

Kādam jābūt nākamajai Latvijas **FinTech** stratēģijai



Pētījuma prezentācija un diskusija

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Research

- Raudla, R., Juuse, E., Kuokštis, V., Cepilovs, A. and Ylönen, M., 2024. Drivers of fintech policy evolution: the role of policy learning and institutions. *Policy & Politics*, pp.1-22.
- Raudla, R., Juuse, E., Kuokštis, V., Cepilovs, A., Čipinys, V. and Ylönen, M., 2024. To sandbox or not to sandbox? Diverging strategies of regulatory responses to FinTech. *Regulation & Governance*.
- Raudla, R., Juuse, E., Kuokštis, V., Cepilovs. Forthcoming. Regulatory sandboxes and innovation hubs for FinTech: Experiences of the Baltic states. *European Journal of Law and Economics*.





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Fintech Policy Evolution in the Baltic States

Vytautas Kuokštis

Why Baltic States?

- **Similar background conditions but different Fintech policy trends**
 - Estonia: Proactive (crypto) → cautious
 - Latvia: Cautious → proactive
 - Lithuania: Proactive → cautious

Estonia

- Early proactivity (2016–2017):
 - Focus on crypto
 - Policy failure (considered one of the biggest supervisory mistakes)
- Shift to caution:
 - Scandals revealed flaws in regulation
 - Stricter oversight; limited appetite for proactive experimentation

Latvia

- Initial caution (2016–2020)
- Proactive phase (2021+):
 - Fintech Strategy
 - Change in discourse
 - Launch of the sandbox

Explanations

- Policy learning and scandals
 - Legacy of ML in Estonia and Latvia, crypto in Estonia → low(er) willingness to promote
 - In Lithuania, less ML legacy but Fintech-related scandals led to more caution
- Learning across countries
 - UK's model in Lithuania
 - Lithuania's experience in Latvia/Estonia

Explanations

- Institutional structure:
 - Financial supervision merged with CB (Lithuania, Latvia since 2023) or separate (Estonia, Latvia pre-2023)
- Major role of key individuals ('policy entrepreneurs')

Some policy lessons

- Clear vision and goals
 - Competition? Innovation? Upgrading? Risk minimization?
 - What type of Fintech?
 - KPIs
 - What is the unique selling point/advantage of the country?
- Coordination, everyone on same page
- Key role of individuals
- Clarity and stability of policy stance and rules
- Politicians and regulators



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

Madara Ambrēna, Alexander Apostolides, Kristīne Dambe

December, 2024

Context: Why did we write this report?

The Latvian fintech **sector developed** after 2008

The first Latvian Fintech strategy for 2022–2023 has been adopted and **put the sector on political and policy agenda**

Work is underway on the **new strategy**

We aim to **support this process with independent analysis.**

We aimed to contribute in three ways

- **Show the **diversity and contribution** of the fintech sector**

-> Collated and verified a new dataset of Latvian registered fintechs

- **Identify **lessons learnt from other countries** in promoting fintech and developing strategies**

-> Reviewed 28 country approaches (27 EU countries and the UK)

- **Gather fintech ecosystem **stakeholder feedback** on lessons learnt from the first strategy**

-> 30+ anonymous ecosystem stakeholder interviews (Spring-Autumn 2024)

