



BANK of ZAMBIA

**OPENING REMARKS OF THE CWAG AAP WORKSHOP ON
VIRTUAL CURRENCY INVESTIGATIONS**

BY

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- **Heads of Institutions present**
- **The CWAG International Coordinator**
- **Members of the Press**
- **Ladies and Gentlemen**

I would like, on behalf of all of us here at the Bank of Zambia, to welcome you to the Conference of Western Attorney General Africa Alliance Partnership (CWAG AAP) Workshop on **Virtual Currency Investigations**. Let me extend a special welcome to the CWAG facilitators who have travelled all the way from the United States of America to come and partner with the Bank of Zambia (BoZ) on this programme.

We are honoured to host this important workshop which we believe will help us to deepen our understanding of what cryptocurrencies are and what they are not. We hope that for the law enforcement officers and regulators among us, this workshop will enhance our practical and theoretical knowledge of virtual currencies. And we expect that this knowledge, will in turn, improve our ability to carry out our work more effectively as investigators, prosecutors and regulators.

As we reflect on the possibility that at some time in the future virtual currencies could become a widely used medium of exchange, it is important to understand that the current widespread ignorance relating to cryptocurrency as a concept, to how it works and to the role of block chain technology, which underlies it, is a big issue. Ignorance surrounding cryptocurrency unfortunately is not the special preserve of the general public because it finds its place even among those of us who are charged with the responsibility of regulating the financial landscape or fighting crime which may have its origins in the use or misuse of virtual currencies.

In one sense this workshop should make it possible for us to deal effectively with this challenge of ignorance because it is providing an opportunity for fraudsters to lure people into investing in what are essentially Ponzi or pyramid schemes on the pretext that their money will be invested in digital or cryptocurrency backed assets which will generate high returns in a very short period of time.

The Bank of Zambia has observed a rapid rise in scams that are being perpetrated by fraudsters in the name of cryptocurrencies.

In a number of such frauds that the Bank of Zambia has dealt with in partnership with the Zambia Police, the Drug and Enforcement Commission and the Financial Intelligent Center, investors were promised returns on their investment in some cases calculated on the basis of 1.5% per day or a promise to triple their investment within one month. The unfortunate thing is that these schemes have been rapidly subscribed to; the catch being that their money will be invested in cryptocurrencies. Since the dynamics of these currencies are largely unknown, these investors are easily lured by what Economist Joseph Stiglitz calls “techno mysticism” and for this reason investors feel no obligation to enquire into the underlying economic activity that would generate such returns and therefore give them the comfort that they have made a prudent investment decision.

For regulators and law enforcement officers, the development that the cryptocurrency technology can facilitate organised crime is disconcerting because more often than not criminals are quicker on the uptake and tend to understand the way that they can use innovative products and services to defraud unsuspecting users. Sometimes they do this long before the capacity and capability to regulate or police is built. The fact that this happens should not

necessarily be an indictment on the likes of us who are in this room. It is just that technology is now introducing new products and services in the market at such a furious pace that regulations and laws, sometimes lag behind and we have to play catch a up game with the law breaker. In this technologically fast changing environment it has become imperative for law enforcement agencies (regulators, investigators, enforcers, and prosecutors) to deliberately and constantly refresh their knowledge so that they are better placed to respond to the challenges that innovation throws at them. Ladies and gentlemen, this workshop is an attempt on our part to respond to the challenges that the cryptocurrency innovation is throwing at us.

The broad purpose of this workshop goes beyond dealing with concerns that might arise from shortcomings and risks associated with the failure to prevent crime and abuse of cryptocurrency technology. Some of these risks include as I have said before fraud and the lack of consumer protection against fraud but it can also include money laundering and financing of terrorism activities.

One must understand, however, that Cryptocurrencies have been created to achieve something that fiat money is not achieving or probably not doing well. For this reason, these currencies can have powerful uses among them are

- The potential to achieve low cost money transfers, meaning that digital money can be sent and received at a low cost and high speed;
- It guarantees access to your money because it is resistant to censorship or meaning that authorities cannot freeze your account;
- Enables you to make anonymous financial transactions

Of course the question that should be at the back of your minds is what is the future of cryptocurrencies? Will they successfully challenge the dominance of fiat money in future and if so when? These are some of the questions among others which I hope this workshop will be able to help you answer. But before I conclude my welcoming remarks let me share with you the fact that some regulators around the globe have sounded warnings against cryptocurrency and have accordingly taken steps to dissuade their use through regulation. Others have likened them to Ponzi schemes. Central banks in particular have difficulties with them

because they challenge their control over the key functions of monetary and exchange rate policy. Economist Stiglitz has also been explicitly uncomplimentary of cryptocurrencies which he describes as a bubble that gives a lot of people a lot of exciting times as it rides up and then goes down. It lacks a socially useful purpose and should be outlawed. He considers it a very expensive means of payment used mostly to buy black market goods without a tether to reality.

But I want to end by giving the case of South Korea as a country which has embraced the cryptocurrency technology. It is estimated that three in every ten salaried workers have invested in cryptocurrencies. The country accounts for 30% of total cryptocurrency trading worldwide and possesses a very developed cryptocurrency exchange system. This is happening against the background of government efforts to introduce strong regulation which would restrict entry by illicit players. However, the regulations which were introduced in 2016 are beginning to thaw pointing to more activity in these digital assets as South Korea seems to be poised to play a critical role in driving the adoption of cryptocurrencies around the global.

I want to end by reiterating that this workshop should improve capabilities of investigators to effectively carryout their investigations and prosecutors to effectively prosecute when it becomes necessary. Further, the workshop should assist regulators to formulate regulatory frameworks for cryptocurrency as well as equip them with skills that they can use to educate members of the general public so that they can understand cryptocurrencies and related technology and hopefully be well placed to protect themselves against fraud and manipulation.

I believe this workshop will be engaging as it examines both sides of the argument for and against the use of cryptocurrencies and It is my expectation that we will all be better informed and ready to use our newly acquired knowledge in our work.

It is my pleasure now to formally open this workshop.

I THANK YOU