**Financial Sector Development Plan 2017 – 2019**

**Riga**

**2017**

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Summary

The Financial Sector Development Plan 2017 - 2019 (hereinafter - the Plan) is the Cabinet of Ministers’ planning document on the financial market policy, which includes objectives and measures for further development of the financial sector, and designates the responsible institutions, timelines and procedures for monitoring.

The Action Plan on the Declaration of the Intended Activities of the Cabinet of Ministers Headed by Mr. Māris Kučinskis, approved by the Cabinet Order No. 275 on 3rd May 2016, includes a task **of developing the Financial Sector Development Plan 2017 - 2019, defining the policy framework for financial market development and international competitiveness, including strengthening the prevention of money laundering and terrorist financing (ML/TF).**

The previous Financial Sector Development Plan for 2014 to 2016 included the following headings and measures:

1. Banking sector:

* Improvement of the regulatory environment of banking / stable and responsible credit sector activity;
* Support for diversification of bank funding sources;
* Decreasing money laundering risks.

2. Capital market:

* Transparent sale of state ownership shares;
* Domestic government securities market development;
* Promotion of corporate debt securities.

3. The judicial system:

* Training of judges and promotion of specialization;
* Measures against accumulation of debts by housing owners;
* Elaboration of financial dispute resolution mechanism;
* Investor (shareholder) protection strengthening.

4. The national support programs:

* Support programs to tackle market failures;
* Centralization of the management support programmes.

5. Alternative forms of funding:

* Venture capital industry development;
* Introduction of medium and long-term export-credit guarantee instrument;
* Strengthening and optimization of the institutional capacity of monitoring.

6. Financial literacy:

* Financial literacy development;
* Informative and educational campaign organization for reduction of consumer credit burden and information on financial services.

The Financial Sector Development Plan for 2014 to 2016 have been largely implemented and evaluated, in the corresponding time limits. With regard to measures, which are still ongoing or subjected to execution on "ongoing basis" several measures are transferred to the Plan for 2017 - 2019.

The Plan for 2017 - 2019 was developed by the Ministry of Finance in cooperation with the Ministry of Economics, the Ministry of Justice, the Bank of Latvia, the Financial and Capital Market Commission, the Money Laundering Prevention Service, the Association of Latvian Commercial Banks, the Latvian Association of Cooperative Credit Unions, the Credit Union Association, Nasdaq Riga, the Latvian Insurers Association, Latvian Insurance Brokers Association of Society "Latvian Professional Insurance Brokers Association", the Latvian Venture Capital Association, the Latvian Leasing Association, the Latvian Payment Services and Electronic Money Institutions Association, the Latvian Alternative Financial Services Association and the Latvian Chamber of Commerce and Industry.

# 1. Current situation

## 1. 1. The objective of the plan and the course of action

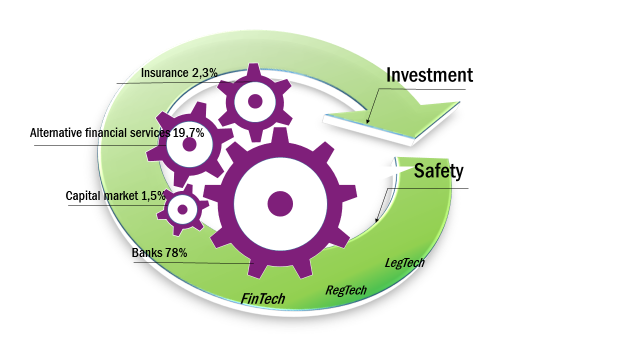
The Plan is designed to establish the financial sector policy medium-term development directions, providing evaluation of the financial sector performance and setting targets for priorities and results.

The objective of the implementation of the Plan’s measures aim **to developing stable, safe and internationally competitive financial sector with access to innovative financial services designed to ensure sustainable growth of the Latvian economy, and to strengthen the position of Latvia as a regional financial services centre.**

In 25 years, the Latvian financial sector has developed rapidly, the total assets at the end of the 1st half of 2016 amounted to 174%[[1]](#footnote-1) of Latvian GDP (180% of GDP at the end of 2015; 172% of GDP at the end of 2014).The Latvian financial sector is the leader[[2]](#footnote-2) in the Baltic region by indicator of total assets to GDP. The number of financial market participants under the supervision of the Financial and Capital Market Commission (hereinafter - FCMC) at the end of the 1st half of 2016 was 351 (at the end of 2015 - 328), and assets totalling EUR 34 billion, or about 140% of the Latvian GDP amount (35 billion euro at the end of 2015, or 145% of the Latvian GDP). Due to non-bank sector development, the share of the banking sector in the financial sector assets (only those supervised by FCMC) continued to decline. Banking sector institutions' share of the Latvian financial sector at the end of 2015 was 78% and the total non-bank financial services providers was approximately 22% (see Fig.1.1).

The Latvian financial sector has access to modern and efficient interbank euro payment system operated by the Bank of Latvia. In the 1st half of 2016 the Bank of Latvia payment systems (TARGET2-Latvia and Electronic Clearing System) processed 20.2 million payments between the system participants in total amount 144.8 billion euro. Latvian payment infrastructure enables the Latvian financial sector to offer fast and efficient payments. In the 1st half of 2016, 194.1 million settlements have been processed in euro and foreign currencies, in total amount of 375.2 billion euro.

The Plan addresses the financial and capital market participants - banks, credit unions, insurance companies, alternative investment funds, private pension funds, investment funds, investment firms, investment management companies, payment institutions and financial services providers, such as consumer loans, pawnshops, leasing and factoring services.



*Fig. 1.1. Financial market participants' share in total financial sector assets (Source: Central Statistical Bureau of Latvia, the Bank of Latvia, the Financial and Capital Market Commission, 2015).*

Since 2012 the number of employees in the financial sector remains a little over 18 thousand employees on average per year. It represents 2.1% of the occupied jobs in economy at the end of 2015. In 2008, the number was 26 thousand employees (Fig.1.2). According to the Central Statistical Bureau's data, compared to other areas of activity at the end of 2015, real estate and information and communication service sectors each employed over 27 thousand on average per year, or 3.1% of the occupied jobs.

*FiFig.1.2. Occupied jobs in the financial sector on average per year (Source: Central Statistical Bureau)*

The indicators of the Latvian financial sector continue to improve, including bank profits, operational efficiency, return on equity, while capitalization and liquidity of banks is maintained at high levels. In the environment of moderate economic growth, the domestic borrowers' creditworthiness and credit quality of the loan portfolio is gradually improving. At the same time loans to domestic clients increased in the 2nd and 3rd quarter of 2016. Of new loans granted to domestic client companies exceeds the written-off and repaid loans the volume of credit in the first half of the year. Loans increased significantly in the financial, transportation and storage, real estate and agricultural sectors. Although new loans to domestic client households are growing rapidly, the household loan portfolio continued to shrink in the first half of 2016.

The current external macro-financial environment is not supportive, there is slowdown of global economic growth that is exacerbated by geo-political situation, for instance, Brexit and some uncertainty related to the outcomes of US presidential elections. In addition, the economic recovery of the Euro area is still unstable. The indicators of growth, employment and investment are still lagging. There is still significant macroeconomic instability and general risks in the euro area and the EU as whole. The legacy of financial crisis is still experienced, and its impact on social policies, significant public and private sector debt, high levels of non-performing loans (NPL), that has initiated discussions on the EU level measures to support clean-up of banks from NPLs. Also, certain euro area countries' debt level (Greece, Spain, Portugal, etc.) poses risks to growth. In addition to the slow development of the economy in some European Union countries concerns remain about the high proportion of bad loans in banks' balance sheets, which raises discussion on the need to introduce harmonized policies to promote effective restructuring of bad assets in banks.

The challenge for the further development of the financial sector is the rapid technological development, which could redirect financial service providers from traditional services to the new players in the financial services industry, as well as will introduce new innovative services in traditional financial companies. Such a tendency breaks down borders and allows customers to use of services provided by other countries, thereby creating competitive pressure to traditional financial services not only from domestic *FinTech* companies, but also from foreign providers. In the rapidly changing environment, the financial sector must be able to adapt successfully to the external environment, competitive challenges, to continue to develop and contribute to sustainable economic development and to maintain the leader positions in the Baltic region. If unable to adapt to necessary changes (decreasing profitability, increased competition, more stringent regulation), the Latvian financial sector during this planning period may lose international competitiveness, which can lead to a reduction in the financial sector's contribution to the economy in the short and long-term development, reducing the economic growth potential, and also reducing the well-paid professional employment.

The strengths and weaknesses of Latvian financial sector, as well as the external environment and opportunities and threats are summarized in the following table:

|  |  |
| --- | --- |
| **Strengths** | **Weaknesses** |
| * Developed banking sector; * Financial services exports account for a substantial share of the financial sector; there is experienced human resource working with international clients; * Effective and modern interbank payment system; * A rapidly evolving payment services and non-bank lender in the sector, including crowdfunding lending platform and other innovative services; * Generated a substantial amount of resources 2nd pillar; * Good capital market infrastructure; * The development of the government securities market; * Gradually increasing household savings rate; * As a Member States of the EU, the euro area and the OECD, there is a commitment to ensure a high standard of economic policy and management; * Simple and competitive tax system - 3rd place in the tax framework between OECD countries in 2016 Tax Competitiveness Index; * Good communication infrastructure; * A flexible labour market. | * An underdeveloped capital market (low capitalization compared with other EU countries, lack of local investment vehicle for institutional investors); * Underdeveloped insurance market (compared with other EU countries, a very low amount of insurance premiums per capita); * Historically negative opinion on Latvian banks that is based on incidents when financial market participants were used in money laundering activities; * Increased exposure to anti-money laundering and terrorist financing (AML/TF) risks that presented a burden for correspondent banking relations with the leading international financial institutions in US dollar payment services. |
| **Opportunities** | **Threats** |
| * Developed transport infrastructure, including the wide availability of direct flights; * Deep integration into the international arena with membership of the EU and the European banking union, the euro area, the OECD, NATO; * Digitization and innovation, giving the ability to provide quality service, as well as easier to access other countries' markets; * Geographical location; * Due to Brexit, and due to planned increase in labour taxes in financial sector in the Nordic region, companies may be interested to increase business operations abroad, including in Latvia. | * External macroeconomic environment risks (including: the uncertainty of Brexit; European concerns on potential changes in the US foreign policy with the new administration; the low interest rate environment; decreasing profitability of the EU banking sector); * Increased competitive pressures of the single market in the EEA countries in the field of financial services, reinforced by technological developments; * Increased risks of being involved in money laundering, resulting in lost opportunities to service US dollar payments directly and in partnership; * Arbitrage of regulative requirements in Baltic and Nordic region and decreasing competitiveness of Latvia. |

The Plan defines specific courses of action and measures in **four segments of the financial sector industries: the banking sector, the capital market sector, the alternative financial service providers industry and the insurance and reinsurance industry**, but the central theme of the future course is set by **three horizontal priorities**, reflecting financial market developments, the most important aspects of the next programming period:

* Digitalization and innovation;
* The financial sector's safety and reputation;
* International competitiveness.

### 1.1.1. Digitalization and innovation

In line with a rapid development in financial technology (FinTech) and created opportunities, there is a rapid rise of alternative financial services. Financial technology companies, analysing market trends, planning further financial technology application for the following characteristics such as speed, cost optimization and analytical and data management. Innovative financial services are offered not only by new entrants in the financial market, creating effective competition (more choice for the consumer), but also by existing traditional financial market participants. Large digital market participants (platforms) are beginning to offer payment and other financial services, being outside the traditional financial sector, even though increasing competition in the financial market by increasing pricing transparency and reducing the price of services.

