

Section 6. Finance, money circulation and credit

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REGULATION OF INNOVATIVE ACTIVITY OF GEORGIAN NEO-BANKS IN THE CONTEXT OF THE DEVELOPMENT OF DIGITAL TECHNOLOGIES

Abstract. In the modern world, the life of society very quickly changed under the influence of various technological processes, which in turn created both enormous opportunities and colossal difficulties. The impact of technology on the world to the extent, it exists today has no historical counterpart. The technological revolution has further accelerated the transition to a digital economy. The digital economy refers to any economic activity carried out using digital technologies, which is inherently based on radical innovations – in technological, organizational, institutional, social and other areas. The role of digital technologies in the banking sector is also growing steadily. This article describes the processes and consequences of their transition to the fintech era, since today banking structures around the world are focusing on the implementation and development of innovative projects in the digital space.

Keywords: Digital Economy, innovations, digital banks, development of cashless payments.

Digitalization is a process that involves changing the classic business model of organizations. Banks widely use digital technologies in the process of customer service, which allows you to quickly and accurately identify a client, reduce the time for opening a bank account, improve the quality of electronic document management, and optimize internal processes. The leaders in banking innovations in the digital economy are Germany, Japan, the USA, South Korea and the UK. The opposite of this process is the growth of cyber fraud cases, which is one of the main modern banking risks.

One of the main factors for the successful development of banking is the policy of constant innovation. Currently, innovation is a key factor in the stability, competitiveness and sustainable economic

growth of banks. The goal of any commercial bank, especially in the context of the digitalization of the economy, is to maximize consumer satisfaction at lower cost, improve the quality of banking services for legal entities and expand the range, which is primarily possible through the development of the fintech industry and the active use of innovations in the banking sector. Financial innovations, as a method used by organizations to carry out transactions with new or existing assets, will make it possible to use the resources of credit institutions more efficiently.

The development of banking innovations and the digital economy as a whole has contributed to the emergence of virtual banks that do not have branches and physical offices. The active use of digital technologies has contributed to the deployment

of classic products in separate operations, their further integration into new structures and forms.

Digital banks are banks whose main activity is not confused with the digital environment. We also call them online banks, neobanks, direct banks. In the UK they are also called “Challenger” banks. “Banks of the future” – are formed as fully digital banks, where all banking operations are performed remotely. There is a huge demand among banks for fintech startups that are actively developing digital technologies, which can lead to faster customer service and lower transaction costs. It is for these purposes that neobanks are created, which are one of the main driving forces of the fintech industry.

There are about 250 digital banks in the world today. These include: Atom, Monza and Revolut (UK), Number26 and Fidor Bank (Germany), Saxo Bank (Denmark), Moven (USA), Nemea (Malta), We-Bank and MyBank (China), Tinkoff Bank (Russia), Morning (France). Atom Bank is considered the first digital bank in the world to be licensed in October 2016 in the UK. In just two months, he managed to reach 110 million. receiving a deposit in sterling.

Today, the most popular areas of fintech innovation in the banking sector are online payment technologies, biometric identification and robotics. Over the past few years, significant technological changes have taken place in the banking system in Georgia, which created legal and technological conditions for the launch of new payment services of the payment system, for the introduction of remote identification, and increased the availability of financial services for the population.

The National Bank of Georgia promotes the development of new technologies and innovative approaches in the financial sector to improve financial stability and customer engagement. To this end, the National Bank of Georgia is implementing a technology-neutral risk-taking approach and principles of open regulation. These principles are an integral part of the National Bank’s supervisory strategy for 2020–2022.

By developing the model of digital banking, the National Bank is called upon to promote: the de-

velopment of innovative business models; Variety of financial products; better use of big data; Development of a customized, convenient, fast and affordable digital financial ecosystem based on the technological infrastructure around the customer; Efficient use of cloud services; Promote integration with technology companies and develop banking as a service in the whole sale market; The emergence of new technological players and increased competition in the financial sector. At the same time, the supervisory goals of the National Bank of Georgia are: to introduce new risk mitigation mechanisms in the process of developing a new digital banking model, to develop modern reliable standards for the security of personal data in cyberspace and to improve systemic risks and manage financial stability risks. It should be noted that the National Bank of Georgia considers the protection of the rights and interests of consumers to be systemic risks that can potentially have a negative impact on the development of the financial system and financial stability.

