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HOW TO STOP THE MONETARY "BRAVE NEW WORLD"?

PAULO CASACA | SOUTH ASIA DEMOCRATIC FORUM



Four years ago (September 29, 2017), at the Bank of England conference in London, IMF Managing Director Christine Lagarde brought the issue to the centre of the monetary debate by titling her speech as 'Central Banking and Fintech — A Brave New World?'

Mrs Lagarde delved deeply into the issue, fantasising on the monetary angle of the famous dystopia:

'And much has changed for the bankers and policymakers here in the City of London. But that is only the beginning. Let us spin the hands of Big Ben forward to 2040 to catch a glimpse of their world. We might see that:

Cars have disappeared, because people are moving about in hovering drones, or "pods," which elegantly

avoid each other in the morning rush hour.

One of those pods carries the central bank governor, who recently started her second term. As part of her morning routine, she swipes through a hologram of news videos curated by a digital assistant, before arriving at Threadneedle Street.

The governor disembarks, walks up to the columned façade, opens the door and...

Who will she encounter inside the building? Are there economists sitting at desks, debating policy choices around a table? Or is there an intelligent machine making decisions, setting rates, and issuing money?'

The thrilling question is answered by
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A COMMON
MISCONCEPTION
THROUGHOUT THE
CURRENT DEBATE
WHEN USING "BRAVE
NEW WORLD" TO
DISCUSS THIS TOPIC
IS TO THINK THE
LITERARY FICTION IS
ABOUT MODERN
TECHNOLOGY
WHEREAS IT IS
FUNDAMENTALLY A
DEPICTION OF A
SOCIAL CONTROL
MECHANISM
THROUGH
DEHUMANISING NEW
TECHNOLOGY.
”

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Christine Lagarde herself at the end of this drama:

'So no, I do not see machines taking over monetary policy. In 2040, the governor walking into the Bank will be of flesh and bones, and behind the front door she will find people, at least a few.'

So there will always be an Old Lady living in Threadneedle Street. [colloquial name for the Bank of England] And I hope you agree that it is often enlightening to speak to a lady of a certain age!'

As she herself notes, Lagarde's surprisingly joyful vision of the 'Brave New World' is definitely more in line with the Shakespearean quote in *The Tempest* rather than with the spirit of the same named novel. A common misconception throughout the current debate when using "Brave New World" to discuss this topic is to think the literary fiction is about modern technology whereas it is fundamentally a depiction of a social control mechanism through dehumanising new technology.

Huxley's romance starts at the Central London Hatchery and Conditioning Centre where human beings are industrially produced in a laboratory replacing what was

done through sex in the old days. That is, the 'Brave New World' would ultimately result in neutral persons, dispensing therefore ladies as well as gentlemen.

So yes, for a certain time, 'ladies of a certain age' will survive. However, in order to understand what the 'Brave New World' reserves to them, we should rather jump to chapter 14 where Linda – the mother of the unconforming Savage – finds herself at the Park Lane Hospital for the Dying, rather than at Threadneedle Street.

Lagarde's re-styling of the monetary revolution as the fulfilment of a 'Brave New World' vision set the tone of what was to come. As an analyst quoted by CNBC (April 19, 2021) predicts: '...cash is going the way of the dodo and [...] the wider payments landscape will be entirely online within the next decade apart from incidentals or quixotic spending'.

The Economist's (May 8th 2021) special report titled 'A brave new world for banks' considers that 'CBDCs [Central Bank Digital Currencies] may risk empowering authoritarians, but in democratic countries there is usually adequate separation of powers within government to stop this.'

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According to The Economist, CBDCs can pose a threat to civilian autonomy under authoritarian regimes, but in democracies, adequate separation of power can insulate them from this effect.

This Economist's wishful-thinking prediction, centred on a distorted, banking-oligarchic view of the separation of powers in democracy, is no more realistic than Lagarde's views, and fails to fully acknowledge how authoritarian powers have been setting the global guidelines for the worldwide monetary show.

Still, that same report accurately observes, here digging on the real digital monetary threat to democracy: '...digital money could become a method of social control. China has already experimented with programming digital cash: it issued stimulus payments that expired if they went unused so as to kick-start the economy more effectively. In a world without physical cash, programmed money could restrict its use to stop it being spent on, say, foreign books or newspapers.'

As the director of the Central London Hatchery and Conditioning Centre in the 'Brave New World' repeats, yelling to one of the visiting students: 'can't you see? (...) Bokanovsky's Process [production of human beings in the laboratory] is one of the major instruments of social stability!'