The financial sector is the basis for sustainable economic development. A stable long-term development requires both advanced technology development and timely developed of effective regulation addressing expected level of risk by innovation and based on assessment of potential risks by new business models. As a good practice elsewhere in Europe (Project Innovate in the UK), the financial sector regulator promotes FinTech new business activities, as well as encourages these companies in new business models in the implementation of the Regulatory Sandbox approach where the new business models are being implemented in a pilot mode until the regulator is satisfied with its safety.

There are also wide opportunities to use LegTech and RegTech solutions in alternative financial services in traditional financial services. Since 2011 LegTech service providers have developed considerably, as these companies provide legal services, with legal advice available online. And also, the companies can provide RegTech for regulatory requirements management.

Due to FinTech advancements virtual currency has been developed. Although use of virtual currency payments is still low because most of the transactions are related to virtual currency purchase and sale (the amount transferred daily is less than EUR 100 million, and the number of transactions is less than 200,000 transactions, compared with 70 billion euro payment and 250 million transactions daily in the European Union), the development of virtual currency is inevitable. The European Parliament has tasked the European Commission to develop regulatory framework for Bitcoin currency (and other virtual currencies), setting a special Commission to carry out monitoring of the use of Blockchain technology. Given the rapid pace of financial innovation, it is necessary to find solutions appropriate to the financial innovations related to the risk management. At the same time, given the business mobility of FinTech industry, for the sake of favourable environment for development it is necessary to maintain an internationally competitive sector regulation, as well as to introduce the regulatory sandbox solutions.

Banks operating in universal banking segment are characterized by highly standardized procedures and significant fixed costs. Increased number of transactions in the payment service industry has created conditions for the payment of services in the field of low-cost payment solutions with online marketing. Although these new digital companies rely heavily on existing payment instruments developed and managed by banks (credit cards and transfers), they are able to maintain market share at the expense of the bank through the banking infrastructure and customer information. Taking into account the amendment of the Payment Services Directive opening payment services market to new customers, an increase in use of remote financial services is expected. It creates new business model for cooperation with the infrastructure owners and clients, and as a result, traditional service providers may reduce volume of transactions in the payment services sector.

Technological development on the one hand is a challenge to the traditional providers of financial services that have to balance between management of risks and implementation of innovative services. However, in order to increase the competitiveness, it is important to create business and regulatory environment that allows development of new financial technologies (FinTech), not just the ability to introduce innovative products that are already generated. In order to support the development of innovative payment products in FinTech, and to ensure possibilities for retail customers and companies to carry out payments within twenty-four hours, reaching the recipient instantly, the Bank of Latvia plans to introduce the Electronic Clearing System for Flash payments 24/7/365 real-time mode in 2017.

The increasing use of digital solutions in banks, other financial institutions and public institutions improves both the financial sector performance (by reducing costs), increases the country's institutional capacity and improves the service quality and availability for customers. The financial sector together with the competent authorities should further improve electronic identification tools, develop common information portals that provide public and financial institutions with safe and secure data interchange, for instance, functionally improved accounts register, improved exchange of information on bailiff orders, as well as introducing different electronic solutions for tax collection without changing the responsibility for the correct tax calculation, and transfer of information (data) on tax debtors to credit bureau.

The development of digital tools and services in the financial services sector meets the needs of consumers and investors, as well as supports productivity, however it is necessary to ensure that it does not harm the reputation of state, as a growing financial centre. In a situation of insufficient regulation payment safety can decrease and therefore facilitate money laundering and terrorist financing, as well as increase two traditional systemic risks in finance - credit risk and liquidity risk.

Therefore, contributing to the digitization and innovation are critical to ensure proper regulatory framework, including AML/CTF and reputational requirements, as well as regular compliance assessment of financial sector and its individual elements. These conditions should also apply to innovative financial services, preventing increased ML/TF risk exposure to the provision of financial services to foreign clients. Insufficient management of this risk exposure can be the most significant source of elevated ML/TF risk. For this reason, ML/TF risk control will be provided, both in terms of innovative financial service business models and plans, which should be transparent and economically sound, and with a real contribution to the national economy, as well as with appropriate ML/TF risk mitigation measures, including restrictions on business volume and customer base.

### 1.1.2. The financial sector's safety and reputation

Reputation of financial sector is important factor that influences its development and international competitiveness in the Baltic region. Therefore, as a horizontal priority it is important to identify actions and measurable outcomes to improve and sustain reputation of the financial sector. Effective compliance with international standards and regulations by all market participants is as important. Therefore, it is necessary to strengthen the regulatory and requirements and prudential standards for bank and non-bank market participants providing exports of financial services. For Latvia, as a growing financial centre, the point of reference is the development of the correspondent banking relationship, in particular to maintain the direct correspondent banking relationship for U.S. dollar transactions.

Elevated exposure of the Latvian financial sector towards ML/TF risks threatens the national reputation and long-term sustainable development of the Latvian financial sector. Therefore, the measures included in the Plan are aimed at decrease of the ML/TF risks in a controlled and planned way. In order to ensure effective compliance function, measures of the Plan must cover activities by both the financial sector and state institutions preventing the Latvian financial system from being used for corruptive activities, ML/TF, and production, stockpiling, transfer, use and proliferation of weapons of mass destruction, as well as tax avoidance. To achieve this, decisive implementation of risk management compliant with best international practices and standards, and intolerance against any violations and illegal activities must be achieved. For this reason, it is necessary to implement and maintain compliance system that is based on policies and procedures, personnel resources and training, and adequate technical support and quality control for the AML/CFT risk control functions, as well as external evaluation of effectiveness of the compliance measures. As a priority, the supervisory institutions and the relevant law enforcement institutions should be provided with adequate capacity, including modern technical and technological support, sufficient resources of personnel and regular professional training. In order to improve the efficiency of the supervisory institutions, their access to data registers must be ensured, providing effective information exchange among them, at the same time complying with requirements of information security and protection of private data. Measures to improve the level of AML/CTF compliance go beyond amending legislation or improving quality of supervisory standards. It also requires improvements in effectiveness of control measures, including raising individual responsibility of the management of financial institutions for compliance with the AML/CTF requirements, as well as for timely and sufficient implementation of measures to reduce the ML/TF risks. It is also vital to strengthen control over expansion of the financial services sector by increasing requirements for those potential service providers that are likely to pose elevated AML/CFT risks by their client base, financial services they provide, or channels they use. Particular focus must be had to the geographical aspect of client base and cooperation partners of the financial service providers. It is also important to communicate with international partners on regular basis on the progress achieved.

During Latvia’s accession to the OECD, competent authorities started to prepare a comprehensive national risk assessment. For Latvia, as a new and growing regional financial centre, serving significant amounts of foreign client’s funds, including those from countries with high risks of corruption and ML/TF, one of the main sections of the national risk assessment is adequacy of the risk management.

During the period of end-2015 through 2016, significant changes were introduced to improve the Latvian AML/CFT system both in legislation and supervisory approaches, which to a large extent contributed to successful accession to the OECD. In terms of legislation, the amendments strengthening the efficiency of the AML/CFT were fully enforced, and market participants and the competent authorities, effectively started to apply them. Improvements are evidenced also in practical terms. For instance, the banking sector applies the new enhanced due diligence requirements, monetary fines placed on banks for poor internal controls in AML have been raised substantially, and the compliance of the banks has been audited by external audits by USA auditors. As a result of the shift towards strengthening the AML/CFT system the first time in the decade amounts of the foreigner deposits in the banks of Latvia decreased by 30% from the beginning of 2016.

It is detrimental that the Latvian financial sector complies with the OECD standards and recommendations to facilitate promotion of foreign direct investments and positive credit rating. Latvian authorities will report to the OECD Working Group on Bribery in International Business Transactions by October 2017 on the status of implementation of recommendations of the Phase 2 Report.

**National Risk Assessment** to identify money laundering and terrorism financing risks (NRA) was prepared based on the World Bank’s methodology. In order to progress work on the different risks to be evaluated in the NRA  subgroups were formed, namely, (1) threat assessment, (2) national vulnerability, (3) banking sector, (4) securities sector, (5) insurance sector, (6) other financial institutions, (7) designated non-financial businesses and professions (DNFBP), (8) financial inclusion product risk assessment and (9) terrorism financing. In the initial phase of the risk assessment process it was decided to evaluate the period from 2013 until end-2015.

During the seminar in Riga on 31 January – 2 February, the Word Bank experts gave feedback and recommendations on how to improve the drafted National Risk Assessment as well as recommendations in the form of Memorandum on National Risk Assessment (NRA) of Latvia 2016/2017 provided shortly after the seminar. Taking into consideration the improvements of the Latvian AML/CFT system during the process of accession to OECD and their impact, as well as World Bank recommendations, the Latvian authorities involved in the self-assessment concluded that inclusion of the period from end-2015 to 2016 in the NRA is of vital importance.

On 28 February 2017, the Government took a decision on reassessment of ML/TF risks by including and analysing additional data for 2016. In order to advance the process in short time constraints it was also decided to outsource the task of information compilation, processing, and analysis to an external consultant and to form a high-level working group of high-level officials from the institutions that are involved in the self-assessment process.

This working group meets on regular basis to monitor the process of data collection, compilation, analysis and reassessment, as well as closely monitors the process for preparation of the NRA and assignment of ratings for each sector. With this course, it is planned to finalize the NRA and an Action Plan to address risks identified by the NRA, by 20 April 2017 and submit to the Government for approval by 28 April 2017. It is also being negotiated with the World Bank on the assessment of the final NRA to validate its compliance with the World Bank methodology.

### 1.1.3. International competitiveness

Having free movement of capital in the EU, as well as the ever closer integration of the single market, and taking into account the development of technologies that physical distance makes increasingly less of an obstacle, the aspect of international competitiveness becomes especially topical. In international competitiveness context it is essential, what kind of service the Latvian financial sector is able to provide as exports, and also the quality of the service provided internally and how it is able to compete with other countries, in the provision of financial services. Regulatory framework that supports sustainable development and is internationally competitive plays an important role for providing financial services.

The Global Financial Centres Index (GFCI) data are published since March 2007. The index is designed to assess the competitiveness of the financial centres of the world. The index uses factor assessment model, which is based on two different sources of data (1) an online survey, where the answers provided by some 2,000 financial services professionals in the fields of financial centre competitiveness and (2) instrumental factors or external competitiveness indicators - **business environment** (political and legislative stability, tax and cost competitiveness, the regulatory environment in the macroeconomic environment), financial sector development (access to capital, trade volume and speed, employment and economic output), **infrastructure** (transport, offices, IT, environmental management and sustainability), **human capital** (quality of life, educated staff availability, labour market flexibility) and **reputation** (financial centre for inter-positioning, cultural diversity, level of innovation, the city's brand and attractiveness).

Riga is included in GFCI since 2014, obtaining the status of an associated centre. GFCI ranks Riga since June 2016 (GFCI19), receiving ranking 71 of a total of 86 global financial centres. Due to policies adopted, Riga has ranked as 52 out of 87 global financial centres in September 2016 (GFCI20) assessment. At the same time, the Eastern European and Central Asian regional financial centre in the list among the 11 cities of Riga occupies fifth place behind Istanbul, Warsaw, Prague and Moscow (GFCI19), while in September 2016 (GFCI20) assessment Riga ranked as the third behind Warsaw and Tallinn with a relatively small rating point difference (Fig. 1.3).

*1.3. Fig. Eastern European and Central Asian regional financial centres in the top 5*

International competitiveness is influenced by business environment, competitiveness, tax policy, regulatory environment, which ensures protection of foreign investment in accordance with international standards and appropriate insolvency regime. Additional factor to maintain the international competitiveness of Latvia is fast and safe data transmission, in particular in the financial sector. Also, the business environment assessment is essential to consider the negative impact of the shadow economy - the distortion of business competitiveness, reduced revenues to the state budget of tax fraud and money laundering of cash transactions and other transactions. Thus, in order to attain the objectives of the plan the measures that will significantly reduce the possibility of involvement of the financial sector to the informal economy activities, including evasion of value added tax, defrauding schemes and non-transparent source cash transactions are important.

