

## **Digital transformation of Armenia's financial system**

CBA Governor Martin Galstyan's article on Alliance For Financial Inclusion website

*Central Bank of Armenia (CBA) is leading Armenia's digital transformation in financial markets, which is a key priority under its strategy. In his first blog for AFI, Governor Martin Galstyan discusses how this milestone will create opportunities for digital financial services and act as a catalyst for financial inclusion.*

Digital transformation of the financial system will have a significant impact on the way our society experiences financial services and products. It will imply a broad agenda of reforms that involves legal, regulatory and technical aspects of the financial system.

While digital transformation will bring new challenges, a delay in its implementation may cause greater harm due to uncertain market changes and new business practices in this current fast-changing global environment. We certainly expect wider society benefit from progress made, most importantly, through more financial inclusion, transparency and optimal business practices. Our strategy is based on extensive research, including on the experiences of the most advanced countries and jurisdictions around the world. We carefully studied enablers such as regulation, supervision, interoperability standards, consumer protection, infrastructure and support for incumbent service providers, most importantly, licensed commercial banks. We will explore some of its key features below.

### **National electronic identity system**

CBA is currently working with the government and private sector stakeholders to set the highest governance and technical requirements for a national electronic identity system. Our research shows that preventing a fragmented approach and establishing an electronic identity system at the national level will considerably accelerate the implementation of our strategy. Furthermore, it will be an important step in building a fully digital society. This new system will also significantly enhance the efficiency of anti-money laundering and combating the financing of terrorism procedures.

Our approach also aims to increase financial inclusion and develop a non-cash economy. National electronic identities will be enabled by a citizen's bank account number. This means that all registrants will either attach their existing bank account numbers to their digital identity accounts or get new bank accounts automatically opened for them by selected partner digital financial services providers.

Once implemented, digital payments will become a cornerstone of transforming Armenia into a digital society in the near future.

### **Legal and regulatory changes**

For a digital transformation, our goal is to establish an open finance ecosystem in Armenia for providing competitive personalized financial services and products. This will also require developing common standards and smart regulatory and supervisory frameworks.

CBA will also pursue legal and regulatory changes to promote innovation and the entry of advanced financial technology (FinTech) players into Armenia's digital financial services market.

At the same time, we think that banks will continue to play a key role in mitigating inherent risks to financial stability while actively digitizing their services and products.

In particular, we are considering reforms to the existing legal framework and the introduction of additional licenses for new product and service providers. These will enable “banking as a service” and “banking as a platform” business models that are common for cooperation between commercial banks and FinTech companies around the world.

### **Data infrastructure**

As a catalyst of greater market efficiency, we are also looking at investing further in data infrastructure, including the automation of regulation (RegTech) and supervision (SupTech) to facilitate end-to-end payments and financial services by the licensed entities.

If properly developed, SupTech will allow us to collect big data sets in real time for harnessing trends and other analyses, thus reducing compliance costs for the financial industry. Most importantly, this will free up reporting time and costs for regulated entities, allowing them to spend more time and money on business development.

RegTech is a more complex endeavor, but its success will considerably lower costs related to the development and dissemination of central bank regulation as well as compliance for regulated entities. A properly developed solution can automatically deliver new or changed regulatory standards to regulated entities and relieve pressures on manpower.

Naturally, this will require proper interoperability standards, which we aim to develop and adopt in cooperation with the government and private sector participants. Interoperability between the central bank and market participants will require complex upgrades to existing governance and core software solutions as well as creating new ones. This process will be implemented in multiple stages starting with joint pilot projects.

We are also considering introducing predefined roles for market participants that are similar to those defined in the European Union’s Payment Services Directive 2, and possibly extending the same logic beyond payment services and into the wider financial services.

### **Medium-term measures**

We target more actions beyond the enablers of transformation of financial services. We are also considering setting up a FinTech incubator to facilitate growth and investment in startups, the entry of advanced global players and support their entry into the digital financial services market. Furthermore, we are looking at implementing a regulatory sandbox.

Finally, I would like to mention our interest in learning more about central bank digital currencies (CBDC) in terms of their possible introduction in Armenia. There are various models and functions, and we need to choose those that correspond to the needs of our financial system.

We view CBDCs not only as an instrument for payments but also potentially for monetary policy. It is also important to consider building this instrument based on jointly developed international technical standards to achieve interoperability with CBDC systems from different countries and jurisdictions, allowing for seamless cross-border transactions.

While we only briefly touched upon the most prominent elements of our strategic priority of transforming digital services, perhaps the most important outcome of its implementation will be a cultural change or change in the mindset of customers, businesses and regulators.

Transformation will not merely be technological but also cognitive, particularly as we move away from a system built around processes to a system built on the needs of customers. Finally, we are sure that digital transformation is evolving at the global level and we remain open to discussions and the exchange of experiences.

**Link to source web page:**

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