



საქართველოს ეროვნული ბანკი
National Bank of Georgia

FINTECH IN GEORGIA

BUILDING ON THE MIDDLE CORRIDOR MOMENTUM

2024

AGENDA

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SILK ROAD

Past, Present, and Future

The Silk Road has been a trade route connecting China and Europe for approximately 1500 years. Georgia emerged as a central hub along this ancient economic corridor due to its strategic location on the Black Sea between Europe and Asia. Today, Georgia positions itself as a center for FinTech innovation.

Throughout history, Georgia has acted as a bridge between Western and Eastern cultures, facilitating the exchange of innovations and knowledge. In 2024, this role remains crucial, particularly in realizing the potential of the Middle Corridor for the Trans-Caspian International Transportation Route. This multimodal route, running through Kazakhstan, Azerbaijan, Georgia, and Turkey, benefits from FinTech as one of its enabling pillars.

In 2023, the World Bank released a study projecting that by 2030, freight volumes along the Middle Corridor will triple, while travel time is expected to halve. The increased trade between Azerbaijan, Georgia, Kazakhstan, and Europe is the main driver for this demand. Prognostic modeling also predicts a 37 percent surge in trade between Azerbaijan, Georgia, and Kazakhstan, along with a 28 percent increase between these nations and the EU by 2030.

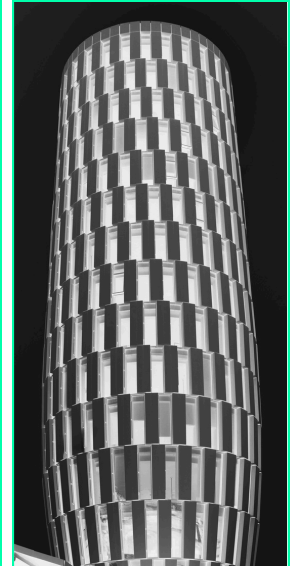
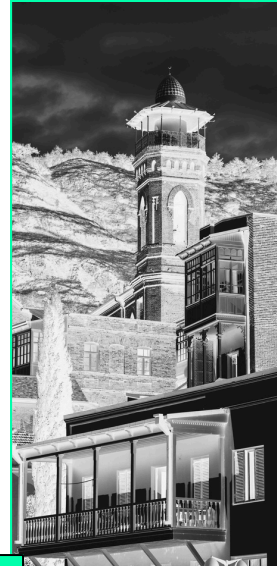
GEORGIA

Why Georgia

Nestled at the crossroads of Europe and Asia, Georgia emerges as a strategic hub, offering a gateway to two continents with a comfortable time proximity of GMT+4 and a cultural affinity to the West.

Beyond its geographical advantage, Georgia has established itself as a beacon for business, boasting exceptional rankings in global indices and offering a conducive environment for growth and innovation.

In the World Bank's Ease of Doing Business Report of 2020, Georgia proudly settled the 7th spot, a testament to its commitment to fostering a business-friendly atmosphere. Moreover, to pay the way for sustained economic development, it secured the 3rd position as the country with the lowest tax burden with a total tax rate of 9.9%.



STANDARD
& POOR'S

BB POSITIVE

FitchRatings

BB

MOODY'S
INVESTORS SERVICE

BA2

GEORGIA'S LOCATION
WITHIN THE MIDDLE
CORRIDOR AND
FLOURISHING ECONOMY
HAVE MADE IT A HIGHLY
DESIRABLE LOCATION
FOR BUSINESSES



WITH A FAVORABLE
BUSINESS CLIMATE AND
DIVERSE CULTURE,
GEORGIA INVITES
INVESTORS TO PURSUE
SUCCESS AT THE HEART
OF THE MIDDLE CORRIDOR

Advantages

- 01** A cornerstone of Georgia's appeal lies in the government and regulator offering special economic and regulatory incentives tailored to the needs of IT, Financial Technologies, and Business Process Outsourcing (BPO) companies.
- 02** Another catalyst for innovation and productivity is the skilled, multilingual workforce available at a competitive rate. Coupled with low living expenses and operational costs, Georgia emerges as an economically prudent choice for businesses seeking to establish operations in the region.

