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## **OPPORTUNITIES FOR DEVELOPMENT OF THE FINTECH SECTOR IN NORTH MACEDONIA**

### **Abstract**

Digital transformation creates challenges in all spheres of human life and work. The development of digital transformation has also imposed the need of FinTech (financial technology) initiatives, which are recognized as some of the most important innovations in the financial industry.

FinTech is an abbreviation of the words - financial technology, and combines Finance, Technology Management and Innovation Management. FinTech can refer to startups or existing companies in the financial sector and companies that have business models based on innovative technologies. The term FinTech can also refer to the technologies themselves, whether applied by new companies or traditional market participants, such as banks.

### **Introduction**

The widespread use of the Internet today is changing consumer habits significantly. The decision to purchase online is on the increase, and this trend also applies to the market of financial services. There is a need for a completely new approach in this market because consumers need fast and simple

The subject of analysis in this paper is to understand the current environment for the development of FinTech and alternative financial services in North Macedonia and to assess the opportunities, barriers and challenges for innovation and entry of new participants in this segment of the financial market.

The paper explains readiness for digital transformation through explanations of the advantages and disadvantages, and through the efforts of the National Bank of North Macedonia, institutional and other market participants, building a strategy to support the development of the fintech sector.

**Key words:** FinTech, innovation, regulation, challenges, strategies.

applications for their financial needs instead of losing valuable time in financial institutions with lengthy formalities and administrative procedures. This inevitably necessitates a transformation in the financial services market.

Another important factor necessitating the rapid development of non-banking financial

services is technological advancement. The advantage of the services provided by non-banking financial institutions, lies within their advanced technological solutions making them fast, efficient and up to date. Their company culture and attitude resembles that of startup companies, whose focus is to provide efficient service and excellent customer experience, versus the services of traditional financial institutions, where there are often lengthy administrative procedures.

The history of technological innovation in the financial sector begins as early as the 1950s, with the advent of checks as a method of payment. This sector continuously grows with the advent of ATMs and the first payment cards while the widespread use of the Internet in the last twenty years has enabled the development of internet banking, mobile banking, crowdfunding, etc.

Today FinTech is a serious competitor to traditional financial services, through the use of new, advanced and innovative technologies that enhance and automate the delivery of financial

### **Defining FinTech and its focus areas**

FinTech is an abbreviation of the words - financial technology. It can refer to startups or existing companies in the financial sector and companies that have business models based on innovative technologies. The term FinTech can also refer to the technologies themselves, whether applied by new companies or traditional market participants.

An example of a formal definition of FinTech can be the definition as given by the Financial Stability Board – FSB. The FSB defines FinTech as “technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on

services to potential customers. The FinTech industry covers a variety of areas, including: digital transactions, lending, investment banking, investment management, personal finance, B2B, InsurTech, RegTech.

Since 2019 the National Bank of North Macedonia has taken into consideration the benefits of financial technologies and has started an initiative to support the development of the FinTech sector. This initiative aims to provide information and regulatory framework for introducing and facilitating access to these services and successful involvement of our country in the global financial markets.

A recent survey conducted by the National Bank (with support from the European Fund for South East Europe, EFSE), showed that the FinTech sector in our country has the potential to allow greater availability of financial services, greater competition and significant benefits for citizens and small businesses. It can also aid in the process of aligning our financial system to international standards and best practices (NBRNM 2020).

financial markets and institutions and the provision of financial services” (FCB, ca 2021).

The technology itself facilitates access to a number of products or services that for the purposes of this paper are classified in the following four focus areas: FinTech on payments, FinTech on advisory service, FinTech on financing and FinTech on compliance.

FinTech on payments. In terms of payments, the most widely-used methods are mobile payment and e-wallets. Unlike some other forms of e-banking, paid funds are immediately available, and depending on the system, the

bank does not need to be directly involved. Mobile wallets allow users to store funds and credit cards on their mobile devices. GooglePay and ApplePay are the two most popular mobile wallets.

