

Activity Report of the Innovation Hub of Národná banka Slovenska

April 2020 – March 2021

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Abbreviations

AIS	account information services
AML	anti-money laundering
AMLD5	Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU
API	Application Programming Interface
CFI	Center for Financial Innovation
EFIF	European Forum for Innovation Facilitators
EEA	European Economic Area (consisting of the EU Member States, Iceland, Liechtenstein, and Norway)
FEI STU	Faculty of Electrical Engineering and Information Technology of the Slovak University of Technology in Bratislava
fintech	technologically enabled innovation in financial services
KYC	know your customer
MF SR	Ministry of Finance of the Slovak Republic (herein also referred to as ‘the Finance Ministry’)
NBS	Národná banka Slovenska (herein also referred to as ‘the Bank’)
NBS IH	Národná banka Slovenska Innovation Hub (herein referred to as ‘the Hub’)
PIS	payment initiation services
PSD 2	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC
regtech	innovative technology in financial regulation
SFA	Slovak Fintech Association
suptech	innovative technology in financial supervision

Introduction

The Národná banka Slovenska Innovation Hub is an initiative through which entities wishing to apply financial innovation in the Slovak financial market can interact with the Bank's experts in order to navigate the legislative waters in areas within the Bank's competence. The Hub serves mainly as a one-stop shop for interaction between the Bank and entities that are appropriately prepared to apply innovation in the financial market. From 1 April 2020 to 1 March 2021, the period covered by this report, the Hub processed 27 consultation requests. The issues attracting most attention included cryptoassets, alternative payments (PIS, AIS), and anti-money laundering, as well as automated online investment advice (robo-advice), regtech, and data analytics.

In 2020 the Hub's ongoing cooperation with the Finance Ministry's Center for Financial Innovation took place mainly at CFI-organised events that enabled a sharing of lessons learnt from the Hub's activities. The Bank also passed on to the CFI any consultation requests concerning the regulatory framework.

Across the European Economic Area, financial supervisory authorities operate a total of 34 innovation hubs. Eight EEA countries¹ already have their own regulatory sandbox dedicated to longer-term engagement with prospective fintech businesses. Slovakia will soon be joining their number, with the Bank due to launch its own regulatory sandbox at the start of 2022.

1 Overview of activities and lessons learnt

1.1 What the Bank has learnt from the Hub's activities

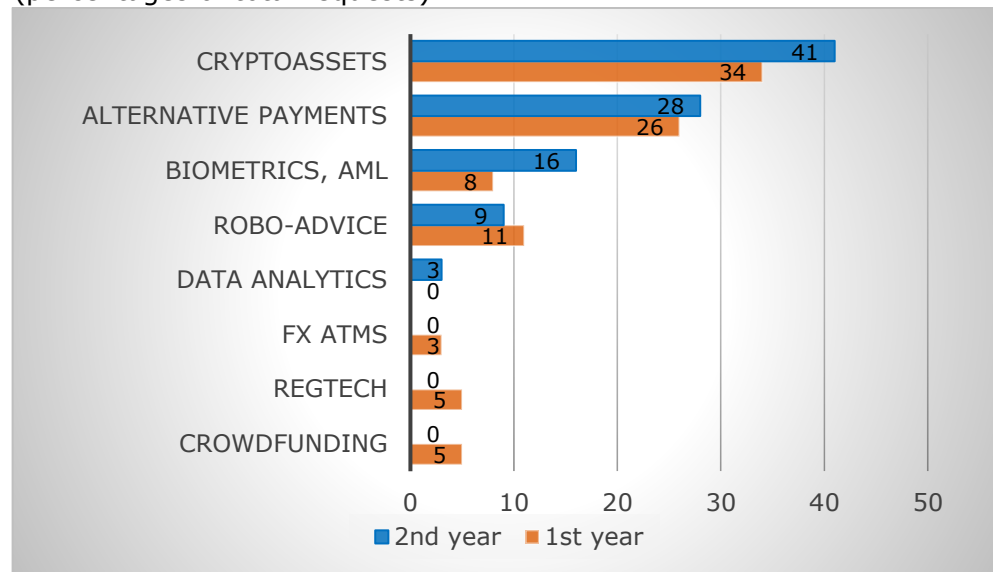
The Hub handled 27 consultation requests in the period under review, down from 35 in the previous 12 months following its launch. The drop reflected a decline in market demand. Further details about the handling of the consultation requests are provided in Annex A.