Better international competitiveness facilitates investment in Latvia. Investment attraction in sectors of financial and related IT services (SSC/BPO) and FinTech field are set as a priority area, including appropriate action plan. Measures should be directed in a way that Latvian competitiveness in this segment can grow steadily, in particular in comparison with Lithuania. Banks in Latvia have accumulated expertise locating SSC/BPO centres in the Baltic countries, which, combined with targeted government action and concentration of potential clients, especially in the Baltic and Nordic region, can provide a significant increase in activity in this business segment.

### 1.1.4. Coordination with other planning documents

During elaboration of the Plan a number of proposals have been assessed to be better addressed within other policy planning documents. The measures are not repeated in the Plan, though a timely implementation of measures is emphasised for a sustainable development of the financial sector.

The National Tax Policy Strategy for 2017 – 2021 to be elaborated in 2017 will set out future tax policies. Within this process number of issues should be discussed, including those that are identified as important to the operation, development and competitiveness of financial sector activity:

* employee stock options for tax purposes;
* potential income tax exemptions on dividends of listed companies shares, similar to currently not taxed income from government debt securities, to encourage private investors' interest to invest in the capital market;
* maintain the existing tax regime, which allows the bond issuers to reduce the corporate income tax on taxable income for the bond issue interest payments in full, provided that the bonds are listed on the regulated market;
* to introduce the possibility of reducing the corporate income tax on taxable income for expenses related to the stock and bond issue and quotation on the regulated market, in order to promote business interest in the issue of bonds and quoted on the regulated market;
* examine the possibility to spend revenue of financial stability fee in priority areas;
* based on the positive and negative aspects of the analysis, to evaluate the possibility to develop amendments to the law "On Corporate Income Tax", including the provisions on reinvested earnings are not liable for corporate income tax, thus strengthening company capital base, promoting lending and reducing of shadow economy;
* maintain personal income tax exemptions for contributions to savings life insurance and private pension savings (pension Level 3).

Besides, other possibilities are also reviewed to introduce risk mitigation measures in financial sector.

For the international competitiveness of the Latvian financial sector and favourable economic environment, a comprehensive reduction of the shadow economy is significant. The proposals for improvements in this area are included in the Public authorities work plan to limit the shadow economy in 2016 – 2020.

In order to support the improvement of the Latvian business environment, and to support new economic operators (tax residents (taxpayers)) as well as attraction of individuals for economic activity and residency in Latvia, a need has been identified to ensure a professional service and communication in English in State Revenue Service, not only with domestic, but also with foreign companies, as well as the possibility to do accounting in English and use accounts in other currencies. These proposals are examined during the drafting of Business Environment Improvement Action Plan.

A key priority in the financial sector is to develop a comprehensive policy planning document to address ML/TF risks in accordance with the National Risk Assessment and submit to the Cabinet of Ministers for approval. Thereby, a system for risk management on ML/TF prevention in public and private bodies will be introduced, covering international standards of the Financial Action Task Force recommendations.

In addition, in order to promote lending, efficient insolvency proceedings should be provided ensuring compliance with financial obligations, and where possible return to solvency in accordance with the Plan "On insolvency policy development guidelines for the 2016 - 2020 and its implementation".

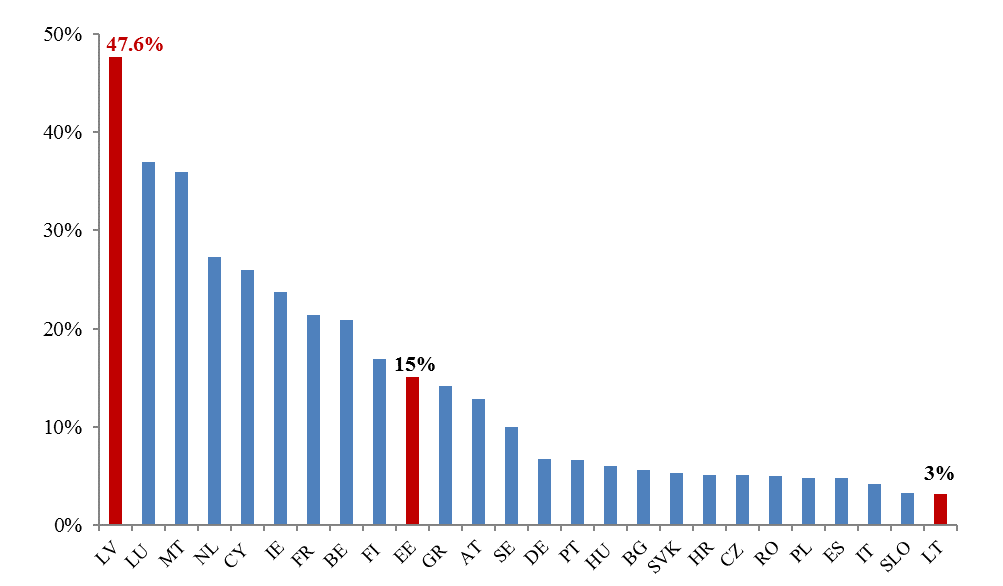
## 1.2. The Banking sector

At the end of the first half 2016, there were 23 banks operating in Latvia, including seven branches of foreign banks and three foreign bank subsidiaries. The banking sector's total assets declined slightly in 2016 and at the end of June amounted to 30.5 billion euro. This was driven mainly by deposits, with a decrease of 4.3% since the beginning of 2016, and amounting to 22.3 billion euros at the end of June 2016. A decline in foreign client deposits was due to several factors - both stricter ML prevention requirements and weak economic growth in Russia, reducing clients' business volumes, and clients starting to use the funds that have been accumulated in the Latvian banks. It was accompanied by an increase in the domestic clients' deposits during the first half of the year they increased by 7.5% or 816 million euro. Banks’ loan portfolio continues to grow moderately in the first half of the year it increased by 2.4% amounting to EUR 15 billion. In the first half of the year the banks issued new loans at amount of 2.3 billion euros, which is 26% more than in the corresponding period of the previous year. Loans to the Latvian companies in the first six months of 2016 amounted to nearly billion euro - 942 million euro, and it is the largest amount of new loans in the first half of the year in the last five years. New mortgage loans to Latvian households were issued in total of 217.1 million euro, an increase of 71% over the corresponding period of the 2015. Banks’ consumer loans in the first half of the year amounted to 94.8 million euro, an increase of 34% over the corresponding period of the previous year. The quality of the loan portfolio continues to improve - more than 90 days overdue loans in the banking sector's total portfolio at the end of June 2016 amounted to 5.1%. Banks’ capital indicators remained at high levels (total capital ratio (CAR) 19.45% Tier I capital (CET1) ratio of 16.5%), well above the minimum and the aggregate capital requirements, as well as the average of EU banking capital ratios. Similarly, the total liquidity ratio is maintained above the minimum requirements of 63%.

The banking sector presents a stable development: investments in new products and infrastructure contributed to a wide range of non-cash payments use: 98.9% of the customer-initiated payments are made remotely via online banking or card payments. Banks issued 2.4 million or 1.2 cards per capita, there are 1,033 ATMs and 34 thousand POS terminals, 1.4 million bank customers are online banking users. At the same time bank services are available in 275 locations (branches, sub-branches) ensuring access to banking services in person. In the next few years, banks will have to further develop and offer products that are useful for a modern and digital society, safe and innovative financial services and to maintain the traditional service channels.

Plan distinguishes two business models of the Latvian banking business - a business model that focuses on the domestic clients' service and business model, which focuses on the foreign client service. During the development of the plan it was recognized that in order to have a comprehensive discussion on the different banking product development scenarios, risk management in different market segments and distribution channels, it is necessary to move on to the discussion on the level of banking products or service. This conclusion will be taken into account in implementing the measures of the Plan set out in Annex such as developing proposals on the risks and benefits of affordable international financial services future development, based on international best practices, efficient risk management and compliance principles. Such distinction is also more appropriate in order to better develop proposals and to identify existing obstacles rapid development of the BPO/SSC sector in Latvia. Plan defines this as a priority in attracting investments.

A half of the banking system (as measured by the amount of deposits) attracts deposits and issues loans to domestic client households and domestic client non-financial companies. As for the banks that attract foreign client deposits, loans account for about one-quarter of the total assets in the structure, and their loan recipients are located outside of Latvia, or represent loans from historical activity in the real estate lending. In the ranking by foreign client deposit share of total deposits, Latvia has the highest position among the EU Member States (see Fig. 2.1.). In June 2016, the share of foreign deposits reached 47.6% of total deposits, surpassing countries such as Luxembourg, Malta, the Netherlands and Cyprus. By contrast, in Estonia, foreign client deposits in the total deposit structure are 15%, in Lithuania - 3%.



*Fig.2.1. The share of foreigners deposits in the total deposits in the structure in the European Union Member states (European Central Bank and data of national central banks, 30.06.2016.)[[3]](#footnote-3)*

According to the Financial and Capital Market Commission (FCMC), 13 out of 16 banks are considered banks that focus on foreign clients services where amount of foreign clients’ deposits in total assets exceeds 20%.

In foreign clients’ servicing banks there is high concentration of deposits, with the average foreigner deposit in amount of 108 047 euro (90 662 clients) compared with the average amount of domestic deposits – 5 705 euro (403 016 clients)[[4]](#footnote-4). Assuming the elevated risk, the FCMC has set higher requirements for capital adequacy and liquidity, and at the end-June 2016 the liquidity ratio for these banks remained firmly at a high level (77.5%).[[5]](#footnote-5)

Foreign client service banking model is based on transactions with companies, which are often established in off-shore jurisdictions. In the total structure of foreign client deposits, demand deposits account for 90%, which form the basis of a high turnover of payments in particular in foreign client segment[[6]](#footnote-6). The foreign client deposits are mainly in US dollars.

An important part of the bank's daily activity is interbank settlement transactions. The transactions in euro, including cross-border settlements, are safely and efficiently provided by the payment system of the Bank of Latvia. The interbank payments in other currencies are important part of correspondent banking relationship. The Consultative report on the Correspondent Banks prepared by the Bank for International Settlements, Payments and Market Infrastructure Committee has recognized that the correspondent banking services is a key element of cross-border transactions and it would seem that correspondent banking services are growing in line with growth of international trade and financial flows across borders. However, the Committee recognizes that there are several indications that correspondent banking relationships are decreasing, especially with the banks, activity volumes of which do not cover compliance costs or by banks located in jurisdictions, which are recognized as risky or provide payment services to clients without adequate risk assessment[[7]](#footnote-7). Latvia supports the international community's efforts to balance ML/TF prevention requirements with the initiatives for financial inclusion (De-Risking vs. Financial inclusion).

Foreign client service banks' business model having a higher yield and also probability of large potential losses, has high risks in ML/TF area. The ML/TF prevention standard introduction of higher quality can also mean a drop in the volume of transactions, which may be reflected in banks' profit figures. Therefore, the FCMC already pays increased attention to the banks' business models and strategies. At the same time, the FCMC actively works with the regulatory framework and strengthens supervisory capacity on the AML/CTF compliance. This has enabled the intensification of in-house and targeted inspections of banking and non-banking sector, and initiated improvements must be continued.

Although the Latvian banking infrastructure is efficiently developed, the lending activity is insufficient to contribute to the objective of the Government Action Plan, which seeks to achieve lending growth in a comparable rate to the GDP growth of 10%[[8]](#footnote-8) over three years. In comparison with other euro area countries, in Latvia lending remained weak for a long period. In Latvia there is the second largest loan portfolio (domestic households and non-financial corporations’ loans) rate of contraction in the euro area since the end of 2008.



