What Should Latvia's Next National FinTech Strategy Look Like?

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Specialised expertise report

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Executive summary

Across the world, fintech began its significant growth in the early 2000s, driven by the advancements in technology and mobile connectivity. The period after the 2008 global financial crisis further accelerated fintech's growth due to market gaps and increased consumer demand for more accessible, consumer-centric and cheaper financial services. By the 2010s, widespread smartphone adoption and advances in data analytics and blockchain technology fuelled the rise of new fintech sectors, such as peer-to-peer lending, digital wallets, and cryptocurrencies. Today, fintech continues to expand globally, reshaping financial ecosystems and driving innovation across developed and emerging markets.

Latvia was no exception, seeing its fintech sector grow significantly after the financial crisis, starting with digital lending and expanding into various fintech sectors and segments over time.

Throughout this period and now, the core question facing governments and regulators across the world is whether to proactively promote fintech, especially in new and emergent areas that do not yet have regulatory frameworks or choose a cautious "wait and see" approach (Raudla, et al., 2024). In 2023, Latvia chose the former route by adopting its first national Fintech strategy for 2022-2023, which has now expired, and work has begun on the development of the new strategy.

The purpose of this report is to support the process of the development of the new strategy in three ways:

- **Provide a brief overview of the development of the fintech sector in Latvia and its current state.** To do so, we compiled and validated a new fintech dataset to estimate the size, importance and impact of the Latvian fintech sector on the economy.
- **Review and compare the approaches used in promoting fintech in other countries to identify potential lessons for Latvia.** We reviewed 28 country government and regulatory approaches to fintech promotion.
- **Seek ecosystem stakeholder feedback on lessons learnt from the first strategy development process and list issues to be addressed in the next strategy.** We carried out more than 30 anonymous fintech ecosystem stakeholder interviews in Spring-Autumn 2024. These included senior representatives from fintech firms, trade associations, ministries and other government and non-governmental organisations.

The past and present of the Latvian fintech sector

According to stakeholders interviewed as part of this research, historically one of the key barriers to sectoral development has been the lack of understanding among decision makers about what the fintech sector looks like, what the different fintech business models entail and how it has changed, developed and expanded over time.

The roots of the Latvian fintech sector can be traced to the early 2000s. Growth accelerated after the financial crisis of 2008 with the entry of digital lenders, that still remain the largest fintech sector in Latvia. The sector has since expanded and grown into different fintech verticals comprising crowdfunding and peer-to peer lending platforms, payment providers and other types of fintechs.

We collated and verified a new dataset of fintechs in Latvia to provide a snapshot of the sector. We identified more than 180 fintechs in Latvia, ¾ of which we can trace their registration after 2012. The majority of these fintechs are small, as the top 10 firms accounted for 68% of the turnover in 2023.

Looking at the types of fintech firms in the Latvian fintech sector, digital lending is the most important segment by both the number of firms and turnover. 41% of fintechs are mainly operating in the digital lending, followed by 19.1% in digital payments. This is followed by enterprise technology provisioning (17.3%) and wealthtech (7.5%).

Whilst the data on turnover, employment and tax contributions were not available for the whole sample of firms, our estimates indicate €271m turnover, €42m contribution to the state budged and 2.5k employees in 2023.

Compared to the development of the Lithuanian and Estionian fintech sector, historically Latvia has been less focused on promoting fintech development due to fears related to past money laundering issues in the banking sector, but this is now changing. Lithuania and Estonia, which were more open about promoting fintech development, are becoming increasingly risk averse. Latvia, having made efforts to "clean up" the image of its financial sector, now has a window of opportunity to prioritise and promote fintech sector development, but by only through taking into account the lessons-learnt by Lithuania and Estonia, in order to manage risks.

What can we learn from other countries?

We reviewed the approaches adopted to fintech sector strategic development adopted by other EU countries and the UK to identify potential lessons for Latvia.

We found that only 7 out of the 28 countries reviewed *have* published a dedicated fintech strategy. Whilst experience of countries with established fintech centres show that the presence of a strategy document is not a necessary nor sufficient condition for fintech development, a strategy **sends a clear signal internationally on the intention and commitment to developing the sector. This can support the creation of a coordination and accountability mechanism nationally to ensure the fintech sector is developed further.**

The main objectives for promoting fintech (either with or without a strategy) in the countries reviewed are to develop more competitive and innovative financial markets and promote economic growth (Figure 1 below).

Figure 1: Comparative analysis of strategic goals that relate to the fintech sector for countries with and without a dedicated fintech strategy

SOURCE: AUTHOR'S ANALYSIS OF ALL EU COUNTRIES AND THE UK (SEE ANNEX 2 FOR MORE DETAILS).

A clear lesson learnt from other countries is that whether or not there is a separate fintech strategy, it has to be aligned and coordinated with the broader national and EU goals and strategies for financial sector development (open banking, open finance, sustainability and green finance, promotion of competition, capital market development, single EU banking and capital markets, etc.) as well as the EU economic growth strategy and transformation agenda (digital transformation, AI policy, international competitiveness, etc.).

In terms of **international positioning, most countries aim to position themselves as "fintech hubs",** but those that have been most successful have adopted a targeted approach and market themselves as the destination for particular sectors of fintechs, such as a hub for payment providers, crypto service providers, etc. It is clear that the introduction of new EU regulation in crypto assets has kickstarted competition between EU member states, of which one will be the hub for such fintechs. The European competition for a regional hub is coupled with a broader international competition on which countries will become global fintech hubs.

The "natural" owner of a fintech strategy is the government/ministries, such as the ministry of finance, as strategies designed and led by regulators have narrower scope, matching regulatory mandates. The regulator Is also constrained in setting out actions needed to take place by other institutions. Within the EU, there is a range of options of who dictates fintech strategy. Among the countries reviewed, in some, the owner was the ministry of finance/the treasury (Latvia, Lithuania, Ireland, Netherlands, the UK), the financial markets regulator (Malta) or the central bank (Hungary).

Those countries, which chose to implement a fintech strategy successfully, had clear goals and objectives, a clear vision of which institutions (or individuals) were responsible for what, as well as accountability and monitoring mechanisms in place, such as annual updates to all core stakeholders.

Countries are creating regulatory mechanisms to enable the development of new fintech business models, such as innovation hubs and regulatory sandboxes, but they differ significantly in the extent to which these support mechanisms genuinely allow firms to develop and test new business models in a live environment. Most of these initiatives were introduced between 2016 and 2019, especially after European Union's Digital Finance package, and hence are relatively new and require proper impact assessment of their effectiveness. A strategy should also consider the evaluation and assessment of the existing innovation office and regulatory sandbox in Latvia, and implement lessons learned to make them more effective in their roles.

Stakeholders acknowledge the previous strategy but wanted to see improvements

With regards to the Latvian fintech strategy for 2022-2023, we gathered stakeholder views on how well the previous strategy has performed and what needs to be taken into account when developing the new one.

Overall, stakeholders welcome it as the first attempt to put the fintech development "on the map" and signal Latvia's ambitions internationally. Stakeholders positively evaluated the improvements made over the last few years, particularly the ones made to the regulatory and legal environment, the availability of regulatory support and the strengthening of the fintech ecosystem.

However, stakeholders also raised issues that need to be addressed when developing the next strategy, most importantly:

- The fintech sector is still relatively poorly understood by the decision makers and the general public and is at times stigmatised due to its digital lending beginnings.
- The lack of political buy-in to develop the sector and the need for a single designated political or institutional "champion" or owner of the fintech agenda.
- Lack of clear national vision, risk-appetite and targeted priority goals for the sector.
- The policy making is too fragmented, with different institutions at times having overlapping roles and differences in views on what should and should not be each institution's role.
- Need for an export-oriented vision and united messaging when promoting the sector internationally.
- Implementation of regulation is still too risk-averse, particularly on anti-money laundering.
- The existing regulatory support mechanism to promote innovative business models is helpful but could be expanded, and the licencing process needs to be clearer ex-ante.
- The fintech ecosystem is developing but is still too fragmented.
- Collaboration with banks should be improved, and at times there is an uneven playing field when competing with traditional financial service providers.
- The next strategy should be developed, implemented and monitored much more systemically.

Five core questions that need to be discussed as part of developing the new strategy

The aim of our preliminary research was to identify core issues and questions that need to be addressed in the new strategy and identify what needs to be improved in how the strategy is developed, implemented and monitored for it to be effective.

The creation of a strategy was a positive step forward in the expansion of the fintech sector and the development of the fintech ecosystem. The next strategy should leverage on this by creating a strategy for the medium term with clear actions, accountability and aims. There needs to be a decisive political sponsor of the next fintech strategy that would both own and ensure the actions of the strategy will be implemented.

Analysis suggest that the following 3 key questions have to be explicitly addressed when developing the new fintech strategy (Figure 2).

1. What is Latvia's level of ambition and risk appetite?

A genuine agreement still needs to be reached that fintech is a priority area, and stakeholders at the highest political and institutional level need to agree on the national level of ambition and risk appetite. Based on this, targeted priority areas need to be chosen with the greatest potential (e.g., payments, digital lending, crypto, others). Following this, the regulatory risk-appetite and the scope of the existing regulatory tools should be reviewed.

Fintech should no longer be seen in isolation but within context of the higher-level national strategic goals for financial service markets (improving competition, increasing lending, capital market development, sustainable finance) and economic growth and transformation (AI, international competitiveness, start-up policy, etc.).

2. Who is the key owner and accountable for fintech development?

Stakeholders considered that a single political and/or institutional "fintech champion" needs to be assigned who would be responsible and accountable for the development of the sector carrying out the strategy. Also, the roles and responsibilities of the different institutions must be clarified, as they are currently not specific enough and there are disagreements about mandates and responsibilities.

3. How to ensure the strategy is implemented effectively?

The strategy development, implementation and monitoring process needs to be significantly improved by introducing greater transparency, clearer and broader stakeholder consultation mechanism and a clear commitment to monitor and evaluate implementation. All of these were lacking in the previous strategy.

The new strategy needs to set out a reasonable time frame (3-5 years at least) for objectives to be reached.

Figure 2: The core areas that need to be addressed in the next fintech strategy

1. What is Latvia's level of ambition and risk-appetite?

- Agree at the highest political and institutional levels **that fintech should be promoted**.
- Agree **on the national level of ambition and risk-appetite** and messaging.
- Set targeted priority areas and specific objectives **in light of and in coordination with the higher-level national strategic goals for financial service market development** (improving competition, increasing lending, capital market development, green transition etc.) **and economic growth and transformation agenda** (international competitiveness, digital transformation, artificial intelligence, start-up policy etc.) instead of a secluded fintech strategy.
- Review regulatory risk-appetite and review and strengthen the effectiveness of existing tools (especially the scope of regulatory sandboxes).
- Improve understanding of what fintech is among decision makers and the public and address misconceptions.

2. Who is the key owner and accountable for fintech?

- Assign **a single political and/or institutional "fintech champion"** with key responsibility and accountability for the sector.
- Clarify the roles of responsibilities of all stakeholders in areas with overlap and disagreement about responsibilities and mandates.

3. How to ensure the strategy is implemented effectively?

- Adopt transparent, continuous consultation and review process with the ecosystem.
- Set substantive goals and assess effectiveness against those goals.
- Commit to semi-annual or annual monitoring and review of implementation progress.

1. Introduction

Context: we are writing this paper to contribute to the Fintech strategy development

This is our second research report as a new, independent financial sector research and education initiative. Our missions are to promote evidence-based discussion to develop innovative financial services markets that work in the interests of consumers and the society.

The purpose of this report is to support the process of the development of the new Latvian fintech strategy. As the Ministry of Finance, Ministry of Economics, the Bank of Latvia and other ecosystem stakeholders are about to start the work on the new Latvian fintech strategy, our aim is to support this work by gathering views from the ecosystem on the performance of the previous strategic approach and carry out analysis of other countries' approaches.

We sought to contribute to the debate in three main ways

Our aims with this report are to:

- **Provide a brief overview of the development of the fintech sector in Latvia and its current state.** To do so, we compiled and validated a new fintech dataset to estimate the size, importance and impact of the Latvian fintech sector on the economy.
- **Review and compare the approaches used in promoting fintech in other countries to identify potential lessons for Latvia.** We reviewed 28 country government and regulatory approaches to fintech promotion.
- **Seek ecosystem stakeholder feedback on lessons learnt from the first strategy development process and list issues to be addressed in the next strategy.** We carried out more than 30 anonymous fintech ecosystem stakeholder interviews in Spring-Autumn 2024. These included senior representatives from fintech firms, trade associations, ministries and other government and non-governmental organisations.

How this report is structured

In Chapter 2, we provide a historical overview of the development of the Latvian fintech sector and present high-level descriptive statistics about the sector based on our new fintech database (see Annex 1). Chapter 3 summarises the approaches taken by almost 30 other countries to develop their fintech sectors. Chapter 4 discusses the feedback received from stakeholders on how well the previous strategic approach to fintech development worked and discusses changes needed in the strategy approach going forward.

2. Latvian fintech landscape: past and present

Fintech is a diverse sector with many different business models and verticals. A lack of understanding of what the national fintech sector entails can hinder its development.

We collated and verified a new dataset of fintechs in Latvia to provide a snapshot of the sector. We identidied more than 180 fintechs in Latvia, ¾ of which were registered after 2012.

The majority of these fintechs are small, as the top 10 firms accounted for 68% of the turnover in 2023.

Whilst the data on turnover, employment and tax contributions were not available for the whole sample of firms, our estimates indicate €271m turnover, €42m contribution to the state budged and 2.5k employees in 2023.

The roots of the Latvian fintech sector can be traced to the early 2000s. Growth accelerated after the financial crisis of 2008 with the entry of digital lenders, that still remain the largest fintech sector in Latvia.

The sector has since expanded and grown into different fintech verticals comprising crowdfunding and peer-to peer lending platforms, payment providers and other types of fintechs.

Compared to the development of the Lithuanian and Latvian fintech sector, historically Latvia has been less focused on promoting fintech development due to fears related to past money laundering issues in the banking sector. Lithuania and Estonia, which were more open about promoting fintech development, are becoming increasingly risk averse. Latvia, having made efforts to "clean up" the image of its financial sector, now has a window of opportunity to prioritise and promote fintech sector development.

According to stakeholders interviewed as part of this research, historically one of the key barriers to sectoral development has been the lack of understanding among decision makers about what the fintech sector looks like, what the different fintech business models entail and how it has changed, developed and expanded over time.

To address these issues and promote awareness, in this chapter we:

- Explain what is "fintech" and provide an overview of the main types of fintech business models.
- Provide a snapshot of core descriptive statistics of the Latvian fintech sector in 2022/2023.
- Analyse how the fintech sector in Latvia has grown and changed over time and compare it to developments in Lithuania and Estonia.

Our analysis has two important limitations. Due to limited data availability, we cannot fully assess, first, the extent to which Latvian registered fintechs provide services in other countries; second, the extent to which fintechs registered in other EU countries currently compete for and serve Latvian financial services customers. Anecdotal evidence suggests that in some sectors, such as payments, the presence of fintechs registered in other EU jurisdictions and serving Latvian customers is considerable.

