



FINANCIAL INNOVATION: RELEVANCE, DRIVERS AND IMPLICATIONS FOR MACEDONIAN ECONOMY

Monetary Policy, Economic Integration and the “New Normal”

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**National Bank of
Republic of Macedonia**



Innovation in Finance and Payment Services

Technological advancements for Central banking – fin-tech (finance and payment systems), reg-tech (regulation), sup-tech (supervision)

Fin-tech is the front runner and present a paradigm-shift

Advantages

increase speed and efficiency, and reduce cost

DLT in cross-border transfers (especially for EMEs) and trade finance

mobile phone-based banking and payment services – higher Financial Inclusion

machine learning and big data analytics

Challenges

regulatory framework and industry standards

increase speed and efficiency, and reduce cost

financial, cyber, and data privacy risks

effectiveness of macro-prudential measures and monetary policy transmission



Innovation in Finance and Payment Services Embraced Globally

The International Monetary Fund and the World Bank Group collaborate to harness the benefits and opportunities of rapid advances in financial technology

- **deepening and enhancing the efficiencies of financial systems**
- **better and higher financial inclusion, and should benefit the many**
- **fintech solutions that enhance financial services, mitigate risks, and achieve stable, inclusive economic growth**
- **improve cross-border payments and remittance transfer systems**

Key considerations for the international community for embracing the global Fintech trend

Embrace the Promise and Enable New Technologies to Enhance Financial Service

Fintech Promotes Financial Inclusion and Develop Financial Markets

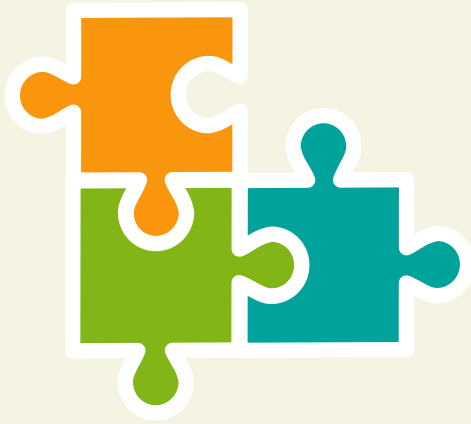
Understanding of Evolving Financial Systems and Reinforce Competition and Commitment

Adapt Regulatory Framework and Supervisory Practices, and International Cooperation and Collective Surveillance

Safeguard the Integrity of Financial Systems



Fintech Situation in Macedonia



Assessing the Current Environment

- Relatively harder to start a financial service business
- Banking market is saturated – new players higher access to financial services
- Traditional financial system, which needs modernization

Positive government actions

Regulatory efforts



Higher financial inclusion and access to finance

Increased competition would benefit costumers and bring other economic benefits

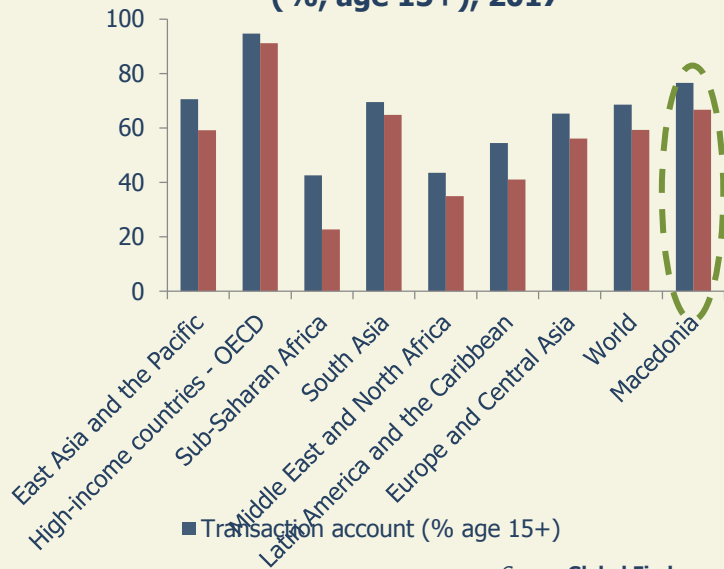


Financial innovation and inclusion

Most Macedonians have a payment account (77% of respondents, and over 67% of the poorest income respondents)

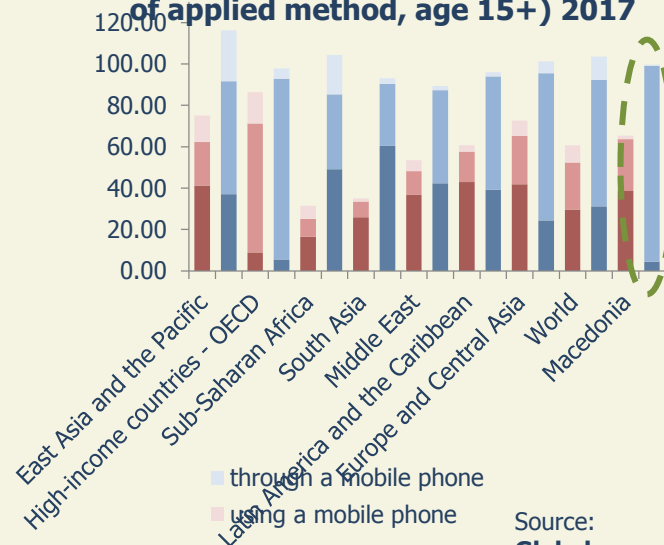
Most Macedonians receive wages on a payment account (similar to high income countries), but prefer using cash for paying bills (similar to Europe and Central Asia).

