individual only needed to have one e-wallet account instead of five in order to send money to any other e-wallet accounts regardless of the service provider. Secondly, the lower risks and costs associated with settlement will encourage new players to enter the market, offering more choices of value added services on top of payment services.

Central banks around the world are quickly realizing the need for a digitally issued fiat currency and its importance to a digital economy, as evidenced by findings reported recently by Riksbank of Sweden and the Bank of Canada. Hong Kong is the ideal city to seize this leadership mantle. It is an international financial hub with a large pool of highly skilled financial talent and an open and robust financial system.

Digital Hong Kong dollars will supplement not replace the physical currency, and will retain all the essential characteristics and trust of a legal tender. It will turbo-charge efficiency and accelerate innovation in the financial services industry in Hong Kong. In this way, Hong Kong's vision and leadership on digital fiat currency will help secure its leadership as financial hub and deliver more economic growth opportunity.

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