FinTech on advisory service. This focus area of FinTech provide suggestions to users according to a set of rules and criteria. This includes all kind of related services, such as investment advice, asset management consultation, insurance service, customer supports and management decision makings. One of the most current topics in this area is robo-advisor services – a financial adviser that provides automated financial advice or investment management for clients, based on

advanced technologies, such as artificial intelligence, big data and machine learning.

FinTech on financing. The developments of FinTech provide many new alternative ways of financing, which is outside of the traditional systems. For example, crowdfunding provides an alternative way for businesses to obtain funds at lower cost or in a way that was not possible traditionally.

FinTech on compliance. Compliance imposes the existence of regulations, such as specifications, policy, standard or law. On this, using technologies to enhance regulatory processes is also referred to as RegTech (Regulatory Technology).

### **Benefits, risks and challenges that FinTech can bring**

According to FinTech Survey (NBRNM 2020), most of the respondents agreed that FinTech has the potential to give consumers more choice and benefits. More choice means a better deal for consumers and better prices of financial services. Some consumers may be unable to access certain types of products (such as loans) from traditional players, and FinTech has the potential to provide greater levels of access. Also, FinTech has the potential to bring more financial inclusion. On the other hand, FinTech has the potential to align Macedonia's financial system with best international practices and bring it closer to the EU.

In terms of the risks and challenges of developing the FinTech sector, the survey results indicate that the main challenge in the development of the FinTech sector are security risks, due to the possibility of cyber-attacks, financial crime and money laundering. It is, in fact, the most frequently mentioned global risk

when it comes to risks and challenges related to the FinTech sector.

One of the biggest challenges in supporting the development of the FinTech sector in Macedonia, is the improvement of the regulatory framework at a level that will support innovative solutions, digital transformation and modernisation of the financial system. Special emphasis is placed on the regulation of payment systems as the biggest obstacle for the development of the FinTech sector. This obstacle would be overcome with the adoption of the new Law on Payment Systems and Payment Services, by the end of 2021.

## Strategy for development of FinTech in North Macedonia

It is evident that there is a need for the FinTech sector in North Macedonia to be developed because of the many benefits and opportunities it offers. Digital transformation is a priority for all financial institutions, and the priority of state institutions is change in legislation to support the development of the FinTech sector. For that purpose, the National Bank of North Macedonia, with the support of EFSE, launched an initiative to prepare a National Strategy to support the development of the FinTech sector.

The first step in realising the goal is opening the so-called Port for Innovation, which is a channel for communication between the National Bank and companies interested in the development and application of innovations in the field of financial services and products.

A significant step has been made through the research study thus making an assessment of the current environment for FinTech development, opportunities, barriers and development challenges of this sector in North Macedonia.

The next step is to formulate recommendations for a FinTech strategy that would cover the types of business models that

### Conclusions

The term FinTech means financial technology and refers to startups or existing companies in the financial sector and companies that have business models based on innovative technologies. For the purposes of this paper, FinTech services are classified into the following four focus areas: FinTech on payments, FinTech on advisory service, FinTech on financing and FinTech on compliance.

are likely to be accepted in North Macedonia. Following the needs of society and companies, the following business models would be subject of implementation:

- Peer to Peer Lending
- Online Lending
- Alternative Credit Scoring
- Crowdfunding
- Cryptocurrency related business models
- P2P Payments
- Instant Payments
- E-Wallet solutions
- Insuretech
- Robo Advice for Investments
- Innovation in Asset Management
- Regtech, specifically Electronic KYC solutions
- Cloud Computing

Therefore, the legislation needs to be improved in direction of implementation and support of these models.

By analysing the benefits offered by the FinTech sector, The National Bank of North Macedonia has launched an initiative for the preparation of a National Strategy for the development of FinTech, in order to contribute to a higher level of financial inclusion and alignment with best international practices both in the field of finance and EU standards.

From this paper, it can be concluded that the financial sector services in North Macedonia is ready for a FinTech transformation. Thereby,

further changes in regulations are needed that will enable monitoring of trends in the field of financial innovation

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