- 03** In an interconnected global economy, Georgia ensures high-speed internet for seamless communication and data exchange, being committed to further improving network infrastructure.



THE FINTECH STRATEGY OF GEORGIA

Interoperability and Regional Cooperation

With Georgia's population standing at just 3.7 million, the country encounters limitations in market size. Consequently, the NBG's overarching strategic objective across all endeavors is to bolster business models capable of scaling beyond Georgia's borders.

The NBG develops a Cross-Country Regulatory Sandbox, which involves multilateral recognition of licensing. This initiative seeks to facilitate FinTech startups from the region in accessing Georgia's market and leveraging NBG's platforms for experimentation and business model enhancement.

The National Bank of Georgia (NBG) holds a role as the principal driver and advocate for FinTech, dedicated to dismantling internal barriers to market entry. Through targeted initiatives to introduce new licensed business activities, infrastructure, and projects such as Open Banking and the Central Bank Digital Currency (CBDC) Platform, the NBG sets a goal to build momentum and reinforce ongoing trends in the real economy.

FOSTERING FINANCIAL SYSTEM INNOVATION THROUGH OPEN REGULATORY POLICIES AND INITIATIVES



FINTECH ECOSYSTEM

The NBG advances FinTech through a hands-on "Learning-by-Doing" approach, leveraging the Regulatory and Technical Sandbox in partnership with the International Financial Corporation (IFC). It pioneers the region's inaugural Open Banking Technical Sandbox, enabling experimentation with Open Banking Application Programming Interfaces (APIs).

This strategic initiative involves the development of a robust FinTech infrastructure featuring a Regulatory Sandbox for testing innovative concepts, thereby promoting digitalization and fostering innovation. The NBG has extended invitations to startups outside Georgia to utilize the Sandbox for developing their projects in a secure environment.



Success Story

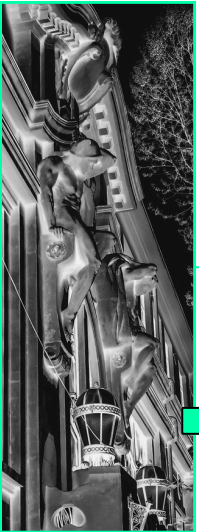
Not burdened by legacy system issues, our banking system was established following independence in 1991, allowing for rapid adoption of innovation in operations and infrastructure.

The banking sector in Georgia is robust, highly profitable, and predominantly foreign-owned. Two of the largest banks, TBC and Bank of Georgia, are listed on the London Stock Exchange (LSE), reflecting the sector's global stature. Both operate within a competitive landscape, expanding their business operations to foreign markets and demonstrating agility and innovation akin to large FinTech companies.

Cross-Border Experimentations

As the sole representative from our region, NBG serves as an observing member in the BIS Innovation Hub project mBridge, focusing on enhancing international trade potential and connecting central and commercial banks globally, thereby serving as a public good.

The NBG views mBridge as a compelling model for the Middle Corridor countries in our region to accelerate trade growth through a new FinTech infrastructure.



NATIONAL BANK OF GEORGIA

Recent Developments

In 2019, the Financial and Supervisory Technologies Development Department was established to ensure the NBG remained at the forefront of industry advancements. Subsequently, in 2020, the NBG embarked on a series of strategic initiatives, including joining the Global Financial Innovation Network (GFIN), establishing the Innovation Office, and launching a Regulatory Laboratory.

The Open Banking Framework, introduced in 2020, became accessible to banking institutions the following year. By May 2023, Open Banking services were extended to all regulated entities, fostering innovation and accessibility in the financial sector. Simultaneously, the Digital Banking Licensing Principles, unveiled in 2019, paved the way for the inaugural Digital Bank license issuance in 2022. During the same year, the NBG introduced the National FinTech and Open Finance Strategies, actively engaging diverse stakeholders and communities for transformative initiatives since then.