Chinese authorities were reported to have blocked transactions for flight and rail tickets by social credit offenders, effectively paralysing them in a country with low cash usage.

'Social stability' is indeed the core of the game, and it predates the implementation of the monetary version of Huxley's dystopian vision: 'According to the National Public Credit Information Centre, Chinese courts banned would-be travellers from buying flights 17.5 million times by the end of 2018. Citizens placed on black lists for social credit offences were prevented from buying train tickets 5.5 million times.' Just as we could expect to read in a western, politically correct cancel culture sentence, the report concludes: "Once discredited, limited everywhere". (**Guardian, 1 March, 2019**).

The Financial Times' (**February 17, 2021**) analysis titled 'Virtual control: the agenda behind China's new digital currency' tells us: "Chinese policymakers are by far the most advanced in their thinking about a digital currency," says the head of Asia business at a leading Wall Street bank, who declined to be named. "They are thinking about things that the rest of the world is nowhere near thinking about yet." "The digital renminbi will put every transaction on to the radar of the People's Bank of China [central bank]," the banker adds.'

This implies that instead of millions of transactions cancelled due to social credit offenses as happened up to 2019, we may be facing in the future trillions of cancelled transactions (and most likely promoted transactions as well). Here the anonymous Wall Street banker appears as more realistic than the Economist analyst. For the issue is not whether the 'Brave New World' digital currency implications will apply only to China. The issue is that the same logic will, in time, apply everywhere.

To see how we can stop such a nightmare coming true, we should skip false alternatives based on uncompetitive technologies hiding techno-Ponzi schemes, and think of the only realistic



Despite its risks cash remains an important bulwark to protect the democratic and free nature of society.

alternative for means of payment held, managed, and scrutinised by third parties – that is, cash!

Cash is an industrial product relying on a huge number of operations and, as any other of its kind, it needs an industrial scale to survive as a universally accepted means for transactions. It is not a universal panacea as it is exposed to several risks – yet these risks are more limited than those inherent to a digital currency not challenged by cash alternatives.

Our existing, democratic, institutional constructions are not a sufficient guarantee for our most important freedoms, including the freedom to enjoy the market power of choice. Cash as we know it is an historic human construction, as is so much surrounding us, but we should determinedly resist its replacement by a dystopic construction that threatens the basis of our democratic, free, and humane society.

The author is director of the Brussels based think tank 'South Asia Democratic Forum'. He is the author of the (**24 January, 2021**) research book 'On the value of money. Unmasking economics deception'.

THE POTENTIAL ENERGY WITHIN THE CASH RESERVOIR

GAVIN DOYLE | GLORY



As we trudge our way through the second year of the Covid-19 pandemic, we can start to see the light at the end of the tunnel. Countries with advanced vaccination programmes are lifting the restrictions and it is starting to feel different.

Unprecedented - We had no idea what lay ahead of us before the pandemic, and it could be argued that we have just as much uncertainty about the future. Even the most optimistic of us are bracing ourselves for the hidden challenges that are yet to reveal themselves. And there will be many. How will people react and interact with each other as we beat Sars



The food delivery rider has become an icon of the pandemic. As it drags on, are we building up towards a massive outflow of cash once normalcy resumes?

2 Covid-19? Will we once again see the pre-pandemic normal? Will we see overcrowded shopping malls, packed bars, live events and nightclubs?

Or will we see the symbols of the pandemic continuing? The independent courier drivers, the food delivery riders, contactless payments. What will normal mean?

Debit and credit cards have been around for decades. Other new payment methods have also been emerging well before 2021 and many of these have blossomed during the pandemic. But it is an indisputable fact that cash volumes have increased to levels never before seen. Why is that, and where is all this cash?

Well, the fact is that the world still needs cash and still wants cash, and the reasons are well documented. On top of that, there is a cash crisis that is waiting to reveal itself to businesses in the coming 12-18 months, and I am not talking about cash flow. I am talking about the "Cash Reservoir".

Whilst during the pandemic there was a social push toward contactless / digital payments, governments are now re-enforcing or changing policies to ensure financial inclusion and payment choice. In addition to this, governments are desperate to generate consumer confidence with the obvious pent-up demand of people

with disposable income to spend. Many people were able to save as there was little opportunity to spend. Every economy needs those people to spend.

And this brings me back to my title, the potential energy of the cash reservoir. Anyone who studied science at school will remember potential energy.

Potential energy is the **energy** by virtue of an object's position relative to other objects. **Potential energy** is often associated with restoring forces such as a spring or the force of gravity.