*Fig.2.2. Loans to Latvian domestic clients, annual rate of change and its components by sector (Source: Bank of Latvia). Top-down: government, financial institutions, households, non-financial corporations and total.*

According to the European Central Bank, the lending dynamics for domestic households and non-financial corporations in Latvia lags behind neighbouring countries. Also in the euro area the annual rate of change in lending in the first half of 2016 was slightly higher than Latvia.



*Fig.2.3. Loans to domestic non-financial corporations and households, the annual rate of change (%) (Data source - the European Central Bank). Top-down: Estonia, Lithuania, Latvia and euro area*

In the first half of 2016 there was a total loan portfolio growth. There are also forecasts, based on FCMC's questionnaire at the end of 2015 that strategic objectives of banking sector foresee small loan portfolio growth during 2016. At the end of 2015, in the total domestic client loan portfolio there are 85.65% bank loans and 14.35% non-bank loans. Non-bank loans compared to the end of 2014 have increased by 9.8% and amounted to 2.08 billion euros, and continued to grow relatively rapidly in the first half of 2016. This suggests when bank lending remains relatively weak the demand for alternative forms of financing in the Latvian financial market is growing.

In the first half of 2016 the total loan portfolio of the Latvian banking sector increased by 358 million euro or 2.4%. Domestic corporate loan portfolio increased by 2.5%, while the domestic household loan portfolio decreased by 1% and the loan portfolio of foreign clients increased by 2.1%, which was partly contributed by slight strengthening of the US dollar[[9]](#footnote-9).

The banking sector regulation is amongst the most topical issues of the EU in terms of new legislative initiative already for some years. Since the 2008 financial crisis, the EU banking sector regulation has been substantially reformed, among other things, introducing more stringent capital requirements and bank resolution framework, including the bail-in tool. Still there is ongoing work in a number of workflow associated with the completion of the Banking Union:

development and implementation of risk reduction measures raised as preconditions for further common risk-sharing measures (sovereign risk exposure in the context of banks' capital requirements, disparities of national options and discretions, harmonisation of insolvency regime, etc.);

development of a common back-stop mechanism for the single resolution fund to reduce the national fiscal risks associated with the implementation of bank resolution mechanism;

development of a common European deposit guarantee system - the draft deposit insurance system (Banking Union's third pillar), which proposes to gradually integrate the national deposit guarantee funds into the European single deposit insurance fund by 2024.

There is important initiative of the European Commission concerning the banking sector's future activities related to the planned action at the EU level, by developing an action plan to reduce unnecessary regulatory burden for the financing of the economy, improving the regulatory proportionality, while maintaining compliance with the prudential objectives, making the regulatory framework more forward-looking and improving the internal consistency.

There are outstanding measures to be implemented at the EU level concerning AML/CFT. One is the European Commission’s Action Plan to combat the financing of terrorism, and the European Commission’s proposal for a European Parliament and Council Directive which amends Directive 2015/849 on the prevention of the use of financial system for ML/TF, and amending Directive 2009/101/EC. At the same time series of measures are intended to introduce changes to the current framework for enhancing transparency and fight against tax evasion.

In addition to the horizontal priorities of the banking sector - *digitization and innovation, AML/CFT compliance* and *improvement of national* *reputation, and international competitiveness*, another **strategic direction is lending activation.**

**Performance indicator:**

Access to finance, based on innovative technological solutions and increasing the pace of lending growth in line with the GDP growth, to increase domestic clients' household and corporate loan portfolio by at least 10%[[10]](#footnote-10) over three years.

### 1.2.1. Lending activation

Lending activation is essential to encourage investment in the Latvian economy and promote its growth. Loan portfolio, which ensures a healthy economic growth, has evaluated 60% - 90% of the country's gross domestic product (without detailed analysis of the structure of the loan portfolio). This indicator the end of 2015 was 53%[[11]](#footnote-11).

While promoting the development of lending, it is important to avoid negative consequences of excessive lending, through effective risk management mechanisms.

Within this heading direction there are activities defined that improve access to finance, by removing the obstacles identified, as well as providing a more efficient use of state aid instruments.

In bank lending there is a market gap in the extent to which companies that wish to receive funding are refused for credit risk and profitability reasons, and it particularly affects small companies and start-ups. Lack of credit history and high administrative costs would be prohibitive to lend small amounts, and the insufficient capital to co-finance, precautionary attitude with regard to debt of small and medium businesses and an increase in the informal economy are the main factors that negatively affect the banks' loan growth. The estimated total amount demand for bank loans for which the market does not cover in the sector is estimated at around 381-698 million euro[[12]](#footnote-12).

With regard to access to finance it is found that small and medium-sized enterprises are not sufficiently informed about availability of various state aid programs, which are being introduced in the form of financial instruments, particularly for micro-businesses and companies in the early stage of development. In addition, lack of good corporate governance and circumstances that young entrepreneurs lack a general understanding of the types of financing is an important factor that negatively affects the potential capital investors. The newly established business and micro-enterprise managers often lack the overall level of financial literacy, which complicates the financing providers that the company's evaluation.

For micro-financing sector the assessment identified the following market shortcomings: high costs for banks; lack of sufficient collateral in micro enterprises; high risk, namely the finance providers consider micro loans to be risky business; micro businesses are not sufficiently informed about the micro-financing capabilities.

The estimated total amount for which the market does not cover the demand for micro-finance sector is estimated at around 163-184 million euros[[13]](#footnote-13).

Significant improvement in business development, strengthening capitalization, as well as attracting investment, could be achieved by the reforms of tax framework by the proposal to exempt reinvested earnings from corporate income tax. The exemption of company reinvested earnings from corporate income tax could also improve the availability of bank loans as the incentive to manipulate earnings declaration in order to avoid tax evasion will cease, as well as strengthen the company's own capital base. This could encourage companies to operate in the legal economy, while banks could have an opportunity to lend more to these businesses.

As an important platform for access to funding is the European Strategic Investment Fund (EFSI), which is established in 2015 with the aim to mobilize investment of 315 billion euro. The EFSI provides financing to attract private sector investment, further investment financing through loans, equity investments and guarantees financial instruments. EFSI investments are administered by international institutions - the European Investment Bank (EIB) and the European Investment Fund (EIF). With the EFSI investment there is a potential to assume higher investment risk than those currently offered by the EIB or the EIF financial instruments. The EFSI investment is investing in projects of the European Union policy priority areas - infrastructure, including transport, energy (including interconnections), digital infrastructure, education and training, health care, research and development, innovation, information and communication technologies, renewable energy development, energy and economical resource use, infrastructure projects, environment, natural resources, urban and social development by providing support in the form of financial instruments for small enterprises (employing fewer than 250 employees) or medium-sized enterprises (up to 3000 employees), including working capital financing[[14]](#footnote-14).

To activate implementation of opportunities offered by the EFSI in Latvia, as well as to contribute to the future availability of financial instruments, the joint-stock company "Development of financial institution Altum" is tasked as a coordinating institution. The measures of the plan include activation of the EFSI support in Latvia, and determining certain measures for institutions involved in implementation of support, including strengthening the capacity in investment project development.

## 1.3. The Capital market sector

The Latvian capital market has a modern market infrastructure provided by Nasdaq Riga and appropriate market regulation according to the EU standards and constantly upgraded. The merger of Latvian, Lithuanian and Estonian capital market infrastructure for settlement and accession to European settlement platform TARGET2-Securities is scheduled for 2017- to facilitate integration into the common European securities market. Latvian total stock market capitalization reached 4% of GDP in 2013[[15]](#footnote-15), which was the lowest rate among the EU member states (comparatively in neighbouring countries: Lithuania, in 2013 this indicator was 8%, in Estonia - 10%[[16]](#footnote-16)), suggesting that in the Baltics the development of the Latvian securities market is weaker.

The Latvian stock market capitalization or market value continues to grow gradually. At the end of 2015, publicly traded securities that are registered in Latvia amounted to 3.18 billion euro[[17]](#footnote-17) in the total capitalization, with growth by 64% as compared to 1.9 billion euro at the end of 2012[[18]](#footnote-18). The largest share or 35.1% of the total market capitalization is still made up of public debt securities, followed by equities with a 33.8% share and corporate debt securities reaching already 30.3%.

Corporate debt securities market activity provided the largest share of the total offerings increase where the number of the public debt offering in this period increased almost threefold from 15 to 42 emissions offerings, while the public offering of equities in this period decreased from 32 to 27 offerings[[19]](#footnote-19). The debt market activation has been promoted largely by a favourable tax treatment.

*Fig 3. Publicly traded securities by capitalisation (in million EUR) (Source: Latvian Central Depository data): Top-down: corporate debt securities, investment funds, equity and public debt securities.*

In addition to the corporate securities market, pension funds have an important role in promoting investment in equities as the largest institutional investors. In Latvia a modern 2nd pillar (mandatory state funded pensions) pension system has been established where the total savings at the end of the 1st half of 2016 reached 2.5 billion euro, while the private pension funds or 3rd pillar pensions (voluntary private pensions) have accumulated 340.3 million euro[[20]](#footnote-20). At the end of the first half 2016, total state funded pension funds have invested 1.07 billion[[21]](#footnote-21) euro in Latvia, while the private pension funds - 115 million euro[[22]](#footnote-22).

Investment funds in Latvia, which are established largely as alternative investment funds, account for about 1.3% of GDP[[23]](#footnote-23).

The low securities market capitalization implies market-based equity instrument shortages or a market failure. Thus, there is need for Latvian capital market development, at least by amount of this market gap, according to the Ministry of Economics gap analysis assessment it equals to 568 million euro[[24]](#footnote-24). Thus it would require an increase in the number of companies using equity funding, by increasing the number and range of instruments that provide for market-based conditions for attracting investment opportunity by investing in equity capital, and promoting a more active involvement of investors in the securities markets.

Capital market development is a key priority in the EU agenda and it is presented in the European Commission's Action Plan for the Capital Market Union. The plan included the aim of creating integrated EU capital markets, providing new sources of financing for businesses, especially small and medium-sized enterprises by reducing the cost of raising capital and the removal of obstacles to cross-border investment and the ability to attract investment from other countries in the EU. Similarly, the aim is to make the EU financial system more stable, more resilient and more competitive. There is progress on number of legislative proposals:

* Review of the Prospectus Directive in order to facilitate the requirements of small and medium-sized enterprises, related to the opportunity to participate in the securities market and the preparation of the issue prospectus;
* The regulatory framework for securitization by establishing a simple, transparent, standardized securitization process criteria;
* Amendments to the European Venture Capital Fund (EuVECA) Regulation and the Regulation on European Social Entrepreneurship Funds (EuSEF) with the aim of increasing investments in venture capital and social projects and to facilitate the investors investing in innovative small and medium-sized enterprises;

FinTech innovation has a significant impact on financial market transactions, and in particular to securities trading. High-frequency trading (high frequency trading or Fast Market) companies have become major players in the stock markets and in accordance with the European Securities Market Authority figures make up 24% of the trading volume of the stock markets[[25]](#footnote-25). High-frequency trading companies are the qualities that allow them to perform a very large number of small transactions with short-term investment of time (often intraday) - quick access to only a few milliseconds, trading platforms and market information, trading algorithms operate autonomously with no human involvement when markets are open. Such solutions ensure rapid development of high-frequency trading development. These participants tend to be non-banks with a small capital compared to traditional financiers - banks whose capital requirements for the trading book have increased. Likewise, the capital market sector has opportunities to implement cost optimization and analytical capacity management through the RegTech and LegTech.

In the context of international competitiveness it is necessary that broad range of capital market instruments become available, to promote that larger part of the accumulated pension funds are invested in the Latvian economy, instead of investments flowing out to other countries.