The subject matters of the consultation requests, received from entities in both Slovakia and abroad, included mostly cryptoassets, as well as alternative payment methods and services (PIS, AIS), AML/KYC issues, robo-advice, regtech, and data analytics.

¹ AT, DK, ES, LT, MT, NL, NO, PL.

Chart 1

Topics of consultation requests handled by the Hub
(percentages of total requests)



There is strong interest in cryptoasset business ...

Enquiries from Slovak and foreign entities operating in the cryptoasset market typically concerned the obtaining of the authorisation necessary to provide cryptoasset services in Slovakia, according to the particular business model in question (for example the operation of crypto ATMs for the buying and selling of crypto assets, the provision of crypto exchange services, the provision of cryptoasset investments).

... while the regulatory framework is only addressing AML issues.

A number of questions were closely related to the transposition of [AMLD V²](#) into Slovak law, given that this Directive required Member States to register certain cryptoasset service providers and that some Member States have also begun requiring businesses to obtain ‘an authorisation’ to perform such activity or to have some form of ‘registration’ from the financial service authority.

The [AML Act³ amendment](#) that transposes AMLD V into Slovak law took effect on 1 November 2020. The main information the Bank provided on this basis was that any cryptoasset entrepreneurs wishing to provide virtual currency exchange services or virtual currency wallet services in Slovakia would need a trade licence for such business. In contrast to the situation in certain other Member States, such entrepreneurs would be able to operate in Slovakia without obtaining any authorisation or registration from the financial

² Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

³ Act No 279/2020 amending Act No 297/2008 on the prevention of money laundering and terrorist financing (and amending certain laws), as amended, and amending certain other laws.

supervisory authority, in this case NBS. Other consultation requests received by the Hub concerned mainly substantive issues relating to the business model for cryptoasset services (mainly FX and crypto ATMs), as well as clarifications on the definition of an obliged entity as stated in the AML Act.

An important issue discussed during the period under review was ‘de-risking’ in the form of banks’ automatic refusal to open accounts for firms that trade in cryptoassets or offer cryptoasset services. De-risking is also being addressed by the European Banking Authority (EBA), which has prepared several initiatives to clamp down on it.⁴

On the basis of the most frequent questions received, the Bank has published FAQs on its website.

Having received a large number of similar questions from cryptoasset service providers about authorisation and registration, the Bank has published some [FAQs](#) on this issue on its website. The section, available also in English, includes explanations as well as materials and documents from international standardisation institutions.

PSD2 business models in the payment services sector are proving attractive, ...

As regards the field of alternative payments, the most frequently asked questions during the period under review were practical ones concerning new business models for the provision of payment services under [PSD2](#)⁵ – specifically accounting information services (AIS) and payment initiation services (PIS). These are regulated services which grant authorised or registered entities (‘third parties’) access to payment accounts held with banks. During the period covered by this report, two NBS-issued PIS and AIS authorisations and registrations entered into force, and in July 2021 a third entity operating under PSD2 entered the Slovak market. From April 2019 to March 2020, the Bank received 52 notifications from third parties of their intention to operate in Slovakia on the basis of the Single Market freedoms, while in the subsequent 12 months it received 34 such notifications.

Another frequent topic of questions was the ‘open banking’ concept in relation to the use of the Application Programming Interface (API). There was a similar level of interest in the form of exemptions from PSD2 for limited providers (providing some kind of payment services in a limited way not requiring authorisation), or questions about the interlinkage between the current

⁴ <https://www.eba.europa.eu/eba-takes-steps-address-%E2%80%98de-risking%E2%80%99-practices>

⁵ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance).

framework for duly regulated payment services and the provision of cryptoasset-related services.

... while regulatory novelty is leading to interpretation issues ...

The number of payment services-related consultation requests received by the Hub in its second year is a corollary of the advancements in the payment services market as well as the increasing application and acceptance of payment instruments in the Slovak market. Questions are being asked about procedural requirements, capital requirements, insurance, and the PIS and AIS authorisation process. Some entities are asking how the API could be used to expand their existing business model to include new services.

