

Activity Report of the Innovation Hub and Regulatory Sandbox of Národná banka Slovenska

2022



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The year in figures

15
Innovation
Hub cases

33%
from foreign
entities

1
Regulatory
Sandbox case



Introduction

Each year Národná banka Slovenska (hereinafter the ‘Bank’) publishes a report on the activities of its Innovation Hub (hereinafter the ‘Hub’). This fourth edition of the report is fundamentally different, however, in that it covers not only the Hub’s activities, but also the first year of operation of a new innovation support tool – the Regulatory Sandbox (hereinafter the ‘Sandbox’).

Both tools offer innovators the opportunity to consult NBS experts about the application of regulation to financial innovations, the aim being to alleviate legal uncertainty and facilitate the implementation of financial innovation in the Slovak market. Hub consultations are generally one-off and concern matters within a certain specific range. Sandbox consultations are longer-term and cover a wider range of topics; they should enable participants to configure their financial innovation in line with the relevant legislation and then to test it on real clients. As in other countries, Hub consultations are sufficient for most innovators, and therefore the Hub handles far more cases than the Sandbox does. With the addition of the Sandbox to the Bank’s toolkit in 2022, any innovator that meets the eligibility requirements can use either the Hub or the Sandbox, whichever is better suited to their needs. Both tools bring benefits not only to the entities that use them, but also to the Bank. Thanks to the Hub and the Sandbox, NBS experts directly engage with specific financial innovations, which helps them grow professionally and deepen their knowledge in the areas addressed.

As regards the Hub, this report summarises its fourth year of operation. With the Hub report now combined with Sandbox report, the period under review for the Hub is shortened in this report, covering the period from 1 March 2022 to 31 January 2023. During that time the Hub handled 15 enquiries. As in previous years, many of the enquiries were focused on issues related to crypto-assets. Other topics addressed were payment services, crowdfunding, and anti-money laundering and combating the financing of terrorism (AML).

The Bank launched the Sandbox on 1 January 2022. In the first year of its operation, the Sandbox handled one case with two participants. The first participant is a Slovak FinTech start-up whose ambition is to digitalise the mortgage application process. This participant is entered in the relevant register as a subordinate financial agent. The second participant is an independent financial agent whose participation was necessary due to the first participant's legal status as a subordinate financial agent. During the past calendar year, the case remained in the Sandbox's preparatory phase. Once the outstanding regulatory, legal and technical issues are resolved, the participants are expected to enter the testing phase this year.

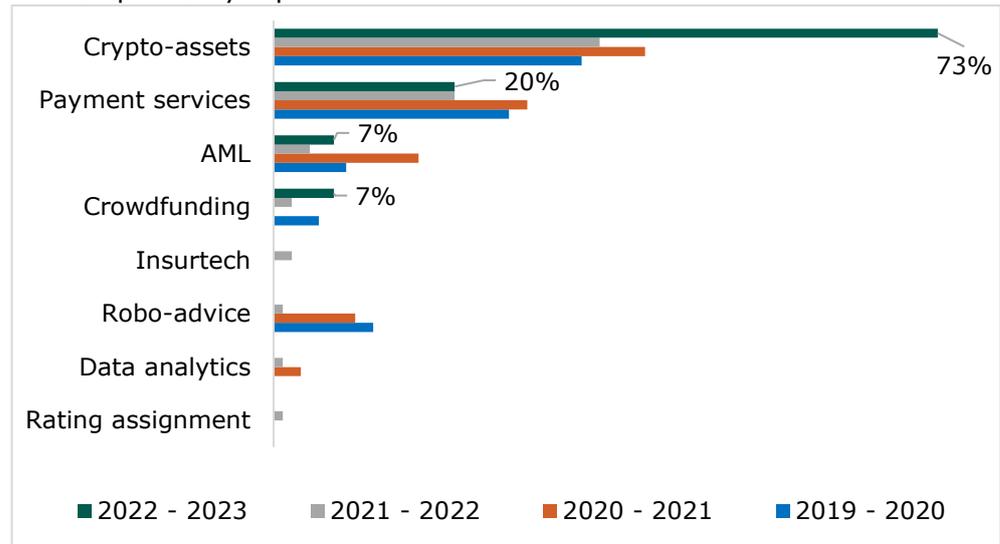
1 The Hub's operation

During the fourth year of its operation, the Hub handled a total of 15 enquiries, one less than in the previous year. This drop is due mainly to the shortening of the period under consideration by one month, caused by the merging of the Hub report with the Sandbox report. Another reason may be that financial products and services that were considered innovative only a few years ago are now relatively common and therefore do not raise as many questions.