In view of the above, three **strategic directions of action** in the capital market sector are defined**:**

* Increasing the number of companies using capital market instruments funding;
* Developing capital instruments to increase opportunities for access of funding and investment;
* Increasing activity of institutional and private investors in the domestic capital market.

**Performance indicator:**

Total equity market capitalization volume increased by 2.2% of GDP[[26]](#footnote-26) over three years, expanding the availability of capital market instruments to Latvian domestic client non-financial companies and investment opportunities for institutional and private investors.

### 1.3.1. Increasing the number of companies using capital market instruments funding

In accordance with the Capital Markets Union objectives[[27]](#footnote-27) it is necessary to develop access to equity investment for small and medium-sized enterprises by easing the requirements for participation in the securities market and the preparation of the prospectus to ensure fundraising diversification and improvement of corporate governance standards in the private sector. Also important is the promotion of corporate debt securities, which would contribute to corporate governance and increasing transparency. Further development capital and securities market instruments are an essential precondition for additional investment opportunities to promote the Latvian capital market.

In order to increase access to market based instruments, public support establishing venture capital funds is important (operating as alternative investment funds). Accordingly, for each of type of market failure there is appropriate financial instrument state aid program. With regard to venture capital and growth capital industry, it can be concluded that, overall, the venture capital market is not sufficiently developed and is not attractive to investors. Institutional investors lack the incentive to invest in local venture capital funds, and venture capital funds have a tendency to migrate to later stage investment in their growth phase. The estimated total amount for which the market does not cover the demand for venture capital and growth capital industry is estimated at about 294-538 million euros. Starting with the EU Structural Fund programming period for 2014 to 2020, public funds will be available for investment in equity for business angel co-financing, accelerators and quasi-equity instrument, which provides mezzanine financing.

With regard to the business angel sector it is concluded that access to business angels is limited due to lack of unifying networks, and because of lack of experience there is no desire to invest. In the regional business incubators, new companies that would be attractive to business angels investments are rarely created, corporate presentation quality often is lower than expected by business angels, and opportunities to stop the investment is limited. The estimated total amount for which the market does not cover the demand for business angel sector is estimated at around 20 million euro[[28]](#footnote-28).

### 1.3.2. Developing capital instruments to increase opportunities for access of funding and investment

Capital market at present does not provide an adequate alternative for diversification of funding sources for companies, and it is not an instrument to channel savings into investments.

Notwithstanding the limited capital market activity in Latvia, on a global scale and in the EU there are continuous innovations in the industry. For example, according to new data disclosure requirements currently at the level of the EU are working on the creation of a new infrastructure providers, who will have the right to publish OTC trade data (both before and after the trading results), providing the APA (Approved Publication Arrangement) services for OTC issue. The largest trading platform in Europe already have applied for and received approval from the European Securities and Markets Authority of this service. Latvia will have to assess the need for membership to join the OTC platforms, taking into account increasing activity of OTC trade.

For a sustainable financial system, response/adaptation to climate change risks is one of the constituent elements. In order to achieve the objective of the United Nations Framework Convention on Climate Change Conference of the Parties 21 session (COP 21), the Paris Agreement, keeping a global temperature rise, many financial organizations in the world have committed to channel funding directly to the green environmental projects. There is also development of green bonds where companies invest in projects related to renewable energy sources, improving energy efficiency, environmental sustainability and climate change risks. These bonds have a tendency to increase significantly every year. Also in Latvia, Joint Stock Company “Latvenergo” have issued green bonds, in 2015 and 2016, in total of 100 million euro. The funds raised with bonds must be used solely to improve the environment in projects related to renewable energy sources, improving energy efficiency and sustainable environment. JSC “Latvenergo” with green bond issue was one of the first new EU member states. Investors’ interest and the low bond yield is a proof for attractiveness to invest in green projects. However, targeted funding does not lower the cost of financial resources, as investors primarily access the borrower's credit risk. It is therefore necessary for this type of bond issue for both public and private sector to contribute jointly to the issuer’s environmentally friendly image, reducing global warming and expanding the product diversity in corporate bond market.

At the EU level, there are efforts to give new impetus to the simple and transparent securitization market, contributing to the improvement of the financing in the economy. Securitisation enables the lender to combine loans at its disposal and sell to investors. Securitisation contributes to the risk of dissipation of the entire financial sector, as part of those lenders transfer to other lenders or institutional investors. The EU securitization market in terms of volume is eight times smaller than the corresponding one in the United States. Although Latvian traditional lenders, banks, are not forced to look at new ways for additional lending, securitisation can create a new impetus for further use of loans through structured capital market instruments.

Creating new investment opportunities, it is essential to create an attractive range of instruments of the state funded pension funds for investment in the Latvian economy. Similarly, the state-funded pension funds contribute to the development of long-term investment in structured financial instruments based on big infrastructure projects, investment in Latvian investments, as well as through public-private partnership projects developed as a result.

### 1.3.3. Increasing activity of institutional and private investors in the domestic capital market

The improvement of investor activity is one of the directions of action for the capital market development. Individuals can be seen as important market players. Latvian households are not active capital market investors at present, however, by simplifying and facilitating access to the market, it is possible to attract households to invest in the capital market, which would further promote the development of the market.

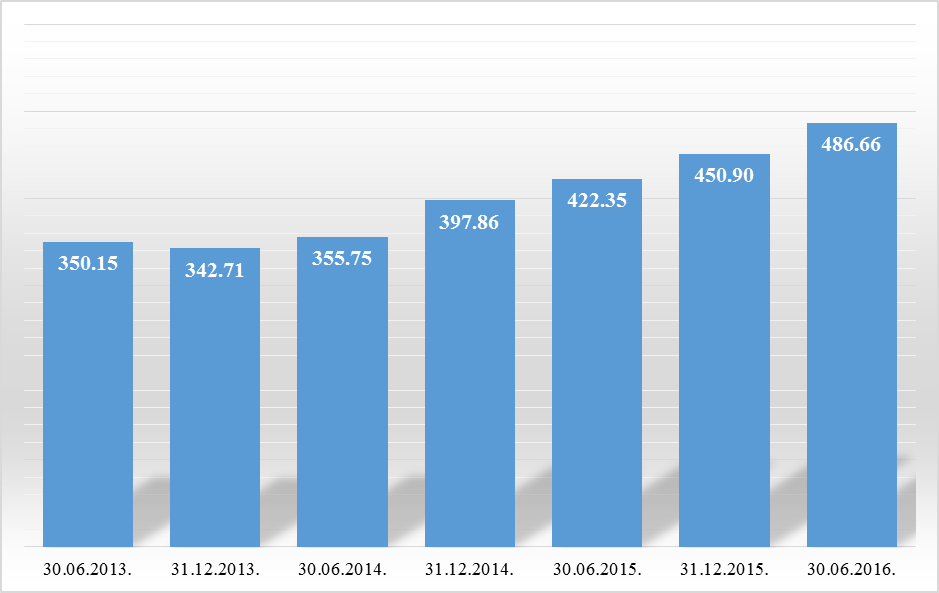
At the same time it is necessary to review the opportunities to promote the activity of institutional investors, including the existing barriers to institutional investors in the domestic capital market. It is necessary to promote competition in the state-funded pension funds management market, with an active competition, the service quality of fund managers can be improved, optimizing fund management costs.

## 1.4. Alternative funding financial services sector[[29]](#footnote-29)

Financial markets as a mechanism that brings together those who have the means with those who needs funding is constantly evolving. At present, when deposit rates have reached historically low levels, while the bank's lending policy is conservative, both potential investors and borrowers have an additional incentive to seek alternative solutions to the banking sector and more and more opportunities are open to financial innovation.

Other sources of funding (such as non-bank providers leasing companies, credit unions, online lending, consumer lending companies, and other lenders, as well as alternative investment funds, with a total market share of 6.6% in financial sector assets) has a complementary role in both the banking and the traditional capital market instruments, alternative financial service providers have significant development opportunities Latvia. The alternative sources of funding can play an important role, particularly in start-ups, small, but fast-growing businesses in innovative sectors of growth. In parallel to the development of technology-based financial services, there is also further development of historically present alternative financial services, which by the objective and function provide financial services to a particular group of recipients, as well as provide access to financial services in the regions.

In the total domestic client loan portfolio 85.65% are bank loans and 14.35% are non-bank loans the end of 2015, and compared to the end of 2014 the amount of non-bank loans has increased by 9.8%, reaching 2.08 billion euro, which indicates the continued decline in the loan portfolio, the demand for alternative forms of financing in the Latvian financial market is growing. In particular, according to the Consumer Rights Protection Centre (hereinafter - CRPC) data non-bank lenders consumer loans amounted to 450.90 million euro on 31 December 2015, and compared with December 31, 2014, an increase by 53.04 million euro, or 13.33%, while the increase over 31 December 2013 (the lowest point during the period 2013-2015) is about 108.19 million euro or 31.57%[[30]](#footnote-30) (total loan portfolio on June 30, 2016 - 486,6 million)[[31]](#footnote-31), which also refers to the household demand for alternative funding, including collective financing platforms, which partially replaces the domestic client banking sector loan portfolio contraction[[32]](#footnote-32).



*Fig 4. Licensed non-bank sector loan portfolio for households (million euro) per year. (CRPC data, June 30, 2016.).*

In the first half of 2016, the leasing volumes in Latvia grew by 6.6%, or 79 million. Leasing volume at the end of June 2016 was 1.28 billion euros. Out of which, financial leasing was 77% or 988 million euro, but operating lease was 23% or 295 million euro. Factoring portfolio at the end of the first half of 2016 was 149.6 million. The total leasing and factoring portfolio at the end of first half of 2016 was 1.43 billion euros, an increase of 5.7% over the end of 2015. In the first half of 2016 the new leasing contracts were issues in amount of 342 million euro.

In the case of leasing and factoring industry there are certain market failures related to the extent to which companies that wish to receive funding are refused for the credit risk and earnings, and loan application purpose reasons, as well as there exist restrictive factors in adhering to the banking sector loans, as leasing and factoring services are mainly subsidiaries of banks, which are applied in the consolidated supervision requirements. The estimated total amount for which market demand is not covered by the leasing industry is estimated at around 55 to 101 million euro, and the factoring industry - from 107 to 196 million euro[[33]](#footnote-33).

On December 31, 2015, 57 licensed non-bank credit providers operated in Latvia in the segment of households lending, including 19 issued public distance loans, 19 issued loans against movable collateral (Lombard loans), 19 issued consumer loans, the company issued 15 leasing and other transport vehicle collateral loans and 13 issued mortgage loans. In 2015, there were changes in the non-bank credit providers and among the types of credit. Eighth of the non-bank lenders have changed their names, retaining the existing registration numbers. On June 30, 2016 there are 60 operating licensed non-bank credit providers, of which 56 only extended new loans to consumers.

Non-bank lenders which provide new loans to the household sector are growing for four years, with the best results in 2015 (latest report). Only in January 2015 the total of new loans was lower than in January 2013. In all other months new loans exceeded the respective monthly indicators in 2013 and 2014, the peak of new loans totalling in October 2015 with 42.99 million euro, which was about 7.35 million euro, or 20.62% more than in October 2014 and of 10.02 million euro, or 30.39% more than in October 2013. Overall, the non-bank sector credit providers in 2015 for consumers of new loans issued 468.01 million euro, an increase by 80.63 million euro, or 20.81% more than in 2014, when was in turn a decrease against 2013 by 19.45 million euro, or 4.78%. In 2015 new loans over 2012 first year for which the data are collected, exceeded the limits of 116.60 million euro or 33.18%. The first half of 2016 continued to grow the amount of new loans, an increase of 40.90 million euro, or 18.29% more than in 2015 and the first half of 79.22 million euro, or 42.76% over the first half of 2014 and it amounted to 264.50 million euro.