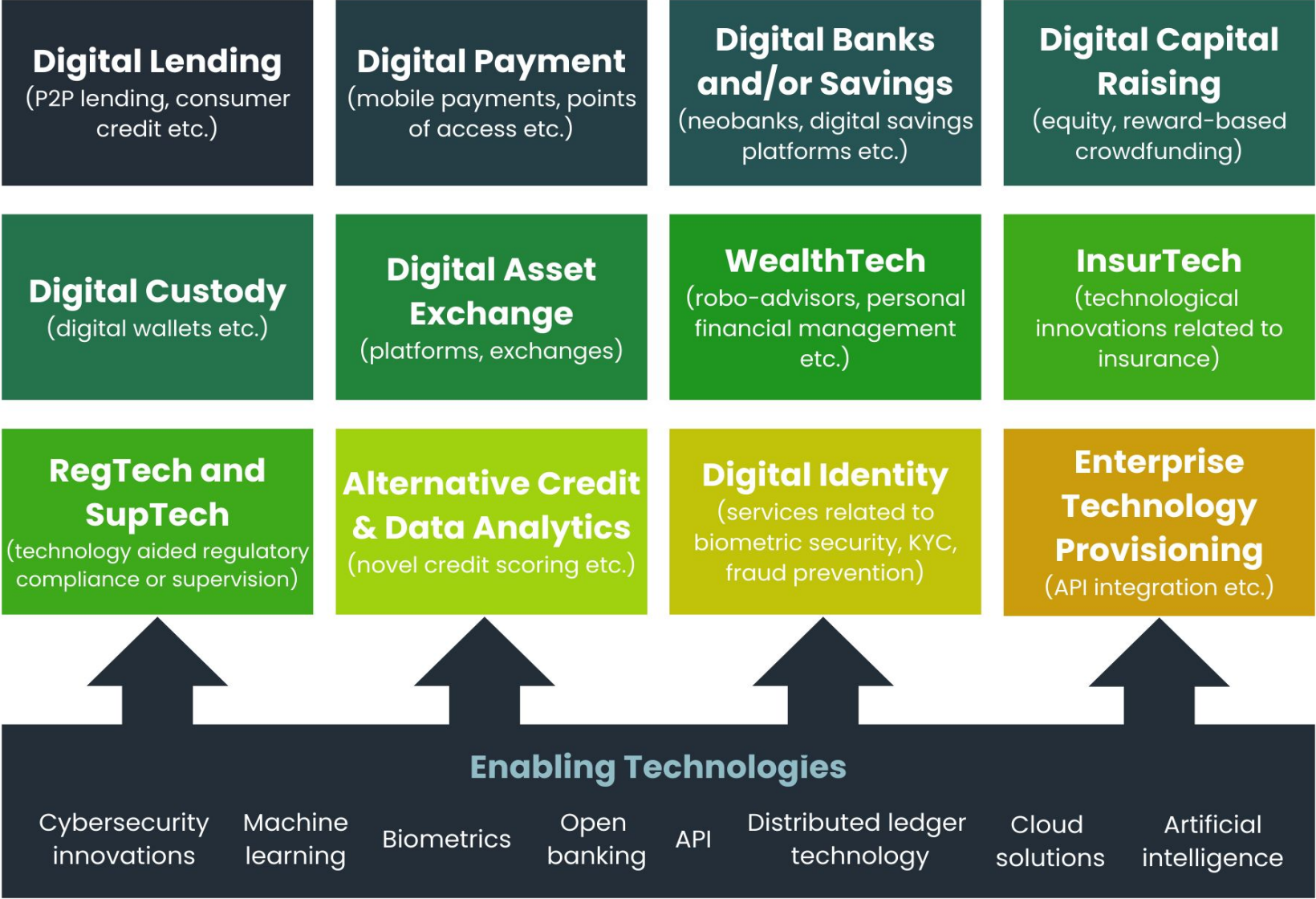
The Latvian fintech sector: past and present

What is fintech?

*“**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)

Much more diverse than many realise



Source: (CCAF; World Bank; WEF 2020; CCAF; World Bank; WEF 2022), updated with a reference to the enabling technologies



We collated and verified a new dataset

- **Gathering data on fintech – a global challenge**

-> No single agreed taxonomy, not specified in national statistics (e.g., no NACE code), fintech operation across EU borders

- **We collated and verified a new dataset of Latvian registered fintechs**

-> Based on existing lists and sources (e.g. Dealroom, EU Digital Finance Platform, Latvian Start-up Association, Startin.lv, P2PMarketData, lists of licenced and regulated firms - PTAC and LB data; financial data provided by Crediweb

- **Important limitations to be addressed in next iterations**

-> Does not include fintechs serving customers in Latvia but licenced in other countries; need data on the global footprint of Latvia companies; missing financial data

Fintech in Latvia: core facts (1)