To generate interest in the development of digital banking models, in July 2020, the National Bank of Georgia published digital banking licensing principles for public consultation. The rules for entering the banking market have been simplified and benefits can be used in the licensing process. Possible benefits include: the issuance of a banking license if 10% of the minimum supervisory capital is met, as well as the so-called banking operations for doing business and finding additional investors. Providing a “build-up period”, a simplified liquidity reporting form, supervisory advice during the development of a business model, and, where appropriate, the targeted use of a regulatory laboratory to test the risk of certain technologies.

To obtain a full banking license, a bank must be able to demonstrate the sustainability of its business model and successfully operate in accordance with the requirements of a conventional bank. The National Bank of Georgia considers the banking business model as a digital bank with the potential to

expand access to finance, reduce the cost of financial intermediation, and at the same time meet the following technological criteria:

- Provides banking services mainly through electronic channels;
- Uses fundamentally new technologies and/or an innovative technological business model in the local market when providing banking services;
- Focused on open banking and development of the banking business as a service model in the wholesale market;
- Both external and internal banking modules are built on the basis of the API.
- Has electronic technological means of identification, user authentication and can apply to third parties for this service.

The first fully digital bank is SPACE, the first neo-bank in Georgia, which appeared on the Georgian market in May 2018, the project is being implemented with the support of TBC Bank. It can be said that the idea of creating a neo-bank belongs to TBC Bank, but Space and its employees are completely independent and its activities are not related to TBC Bank, moreover, the idea of creating a space means creating services and values that are different from a traditional bank. In mobile phones, through an app that can be downloaded for free for both Apple and Android users. It should be noted that Space is a bank that offers banking services to customers through the application, and not a mobile bank or Internet banking, which banks create for convenient delivery of services or products created for the client to the client in order to facilitate their use. Offers a fully digital service, all banking transactions are carried out through the application, which is an innovative banking service in the Georgian market. "Space" is not represented by branches, it is a completely digital bank. The idea of its creation is that the client can easily accept all banking transactions 24/7 without going to branches, without additional bureaucracy. Registration as a client is carried out through the ap-

plication, by the user, by taking a photo and selfie on an identity card. Unlike traditional banks, where you need to go to branches to register as a client. After registering in the application, you can order a space card, as well as open an account, the card is delivered by courier to the specified address. The company offers the buyer a debit card like "Visa classic". The card can be used at any ATM of the bank. When it comes to digital banking, the protection of security and personal data is important for the client, so the company devotes a lot of resources to this area, the project involves world-famous and experienced companies in the field of information security, which is considered one of the most secure environments in the world. The company is also focused on protecting the interests of consumers, actively complies and complies with the requirements of the National Bank and all other legislative norms.

The introduction of digital banking innovations in Georgia is accelerating. The population is gradually switching almost completely to digital channels. However, this process is accompanied by rather large disadvantages, in particular, in the long term, the number of employees in banks will inevitably decrease. Considering that today banks in the Georgian market offer the most jobs to the population, this fact will inevitably have a negative impact on the welfare of the country. The second negative effect can be considered dependence on technology, since all the projects discussed above require quite a lot of technical support, and when it comes to technology, no one is one hundred percent immune from shortcomings.

Banks and their customers follow the trend and master more and more innovative products that they like and then use. The great benefit of this process is considered to be the benefit of saving time, which is very valuable in the 21st century. Also, quite simple interfaces help to configure all types at the request of the user. The problems associated with the introduction of innovative products are real, it is difficult for people to get used to innovative products, although the digitalization trend is upward and the percentage

of online transactions is steadily increasing, it is still difficult for commercial banks to completely abandon traditional bankers. Provide services to customers for whom digital products are not available.

Constant monitoring and testing of processes is necessary, as Internet fraud creates serious problems for digital banking both in Georgia and in the world, losses from Internet fraud exceed millions of dollars. To prevent such cases, it is necessary to implement high standards of information security. The banking sector is one of the most highly regulated sectors, hence the

frequent regulations imposed by the regulator, which often lead to significant changes in business processes. Finally, it can be concluded that the various innovations introduced in Georgia over the past decade were aimed not only at the development of banking services, but also at the revitalization and renewal of the relationship between the client, employee and the banking system of the bank. the country. It can be said that the introduction of innovations in Georgia faces some problems, but the market will easily accept this if its participants see the benefits of this innovation.

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