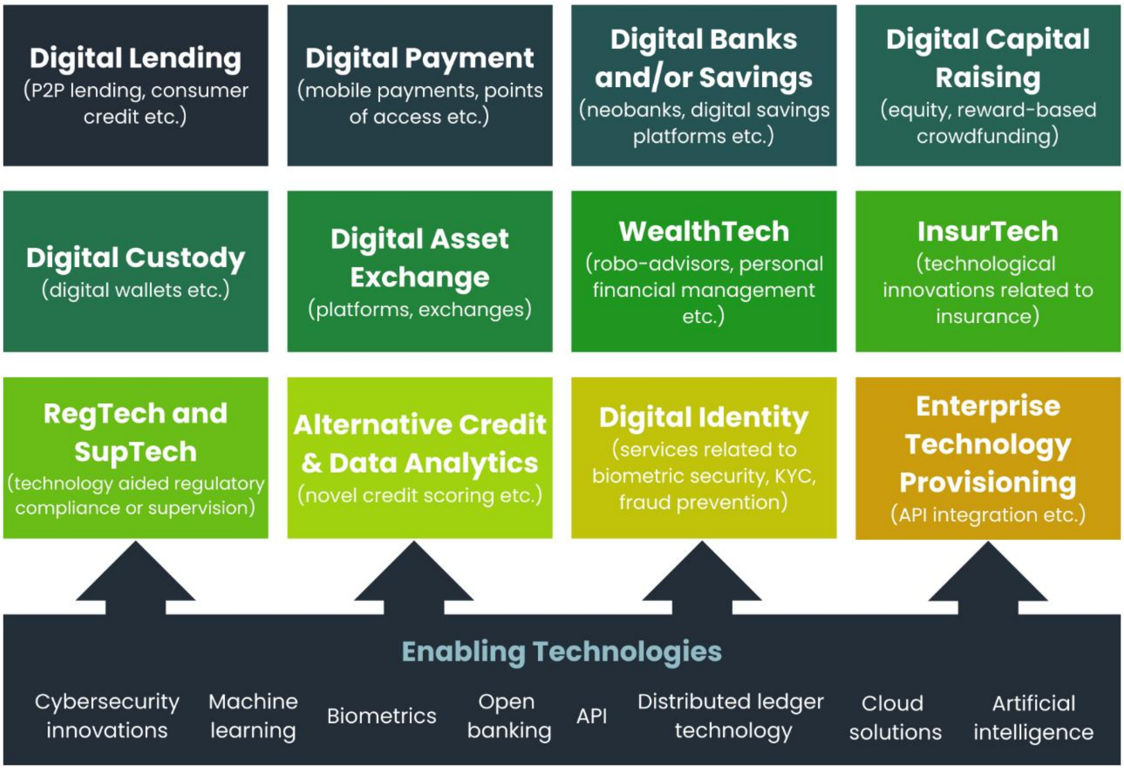
What is fintech?

There are many definitions of fintech, but in an essence, fintech refers to **"technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services"** (Financial Stability Board, 2017).

To categorise the Latvian fintech sector, we adopted the widely used typology developed by the Cambridge Centre for Alternative Finance (CCAF; World Bank; WEF, 2020), see Figure 3 below. This framework has gained significant traction in both academic research and industry analysis.

The CCAF typology offers several advantages: it provides a standardized language for discussing Fintech innovations, facilitates cross-country comparisons, and allows for an analysis of trends within the Fintech ecosystem's structure and evolution. Moreover, there are advantages to adopting a commonly accepted definition as it enhances the comparability of Latvian FinTech sector data with that of other countries, enabling more meaningful benchmarking and trend analysis.

Figure3: The different fintech verticals based on the categorisation by the Cambridge Centre for Alternative Finance



SOURCE: (CCAF; WORLD BANK; WEF, 2020; CCAF; WORLD BANK; WEF;, 2022), UPDATED WITH A REFERENCE TO THE ENABLING TECHNOLOGIES

It is important to note that:

- **Fintech leverages cutting-edge technologies** such as artificial intelligence (AI), blockchain, cloud computing and big data analytics to enhance efficiency, accessibility, and user experience in financial operations. Financial innovations that incorporate digital technologies are giving rise to new products, services, and applications, as well as new business models and processes, significantly impacting both the financial sector and the delivery of financial services.
- **Fintech spans various sectors,** including regulated and non-regulated financial services, non-financial and purely tech-driven businesses. The digital technologies developed by fintechs are often adaptable across different industries, making the financial sector just one of many potential customer bases.
- **Fintechs are not just startups.** These companies vary in size from startups, to small and medium enterprises (SMEs), to large financial institutions.
- **Not all fintechs are regulated financial service providers.** Some may be regulated by relevant authorities such as the Bank of Latvia, while others may not be (e.g., IT startups focused on transaction anomaly detection or anti-fraud solutions, or those offering digital identity services for secure financial transactions).

A new fintech database was collated for the report

Currently, it is difficult to get reliable and comparable data on fintechs. This is a global issue because there is no single, universally agreed taxonomy of fintech companies (see box below). However, some global efforts are in place to develop a common taxonomy and reporting (IFC working group on fintech data, 2020).

To address this, we compiled and validated a new database of fintechs in Latvia (see Annex 1 for more detail on the methodology). The dataset includes information on 184 fintechs that were identified in Latvia at the time of writing the report.

Why is it so difficult to monitor fintech development?

It is difficult to monitor fintech development at the national, regional and global level for three reasons:

- there is not yet a global agreement on the taxonomy or classification of fintechs to use, and different organisations and researchers use different approaches;
- from a statistical perspective, fintech currently is not recognised as a separate sector or activity (as identified by, e.g., NACE codes); indeed – NACE categories, the taxonomy building blocks for GDP estimation, have failed to keep up with changes in financial technology in their categorisation.
- many companies that operate and do business in a particular country are not registered in that country. This is especially true in the European Union due to financial services passporting rules.

Some of the methodologies used in research include the top-down (analytical) approach which implies financial products are assigned to a category in section K (financial services) of the NACE statistical classification of economic activities when offered as separate services (Eurostat, 2008).

There have also been attempts to classify fintechs based on their financial products and services they deliver (EBA, 2017). The emphasis of such approaches is to assign fintechs in an already established NACE category of economic activity in the field of finance (IFC working group on fintech data, 2020). However, this approach does not separate fintech companies from incumbent financial companies (that might develop technology products), nor does it separate fintech firms from big tech firms, such as Apple or Google, that are also developing financial products and services.

Core facts about the Latvian fintech sector in 2022-2023

We set out the core facts about the fintech sector in Latvia on the next page based on the data in our database.

In summary, we identified **184 fintechs in Latvia in 2023. Our estimates for the size of the fintech sector in Latvia is larger than in some other reports**. Some indicate that Baltic countries, including Latvia, rank amongst Top 10 countries with the most fintech companies per capita (Finnovating, 2023). However, the report that ranks Latvia that high only identified approximately 77 fintech companies in Latvia. Other sources also suggest around 140-150 fintechs (Venture Capital, 2023; Fintech Latvia Association, 2023).

The sector is characterised by a few large firms and smaller startups. The top ten firms accounted for 61% and 68% of total turnover in 2022 and 2023 respectively. From these, 7 were digital lenders, 2 digital payment firms and 1 digital identify firm.

Looking at the types of fintech firms in the Latvian fintech sector, digital lending is the most important segment by both the number of firms and turnover. 41% of fintechs are mainly operating in the digital lending, followed by 19.1% in digital payments. This is followed by enterprise technology provisioning (17.3%) and wealthtech (7.5%).

Employment: the 124 firms, for which employment data was available in 2022, employed 2427 staff in Latvia (on average, 20 employees per firm). In the 2023 sample covering 127 firms, this amounted to 2542 total employees (on average, 21 employees per firm). The firms that had employment data for both 2022 and 2023 sample experienced a 5% increase in the employee count in that period. The largest employers were digital lenders (59.2% or 1436 employees in 2022) and digital payment providers (23.4% or 568 employees in 2022).

Turnover: the turnover of the 109 firms in the sample for which data was available accounted for €278 million in 2022, or an average of €2.5 million per firm. The largest turnover for a fintech was €29.4 million. A small number - 6.3% - of fintechs, assumed to be startups, are yet to generate turnover. The turnover data for 2023 were for a smaller set of firms, as not all had submitted their financial data. Data from 99 firms for 2023 indicate that their turnover was **€270 million , or an average of €2.5 million per firm. The largest turnover for a fintech in 2023 was €41.2 million.**

Other estimates suggest that, **from a startup perspective, fintechs are one of the most significantly represented sectors In Latvia** – around 29% of the 600 startups accounted for in Latvia (Fintech Latvia Association, 2023). Among these startup fintechs, the leading areas are payments and data/IT solutions (around 23% each), followed by P2P (Peer to Peer Lending) and crowdfunding, as well as crypto and blockchain initiatives (Venture Capital, 2023).

Overall, the relative size of the Latvian fintech sector compares favourably with other fintech friendly EU and non-EU jurisdictions. This is positive, as research indicates that Fintech companies play a significant role in the growth of the EU economy and the financial sector. In each of the seven largest European economies by GDP, there is now at least one fintech among the top five banking services institutions, as measured by market value (McKinsey, 2022). Across Europe, fintechs have created approximately 134,000 jobs. As of June 2022, from a value creation perspective, fintechs in Europe represent a total valuation of almost €430 billion. The share of active labour force in Latvia employed in fintech compares (0.27%) compares favourably to the UK, a leading fintech destination, where in 2022, 0.17% of the total labour force was employed by fintech companies (Statista, 2018; Office for National Statistics, UK, 2022).

Through data collected from the Latvian Fintech association, it is clear that Latvian based fintechs now have a global reach. Latvian fintechs are active in 64 jurisdictions (including Europe, South America, North America, Africa, Southeast and North Asia), with the emphasis being in other European and related jurisdictions due to the ability of passporting financial services. This is positive, however it is notable that there is an absence in presence in some of the fast-growing economies of South Asia, the MENA region and Africa.

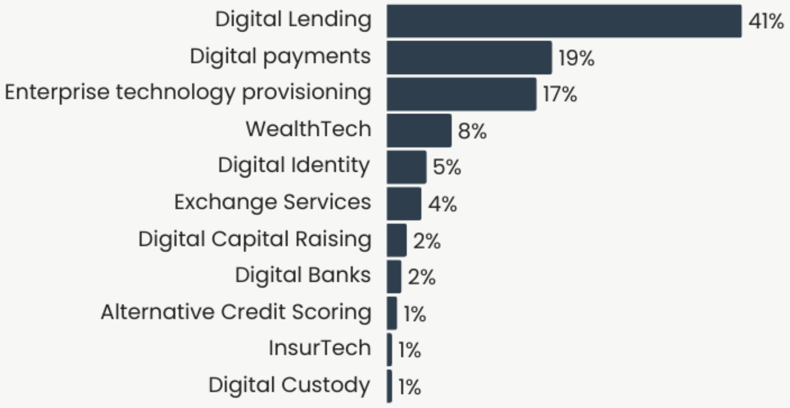
FinTech in Latvia: core facts

180+

FinTechs in Latvia in 2024

3/4 of currently operational FinTechs were registered after 2012

Number of FinTechs by category (n=173)

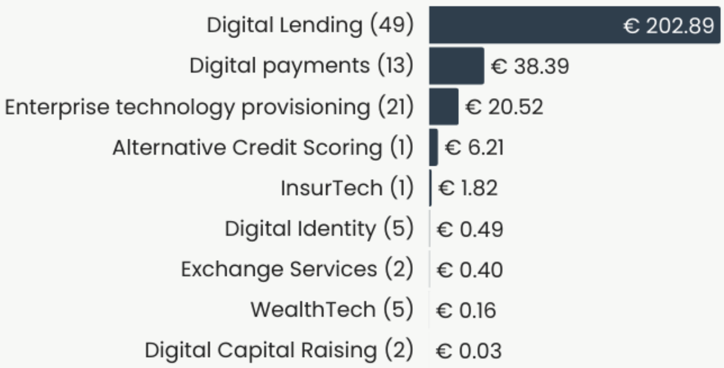


41.8
€ million
contribution to the state budget in 2023

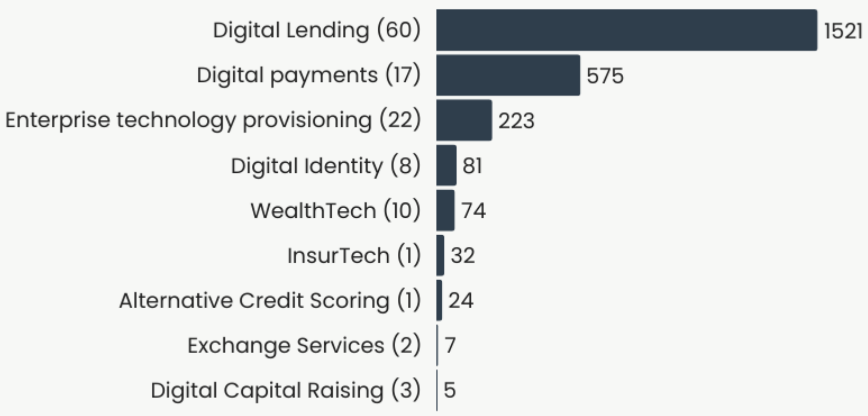
270.91
€ million
total turnover in 2023

68%
generated by top 10 FinTechs

Turnover by category in millions (n=99)



Number of employees by category (n=124)



21
average number of employees

2.5k
total employed in 2023

Source: Author's analysis.
Data on state budget contributions, turnover and employment in 2023 provided by Crediweb.

RTU RBS Baltic Finance Center, 2024

The key development phases of the Latvian fintech sector

Figures 4 and 5 below show the year of registration of fintechs in Latvia of the firms identified during the research. Whilst it excludes firms that failed or for other reasons are no longer registered, it does provide the necessary background to illustrate the core development phases of fintech in Latvia.

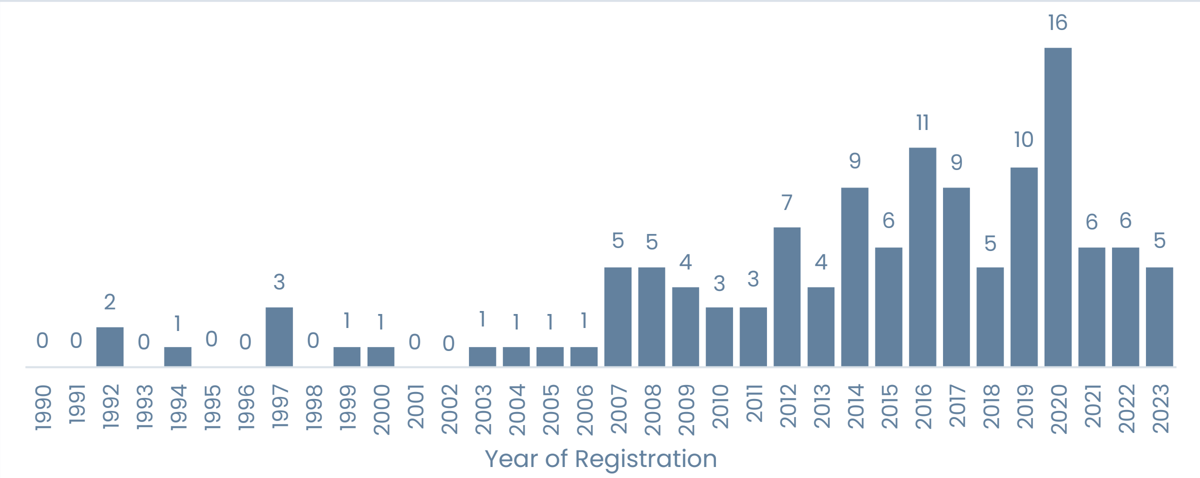
The roots of the Latvian fintech sector can be traced to the early 2000s. However, similarly to other countries – fintechs, growth accelerated during the financial crisis of 2008. Since then, the sector has grown and expanded into an increasing number of fintech subsectors. This development has, overall, happened in absence of a specific policy or regulatory framework. Specifically[1]:

- **The growth of digital lending after the financial crisis (2008 onwards) and the crack-down on lending practices.** Similarly to other countries, banks reduced lending after the financial crisis, which created a market opportunity for digital non-bank lenders to start and grow their businesses. However, as lending grew, so did concerns about the high cost of credit, as well as advertising and lending practices that may raise consumer protection concerns. As a result, the sector went through substantial changes as strict regulations were introduced starting from 2011, including licensing requirements, increased requirements in assessing creditworthiness, use of different scoring models, caps on interest rates and anti-money laundering (AML) standards. Consumer credit rules in Latvia have become more developed than in many other EU countries and it is now becoming one most regulated consumer credit markets within the EU. Research commissioned by the Fintech Latvia association shows that lending standards have improved (Sauka, 2023). Lending from non-banks (that mostly provide digital lending) has risen to the same level as credit institutions (€350 million - non-banks, €360 million - credit institutions). Since then, Digital lending remains important. This is comparable to other European jurisdictions, since these two sectors, digital payments, followed by digital lending, are the largest, in terms of global revenue and turnover (CCAF; World Bank; WEF, 2020).
- The period of especially successful growth took place **from 2012 onwards, with 74.6% of companies** whose registration year could be identified being **established in this period**. However, there is a notable decline in registrations from 2021 onwards. Although the slowdown is notable, is it worth noting that the phenomenon is global, as higher interest rates have reduced the attractiveness of startup fintech companies for venture capital funding vis-a-vis traditional investment products.
- The growth of startup firms in 2012 was also aided by the rise of electronic lending institutions and payment institutions. As of October 2024, there are four licensed payment institutions and five licensed electronic money institutions in Latvia (Latvijas Banka, 2024). The net turnover, **including gross revenue related to the provision of services by licenced payment institutions, was estimated by the bank of Latvia at €2,337 thousand** (Latvijas Banka, 2024).
- **Around 2017, peer-to-peer lending and crowdfunding companies entered the market.** According to the Fintech Latvia Association, Latvia is the only country in Europe that devised its own licensing solution in absence of European regulation. Within the last three years, ten peer-to-peer lending platforms and three crowdfunding service providers have been licensed by the Bank of Latvia, also allowing them to operate in the EU (Latvijas Banka, 2024).