If we have more cash produced than ever before, much of which, as the **ECB highlights**, is currently being used as a store of value, and we have governments ensuring that the dam of payment choice remains open, then we can see the potential outcome. There will be the continuing use, and even a resurgence, of cash.

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Many are holding on to cash as a store of value throughout the pandemic.

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- When will cash hit the streets?
- What will happen when the cash hits the streets?
- What do the experts say and will they really get it right?

Well, these are questions that we probably cannot answer just yet. Frantic economic modelling is taking place, but as George E.P. Box (British Statistician) famously said “All models are wrong, but some are useful”. Economic models are never 100% accurate, so if we cannot answer the questions definitively now, then we had better be aware of the different scenarios and prepare for them.

The kind of discussions we have within ACMA, the intra-industry collaboration, and the individual efforts of all the companies involved in the regional cash cycle mean that



There will be opportunities to turn cash's potential energy into kinetic energy, and more business as cash springs back from its state of dynamic dormancy.

there will be many opportunities to turn that potential energy into kinetic energy, or more simply put, the cash reservoir should mean more business in the future.

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CENTRAL BANK TO
DIGITALIZE BANK
NOTES AND COINS IN
CIRCULATION. WHILE
IT'S AN INTANGIBLE
FORM OF CHINA'S
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PHYSICAL MONEY IN
USAGE.
”



Digital RMB would be used just as one would use notes and coins, and can even be used with no internet connection.

EMBRACING DIGITAL RMB

GUARDFORCE



Digital renminbi (RMB) is fast becoming a reality. It's already in a real-world trial and more than 20.8 million (Note 1) individuals in various Chinese cities have opened a virtual wallet that stores the digital currency. More than 70.7 million transactions have been made, and the transaction value has exceeded 34.5 billion yuan (US\$5.3 billion), according to a white paper published by China's central bank, the People's Bank of China (PBOC), in July 2021. As such, it's important for the rest of the world to know more about what digital RMB is and how it works.

Officially known as eCNY, it is a means for the central bank to digitalize bank notes and coins in circulation. While it's an intangible form of China's currency, it is considered no different from the physical money in usage.

Behind the digital currency is the blockchain technology that also powers all forms of cryptocurrencies. However, digital RMB is by no means a cryptocurrency like bitcoins. Digital RMB is distributed by China's central bank to second-tier providers including state-owned banks and online payment providers and then to the public. The issuing of the digital RMB is fully controlled and backed by the state, just like RMB notes and coins.

How is digital RMB used?

The first thing for individuals or businesses to use digital RMB is to create a digital RMB wallet to store the money.

There are different levels of wallets. The most basic form only requires an email

address or a mobile phone number for registration, and that information is held by PBOC only and not shared with any third-parties. The more premium form of wallets requires a bit more registration information, such as a mobile phone number, Chinese identity card, Chinese bank card, and face-to-face verification if required.

Once a wallet is set up, users can put money into the digital wallet using the balance from an existing bank account. If there is more than one bank account to top up the wallet, the digital RMB wallet app will open a sub-wallet for each bank account to store the top-up value.

The digital wallet is differentiated from a bank deposit account in that the digital RMB in any digital wallet is a direct liability of the PBOC, not individual banks, and the digital wallet associated with an account of a specific bank is just an interface to allow users to access their eCNY.

With money in the digital wallet, users can make or receive payment, just as they would with bank notes and coins, and transactions can even be made offline when there is no internet connection.

In this way, digital RMB is not another e-payment means, along the vein of China's popular mobile payment means Alipay and WeChat Pay, because users don't need to open an account with any online e-payment platforms to be able to use digital RMB.

While digital RMB is designed primarily for

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The development of a digital RMB could have implications for international trade by enabling China to trade without using the US dollar settlement system - thus rendering some protection against foreign sanctions.

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use in the domestic economy, PBOC is exploring ways to support cross-border payment with digital RMB. In PBOC's white paper, it is stated that "the internationalisation of a currency is a natural result of market selection" (Note 2).

Indeed PBOC has set up a joint venture with global payments messaging network SWIFT, paving the way for the international adoption of digital yuan. eCNY's cross-border use has been tested in Hong Kong, and the PBOC has been working with some central banks on international payments involving eCNY.

Why digital RMB:

The digital form of the yuan was tabled in 2019 as China is progressing towards a less cash society and intends to leverage the digital currency to deliver multiple benefits for users and the state.

For individuals, using digital RMB for transactions instead of e-payment will not involve fees charged by e-payment platforms. It can be used like cash, so people don't have to carry bank notes and coins in physical wallets.