The number of cases is also closely linked to developments on the regulatory front. This was also evident in fourth year of its operation, when the Hub started receiving questions about the EU's forthcoming regulation on markets in crypto-assets (MiCA). It can be assumed that as new regulations are phased in, the Hub will receive enquiries focusing on areas affected by the new legislation, such as the use of distributed ledger technology (DLT) in the capital market or the digital operational resilience of financial institutions.

The enquiries addressed during fourth year of Hub's operation were quite varied, in some cases touching on multiple areas. More than 73% of the enquiries concerned crypto-assets, while the other areas addressed were crowdfunding, payment services, and AML.

Chart 1
 Hub enquiries by topic*



* Enquiries relating to multiple areas are included in each area they relate to.

Questions relating to crypto-assets concerned mainly the relevant legislation and necessary authorisations ...

Since the regulation of crypto-assets within the EU is still not harmonised, many, especially foreign entities, do not know what is required to legally conduct business in this area in Slovakia. Last year's discussions within the Hub were therefore often concerned with the basic obligations of crypto-asset service providers under current legislation.

... but questions also started to appear in regard to the EU's upcoming MiCA regulation.

With awareness of the incoming MiCA regulation gradually growing, the Hub during fourth year of its operation addressed questions about the regulation's impact on specific activities. This is despite the fact that the adopted regulation has not yet been published in the Official Journal of the European Union. Crypto-asset service providers will need a reasonable amount of time to bring their activities in line with the new legislation, so it is useful for them to know in advance what they need to prepare for.

Besides questions about relevant legislation, more complex cases were also addressed ...

The cases discussed in the Hub last year also concerned regulatory aspects of public offerings of crypto-assets in the form of initial coin offerings (ICOs). One innovator also consulted the Hub about the possibility of tokenising shares or business holdings.

... not only in the field of crypto-assets.

In the area of crowdfunding and collective investment, the Hub handled an enquiry from a foreign company about the possibility of raising funds from the general public through a silent partnership contract. Another important area was payment services. One foreign FinTech firm consulted NBS experts about the legal aspects of providing ‘buy now, pay later’ services for businesses in Slovakia. A Slovak entity considering applying for an electronic money institution authorisation was interested in whether, once authorised, it could subsequently become a direct participant in the TARGET2-SK and SIPS payment systems.

A number of enquiries came from foreign entities.

The Bank receives and answers questions not only in Slovak, but also in English, thereby giving foreign entities the opportunity to use the Hub’s services. Through the Hub, foreign entities can obtain information on regulatory aspects of their business which may be useful for their entry into the Slovak market. The interest in this possibility is evident from the fact that up to one-third of the enquiries handled by the Hub during fourth year of its functioning were from foreign entities.

2 The Sandbox’s operation

2.1 Use of the Sandbox

Following a public consultation and the finalisation of its design in accordance with the best practices of foreign supervisory authorities, the Sandbox was officially launched on 1 January 2022. It has now completed its first year of operation.

Although the Hub and Sandbox have similar goals, they are different tools with different uses. Hub consultations are mostly one-off and focused only on matters within a certain specific range. By contrast, Sandbox consultations are longer term and focus on the comprehensive configuration of financial innovations in line with the relevant legislation. Once the regulatory aspects have been resolved, the financial innovation is tested in the Sandbox on real clients.

These differences between the Hub and the Sandbox are also evident in the time demands of the cases handled through these tools. While a typical Hub enquiry is usually handled within a few days, weeks at most, Sandbox participation takes months. This is reflected in the related staffing requirements for both the Bank and the participant, which are naturally higher in the Sandbox.

For these reasons, the eligibility criteria for the two tools differ. Anyone can make an application to the Hub, and if they have a relevant question on regulatory aspects of financial innovation, the Bank will respond. Admission to the Sandbox is more challenging. The innovator must submit an application form demonstrating that it falls into one of the categories of entities eligible to become a Sandbox participant and also meets the eligibility criteria for Sandbox admission. The application is reviewed by a specialised NBS body – the Regulatory Sandbox Committee (hereinafter the ‘Committee’) – which decides whether or not to admit the applicant to the Sandbox.