... hence the Bank has adjusted the way it communicates with this sector.

In order to communicate clearly and distinctly with market participants, both with entities authorised by the Bank in the area of payment services and those seeking such authorisation, clear information on the authorisation process in regard to the provision of payment services and issuance of electronic money,⁶ on reporting and notification obligations and on other practical issues was published on the Bank's website in the first quarter of 2021. All the key information is clearly structured and divided according to entities' fields of activity and requirements. A subpage provides useful tabular summaries as well as direct links to relevant regulatory provisions. Here there is also information necessary for the authorisation of entities requiring an authorisation, as well as for those exempted under PSD2. Besides such information, this section of the Bank's website also includes a Q&A page and a downloadable guide for authorisation applicants that contains insights from practice, the most frequent shortcomings in applications, and best practice information. The aim is to have all the information on payment services provision and electronic money issuance translated into English, so as to facilitate communication with foreign entities seeking an authorisation and to make it easier for them to navigate the conditions applied in the Slovak market.

The main topics of other consultation requests were asset trading and property valuation ...

As in the first year of its operation, several entities consulted the Hub about business models in the areas of robo-advice and data analytics. Some of these models are already being used abroad.

A nascent market trend is the provision of advice about optimising the selection of pension funds on the basis of predictive models. In the banking sector, start-

⁶ <https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/dohlad/Platobne-sluzby-a-elektronicke-peniaze1>

ups are being established which specialise in the development of pricing models for the setting of general property values.

... overlapping with prudential rules and consumer protection.

In terms of their regulatory configuration, these business models must primarily comply with rules on investment advisory services, financial intermediation, and consumer lending.

Some of the technological issues discussed through the Hub do not as yet fall within the purview of any existing specific regulation; consultation requests refer and relate to many other materials and documents, for example issued by the European Commission (e.g. the emerging regulatory framework in the area of artificial intelligence) or the EBA (Guidelines on outsourcing arrangements). It should also be noted that questions relating to ethics, data protection (GDPR), and the security and handling of clients' sensitive data, are at the centre of our experts' attention and analysis during the consultation process.

1.2 Benefits and challenges

Through an electronic survey conducted from 1 to 16 April 2021, the Bank obtained feedback on the second year of the Hub's activity. The survey results are summarised in Annex B.

Respondents say the Hub is a useful tool for supporting innovation ...

Fully 90% of the survey respondents agreed that the Hub was an appropriate and substantively useful tool for supporting innovation. The same proportion expressed satisfaction with the speed and quality of the Hub's service. These results are similar to those obtained for the period from April 2019 to March 2020.

... and they have a positive assessment of their cooperation with it; where their expectations extend to areas outside the Bank's remit ...

When asked to assess their cooperation with the Hub, 60% of the respondents rated it as excellent and 30% as good. One respondent did, however, rate the cooperation as inadequate and the consultation as non-beneficial to the business plan in question, while also giving negative responses about Hub's operational quality and response time.

The entities that approached the Hub during the period under review were quite varied. They may sometimes expect more of the Hub than it is able to provide in terms of its capacity and purview. In such cases, however, the aim is to steer the entity towards another partner that can help it in its further steps.

... the Hub is to provide clearer communication so that the Banks capacities and market expectations are aligned.

Some of the survey respondents made recommendations for the extension of the Hub's activity. In general, they recommend:

- more proactive communication with the general public;
- clearly grouping and structuring relevant laws and regulations on the Bank's website, including providing notifications of law amendments and their interrelationships;
- providing a more interactive fintech webpage, including introducing a chat room for the discussion of fintech issues among like-minded people and adding a chatbot to provide quick answers to questions.

The Bank will take a close look at these suggestions.

The Hub's website is visible and fulfils its function.

During 2021 the Bank has been planning the update of its website. It sees the proposals made by survey respondents as a valuable resource for further shaping and developing the Hub's webpage, which is a communication channel with the fintech community.

Further confirming this fact is a relevance evaluation of individual webpages conducted as part of a survey of the Bank's website for 2020. On the parameter of 'number of page views' the Fintech pages, including the Innovation Hub pages, attracted some six thousand page views, which ranked them among the ten most viewed pages on the Bank's website.

