

GEORGIA'S PROSPECTS as a **HUB FOR FINTECH** – or the upside of taking **risks** in the name of innovation

Whether you are a crypto aficionado or tap your phone to pay at the grocery store, there is no doubt that fintech is reshaping the future of finance and is penetrating our daily lives. It changes the way we invest, the way we spend, the way we pay – and even our understanding of money. It bridges the gaps in access to financial services and transforms the landscape of financial sector.

This very dynamic and ever-growing sector, which is not dependent on natural resources and is primarily manpower driven, has the potential to become a major boost for economic development for a country like Georgia. Georgia, as a potential destination for fintech firms, holds several competitive advantages, including its strategic location – well-placed between Europe and Asia – as well as its ease of doing business, low tax burden, and availability of skilled, multilingual manpower at a moderate price point compared to its European or Northern American alternatives.

Seizing on this opportunity, the National Bank of Georgia (NBG) has launched and implemented number of initiatives to transform Georgia as an interesting destination for fintech and digital innovation companies.

Regulatory and Technical Sandbox

The NBG has adopted a learning-by-doing approach, which encompasses the introduction of a regulatory sandbox for testing novel concepts and promoting digitalization. As a part of this initiative, it was the first among its peers in the region to facilitate testing of Open Banking APIs.

As part of this initiative, the NBG has:

- Launched the “Fintech Business Model Mapping” project, which benchmarked global fintech business models to Georgia’s context; as a result, the mapping project concluded that most business models are

compatible with the Georgian legislation.

- Evaluated two unique business models: platforms as novel credit bureaus and loans secured with crypto assets.
- Successfully tested facial recognition services, which led to the enactment of new rules for remote identification by the NBG. The significance of this step cannot be overstated since it is a vital tool for financial service providers to secure anti-money laundering clearance of customers without their physical presence.

Digital Banking Framework

In 2020, the NBG published its Digital Banking Framework, and the first digital banking license was issued in 2022. As of now, three digital banking licenses have been granted. With ten times less initial capital required and intense pre-licensing consultations on the business model, this framework supports innovative business models and diversity of financial products, as well as the development of banking as a service business model. It will also serve to increase competition by facilitating new entrants to the market.

Crypto Regulation

In 2023, the NBG adopted new regulations for the virtual asset service providers (VASPs). The rules cover AML/CFT supervision and include straight forward registration procedures with no regulatory capital requirement and provide for a decision-making process that lasts a maximum of six months. These registration rules incited vast interest from local, as well as international players, and the NBG has already reviewed tens of applications over this one-year period.

In addition to the above, the NBG has successfully launched its open banking initiative, which enables an immediate exchange of information between financial institutions using electronic technologies at the initiative of customers. It is also currently working on developing a digital lari, with Ripple (one of the leading blockchain-based digital payment networks in the world) as a technological partner.

It is without question that the NBG is at the forefront of current trends and initiatives. However, often enough, bureaucratic inclinations and difficulties in comprehending the current ecosystem of fintech infrastructure make the decision-making process longer and more burdensome than necessary. Through managing risks while fostering beneficial innovation and competition,

broadening horizons and being mindful of evolving policy trade-offs as fintech adoption deepens, Georgia can become a hub of the fintech world. This opportunity is here today but may fade away in the haze of decision lag. They say the biggest risk is not taking risks at all. Risks we can bear. Not taking risks – we cannot afford!



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