As in other countries, Hub consultations are sufficient for most innovators, and therefore the Hub handles far more cases than the Sandbox does. Last year the Hub handled 15 cases to the Sandbox’s one.

2.2 The Sandbox case in 2022

The Sandbox received one application in 2022. The applicant was a Slovak FinTech start-up that is registered as a subordinate financial agent cooperating with an established independent financial agent. Their goal is to digitalise the mortgage application process. Both innovators were admitted to the Sandbox together and officially became its first participants. In accordance with the [Regulatory Sandbox Operating Rules](#), information about Sandbox participants is not published on the Bank’s website until the start of the testing phase. Given that the case in question did not enter the testing phase during 2022, the information provided about it below is of a more general nature and does not identify the participants involved.

In May 2022 an application was made to the Sandbox. As part of the application assessment phase, a joint meeting was held and there was further communication to clarify the information provided in the application form and to see whether the innovators met the eligibility criteria for Sandbox admission. After considering the application in the light of the [Methodology for the Assessment of Regulatory Sandbox Admission Criteria](#), the Committee concluded that the innovators met all the criteria, and in July 2022 they were admitted to the Sandbox.

The preparatory phase takes the form of consultations with the Bank’s experts, the aim being to help the participants configure their financial innovation in line with the relevant regulation. During the preparatory phase, the participants had a number of face-to-face consultations with the Bank’s experts and the two sides also communicated in writing.

Because of the need to resolve some outstanding issues regarding the two participants’ cooperation which were identified during the preparatory phase, the participants were unable to complete this phase within the standard timeframe of six months. At the participants’ request, the Committee decided to

extend this phase by a further six months. During this period, the participants were expected to resolve regulatory and legal issues related to the configuration of their financial innovation and to submit a draft testing plan to the Bank. Once the plan is approved, they will be able to proceed with the testing of their financial innovation on real clients.

3 Other NBS activities in the field of financial innovation

3.1 Domestic activities

September 2022 saw the 6th edition of Finweek Bratislava, a conference focused on financial innovation. The Bank was one of the main partners of the event, which covered topics including crypto-asset regulation, central bank digital currencies, InsurTech, payment services, FinTech, and raising financial literacy. Several NBS representatives participated in panel discussions related to these topics.

In October last year the Bank organised '[Slovak Financial Market and Innovation 2022](#)', the second annual edition of an event for financial professionals. The focus was on two main topics: the EU's forthcoming regulation on markets in crypto-assets (MiCA) and digital identity. The event featured presentations by representatives from Slovakia and Estonia, along with panel discussions that included government and market representatives. As part of its '[Kryptoškola](#)' (Crypto School) initiative, the Bank regularly published articles that sought to bring crypto-asset-related topics to the attention of ordinary consumers.

Last year the Bank also took an active part in meetings organised by cooperating FinTech associations on current innovation topics. In November 2022 an the Bank's representative spoke at the Future of Finance event organised by CFA Society Slovakia. All these meetings were good opportunities for people involved in the Slovak FinTech ecosystem to hold informal discussions and get to know each other.

When supporting innovation development in the Slovak financial market, it is vital to know which innovations are actually being used here and what are the plans of financial institutions for future innovation. These questions were answered by the Survey of Innovation at Supervised Entities (hereinafter the 'Survey') that the Bank conducted in late 2022. A total of 89 supervised entities.

participated in the Survey, and its results will be published on the Bank's website in the near future.

Crypto-assets have been one of the most striking financial innovations of recent years. Under the EU's forthcoming MiCA regulation, the Bank is expected to become Slovakia's supervisory authority for this area, and so it is starting to prepare for its new MiCA-related tasks. The Bank, in cooperation with the Ministry of Finance of the Slovak Republic, was actively involved in the MiCA legislative process during 2022. In addition, the Bank is closely monitoring developments in the crypto-asset market, including through surveys of and discussions with crypto-asset service providers. At the same time, the Bank is openly communicating information on MiCA and its implications to crypto-asset service providers, in order to help them better prepare for the new regulatory regime.

