

## **Jorgovanka Tabakovi: Development of financial services - opportunities and challenges**

Speech by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at the conference, organised by the Foreign Investors Council (FIC) and the European Bank for Reconstruction and Development (EBRD), Belgrade, 12 June 2024.

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Esteemed hosts, Mr Colangeli, Mr Petrovi,

"I fear the day that technology will surpass our human interaction."

This is what Albert Einstein said a long time ago. We are now in a period of incredibly fast changes. We should embrace all the benefits of technology, and manage them with the aim of advancing society, because it is us who create and advance technologies, and not the other way around.

Ladies and gentlemen,

It is my pleasure to greet you on behalf of the National Bank of Serbia and my own. In business, as in life, we are always faced with both opportunities and challenges. With choices. We differ, however, in the way we respond to them. For me, the biggest opportunity is to invest in people and in knowledge. Because people are the foundation of states and all institutions!

When we say the development of technologies, the first thought that comes to our mind is the development of information technologies. In contrast to earlier technologies that brought mostly benefits to people and society, every innovation of today both gives us something and takes something away. It gives the individual a sense of importance because it gives him visibility and the freedom to say anything. It gives him the feeling that his time is precious as the most valuable resource, a personal treasure, because he can do many tasks more easily and quickly. It gives him more free time.

However – it takes away his freedom and privacy. Man is being deprived of freedom in the name of freedom.

As the poet and doctor said:

*\* Civilisation uses the man's need to believe by feeding one part of the man,  
Feeding a fraction of his need,  
While yoking, reining in and saddling up the entire man.\**  
(Pavle Kovaevi – Circles of Life)

It is useful work and relationship with others that make us human. Humans do not exist without enthusiasm and the will to work (to learn, create, write, paint...), and they do not exist without interaction with others. Each human is unique and irreplaceable.

That fact must never be ignored. And we in particular must not disregard it, being the ones responsible for the financial system whose functioning should and must be improved in the interest of humanity. And the measure of the improvement of the

financial system and the benefit from it depends on the point of view. It also varies from one observer to another: whether it is an individual driven by personal interest, a company that also has its own specific point of view, an association or an industry, or whether it is the NBS that is responsible for the macroeconomic stability of the entire system and all participants together. In implementing that mandate and responsibility, the NBS supports everyone, but it also expects that the other participants are aware of the importance of stability, as it is in the interest of each of them.

Every change is obstructed with an excuse that adaptation or changes in the IT system are needed. And that this is both complicated and expensive. Of course, the price is rarely shared by the participants – banks and clients. It is service users who pay the price.

The responsibility shifts from the bank to the IT company that introduced the software, to the vendor that is part of the system.... The bank, its reliability and reputation become dependent on third parties who impose themselves as the first?!

### **Intelligent robots or conscious humans? There is no dilemma there.**

Man is the measure of things. A unique creation. Human creativity is unique. The universe creates originals. Artificial intelligence creates replicas – copies of uploaded algorithms. Made from information input into the system. Lacking real data. That is why I urge you to ensure that in this race with innovations in the name of a better life for humanity you make sure that humanity in whose name we are doing all this does not suffer defeat!!! Adding to the complexity of the present moment is the fact that the conditions we work in are one of the most economically challenging in history, but also technologically most advanced! Given that growth and development of the financial and real sectors are closely interconnected and mutually conditioned, today I will speak of:

1. New macroeconomic projections of the NBS,
2. Opportunities and challenges in financial services development, and
3. Serbia's position in the digital financial revolution.

### **New Macroeconomic Projections of the NBS**

Let us start from the beginning. Last year, inflation was on a strong downward path and is estimated to have entered the target corridor of  $3\pm 1.5\%$  in May. This is indicated by our nowcast model, allowing us to download and process around 30 thousand prices of goods and services from around 130 websites in real time. In the nowcast model, we are also developing AI-based techniques.

In the remainder of the year, we expect a further slowdown in inflation, so that in the course of the next year it should move around the target midpoint of 3%.

In Q1, economic activity picked up to 4.7% y-o-y, with the annual growth anticipated at 3.5%. As early as the next year, economic growth is expected to speed up to 4–5%, underpinned by the implementation of investments within the programme "Leap into the Future – Serbia EXPO 2027", reduced global inflationary pressures and more favourable financing conditions.

A sound business environment, adequate policies and a modern regulatory framework helped preserve high capital adequacy of banks, liquidity ratios at double the minimum levels and NPL ratio at around 3%.

Thanks to a favourable general economic situation in the country, a considerable number of banks expects an over 5% rise in household and corporate lending this and the next year, as reported in our latest bank lending survey.

All of this confirms that macroeconomic conditions in Serbia will remain conducive to both economic growth and further development of financial services.

## **Opportunities and Challenges**

Speaking of opportunities and challenges, there is no doubt that digital transformation is changing every line of business. It saves time as the most precious resource and frees human resources to work on more complex tasks. According to the last year's study of 600 companies across the globe, 64% believe that the use of artificial intelligence will increase their productivity, while 40% express concerns regarding dependence on technology. According to another study, the banking industry is expected to experience large positive effects from digital transformation in the amount of around 9% to 15% of operating profit. Apart from automation of routine tasks and processes, digital transformation also enables advanced analytics, higher quality personalised services, as well as higher quality risk management. At the same time, users have de facto got a service that works 24 hours a day, seven days a week.