To enhance Georgia's financial connectivity, in 2022, the NBG officially applied for membership in the Single Euro Payment Area (SEPA). Moreover, since 2020, efforts have been underway on the Digital Lari (GEL) project, with Ripple enlisted as a Technological Partner for the pilot phase. In 2023, the visionary approach earned the NBG the prestigious award for CBDC initiative of the year, reaffirming its commitment to driving financial innovation.



Steps to Boost Innovation

In 2023, the NBG initiated the Fintech Business Model Mapping project, examining global FinTech business models in the context of Georgia. It identified minimal regulatory barriers, with most models deemed permissible under Georgian law, albeit with partial restrictions on 9 out of 36 activities.

Responding to the market, the NBG unveiled the Regulatory Sandbox for FX Exchange in Digital Channels to modernize FX conversions and strengthen anti-money laundering protocols. Additionally, a novel business model, Loans Secured by Cryptocurrencies, designed to provide personalized financial solutions, is currently undergoing evaluation within the Regulatory Sandbox.

Successful testing of Face Recognition services in the Regulatory Sandbox in 2022 prompted the approval of new regulations for remote identification, fostering digitalization, and streamlining digital onboarding procedures. In summary, the NBG aims to lower barriers for FinTech companies and propel digital transformation within financial services.

BRIDGE BETWEEN EUROPE & ASIA



The NBG has made great strides at improving the policy environment and the infrastructure for digital financial services and FinTech, including establishing the Financial Innovation Office, introducing a licensing framework for Digital Banks and developing a Regulatory Sandbox, launching the first phase of Open Banking, prioritizing enhanced FinTech supervision in its 2023-2025 Supervisory Strategy, and applying to join the SEPA.

YOUR NEXT OPPORTUNITY STARTS HERE



As a progressive Central Bank, we're dedicated to venturing into novel business paradigms and adopting FinTech opportunities within our Technical and Regulatory Sandboxes. While balancing between innovation, financial sector growth, and prudent risk management, we're keen on supporting enterprises that aim to create tangible benefits to the economy.

NATIA TURNAVA

ACTING GOVERNOR | NATIONAL BANK OF GEORGIA

TESTIMONIALS

Besides seeing our role as a basic FinTech infrastructure enabler and facilitator for the entry barriers' disruption in-house, with projects like Open Banking/Finance, CBDC as an Ecosystem, and thinking about Cross-Border Regulatory Sandbox concept, we aim to build on the momentum and support the ongoing trends in the real economy with the new fintech infrastructure. Also, motivate others within the region.

VARLAM EBANOIDZE

HEAD OF FINTECH DEV. DEP. | NATIONAL BANK OF GEORGIA



Georgia's FinTech landscape is a testament to innovation and growth. With a dynamic mix of talent, infrastructure, collaboration, and regulatory support, Georgia is emerging as the leading regional hub for financial technologies. From startups to commercial banks, Georgia offers fertile ground for novel FinTech business model success.

TAMAZ GIORGADZE

CO-FOUNDER AND CEO | RAISIN



Georgia is a well-kept secret when it comes to financial sector stability, connectivity with global financial markets, and robust regulatory frameworks. Taking these factors combined with the innovative approach from the National Bank of Georgia is what led us to pick Georgia to begin Pave Bank's journey as the world's first programmable bank.

SALIM DHANANI

CO-FOUNDER AND CEO | PAVE BANK



01



THE NBG HAS LAID OUT GUIDELINES FOR DIGITAL BANK LICENSING

License Advantages

- INNOVATION PART PRE-APPROVAL PRIOR TO FINAL DECISION-MAKING
- SUPPORT WITH PRECISE DEFINITIONS AND REQUIREMENTS
- 10X LESS CAPITAL REQUIREMENT FOR INITIAL STAGE
- BUSINESS MODEL TESTING ON THE LOCAL MARKET
- PRE-LICENSING CONSULTANCY
- CONDITIONAL BANK LICENSE

DIGITAL BANK

Overview

Through the development of the Digital Bank model, the NBG seeks to foster innovative business models, enhance financial product diversity, and optimize the utilization of big data while also reducing market entry barriers.