It should be added that thanks to its Innovation Hub, the Bank is now included in the EBA's list of [innovation facilitators in the EU](#). Innovation hubs play a distinct role in the establishment and development of start-ups offering financial services via the latest technology and the internet.

The cooperation taking place through the Hub is based on trust; it is not a substitute for commercial consultancy services ...

Experience gained from the Hub's operation points to areas for improvement:

- The Hub's experts have noticed among those consulting them a certain reservedness, a reticence about providing details of their business plans; this hampers the experts' ability to provide the appropriate guidance. It should be stressed that the Bank's experts participating in the Hub are, like other NBS employees, bound by law to a duty of confidentiality and that those who consult them are informed of this fact during the consultation.
- The Hub's role is not to provide a substitute for the services successfully provided by private consultancy firms or law offices.

... it requires an ability to act outside the box which places large demands on the Bank's internal capacities ...

The Hub's operation is highly dependent on the capacities of the Bank's experts and the professional quality of their outputs. To ensure the Hub's high-quality performance, it is vital to create sufficient capacity for the handling of consultation requests and to assign them the necessary priority. Those who consult the Hub should receive value added.

... and therefore another aim is the regulatory sandbox.

The Hub's purpose continues to be to open up communication, to share knowledge and information with those who would approach it for clarification on the interpretation and handling of issues falling within the Bank's competence.

Going forward, the Hub's challenge is to stay focused on the clarity of communication, to provide high-quality services, and to take the logical next step – to launch the NBS regulatory sandbox.

2 The Hub's public activities

2.1 Promoting the Hub in Slovakia

After the Hub was launched in 2019, its communication with the public was heavily reliant on the Fintech section of the Bank's website, which includes basic information about fintech business models and technologies. This section also contains lists of related legislative and non-legislative documents as well as a glossary. During the second year, the Hub's experts spoke at public events related to financial market innovation. In addition, the Bank conducted several targeted market surveys designed to identify innovation trends in the Slovak financial market more precisely.

During the period under review, NBS representatives participated in activities of the Finance Ministry's CFI. The Bank itself hosted the CFI's summer meeting, at which NBS representatives evaluated the first year of the Hub's operation. The main purpose of that meeting was to present a document on the proposed regulatory sandbox, which was subsequently put out for public consultation.

At the CFI's autumn meeting, conducted online owing to the pandemic situation, NBS representatives presented the [results of a survey](#) about the cryptoasset market in Slovakia. A total of 18 relevant respondents took part in the survey, and their responses provided a general picture of this market. The Bank plans

to rerun the survey in the future, mainly in order to capture the current state and evolution of this dynamic and rapidly growing segment of the financial market.

In late 2020 the Bank for the first time [surveyed the uptake of financial innovation among financial market participants under its supervision](#). A total of 53 respondents answered a broad range of questions about financial innovation. As with cryptoasset market survey, the Bank is planning to rerun this survey.

From 21 to 25 September 2020 the [Finweek](#) event in Bratislava saw a number of interesting discussions and activities, with NBS representatives taking an active part in them. The issues discussed included finance in crisis, savings and investment opportunities, financial literacy, and the area of fintech and insurtech. In a panel discussion on the fintech ecosystem, the Bank's representative presented the Hub's activity as well as the principles underpinning the Bank's proposed regulatory sandbox.

In early February 2021 the domestic Bank Card Association (ZBK) organised a specialist webinar called [TOP PAY](#) on the topic of 'Innovation and cashless trends'. The NBS representative at this event presented the Bank's work in supporting the innovation ecosystem in Slovakia. There was particular interest in the result of the Bank's Survey of Innovation at Supervised Entities.

On 25 February 2021 a webinar entitled '[AML regulácia a kryptomeny](#)' (AML regulation and cryptocurrency) was held under the auspices of the Blockchain Slovakia organisation and the Slovak Fintech Association (SFA). The discussion focused mainly on the opportunities and challenges that AML regulation entail for fintech- and cryptoasset-related business. AML regulation is, however, seen by some members of the community as ineffective. The Bank's representative at the webinar stressed this legislation's role in preventing fintech business from becoming a haven of antisocial activity.

In 2020, as in the previous year, the Bank organised educational workshops in the area of suptech, as part of the European Commission's [FIN-TECH Horizon 2020](#) project. The project coordinators were the University of Economics in Bratislava and Vienna University.

