

## **Anita Angelovska Bezhoska: Welcome address - National Bank of the Republic of North Macedonia fintech event**

Welcome address by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the NBRNM fintech virtual event, Skopje, 28 July 2021.

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Good morning to all.

It is my pleasure to welcome you to this virtual event today. The purpose of the event is twofold: 1) to share with you the results of the activities we are taking as part of our ongoing efforts to support the fintech development and 2) to announce our next steps in fintech segment. This event would not be possible without the European Fund for South-East Europe, an institution with a prominent role in promoting responsible financial sector development. We are very thankful for its continuous support in different areas of our activities, including Fintech. I would also like to extend a gratitude to Mr. Jay Tikam, a financial expert who will present the findings from the first national Fintech Survey that we jointly conducted.

**Let me now shed some light on a couple of important dimensions related to fintech such as** the specific circumstances that brought this issue to the fore in the last decade, the benefits it brings to the society, the role of policy makers/regulators in this segment, the current state and the priorities and challenges ahead.

**Although "fintech" is a relatively new term, technology has always played an important role in the financial sector.** Technology-driven innovation in the financial sector has a long history ranging from the development of double-entry book keeping, to the establishment of modern payment systems, and the more recent introduction of complex asset markets and retail financial products. Thus it seems that the emergence of fintech is only the latest wave of innovation to affect the financial industry. Then, why is fintech getting increased focus nowadays? In fact, in the last decade, a radical change has occurred in the way in which technology is used leading to proliferation of new financial products offered outside the banking system, which has brought significant competitive pressure on banks as traditional players, and created environment in which disruption can happen extremely quickly, thus urging traditional players to adjust faster to maintain market share.

**There are a couple of other factors that have contributed to proliferation of financial innovation besides the advancement in technology itself. Changing consumer behaviour, especially by trendy millennials, is by far the biggest driver, on the demand side.** They want to engage in their own way with financial services providers, who must respond to changing demands, or risk being disrupted by entrepreneurial innovators. In a recent global study, the World Bank reported that COVID-19 is accelerating change across the board on how people interact with financial services. Unprecedented demand, especially from developing countries, requires a rapid transition to secure and inclusive digital finance.<sup>1</sup> The study points to a double digit increase in number and volume of fintech transactions, as well as

continuous increase of the client base. These trends have been underpinned by changes to the existing fintech products and launch of new ones. About 60% of the surveyed fintech companies reported launching new products as a response to changing behavior and demand of clients amidst pandemics.

In addition, the fact that in the last decade banking industry was dealing with the **legacy issues of the global financial crisis** also provided bigger space for fintech firms, as **non-regulated entities**, to penetrate in financial business with **consumer-centric solutions**. This process was facilitated by the more favorable regulatory environment, i. e., falling regulatory barriers to entry for newcomers.

**Concerning the benefits, I think there is no doubt that Fintech can bring enormous benefits for customers, the financial system, and the overall economy. By enabling new players and business models to enter the market,** Fintech has potential to increase competition, meet unfulfilled customer needs, reduce inefficiencies and transform financial services for good. These solutions come from Fintech's ability to unbundle traditional banking services such payments, maturity transformation, and risk sharing from banks, allowing these services to be performed by non-banks, i.e., fintech firms. Furthermore, fintech solutions can enhance data analysis, leading to more personalized products. The combination of unbundling and more agile technology could provide customers with more choice, better-targeted services and keener pricing. Increased competition from fintech firms has also contributed to increased innovations by traditional players and increased collaboration between them and newcomers that will fundamentally and permanently change the traditional conceptions of banking and insurance, as we understand it today. Along those lines, the annual Survey of the National Bank shows an increasing use of modern technologies by the commercial banks, especially cloud services, biometric identification and NFC for digital wallets. Overall, this transformation can bring about a more efficient, effective and resilient financial system. New finance channels can also improve the overall economy, for example, allowing merchants to enhance profitability by selling goods and services online, or indeed driving exports.

However, the benefits go hand in hand with new risks and invites new thinking on how to preserve fundamentals such as consumer privacy and security, as well as how to preserve monetary and financial stability. Amidst this background, we must consider how policy-makers can best support the development of a fintech ecosystem, but doing so in a safe manner.

