

Activity Report of the Innovation Hub of Národná banka Slovenska

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Contact

Národná banka Slovenska
Imricha Karvaša 1 813 25 Bratislava
info@nbs.sk



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The year in figures and feedback

16
enquiries

38 %
of enquiries
from abroad

83 %
rate
consultation
as useful



"The meeting was quickly organised; we benefited from being able to address the issue to a whole range of NBS departments."

"An excellent opportunity to get fast answers and quality advice directly from NBS."

Feedback

"The people working in theHub are interesting, knowledgeable and highly engaged."

"The NBS Innovation Hub helped me validate my business plan from a legislative perspective."

Introduction

The Národná banka Slovenska Innovation Hub (hereinafter ‘the Hub’) provides an opportunity to consult the Bank about the application of regulation to financial innovation. The Bank’s experts participating in the Hub help remove legal uncertainty for innovative firms. These activities result in faster penetration of innovative products, services and solutions into the Slovak financial market.

This report summarises the Hub’s third year of operation, covering its activities from 1 April 2021 to 31 March 2022. During that period, the Hub handled 16 enquiries. As in previous years, the focus of the enquiries was on issues related to crypto-assets and alternative payments. One new area of interest that has great potential for the future is InsurTech.

In addition to the Hub addressing some new issues in its third year, an even more important change during this period was the Bank’s creation of a new tool to foster innovation – the regulatory sandbox. With the launch of the regulatory sandbox on 1 January 2022, the Bank joined the group of innovation-fostering supervisory authorities (there are a total of 11 regulatory sandboxes across the EU). The regulatory sandbox is a welcome addition to the array of tools that support financial innovation.

1 Overview of activities and lessons learnt

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

During its third year, the Hub handled a total of 16 enquiries, down from 27 in the previous year. The situation across European innovation hubs is relatively heterogeneous. In some countries, for example Greece,¹ the number of enquiries handled by the domestic innovation hub is falling year-on-year; in others, for example Ireland,² it is rising; and in still others, for example Portugal,³ it is falling one year and rising the next. However, most European innovation hubs do not publish information on the number of enquiries they receive, so it is impossible to identify any prevailing trend.

¹ Annual report. FinTech Innovation Hub

² Innovation Hub 2021 Update

³ Portugal Finlab Report. 3rd edition

It can be assumed that the main reason for the falling number of enquiries in Slovakia is that many innovative firms have in the past already received answers to key questions about the application of regulation in regard to financial innovation. It may also be the case that innovators who know about the Hub have already used it, while many other market participants do not know about the Hub but would be interested in engaging with it if they did. For this reason, the Bank is planning to be more active in communicating information about the Hub at meetings with associations operating in the Slovak financial market. However, not all firms that might be interested in using the Hub are grouped in associations, and so the Bank is planning to use social media to convey information about the Hub. These efforts will certainly help to raise awareness about the Hub, thereby potentially increasing the number of enquiries received.

Another factor that should add new impetus to the Hub are upcoming regulations. Many of them are even now raising many questions, and it may be that following the adoption of the new legislation (concerning, for example, crypto-assets), the Hub can expect to receive an increasing number of enquiries over coming years.

The enquiries received by the Hub during the period under review were often quite broad in scope and concerned several areas. As in previous years, the enquiries were most frequently related to issues of crypto-assets, payment services and AML/CFT (anti-money laundering and combating the financing of terrorism). There were also enquiries about issues that had not previously come up, including credit rating assignment and InsurTech.

The past year's enquiries included some related to a promising new area in which firms are showing increasing interest ...

This area is InsurTech, which has in recent years been significantly gaining in importance across the world and is also gradually finding its place in the Slovak financial market. It is the integration of a traditional sector with new technologies in order to streamline processes and improve the customer experience. The InsurTech-related enquiries discussed at the Hub concerned mainly basic aspects of bringing a business model in line with the regulatory framework. Since the InsurTech-related consultations addressed only early-stage business ideas, it may be expected that innovators will in future seek further discussions on these issues.

... which is closely linked to a major financial market trend – digitalisation.