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

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

RTU RBS Baltic Finance Center, 2024

270.91

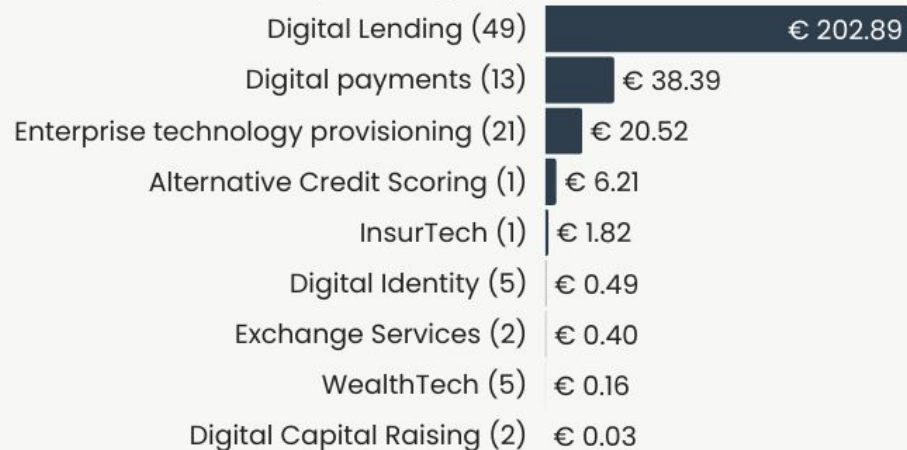
€ million

total turnover in 2023

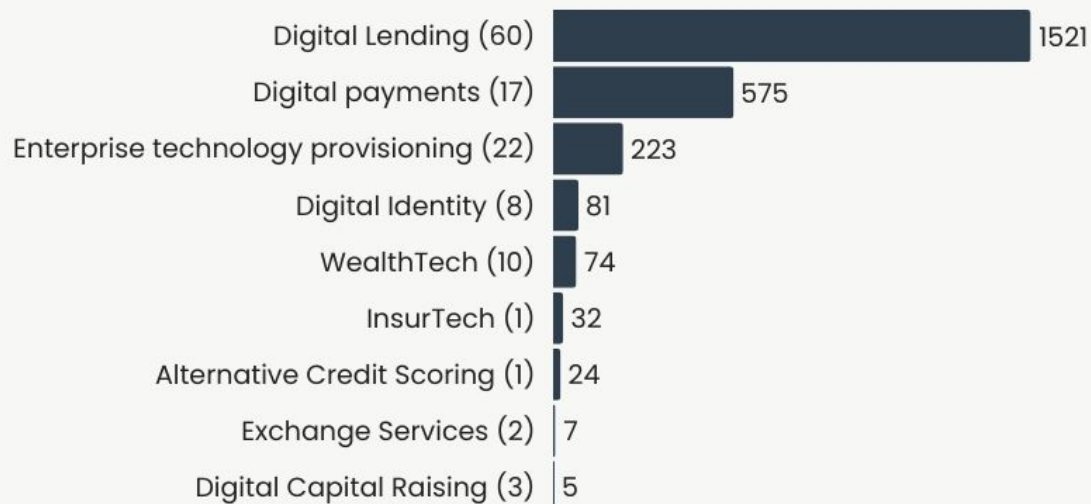
68%

generated by top 10 FinTechs

Turnover by category in millions (n=99)



Number of employees by category (n=124)