[1] See also Fintech Pulse (FinTech Latvia Association, 2023)

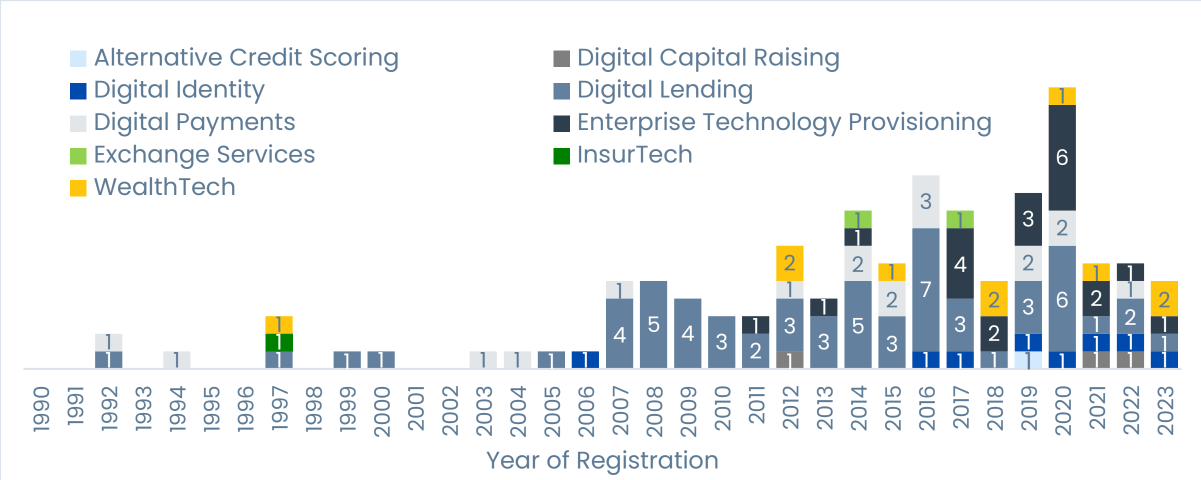
- The success of the Payment Services Directive (PSD2) and General Data Protection Regulation (GDPR) in opening the European space in terms of access to data and the consumer rights over that data provided a new avenue for fintechs through access to banking data of customers, leading to a growth of fintech firms across Europe. One of the most recent success stories of Latvian open banking companies has been the acquisition of Nordigen by GoCardless. This trend is set to continue, as the European commission has proposed a broader opening of data in finance, submitting a legislative proposal for a new framework for financial access that is set to further accelerate the ability of fintechs to offer products and services, including various open banking solution service providers.
- The most recent area which has developed in Latvia is the blockchain and crypto industry. According to the Latvian Blockchain Association, there are currently 35 companies operating in the area. The parliament has approved crypto assets regulation nationally, which will implement the Markets in Crypto-Assets Regulation (MiCA). Starting from January 2025, the Bank of Latvia will be able to issue licenses for operations under MiCA and already is actively engaging in pre-consulting activities via its Innovation Hub.
- The increased vigilance on issues relating to AML and sanctions has encouraged a further acceleration of the development of regulation technology, known as Regtech.

Figure 4: Year of registration of Latvian fintech companies operating in 2024 (N=126)



SOURCE: AUTHOR'S ANALYSIS OF THE FINTECH DATABASE (ANNEX 1). NOTE: THE CHART DOES NOT INCLUDE FIRMS THAT WERE REGISTERED DURING THE PERIOD BUT THAT NO LONGER OPERATE. THE DATASET INCLUDES ONLY THOSE FINTECHS WITH YEAR OF REGISTRATION AVAILABLE.

Figure 5: Year of registration of Latvian fintech companies operating in 2024 by fintech vertical (N=126)



SOURCE: AUTHOR'S ANALYSIS OF THE NEW FINTECH DATABASE (ANNEX 1). NOTE: THE CHART DOES NOT INCLUDE FIRMS THAT WERE REGISTERED DURING THE PERIOD BUT THAT NO LONGER OPERATE. THE DATASET INCLUDES ONLY THOSE FINTECHS FOR WHICH YEAR OF REGISTRATION WAS AVAILABLE.

How the history of the Latvian fintech sector compares with Lithuania and Estonia?

All three Baltic states have observed significant growth in fintech over the last 10 years, albeit in different directions. Better understanding of developments in Lithuania and Estonia is important as both are referred to as benchmarks and examples to aspire to in the Latvian policymaking space.

The box below sets out the main findings of research on the divergent fintech trajectories in Lithuania and Estonia, as described by Raudla, *et al.* (2024).

Compared to Lithuania and Estonia, until the last couple of years, Latvia has taken a relatively cautious approach to fintech sector development due to its mixed experience with digital lending in the years following the financial crisis and AML implementation issues in the banking sector. In 2018, **MONEYVAL report on Latvia raised significant concerns about the country's anti-money laundering and counter-terrorism financing frameworks.** In the review, Latvia's financial system was found to be highly vulnerable to money laundering due to its large non-resident banking sector, which attracted high risk clients form Russia and other post-Soviet countries. This was followed by significant financial sector reforms to improve compliance with international standards. Most national regulatory and policy making efforts in the financial services sector were focused on "cleaning up" the banking sector and its image, with limited focus on sectoral development issues related to fintech and competition. It may also be one of the reasons why access to Single Euro Payments Area (SEPA) for fintechs in Lithuania was established in 2015, whilst Latvia followed only years later in late 2024 (Latvijas Banka, 2024).

With the "major renovation" of the financial sector, particularly the banking sector, seen as completed, regulators, policymakers and politicians seem much more ambitions in finally driving forward the fintech sector development and putting it on the agenda (see Chapter 4). It is within this context that the strategy for fintech was created by the Ministry of Finance in 2022[2].

Regulators have been increasingly active in creating a favourable regulatory environment and infrastructure for fintech. An innovation hub performing a consultative function was established in 2017, followed by a regulatory sandbox in 2021 (Raudla, et al., 2024). Also, allowing fintechs access to SEPA is opening up the potential to attract payment fintechs just as Lithuania is decreasing its risk appetite in attracting certain types of fintech firms.

Another important development has been the **consolidation of the representation of fintech interests by trade associations and the effectiveness of their combined lobbying in driving the policy.** Recently, the **Fintech Latvia Association** has significantly expanded its membership base. Initially comprised of digital lender fintechs, it now includes a broader and larger set of market players. The association has stepped up its activities in proposing policy changes. For example, due to its efforts, starting from 2024, fintechs can finally compete with the larger commercial banks and participate in the SME and mortgage financing in some of the state aid programmes with guarantee provided by ALTUM. The Latvian Blockchain Association has been **influential in driving the policy agenda,** promoting Latvia as a crypto asset fintech hub, following the introduction of the EU MICA regulation in 2025 (Labs of Latvia, 2024).

In 2023-2024, politicians and senior regulatory officials were more vocal in discussing the need to develop the fintech sector to address the ineffective competition issues in the retail banking sector, particularly to increase lending (see also Dambe, *et al.* (2024)).

The comparative fintech sector developments in Lithuania and Estonia

This box summarises the research on the divergent fintech policy and sector development trajectories as set out by Raudla, et al. (2024).

Lithuania

In 2023, 263 fintech firms were operating in Lithuania, including 138 that were licenced by the Bank of Lithuania (47 payment institutions and 84 electronic money institutions). The main segments include payments (34%), financial software (17%), digital banking (10%) and lending (11%). Revenue generated specifically by the payment institutions and electronic money institutions from licenced activities reached €375 million in 2022, and investment in fintech firms was more than €67 million in 2022 (Invest Lithuania, 2023).

The history of the sector's development is described by a proactive stage, followed by a cautionary approach:

- **Proactive fintech policy in 2016-2020.** Primarily inspired by the UK's approach, in this period Lithuania embraced a vision to become a fintech hub that was set as an explicit goal by policy makers at the Ministry of Finance and the Central Bank, and was included in the government programme.

[2] Available here

- According to researchers, a prominent role in promoting fintech was played by Central Bank officials. Some remarked that "it was the confluence of a strong vision of politicians in Lithuania and willing actors from the central bank that enabled the emergence of the FinTech policy" (Raudla, et al., 2024).

  As a result, Lithuania adopted a fintech action plan in 2017, streamlined licencing, launched an innovation hub in 2017 and a fintech regulatory sandbox in 2018, as well as created the CENTROlink payments system, operated by the Bank of Lithuania, giving access to all payment service providers registered in the European Economic Area (EEA) to the Single Euro Payments Area (SEPA) in 2015. Fintech companies operating in the country increased from 82 in 2016 to 230 in 2020, and Lithuania became the leader in Europe by the number of licenced Electronic Money Institutions. Lithuania also capitalised on the window of opportunity created by Brexit and sought to attract UK-Based fintechs looking for an EU base, with notable success being attracting Revolut to Lithuania.

- **Caution since 2021.** Following leadership changes at the Central Bank and the Ministry of Finance and the increasing recognition of the money-laundering risks associated with payment firms, a more cautious approach was adopted. The regulator became stricter in granting licences and penalising compliance breaches, and currently the fintech ecosystem has raised concerns about excessively strict application of the existing regulation. The updated fintech strategy of Lithuania emphasizes the need to ensure the "quality" of fintech companies over the quantity of companies and the aim to portray Lithuania as a "high value added Fintech hotspot".

  Policy makers also want to diversify the sector beyond payment institutions and have started monitoring the extent to which fintechs contribute to the economy and have links with Lithuania, not just those who "come for a European licence" to take account of EU financial services passporting rules.

  Researchers note that one of the drivers of the change in attitude was a scandal involving the German fintech company Wirecard and a Lithuanian fintech Finolita, where the central bank revoked the latter's licence because of anti-money laundering rule breaches. This spread concerns about the whole payment sector and fuelled the desire of policy makers to have a more cautious approach in order for the fintech sector to not undermine the reputation of Lithuania as a financial services hub.

The latest national fintech strategy of Lithuania is set for a five-year horizon, 2023-2028 (Government of Lithuania, 2023). The overall stated aim is for Lithuania to become "a European high value-added fintech hotspot" by 2028. It sets out five guiding principles to achieve this:

Principle 1 - development of a "qualitative" fintech sector;

Principle 2 - attracting innovative fintech solutions to Lithuania;

Principle 3 - ensuring that Lithuania is "the centre of excellence for fintech";

Principle 4 - ensuring that Lithuania is "a safe and reliable jurisdiction";

Principle 5 - ensuring that Lithuania is "universally recognised as a European Fintech hub.

Estonia

By the end of 2022, there were 264 fintech firms operating in Estonia (Fintech Estonia, 2023). Most of these companies operate in digital asset management (33%), followed by digital lending (15%), technology solutions for companies (14%), digital payments (11%), and 9% in wealth tech and digital capital.

Researchers separate Estonia's fintech development policy into two phases:

- **Proactive fintech promotion in 2016-2020**. A proactive approach was adopted specifically to cryptocurrencies, as Estonia was the first country to issue state-issued permits for cryptocurrency companies, with almost 2000 crypto firms receiving one and Estonia becoming the world's "crypto hub" by 2019. However, problems with money laundering and sanctions evasion become increasingly apparent largely due to the fact that "licencing" was more akin to registration and did not entail adequate monitoring mechanisms by the Financial Intelligence Unit.
- **Cautious approach after 2020**. Regulation of cryptocurrency providers became significantly stricter in 2020-2021, and the negative experience with some of the fintech companies in the cryptocurrency sector, according to the researchers, also led to an overall cautious approach towards fintech in general. The "crypto experiment" is currently seen as a mistake in financial supervision by some stakeholders in Estonia.

  Overall, researchers note that, despite Estonia's commitment to digital governance and transformation, it has remained relatively cautious with regards to fintech. Estonia has been working on developing a dedicated fintech strategy since 2022. It has not yet been published and finalised but should be completed in spring 2025 (Hall, 2022).

  Estonia has also been discussing the potential of introducing a regulatory sandbox for the past seven years, but there is not sufficient buy-in, and regulators have preferred to wait for initiatives from the politicians. However, an innovation hub was created at the regulator in 2021.

  Some stakeholders interviewed as part of research have also remarked that the overall Estonian approach to fintech is currently cautious, conservative and driven by the desire for the financial regulator to preserve its mandated role, noting that the financial regulator "views themselves primarily as a supervisor and does not like risk. Unless there is a political mandate to start increasing the risk appetite, they would not do it: it is against their DNA".

3. What can Latvia learn from other countries' strategy development?

We reviewed the approaches adopted to fintech sector strategic development adopted by other EU countries and the UK to identify potential lessons for Latvia.

- **Only 7 out of the 28 countries reviewed have published a dedicated fintech strategy.** Whilst experience of countries with established fintech centres show that the presence of a strategy document is not a necessary nor sufficient condition for fintech development, a strategy **sends a clear signal internationally about the intention and commitment to developing the sector. This can support the creation of a coordination and accountability mechanism nationally to ensure the fintech sector is developed further.**
- The main objectives for promoting fintech in the countries reviewed are to develop more competitive and innovative financial markets and to promote economic growth.
- Whether or not there is a separate fintech strategy, the approach has to be aligned and coordinated with the broader national and EU goals and strategies for financial sector development (open banking, open finance, sustainability and green finance, promotion of competition, capital market development, single EU banking and capital markets etc.) and economic growth and transformation agenda (digital transformation, AI policy, international competitiveness, etc.).
- In terms of **international positioning, most countries aim to position themselves as "fintech hubs",** but those that have been most successful have adopted a targeted approach and marketed themselves as the destination for particular sectors of fintechs, such as a hub for payment providers, crypto service providers, etc. It is clear that the introduction of a new EU regulation in crypto assets has kickstarted competition between EU member states, of which one of the goals are to be the hub for such fintechs.
- The European competition to be a regional hub is coupled with a broader international competition on which countries will become global fintech hubs.
- The "natural" owner of a fintech strategy is the government/ministries, such as the Ministry of Finance, as strategies designed and led by regulators have narrower scope, matching regulatory mandates. The regulator Is also constrained in setting out actions needed to take place by other institutions. Within the EU, there is a range of options of who dictates fintech strategy. Among the countries reviewed, in some countries the owner was the Ministry of Finance/the treasury (Latvia, Lithuania, Ireland, Netherlands, the UK), the financial markets regulator (Malta) or the Central Bank (Hungary).
- In the countries that chose to implement a fintech strategy, the most successful ones had clear goals and objectives, clear vision of which institutions (or individuals) were responsible for what, as well as accountability and monitoring mechanisms in place, such as annual updates to all core stakeholders.
- Countries are creating regulatory mechanisms to enable the development of new fintech business models, such as innovation hubs and regulatory sandboxes, but

they differ significantly in the extent to which these support mechanisms genuinely allow firms to develop and test new business models in a live environment. Most of these initiatives were introduced between 2016 and 2019, especially after European Union's Digital Finance package, and hence are relatively new and require proper impact assessment of their effectiveness.