The InsurTech-related enquiries received by the Hub concerned mainly the digitalisation of processes and the search for alternative ways to provide services, for example via mobile applications. Digitalisation is, as a rule, not confined to just one type of product, but concerns a broad range of services that innovative firms want to provide in a user-friendly form. For example, one of

the enquiries concerned the fact that insurance was part of a mortgage loan that was to be provided primarily in digital form.

Another key issue was crowdfunding ...

Enquiries related to crowdfunding were largely a response to the EU's new Regulation on Crowdfunding Service Providers for business, which entered into application in the autumn of 2021. This Regulation fundamentally changes the operation of crowdfunding platforms, and firms are adapting to the new framework. The rules, however, also open the way for other entities to enter the market using so-called passporting rights and thereby to operate freely across the EU. Crowdfunding brings significant value added to the whole Slovak market, since it offers small and medium-sized enterprises (SMEs) an alternative to the bank financing that has long been the prevalent form of financing in the EU. The Slovak firms that addressed crowdfunding-related questions to the Hub were primarily interested in clarifying what impact the application of the new Regulation would have on their business model. NBS experts also benefited from these consultations, using them as an opportunity to learn about innovative business models presented by the firms in question.

This year, too, most enquiries concerned crypto-assets ...

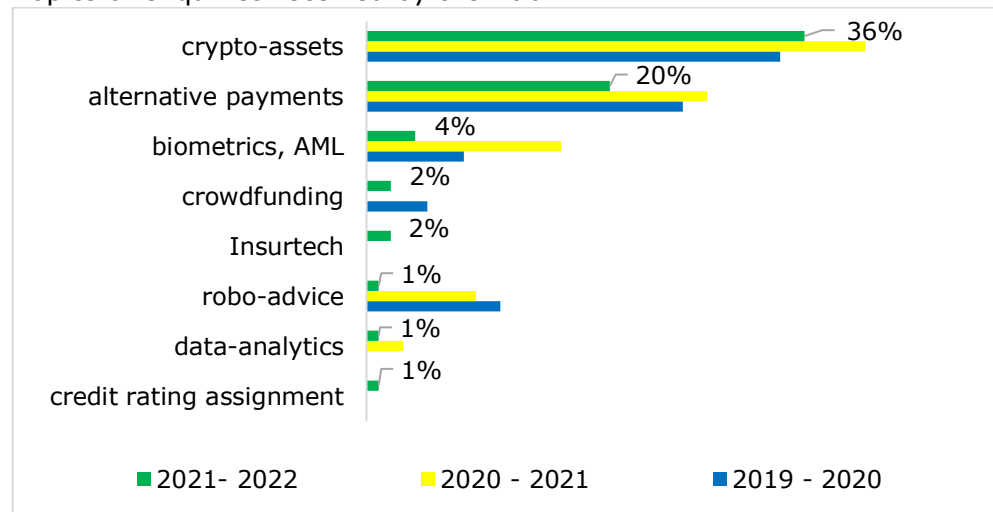
During the year under review, as in previous years, the bulk of enquiries to the Hub concerned crypto-assets. Most of the questions on this issue related to the conditions for entry into the Slovak market. The Hub was, however, also contacted by established crypto firms for advice on the provision of new types of services. The advice that the Bank could provide in these consultations was limited by the fact that it does not at present exercise supervision over the crypto-assets market and that Slovakia's legislation regarding crypto-assets extends only to certain areas (taxes and AML). This is also why the discussions centred mainly on the overlap between services provided and regulated activities and on the basic conditions for conducting business in this area. The EU's comprehensive Regulation on markets in crypto-assets (MiCA), which will probably be approved this year, is also expected to give rise to many questions. As a result of this Regulation, future crypto-assets-related consultations with the Hub will be of a far more specific nature.

... and came from both domestic and foreign firms.

Crypto-assets-related enquiries to the Hub come predominantly from foreign firms. It is often the case that these firms' discussions with the Bank are their first contact with the Slovak market. For some firms, the Hub is therefore the first step en route to entering the Slovak financial market. Through the Hub, firms can get up-to-date and reliable information about what conditions they must meet in order to operate in the Slovak market, and so they can negotiate the whole process more quickly. These interactions further underline the Hub's importance for Slovakia.

