

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of Macedonia, at the NBRM's 11th Conference on Payments and Market Infrastructures: Let's Get Digital, 6-8 June 2018, Ohrid, Macedonia

Distinguished guests,

Ladies and gentlemen,

It is my great pleasure to **welcome** you to the 11th edition of the Conference on Payments and Market Infrastructures hosted by the National Bank of the Republic of Macedonia.

The organization of this Conference has been **traditionally supported by De Nederlandsche Bank** and over time, this initial bilateral cooperation attracted involvement of other central banks and IFIs. In this context, I would like to extend our appreciation to Banco de Portugal for its contribution in the past editions, as well as to the Bank of Italy, the National Bank of Belgium and the National Bank of Serbia for their contribution to this Conference. Also, particularly valuable is the continued participation of the European Central Bank, the Bank for International Settlement and the European Commission given the prominent role these institutions play in the payments area.

This year's conference focuses on **digital transformation**, a process that is heavily penetrating across all segments of our business and private lives and will take even greater significance in the years to come. The digital transformation in finance has been rapidly evolving with the emergence of Fintech sector. According to the Ernst&Young's Fintech Adoption Index, one-third of consumers utilize at least two or more fintech services and they are becoming increasingly aware of FinTech as a part of their daily lives. The FinTech Adoption Index for services offered by FinTech organizations under five broad categories – money transfers and payment services, financial planning tools, savings and investments, borrowing and insurance, indicates that money transfers and payment services are continuing to lead the FinTech change, with adoption standing at 50% in 2017 and 88% of consumers anticipating of doing so in the future. Thus, the global payments industry is currently undergoing a paradigm shift driven by rapid advances, the influx of new technologies and evolving consumer behavior

as digital generations come of age. The emerging FinTech enhances the transformative power of digital payments via innovation.

The irruption of digital payments relates to its many opportunities. Embracing payments digitalization has the potential to substantially **reduce the costs, increase the efficiency and enable broader access to payment services.** With the rise of new payment digital technologies developed by the FinTech, and increasingly adopted by banks, consumers and merchants nowadays have a **wide range of payment products to choose from.** Innovation developments, such as instant payments, payment initiation services, person-to-person mobile payments and contactless proximity payments have the digitization process accompanied by innovative solutions in their essence. The payment innovations and digitization process also have an impact on the **transformation of payment market infrastructures.** These developments however, **have raised various issues** related to the requirements for bank openness, customer security, transparency and trust in the payment services market as well as consumer rights protection.

Consequently, the regulators have to adopt appropriate **legislative framework** that supports digitalization, innovation and competition, but also take care of security and protection. In this context, it can be noticed that the **European Union** is a global leader in this domain. By revising the Payment Services Directive (PSD2), the European Union enables stronger competition and innovation by allowing entrance of FinTech payment service providers that will eventually lead to greater choice and better prices for consumers, fosters cyber resilience of the payment service providers as well as enhances protection of payment services users. In this way, the European Union created a sound legal framework for digitalized payments landscape that enhances the integration of the single payment. At the same time, it sets an example for other countries around the world how to support digitalization trends by balancing between innovation and competition, on the one hand, and security and protection, on the other hand. The new regulatory framework implies that banks will no longer only be competing against banks, but everyone offering financial services, i.e. the customers will be able to create a set of providers of different financial services instead of relying on one bank for all services. The belief that non-bank FinTech companies will play a significant role in the future financial landscape is well established if we look at investments in fintech industry. The cumulative investments globally have more than ten-doubled the last five years and are estimated to exceed \$150bn the next 3-5 years. This, in addition to changed customer expectation and

increased digitalisation, may be the reason why today we are witnessing a trend of stronger cooperation between banks and fintechs, including in the area of innovation labs.

The new technologies, such as **blockchain and distributed ledger technology**, though young and still-evolving, show the potential of restructuring financial industry, even encouraging discussions for cashless society with central bank digital currencies replacing the fiat money and underpinning the proliferation of cryptocurrencies. The cryptocurrencies have registered a spectacular rise - in 2017 their market valuation increased from USD 30 billion to USD 400 billion, and widened, with the rapid increase of "initial coin offerings" - fundraising facility for start-up investors. So, are the cryptocurrencies, although unregulated becoming a substitute for fiat money? Are they incorporating the basic features of the fiat money such as being a medium of exchange, store of value and unit of account? I would say that despite the rising trend, they play a marginal role as a medium of exchange in comparison with standard payment facilities; as they are not backed by legal authority and are marked by high value volatility and rather illiquid non-regulated markets, they obviously cannot be treated as unit of account and store of value. On the other hand, they may lead to creation of bubbles that down the road may burst. Against this background, at the last meeting of G20 finance ministers and central bank governors it was acknowledged that technological innovation may be conducive to higher efficiency and inclusiveness of the financial system. Many risks, however, were also pinpointed with their proliferation - consumer and investor protection, market integrity, tax evasion, money laundering and terrorist financing.

In this changing and challenging environment, staying aside is not an option for the Republic of Macedonia. To tackle the rising challenges, we have already **drafted a new Law on payment services and payment systems which transposes the PSD2 as well as other European Union relevant directives** and regulations in the payments area. The new payment regulation aims to boost the competition in the traditionally bank dominated payments market by opening the entrance for FinTech companies which can provide innovative payment services as well as establish and operate new payment systems. At the same time, we assert our focus on maintaining financial stability by enhancing the resilience of payment market infrastructures which are being assessed against the Principles for Financial Market Infrastructures. In this context, **the largest retail payment system in the Republic of Macedonia established a Guarantee Scheme in 2017** which is in accordance with the regulation of the National Bank of the Republic of Macedonia that aims to effect the same-day

settlement and thus, minimize the liquidity risk in the important payment system in case of a participant default. Furthermore, we also engaged in **facilitating cross-border payments in euro in 2017 by establishing a link between our RTGS payment system MIPS and TARGET2**, which relies on the highly appreciated cooperation with Bank of Italy. And we do not stop here. Our recent efforts have been focused on building a **Strategy for reducing the cash usage** and thus, increasing the digitalization and cashless payments, which is a joint project of the central bank, the Ministry of Finance and the banking community.

During the following three days, the lecturers will address all the above relevant developments in the payment market. The **conference agenda** includes a variety of interesting topics, including the European payment landscape and legislation with a special focus on PSD2, instant payments, T2 & T2S consolidation project, collateral management system, recent work of CPMI and latest trends in central bank oversight. This year's agenda also covers themes related to cryptocurrencies, central bank digital currencies and distributed ledger technology and cyber resilience. The global trends in facilitating trade finance will be elaborated in the context of increasing use of digitally based platforms and digitalized supply chain. The active participation of the conference is provided and encouraged through panel session on "Payments challenges in an integrating world", in which panelists from payment institutions and payment systems will be exchanging thoughts and ideas. Last but not least is the expected interactive participation in the working groups scheduled for the last day of the event.

I look forward to the discussions and wish all the delegates an enjoyable and rewarding conference, as inspiring as its location - the beautiful city of Ohrid and the Ohrid Lake which I hope you will be able to enjoy too in the following Conference days.

Thank you!