This model strives to cultivate a customized, user-friendly, efficient, and cost-effective digital financial ecosystem by leveraging existing technological infrastructure, maximizing the efficiency of cloud services, streamlining integration with tech firms, and establishing a banking model as a wholesale market service. Additionally, the Digital Bank model promotes the entry of new technology players and bolsters competition within the financial sector.





PAVEBANK



Licensed Digital Banks

Peysera Bank Georgia JSC functions as a Digital Bank centered around integration with the European Union's financial system through SEPA, offering remote services to clients without physical branches.

Pave Bank Georgia JSC plans to function as a Digital Bank, aiming to merge financial products with digital assets and programmable accounts. The focus is on catering to technology-driven companies, with the aim to become the world's first programmable bank.

Hash JSC plans to function as a Digital Bank with a focus on guiding both traditional and technology-driven customers through a transition to a digital strategy, emphasizing personalized financial solutions, technology, and unique UI/UX.



OPEN BANKING

Overview

Open Banking facilitates real-time information exchange between financial institutions initiated by customers. It holds potential benefits for both consumers and the financial sector. By enabling the efficient utilization of new technologies, enhancing access to finance, and fostering healthy competition, Open Banking serves as the foundation for the growth of data-driven FinTech business models.

Accessible Open API Services

- INFORMATION EXCHANGE REGARDING STANDARD BANKING PRODUCT
- ACCOUNT INFORMATION EXCHANGE (TRANSACTIONS AND BALANCES)
- DIGITAL ONBOARDING FACILITATED BY THIRD-PARTY IDENTIFICATION
- PAYMENT INITIATION SERVICE, INCLUDING BULK PAYMENTS

THE GEORGIAN PARLIAMENT APPROVED
LEGISLATIVE CHANGES, ALLOWING
NON-BANKING INSTITUTIONS TO JOIN
THE OPEN BANKING PROJECT
FROM NOVEMBER 1, 2022



Application Review Period

Upon receipt of the application and relevant documentation/information for inclusion in Open Banking, the NBG renders a decision on the entity's inclusion or refusal within a 60-day timeframe.

IN 2024, NBG PLANS TO BROADEN ITS OPEN BANKING FRAMEWORK



New Registration Opportunities

The NBG has introduced two new registrations for Payment Service Providers (PSPs): Account Information Service Provider (AISP) and Payment Initiation Service Provider (PISP).

Next Open API Service Extension

- AVAILABILITY OF MULTIPLE/RECURRING PAYMENT INITIATION SERVICES
- DEPOSIT INFORMATION SHARING SERVICE AVAILABILITY
- LOAN INFORMATION SHARING SERVICE AVAILABILITY
- VIRTUAL REFERENCE POINTS (VRPS) FOR SWEEPING
- PAYMENT INITIATION WITH A FUTURE DATE

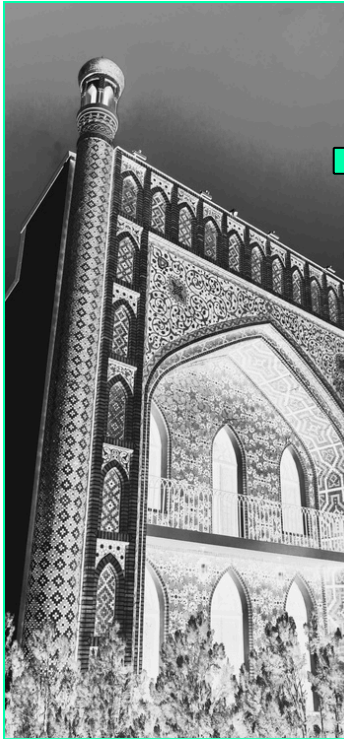


PAYMENT SERVICE PROVIDER

Overview

The Payment Service Provider (PSP) operates as a legal entity within Georgia, delivering payment services to customers in compliance with Georgian legislation. Currently, there are 32 active PSPs in the Georgian market. Several of these entities are actively engaged in emerging FinTech ventures such as Open Banking and collaborate with the NBG across Regulatory and Technical Sandboxes.