Chart 1

Topics of enquiries received by the Hub



1.2 Benefits and challenges

Through an electronic survey of six respondents, the Bank obtained feedback on the third year of the Hub's activity.

Respondents have a positive assessment of cooperation with the Hub ...

As in previous years, most of the firms that engaged with the Hub during the period under review see it as conducive to fostering innovation. This view was expressed by 83% of the survey respondents. When asked to assess their cooperation with the Hub, 33% of respondents rated it as excellent and 50% as good. One respondent replied 'don't know'. A majority (83%) of the respondents said that the Hub responded to their enquiries within a reasonable time and with replies that were useful and of the expected quality. All of the respondents said they plan to use the Hub again in the future.

There were also critical responses and suggestions for improvement ...

One respondent said the Hub had not answered their question within a reasonable time. Another respondent said the Hub's answer had not been useful. In each case, the problem may have been that the respondent approached the Hub with misplaced expectations. The Hub's role is not to take the place of economic and legal advisers. Firms engaging with the Hub should therefore not expect that the Bank will respond immediately to their questions, nor that it will furnish them with a turnkey business model that is fully compliant with legal regulations. Offers of further cooperation are often also problematic. In its capacity as a supervisory authority, the Bank must approach

any offers of closer cooperation with relative restraint, so that its actions do not favour certain market players.

Several firms also offered suggestions for improving the Hub. One proposed conducting cooperation with a dedicated information system. Another would welcome discussions in the form of webinars. There was also a request for repeat consultations with a narrower group of NBS experts.

... which the Bank is actively reflecting on.

Last year's launch of the regulatory sandbox is a clear example of the Bank responding to suggestions emanating from the Hub. This new, innovation-fostering tool allows participants to consult a narrower group of NBS experts on a recurring basis, exactly as called for in the feedback mentioned above. The sandbox is not, however, a response to a single request; the market, wider professional community and the Slovak Finance Ministry had for some time been calling on the Bank to implement such a tool. The Bank responded by conducting a public consultation and, on the basis of its results, establishing the sandbox in January 2022.

2 The Hub's public activities

2.1 Promoting the Hub in Slovakia

In May 2021 the Bank held the first of what is to be an annual event: "The Slovak financial market and INNOVATION 2021". As part of the event, the Bank presented the results of its surveys on financial innovation and then hosted panel discussions between representatives of the market and the regulator.

The now well-established 'Finweek' fintech conference took place in Bratislava in October 2021, with the Bank as one of its main partners. This year's event focused on a number of key topics, including crypto-assets regulation, central bank digital currencies, building fintech ecosystems, and raising financial literacy. They were discussed by market representatives as well as by participants from the public sector, including the Bank.

Last year the fintech association FINAS organised several meetings attended by NBS representatives. Among the issues discussed were licensing in the payment services sector and the launch of the Bank's regulatory sandbox. These meetings also provided an ideal opportunity for networking and informal discussions with market representatives.

In 2021 the Bank signed a Memorandum of Cooperation with FinTech Hub Slovensko, a fintech accelerator. Specific instances of this cooperation included several workshops organised by FinTech Hub Slovensko and attended by NBS representatives. Among the workshop topics were AML risks related to the provision of crypto-assets services and NBS authorisation procedure in the area of payment services. The workshops proved to be an effective way of stimulating discussion on innovation issues.

Given that most of the enquiries received by the Hub during its three years of operation have been related to crypto-assets, the Bank is looking to play an active role in this area as part of its support for the development of financial innovation. In 2020 the Bank [mapped](#) the crypto-assets service providers operating in the Slovak market. As a follow-up activity, at the end of 2021, the Bank produced a [Survey of Crypto-assets and the Digital Euro](#).

2.2 Promoting the Hub abroad

In October 2021 an NBS representative was among the participants in an online event entitled ‘Central Banking Autumn Meetings’, which focused on the impact of fintech on central banks’ structures, autonomy, decision-making processes and transparency.

During the period under review, NBS representatives were actively involved in cooperation 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).

The EFIF meetings focused on the operation of individual innovation facilitators, on legislative developments at the European level, and on practical examples of the application of innovation solutions, presented by specific firms. The innovations presented concerned such areas as regtech, artificial intelligence, and blockchain.

