

## Nina Stoyanova: Innovations

Statement by Ms Nina Stoyanova, Deputy Governor and Head of the Banking Department of the Bulgarian National Bank, at the opening of the Financial Forum “Innovations”, organized by Association “Bank of the year”, Sofia, 9 June 2021.

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Market developments today are driven by the new technologies. They provide a basis for increasingly diverse and innovative payment products. Digitalization of processes and services has led to development in the financial sector in Europe further stimulated by the policies of the European and national regulators. Payment services are getting more convenient, secure and accessible. Today, when consumers make on-line purchases, they expect the payments to be executed swiftly and smoothly, requiring no additional time or effort.

The global pandemic increased the interest of different businesses to the payment sector. We witness a quick acceleration of digitalization in most of the spheres of life, such as work, shopping and administrative services. This has also generated a demand for alternative methods of payment. According to the latest public data, three out of four users worldwide have changed their method of payment owing to the Covid-19 crisis. Half of the consumers would opt to shop online, where possible. During the pandemic large part of consumers have tried for the first time a new shopping or payment method.

Currently, we observe an enhanced activity of the innovative payment market players. These are FinTech companies that have proven themselves in other sectors but also the so-called “challenger banks”. Using digital technologies, they try to redefine the provision of financial services to improve customer experience and to find their place on this highly competitive market. These new players position themselves mostly in market niches with a potential for further development. Such niches are, for example, the digital wallets, person-to-person (P2P) and business-to-business (B2B) payments, as well as value added services offered on the basis of existing traditional payment services.

With the Second Payment Services Directive (PSD 2), two new types of electronic payment services were regulated in the European Union – payment initiation services and account information services. These new services are already offered in Bulgaria and provide technological basis for the implementation of the so-called ‘open banking’. It enables FinTech companies to enter the payment market more easily by introducing new business models, services and solutions. Examples for such services are aggregation of payment account data from different payment service providers, carrying out financial analysis, initiating payments from accounts held with other payment service providers, etc.

Security of electronic payments remains in the focus of the European and Bulgarian regulators. Increased use of electronic payments and the recent boom in e-commerce pose new challenges with respect to protecting security of payments and electronic identity of customers. The most significant progress here was made in 2019 when the Europe-wide obligation for strong customer authentication was introduced. For this purpose, at least two independent elements of different categories must be used (knowledge, possession and inherence) when processing electronically initiated payments. In case of remote payments, such as Internet payments, an additional requirement has been introduced for the so-called dynamic linking. It requires linking each transaction to a specific amount and a particular payee by sending one-time code messages by the payment service providers.

The forthcoming review of the PSD 2 will provide a comprehensive assessment of the strong customer authentication impact on the level of payment fraud. New requirements are considered in order to reduce ‘social engineering’ and ‘phishing’ types of fraud, including a requirement to

match the payee's name in the payment order with that of the account holder. Special emphasis will be placed on the prevention of instant payment fraud. Electronic identification and certificate-based solutions are explored as means of strong customer authentication.

Recently, a special focus has been placed on re-defining and strengthening the oversight of the wider payment ecosystem. Specific steps in this aspect have been taken by the ECB with the draft of a single Eurosystem oversight framework for electronic payment instruments, schemes and arrangements (PISA framework), published last year. PISA framework aims to cover not only the traditional payment schemes and instruments (e.g. payment cards), but also innovative instruments, such as digital payment tokens backed by assets (e.g. stablecoins). Last September the European Commission published a Proposal for a Regulation on Markets in Crypto-assets (MiCA), which is currently under discussion. The goal of this Regulation is to ensure a more rigorous regulatory treatment of issuance and transactions with some types of crypto-assets and the crypto-asset service providers will be subject to authorisation and control.

The long-term trends in Europe are related to achieving a greater integration and autonomy of the European payment system. In its centre are positioned the instant payments and application of common technical and business standards across Europe. Bulgaria is an active participant in these processes. EU initiatives for development of retail payments are in the process of implementation on our domestic payments market. A still open question is whether the changes in the people's payment habits will stay as a permanent feature and will set a direction for the forthcoming technical developments in the payments sector. In this very dynamic area the EU regulators will continue playing an active role.

I wish interesting and productive work to all the participants in today's financial forum.