

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the 14th Conference on Payments and Market Infrastructures, 4-5 October 2022

Flourishing Digital Payments Future

Your Excellences, Dear Governor Tabaković, Ms. van Dijk, distinguished speakers,

Ladies and gentlemen,

It is my great pleasure and honour to welcome you at our traditional Conference on Payments and Market Infrastructures, which is organised for the fourteenth time in collaboration with the Dutch central bank, which we deeply appreciate. Given the perpetual changes in payments industry, the conference has always served as a valuable platform for discussion on the latest trends, innovative ideas, as well as new risks that innovation brings.

There is no doubt that the process of dramatic transformation of financial industry, which has been in place for years and significantly accelerated by the pandemics, continues. At the forefront of this transformation are the payments, where new payment systems, new payment methods and new players are shaping the payment landscape.

We are witnessing a proliferation of fast (instant) retail payment systems across the world, making payments more **convenient, easily available and fast**. According to BIS, currently fast retail systems operate in 45 countries, with expectations for this number to climb to 60 in near future.

Payment methods are evolving as well. Payments are becoming increasingly cashless, thus being one of the main drivers of stronger financial inclusion worldwide, supporting the development of digital economies and driving innovation. According to the **latest Global Findex survey of the World Bank (2021)**, two thirds of adults around the world made or received at least one digital payment.

In high-income economies, 95 percent of adults did so, compared with 57 percent of adults in developing economies. Although a gap between developed and developing economies is visible, yet in the latter group major positive shifts have been taking place in recent years. The share of adults involved in digital payments has grown rapidly-by 22 p.p.in the last seven years. These trends are also present in the Macedonian economy where 74% of adults were involved in digital payment, an increase of 20 p.p. in the last 7 years. Even more importantly, according to PwC analysis, global cashless payment volumes are set to increase by more than 80% by 2025, and to almost triple by 2030.

This innovation in payment methods is significantly underpinned by proliferation of newcomers in the payments landscape, which have significantly increased the competition to the benefit of the consumers.

According to BIS, non-bank players that provide payment services now account for a quarter from all payment institutions, up from only 14% six years ago. There is also an increase in e-money providers, but to a lesser extent.

This significantly **affects the environment in which banks as traditional players operate, bringing threats, but also new opportunities.** Although new players have advantages, as they are less robust and less regulated, the big data analytics and AI are providing to the banks opportunities to keep pace with the transformation. Recent EBRD Survey indicates that dominant part of the **banks consider fintech to be more of a threat than an opportunity** pointing to a strong competition in the area of digital payments. Still, it is encouraging that banks identify **digitalisation** as one of the top priorities. In fact, 46 per cent of the surveyed banks pointed that digitalization will have profound bearing on their business over the next 25 years. The Survey conducted by our central bank points to a similar conclusion - banks' awareness and focus on the digital transformation appears to be accelerated by the pandemic. All of the banks declared their plans to increase their investment in digitalization and 38% intend to increase their investments in fintech companies/startups.

Which are the major forces that have been shaping this digital revolution in payment industry in terms of new payment systems, new methods and new players? More broadly, there are three groups of factors defining the digital era in payments – **technological advancement, regulatory environment and evolving consumers’ preferences. Safety and efficiency** of transactions remain the main underlying of the modern payments system, **but speed and convenience** are becoming equally important requirements by consumers.

No doubt that the COVID pandemic and related lockdowns influenced the consumer behavior and preferences markedly. The share of non-cash payments in total GDP sharply increased across the globe (BIS, 2021) and according to one of the latest surveys on banking, fintech and payments organizations (PwC, 2021), 90% of respondents agreed that the shift towards e-commerce would continue to increase, requiring significant investment in online payment solutions.

Looking forward, it is clear that these factors, namely, technological progress, consumer preferences and regulatory environment will continue to shape the future of payments. In addition, we should not lose sight of CBDS initiatives, which in essence are policymakers’ response to the digital revolution. In fact, the digital currencies of central banks are predicted to have the most disruptive impact in the payment system in the next 20 years. According to the latest data, 105 countries, comprising 95% of the global GDP are researching on the various aspects of digital currencies, while this number in 2020 was only 35. We as a central bank have also envisaged a medium-term project to explore the benefits that digital currency can bring for the Macedonian payment system and more broadly for the overall economy, but also to explore the risks that it may imply for the financial stability and monetary policy.

CBDC are expected to be in particular beneficial for financial inclusion, which in turn, as documented by many empirical studies, have positive effects for growth prospects. Worldwide there has been significant progress in recent period, but still around 1.4 billion of people remain unbanked.

Also, in the Macedonian economy, there has been a notable progress in financial inclusion, measured through access to credit and debit cards and bank accounts - 85% of adult population has a bank account, which is above the world average of 76% and 71% for developing economies. Still, despite the progress gaps to advanced economies remain, gender and age group gap, in particular.

It is critical to build on these encouraging trends, especially given the current headwinds - accelerated inflation and decelerated growth that hurt poor the most. Evidence shows that households and businesses that have better access to financial services **are better able to withstand financial shocks than those that do not.**

Overall, it is apparent that tectonic changes are occurring in the payment and financial industry in general. It is confluence of many factors and many involved parties. These include central banks, government, traditional finance industry, and new players. Therefore all the efforts must be coordinated, inclusive and based on a strong mutual partnership.

In this vein, we as a central bank have already embarked on a number of activities for setting the stage for faster penetration of innovation in finance. We established the Innovation Gateway in 2019, as a platform for a dialogue with Fintechs to facilitate the entry of new technologies in finance. Furthermore, two years ago we conducted a thorough **survey to landscape the development of the fintech sector** and to assess the opportunities and barriers for faster innovation, which clearly pointed to regulatory and small market size barriers. Meeting the challenge with full enthusiasm leads us to another joint journey with other financial regulators - preparation of our **first National Fintech Strategy**. These highly coordinated institutional efforts are expected to create synergetic effects in the design and implementation of the envisaged concrete steps. With the new **Law on Payment Services and Payment Systems**, that was adopted this year, we as authorities have created a regulatory

framework, which hopefully will catalyse *Flourishing Digital Payments Future* to be written successfully in our country as well.

Having in mind the small size of our economy, we highly appreciate regional initiatives conducive to faster and cheaper domestic and cross border payment services such as the ongoing initiative to connect Western Balkan economies with the Target Instant Payment System (TIPS) of ECB. Also, thanks to governor Tabakovic and her team, we are currently exploring the possibility of deepening our excellent cooperation by connecting with payment system operated by the National Bank of Serbia. These regional efforts mean additional step in connecting our businesses, our citizens, and more broadly our economies supporting each other in our mutual strivings to higher income convergence.

I believe that during the Conference we will see, learn and hear about *Flourishing Digital Payments Future*, which will change the payment behaviour and experience for all of us and build a more convenient, safe and accessible payment world, as this is a new and highly innovative world in which "what is now proved, was once only imagined" - William Blake.

I wish you an enjoyable and rewarding virtual conference.

Thank you.