**How are we as a regulator embracing these challenge? Like many other central banks, we have already embarked on a digital journey.** Considering our role in the oversight of the financial system and preserving financial stability, we must look forward and anticipate emerging trends so that we can react proactively. Accordingly, we have widened the list of the strategic objectives of the National Bank that now explicitly incorporate support of technological progress and financial innovations, as well as financial literacy as important tool for protection of consumers in the fintech environment.

**Regulators cannot control nor predict what innovation will look like in the future.** However, given the benefits it brings, regulators can contribute to the development of a Fintech ecosystem by creating an enabling environment for the entry of new products or

new players into the financial services market. Usually, regulation is seen as a significant challenge for Fintech-led transformation. In this context, together with the Ministry of Finance, we have put a lot of effort to significantly update payment services regulation, which is currently going through a legislative approval process. The new legal framework for payment services embodies objectives that seek to foster innovation while ensuring a level playing field for all players, including newcomers. An important step in the same direction are efforts for digital identity verification of consumers that has a significant potential to drive greater levels of financial inclusion and financial accessibility.

**Regulators can enable, encourage and support innovations in financial services, by providing regulatory certainty and clarity.** Considering this, in the National bank we established the so-called "Innovation Gateway", to serve as a central point of contact and communication channel between innovators in the financial industry, the central bank, and other relevant authorities.

**To better understand the fintech state of play in our economy we conducted the first national Survey and prepared a feasibility study,** which clearly underline the opportunities and benefits that Fintech can bring to our country, as well as the barriers that need to be overcome for further development. The main conclusion of the feasibility study that follows the Survey is that digital transformation is high on the agenda for all parties involved in the ecosystem. Traditional players look to gain operational efficiencies, cut costs, and enhance the customer experience. At the same time, alternative finance firms are on the rise, bringing better products and services than traditional players can offer. However, it appears that regulation is a common challenge for Fintech led innovation and the entry of new players. On this front, Survey respondents see a need for changes in the payment services regulation, the regulation for electronic signature, AML/CFT regulation and rules for data protection.

In the period ahead, we will focus our energy on activities related to governance arrangements and coordination issues with all stakeholders in the ecosystem. We also plan to devote special attention to developing effective consumer protection regulation in the area of financial services. Setting criteria for licensing process for newcomers is another activity that is on our agenda. Furthermore, we would also explore the feasibility of creating a regulatory sandbox, to enable firms to experiment with new technologies in a safe space. This regulatory tool has considerable potential to foster financial inclusion and it can signal to Fintech industry participants that the regulator is open to innovation. All these issues will be part of the first National Fintech Strategy, as one of our strategic goals in the period ahead.

As you can see the agenda is ambitious, but the idea is to react proactively even though the market demand is still modest.

While no one can predict the future with certainty, we know one thing for sure – digital transformation is here to stay profoundly changing the way we live and work.

Looking forward, I see three main priorities:

**First**, we should balance between enabling financial innovation on the one hand and addressing challenges to market and financial integrity, consumer protection, and financial stability on the other.

**Second**, close cooperation between regulators is of utmost interest. It includes international cooperation as well, considering that innovations could have cross-border implications.

**Third**, there is a need for strong industry engagement and commitment by all stakeholders to enable efficient implementation of the National Fintech Strategy in practice. Enhancing public-private dialogue (PPD) between regulators and industry participants can enhance mutual understanding of Fintech innovation and risk profiles, their role in financial inclusion, and can help to strengthen compliance with international standards. We can learn and benefit from one another. In this context, dialogue plays a major role, and events like this can help us enhancing the dialog with one another. Similarly, customers must also be engaged, as they play a crucial role in creating much needed demand for Fintech led transformation. Therefore stakeholders have to consider how to educate consumers and businesses about the benefits of Fintech as well as making them aware of risks and challenges, so that they build trust, and can make informed financial services decisions.

Let me conclude with a final thought.

The digitalisation of the financial sector will continue to accelerate over the coming years. To help capture the greatest benefit from continuing waves of innovation, we must build trust in new financial technologies - by promoting an atmosphere that encourages creativity and innovations to the benefit of our societies, but without sacrificing consumer protection or undermining the financial system stability.

Thank you!

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<sup>1</sup> <https://www.worldbank.org/en/news/press-release/2020/12/03/fintech-market-reports-rapid-growth-during-covid-19-pandemic>