21

average number of employees

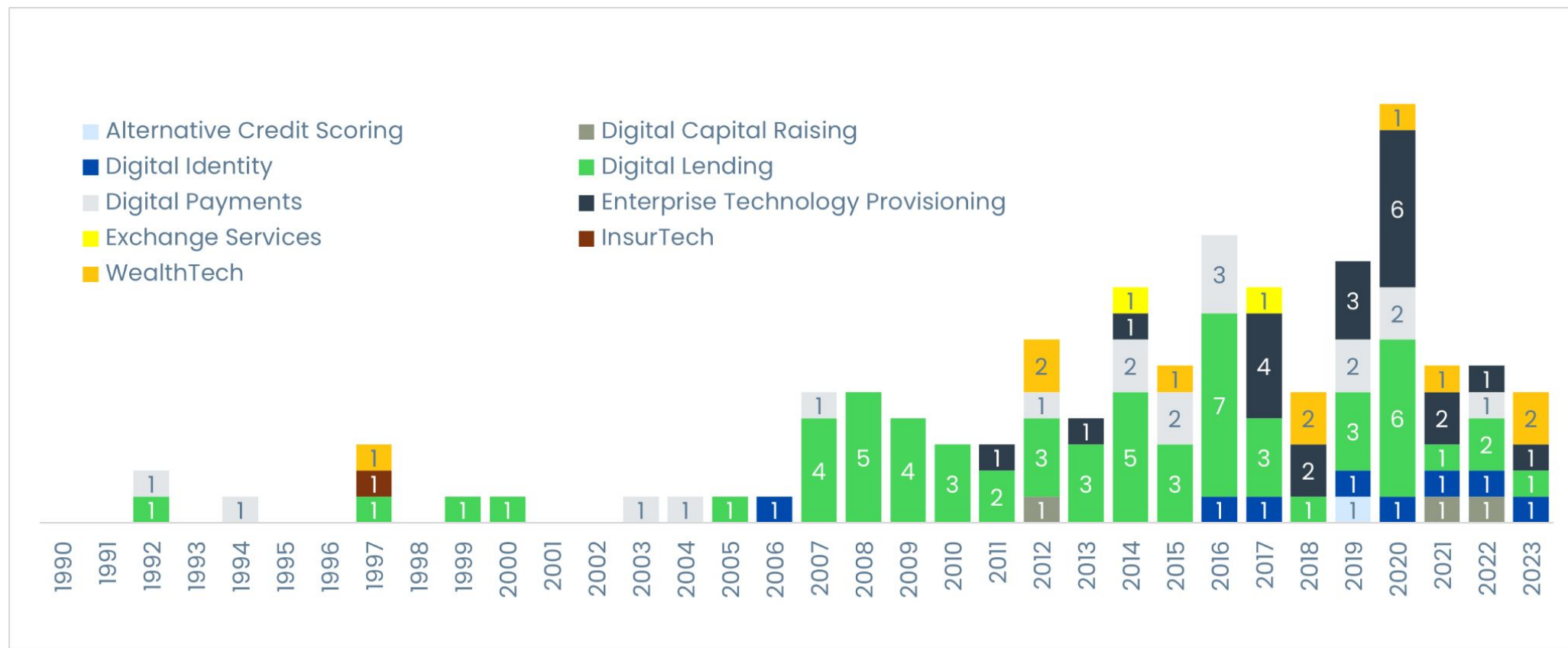
2.5_k

total employed in 2023



75% of fintechs registered after 2012

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



Fintech sector has grown and become more diversified

- **Established post financial crisis (2008)** – mainly lending
- **Growth spurt after 2012** – 75% of current registered fintechs
- **Digital lenders still most prevalent, but sector has expanded** into all segments
- From 2017 – **peer-to-peer lending and crowdfunding** companies
- **Open finance** success stories (Nordigen)
- The most recent area – **crypto**, with MICA from 2025
- Potential of **payment segment** due to access to SEPA from 2025

Lessons learnt from other country approaches (EU and UK)

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

Countries with a fintech strategy have different strategy "owners" (and hence scope)

Many choose to view fintech as a part of other strategies

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

Countries without fintech strategy, but defining area as a priority in other strategic documents		
Digital strategy (DK, EE)	Payments strategy (SL)	Blockchain strategy (CY)
Startup strategy (DE)	Financial Innovation Monitoring strategy (BG)	Financial literacy strategy (AT)
Sustainable Finance strategy (LU)	Capital markets strategy (CZ)	

SOURCE: AUTHOR'S ANALYSIS OF ALL EU COUNTRIES AND THE UK

Four benefits of having a strategy

- **Elevates the importance** of the fintech sector development relative to other national priorities
- **Creates** political, policymaker and industry **buy-in** around a joint vision and strategy
- **Acts as a coordinating and accountability mechanism** for all stakeholders
- **Ensures** proactive **management of possible risks**

But – absence of a strategy does not mean that the sector is not considered or developing!