Non-bank lenders to households total loan portfolio credit quality continued to improve in 2015. At the end 2013, the share of loans without delay in the total loan portfolio was 80.23% and 82.15% at the end of 2014, at it improved further in 2015, at the end of year reaching 85.28%. At the end of 2015, the share of delayed loans was 14.72% of the total loan portfolio. The loan quality has gradually improved in all segments of portfolio, and the best quality is in leasing and other secured loan segment (93.56%). In first half of 2016, without delay, the share of loans in total loan portfolio was 85.07% (1st half of 2015 - 82.69%, in the 1st half of 2014 - 80.60%, in the 1st half 2013 - 77.53%). At the same time the operation of non-bank lenders need to focus on further improvement of evaluation of the creditworthiness, reducing the likelihood that the consumer is bound by excessive debt.

Credit unions are one more type of alternative financing providers in Latvia, and they have developed in accordance with the traditional business model, providing support to members of credit unions limited to individuals. To the end of 2015 there were 34 Latvian cooperative credit unions, whose total assets amounted to 25.2 million euros, which accounted for about 0.1% of total financial sector assets. Within the existing credit unions’ operating model, credit unions have demonstrated a stable performance and continue to grow gradually, as evidenced by both credit unions increasing loans and deposits. In 2015, 24 credit unions worked with a profit of, earning 439 thousand euros, while for the rest of 10 companies’ losses totalled 31 thousand euros. 4 credit unions credited legal persons, and their total stock of loans at the end of 2015 was about 150 thousand euros.

For the further development of credit unions, regulation on second-tier cooperative credit unions on a voluntary basis will be elaborated, based on the concept report on further development, approved by the Cabinet of Ministers on the January 24, 2017 (Minutes No. 4 39§).

The European Commission has published a report on crowdfunding in the EU member states, and considers appropriate to monitor further developments.

Given the above, the section of alternative financial services addresses two **strategic lines of action**:

* Adoption of national regulation on crowdfunding;
* Development of innovative financial services and risk management.

**Performance indicator:**

Access to finance for small and medium-sized enterprises by increasing the funding available by 5,25% of GDP[[34]](#footnote-34) over three years.

### 1.4.1. Adoption of national regulation on crowdfunding

In addition to traditional forms of alternative financing as venture capital, credit unions and financial leasing, one of FinTech products is a platform for crowdfunding, which also actively expanding its operations also in Latvia. Crowdfunding platforms in EU have increased funding from 487 million euro in 2012 to 2 957 million in 2014, with an average annual increase of 146%[[35]](#footnote-35), showing rapid growth. This is one of the components of the development of small and medium-sized enterprises on the way to an alternative fundraising[[36]](#footnote-36). Crowdfunding platforms can be divided into those which bring financial returns and those which have a social purpose. A platform with the financial return can be subdivided in loans *(peer-to-peer)* and capital financing or collective financing of investments in various equity instruments *(equity crowdfunding)*. By contrast, an example of social objectives are donation platforms[[37]](#footnote-37). Crowdfunding operate across both consumer and business lending, so Crowdfunding complement the more traditional role of bank lending. Crowdfunding development potential is related to economic growth, That is to say, if there is growth, demand rises also for investment. Expansion of collective financing platforms is due to the relatively high interest rate, which is offered to investors, ranging from 5.5% to 15%[[38]](#footnote-38). By contrast, the euro deposit rate on average banks on term deposits ranged from 0.01% (non-financial corporation) to 0.47% (household)[[39]](#footnote-39). In Latvian market crowdfunding platforms are operating, but in future also capital or investment financing platform could operate. Low administrative costs of collective financing platforms allow them operate as complementary lending instruments. Since the platform operation depends on funds raised from both domestic and foreign investors who are not necessarily professional investors, it is important to ensure that the funds raised are properly managed and that the investor should be aware of the risk associated with such investment nature and take proper decisions. Therefore a regulatory framework is being developed which cover operational issues such as licensing, capital, requirements for internal control systems and protection of investors. In addition, regulatory framework is being developed also for investment platforms.

### 1.4.2. Innovative financial services and the development of risk management

According to the World Economic Forum paper, a number of innovations have emerged in the past five years leveraging mobile devices and connectivity to make payments simpler and more valuable. Examples range from digital wallets to automated machine-to-machine payments. The majority of these innovations will modify front-end processes to improve the customer and merchant experience while leaving the underlying payments infrastructure undisrupted.[[40]](#footnote-40) In addition, decentralised and non-traditional payment schemes should be mentioned, as well as development of *shared ledger* and *blockchain* technologic development, and based on the development of these systems and technologies the payment infrastructure is modernised (for example, SWIFT, Visa, MasterCard), where the future of value transfer will be more global, faster, more transparent and cheaper.[[41]](#footnote-41)

According to McKinsey report[[42]](#footnote-42) FinTech companies particularly in payment services take over global banking revenues (6% of large corporate segment, 12% in the commercial segment and 25% of the retail banking segment). It also shows the payment services sector has rapid development globally. It is also important to note that the time for introduction of new technologies and adoption the recipient has significantly decreased.

In addition to the PricewaterhouseCoopers Global FinTech report[[43]](#footnote-43) notes that according to market survey 60% of those surveyed predict that by 2020 FinTech and technologies will most affect payment sector (fund transfer & payment) and 80% of the respondents believe that consumer banking will be affected.

Since November 1, 2009, the payment services can be provided not only by banks, but also the payment institutions (in Latvia, since March 31, 2010) and according to FCMC data[[44]](#footnote-44) there are 3 licensed payment institution in Latvia and 25 authorized payment institutions, as well as 3 licensed electronic money institutions and 12 authorised electronic money institutions.

## 1.5. Insurance and reinsurance sector

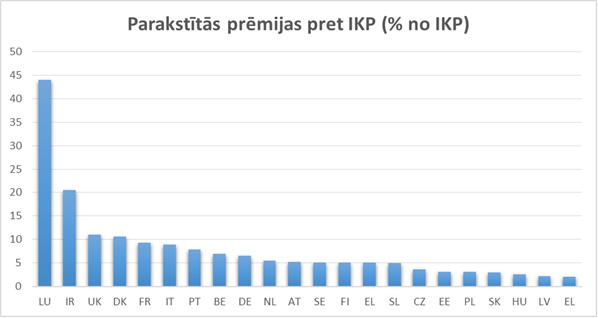
The Latvian insurance sector is one of the smallest among the EU member states, with total assets representing approximately 2.16% of GDP at the end of 2015[[45]](#footnote-45). Latvian insurance companies total written premiums at the end of 2015 amounted to EUR 531 million (at the end of 2014 they were 517 million[[46]](#footnote-46)), while insurance sector's profitability has decreased, which is characterized by an insurance company losses 881 thousand euro in 2015 as opposed to 2014 profits of 9.8 million euro.

According to the volume of assets, the dominant instruments in the insurance market are non-life insurance types. [[47]](#footnote-47)The average amount of insurance premiums written per capita is 260 euro, non-life insurance sector - EUR 206, life insurance sector- 54 euro[[48]](#footnote-48). This indicator in Latvia is lagging behind Estonia, Poland, Slovakia and Hungary, which demonstrates a higher level of written premiums per capita, despite the fact that their income level, as GDP per capita by purchasing power parity, is in comparable income range (Estonia 24,792 euro, Poland 22,418 euro, Slovakia 25,138 euro, Hungary 22,247 euro, Latvia 20,898 euro[[49]](#footnote-49)).

Insurance is a tool that allows its users to manage risks and to secure oneself against potential losses, as well as a tool for savings for the future. It helps to promote resilience of both, individual households and businesses, and the economy in general to various shocks.

Thus taking into account the current level of development of the insurance sector – it is necessary to support promotion of voluntary insurance in order to ensure increased household and corporate funding in the insurance sector by facilitating access to information on the types of insurance, as well as by raising youth level of knowledge about the different types of insurance, and improve the compulsory insurance scheme by expanding the range of occupations that require compulsory civil liability, accident supplementary insurance, raising the compulsory third party liability limits in certain civil classes, raising the compulsory motor vehicle liability insurance coverage, reducing the number of vehicles participating in road traffic without compulsory motor vehicle liability insurance.

Efficiency of the insurance sector can be increased by introducing effective exchange of information (in electronic form online) with the state institutions for risk assessment and insurance commitments.



*Fig. 5 Insurance written premiums as a percentage of GDP (OECD data).*

The insurance sector raises the question of international competitiveness. More and more active are cross-border services. In 2014 the other EU Member States insurers, based on the freedom to provide services, have reached written premiums at 21.1 million euro, which is by 47.7% more than in 2011. In insurance sector top issue is more competitive regulatory environment. In the first quarter of 2016, in Latvia, eight insurance companies and 14 branches of foreign insurance companies were operating, as opposed to, for example, the end of 2008, when there were 15 Latvian insurance companies and only nine foreign companies' branches.

For successful development of the industry it is necessary to into account the unfolding developments in financial innovation that has the potential to make insurance easier and more convenient products available to the public. The insurance business is an area where information is one of the largest values, thus the digitization opens up possibilities for more effective use of information and circulation, increasing the sector's efficiency.

In view of the above the insurance industry should deal with the following **strategic lines of action**:

* Expanding the use of insurance services;
* Effective exchange of information risk in assessment and obligations;
* Extension of services for more complete response to insurance needs.

**Performance indicator:**

Expand voluntary insurance types use Latvian reaching insurance premiums per capita increase of 10% over three years, and the export credit guarantee scheme for the development of at least EUR 20 million[[50]](#footnote-50) over three years.

### 1.5.1. Expanding the use of insurance services

In order to ensure more active household and company funding to the insurance sector, it is necessary to support promotion of voluntary types of insurance.

Besides it is necessary to evaluate the options for expansion of life insurance services, taking into account advantage provided by long-term savings life insurance service usage while decreasing risks of income level reduction in case of partial loss of work capacity. It should be noted, that at the moment the use of savings life insurance in large extent is supported by Personal Income tax exemption, and taking into account the negative impact of the present low interest environment in savings return, it is necessary to maintain the tax exemption, for the further development of this market segment and promoting culture of savings in society.

In addition to the need to assess options for increasing the availability of information to consumers on the types of insurance, and the level of knowledge of youth about the different types of insurance increase. Also, to ensure efficient operation of the digital era within the need to attract FinTech provide service options.

### 1.5.2. Effective exchange of information for risk assessment and obligations

Insurance sector's operational efficiency can be raised by continuing to work on improvements in exchange of information between insurers and government institutions both in terms the required information for insurance risk assessment and for insurance contract obligations. More efficient and speedy exchange of information, particularly in electronic form online can promote faster contractual obligations, accelerating the insurance cover, as well as promoting better risk analysis.

### 1.5.3. Extension of services for more complete response to insurance needs

As one of the directions in which the insurance market could grow is increasingly more complete range of insurance products that meet the needs of society in the field of insurance, addressing topical issues. For example, natural disasters, terrorism or cyber risk insurance often are not a standard product in the insurance policy, however this risk insurance could be demanded. Consequently, it must be assessed whether additional action is required in this field.

For the development of export growth potential, there is an important role of export credit guarantee system development. At present, in the private credit insurance market there is not sufficiently active operation of market -based service providers. This could be partly explained with the small size of Latvian export credit insurance market, which cannot provide appropriate service to requests. Particularly significant market decline was recorded after the financial and economic crisis in 2009. In the context of short-term export credit guarantees, the private credit insurers are selective regarding the relevant geographical areas and sensitive to transient adverse changes in the market. The estimated total amount for which the market does not cover the demand for export credit guarantee industry is estimated at around 14-26 million euro[[51]](#footnote-51). Thus for export credit guarantee sector, the market should be developed for medium-term and long-term guarantees, which would cover at least 20 million euro of market failure[[52]](#footnote-52).