A major topic at EFIF meetings over the past year was cross-border testing, i.e. the possibility of testing financial innovations simultaneously in multiple regulatory sandboxes across different countries, or of informing innovation facilitators in other countries about the progress of such testing. To this end, the EFIF produced a Procedural Framework for Innovation Facilitator Cross-Border, to ease cooperation between innovation facilitators. Subsequently, in March 2022, the European Commission launched the [EU Digital Finance Platform](#), which among other things enables innovative firms to conduct cross-border testing and enhances communication between different innovation facilitators.

3 Outlook for the future

In the Hub's third year, the Bank took the breakthrough step of launching a regulatory sandbox. The Bank now has at its disposal several tools for fostering financial innovation. The first is the Hub, which will continue to be the main pillar of this effort, providing answers to interested parties' specific questions about the application of regulation. Another tool, launched by the Bank during the second year of the Hub's operation, is cooperation with the fintech business accelerator FinTech Hub. Through this cooperation, the Bank helps address the regulation-related questions of start-up entrepreneurs who are still only at the stage of planning to enter the Slovak financial market. The third part of this toolkit is the regulatory sandbox, which offers firms more comprehensive assistance in bringing their innovative financial products, services and solutions into conformity with the regulatory framework, as well as in the subsequent practical testing of their financial innovations.

All of these activities will continue in the future, and there will be the added dimension of cross-border cooperation. The cross-border testing now being rolled out at the European level will allow innovators to test their innovations in multiple EU countries simultaneously. With its regulatory sandbox now in place, the Bank will be actively involved in this initiative. Through cross-border testing, Slovakia may attract foreign innovators who up to now have not been considering entering the Slovak market.

At the same time, the EU's proposed Regulation on markets in crypto-assets is expected to be approved in the near future. The sector, which until now has been largely unregulated, will have to adapt to the new rules. In particular during the first years of the Regulation's application, crypto-asset service providers are expected to have many questions about how practically to bring their business models into line with the new rules, so they will have even more reason to engage with the Hub and the regulatory sandbox.

Conclusion

The Hub's third year saw a continuation of trends observed in previous years. Issues related to crypto-assets and payment services remained the main focus of interest. A new area of interest which has great future potential is InsurTech, which is integrating the traditional sector of insurance with new technologies.

A major development during the period under review was the Bank's launch of a regulatory sandbox. The Bank now has at its disposal multiple tools for fostering innovation, which are mutually complementary and enable interested parties to receive the targeted assistance they need. At the same time, the Bank is maintaining its active cooperation with fintech associations, which are

becoming more numerous from year to year and are coming up with new initiatives aimed at market development. All these activities should help build an innovation ecosystem and make the Slovak financial market more attractive from an international perspective.

It is precisely in the area of financial innovation that the cross-border aspect is key. This is also why one of the main challenges for the future is to improve and step up cooperation between European innovation hubs and regulatory sandboxes. Such cooperation should make it easier for innovative firms to gain customers across the EU and thus to accelerate their growth and expansion. For customers in Slovakia, this should mean a broader and better range of financial products and services.

Annex

The handling of enquiries

The Hub's handling of enquiries in its third year was similar to that in previous years. Because of the ongoing COVID-19, most enquiries were handled online, via MS Teams meetings, or responded to in writing. Most of the enquiries received concerned crypto-assets, alternative payments, or AML issues. There were also enquiries related to issues that had not previously come up, including InsurTech and credit rating assignment. Individual enquiries often concerned multiple issues, thereby necessitating cooperation with more than one NBS expert.

This cooperation was also supported by the participation of NBS experts in meetings of the Financial Board. As in previous years, the Bank's experts used the opportunity of these meetings to share information about various activities related to financial innovation, including talks, meetings of international groups, and events taking place in Slovakia and at the European or international level.

During the period under review, the Hub received a total of 16 enquiries, including 11 at the Hub's email address and five at the NBS banking supervision email address. Six of the enquiries came from abroad and ten came from Slovakia. The Bank responded to four of the enquiries via MS Teams and to the rest in writing.

Chart 2

Number of enquiries received by the Hub in its first three years

