## Informative Report

## On Latvia’s FinTech Sector Development Strategy for 2022-2023

## Summary

Latvia generally has unused potential for the development of the financial technologies (FinTech) sector. Even though the legal framework is supportive of entrepreneurial activity, it is still necessary to continue working on reducing unjustified obstacles for commencing entrepreneurial activity in the financial sector. Special attention should be paid to the development and application of technologies in financial services to foster the creation of high added value products, thereby increasing the competitiveness of the sector. The development and integration of artificial intelligence, big data, cloud solutions and other technologies in financial services should be encouraged.

In terms of technology development, Latvia is currently lagging behind compared to other European Union (hereinafter - EU) countries. This is reflected in a number of country development indices: the Global Innovation Index, the Government AI Readiness Index, the Global Competitiveness Index and the Global Information and Communication Technologies (hereinafter - ICT) Development Index.

Trends in the use of innovative technologies in the European financial sector (Denmark, France, Germany, Italy, Poland, Spain and Sweden) show that Latvia needs to be more active in applying new technologies to ensure competitiveness and better services for consumers. Among the countries mentioned above, 37% of financial service providers in the financial sector were using AI technologies and 24% are planning to introduce them, 59% are working with big data and 18% are planning to start operating them within a year, 32% are using blockchains and 22% are planning to start using them. In Latvia, 7% use AI technologies, 5% - big data, 1% - blockchains (in the context of smart contracts)[[1]](#footnote-2).

Together with the other Baltic countries, Latvia has the opportunity to become a centre of innovation and entrepreneurship by maintaining favourable conditions for FinTech companies.

A description of the main challenges for Latvia’s FinTech sector and an assessment of access to payment infrastructure is available in the Annex to the Informative Report.

## Vision

## 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.

## Prerequisites and recommendations for the implementation of strategy development directions:

1. To further improve the regulation of financial services so that it facilitates the development of financial technologies and a sustainable overall development of Latvia's financial system, follows the trends in the financial service market and technology development to ensure the quicker implementation of innovative ideas in Latvia.
2. To create financial market infrastructure conducive to innovation and available to all market participants based on the principle of technological neutrality.
3. To strengthen the investment climate. To ensure the availability of capital and other financial support mechanisms, especially focusing on venture capital projects in their early stages as well as involving the representatives of the financial sector in the current support mechanisms to the extent possible.
4. To promote the talent base growth so that the participants of the financial technology ecosystem would be equally capable of understanding, developing and introducing new technologies and services. To expand the knowledge of local experts (including by relevant study programmes or specialised training) and recruit foreign professionals, thus speeding up the entry of knowledge into the market.
5. To build a strong and unified financial technology ecosystem in Latvia. It takes dynamic and open cooperation between the main participants of the ecosystem: businesses, industry professionals, supervisors, public administration, investors, financial sector participants and other parties (for example, knowledgeable providers of professional services, educational establishments, etc.). A constant dialogue between the involved parties is also necessary and it should be coordinated and with a clear division of responsibilities.
6. To continue the communication between supervisory authorities and market participants on licensing and other issues by explaining the requirements established in the regulation, whenever possible.
7. When developing the financial technology area, it is important not to lower the compliance control standards and culture.
8. Quality internal communication should be developed in Latvia so that both the current participants of the FinTech ecosystem and other interested parties become familiar with the opportunities of working in the financial technology area and with the resources available in the market. Meanwhile, communication outside Latvia should be developed by determining the target markets and facilitating the visibility of Latvia as a financial technology centre in these markets.

Minister of Finance J. Reirs

1. FCMC market participants survey [↑](#footnote-ref-2)