Private enterprises eligible to offer payment services in Georgia comprise Commercial Banks, Microfinance Organizations, and Non-Bank PSPs registered with the NBG.



Permitted Activities

- ISSUING AND ACQUIRING PAYMENT INSTRUMENTS, INCLUDING ELECTRONIC MONEY
- DEBITING AND CREDITING FUNDS FROM/TO PAYER AND PAYEE ACCOUNTS
- EXECUTION OF PAYMENT TRANSACTIONS USING ELECTRONIC MONEY
- FACILITATING PAYMENTS VIA VARIOUS ELECTRONIC MEANS
- ACCOUNT INFORMATION ACCESS SERVICES
- ACCOUNT INFORMATION ACCESS SERVICES
- PAYMENT INITIATION SERVICES
- REMITTANCES



VIRTUAL ASSET SERVICE PROVIDER

Overview

These changes introduced a regulatory framework that mandates the registration of Virtual Asset Service Providers (VASPs). The VASP oversight encompasses their registration and supervision for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) compliance.

As expected, there is considerable interest from both local and global stakeholders in the cryptocurrency sphere. As of May 2024, over 30 applications are under assessment while the registration approval was granted to 7 institutions. The evaluation spans a timeframe of 60 to 150 days.

Consequently, new entrants in the fintech landscape will soon operate under NBG supervision in Georgia. This progression promises significant contributions to market digitalization and fintech evolution within the region.

ON JANUARY 1, 2023, GEORGIA ENACTED REGISTRATION FOR VASP



Permitted Activities

- EXCHANGING VIRTUAL ASSETS FOR FIAT AND OTHER ASSETS
- SAFEGUARDING AND MANAGING VIRTUAL ASSETS
- ADMINISTERING ASSET TRADING PLATFORMS
- CONDUCTING ICOS AND RELATED SERVICES
- MANAGING VIRTUAL ASSET PORTFOLIOS
- TRANSFERRING VIRTUAL ASSETS
- LENDING VIRTUAL ASSETS



CENTRAL BANK DIGITAL CURRENCY

Overview

While Georgia has a diverse financial infrastructure, instruments, and services accessible to the general public, the NBG has identified some gaps. To address these, the NBG is researching and piloting a stakeholder-centric Central Bank Digital Currency (CBDC), focusing on specific contextualized use cases. The goal is to complement existing payment channels and establish a secure foundation for private-sector innovation to meet current and future societal needs.

Furthermore, the NBG aims to stay alongside emerging trends and nurture promising innovations by introducing a new digital currency with features and instruments designed to expand functionality and provide additional value for retail users and the private and public sectors.

THE NBG IS LAUNCHING THE LIMITED ACCESS CBDC PILOT PROGRAM IN 2024 IN PARTNERSHIP WITH





FINTECH REGTECH

Global Awards 2023

Award

In 2023, the NBG received a prestigious award for its CBDC concept, which focuses heavily on purpose-centric use and places a significant emphasis on Smart Contracts and Tokenization.

Further Advancements

The NBG is actively working to establish a regulatory and legal framework for Smart Contracts, aiming to integrate technological features into Traditional Finance (TradFi).

Moreover, the NBG has taken on the role of an observing member in two BIS Innovation Hub projects: Aurum, focused on retail CBDC, and the bridge project, centered on wholesale CBDC. The next step for the NBG is to transition from its observing member to a participating member status in these projects.





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GET IN TOUCH

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As we strive to position Georgia as a FinTech Hub and understand that this process isn't a sprint but a marathon, we're excited to welcome new initiatives to the Georgian market and join us on this endeavor.

2024