Main goals for promoting fintech – economic growth and competition in financial services

Strategic goals					
Supporting innovation		Enabling competition in financial market		Attracting investment	
Supporting start-ups		Enabling new technologies in financial markets		Job creation	
Supporting digitalization		Transformation of financial markets		Becoming an international hub	
FinTechs seen as a part of the digital and national concept and startup policy (EE, DK, DE, SE)		Fintech brings sustainable changes to the functioning of the financial sector (AT)	Develops financial and capital markets by enhanced competitiveness (CZ, BE)	Attraction of international fintech companies (AT, BG, BE, DE)	Becoming a fintech hub (UK, DE, BE, FR)
FinTech seen as drivers of digital transformation and innovation not only in financial sector, but economy as a whole (FI, DK, DE)		Fintech seen as enabler of innovative services (BE) and disruptive technologies like blockchain (LU, CY)	Create regulatory framework that balances compliance and innovation (DE)		
		Fintechs seen as innovators of financial sector improving digitalization of financial services (BG, BE, FR)			
Focus on digital agenda at a national level, to continue to be a digital leader in the EU (IE)	Facilitate creation of fintech startups in innovation hubs (IE)	Fintechs seen as innovators of financial sector improving digitalization of financial services (HU, NL)	Promote use of AI in the financial sector (IE)	Fintechs strengthen the financial sector and contribute to the economic growth (HU)	Attraction of international fintech companies (LV, LT)
Build a strong and unified financial technology ecosystem (LV)	Harnessing the potential of emerging technologies, understanding the benefits and risks (UK)	Improve the take-up of new Fintech services and increasing competition (UK)	Enable creation of innovative financial services (LV)	Improve talent (training local experts and recruit foreign professionals) (MT, LV)	Become a fintech hub (LT, MT, NL)

Countries without a fintech strategy

Countries with a fintech Strategy

What do good strategies have in common?

Core facilitating mechanisms - supporting regulatory environment and excellent cooperation

Clear message and targets
(NL, IE, LT)

Time bound, clear set of roles, high level buy-in
(NL, UK)

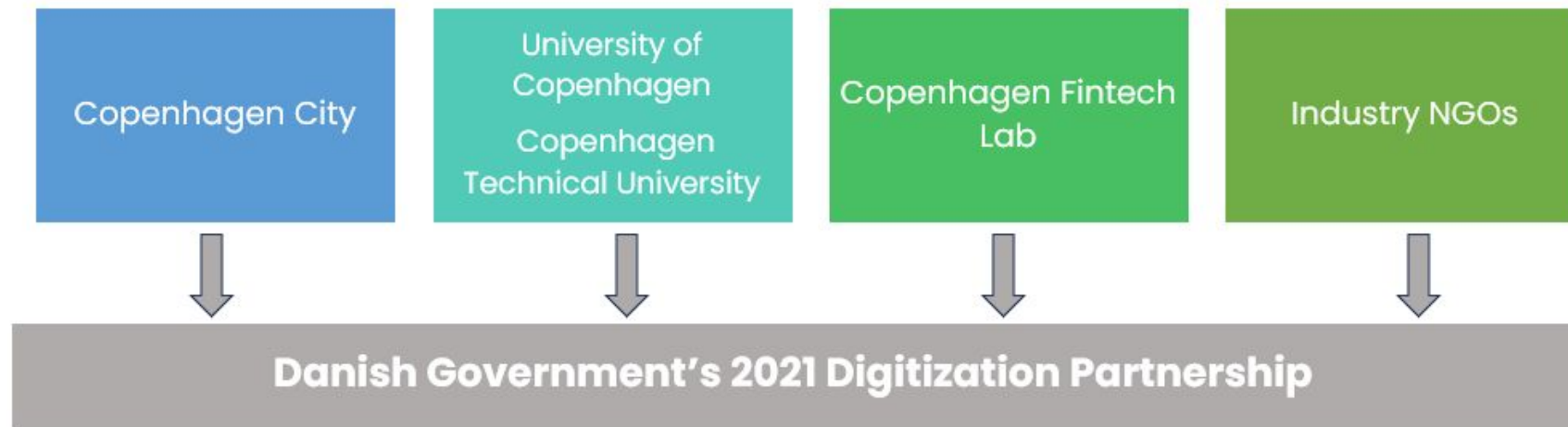
Clear co-operation and implementation mechanism
(DK, SE, DE)