**Availability of an account
(%, age 15+), 2017**



Source: Global Index

The method applied for payment of utility bills and receiving wages (% of applied method, age 15+) 2017



Note: categories achieve more than 100% due to the use of more than one method.

Source: Global Index



Financial innovation and payments

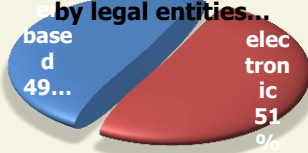
Share of total number of transactions with CT by individuals...



Share of total number of transactions with CT by individuals...



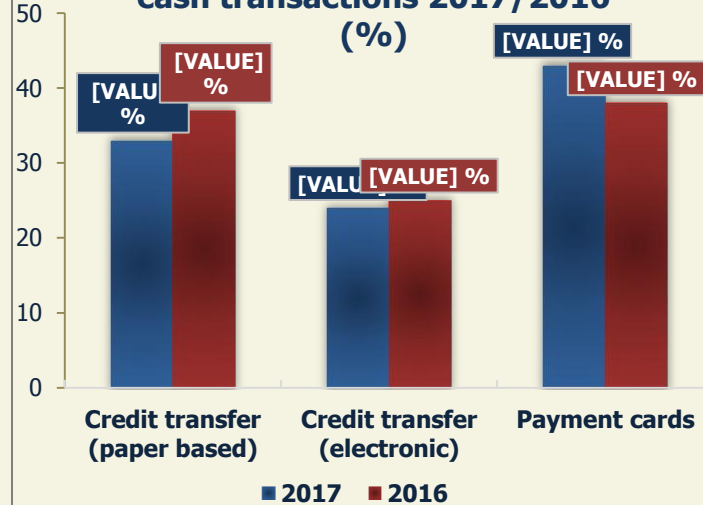
Share of total number of transactions with CT by legal entities...



Share of total number of transactions with CT by legal...



Share of total number of non-cash transactions 2017/2016 (%)



Legal entities increasingly use the services of e-banking, by initiating a higher share of number of transactions by credit transfers (CT) electronically.

Higher usage of mobile phones and ATMs in execution of electronic credit transfer by individuals.

Most of the total number of transactions with non-cash payment instruments for 2017 were executed by payment cards (43%).

This indicates a stronger use of payment cards by the population and companies for the execution of non-cash payments in trade.



Fintech Situation in Macedonia

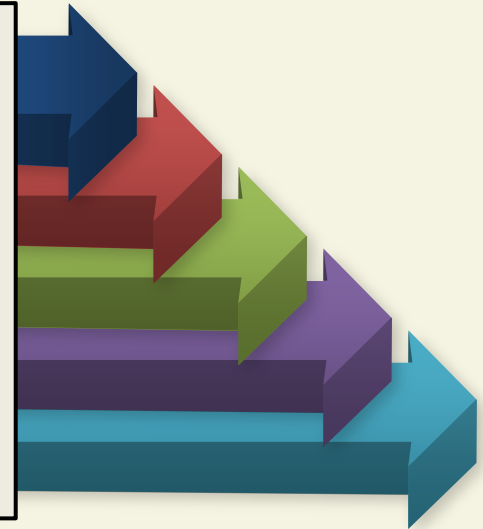
The National Bank of Republic of Macedonia on June of 2018 held a full day workshop about Fintech in Macedonia, which was attended by the higher management and representatives from all departments

Response Strategy with three key principles

- Change, Coordination, and Capacity Building

Immediate Action Plans

- Establish a Fintech Working Group
- Education and Raising Awareness
- Coordination with all Relevant Stakeholders
- Domestic and Regional Assessment of Fintech Developments
- Capacity Building within NBRM Supervisory Department
- Examine Risk of Fintech
- Engage with Banking Association and Regulators in the Region
- Review of Current Regulatory Framework to Assess Suitability for Fintech
- Standardization of API's to facilitate Open Banking





New Regulation on Payment Services (PSD2) in Macedonia

PSD2 is data and technology-driven directive that aims to drive increased competition, innovation and transparency across the payments market, while also enhancing the security of Internet payments and account access.



third-party providers through APIs have access to a customer's online account/payment services



customers use of third-party providers to manage finances



increase transparency and fair competition, and break down the entry barriers



standardizing the regulations



banks to be innovative and offer new services



easier for non-banks to enter the market



third-parties to build new financial services



improve innovation, consumer protection and the security of internet payments



a limit on costs for card payments and better consumer protection



Central Bank Digital Currencies Outlook

Central Banks around the world explore the CBDCs

Currency distribution

Pros

- CBDCs are safer and easier to distribute
- CBDCs would ensure public access to legal tender if cash were phased out

Cons

- Issuing CBDCs will incur set-up costs
- CBDCs are vulnerable to electricity outages in emergencies (unlike cash)

Payments system

Pros

- Faster settlement and improved cross-border transactions
- Potentially lower transaction fees
- CBDCs with DLT, but with central validation increases speed of settlement and clearing, reduces cost, and has a degree of anonymity

Cons

- CBDCs with DLT, but with central validation are not borderless

Monetary policy and Financial stability

Pros

- CBDCs could ensure monetary policy effectiveness if there was an extensive take-up of private crypto-currencies

Cons

- Reduction in bank resiliency



Closing remarks

Macedonian competent authorities, including both the National Bank and the Government are embracing technological innovation in financial services market

Change of the national laws, adoption and harmonization with European law in area of payments and financial services



National events and conferences for assessing the global trend of financial innovation

Adoption of PSD2, which supports innovation and opens the market for new players (Fintech)



Thank You!