The workshops focused mainly on the application of artificial intelligence technologies in the financial market. They also offered an opportunity to practice programming in R language, with participants being able to test themselves on their laptops thanks to shared access and predefined use cases. The workshops were open to NBS employees as well as members of the broader public.

2.2 Promoting the Hub abroad

NBS representatives are actively involved in the work of the [European Forum for Innovation Facilitators \(EFIF\)](#), a platform for supervisors to share experiences from regulatory sandboxes and innovation hubs. Discussions conducted through the EFIF address not only the activities of individual innovation facilitators, but also the practical implementation of innovative technologies, such as blockchain, artificial intelligence, big data, etc. In regard to these issues, commercial firms are invited to present their innovative solutions at EFIF meetings.

Discussions within the EFIF also cover draft EU legal acts concerning financial innovation. Through their participation in the EFIF, NBS representatives can keep track of developments at the European level as well as cooperate with other innovation hubs and regulatory sandboxes. The experience gained can then be put into practice within the Hub as well as in the preparations for the NBS regulatory sandbox.

3 Outlook for the future

With the Hub now up and running, we see the establishment of a regulatory sandbox as the next logical step in supporting the evolution of the fintech ecosystem in Slovakia. The Bank has involved the public in the process of setting up the sandbox by conducting a public consultation in summer 2020. A total of 20 respondents took part in this consultation, and they expressed clear and unambiguous support for launching the regulatory sandbox, as well as for alternatives in the form of a financial innovation laboratory (FinLAB) and cooperation between the Bank and fintech start-up accelerators.

Based on the results of the public consultation, the Bank Board decided in late 2020 that the Bank would establish a regulatory sandbox and cooperate actively with fintech start-up accelerators. These two steps are expected to support the growth of an innovation ecosystem in Slovakia.

During 2021 the Bank has been working hard on creating the NBS regulatory sandbox, which should draw on the positive experiences of counterparts in other countries. The regulatory sandbox is due to be launched no later than 2022.

Also during the period under review, the Bank held discussions on cooperation with Slovakia's first fintech start-up accelerator, which were formalised in a Memorandum of Cooperation concluded in June 2021. This accelerator is backed by a major payment card company, the Slovak Fintech Association, and a Slovak firm with experience in developing fintech abroad.

At the same time, partial tasks and partially defined objectives were addressed through working groups. A number of meetings were held with partners and there was intensive communication aimed at exchanging knowledge and experience. Clearly specified tasks and objectives were set for 2021. In addition, risks and difficulties were defined, and procedures for eliminating them were proposed.

Conclusion

In the second year of its operation, the Hub showed that this significant NBS tool, a flexible platform for fostering innovation, is gradually evolving and adapting to new challenges. Some of these challenges stemmed from the coronavirus (COVID-19) pandemic, others, in the form of novel and complex demand, from the financial market itself.

The Hub's third year, from April 2021 to March 2022, is expected to see the Bank achieve several important objectives, including, on the basis of the Memorandum of Cooperation signed with a fintech accelerator,⁷ establishing closer contact with the Slovak fintech ecosystem. At the same time, it will continue its staple handling of consultation requests and cooperation with the academic community in this area. No less important for the Bank is its activity vis-à-vis the European Commission's proposed regulation on markets in cryptoassets (MiCA), with the Bank expected to become Slovakia's supervisory authority in this area. Moreover, the Bank is planning to address the European Commission's in-depth strategic document in the fintech area (retail strategy) and the EC's proposed Regulation on artificial intelligence.

To sum up, the Bank now has teams working hard to prepare conditions for the launch of the NBS regulatory sandbox, so that it will be well placed to respond flexibly to the current challenges and questions faced by entities operating in the area of financial services.

⁷ The Bank concluded a [Memorandum of Cooperation](#) with a fintech accelerator in June 2021, after the end of the Hub's second year of operation.

