

# Joint Recommendations of the financial industry associations regarding the future of EU and Latvia's financial market, technological innovations in the area of financial services

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LATVIJAS APDROŠINĀTĀJU ASOCIĀCIJA  
LATVIAN INSURERS ASSOCIATION



**LMENA**

Latvijas Maksājumu  
pakalpojumu un elektroniskās  
naudas iestāžu asociācija



LATVIAN PRIVATE EQUITY  
AND VENTURE CAPITAL  
ASSOCIATION



Latvijas Tirdzniecības  
un rūpniecības  
kamera

**LIKTA**

Latvijas Informācijas  
un komunikācijas  
tehnoloģijas asociācija

**startin**  
Go Global.

**More rapid innovation stimulation in the European financial sector to maintain the current competitiveness, but also be able to compete internationally and with global technology players.**

Recommendations were prepared by nine non-governmental organisations:

Association of Latvian Commercial Banks

Alternative Financial Services Association of Latvia

Latvian Insurers Association

Latvian Information and communications technology association

Latvian Leasing association

Association of Latvian payment and electronic money service providers

Latvian Private Equity and Venture Capital Association

Latvian Startup association and the Latvian Chamber of Commerce and Industry

# Achievements of Latvia in the area of digital transformation and implementation of innovative solutions in the financial industry, based on the information provided by each industry.

At the end of 2016, the total assets of the financial sector in Latvia, excluding the Central Bank, constituted 173%<sup>1</sup> of Latvia's GDP.

Inhabitants of Latvia actively use financial services. According to the World Bank research, 90% of inhabitants above the age of 15 have opened a bank account.

## The Latvian financial market participants\*:

<b>Credit institutions</b>	16 credit institutions and 7 branches of foreign credit institutions in Latvia
<b>Insurance companies</b>	13 non-life insurance companies (including 8 branches of foreign companies in Latvia) and 6 life insurance companies (including 4 branches of foreign companies in Latvia)
<b>Payment institutions and e-money institutions</b>	3 licensed and 23 registered payment institutions, 3 licensed and 11 registered electronic money institutions
<b>Investment funds and pension funds, investment brokerage companies</b>	17 pension plans, managed by 6 private pension funds, 20 State Funded Pension Scheme investment plans; 27 investment funds, managed by 12 investment management companies; 4 investment brokerage companies and 16 alternative investment funds, managed by 12 alternative investment fund managers
<b>Non-bank crediting service providers, mutual loan platforms (P2P)</b>	20 leasing service providers (including 9 companies licensed by the CRPC), 117 non-bank crediting service providers (distance consumer credit, mortgage loans, SME loans and other credit providers) (including 49 companies licensed by the CRPC)
<b>Mutual loan platforms (P2P)</b>	7 mutual loan platforms
<b>Credit union companies</b>	34 credit union companies
<b>Start-ups</b>	31 finance technology start-ups

\* Data provided by the Central Statistical Bureau, the Finance and Capital Market Commission, the Bank of Latvia, Consumers Right Protections Centre, Latvian Start-up Association

<sup>1</sup> The total assets of the financial sector in Latvia, excluding the Central Bank, consist of credit institution assets 118.2% from GDP, non-bank financial sector (including financial institutions not supervised by the FCMC) assets 27.3% from the GDP, capital market of Latvia 11.9% from the GDP, as well as other participants of the financial sector (mostly holding companies), the assets of which constituted 15.2% from the GDP of Latvia at the end of 2016.

## Participants of the financial sector are open to mutual cooperation,

in order to establish a stable, safe and internationally competitive environment in Latvia, where all the market participants would have a possibility to offer innovative financial services.

## Innovations in the financial services market provide advantages

to public in general (merchants, state, natural persons) as well as market participants themselves:

- improvement of the availability of financial services: speed, convenience, access and security;
- ensuring efficiency - digitalization of services and activities (channels, remote transactions, remote identification, data use and analysis).