We reviewed national approaches to fintech sectoral development adopted by each EU member state and the UK to identify potential lessons learnt for Latvia when developing its new fintech strategy (see Annex 2 for an overview table). [3]

Our review sought to answer the following key questions:

- Is fintech development a national priority?
- What are the strategic objectives for promoting fintech?
- Is there a dedicated fintech strategy, and if so, who is leading it?
- What regulatory and other policy support mechanisms have been put into place to reach the stated objectives?
- What approaches ensure effective delivery, implementation and monitoring of the strategy?

The EU and national capital/large city initiatives to promote financial innovation or innovation in general can also be important in developing the fintech sector, however, these were out of scope of this particular review.[4]

Main insights

Only 7 out of 28 reviewed countries have a dedicated fintech strategy

Fintech policy and fintech strategy development is a relatively new area. Research suggest that it only emerged in the mid-2010s, as governments and regulators increasingly realised that they had to start responding to the technological developments in financial services markets (Raudla, et al., 2024).

The core question that governments and regulators are facing is whether to proactively promote fintech (whether to adopt a proactive or cautionary approach) **and how to balance and manage the benefits and risks of innovation.** Growth of the fintech sector can promote more effective competition in financial services and promote economic growth by creating new jobs and increasing tax contributions, but it may also come with risks that might be underestimated. Promotion of such activity might lead to increased risks in relation to consumer protection issues, money laundering, as well as prudential risks. These potential risks have to be pre-emptively, proactively and proportionately managed, particularly where new business models may pose risks that are not yet covered by existing regulation (see a summary of the relevant literature in (Raudla,

[3] The review included all EU countries and the UK because, first, UK used to be part of the EU when it started developing its approach to fintech, and, secondly, it is seen as a leader in fintech policy development, and its approaches are often copied at the EU level.

[4] In 2018 the EU published a fintech action plan "for more competitive and innovative European financial sector (European Commission, 2018)

et al., 2024). The proactive management of such risks should be a core element in a fintech strategy that aims to promote fintech development. A proactive approach to fintech promotion means introducing a range of facilitating measures (e.g., innovation hubs, regulatory sandboxes, developing licencing, access to payments infrastructure, government grants) while in a cautious approach such measures are absent (Raudla, et al., 2024).

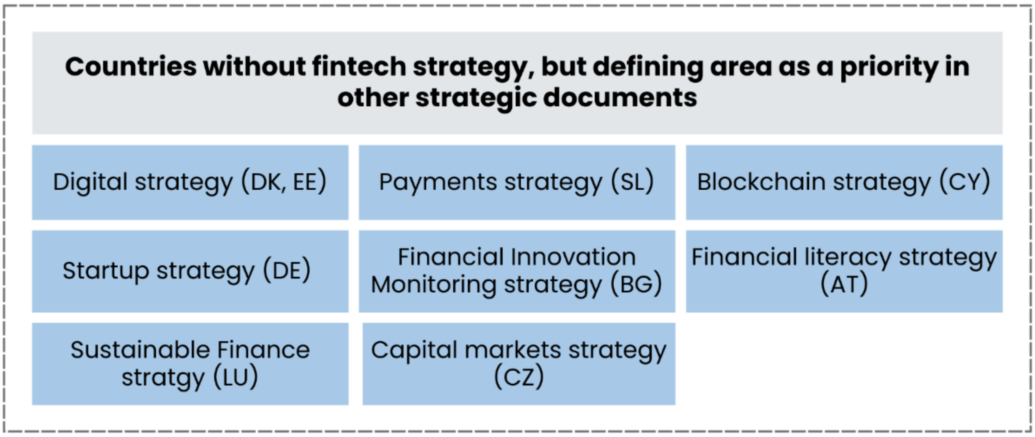
Specifically, the development of a dedicated, national level fintech strategy can serve four important purposes:

- Elevate the importance of the fintech sector development relative to other national priorities, and within the context of promoting a competitive, innovative and more inclusive financial services market.
- Create political, policymaking and industry buy-in around a joint vision and strategy.
- Acts as a coordinating and accountability mechanism to align the actions of various stakeholders (particularly important in countries with fragmented policy making systems, like Latvia).
- Ensure the proactive management of possible risks that might arise from increased fintech activity in the jurisdiction.

Only 7 out of 28 countries in our review had developed a national fintech strategy. We reviewed the approach taken each EU country and the UK. Among these, the following have a national fintech strategy: Hungary, Ireland, Latvia, Lithuania, Malta, the Netherlands and the United Kingdom. These strategies vary significantly in the level of ambition, objectives and scope. Estonia has discussed the potential creation of a fintech strategy for several years, but it has not yet been produced.

The absence of a fintech strategy does not mean that the sector is not considered or promoted at all – some countries do not consider fintech separately but rather as part of other broader national strategies (e.g., innovation, digitalisation, startup promotion), see Figure 6 below. For example, in Estonia, fintech development is considered as part of a broader national policy of digital transformation and the creation of a smart economy; in Ireland, fintech is discussed is part of a strategy to develop more efficient and more inclusive financial services sector; Germany has a Digitalization of Financial Markets strategy; Slovenia and the Czech Republic explicitly discuss the role of fintech in its Capital markets strategy; Austria considers the role of fintech in the context of promoting financial literacy.

Figure 6: Countries with fintech strategies embedded in other strategies



SOURCE: AUTHOR'S ANALYSIS OF ALL EU COUNTRIES AND THE UK (SEE ANNEX 2 FOR MORE DETAILS).

Overall, the broader strategic goals for promoting fintech across countries with and without a fintech strategy include (Figure 7):

- supporting **economic transformation and growth of the country:** innovation, digital transformation, increase in entrepreneurship (startup policy), attracting investment, job creation, specifically by attracting fintechs from abroad.
- facilitating more efficient and innovative **financial services markets:** fostering more effective competition in financial markets and promoting its technological transformation.

Figure 7: Comparative analysis of strategic goals that relate to the fintech sector for countries with and without a dedicated fintech strategy

SOURCE: AUHOR'S ANALYSIS OF ALL EU COUNTRIES AND THE UK (SEE ANNEX 2 FOR MORE DETAILS).

Whether or not there is a separate fintech strategy, it is clear that it has to be aligned and coordinated with the broader national and EU goals and strategies for the financial sector development (e.g., open banking and open finance, sustainability and green finance, promotion of competition, capital market development, EU banking and capital markets), and economic transformation and growth (digital transformation, international competitiveness policy, AI policy, etc.).

In the context of financial service market development, the 2021 strategic review of the UK's fintech sector highlights that fintech should no longer be seen as a "niche" or a sub-sector but as a broader development of financial markets:

> *"Fintech is not a niche within financial services. Nor is it a sub-sector. It is a permanent, technological revolution, that is changing the way we do finance. Its essence is in both fast-growing fintech companies, and the investment and use of technology by our incumbent financial institutions. It's in the way we regulate previously unknown technology and set new standards. But most importantly, it's about delivering better financial outcomes for customers, especially consumers and SMEs." (Government of the United Kingdom, 2021)*

Developing a fintech strategy is neither a necessary nor sufficient condition for developing the fintech ecosystem. For example, Denmark does not have a specific fintech strategy, but several associations and non-governmental organizations (NGOs) representing financial service providers, trade unions, the City of Copenhagen and the University of Copenhagen, have created a vibrant hub, providing services, expertise and guidance for fintech companies. The work is driven by a shared vision and an enabling legislation. However, a fintech strategy can support efforts through a set of tangible actions to allow countries to position themselves as fintech hubs.

Most countries now position themselves internationally as "fintech hubs" but few have a more targeted strategy and many fear losing their advantage

Many countries seek to position themselves internationally as general "fintech hubs", but very few position themselves in context of specific fintech segments. For example, the explicit goal to become a fintech hub is mentioned in the relevant policy documents in the UK, Germany, Latvia, Lithuania, Malta and the Netherlands, among others. However, countries that seek to attract fintechs in specific areas, particularly to capitalise on new EU regulation, such as MICA, or other political developments, e.g., Brexit, have been very strategic about how they position themselves internationally. Until very recently, Lithuania has positioned itself as a destination for payments, and several countries now seek to be the frontrunners in MICA to attract crypto firms, including Malta and Latvia (Srebnija, 2024).

It is clear that due to EU passporting rules that allow fintechs to offer services across the EU, there is a regulatory and national competition ongoing among some EU member states to become "the" gateway to Europe, especially among the smaller countries. Among these countries, the core considerations for promoting fintech relate to the potential economic gains (employment, tax contributions) rather than in promoting competition in local financial markets. From the examples provided in the previous chapter, such policy efforts to become the hub for Europe often took place while underappreciating the potential reputational risk for the jurisdiction or the need to increase regulatory capacity and oversight. This is particularly so in payments (where countries offer access to SEPA) and crypto, considering the forthcoming MICA regulation. Lithuania has historically led in SEPA payment service provider licensing but has recently tightened regulations. This shift opens opportunities for countries like Latvia, which will soon offer SEPA access via its Central Bank, to attract payment and cryptocurrency-focused businesses. Meanwhile, Estonia remains more cautious in its approach.

Countries mostly aim to "showcase" their offerings by publishing various materials, creating dedicated websites and attending conferences, tech related events, etc., however, there is no data to evaluate the efficacy of these efforts. Many countries promote their local fintech hubs globally by using existing investment and trade promotion agency networks and capacity (like Lithuania, Poland, Germany), whilst in other countries, regulators and/or the Central Bank are very involved in the promotional activities. For example, in Lithuania, the state investment agency "Invest Lithuania" has a separate fintech division tasked with attracting investment specifically for fintech (Invest Lithuania, 2024).

The case study of Sweden is instructive: the absence of a strategy appears to result to delays in implementation of initiatives. There were discussions, but no resolution to introduce a regulatory sandbox to promote innovation in the financial market by the Financial Supervisory Authority (FSA, to provide regulated companies the access to the financial infrastructure (like SEPA mechanism). In addition, it was noted that there is still some difficulty for fintech companies to compete on equal terms with traditional financial services providers.

Case study: Sweden

Sweden does not have a dedicated fintech strategy but has a well-developed fintech ecosystem.

However, in its most recent publications, the Swedish fintech trade association rang the alarm bells and called out that Sweden is now in danger of falling behind other jurisdictions, including the Baltic countries, if timely measures are not introduced (Swedish Fintech Association, 2024). It notes that funding has fallen, and the financial regulator has not introduced some of the measures introduced in other counties like the Netherlands and the Baltic countries.

> *"There are examples from other successful fintech markets where the supervisory authority plays a more guiding role - in the United Kingdom the Financial Conduct Authority (FCA) has so-called 'innovation pathways', which could be described as regulatory guidance for companies with innovative business models that are hard to categorize and yet to be regulated."* (Swedish FinTech Association 2024)

Challenges faced by the Swedish fintech sector

The core issues discussed entail that it is increasingly difficult to raise capital, recruitment has declined, the government has reduced funding for research, and there is a low level of understanding of the fintech industry among politicians and decision-makers (in 2024, 57% of fintechs perceived that the understanding of the Swedish industry among politicians and decision makers is low). The report specifically calls out de-risking by banks as a result of their reduced risk appetite, lack of knowledge of fintech business models and perceived high cost of regulatory compliance, as well as the difficulties for fintechs to compete with incumbent financial service providers in, for example, the mortgage market.

Following up on its policy proposals for 2023, it noted that only 1 out of 9 had actually been implemented (see figure below).

Figure 8: Status of the proposals for fintech sector development as of 2024

Source: (Swedish FinTech Association, 2024)

For 2024, alongside the previous but still current proposals, the association also proposes:

- strengthening the right to bank accounts for fintech companies by legally requiring banks to provide a written report for de-risking fintech companies and giving companies a right to appeal the decision to the financial regulator;
- introduction of regulatory guidance for innovative companies by the FSA,
- that the Swedish Competition Authority investigates competition in the financial markets and that it is given clearer tools for conducting industry-specific investigations and to investigate competition in the financial market;
- reinstatement of investment measures and funding for research and innovation;
- future-proofing the financial infrastructure.

Who leads on the strategy will determine its scope and ambition

In the reviewed countries, the core "owner" of the fintech strategy is the government (typically, the Ministry of Finance), though in some cases the fintech strategy is developed and implemented by the financial regulator or the Central Bank.

There is a marked difference between fintech strategies published by government ministries or regulatory authorities. Typically, financial regulators do not take lead as they have relatively narrower mandates and objectives than the relevant government institutions, though these regulatory mandates differ across the countries. This means that the scope of a fintech strategy developed by a financial regulator will always be narrower than one developed by the government. For example, in Malta, the Malta Financial Services Authority published a fintech strategy to ensure it can achieve its own regulatory and supervisory objectives. In contrast, the government can look at a wider economic perspective, coordinate objectives and assign tasks to a broader set of institutions, as well enable clearer political ownership.

Figure 9: Comparative analysis of ownership of fintech strategic planning

Strategy owner	Countries with existing strategy
Ministry of Finance	Ireland Latvia Lithuania The Netherlands United Kingdom
Financial Markets Regulator	Malta
Central Bank (as regulatory body)	Hungary

SOURCE: AUTHOR'S ANALYSIS OF ALL EU COUNTRIES AND THE UK (SEE ANNEX 2 FOR MORE DETAILS).

Whether or not a regulator will seek to promote fintech depends significantly on its mandate and strategic objectives. UK serves as good example of a case where the expansion of the regulatory mandate resulted in a proactive fintech development and contributed to the UK becoming one of the leading fintech hubs (see box below).

Case study: the UK and the role of the regulator in promoting fintech

The UK is seen by many as one of the first leading fintech hubs in Europe. Its approaches to fintech developed in mid 2010s inspired many other countries to follow a similar, targeted approach to fintech development. It both instituted a strategy and undertook regular reviews of the fintech sector during its development.

The approach to fintech strategy and why regulatory mandates matter

The first fintech sector strategy was published in March 2018 by the HM Treasury. It outlined the government's plan to position the UK as a leading fintech hub (Government of the United Kingdom, 2018).

In 2021, an independent review was commissioned by the HMT Treasury (Government of the United Kingdom, 2021). This review specifically sought to investigate how to ensure that the UK does not lose its leading role in fintech in light of Brexit and the increasing competition from other international fintech hubs.

This review notes that the FCA's regulatory sandbox played "an instrumental role in supporting innovation and encouraging UK fintech business", and further recommends introducing a "scalebox" and "digital sandbox" that provides broader support. Both have since been implemented, with the FCA creating innovation pathways to ensure the right level of support is given at the right time, and a digital sandbox pilot scheme was launched in 2020, becoming a permanent feature of the FCA since 2023.

The FCA was also a pioneer in the creation of an innovation hub and a regulatory sandbox. The introduction of this sandbox and an innovation hub was not an ad-hoc event, but one of the results of the change in the financial regulator's mandates in 2013, as part of which the FCA was given an explicit objective to promote competition in the interests of consumers and the Prudential Regulatory Authority (PRA) received a secondary competition objective. As a result, the UK introduced an innovation hub in 2014 and the world's first regulatory "sandbox" in 2016. The PRA also established a "new bank startup unit".

In 2023, the FCA also was given a "competitiveness objective" to act in ways that support the international competitiveness of the UK financial services. The PRA also has to consider how its actions affect the UK's global competitiveness and supports economic growth.

At the end of 2024, the new Labour government announced that it will develop an overarching Financial Services Growth and Competitiveness Strategy to be published in Spring 2025, which will include Fintech as one of the five priority sectors alongside sustainable finance, asset management, wholesale services, insurance and reinsurance, and capital markets (Reeves, 2024).[5]

The core facilitating measure for fintech development is a conducive and supportive regulatory environment

A proportionate, risk-based and forward-looking regulatory environment is the key enabling factor for fintech development. The World Bank has identified four responses to fintech by regulators that are not mutually exclusive: "wait and see", "test-and-learn", "innovation facilitation" and "regulatory laws and reforms" (World Bank, 2020). The cautious policymakers adopt a "wait and see" approach, while innovation facilitators proactively promote innovation and the development and testing of new business models by providing the necessary support, licencing, etc. The appetite to support new business model development ahead of broader EU regulation being introduced varies across countries. Some countries have been frontrunners in adopting various legal initiatives as a response to emerging trends in the fintech industry, for example, France and Luxembourg have used various initiatives on crowdfunding, blockchain, etc.