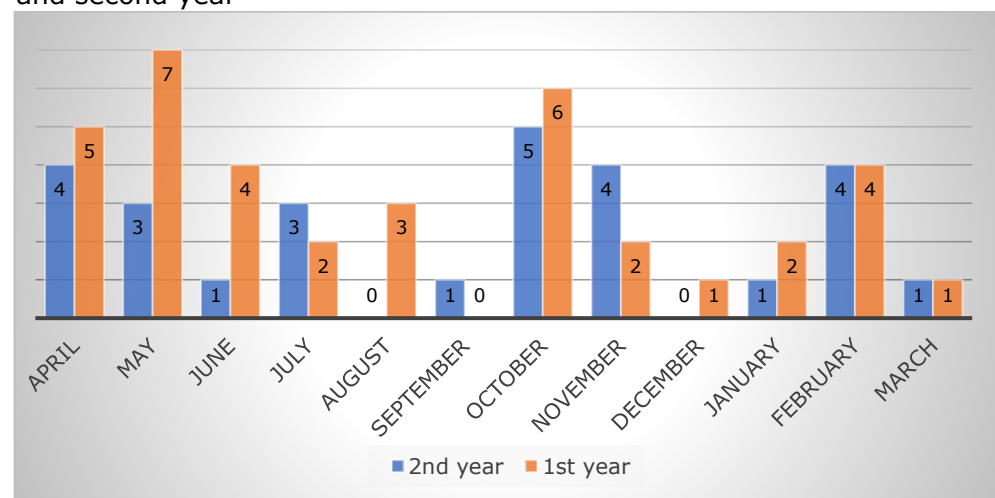
Annexes

Annex A – The handling of consultation requests

During the year under review, the country and its institutions, including the Bank and the Hub, had to adapt to government measures adopted in response to the spread of COVID-19. From near the end of the Hub’s first year of operation and all through its second year, consultation meetings arranged via the Hub were all conducted online; nevertheless, this change was in no way detrimental to the quality of the consultations provided by the Bank.

Chart 2

Number of consultation requests received by the Hub in its first year and second year



The main outputs of the consultation meetings were written or oral opinions that clarified how to address the issue raised and, in some cases, referred the consulting entity to a body or legal adviser with competence in the given area, mainly in those cases where the tasks involved fell outside the Bank’s competence.

The Bank’s experts participating in the Hub coordinate their work at periodical meetings of the Slovak Financial Board (FinBoard, or ‘FinRada’ in Slovak). Between April 2020 and March 2021 the FinBoard met on three occasions, with the main purpose of the meetings being to share information about consultation requests and to discuss the latest fintech-related developments at the ESAs, the European Commission, the European Central Bank and various conferences and seminars.

During its second year of operation, the Hub received 27 consultation requests on fintech issues, some through the form provided on the Bank’s website, others as direct written requests sent to email addresses (info@nbs.sk or infozakon@nbs.sk) or to a specific employee involved with the Hub. Some of the

Hub's experts were also dealing with consultation requests made in the previous year, aiming to close them after providing the requested and necessary information.

In the period under review, a total of fourteen requests for consultation meetings were made via the contact form. A further seven requests for information were received at the email address info@nbs.sk, and six requests were received directly by employees involved with the Hub. The meeting with one of the consulting entities concerned two different issues. Around one-third of the consultation requests were made by entities established outside Slovakia.

A total of ten consultation requests were sent from abroad, including from the Czech Republic, Spain, Slovenia, Sweden, Greece and Canada. Seven of these requests concerned cryptoassets; the others, the AML issue.

Eight consultation requests necessitated teleconference meetings (some more than one) and all of these cases have now been closed. Seventeen consultation requests (mainly from entities abroad) were handled by sending the required information by email. The other two requests were referred for direct handling to the competent department of the Bank's financial market supervision divisions.

Annex B – Outcome of the survey of satisfaction with the Hub

Entities that used the Hub during the period under review were asked to evaluate the Bank’s employees they consulted, who together numbered nineteen. The survey attracted ten respondents, while the survey for the previous year had fifteen respondents.

Chart 3

Do you think the Hub is a suitable means for NBS to foster innovation in Slovakia?