## Digital transformation processes we observe:

### 1. Speed and mobility of services

Traditional payment technologies work hand in hand with innovative solutions. The effect of digitization is visible and new solutions appear on the market geared towards increased speed and mobility. This has facilitated rapid development of financial services in Latvia:

- 1.1. Absolute majority of Latvian bank clients choose to use financial services remotely on a daily basis: **99% of payments in 2016 were made via online banking or by payment cards**. Only 1% from the total number of payments are made by submitting a payment order in the form of a paper document, that is, in branches of banks.
- 1.2. **The volume of payments made by electronic money institutions and payment institutions were 402.1 million euro in 2016, increasing by 57% within a year.**
- 1.3. **The Bank of Latvia (LB) has provided a possibility to the electronic money institutions and payment institutions licensed in EEA to have an immediate access to the payment systems infrastructure.** In the beginning of 2017, it has expanded the access to the electronic clearing system (ECS) of the LB, providing a possibility for the above-mentioned institutions to open a current account with LB. Upon using the addressable BIC holder service they can perform SEPA credit transfers of clients.
- 1.4. **LB will implement the infrastructure for providing fast payments between members of ECS of LB in August 2017** therefore supporting more broader use of non-cash money and development of innovative payment tools. **As a result Latvia will become the first country in the European Area that has access to fast payments appropriate for SEPA fast payment scheme.** As of November 2017, reach within the whole European Area or SEPA area will be ensured. Thus, payment providers in Latvia - banks, licensed electronic money institutions and payment institutions, will be able to provide their clients with a possibility to transfer monetary funds within few seconds in the 24/7/365 regime, both within Latvia and the whole EU.
- 1.5. **As of August 2017 LB will provide maintenance of the IBAN account numbers and database of links to mobile phone numbers for clients of the ECS Fast payment service participants** therefore contributing to innovations in the area of payments. An infrastructure is being developed for payment service providers to be able to offer their clients a possibility to transfer monetary funds by indicating only the mobile phone

number of the recipient. For example, a smartphone user will be able to perform a payment via mobile application to any recipient in the contacts whose phone number is connected to a specific account number.

- 1.6. To ease the daily routines of clients, banks offer them the possibility to receive and automatically pay for invoices from public utility, telecommunication and other service providing companies. Such a service - [regular and automatic payment of e-invoices](#) is provided by 8 banks, which cover 94% of the overall number of all banks' retail clients.
- 1.7. [In 2017, banks continue to implement the contactless payment card technology](#) issuing contactless payment cards to clients, which on 31.03.2017. constituted 7% of the total issued cards. Similarly, the card acceptance equipment is being upgraded to allow for contactless (30% from POS).
- 1.8. Banks expand and improve availability of remote financial services. Several banks offer state of the art mobile apps, covering 90% of the retail clients in the Latvian banks. [The number of people who use mobile apps is also significantly increasing. At the end of 2016 more than 13% of the clients of banks were users of mobile apps. Within a year the number of users has increased by 56%.](#)
- 1.9. [The number of payments initiated in mobile apps has increased by 90% within 2016](#), reaching 3 million payments within a year.

## 2. Remote client identification

- 2.1. [Banks have established a safe electronic identification service Bank link / E-link.](#) They offer to use bank issued authentication means for personal identification, in order to access both public (government wide portal [latvija.lv](#), State Revenue Service Electronic Declaration System (SRS EDS)) as well as wide array of commercial e-services.
- 2.2. [New solutions are being implemented for safe authentication of clients of banks by using mobile apps.](#) While in 2015 none of the banks offered such authentication solution, seven banks provide this option in 2017.

## 3. Development of other remotely provided services

- 3.1. Technological innovations in the [insurance sector](#) provide conveniences for consumers - saved time and resources. [The proportion of contracts concluded online is 8%, while online claim submission is 36%.](#) After purchase, 99.9% of insurance policies are immediately issued from the insurers' IT systems and are immediately effective (in accordance with the conditions of the contract).
- 3.2. [Analytical tools and big data are increasingly used](#) to assess creditworthiness of a client before issuing a loan. [It provides a possibility to review the application of a client and to issue a credit within few minutes. Today more than 80% of non-secured credits of private persons](#) (such as consumer credits) are assessed this way. At the same time, it offers a client a possibility to determine a credit rating within a few minutes before submitting an application requesting a loan to the bank.