[5] The Chancellor of the Exchequer Rachel Reeves stated "In the Spring, we will publish the first ever Financial Services Growth and Competitiveness Strategy. (…) Financial services is one of the eight growth sectors in our modern industrial strategy (…). And today, we are setting out the five, priority growth opportunities on which that strategy will focus: fintech, sustainable finance, asset management and wholesale services, insurance and reinsurance and capital markets."

Figure 10: The four regulatory responses to fintech by the World Bank

"Wait and see"	• Regulators observe and monitor innovation trends from a distance. • Common when there is ambiguity on whether or not the new activity or innovation falls under the remit of the particular regulatory authority. • Policy and regulation incrementally change over time as regulators build competencies and firms increasingly adopt technologies, giving time and scope for innovations to develop before they are regulated (if necessary).
"Test-and-learn"	• Regulators create a custom framework that allows testing individual business cases in a live environment. • Jurisdictions differ in the extent to which safeguarding measures are put in place and the level of supervision and oversight provided (from "light-touch" without close supervision to extensive supervision on a case-by-case basis).
Innovation facilitators	• A structured framework or point of contact that promotes innovation and experimentation. • Examples: Innovation Hubs or Offices, Accelerators, Regulatory Sandboxes.
Regulatory laws & reforms	• Introduction of new laws or licenses in response to innovative firms or business models (overarching or product specific). • Sometimes can lead to regulatory reform or expansion of mandates.

SOURCE: ADAPTED FROM (WORLD BANK, 2020)

In all countries reviewed, there is an emphasis on facilitating fintech development through improving the regulatory environment, but the ambition and risk tolerance of these efforts vary widely. Part of the creation of an enabling environment is the creation of regulatory innovation initiatives, such as innovation hubs and regulatory sandboxes.

A recent report by three European Supervisory Authorities (EBA; ESMA; EIOPA;, 2023) confirms that the main tool for promoting innovation preferred by regulators and supervisors across the European Economic Area are innovation hubs and regulatory sandboxes (see box below). Most of these initiatives are relatively new and require proper impact assessment of their effectiveness. Yet, by the financial authorities that implemented them, they are considered as an important step to promote fintech as they can reduce regulatory uncertainty (UNSGSA, 2019) and can signal to fintechs that the jurisdiction has a pro-innovation enabling regulatory framework and mindset.

In Estonia, the discussions about the potential establishment of a regulatory sandbox has now lasted for more than seven years, largely ascribed to the lack of interest on the political level, ambivalence among policy makers, missing mandates and legal justification, conservativeness of public sector organisations, lack of demand from the *existing* fintech sector, as well as low potential return on investment of setting one up. Research also notes the damage done by the money laundering scandals of the Nordic banks, and what is considered as a failed regulatory experiment with crypto services providers in the mid-2010s "that fed a risk-averse and conservative stance among civil servants in the Ministry of Finance the FSA" (Finance Estonia, 2023).

Although there is a proliferation of innovation hubs within the European Union, regulatory sandboxes are a relatively recent phenomenon – with only 14 sandboxes in 12 countries in the European Economic Area as of October 2024.

A strategy should consider the evaluation and assessment of the existing innovation office and regulatory sandbox of Latvia, and implement lessons learned to make them more effective in their roles.

Innovation facilitators in the EU: core themes from research

In 2023, the three European level financial supervisory authorities (European Securities and Markets Authority (ESMA), European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA) carried out an analysis of the so called "innovator facilitators" – innovation hubs and regulatory sandboxes (EBA, ESMA, & EIOPA, 2023). This box summarises the findings of that review.

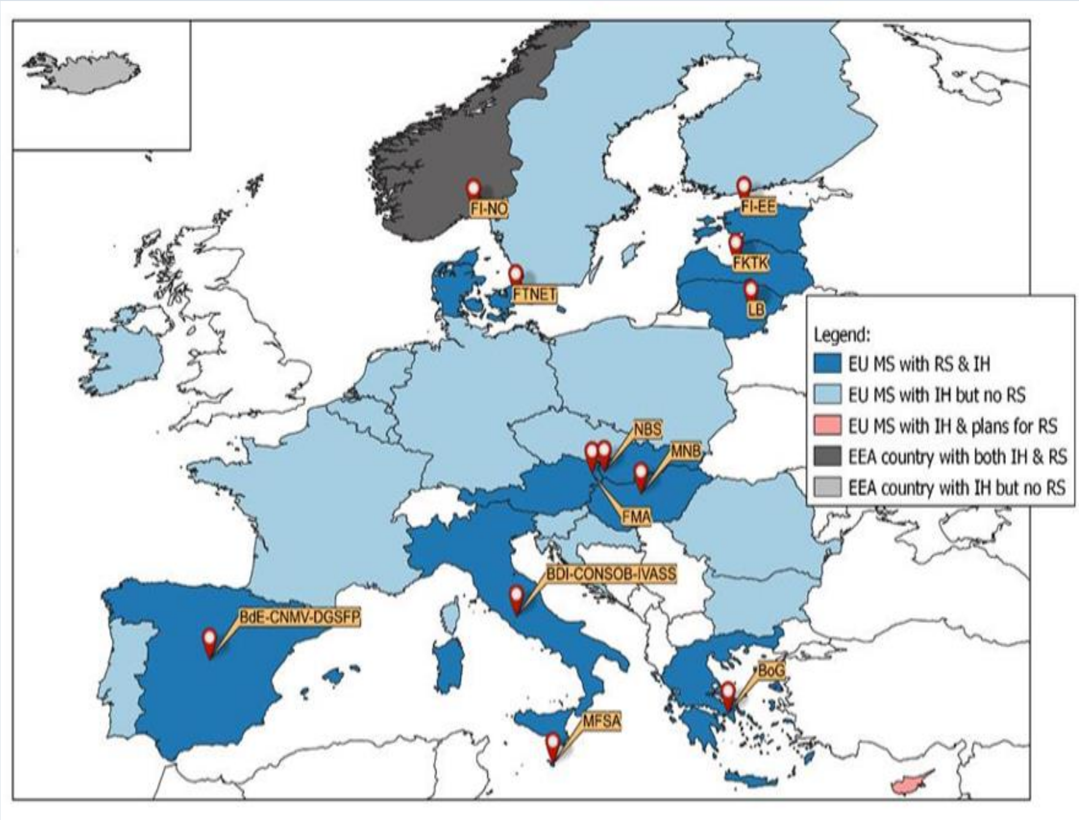
It finds that the introduction of the innovation facilitators is a relatively recent phenomenon. The majority of innovation hubs were established between 2016 and 2019, and most regulatory sandboxes were launched around 2020-2021. This follows a more global trend in the proliferation of such regulatory innovation initiatives across the world, with a current global emphasis on regulatory sandboxes.

As of 2023, there were 41 innovation hubs and 14 regulatory sandboxes in the EEA countries. Also, regulatory sandboxes in specific fields are increasingly being introduced at the EU level, such as the European Blockchain Sandbox. Further, the EU Artificial Intelligence act encourages Member States to establish AI regulatory sandboxes. As of October 2023, most regulators had not yet formed views on whether and how they could coordinate their sandbox activities with these new initiatives.

In 2022, across all regulatory sandboxes for which data is publicly available, around 50 applications were received and slightly more than 20 were accepted. Thus, it is not yet clear how transformative a regulatory sandbox might be, since, unlike innovation hubs, which provide limited support to many fintechs, regulatory sandboxes provide substantial support to a much smaller number of fintechs.

There are valuable synergies between innovation hubs and regulatory sandboxes: innovation hubs provide consultative support and advice, whilst regulatory sandboxes allow testing innovation business models in a controlled environment.

Figure 11: Regulatory sandboxes in the European Economic Area (as of October 2023)



SOURCE: EBA, ESMA & EIOPA (2023)

Figure 12: Innovation facilitators in the EEA

SOURCE: EBA, ESMA & EIOPA (2023)

The review finds that:

- Regulatory sandboxes and innovation hubs can add significant value, but can require substantial resources, and operating them in practice can be a challenge – a constant review of effectiveness is required. However, only 20% of regulatory authorities gather feedback or suggestions from participants of regulatory sandboxes.

- Such innovation initiatives are often considered by the fintech sector as an indication that regulators and supervisors in the relevant jurisdiction are progressive, technology-friendly and open to financial innovation. However, there is a risk of misalignment of fintech expectations and the purpose of the hubs or sandboxes.
- The main benefits for regulators are improved awareness of new emerging innovations in the financial sector and recognition of cases where a reassessment of the relevant regulatory perimeter may be needed.
- If testing does not provide a faster route to licensing after all other provisions are met, then the need for a regulatory sandbox might be less urgent. This could perhaps explain the decline in financial sector participants' interest in regulatory sandboxes, especially as new regulation providing more clarity is introduced in specific sectors (e.g., MICA).
- The key risks perceived by regulators are reputational and legal – some noted that it is difficult to keep pace with developments in financial innovation. This can lead to a delay in decision making within an innovation hub or regulatory sandbox, thus limiting its effectiveness.
- Often regulatory authorities do not place sufficient thought in what is in it for the companies that would want to participate, so for many firms in the EEA, the main reason for joining is to increase the visibility of a firm's projects to obtain funding or faster and cheaper route to licencing. If these factors are not present, a regulatory sandbox might struggle to attract applicants.
- There are cases where firms can get stuck in a testing period if it cannot meet the regulatory requirements or there is not a sufficient regulation in place to regulate them appropriately. This can send a very negative signal to the market about the usefulness of a regulatory sandbox.

Alongside an enabling regulatory environment, a fintech strategy can support key factors that drive fintech growth:

- **Developing fintech and startup ecosystems.** Supportive ecosystems are crucial to enabling coherent development of the sector. Countries like Germany and France have developed strong fintech ecosystems with industry-led initiatives and government support. This includes providing resources for startups and fostering collaboration between traditional financial institutions and fintech firms. Some countries show bottom-up approaches. For example, Denmark. Without having a specific fintech strategy, by joining forces, several NGOs representing financial service providers, trade unions, the City of Copenhagen and the University of Copenhagen, have created a vibrant hub, providing both services, expertise, and guidance for fintech companies.
- **Access to funding, both at the startup and growth phase.** For example, the Czech Republic is focusing on enhancing venture capital availability and developing the capital market. Germany provides substantial funding through programs like the High-Tech Strategy and the EXIST program, which supports university-based startups. The French Tech initiative offers funding and support to startups, including fintech companies, through various programs and incentives.

- **Skilled labour in the labour market pool.** For example, Ireland's strategy for finance, that also covers fintech, asks for a renewed focus on education, calling for increased skills development in foreign languages and STEM subjects, creation of financial service apprenticeships, forging greater education links with industry, creating postgraduate programmes, as well keeping visa requirements for skilled personnel under review and policy re-assessment Governement of Ireland, 2019). Some countries are investing in financial education and digital skills to ensure a knowledgeable workforce that can support the fintech sector. For instance, the Czech Republic has published a National Strategy on Financial Education. Finland invests in digital education and skills training to support the fintech sector.
- **Access to infrastructure,** such as access to SEPA. Research amongst other country examples like Lithuania and its CENTROlink solution shows that enabling access to core infrastructure allows fintech companies to access their clients locally as well as scale their businesses at the EU level.
- **Improving collaboration with banks.** Collaboration between traditional banks and FinTech firms is becoming crucial. Many examples (like N26 and Wise collaboration) show that it can significantly boost the market presence and improve the financial services offered. Countries that include major financial sector stakeholders in their financial sector strategic planning initiatives show a greater mutual cooperation and trust. However, several countries (Sweden, Latvia) indicate that cooperation between FinTech companies and commercial banks still need to be improved, including the reduction of de-risking.

Good practices in strategy development and implementation

Setting the appropriate duration for the strategy is key to ensure it can actually have an impact. The first Latvian fintech strategy had a de-facto timeframe of just a year (it was supposed to cover the period 2022-2023 but was only approved by the Parliament in January 2023). In comparison, other countries typically set out a medium-term horizon of five to seven years, with annual or more frequent reporting on the strategy implementation (e.g., Ireland, Netherlands).

Accountability and review. Monitoring of whether or not action is actually taken is key to ensuring effective implementation. Some countries have pre-emptively set when an update will be required (e.g., annually) - for example, the UK government commissioned an independent review of the 2018 strategy in 2021.

Consultation processes and advisory bodies. Several countries have established formal advisory/consultative bodies under the respective ministries. For example, Germany has established a Fintech forum and Slovakia has established a Center for financial innovations under the Ministry of Finance. Germany hosts several initiatives under the "Digital Finance Forum", each aiming to advance the country's digital financial landscape. Within it, there is both a promotion of Germany fintech and a platform for dialogue between policymakers and industry experts, and it is focal to Germany's effort to be a fintech hub **(Federal Ministry of Finance, 2022)**.

4. Looking ahead: key questions to address in the new strategy

Stakeholder feedback on the previous fintech strategy

The first ever Latvian fintech strategy was developed for 2022-2023 and approved in January 2023. Overall, stakeholders welcome it as the first attempt to put the fintech development "on the map" and signal Latvia's ambitions internationally.

Overall, stakeholders positively evaluated the improvements made over the last few years, particularly the improvements made to the regulatory and legal environment, the availability of regulatory support and the strengthening of the fintech ecosystem.

However, stakeholders also raised issues that need to be addressed when developing the next strategy, most importantly:

- The fintech sector is still relatively poorly understood by the decision makers and the general public and is at times stigmatised due to its beginnings in digital lending.
- The lack of political buy-in to develop the sector and the need for a single designated political or institutional "champion" or owner of the fintech agenda.
- Lack of clear national vision, risk-appetite and targeted priority goals for the sector.
- The policy making is too fragmented, with different institutions at times having overlapping roles and differences in views on what should and should not be each institution's role.
- Need for an export-oriented vision and united messaging when promoting the sector internationally.
- Implementation of regulation is still too risk-averse, particularly on anti-money laundering.
- The existing regulatory support mechanism to promote innovative business models is helpful, but could be expanded, and the licencing process needs to be clearer ex-ante.
- The fintech ecosystem is developing but is still too fragmented.
- Collaboration with banks should be improved, and at times there is an uneven playing field when competing with traditional financial service providers.
- The next strategy should be developed, implemented and monitored much more systemically.

Core issues to address in the new strategy

It is clear from stakeholder feedback and our analysis that the new strategy will require a "step-change" in the level of ambition, focus and approach compared with the previous one.

Three core questions need to be addressed:

1. **<u>What is Latvia's level of ambition and risk appetite?</u>**

A genuine agreement still needs to be reached that fintech is a priority area, and stakeholders at the highest political and institutional level need to agree on **the national level of ambition and risk appetite.** Based on this, targeted priority areas need to be chosen with the greatest potential (e.g., payments, digital lending, crypto, others). Based on this, the regulatory risk-appetite and the scope of the existing regulatory tools should be reviewed.

Fintech should no longer be seen in isolation but within context of the higher-level national strategic goals for financial service markets (improving competition, increasing lending, capital market development, sustainable finance) and economic growth and transformation (AI, international competitiveness, start-up policy, etc.).

2. **<u>Who is the key owner and accountable for fintech development?</u>**

A single political and/or institutional "fintech champion" needs to be assigned who would be responsible and accountable for the development of the sector carrying out the strategy. Also, the roles and responsibilities of the different institutions must be clarified, as they are currently not specific enough and there are disagreements about mandates and responsibilities.

3. **<u>How to ensure the strategy is implemented effectively?</u>**

The strategy development, implementation and monitoring process needs to be significantly improved by introducing greater transparency, clearer and broader stakeholder consultation mechanism and a clear commitment to monitor and evaluate implementation. All of these were lacking in the previous strategy.