**The tasks and measures of the Financial Sector Development Plan 2017 -2019**

**Abbreviations used**

|  |  |
| --- | --- |
| ALTUM  ĀM  CSDD  DP  EM  ES  ĢP  FKTK  FM | JSC "Development of financial institution Altum"  Ministry of Foreign Affairs  Joint Stock Company "Road Traffic Safety Directorate"  The Security Police  Ministry of Economics  The European Union  Prosecutor General's Office  The Financial and Capital Market Commission  Ministry of Finance |
| FSAP | Financial Sector Development Council |
| IeM | Ministry of Interior |
| IZM | Ministry of Science and Education |
| KAA | Credit Union Association |
| KD | Money Laundering Prevention Service |
| KNAB | Corruption Prevention and Combating Bureau |
| LAA | Latvian Association of Insuarers |
| LAFPA | Latvian Association of Alternative Financial Services |
| LB  LIAA | Bank of Latvia  Latvian Investment and Development Agency |
| LKA | Latvian Association of Commercial Banks |
| LKKSS | Latvian Association of Cooperative Credit Unions |
| LM  LMENA  LTAB  MONEYVAL  Nasdaq Riga  NILLTFN  NVD  OECD | Ministry of Welfare  Latvian Payment Services and Electronic Money Insitutions Association  Latvian Motor Insurers’ Bureau  Committee of experts on the evaluation of anti-money laundering measures and the financing of terrorism  Nasdaq Riga  Prevention of Money Laundering and Terrorist Financing  National Health Service  Organisation for Economic Co-operation and Development |
| PKC | Intersevice coordination centre |
| PMLP | Citizenship and Migration Affairs |
| PTAC | Consumer Rights Protection Service |
| SM | Ministry of Transport |
| STARTin | Latvian Start-up Business Association |
| TM | Ministry of Justice |
| UR | Business Register |
| VARAM | Ministry of Environmental Protection and Regional Development |
| VID | State Revenue Service |
| VP  VM  VRAA  VTUA  ZM | State Police  Ministry of Health  State Regional Development Agency  State Technical Supervision Agency  Ministry of Agriculture |

1. **The tasks and measures of the Plan**

| **No.** | **Tasks/Measures** | **Operating Result** | **Performance indicator** | **Responsible Body** | **Joint responsibility** | **Deadline** |
| --- | --- | --- | --- | --- | --- | --- |
| **THE OVERALL OBJECTIVE: To develop a stable, safe and internationally competitive financial sector with innovative financial services designed to ensure sustainable growth of the Latvian economy** | | | | | | |
| **1. HORIZONTAL ACTION DIRECTION** | | | | | | |
| **1.1. DIGITALIZATION AND INNOVATION** | | | | | | |
| 1.1.1. | Create a single portal to ensure remote identification and record keeping of public benefits to households, as well as to ensure the implementation of measures for availability of incentives and rebates to specific categories of the population (by social status), and record keeping. | Portal created | Public benefits become more accessible and the record keeping of benefits become more efficient | VARAM | SM, IeM, LM, VM, PKC, FM, LKA, LTAB, LAA | 30.06.2018 |
| 1.1.2. | Reinforcement of consumer (non-bank) lending monitoring to ensure a high level of consumer protection and solvency assessment | The availability of Credit Office information for more consumer credit providers is provided | Improved consumer lending solvency assessment methods, providing information of Credit Office to a wider range of credit providers. | EM | PTAC, LAFPA, LKA | Annually for 2017 until 2019 |
| 1.1.3. | Consumer education in the field of consumer credit, particularly in matters of responsible borrowing and debt management | Consumer awareness is improved | Consumer access to information is improved by promoting responsible borrowing | EM | PTAC, LAFPA, LKA | Annually for 2017 until 2019 |
| 1.1.4. | Develop a regulation on client video identification framework, as client identification method, in which the customer participates in person, and assess the experience of other countries. Measure implemented in accordance with the approved 1.2.1.measure for comprehensive policy planning on anti-money laundering and financing terrorism. | FCMC regulation is prepared | FCMC regulation prepared on project development in accordance with the Anti-Money Laundering and Financing of Terrorism Prevention Law Article 47, second subparagraph, eighth paragraph | FKTK | LKA, LMENA, VARAM, LTRK | 31.12.2017 |
| 1.1.5. | Evaluate options using customer biometric data for customer identification, authentication and authorization processes; as well as evaluation of feasibility of public service of person's identity or restricted access to biometric data processing systems and its use. Measure implemented in accordance with the approved 1.2.1.measure for comprehensive policy planning documents of anti-money laundering and financing terrorism. | The options for the necessary amendments to the legal framework are evaluated | The options for the necessary amendments to the legal framework are evaluated | FM | FKTK, LKA, LMENA, VARAM | 31.12.2017 |
| 1.1.6. | Introduce regulatory sandbox solution. Measure implemented in accordance with the approved 1.2.1.measure for comprehensive policy planning documents of anti-money laundering and financing terrorism. | The environment for development of innovative financial services is improved | A regulatory sandbox solution to support innovative financial services and international competitiveness of the FINTECH industry is introduced | FM | FKTK, PTAC, LAFPA, LKA, LMENA, STARTin | 31.12.2017 |
| **1.2. SECURITY AND REPUTATION**  **Attainable sub-goals: A substantial improvement of international reputation of Latvian financial sector** | | | | | | |
| 1.2.1. | The anti-money laundering and terrorist financing risk management system developed in accordance to international standards and best practices and introduced public and private structures. | 1. Implementation of a comprehensive policy planning documents of anti-money laundering and financing terrorism started; 2. A report sumbitted to the cabinet of ministers on implementation of anti-money laundering and terrorism financing risk prevention measures plan | 1. A comprehensive policy planning documents of anti-money laundering and financing terrorism is developed and introduced;  2. An Evaluation is prepared on implementation of the anti-money laundering and terrorist financing risk prevention measures plan | FM | ĀM, FSAP, TM, FKTK, KD, ĢP, VP, VID, KNAB, DP, LKA, LAFPA | 1.01.03.2017  2.30.09.2017 |
| 1.2.2. | In cooperation with the European Commission's Structural Reform Suport Service a comprehensive training program developed to strengthen the capacity of anti-money laundering and terrorist financing risk management of public and private bodies | Provided capacity building in line with the international standards and best practices appropriate on anti-money laundering and financing terrorism | Provided capacity building to international standards and best practices on appropriate anti-money laundering and financing terrorism | FM | TM, KD, FKTK, LKA, LAFPA | 31.12.2017 |
| 1.2.3. | Full implementation of identified recommendations in OECD Combating Bribery in International Business Transactions Phase 2 Assessment report | Improved compliance with anti-money laundering and the financing of terrorism with the law and urgent measures taken to facilitate the prosecution of money laundering | Improved compliance with the law on anti-money laundering and the financing of terrorism and and urgent measures takento facilitate the prosecution of money laundering | FM, TM | FKTK, KD | 01.10.2017[[53]](#footnote-53) |
| 1.2.4. | Ensure the credit institutions comply with the anti-money laundering and terrorism financing prevention best international practices | Credit institutions have complied with the 2016's compliance with international anti-money laundering and terrorism financing prevention requirements inspections received recommendations | Credit institutions have complied with received recommendations of 2016's compliance inspections on international anti-money laundering and terrorism financing prevention | FKTK | LKA | 31.12.2017 |
| 1.2.5. | To improve the regulatory framework on misuse of the financial system for anti-money laundering and financing of terrorism reasons | The Directive of European Parliament and of the Council (EU) 2015/849 (20 May 2015) on the prevention of the use of financial system for money laundering or terrorist financing, and to the European Parliament and Council Regulation (EU) No. 684/2012 and repealing European Parliament and Council Directive 2005/60 / EC and Commission Directive 2006/70 / EC is transposed in the national law | The Directive of European Parliament and of the Council (EU) 2015/849 (20 May 2015) on the prevention of the use of financial system for money laundering or terrorist financing, and to the European Parliament and Council Regulation (EU) No. 684/2012 and repealing European Parliament and Council Directive 2005/60 / EC and Commission Directive 2006/70 / EC is transposed in the national law | FM | TM, KD, UR, FKTK, LB, LKA, LAFPA | 26.06.2017 |
| 1.2.6. | To inform on progress international public and private sector partners on the Latvian financial sector's compliance with international anti-money laundering and terrorist financing prevention requirements standards | The reputation of the financial sector is restored and maintained, that ensures the renewal of cooperation with correspondent banks.  By December 31, 2019 to set up cooperation with one of the banks that provide correspondent services in US dollars | The reputation of the financial sector is restored and maintained, that ensures the renewal of cooperation with correspondent banks.  By December 31, 2019 to set up cooperation with one of the banks that provide correspondent services in US dollars | LKA | FKTK, LB, FM, ĀM | Biannually |

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| **2. SECTORAL ACTION DIRECTION Banking Sector** | | | | | | |
| **2.1. Banking Sector** | | | | | | |
| **2.1.1. Attainable sub-goals: ensuring the availability of financing, increasing the pace of lending in line with GDP growth, increasing domestic household and corporate loan portfolio by at least 10%[[54]](#footnote-54) over three years** | | | | | | |
| **Eligible outcomes: Lending rate increase** | | | | | | |
| 2.1.1.1 | Extension range of beneficiaries on State Aid programs for the first housing purchase guarantee beyond families with children, also to young professionals for housing purchase | Support is provided to 1200 families per year | Support is provided to 1200 families per year | EM | FM, ALTUM | 01.01.2018 |
| 2.1.1.2. | State aid program Guarantee instrument broadened including introduction of portfolio guarantees | Access to guarantee instruments is diversified | Financial accessibility is provided by increasing the lending rate | EM | FM, ALTUM | 30.12.2017 |
| 2.1.1.3. | Increase the availability of housing by the development of new residential tenancy regimes. | The effectiveness of residential tenancy relations framework is improved, ensuring a balanced tenant and landlord rights and obligations. | The effectiveness of residential tenancy relations framework is improved, ensuring a balanced tenant and landlord rights and obligations. | EM | LKA | 01.04.2017 |
| 2.1.1.4. | To draw up proposals for the establishment of a single contact point of investment projects, including PPP development | The quality of investment projects is improved and the amount of financing for investment projects is increased. | The quality of investment projects is improved and the amount of financing for investment projects is increased. | FM | ALTUM, EM, VARAM | 01.09.2017 |
| 2.1.1.5. | Effective co-operation between credit institutions of the State Revenue Service and other institutions in the provision of information and its re-use, reducing operating costs and extending the digital solution implementation. | Review of possibilities to develop co-operation in between banks, State Revenue Service and other institutions in the provision of information and its re-use. | Review of possibilities to develop co-operation in between banks, State Revenue Service and other institutions in the provision of information and its re-use. | FM | LKA, FKTK | 30.12.2019 |
| **2.1.2. Attainable sub-goals: From the perspective of benefits and risks, a balanced share of foreign client deposits in the financial sector**  **Eligible outcomes:**  **Asset management service development**  **Promotion of Latvian business environment to support Business Process Outsourcing (BPO) / Shared Services Center (SSC) service providing in financial and related IT areas** | | | | | | |
| 2.1.2.1. | Define attraction of investments in the financial and IT-related services (SSC / BPO) and FINTECH field as a priority area of investment attraction and implementation of appropriate measures | 1,000 jobs annually over three years are created | Present situation (in Q3 2016) as the basis for operating result: 14 SSCs and ~ 25 BPOs, employing 7,600 employees.  The achievement of performance indicators depends on the A and B + class office space and staff availability | LIAA | FM, EM, LKA, FKTK, LAFPA | Annually from 2017 to 2019 |
| 2.1.2.2. | In cooperation with international experts to prepare proposals on the risks and benefits of affordable international financial services future development, based on international best practices appropriate risk management and compliance principles | A report on the development of financial services opportunities is submitted to the Cabinet of Ministers and further proposals are prepared | The development opportunities financial services are evaluated and further proposals are prepared based on international best practices appropriate risk management and compliance principles. | LKA | FM, FKTK, LB | 30.09.2017 |