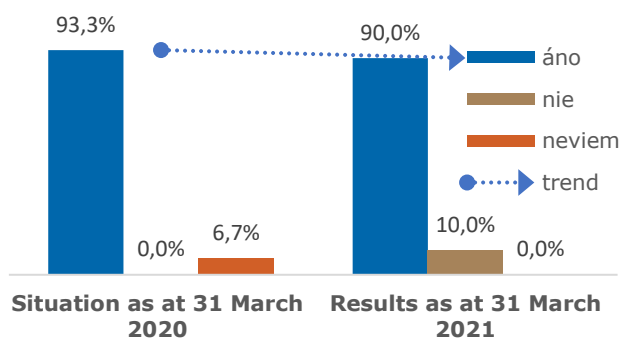


Chart 4

How do you evaluate your cooperation with the Hub?

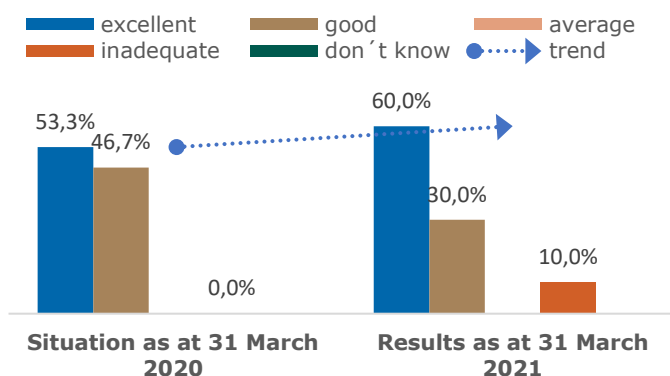


Chart 5

Did the Hub respond to your questions within a reasonable time?

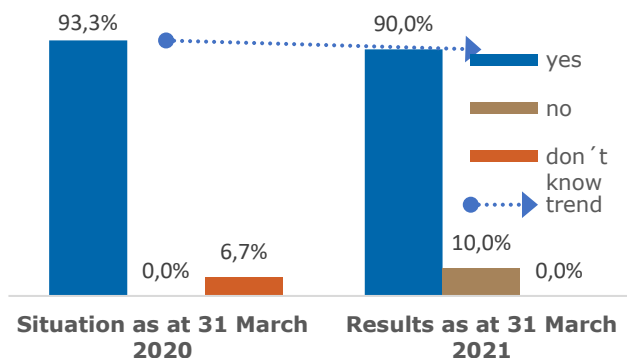


Chart 6
Were the Hub's responses to your questions of the quality you expected?

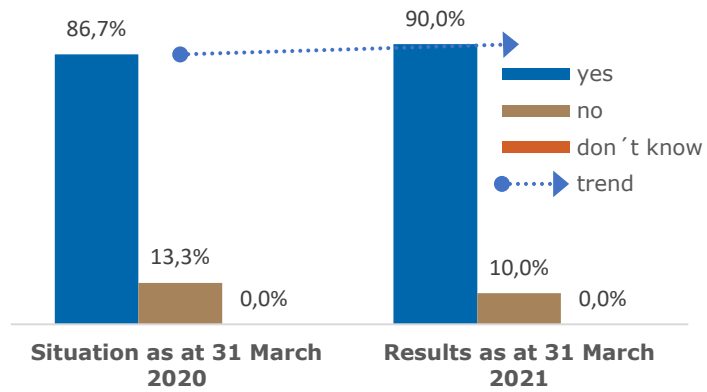


Chart 7
Was the consultation through the Hub useful for your business plan?

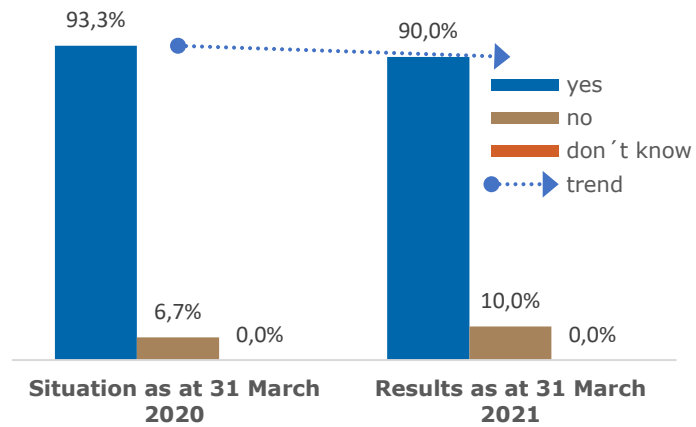


Chart 8
Do you plan to contact the Hub in the future?