The new strategy needs to set out a reasonable time frame (3-5 years at least) for objectives to be reached.

This chapter provides an overview of the first Latvian fintech strategy (2022-2023) and summarises stakeholder feedback on what worked well and what needs to be improved.

Based on this feedback and analysis in the previous chapters, we conclude by making proposals for the core areas that need to be clarified and improved upon when developing the new strategy.

Stakeholder feedback on the first fintech strategy (2022-2023)

Even though fintech development was mentioned in previous financial sector policy planning documents, it was only around 2022 that the first fintech strategy was developed. The first dedicated fintech strategy was approved in January 2023 and covered the period 2022-2023 (see the box below).

The first Latvian fintech strategy (2022-2023)

The first national fintech strategy was approved in January 2023.[6] Before the strategy document, fintech sector development was discussed as part of the financial sector development plan of Latvia.

It set out a vision for the Latvian fintech sector:

"Latvia as a financial technology centre of European Union significance where FinTech companies promote innovation and competition in the financial sector by developing significant, secure and internationally scalable business models."

It also included seven "prerequisites and recommendations" for the implementation of the strategy, covering the necessary improvements to the regulatory framework, infrastructure development, availability of capital and support mechanism, talent, ecosystem and communication, specifically the need to:

- further improve the regulatory framework to facilitate the development of financial technologies;
- create financial market infrastructure conductive to innovation and available to all market participants;
- strengthen the investment climate and ensure the availability of capital and other financial support mechanisms;
- promote the growth of the "talent base";
- build a strong and unified fintech ecosystem that is characterised by "dynamic and open" cooperation between businesses, industry professionals, supervisors, public administration, investors, financial sector participants and other parties, noting that "a constant dialogue between the involved parties is also necessary and it should be coordinated and with a clear division of responsibilities";
- continue dialogue between the supervisory authorities and market participants on licencing and other issues;
- ensure that compliance standards and culture are not lowered when developing fintech;
- develop high quality internal and external communication for existing and future market participants, as well as ensuring the "visibility of Latvia as a financial technology centre in these markets".

The 2-page strategy was accompanied by a task list with 21 specific action points for the relevant institutions, predominantly the Ministry of Finance, Bank of Latvia and Investment and Development Agency of Latvia.

Source: (Ministry of Finance, Latvia, 2023).

[6] https://www.fm.gov.lv/en/latvias-financial-technology-sector-development-strategies . *Informative Report on the Latvian Financial Technology Sector Development Strategy. (FM, 10.01.2023 reviewed by the Cabinet of Ministers*)

Stakeholders welcomed the previous strategy but identified several areas where improvements are needed when developing the new one

We carried out more than 30 interviews with senior stakeholders from fintechs, ministries, trade associations and other organisations in Spring-Autumn 2024 to gather feedback on the lessons learnt on the experience with the development and implementation of this strategy. The main themes from the interviews are summarised in the table below.

Overall, stakeholders welcome the previous fintech strategy as the first attempt to put fintech development "on the map" and prioritise it in policy and regulatory discussions, as well as signalling Latvia's ambitions internationally.

Significant improvements have been made over the duration of the strategy. Stakeholders particularly positively evaluated their cooperation with the regulator, the improvements made in the regulatory and legal environment, availability of support (e.g., innovation hubs, regulatory sandbox), and the increasing willingness of various individual stakeholders at the various institutions to promote fintech. The overall environment in Latvia was generally seen as conducive to fintech development. They also noted that the fintech (policy making) ecosystem has significantly strengthened over the last few years and the dialogue has much improved.

However, stakeholders raised several concerns about the current approach that hinder sector development and that needs to be addressed when developing the next strategy. Driving faster growth, however, would require a more ambitious approach from politicians, policy makers and the regulator (Figure 13). Specifically, the following themes were common in the stakeholder interviews:

- The fintech sector is still relatively poorly understood by the decision makers and the general public and is at times stigmatised due issues in its historical development, discussed in chapter 2.
- There is a desire for genuine political will and buy-in to develop the sector, as well as need for a dedicated political champion or sponsor for the sector.
- There is still a lack of clear national vision for the sector with set priorities, goals and risk-appetite.
- There is still insufficiently clear division of responsibilities across the core stakeholders.
- The international promotion of the Latvian fintech sector requires much more targeted and common messaging, and the question of who exactly is tasked with promoting fintech needs to be resolved.
- Need for an export-oriented vision, as for most fintechs, Latvia or the Baltic states are too small to be the target markets. At the moment, from a policy and regulatory perspective, fintechs are primarily seen as local rather than export-oriented companies.
- Implementation of regulation is often too risk-averse, including anti-money laundering provisions.
- The existing regulatory support mechanisms are helpful but could be made more effective by broadening the scope of the regulatory sandbox and improving the clarity of the licencing process.
- The fintech ecosystem is developing but is still too fragmented.
- Collaboration with banks could be improved, and there is at times an uneven playing field when competing with traditional financial service providers in some markets.

- The process by which the previous strategy was developed and implemented should be improved upon by introducing more consultation and engagement with the ecosystem, as well as monitoring and accountability during the implementation of the strategy.

Figure 14: Stakeholder feedback on the past and current approach to fintech sector strategic development

Theme	Stakeholder view summary	Quotes
Low understanding of the fintech sector and its stigmatisation – often perceived as only encompassing consumer lending	Politicians, policymakers and the public in general still have limited understanding of what fintech is, underestimating the breadth and diversity of the sector. Many associate fintech only with consumer lending, as other fintech business models are less visible or not visible at all. The stigma attached to the sector due to its beginnings with consumer lending is still very much alive, although regulation has been tightened, and the sector has expanded and diversified. Outdated perceptions undermine efforts to position the sector as a hub for innovation. Lack of understanding is partly driven by: - lack of complete data showing the whole sector and its contribution to the economy (taxes, employment, etc.) and provision of financial services (nationally *and* globally). - lack of commonly adopted fintech categorisation/taxonomy. - insufficient communication about the success stories. - no single institution has a responsibility to collate the data across regulated/unregulated sectors.	*"The Latvian fintech sector is still seen as "pay day lending" and stigmatized because of that."* *"The fintech sector in Latvia is being "demonised". The country should take more pride in its leading companies."*
Need for genuine political will and buy-in to develop the sector, as well a dedicated political champion	Overall, stakeholders did not consider that the development of the fintech sector is a political priority, despite the presence of the previous fintech strategy document and reference to fintech in many policy documents. Overall "buy-in" and general commitment by key senior politicians, policy makers and regulators to develop the fintech sector is needed. Addressing misconceptions about what fintech is (see above) is key to gaining political and public buy-in. The sector lacks a dedicated "political champion" or a central institution (or a senior official) responsible for its development. However, some stakeholders noted that the Financial Services Development Council headed by the Prime Minister has been efficient at ensuring that the prioritised tasks are completed.	*"Overall, fintech lacks a decisive sponsor/political champion."* *"Not everyone –at political and policy making levels – is motivated to move forward. Pressure needs to be applied at the political level to move things forward. Policy makers must not drag their feet preventing progress."* *"We are not hearing that fintech is needed. The view seems to be that we have missed the window of opportunity and should focus on other sectors. Despite support from individuals at various institutions, there is not a single leader with a mandate and accountability."*

Lack of clear national vision and priorities for the fintech sector	Despite the previous strategy document containing a general vision statement, **there is still no clear medium to long term vision for where the sector should be headed – lack of focus and clear set of priorities** (not just action points) **was mentioned by many.** Lack of a detailed vision creates a barrier to coordination and makes it difficult to adopt a risk-based approach. A discussion is overdue at the highest political levels on the **level of ambition, goals and the risk-appetite** that Latvia wants to embrace. The vision needs to take a medium to long-term view. Currently priorities tend to change often and over time in response to changes in political leadership. Stakeholders considered that, to advance the sector, **much clearer strategic priorities much be set**. There was no agreement on what those priorities should be. However, stakeholders noted that: • There is potential in focusing on payments, especially after Lithuania has tightened its regulation, as well as blockchain/crypto, given that MICA has been passed, and regulatory standards have been increased. • If Latvia wants to become "the gateway to Europe", it needs be clearer about which countries/regions it wants to target and what is its risk appetite. Our main competitors are Lithuania and Estonia, but, given the recent developments, we have a window of opportunity. • Even if focusing on specific fintech segments, having a diverse fintech sector is still important to both mitigate risks and increase the local competition in various segments of financial market. • Clearer communication is needed both nationally and internationally about what the national priority or priorities are with regards to the sector.	*"There is no single message from the highest political leadership on what the priority is and there is not a single vision"* *"Other countries get their act together and set clear priorities, which allows them to achieve much more. Here, we have chaos - each stakeholder wants something different, and we adopt a "project-based approach" where priorities frequently change. The country needs focus. If we establish clear national priorities, everything else will follow - state grants, support for education programs and so on. Latvia cannot afford to scatter its efforts across all sectors."*
Insufficiently clear division of responsibilities and accountability across the core stakeholders	Some stakeholders commended that, over the last few years, the ministries, regulators and trade associations have become much better at communicating and collaborating in driving fintech policy agenda. However, overall, the policy making and regulatory system still is overly fragmented, and the different institutions often have overlapping roles. There is currently a lack of accountability and monitoring of these policies, as well as how they correspond with other initiatives. The views on which institution should take the leading role in driving fintech policy development differed – some thought it should be the Bank of Latvia, but to do so, its mandate and responsibilities may need to be reviewed. It would also have to adopt a much more pro-innovation risk-taking attitude than is sometimes currently observed in practice. Others expected a leading role from the Ministry of Finance, as well as contribution by the Ministry of Economics. The Financial Service Development Council headed by the Prime Minister was seen as an efficient coordinating and accountability mechanism.	*"We observed that sometimes the Ministry of Finance was more open to many innovations than the regulators that sometimes took a very conservative stance and wanted to block some of the proposals."* *"Regulators and civil servants would benefit from adopting an entrepreneurship mindset."*

Clarity is needed on whose job it is to promote Latvian fintech internationally and what the core messaging is	All stakeholders agreed that there needs to be a much clearer and focused messaging nationally and internationally on what Latvia focuses on and what it has to offer. Even sending a signal "from the very top" that fintech is important and we will develop it can go a long way. Latvia has lots to offer and, in many respects, it is as good as Lithuania and Estonia, but its PR is lacking, and there is a need for designated "country ambassadors" for the Latvian fintech sector. A clear and unified message about what the sector has to offer, both nationally and globally, needs to be conveyed at all levels, including the highest political level. This should be emphasized during state visits and through diplomatic and economic representative offices. There is still a difference in opinion on which institution should lead on promoting fintech internationally, particularly between the Bank of Latvia as the financial regulator and Investment and Development Agency of Latvia (LIAA). For LIAA, fintech is one of the sectors that it promotes by attending conferences and exhibitions, but it is not a designated priority area. It also has a more limited ability to reach the fintech ecosystem than other stakeholders. The investment promotion agency of Riga also plays an important role. However, stakeholders emphasised that it is paramount that the slogans correspond to the actual reality, as otherwise there is a risk of longer-term reputational damage.	*"Latvia needs to proactively shape and drive the story. In some respects, we are better than Estonia, but they have a better PR. We have a tendency to be too negative. Actually development opportunities here are good: relatively low bureaucracy, open regulator, support programs, existing talent."* *"The support we provide to fintechs is better than in Lithuania, but no one knows about it. We are lacking sales people and coordinated action from the government explaining that "capital renovation" of the sector is over, otherwise the stigma will continue."* *"There is no clear, unified messaging on what the Latvian sector has to offer that would be used by all stakeholders promoting Latvian fintech."* *"Marketing campaigns saying "come to Latvia" are nice, but practice often differs from the slogans. We need to ensure that there is no clash between words and deeds."*
Need for an export-oriented rather a local strategy	Many stakeholders emphasised that there is need for a more targeted, export-oriented vision. At the moment, from a policy making and regulatory perspective, fintech companies are primary seen as local, rather than export-oriented companies. However, from both investor and fintech perspective, the Latvian and Baltic market is too small to attract companies. It is rather seen as the testing ground before doing business in the rest of the EU/world. For some fintechs, the Latvian market makes up only 10% of the value of their global presence. Some stakeholders noted that the regulators view on the provision of cross-border services is sometimes conservative and cautious rather than encouraging, noting that it first wants business models tested in Latvia before giving a "green light" to enter international markets.	*"What is good about Latvia - with the licence you get, you can work in Europe. But Latvia will never be the core target market – fintechs will always test here and work elsewhere. The Latvian opportunity is to deliver goods and services to the world."* "*We talk about needing fintech to promote local competition in banking, but, from the perspective of the economy, we need to focus on fintechs as scalable export business models."*
Implementation of regulation is often too risk-averse – the mindsets need to change	Overall, many stakeholders noted that there is a tendency towards over-regulation when existing regulatory rules are applied in practice, and the overall risk appetite of the Bank of Latvia as the financial regulator is seen as conservative. Some referred to the overall position taken by regulators in other countries, where nascent innovative areas are given time and opportunity to develop, and only when they become significant and	*"In applying regulations, we always want to be "straight-A" students and more saint than the Pope."* *"Our attitude needs to change – we have a tendency to go from no regulation to over-regulation. Need to be more balanced and think like an entrepreneur – learn*

	potential risks become apparent and may require regulatory oversight, a regulator steps in. A particular area of concern voiced by many is the application of anti-money laundering rules after the "overhaul" of the Latvian financial services sector. The application of rules was still seen as unproportionate, leading to fintechs having difficulties in opening accounts in credit institutions or receiving excessive requests for documentation when carrying out transactions. Fintechs suggested consideration introducing different, more proportionate approaches specifically for platforms. Some noted that, for example, in Estonia, fintech companies that solely provide data analytics solutions and access customer data without engaging in financial transactions, are generally not subject to AML regulations. Some noted that the issues with AML have significantly improved overall national competencies – this could be used as an advantage internationally, but we have not capitalised on it yet.	*from mistakes. We also need more bravery – Lithuanians just said "come to us", but I do not hear that from Latvia. We have this black stamp from the past that we are a money laundering country. Maybe our opportunity is to learn from the mistakes of others and open the gates – the second mover advantage."* *"Bank account opening and usage is still difficult, everything is overregulated and lots of documentation is needed. It is much easier to use neobank accounts, such as Revolut."*
The existing regulatory support mechanisms are helpful, but could be made more powerful	Stakeholders agreed that pro-innovation policy, open regulation and licencing is one of the most important aspects that Latvia can compete with internationally. Stakeholders particularly acknowledge the initiatives offered by the Bank of Latvia, particularly the consultations provided by the innovation hub in the pre-licensing process, though the involvement of lawyers is still typically required. The regulator was seen as being very open to work with firms that want to start their business in Latvia. The other improvements were also commended, such as the initiative by the Bank of Latvia that will allow non-bank payment service providers and crypto-asset service providers to open an account at the Bank of Latvia for the separate keeping of client funds. Also, the Bank of Latvia is working on providing non-bank payment service providers with the opportunity to use direct participation in the Electronic Clearing System (ECS), thereby promoting the development of payment services in Latvia. Some, however, pointed out the late adoption of the access to SEPA system, which still is pending its actual launch, but the companies can already start testing it and submit their applications. However, stakeholders noted several areas where they want to see improvement. **Stakeholders want much clearer and more streamlined procedural guidelines and benchmarks when it comes to licencing processes and preparation of documentation.** The current process was perceived as insufficiently transparent, making it difficult to expect how long the licencing will take, what documentation will be requested, etc. This creates uncertainty for companies and investors and often creates additional costs. In particular, there seem to be differences in expectations about the type and depth of documentation that needs to be provided. There have been cases where the back-and-forth process with requesting more and more documentation has resulted in the fintech running out of budget and deciding to withdraw the application. **The regulatory sandbox has been used by very few fintechs** (at the time of writing and according to publicly available information - two fintechs since 2021)**.** It is a good initiative, but, similarly to Lithuania, it is only applicable for very innovative business propositions and its functionality should be expanded. Also, given the growth in scope of regulated fintech activities, the regulator should grow its competencies by either specialising in specific areas or growing the team.	*"The regulator is open to discussions and is easy to reach."* *"We, as a new fintech, want to understand how much it will actually cost in practice to be regulated in the short and medium term. There are lots of frequent reviews, audits that all cost money, and not all of these seem necessary."* *"At the moment, the sandbox has limited functionality, so there is limited interest from market participants in using it."* *"The issues that arise during licencing are usually related to the quality of the documentation."* *"There is not enough clarity about the licencing process. The attitude of the regulator is welcoming, but ex-ante it is not clear what will be expected and how long it will take. In some cases, fintechs have ran out of budgets they had set aside for lawyers and licencing."* *"It would be helpful to receive a written opinion from the regulator on the likelihood of getting licenced that would give potential investors more confidence at the start of the process."*