- 3.3. **Strong peer to peer lending platforms (P2P) are providing services in Latvia and abroad.** P2P platforms are becoming an attractive investment. At the same time, it expands access to the necessary financial resources for companies and private persons. Among the continental European countries, Latvia has the largest proportion of loans per person financed through P2P lending platforms operating in Latvia. **More than 94 million euro worth of loans were financed in the 1st quarter of 2017, which is three times more than in the 1st quarter of 2016.**
- 3.4. **A significant non-bank lending sector has developed in Latvia** due to developed technological solutions, **offering both mobile as well as online lending services.** Loans are granted to small and medium enterprises as well as private persons. **The total loan portfolio of the industry in Latvia was 527.79 million euro at the end of 2016, out of which 107.95 million euro consisted of online loans.** Development of the industry is based on purposeful expansion in foreign markets. Large share of non-bank lenders established in Latvia operate in three or more foreign markets, managing the processes from Latvia. Competitiveness of the industry is based on excellence in customer service, as well as advanced credit risk assessment models, where automated analytics tools are used. That provides a possibility to review the application of a client within a few minutes and to issue the loan, at the same time ensuring high quality of assessment of creditworthiness. Technologies allow reduction of manual processes in the business, thus increasing the speed and convenience in providing services to the clients.
- 3.5. There are around 240 startup companies operating in Latvia, more than 13% of the Latvian startups operate in the field of financial technologies. **Finance technology (Fintech) startups have attracted around 80% from total investments into startups.**

In the beginning of June 2017, the Bank of Latvia will organize the regular meeting of Expert discussions, discussing the most topical issue of the current year in the field of payments - *“Instant payments - a new era in payments of the Latvian banks, enterprises and inhabitants”*, and periodically will provide additional information on instant payments and their use in the second half of this year.

The Finance and Capital Market Commission plans to commence a cycle of discussions “FCMC Dialogue” with participants of the financial sector, at the end of June 2017, within a framework of which the event *Innovations in Latvia - what are the opportunities for our finance sector?* is planned.

Latvian financial industry associations will continue their joint work together with the public institutions to facilitate development of financial technologies, to strengthen the competitiveness of Latvian financial technologies and related industries, to implement the tasks covered by the Financial Sector’s Development Plan for 2017-2019.

# Response to the public consultation of European Commission (EC) “Fintech: A More Competitive and Innovative European Financial Sector” and Consumer (Retail) Financial Services Action Plan: Better Products, More Choice, prepared by the EC.

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We call for and support the following:

- 1. Common regulation on the European level:** uniform provisions for all financial service providers (*same activity, same regulation*) with maximum harmonization directives facilitating competitiveness, cross-border activities and reducing market fragmentation.
- 2. Uniform enforcement and interpretation of regulations across the Europe,** in order to ease and facilitate cross-border provision of financial services, reduce regulatory arbitrage and strengthen competitiveness. We need to ensure common provisions across the EU Member States in the following priority areas - consumer rights protection, personal data protection, AML (use of risk based approaches, remote identification, due diligence requirements, etc.) as well as cybersecurity.
- 3. Licensing of financial technology (*fintech*) companies on the EU level** is necessary. It would ensure proportionate regulatory requirements and alignment of supervision approaches. At the same time the option to use passporting regime should be maintained.
- 4. Promoting innovations in the market for financial services - through consultations provided by the supervisory authorities, use of risk proportionate regulation of services new to the market and introduction of new supervisory approaches** (“regulatory sand box”).
- 5. Unified rules on providing information to the clients for all the market participants.** We call for strengthening of accountability for and transparency of the business practices vis-à-vis the clients, supervisory authorities and third persons; ensuring provision of accurate information regarding the services offered, possible risks and to implement procedures that reduce the possibility for financial industry companies to be used for money laundering purposes or to defraud the clients.
- 6. Within the scope of eIDAS Regulation, assess the possibility to recognize and allow the use of electronic identification means certified not only in EU Member States, but also in certain non-EU countries** (Russia, Ukraine, in future Great Britain etc.)
- 7. Unification of the tax regime for various financial technology services.** Varying approaches across the Member States with regard to taxation of innovative financial services that have not been regulated so far, inhibit the expansion of companies' cross-border activities.