The Bank is also dedicated to improving Slovakia's innovation infrastructure, as a prerequisite for the development of financial innovation. In this context, the Bank last year cooperated with the Ministry of Finance in preparing the [Digital Transformation Action Plan of Slovakia for 2023–2026](#), under the auspices of the Ministry of Investments, Regional Development and Informatization of the Slovak Republic. From among the issues related to innovation infrastructure, the Bank last year focused on the area of digital identity, which has the potential to contribute significantly to the digitalisation of the Slovak financial sector.

3.2 Activities abroad

In 2022 the Bank continued to cooperate with foreign supervisory authorities through the [European Forum for Innovation Facilitators](#) (EFIF), which provides a platform for European supervisors to share experiences from engagement with firms through innovation facilitators (regulatory sandboxes and innovation hubs). Among the main topics addressed at the EFIF were supervisory authorities' different experiences of operating innovation hubs and regulatory sandboxes, upcoming EU regulations on the financial market, and examples of financial innovations in real-life operation, presented by representatives of the firms in question. The innovations discussed at EFIF meetings covered a wide range of areas, including crypto-assets, RegTech, and artificial intelligence.

In April 2022 NBS representatives spoke at '[FinTech Roadmap 2022](#)', a conference held in the Czech Republic that addressed issues such as FinTech ecosystem development, the future of payment services, and crypto-assets. This conference was also a good opportunity to become more familiar with the Czech FinTech environment. In late 2022 the Bank's Sandbox coordinators had an online meeting with representatives of the Czech Ministry of Finance, with their

discussion focusing on the Bank's experience of launching and operating the Sandbox.

In 2022 the Bank joined the European Commission's new [EU Supervisory Digital Finance Academy](#) training programme, which aims to improve the knowledge of supervisory staff in the area of financial innovation. Supervisory authorities from across the EU are involved in this programme, which creates an ideal space for sharing experiences and building contacts between supervisory staff from EU countries.

Conclusion

2022 was the first year that the Bank operated both an innovation hub and a regulatory sandbox. Innovators now have a choice of tools for obtaining innovation support from the Bank and can therefore get the assistance best suited to them. In the case of the Hub, the greatest interest was, as in previous years, in topics related to crypto-assets. In 2022 there also started to be enquiries about the EU's forthcoming MiCA regulation, which at the time of writing was in the final stages of the legislative process and expected to be officially published soon. MiCA is likely to apply since 2024, but given that it will represent a fundamental legislative change, crypto-asset service providers are already starting to prepare for it. As for the Sandbox, it handled one case in its first year, which involved two participants aiming to digitalise the mortgage application process. During the period under review, the participants remained at the preparation phase and so have not yet proceeded to testing on clients.

Besides operating the Hub and the Sandbox, the Bank was last year also engaged in other innovation-support activities both in Slovakia and abroad. These included meetings organised by FinTech associations, Slovak and international conferences, and cooperation with foreign supervisory authorities.

With financial innovation developing at a rapid pace, the Bank must be quick to respond to market demands and international trends. The launch of the Sandbox was a clear example of the Bank's proactive and open approach. At the same time, however, supporting financial innovation development is not a task that can be considered complete, but rather one of the Bank's long-term priorities. That is why the Bank will continue to look for further ways to play its part in developing the use of financial innovation in the Slovak market.

Annex

The handling of Hub cases

During the fourth year of its operation, the Hub handled enquiries mainly in writing, supplemented where necessary by online meetings. Looking at the breakdown of enquiries by topic, they most frequently concerned crypto-asset-related questions, followed by payment services, crowdfunding and AML issues. Some enquires concerned multiple topics and therefore required the perspectives of the Bank’s experts from different areas.

The internal coordination of NBS experts is facilitated by their participation in regular meetings of the Bank’s Financial Board. This platform enables the sharing of innovation-related information from different sectors. This includes in particular information from meetings of the working groups of the European Supervisory Authorities (the EBA, ESMA and EIOPA), as well as current developments in areas such as FinTech, RegTech and InsurTech, both in Slovakia and abroad.

In 2022 the Hub handled a total of 15 different enquiries, of which five came from foreign entities and ten from Slovak entities. The temporal distribution of enquiries is shown Chart 2.

Chart 2

Number of Hub enquiries from January 2020 to March 2023