Framerowk to evaluate results
(IE, NL, SK)

The role of ecosystem is crucial in enabling growth: *The Danish example*

*Ranks among Top 3 in EU in number and funding for fintechs per capita
Vibrant start-up ecosystem
Most digital economy in the EU*

Even without a strategy, each stakeholder knows its role in achieving the common goal



A risk-based, proportionate regulatory environment is the key enabler of fintech

Four regulatory responses to fintech according to the World Bank

“Wait and see”

“Test-and-learn”

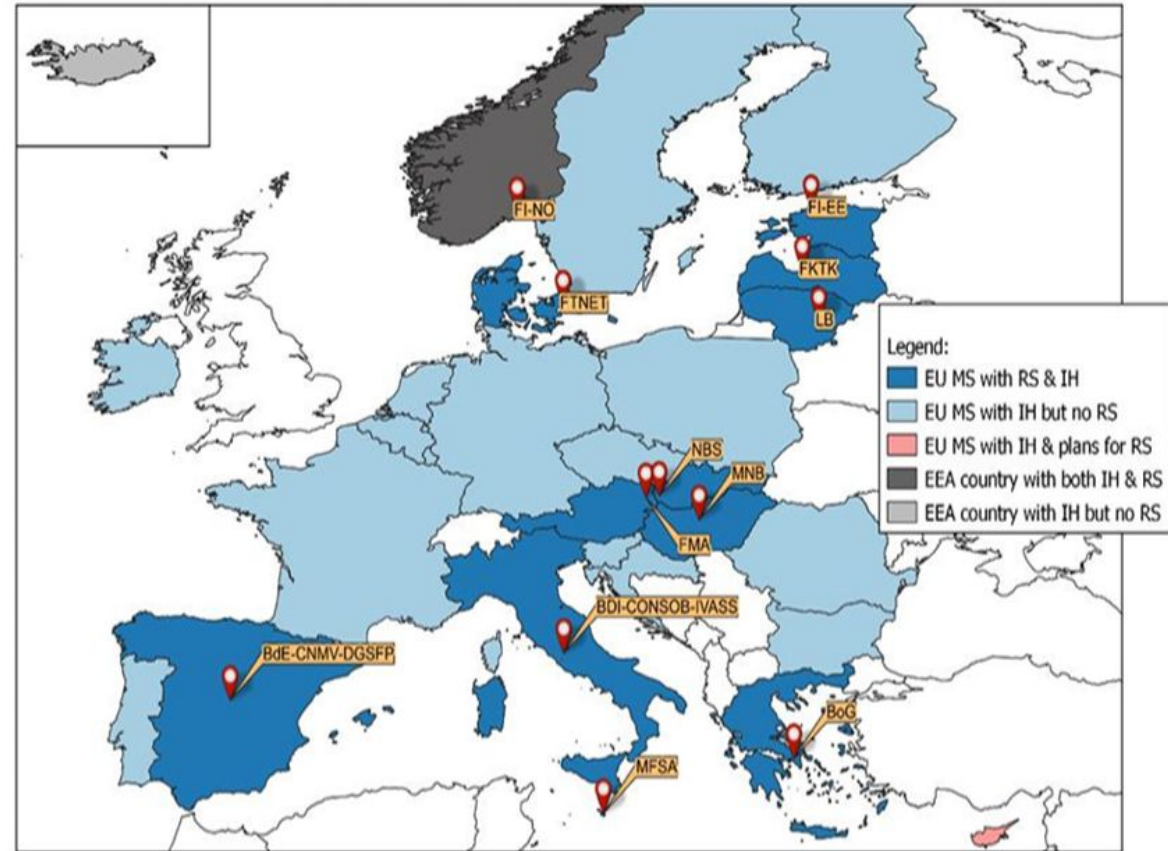
Innovation
facilitators

Regulation &
lawmaking

SOURCE: ADAPTED FROM (WORLD BANK, 2020)