8. **Ensuring access to various public registers and databases across the EU Member States for identification of persons and assessment of creditworthiness** so that financial market participants are on equal footing as regards access to data, when performing cross-border activities. Promotion of EU wide approach to credit information sharing between banks and financial technology companies shall be assessed.
9. **Clarify the legal treatment of blockchain technologies**, thus opening up speedier recognition of various solutions based on such technology across the EU Member States and ensuring more rapid RegTech development.
10. **Promoting use of outsourcing, including cloud computing**, that would enable financial sector participants to further increase operational efficiency, by reducing operational expenses and increasing competitiveness on the global level. At the same time, we recognize the need to maintain appropriate and risk proportionate requirements for compliance, national security and cybersecurity. When determining the requirements applicable to the EEA market participants for risks reduction in cloud service outsourcing, it is especially important that they do not unreasonably differ from requirements in other regions of the world and do not limit service provision in the EEA. It is important to achieve that market participants can determine with ease and uniform clarity, whether an outsourcing service provider complies with the binding requirements.
11. **We invite the European Commission to focus on ensuring fair competition between various financial industry enterprises while facilitating cooperation based on mutually beneficial conditions.**

# Practical issues or recommendations for improvement of enforcement of legislation or regulations in Latvia to promote development of financial technologies and strengthen Latvia's position as an internationally competitive financial market.

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We call for and support the following:

1. **Avoid excessive gold-plating**, when adopting the European Union directives by taking an approach that is proportional and facilitates financial market development. Fully use the opportunities provided to the Member States to assess the maximum need for implementing the requirements of directives, evaluating specifics and needs of the state.
2. **Establish framework for discussions and experimentation ("regulatory sand box") to facilitate** environment that ensures development of new innovative financial services, which could be used by the current market participants and financial technology start-ups.
3. **Facilitate consultation opportunities with supervisors, policy makers and market participants**. Establish a Financial Technology Innovation Work Group / Forum within the framework of the Financial Sector Development Council.
4. **Proactively adopt regulations important for the development of financial industry:**
  - Amendments to the Law on the Prevention of Money Laundering and Terrorism Financing to implement AMLD4 and AMLD5;
  - Cabinet Regulations regarding remote client identification;
  - regulations on the operation of P2P lending platforms and crowdfunding platforms;
  - transposition of the Second Payment Service Directive (PSD2) into the Law on Payment Services and Electronic Money.
5. **Eliminate current obstacles that limit implementation of fully digital transactions:**
  - by amending certain regulations which require submission of documents only in the form of a paper and in person, supplementing with a possibility to perform it remotely and with an electronic signature (e.g. submission of the mortgage agreement to the Land Register);
  - by improving the electronic signature solution, making it convenient and user friendly;
  - by implementing the concept of mandatory personal identity card or electronic identity card (eID) with integrated active electronic signature and authentication certificates, including unlimited number of signature and authentication times.
6. **Establish effective electronic data exchange system between the state managed registers and the private sector. To move towards establishment of a uniform public data aggregator and data flow channel therefore standardizing access to data.** As a result, more efficient cost management would be ensured on the side of the state as well as the private sector (strengthening of the role of the State Regional Development Agency).

7. [Align application of AML requirements with the need to join the Digital Single European Financial Market - remotely, on a cross-border level.](#) Requirements for remote client identification shall be:
  1. technologically neutral, determining only basic security principles and emphasizing the quality requirements of technological means to be used for identification;
  2. proportional, considering risk based approach. That would ensure the regulation interacts with the constant development of technologies, without slowing down innovations in low risk services. At the same time, it would keep equally high standards for the current as well as new financial service market participants with higher risk solutions.
8. [Accelerated introduction of remote authentication of foreigners \(a status of the Latvian e-resident\)](#) by shortening the time period for establishment and introduction of the Latvian register of foreigners.
9. [To assess a possibility to begin pilot projects that use blockchain technologies for various processes](#), such as repository of legal agreement in the area of financial services, digital identity, KYC, therefore moving to fully digital process in transactions.
10. [Implement the right for financial institutions to receive information from public registers free of charge or a price that does not exceed the administrative costs for fulfilment of obligations set in AML Law.](#)
11. [To establish and maintain a single state data base on politically exposed persons \(PEP list\)](#), to provide a possibility for the financial sector and other subjects of the AML Law to effectively perform requirements of the AML Law in client research and avoid regularly requesting information from individuals.
12. The financial sector supports and calls for [the information held by the Enterprise Register of the Republic of Latvia on beneficial owners of enterprises \(Register of Ultimate Beneficial Owners \(UBO\)\) to be publicly available.](#)
13. [To support and strengthen the activity of CERT.LV](#) as a successful model of the private sector, including the cooperation between the financial sector and the state, ensuring management of the risks of cyber security.