

Digital money set to disrupt the banking industry

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Satoshi Nakamoto – the creator of bitcoin – had a vision for the new age of commerce and that vision is being realised at a rapid pace as with all financial services, people all around the world desire financial platforms that are convenient, safe, reliable and trustworthy. Cryptocurrency has been established to be detached from regulatory intervention, but it still does not satisfy those four requirements given its volatility in value. Digital money, on the other hand, has given this cushion of surety for its users. Uruguay, as an example, is at the forefront of integrating digital money into its payment systems.

What is the difference between cryptocurrency and digital money? Well the simple answer is that digital money is regulated by a country's Central Bank and is formally accepted as legal tender, whereas cryptocurrency is decentralised and is not formally accepted as legal tender, making it optional for people to accept it. This means that a creditor is not under any obligation to accept a bitcoin tender as means to settle a debt.

Digital currency is a centralised solution that generates digital money that can be exchanged between users that own digital wallets. Quite simply instead of physical money and a physical wallet, users now have a digital form. The main attribute of digital money is that it will be pegged against the value of the currency of the country in which it is being utilised. Cryptocurrency, such as bitcoin, creates a separate commodity with its own value, which is influenced through a volatile means of economic principles such as supply and demand.

The technology that will support digital currency is through a system that generates "eNotes" for the Central Bank. The Central Bank will at all times have monitoring power over the circulation of the "eNotes". In addition, the Central Bank will also be in a position to adjust the volume of legal tender in circulation. Given this transparency, the use of digital legal tender will also help to provide an effective deterrence to illicit and fraudulent transactions. The reason for this is that electronically the Central Bank will be able to track at any time the flow of the "eNotes".

eNotes can be stored with commercial banks or Fintech companies that will account for eNotes transactions. eNotes will not be directly stored on mobile devices and thus presents the advantage that the end-user may always have a sense of security that should his mobile device

be stolen or damaged, the digital wallet and the eNotes will not be stolen.

Digital currency would also be able to be used for both point of sale payments and remote payments. Digital money can also be interchanged with physical notes at ATMs or at a point of sale.

Digital money also has benefits for the state. The costs associated with printing money for the state will be significantly lowered than the costs involved in managing digital money.

The traditional form of legal tender in circulation means that retail banks are advanced funds from the Reserve Bank at a particular interest value. Retail banks then distribute the funds to the public through various payment systems that are responsible for clearing and settling payments. The retail banks then place their interest margin on the legal tender that is used by the public.

The digital currency system intends to reduce the burden of additional interest costs. eNotes can be directly provided to the public.

Where eNotes may be a disrupter for the banking industry, they pose an opportunity for the insurance industry, as an example. National Treasury, for instance, has prioritised a mass-based and sustainable transformation that will direct the financial sector work and generate wealth for all South Africans.

Access to financial services is a key driver towards achieving economic and social transformation. eNotes would enable all South Africans to save, borrow, insure and transact.

There is no requirement to have a bank account, but merely a phone that enables an eWallet. Now insurance premiums can be paid via the use of an eWallet unlocking the insurance industry to more South Africans.

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