	Stakeholders point out that, even though there have been major improvements in the legal environment, there are still areas where some fintech companies are treated differently than commercial banks – for example, loans issued by non-banks cannot be submitted for income tax deduction and documentation needs to be submitted only in Latvian language.	
The fintech ecosystem is developing, but still fragmented	Stakeholders noted that significant improvements have been achieved in bringing the fintech ecosystem together over the last couple of years – communication between the government, regulators and trade associations have improved and trade associations have expanded. However, specifically on the fintech side, the ecosystem is still seen as very fragmented, as there are very different market participants, including some that are not represented by any trade association. Some fintechs are very sceptical about whether it is possible to affect any change and convince policy makers, therefore they do not want to invest their time in trying to influence policy.	*"The fintech ecosystem is very fragmented. Latvians overall are not very keen on collaboration, do not trust each other. It can be changed through setting a good example."* *"The fintech ecosystem is very fragmented and granular, most niche fintechs are on their own and do not organise around common interests. Lithuanians and Estonians are much better at creating communities. This affects what support the Bank of Latvia can provide. As the ecosystem is scattered, they can't build competencies in specific areas."*
Collaboration with banks could be improved, and there is at times uneven playing field	Some stakeholders in more niche segments noted that collaboration with banks at times is still difficult, including account opening. Some fintechs still find it difficult to open bank accounts and carry out transactions. Also, some noted that the established players are less interested in exploring new business avenues by collaborating with fintechs, but it was not clear whether the driver was fear of competition, perceived risks or general lack of interest due to other priorities. This view is supported by research commissioned by the Fintech Latvia association. Even though the majority of banks see cooperation with fintech companies as an opportunity to develop existing products and create new products and services using FinTech solutions (Sauliņa, 2023), challenges remain. For example, while 81% of the banks provide their services in fintech companies, fintech survey data show that 45% fintech companies have accounts opened in foreign banks or with foreign payment service providers, and 48% of surveyed fintech companies stated that there are difficulties in opening current accounts in banks in Latvia (Sauliņa, 2023). Historically, AML concern related factors are usually mentioned as a source. Fintechs also noted that in cases where they provide the same financial services as traditional financial services providers, they at times face an uneven playing field. For example, fintechs that operate in lending segments do not have free access to registers and databases that credit institutions have access to. Also, fintech companies have limited access to financing of state support programs offered by state agencies.	*"Account opening with banks is still difficult. Often use Revolut instead."* *"Banks often have innovation officers, but are not always keen to collaborate with fintechs in new and niche areas. It is difficult to say what is the cause – fear of competition, lack of understanding, other priorities or something else."*
The process by which the previous strategy was developed and implemented should be improved	Stakeholders noted that the development process of the previous strategy was relatively quick and there was limited industry and ecosystem involvement and consultation.	*"The previous strategy was pulled together very quickly and there was limited ecosystem involvement. But it was just the first attempt, we are now in a much better position, and more*

	Whilst this is starting to change, the fintech sector asked for more transparent and robust consultation mechanisms to be put in place. In terms of the strategy itself, it should adopt a longer time frame and have proper monitoring and accountability processes in place, such as annual reviews. Stakeholders noted, however, that the issues with strategic planning are prevalent also in other policy areas, e.g., startup policy.	*of the ecosystem is at the table to promote a higher quality dialogue."* *"When the strategy is been approved, someone needs to commit to review it at least annually to monitor progress and make adjustments."*

Discussion and conclusion: what do the findings imply for the next fintech strategy?

The aim of our preliminary research was to identify core issues and questions that need to be addressed in the new strategy and what needs to be improved in how the strategy is developed, implemented and monitored for it to be effective.

The creation of a strategy was a positive step forward in the expansion of the fintech sector and the development of the fintech ecosystem. The next strategy should leverage on this by creating a strategy for a medium term with clear actions, accountability and aims. There needs to be a decisive political sponsor of the next fintech strategy that would both own the strategy and ensure that it will be implemented.

It is clear from the analysis that Latvia is facing a "window of opportunity" that should not be wasted. Compared to two to three years ago when the work on the first strategy was carried out, conditions have changed in favour of the fintech sector. The pressures and needs to drive economic growth and improve competition and transformation of financial services markets have also increased at both national and EU level. An effective fintech strategy can be an instrument through which that opportunity is seized.

Analysis in the previous chapters and sections suggest that the following three key questions have to be explicitly addressed when developing the new fintech strategy.

Figure 15: The core areas that need to be addressed in the next fintech strategy

1. What is Latvia's level of ambition and risk-appetite?

- Agree at the highest political and institutional levels **that fintech should be promoted**.
- Agree **on the national level of ambition and risk-appetite** and messaging.
- Set targeted priority areas and specific objectives **in light of and in coordination with the higher-level national strategic goals for financial service market development** (improving competition, increasing lending, capital market development, green transition etc.) **and economic growth and transformation agenda** (international competitiveness, digital transformation, artificial intelligence, start-up policy etc.) instead of a secluded fintech strategy.
- Review regulatory risk-appetite and review and strengthen the effectiveness of existing tools (especially the scope of regulatory sandboxes).
- Improve understanding of what fintech is among decision makers and the public and

2. Who is the key owner and accountable for fintech?

- Assign **a single political and/or institutional "fintech champion"** with key responsibility and accountability for the sector.
- Clarify the roles of responsibilities of all stakeholders in areas with overlap and disagreement about responsibilities and mandates.

3. How to ensure the strategy is implemented effectively?

- Adopt transparent, continuous consultation and review process with the ecosystem.
- Set substantive goals and assess effectiveness against those goals.
- Commit to semi-annual or annual monitoring and review of implementation progress.

Question 1: What is Latvia's level of ambition and risk appetite?

Stakeholders highlighted that, despite the first fintech strategy document, there still is not a common agreement among the key decision makers that fintech is a strategic priority, driven partly by the lack of understanding of the sector. This has to be addressed head on as part of developing the new strategy.

All stakeholders agreed that the discussion on what is the level of ambition and risk appetite for the Latvian fintech sector is long overdue. Latvia – like other countries - overall has historically oscillated between taking too much risk, facing repercussions from that risk and then switching to a risk-averse and cautious approach. However, what is needed is an approach in the middle, as frequent change in national risk-appetite makes it harder to support an enabling environment for an innovative financial services sector. What is needed, and can be signposted as part of the strategy, is an approach that manages innovation and risk appropriately and according to an explicitly stated national risk appetite. Managing risk appropriately means anticipating that things will sometimes go wrong (there will be breaches, scandals, etc.), and ensuring that they are managed pre-emptively and proactively, including by continuously monitoring whether regulators have sufficient resources and competencies in new areas, such as crypto. Failures and scandals that happen in any financial market segments, including the traditional ones, have to be managed in a way that does not ostracize the whole sector and does not "throw out the baby with the bathwater".

Regarding priority areas, stakeholders were clear that a small country with limited resources needs to prioritise and build on its strengths. The three key potential priority areas identified by stakeholders were **payments** (given that Lithuania has become stricter in granting licences and fintechs in Latvia can now access SEPA), **digital lending** (building on existing accumulated know-how) and **crypto,** if regulated appropriately (given that Latvia can become the front-runner following the introduction of MICA). However, any prioritisation should not be done at the cost of disregarding those fintech segments that are still relatively small in Latvia, such as open banking and open finance solutions and other areas.

It was also proposed that the strategy fundamentally shifts to an export-oriented approach, where Latvia is seen as a testing ground for solutions that are then provided at the EU level or globally. Whilst promoting local competition is important, most fintechs find the Latvian and Baltic market to be too small. This requires a shift in mindset of the regulator when supervising firms, and the policy makers and the government when designing support programs.

The current regulatory approaches and scope of the regulatory instruments, specifically innovation hubs and regulatory sandboxes, should be assessed in light of the agreed priorities and risk-appetite to ensure they are fit for their purpose. A more complex, multi-level regulatory sandbox might be required, as well as a review of its current efforts and a re-assessment that is aligned with a more export-oriented approach.

In setting goals and priorities, a key weakness of the previous approach has been that it has narrowly focused on promoted fintech as a niche and has insufficiently considered the role of fintech in achieving *broader* goals. From a financial services perspective, the core challenges and priorities over the next years will be capital market development, addressing the long-standing competition issues in banking, promoting green finance, increasing lending and investment in the economy. As the plans and strategies for achieving these goals are developed, they should consider in what ways fintechs could contribute to these goals and what type of barriers to fintech entry and expansion should be addressed. The same applies for the new strategies that are developed under the umbrella of competitiveness, AI and digital transformation.

This is particularly the case for assessing whether fintechs currently experience significant barriers to entry and expansion, and unlevel playing field in specific financial services markets from an effective competition perspective – no such holistic assessment has been completed to date. The same applies for more general state grants and funding for start-ups and companies more broadly.

Question 2: Who is the key owner and accountable for fintech?

Stakeholder interviews and our analysis indicate that there is not a clear single "owner" for fintech strategy and development. In addition, there is some overlap and ambiguity about the distribution of mandates and responsibilities among the institutions and stakeholders involved in policy making. This is an issue not just in relation to fintech, but to financial service market development and promotion of competition in general.[7]

The fintech policy making ecosystem is very fragmented (Figure 16). Overall, the lead on financial services policy is the Ministry of Finance. However, in practice, proposals for fintech development come from three main stakeholders: the Ministry of Finance, the Ministry of Economics[8] and the Bank of Latvia as the financial regulator[9]. The Financial Intelligence Unit also plays an important role in relation to anti-money laundering policy. The other sectoral regulator – the Consumer Rights Protection Centre – is also involved, but to a lesser extent. Overall, both regulators view themselves more as supervisors and less so as policy developers, even though representatives of the Bank of Latvia have been very active in various policy discussions and is involved in the fintech strategy development.

The overall national designated coordinating body for financial service market development is the Financial Sectoral Development Council, chaired by the Prime Minister. Stakeholders noted that over the last years it has been very effective at ensuring that the tasks that are assigned to the specific ministries and institutions are completed, but the policy proposals primarily come from the institutions themselves.

In international promotion, an important role is taken by the Latvian Investment and Development Agency, even though fintech is not a set priority area, and the agency does not have a very direct relationship with the fintech ecosystem. The Ministry of Foreign affairs also acts as a conduit.

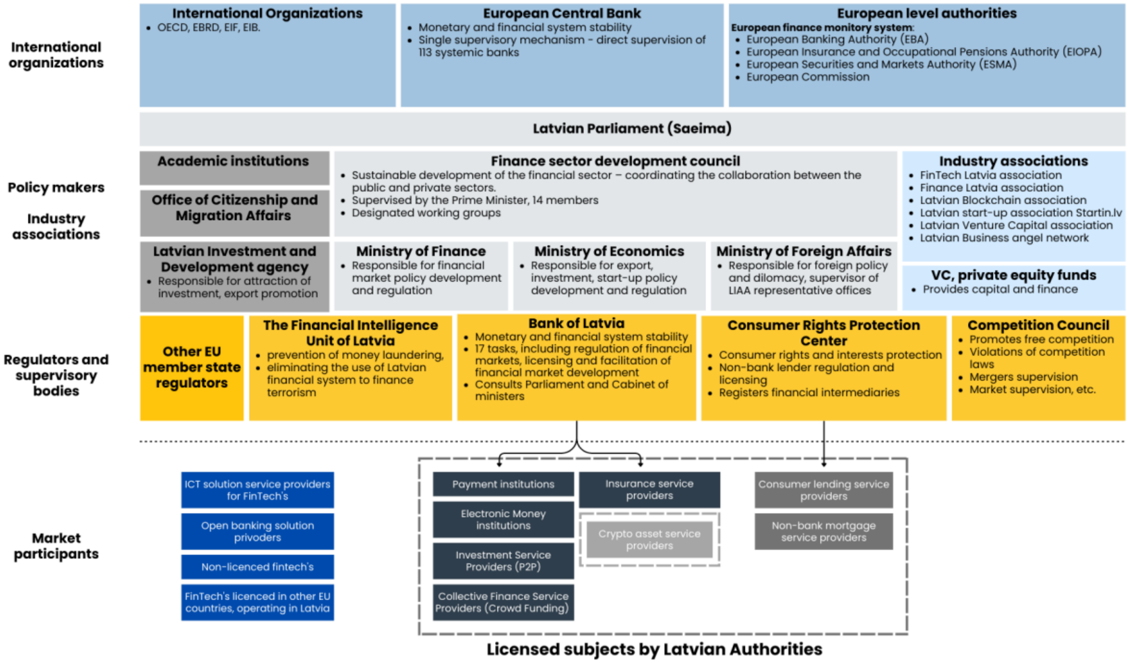
Based on stakeholder interviews, at the moment, the is no consensus about which one of these three institutions – the Ministry of Finance, the Ministry of Economics, the Bank of Latvia – should be the core driver and owner of policy, to what extent the Bank of Latvia can or cannot be expected to drive strategic policy development and who should be responsible for promoting Latvia internationally (politicians, ministries, the national investment agency and/or the regulator). As shown in chapter 3, different countries chose different answers, but what is important is that stakeholders iron out differences and align their views in order to clearly set out what each institution is and is not expected to do within the broader fintech strategy.

[7] Previous research published by the Baltic Finance Centre looking at the division of responsibilities for promotion of competition in financial services markets already concluded that at the moment there are disagreements about who is and is not responsible for developing financial service markets, including by promoting competition (see Dambe, et al. (2024)).

[8] The current Minister of Economics has taken a very active approach to promoting fintech, specifically the crypto market development (see more here).

[9] The Bank of Latvia also maintains the promotional website https://fintechlatvia.eu/, even though, based on interviews, it does not see itself as the key responsible for the promotion of fintech internationally.

Figure 16: Stakeholders involved in the fintech policy making ecosystem



SOURCE: AUTHOR'S ANALYSIS, ADAPTED FROM DAMBE, ET AL. (2024).

Question 3: How to ensure that the strategy is implemented effectively?

The previous fintech strategy "put foot in the door" and sent a signal that fintech should be prioritised. However, stakeholders and international best practises indicated that the next strategy should improve in terms of design, implementation and monitoring.

The most important improvements that have to be introduced from a strategy development, implementation and monitoring perspective are the following:

- **The strategy needs to be set for a longer, medium term, time horizon (5-8 years).** The previous strategy covered only two years (2022-2023) but was adopted only at the beginning of 2023. Fundamental sector development cannot be achieved in 1-2 years. The strategy should rather set a longer time horizon and a clear vision and goals for what is to be achieved during that period (in terms of outcomes and changes seen in the market, not just completion of tasks).
- **The strategy needs to focus on more specific goals, not just tasks.** The previous strategy set out a list of 21 tasks for various institutions to complete. The new strategy would benefit from broader goals against which progress could be monitored to assess whether the different actions have had genuine impact on the market.
- **Proper monitoring and accountability mechanisms need to be introduced.** This could be done, for example, by committing to a semi-annual or annual reviews on progress in strategy implementation, as well as establishing, for example, a fintech forum or advisory group like in some other countries. The monitoring should be done by the overall (currently undefined) owner of the strategy, as well as an independent group of stakeholders.
- **Greater public-private cooperation and partnership.** According to stakeholders, the discussions around the new strategy have already involved the fintech ecosystem to a

much greater extent than previously, largely because the ecosystem itself has developed and grown. It is worth considering introducing further consulting mechanisms, for example, a fintech advisory group, to co-develop and monitor the strategy as it is being implemented.