The jury on the effectiveness of regulatory sandboxes is still out

- 41 innovation hubs and 14 regulatory sandboxes across the EEA (Oct 2023)
- Most **innovation hubs** established 2016–2019; **regulatory sandboxes** around 2020–2021
- Analysis by ESAs:
 - can add significant value
 - signal to fintechs country's openness
 - **costs and benefits need to be assessed**
 - differ by how much can actually be done
 - key risk – clash of expectations by firms vs what the specific regulator can offer



Stakeholder feedback on Latvia's first national fintech strategy (2022-2023)

Latvia's fintech strategy 2022–2023

“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.”

8 recommendations:

Improve regulatory framework

Develop the fintech ecosystem

Financial market infrastructure

Regulatory & fintech dialogue about licencing

Strengthen capital & investment climate

Strengthen capital & investment climate

Grow talent base

Quality internal & international communication

What do ecosystem stakeholders think?

Generally, 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.

What do ecosystem stakeholders think?

”

Latvia has the potential to become a fintech hub thanks to the accumulated experience and favorable legal environment

”

Favorable legal environment and support for start-ups and fintechs

”

Regulator easy to access

Areas where improvements are needed (I)

Genuine political will to develop the sector, a political champion and clarifying roles where there is overlap and disagreement

”

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.

”

The fintech sector in Latvia is being “demonised”. The country should take more pride in its leading companies.

Low understanding of the fintech sector (perceived as only consumer lending) & stigmatisation due to past practices

Areas where improvements are needed (II)

Need for a much clearer vision with more targeted strategic priorities

”

*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.***

”

*Other countries get their act together and **set clear priorities, which allows them to achieve much more.** Here 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.

Need for an export-oriented rather than a local strategy

Areas where improvements are needed (III)

The existing regulatory support is very valuable but could be strengthened and licensing process could be clearer

”

There is not enough clarity about the licencing process. The attitude of the regulator is very welcoming, but ex-ante it is not clear what will be expected and how long it will take.

”

In applying regulations we always want to be “straight-A students and more saint than the Pope.

Implementation of regulation, particularly AML, is often too risk averse – mindsets need to change

Areas where improvements are needed (IV)

The fintech ecosystem has developed significantly but is still too fragmented

”

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.

”

When the strategy is been approved, someone needs to commit to review it at least annually to monitor progress and make adjustments.

The process by which the previous strategy was developed could be improved

Three core questions to address when developing the new strategy

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

2) Who is the **key owner** and **accountable** for Fintech?

3) How to ensure strategy is **implemented effectively**?

1. What is the national level of ambition?

-> Define the **core priorities** and the **appropriate risk-appetite** (who sets it?)