Therefore, opportunities are huge, but the challenges are not few. These include cyber security, risk outsourcing or different forms of the so-called phishing. We, the policymakers, are aware that the qualitative technological progress we are currently witnessing will also engender huge labour market shifts. The need for workforce with specific competences is growing, while the demand for some jobs is scaling down, and that is something we as the regulator and you as employers must work on together with the education sector. The burden shouldered by the regulator seems much heavier today than before, because not only do we have to ensure stability, but we have to do it almost on the fly. You, as the representatives of companies and banking industry, must consider investment in technologies from both medium- and long-term perspective.

Cooperation between public and private sectors in this area is particularly important, and so are personal examples.

## **Serbia's Position in the Digital Financial Revolution**

The NBS decided to head economic and social transformation without ever neglecting system security and stability. Implementing a mix of modern regulations and innovative solutions, the NBS has been at the forefront of financial infrastructure strengthening and financial service digitalisation for an entire decade.

Adopting the Law on Payment Services in 2014 and amending it in 2018, we created conditions for the introduction of modern payment methods and for modernisation of payment transactions. Some of the crucial advantages of the adoption and improvement of this Law are:

- The development of new and innovative payment models and services, and, hence, faster, easier and cheaper payment services;
- Greater payment security;
- Increased competition;
- Greater payment services transparency.

The creation and development of the NBS IPS system significantly contributed to the rise in cashless transactions, and hence to greater financial inclusion, curbing of the grey economy, and economic progress of Serbia.

The data on the use of services we enabled confirm that we readily opt for easier, faster and cheaper services:

- The number of transactions carried out in our NBS IPS system increased from around 7 million in 2019 to around 67 million in 2023!
- In 2024, around 6.5 million payments were made on average on a monthly basis in the NBS IPS system.
- The settlement of household and corporate monthly liabilities by means of an IPS QR code is a major leap in the improvement of the digitalisation of payment services, as testified by the data that over 14 million bills were paid scanning this code in 2023.
- The Transfer service, that is, a fast transfer of money using the mobile phone number of the payee, is currently offered by 11 banks, and 2.5 million users have access to this service. Currently, around six hundred thousand users are registered for the Transfer service.
- At end-2023 close to 4.2 million users – individuals, legal entities and entrepreneurs were registered for e-banking service, around 2.5 times more than at end-2016.
- At end-2023, around 4.2 million users were registered for m-banking services, around 5.5 times more than at end-2016.

The Law on Financial Service Consumer Protection and other regulations enabled distance contracts, and the data confirm that this boosted the development of digital credit products, too.

- The number of signed distance contracts was over 176 thousand in 2023, which is four times more than in 2019.
- Over a fifth of these contracts were signed using video identification of consumers, and almost a half of them were in relation to cash loans.
- We also enabled bank account opening and a change of a bank without the need for visiting the old bank or even a new one.

### **Let us now move forward.**

1. This year, we will complete the harmonisation with EU regulations by transposing the PSD2 Directive into domestic legislation, which enables open banking in the Republic of Serbia.

2. Alignment with the PSD2 Directive is a part of our preparations for joining the SEPA, i.e. the Single Euro Payments Area. Joining the SEPA will enable the reduction of payment costs between the EU and Western Balkan economies, which will mean cheaper transactions for both citizens and businesses.
3. Ahead of us are demanding activities concerning the development of the technical infrastructure for connecting the NBS IPS system to the ECB TARGET Instant Payment Settlement (TIPS) scheme. To this end, we have initiated talks with the ECB.
4. The NBS IPS system has also been recognised as significant by Rakuten Viber, with which we started cooperation, expecting instant payments to be easily initiated via Viber as well. This will be an important novelty given the number of Viber users in Serbia.
5. We are preparing the implementation of the 3DS standard, which will further enhance the security of online payments.
6. Also, within the NBS IPS system we have developed a fraud management module, aimed at establishing a mechanism for detecting potential payment frauds. This module is based on adaptive machine learning and is available to all NBS IPS participants that can integrate it into their information systems. The module is currently active in the NBS IPS test environment.

Ladies and gentlemen,

In their papers many authors assess that the impact of wars, empires, philosophies and religions on social development was not as profound as technological progress, since it turned the curve of social development by ninety degrees. It is also the fact that financial services are incomparably more accessible and faster today.

Yet, instead of wondering what the future will be like in ten years, we should focus on what will not change. For me, this is mankind and what is good for us. Sustainable growth, which is everyone's goal, cannot be reached by sprinting or running a marathon because there are no final victories in our line of work. Words are the beginning, but only actions and results speak about all of us. In the spirit of the title of the first panel – everyone should move from words to deeds. And deeds will remain the NBS's mode of operation! What is important is that we all have a choice! We choose to be the leaders of development, which means exposure to risk, or we chose to be followers, which means missed opportunities.

The NBS proves that we can have both! Global conditions in the past few years have presented central banks with a choice between price stability, economic growth and financial stability. We have ensured that inflation returns within the target band and we have preserved the country's financial stability, as well as economic growth, which is returning to high pre-pandemic rates! That is why macroeconomic stability and structural reforms are our key potential and our key legacy for future generations. But it is also important that we jointly look for the best solutions and that the private sector invests smartly in development and sustainable growth. That is why we are here.

I wish you a successful Second Conference!