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Annex 1: The dataset

Data source

There is a challenge in creating a dataset about Latvian fintech companies. Data is more readily available for companies that have a contribution to the Latvian economy and thus data on companies that might operate in Latvia but do not have presence in the country as they are licenced in other EU jurisdictions are not part of the dataset.

In creating the dataset of Latvian fintech firms, we critically examined and verified existing fintech and startup lists from data sources such as Dealroom, EU Digital Finance Platform, Latvian Startup Association "Startin.lv", P2PMarketData, licensed consumer and mortgage lenders from PTAC, and licenses from Latvijas Banka, ensuring the elimination of outdated or incorrect information.

Financial data was provided by our partner, the portal Crediweb.

Firms out of scope

The dataset does not contain information on **fintech firms that might serve customers in Latvia but that are licenced in another EU country** (e.g. Revolut, N26). In the future, the role of these firms in affecting local competition within specific financial services markets could be gathered via consumer surveys.

Availability of data.

Data on turnover etc. was available a different subset out of the 184 firms in the sample. The data for 2023 are for a smaller set of firms, possibly because some firms had not submitted their financial statements yet.

List of fintechs in the dataset

The full dataset is available upon request.

Annex 2: Comparison of selected EU and OECD countries on their take of fintech sector strategic planning

Country	Has a specific fintech strategy?	Has set fintech as a priority in other policy documents?	National initiatives to support fintech companies	Non-governmental initiatives/ public-private initiatives	Objectives
Austria	No	Raising awareness about fintech is a part Austrian Financial literacy strategy	Fintech Navigator Advisory services by Austrian Financial Markets Authority	Fintech Austria and Fintech Vienna	Fintech companies bring sustainable changes to the existing way of functioning of the financial sector; Attract international fintech companies

Bulgaria	No	Has a Financial Innovation Monitoring Strategy for 2021-2024 (Written by the Regulator). It aims to: 1) Do analysis of the need to introduce requirements for licensing or registration regime for companies offering innovative financial products/services and technologies to the non-banking financial sector. 2) Do analysis of the need for a regulatory framework for outsourcing services, incl. cloud services and taking appropriate regulatory measures to ensure security, stability of the financial services market and protection of consumers of financial services, development of the existing innovation hub 3) monitor the development of sandbox regimes and outlining follow-up with its	Innovation hub. Does not have a regulatory sandbox	Bulgarian Fintech association	Fintechs seen as innovators of financial sector; Actors of increasing digitalization of financial services. Attraction of international fintech companies

		possible implementation by the regulator. Has a financial literacy strategy (Ministry of Finance)				
Belgium	No	No	Does not have a regulatory sandbox, however, has a pilot regime for market infrastructures based on distributed ledger technology (DLT). National contact point of National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA) offers advisory services.	Well-functioning financial market, good cooperation with banks. Non-governmental initiatives such as Fintech Belgium, PayBelgium	Fintechs deepen and diversify financial markets; Innovation enablers of financial sector; Fintech could lead to a profound and rapid transformation of the financial sector; Attraction of international fintech companies

Luxembourg	No	Fintech development is a part of Luxembourg Sustainable Finance strategy	Innovation hub Does not have a regulatory sandbox; Fintech development program CATAPULT	Non-governmental initiatives include Luxembourg House of Fintech (public- private). After Brexit focus on onboarding international fintech's. Clear focus on payments and offering passporting services. Blockchain Law prior EU regulation.	Fintech companies are seen as enablers of innovative services and disruptive technologies like blockchain.
Cyprus	No	No, but it has a National Blockchain strategy.	Innovation hub Cyprus launched its regulatory sandbox in 2023	Association of Cyprus EMI and Payment Institutions	Focus on new financial market services - crypto, regtech, Insurtech.
Croatia	No	No	HANFA innovation hub	Fintech Croatia initiative (NGO)	n/a

Denmark	No	Fintech is an essential part of Danish National digitalization policy No, but there is a strong support and political will to support fintech.	Danish FSA has two main initiatives: Fintech Lab (sandbox); and the Fintech Forum – consultative format, where Danish FSA and the sector can discuss developments in the area of fintech. Danish Government's 2021 Digitisation Partnership	Copenhagen Fintech - a bottom-up initiative coming from the ecosystem (founding members include City of Copenhagen, Finance association, Danish Industry association) – a cluster approach, designated VC funds. Uses existing digital and financial markets potential with good collaboration	Fintechs seen as drivers of digitization in financial sector and the economy as a whole; part of comprehensive start-up policies.
Estonia	No (but it plans to develop a strategy)	No, but part of the digital and e-Estonia concept and startup policy	Innovation Hub Regulatory Sandbox	Strong start-up community, InvestEstonia - provides assistance from various government agencies; Accelerate Estonia program, has expanded its regulatory sandbox initiative to support UK startups	Fintechs seen as a part of the digital and nation concept and startup policy

Czech Republic	No	A part of National Strategy for Development of the Capital Market in the Czech Republic	Fintech contact point No regulatory sandbox, but plans to establish one (OECD recommendations)	Czech Fintech Association	Fintechs seen as an instrument to develop the financial markets, capital markets by enhanced competitiveness in the financial sector;
Finland	No	No	Innovation Help desk by Finnish Financial Supervisory Authority; FSA also provides support to virtual currency providers	Fintech finland - non-profit organization;	Fintechs seen as drivers of digitization in financial sector and the economy as a whole;
France	No	Supporting financial innovations created by Fintech companies is one of the priorities in AMF (Regulator) strategy: Impact 2027 AMF	Innovation hub Fintech Innovation unit in regulator AMF ACPR No sandbox – equal treatment for all financial service providers, including fintechs.	Fintech Forum a consultative body created by by ACPR-AMF France Fintech - non-profit association; Le Lab – Innovation center	Both regulators AMF and ACPR share a common vision towards fintech, France becoming a fintech hub. Strong commitment by lawmakers to enable development of Fintech to enhance innovation in financial sector; Legal trailblazer - often surpasses EU regulation –

					crowdfunding, ICO, tokenization
Germany	No	Supporting financial innovations created by Fintech companies Aims are in line with Startup Strategy of the Federal Government See also here.	Fintech Innovation Hubs (also physical presence in Berlin and Frankfurt) and also Cologne and Munich for Insurtech. Financial advisory services under the Minister for Finance. Financing for future Act to support startups in financial sector and enable capital; Growth Opportunities Act	Active fintech ecosystem NGOs, like House of Finance and Tech Berlin, De:hub (Digital Hub Initiative)	Support innovation and startup companies; create regulatory framework that balances compliance and innovation; Improve ease of doing business and reduce administrative burden for SMEs; Ensure access to capital; Using its robust financial system and EU financial hub to attract innovative companies

Greece	No	No	BoG FinTech Innovation Hub HCMC Innovation Hub Bank of Greece Regulatory Sandbox Start-up promotional platform Elevate Greece	Non-governmental initiatives like the Greek Fintech Cluster. Public- private initiative Fintech Hub by National Bank of Greece Endeavor Greece, Onassis Foundation, Hellenic Chamber of Hotels, National & Kapodistrian University of Athens, the Athens University of Economics & Business	Greece is one of the few EU countries, which has commissioned a research by Hellenic Competition Commission in the Fintech Area

Hungary	**Yes (2019)** **Written by the Hungarian National Bank (MNB)**	Strategy is build on core principles: • Security of financial sector - promoting the safe proliferation of innovative financial solutions, while maintaining stability of financial sector; • A proactive, pro-innovation mindset - by providing a transparent regulatory environment ensuring level playing field • Commitment to supporting digital developments and innovative market players • Professional diligence of HNB- improvement of skills and competencies of Regulator- • Cooperation and openness - deepen dialogue and encourages – to foster the establishment of partnerships between FinTech companies	Sandbox Inno hub Central bank also gives regular monitoring of fintech sector "*Fintech and digitalization report*"	Hungarian FinTech Association. IFintech Summit and Forum IVSZ-ICT Association of Hungary	Simulate introduction of new services in the market, develop the digitalisation of the financial system, support the introduction of innovative financial services in a secure way, creating value for consumers; Deepening the collaboration between ecosystem stakeholders improvement of education Strengthen the financial sector and contribute to the economic growth

		• Trust and integrity MNB strategy sets out 24 clear tasks (a road map), including 12 for institutions outside regulator			
Ireland	**Yes** **Written by the Ministry of Finance**	Sets out priorities in the financial sector, designing a specific action plan for support in Fintech. Including: • establishment of a national fintech hub; • support for early stage fintech innovators expanding internationally • Enabling investment in digital transformation and talent;	Innovation Hub No regulatory sandbox	Fintech Ireland	Fintech as an integral part of financial system; Focus on digital agenda at a national level, to continue to be a digital leader in the EU; Promote use of AI in the financial sector; Facilitate creation of fintech startups in innovation hubs by combining private and public resources;

		• Continue funding towards internationalization and scaling of Irish fintechs Ireland regularly monitors and revises annual action plans in accordance with the global situation.			
Italy	No	Supporting legislation towards startups in general	Fintech Chanel (consultative services offered by Bank of Italy) Sandbox Bank of Italy physical Fintech Hubs (Milano)	Italia Fintech	Surpassing legal solutions on a national level to enable fintech development.
Latvia	**Yes, designed by Ministry of Finance**	Sets out priorities in the financial sector in 1.To further improve the regulation of innovative financial services not lowering the compliance control standards and culture. 2. To create financial market infrastructure conducive to	Innovation Hub Regulatory Sandbox	Fintech Latvia (established by Regulator). Industry associations for fintech, blockchain.	Fintechs seen as drivers of innovation in financial sector; Development of the fintech sector is enabled with specific strategies.

		innovation and available to all market participants; 3. Ensure the availability of capital and other financial support mechanisms, 4.Promote the talent base growth (expand the knowledge of local experts and recruit foreign professionals) 5. Build a strong and unified financial technology ecosystem in Latvia. 6. To continue the communication between supervisory authorities and market participants 7. Improve internal and external communication.			
Lithuania	**Yes** **designed by Ministry of Finance**	Sets out concrete actions to enable fintech sector development in these directions: 1) Supporting the qualitative development by conducting evaluation of implemented and analysis of necessary initiatives	Bank of Lithuania's Newcomer program (Innovation Hub and Sandbox)	Invest Lithuania (governmental investment promotion agency) has established a separate fintech division	To further strengthen its position as a high value-added European FINTECH hub by promoting the qualitative growth of the sector, opening up to companies and investment, creating innovative solutions, building competencies,

		2) Attracting innovative FINTECH solutions to Lithuania by using proactive approach by Investment Lithuania; 3) Ensuring that Lithuania is the Centre of Excellence for FINTECH by improving local and attracting foreign talent; 4) Ensuring that Lithuania is a safe and reliable jurisdiction 5) Ensuring that Lithuania is Universally recognised as a European FINTECH hub		Active start-up and fintech community in Vilnius	strengthening risk management procedures and increasing the global recognition.
Malta	**Yes** **Designed by Malta Financial Services Authority**	Sets out concrete actions to enable fintech sector development in these directions: 1. Adopt regulatory and supervisory initiatives to support innovation and improve regulatory efficiency by defining strategic directions. 2. Foster community, demand and collaboration and enhance access to finance.	Regulatory Sandbox by MFSA	Malta FinTech Innovation Hub	To establish Malta as an international FinTech hub which supports and enables financial services providers to infuse technology in product and service offerings to drive innovation

		3. Encourage collaboration through the adoption of Open APIs and shared platforms. 4. Build international links across jurisdictions to foster collaboration and trust. 5. Cultivate deep talent pools and stimulate research and collaborative ideation. 6. Establish an environment that is resilient to cybersecurity threats.			
The Netherlands	**Yes,** **Fintech action plan** designed by Ministry of Finance	Sets out concrete actions to enable fintech sector development in these 3 priority directions: 1) Put the Dutch fintech climate and sector on the map, nationally and internationally 2) In order to grow, fintechs require talent, and the applicable rules must be clear and easy to find 3) Fintechs can grow inside and outside the Netherlands,	AFM, DNB, ACM Innovation Hub No regulatory sandbox	Initiatives by Invest Holland Strong startup community, collaboration between financial sector and Fintechs, high NGO involvement (Holland Fintech Association)	A high level of digitalisation and innovation in order to foster a diverse and competitive financial sector. Aims of strategy: The Netherlands is a global leader in the area of fintech, and Dutch fintechs can grow both at home and abroad;

		within a clear and uniform statutory framework - ensure level playing field, press supervisory harmonization on EU level, encourage new innovation by means o f legislation and policy			Ensure fintechs have good access to knowledge and talent Ensure that legislation is future-proof and allows room for innovation
Poland	No	Does not have a strategy.	Innovation Hub by KNF No regulatory sandbox, plan to establish one.	Fintech Poland , specific how to materials, enabling dialogues. Special Task Force for Financial Innovation in Poland since 2016	n/a
Portugal	No	Does not have a strategy. Fintech development is seen in the context of innovation and start-up development.	CMVM Innovation Hub Fintech+ (innovation hub) Has no regulatory sandbox	Portugal fintech (non-profit) has established initiatives as Portugal Finlab, Fintech House	Fintechs are seen as drivers of digitization in the financial sector and the economy as a whole, enablers of innovation.
Romania	No	Does not have a strategy, but fintech is seen as a part of the start-up and digital policies.	ASF FinTech Innovation Hub	Romania Fintech - national fintech association.	Does not have a strategy. Fintech development is seen in the context of innovation and start-up development. Has

			Has no regulatory sandbox	Various incentives to support start-up companies.	initiatives to facilitate blockchain solutions.
United Kingdom	Yes, by HM Treasury	Strategy aims to address the following directions: 1. Reducing the costs of complying with regulation; 2. Access to the right skills and capital; 3. Improve the take-up of new Fintech services and increasing competition 4. Providing access to markets: Partnering with Incumbents and supporting international expansion; 5. Ensuring the benefits of Fintech are felt by all - society at large; 6. Harnessing the potential of emerging technologies, understanding the potential benefits and risks	The Financial Conduct Authority (FCA) has launched the Regulatory Sandbox and Innovation hub Bank of England has introduced Digital Securities sandbox; Various pioneering legal initiatives to enable sector development;	Various initiatives by public and private partners like FinTech London Khalifa Review in 2021 - a review commissioned by the Government	Aims to preserve and extend the UK's international competitive edge in Fintech

		The Government is working on a new financial services strategy with fintech as one of the priorities.			
Slovakia	No	Not defined in strategic documents. Bank of Slovakia is actively involved in fintech monitoring and regularly publishes consultation papers on fintech matters, overviews, etc.	Center for financial innovation under the Ministry of Finance - platform for the regular exchange of information and experience between relevant stakeholders in the public sector. Innovation Hub Regulatory Sandbox (2022)	Fintech Slovakia association	n/a
Slovenia	No	Driving innovation in financial sector has been the priority of Strategy for the development of the payments market in Slovenia for the period of 2024 to 2028	Innovation hub Does not have a regulatory sandbox	Digital innovation hub	
Spain	No	Fintech defined a priority and as part of Spain's digital agenda, the Spanish government approved a Law for the digital transformation of the financial system, as well as Digital Spain 2026 strategy as well as	Innovation facilitator services by Bank of Spain and controlled testing space (Innovation sandbox)	Existing start-tup and fintech hubs in largest cities Madrid, Barcelona like BCN FinTech	Spanish government, recognizing the potential of fintech, has implemented regulations

		defined it as a part of its start-up support schemes.			that foster growth in line with its start-up policy
Sweden	No	Fintech development seen as part of common start-up, economic development programs	Does not have a regulatory sandbox innovation hub	Uses existing digital and financial markets potential with good collaboration among ecosystem stakeholders Fintech Sweden actively engages in policy proposals (Report of 2024)	Fintech players are important for both increasing competition in the financial sector, as well as establishing partnerships It is also not uncommon for major banks to invest in these players to gain access to the new services they have developed.

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