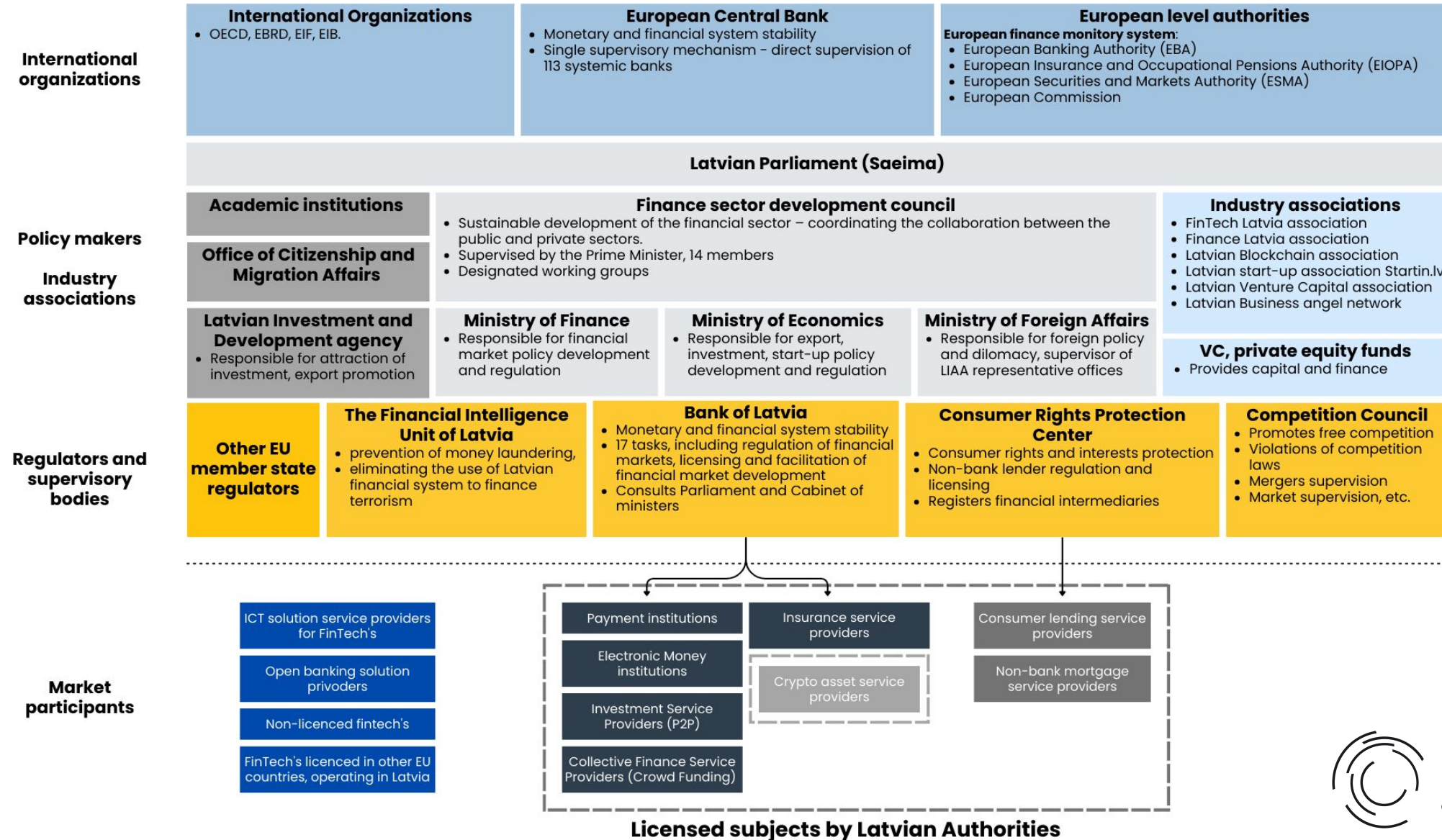
-> Set target objectives in **line with & coordinate with the specific strategies** for:

(i) financial market development (capital markets, improving competition, increasing lending, green transition etc.)

(ii) economic transformation agenda (digital transformation, AI, international competitiveness)

-> Strengthen and tweak the regulatory tools and mandates where necessary to match the risk appetite

2. Who is the key owner and “political champion” for fintech?



3. How to ensure the strategy is implemented effectively?

- >The strategy needs to be set for a **longer time horizon** (5-8 years)
- >The strategy needs to **focus on more specific goals, not just tasks**
- > **Proper monitoring and accountability** mechanisms need to be introduced
- > Generate greater **public-private cooperation** and partnership

*“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)



Full report
available at
finance.rbs.lv

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“Knowledge and Research Capacity Strengthening of Anti-Money Laundering,
Financial Sector Technology and Analysis”*

DISKUSIJA

Kādam jābūt nākamajai Latvijas FinTech stratēģijai un tās prioritātēm?

09.12.2024., ES māja



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