Executive summary

There were more than 100 FinTech companies operating in the Czech Republic when this report was prepared, active across a number of regulated and unregulated sectors of activity. The most represented areas in terms of number of companies are accounting, payments, savings and personal finance, P2P lending and investment crowdfunding. Many Czech FinTechs provide services similar to other globally successful FinTechs (e.g., “buy now, pay later”) services. Czech FinTechs operate in a domestic financial services market which is heavily dominated by banks. Banking sector assets comprise 85% of the total assets of the domestic (regulated) financial system, while 64% of Czech citizens’ assets lie in bank deposits (as of March 2022).

Financial market activity in the Czech Republic, including FinTech activity, is regulated by the Ministry of Finance of the Czech Republic (MFCR) which develops and enacts the financial market policy and drafts legislation. The Czech National Bank (CNB) is the sole unified supervisory authority for the financial markets in the ountry. It supervises the banking sector, capital markets, insurance and pension funds, financial intermediaries and distributors of financial products, payment service providers and non-bank consumer credit providers. In cooperation with the MFCR, the CNB participates in the preparation of primary legislation and is responsible for the preparation of secondary rules in the form of decrees and measures of a general nature. The CNB authorises, regulates, supervises and issues penalties for non-compliance with the financial market rules. Both the MFCR and CNB also promote financial education in the Czech Republic.

In its supervisory activities, the CNB applies a risk-based approach, allocating the largest proportion of its resources to areas that are systemically the most important or the riskiest. Traditionally, the CNB has refrained from acting as a supervisor for non-systemically important non-deposit taking institutions.

The CNB maintains its approach towards innovation in finance, which is a technology neutral supervision. The Czech Republic does not currently consider crypto-assets as money and instead classifies them as intangible assets. As such, providers of services in crypto assets are required to obtain a trading license from the Trade Licensing Office (within the Ministry of Industry and Trade) but are neither authorised nor supervised by the CNB or by any other supervisory authority.

In November 2019, the CNB established a FinTech contact point. The contact point aims at helping to resolve unclear regulatory issues – including licensing and supervisory ones – so as to facilitate compliance with the duties applied to market participants by financial market regulations. Opinions of the CNB provided via the contact point do not substitute for authorisations or approvals granted in licensing proceedings and are not binding in any way.

EU legislation proposals currently under way will bring more entities into the regulatory scope, to achieve a harmonised legal framework across the EU. This will ultimately increase the number of entities that the CNB will need to authorise and supervise. The objective of the EU, as it can be interpreted from recent initiatives such as the Digital Finance Strategy and the Open Finance consultation, is that FinTech growth should be actively supported and that access to data should be regarded as a major enabler of financial innovation.

Access to consumers' account data using Application Programming Interfaces (APIs) enabled on the basis of the Payment Services Directive 2 (PSD2) framework serves as an important source of data used by a significant part of the Czech FinTechs. The revision of PSD2 by the EU may thus have an important impact on the accessibility of third parties to users' financial data; while the proposed amendment to the electronic IDentification, Authentication and Trust Services (eIDAS) regulation could have an additional significant impact on the provision of financials services and would also have a direct effect on the industry-led Bank ID initiative.

In June 2022, the OECD launched an online open Questionnaire on FinTech activity in the Czech Republic. Twenty-four FinTech companies provided detailed responses to this Questionnaire as of 5 October 2022, representing almost a quarter of the total of c.100 Czech FinTech companies' universe.

Access to data is critical for FinTechs and data is at the core of most FinTech activity (e.g. artificial intelligence business models in trading; lending; blockchain-based solutions in finance). Indeed, more than 67% of respondents to the OECD Questionnaire stated that access to both financial and non-financial data is beneficial to their business development. Data collection, processing and analytics play a key role in FinTech innovations. Based on the responses to the Questionnaire, most FinTechs use data for the development of products and services and it is at the core of their business model. In particular, 88% of firms use APIs to access data, more than half of respondent firms use big data and 63% of firms use cloud computing.

When it comes to data sharing secured by formal regulatory arrangements and frameworks, such as PSD 2, data accessibility is not guaranteed. More than 46% of firms responding to the OECD Questionnaire have had problems accessing customer data from financial intermediaries.

Regulation of financial services safeguards market integrity, protects consumers and promotes financial stability. From the industry standpoint, it provides legal certainty that allows companies with innovative business models to develop and grow. At the same time, regulatory compliance is usually perceived by young start-up firms as a hurdle, given the associated cost and time commitment. According to the findings of the OECD Questionnaire, the most important reported hurdles to FinTech innovations in the Czech Republic are related to regulation: lack of regulatory clarity (67%), red tape (63%), licensing and supervisory requirements (58%), followed by entry barriers (54% of respondents). FinTech respondents signal as additional challenges the issues of access to market and business development.

Regulatory sandboxes are one of the policy tools being used in many countries to assist companies requiring authorisation in overcoming the challenges of market access, through the creation of an open dialogue between the regulator and the firm, they improve the supervisory and regulatory framework. Sandbox arrangements enable firms to test innovative financial products and services and ameliorate business models, subject to the specific rules applied by the supervisory authorities. Although sandboxes can involve the use of legally provided discretions by supervisory authorities, the baseline assumption for such sandboxes is that firms are required to comply with all relevant rules applicable to the activity they are undertaking. In terms of funding, empirical evidence suggests a beneficial impact of sandbox participation for fundraising of companies, facilitating access to finance which has been highlighted as one of the most important impediments to the establishment and growth of SMEs in the Czech Republic and beyond.

According to the OECD survey, 71% of respondent FinTechs would be interested in taking part in a sandbox with a focus on data, if it were to become available. Two-thirds of these would only be interested in participating depending on the terms of such a sandbox. A majority of respondents (77%) believe that a regulatory sandbox in the Czech Republic would also benefit the local FinTech sector and prefer that such a sandbox is focused on data. The answers highlight the importance of a well-thought design and structure of any future sandbox arrangement, and also a possible lack of clear understanding of what a sandbox involves from the FinTech side, underlining the importance of clear communication and the required educational effort that may need to be undertaken ahead of a possible future establishment of a sandbox.

Regulatory sandboxes can foster innovation in the financial sector while allowing supervisors to observe and address emerging risks of the deployment of innovative technologies in finance, with potential benefits that extend to all stakeholders involved. They may allow supervisors to enhance their understanding of innovative mechanisms deployed by FinTechs that may alter the risk profile of certain financial activities, which, in turn, may have a beneficial impact on the development of adequate policy responses to such innovations. Importantly, they may reduce regulatory uncertainty for FinTechs and may help lower the perceived regulatory burden for FinTechs in the Czech Republic that has been observed in the OECD survey.

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