Users can use their digital wallets even without a bank account or e-payment account, allowing them to have more flexibility and less traceability than the standard e-payment methods, though

maintaining visibility of their transactions through block-chain technology . People living in remote or rural regions can also have easy access to money digitally, even if they can't easily get to an ATM to withdraw cash.

On the state level, issuing money in the digital form can reduce the costs for printing, circulating and replacing physical money, though this might affect present seigniorage, therefore PBOC income. It could also help curb some of the typical illegal activities associated with physical currency, such as money laundering, counterfeiting, etc, because of the robust blockchain technology that makes shared ledgers virtually impossible to alter, although there is no ruling out that such activities could still take place in digital form.

The PBOC believes the electronic data from real-time transactions using digital RMB will provide accurate and useful datasets for the state to formulate and implement monetary policies and improve economic planning. China's central bank is hoping to have better control of money supply and currency circulation, and also help the state disburse financial aid and subsidies to the needy faster.

Another key driver for the digital currency is having an independent alternative for cross-border trade payment. It would mean theoretically

China can settle trade payment with its trade partners without using the US dollar settlement system and being exposed to the risks of arbitrary foreign sanctions.

Will it make our society less cash?

The introduction of digital RMB is indeed intended to help the country progress towards a less cash society. Already, China is leading in the world in terms of digital transactions, accounting for 44% (Note 3) of the total digital transaction value globally. It is considered an essential part of China's innovation and digital economy, as China is pushing the frontiers in advancing cutting-edge technologies such as 5G, AI, big data, blockchain and others.

However, the day when cash is rendered unnecessary will be far way. While digital payments have come a long way, cash remains the number one payment means for consumers in the world at large. As well, to maintain financial and social stability, the roll out of eCNY will be gradual, and physical RMB won't be phased out for the foreseeable future.

It will be many decades before people are totally comfortable with the idea of not using cash, because people are confident that cash can't be hacked and cash can be used even when the mobile phones holding the digital wallets have run out of power, or when the power is down or even when natural disasters hit. Cash is also accessible without a bank account or a mobile phone – always an important consideration to remember to ensure the unbanked or the less tech savvy are not left behind.

History shows that cash will always have a role to play. Debit and credit cards have been around for decades as a form of cashless payment, and e-payment has gained tremendous popularity in recent years. Still, the bulk of transactions in the

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China is already reported to account for 44% of the world's digital transaction value and digital RMB is part of its move towards less cash. However, there are no plans to phase out its physical RMB.

Continued from previous page by third-party payment vendors.

world is settled by cash, and merchants are happier to take cash as such transactions don't involve fees charged

This means businesses will still have to maintain secure and cost-efficient ways for managing cash transaction

processes for a long time to come, while getting ready to embrace digital RMB, or any other form of digital currencies and e-payment.

Notes:

1. Source: <https://www.bloomberg.com/news/articles/2021-07-16/china-s-digital-yuan-trial-reaches-5-3-billion-in-transactions>
2. Source: <https://www.reuters.com/business/china-cbank-says-it-will-steadily-push-forward-digital-yuan-pilots-2021-07-16/>
3. Source: <https://news.cgtn.com/news/2020-12-12/Why-is-China-moving-to-digital-RMB--W3n61i8Wvm/index.html>

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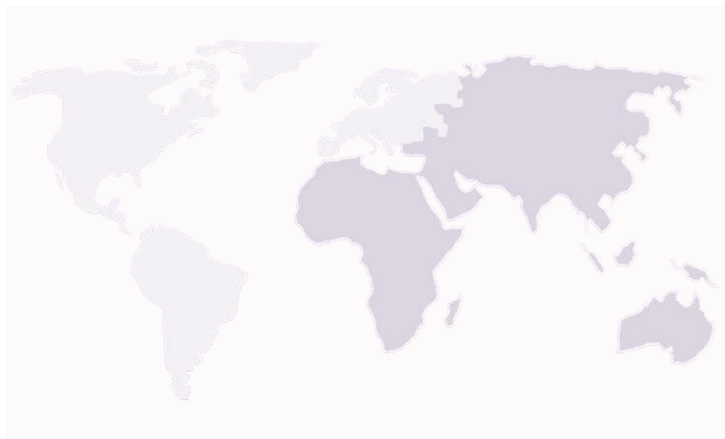


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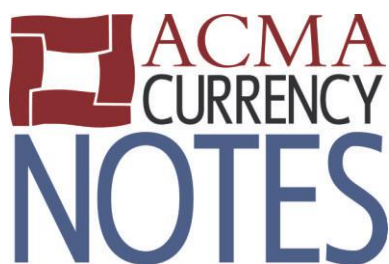
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