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| **3. SECTORAL ACTION DIRECTION: Capital Market** | | | | | | |
| **Attainable sub-goals:**  **Total equity market capitalization volume increase of 2.2% of GDP[[55]](#footnote-55) over three years, expanding the availability of equity instruments to domestic non-financial companies** | | | | | | |
| **Eligible outcomes:**  **Increase the number of companies using equity instruments funding;**  **Develop capital instruments to attract funding and investment opportunities expansion;**  **Increase institutional and private investors' activity in the domestic capital market.** | | | | | | |
| **3.1. Increase the number of companies using equity instruments to attract financing** | | | | | | |
| 3.1.1. | Create a long-term (at least 3-5 years) national support programs that promote and expand access to finance for small or medium companies through equity and / or debt securities issue further stock exchange quotations, national or EU funds; Support program should include co-financing shares and / or debt issuance, fully or partially covering the related costs: costs related to the organization of offering (issuance consultants, emission drafting documents, legal advice):  o costs associated with the attraction of investors (issuance agent, marketing activities organization);  o costs associated with shares and / or debt issuance record keeping of the original registry services, servicing of securities events and a list of shareholders / debt holders receive a list of JSC "Latvian Central Depository";  o inclusion fee, an annual fee on the regulated and alternative market, as well as consultancy fees in the alternative market (stock exchange payments certified consultant). | A support program for companies quotation in the stock exchange is developed | A support program for companies quotation in the stock exchange is developed | EM | FM, NASDAQ Riga | 31.12.2017 |
| 3.1.2. | Prepare proposals for administrative burden reduction in the market listed companies, including the preparation of the prospectus requirements of small and medium-sized enterprises when launching the stock exchange quotations, also taking into account the Prospectus Directive review the timing of capital market in the context of Union initiatives | More active involvement of enterprises in the capital markets | More active involvement of enterprises in the capital markets | FM | FKTK, NASDAQ Riga | 31.12.2017 |
| 3.1.3. | Develop and explain to the public a clear strategy and plan for the private equity shares to increase the state-owned assets, as well as attracting additional funding on the capital market.  Create a list of state-owned assets, with experts, to identify potential companies covered by the strategy and plan.  Within the strategy all investment the state-owned enterprises should be provided by international initial public offering method (IPO), providing a broad circle of investors' attraction and offering concrete 10-15% of the sale for cash to pension and investment funds, individuals and other investors. In addition to raising funds, use the bond issue, allowing retention of ownership, but at the same time provides an opportunity to raise capital on the basis of the company's own defined conditions;  Assess the possibility of completing the privatization through the public offer in securities market such companies as Lattelecom, LMT, Latvian Shipping Company. | A more active participation of state owned companies in the capital market | A more active participation of state owned companies in the capital market | PKC | NASDAQ Riga | 31.12.2017 |
| **3.2. Develop capital instruments to attract funding and to broaden investment opportunities** | | | | | | |
| 3.2.1. | Develop instruments for enhancing the investment opportunities for Latvian state-funded pension investment | 1. A working group on State-funded pensions to broaden eligible investments is established.  2. The opportunities for state-funded pension investment in Latvia are enhanced. | Instruments introduced for state funded pension investment in Latvia | FM | NASDAQ Riga, LKA | 1.31.12.2017  2.31.12.2019 |
| 3.2.2. | Review the regulations for asset backed securities and assess if it is up to date and corresponding to securities market development potential. | A report is submitted to the Cabinet of Ministers | Prepare an assessment of obstacles encountered, difficulties in the application, as well appropriate regulation for asset backed securities market development potential. | FM | FKTK, LKA, NASDAQ Riga, ALTUM | 01.07.2017 |
| 3.2.3. | To improve the regulatory framework in order to remove existing obstacles to the development of securitization | Proposals are prepared for improving the regulation. | The use of securitization as a financial instrument is activated. | FM |  | 01.07.2018 |
| 3.2.4. | Create support tools for the management buy- out finance | Proposals for possible aid instruments are prepared | The range of equity instruments is expanded | FM | ALTUM | 31.12.2017 |
| 3.2.5. | Promote the availability of information on the possibilities to raise funds on the capital market | The awareness of companies on opportunities to raise funds in the capital market is improved | The awareness of companies on opportunities to raise funds in the capital market is improved | NASDAQ Riga | EM, ALTUM | 31.12.2019 |
| **3.3. Increase activity of institutional and private investors in the domestic capital market** | | | | | | |
| 3.3.1. | Review the educational program by providing more comprehensive amount of information on the capital markets, the importance and benefits of investors and listed companies | The public awareness of capital market opportunities in attracting financial resources and investment is enhanced | The public awareness of capital market opportunities in attracting financial resources and investment is enhanced | NASDAQ Riga | FKTK, IZM | 31.12.2019 |
| 3.3.2. | For the purposes of tax calculation and collection needs to introduce "an investment account" for individuals, which would allow to invest more actively and to facilitate investment-related tax administration to individuals | The awareness of private individuals is enhanced | More active involvement of individuals in the capital market | FM | LKA,  NASDAQ Riga, LAFPA | 31.12.2017 |
| 3.3.3. | To assess the possibilities for review of the state funded pension regulations in order to encourage investment in the capital market, including for pension fund investment limits, the plan change frequency, manager fees | Review is prepared | More effective use of state-funded pension investment policy and ensuring pension plan participants interests | FM | LM, FKTK, LKA, LPRKA | 31.12.2017 |
| 3.3.4. | Eliminate the existing barriers in regulations to introduce the electronic voting system | Proposals are prepared for improvement of regulations | More active involvement of private investors in the capital market | FM | NASDAQ Riga | 31.12.2018 |

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| **4. SECTORAL ACTION DIRECTION Alternative financial services sector** | | | | | | |
| **Attainable sub-goals:**  **Ensuring the availability of funding, complementing financing opportunities provided by credit institutions, especially for small and medium-sized enterprises, in accordance with common Latvian economic development objectives by increasing the availability of financing for 5.25% of GDP over three years** | | | | | | |
| **Eligible outcomes:**  **Adoption of collective financing platform of regulation;**  **Development of innovative financial services and risk management.** | | | | | | |
| 4.1. | Review of legal acts on Credit unions, review specific requirements for operation of credit unions, which are currently included in the Cooperative Societies Act, and incorporating those in Law on Credit Unions | Evaluation is prepared | Revised credit unions operating framework, which provides specific terms for the operation of credit unions, and is now included in the Cooperative Societies Law | FM | FKTK, KAA, LKKSS | 31.12.2017 |
| 4.2. | Explore ways to develop opportunities for credit unions to lend to legal persons | Evaluation and proposal for legal act is prepared | A review is prepared of the optimal solution for credit unions lending to legal persons | FM | FKTK, KAA, LKKSS | 30.10.2017 |
| 4.3. | To evaluate the second level credit union operation | Evaluation is prepared on the second level credit union operating model implementation | Evaluation is prepared on the second level credit union operation | FM | FKTK, KAA, LKKSS | 30.10.2017 |
| 4.4. | Legal acts on Crowdfunding lending platform submitted for approval to the Cabinet of Ministers and Parliament | Draft Law on Crowdfunding lending platform is submitted to the Cabinet of Ministers | Draft Law on Crowdfunding lending platform is prepared | FM | FKTK, PTAC, LB, LAFPA | 30.10.2017 |
| 4.5. | Legal acts on Crowdfunding investment platform submitted for approval to the Cabinet of Ministers and Parliament | Draft Law on Crowdfunding investment platform is submitted to the Cabinet of Ministers | Draft Law on Crowdfunding investment platform is prepared | FM | FKTK, LAFPA | 01.07.2017 |
| 4.6. | According to the European Parliament and Council Directive Nr.2014 / 17 / EU on consumer credit agreements relating to residential immovable property and amending Directive 2008/48 / EC and 2013/36 / EU and Regulation (EU) No. 1093/2010 to establish a regulatory framework for credit intermediaries that offer loans whose repayments secured by a mortgage on immovable property or whose purpose is to acquire or retain rights to immovable property and ensure its implementation and annual monitoring | Draft Legal Act is submitted to the Cabinet of Ministers | A regulatory framework is established for credit intermediaries that offer loans whose repayments secured by a mortgage on immovable property or whose purpose is to acquire or retain rights to real estate | EM | PTAC, FKTK, LAFPA | 01.07.2017 |
| 4.7. | Oversight of knowledge and expertise requirements for the lender and credit intermediaries that offer loans whose repayments secured by a mortgage on immovable property or whose purpose is to acquire or retain rights to real estate personnel | Oversight of knowledge and expertise requirements is provided | Knowledge and expertise requirements are increased for lenders and credit intermediaries | PTAC | FKTK, LAFPA, LKA | Annually from 2017 to 2019 |
| 4.8. | Digital passport / ID design and ready-made solutions to extend the capabilities of the payment service recipients simplified identification process. Measure implemented in accordance with the approved 1.2.1. measure for comprehensive policy planning documents of anti-money laundering and financing terrorism | Evaluation is prepared | The approach is identified to make changes in the regulatory framework related to the simplified payment service beneficiary identification process | FKTK | LKA, LMENA, VARAM | 01.01.2018 |
| 4.9. | Extend payment service and electronic money services institutions access opportunities to SEPA | Draft legal act is prepared | Legal act is adopted | LB | FKTK, LMENA | 01.07.2017 |
| 4.10. | Elaboration of a separate regulation for Latvian payment service and electronic money services institutions, money laundering and financing of terrorism, according to their nature, scale and related risks. Measure implemented in accordance with the approved 1.2.1.pasākumā for comprehensive policy planning documents of money laundering and financing terrorism | Draft FCMC legal act is prepared | Taking into account the different risks, and payment services and electronic money services and the particularities of products, to define for payment service providers specific risk NILLTFN models and to develop FCMC Regulations on project | FKTK | LMENA | 30.09.2017 |
| 4.11. | | Ensure access to information in order to comply with the Anti- money laundering and financing of terrorism law for payment service providers, electronic money institutions, credit unions and consumer lenders. Measure implemented in accordance with the approved 1.2.1.measure for comprehensive policy planning documents of anti-money laundering and financing terrorism | Draft legal act is prepared | Regulation is reviewd in Anti-Money Laundering and Financing of Terrorism Prevention Law Article 41, second paragraph of, adding to payment service providers and electronic money institutions (through Article 41 of the rights free of charge to receive information from the state to keep a register) | FM | FKTK | 01.09.2017 |
| 4.12. | | To improve the regulatory framework in respect of transactions with emission allowances/quota (and their derivatives) and emission allowance market-related persons and entities obligations emission allowances becoming a financial instrument | The current regulation is ammended | The norms concerning emission allowances in European Parliament and Council Directive 2014/65 / EU on markets in financial instruments and amending Directive 2002/92 / EU and Directive 2011/61 / EU are transposed in national regulations. | FM | FKTK | 03.07.2017 |

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| **5. SECTORAL ACTION DIRECTION: Insurance sector** | | | | | | |
| **Attainable sub-goals:**  **Expand voluntary insurance use in Latvia reaching insurance premiums per capita increase of 10%, and the development of export credit guarantee scheme for the of at least EUR 20 million [[56]](#footnote-56)over three years** | | | | | | |
| **Eligible outcomes:**  **Expanding the use of insurance services;**  **Effective exchange of information on risk assessment and obligations;**  **Expanding insurance pruduct supply for more complete insurance needs** | | | | | | |
| **5.1. Expanding the use of insurance services** | | | | | | |
| 5.1.1. | Expanding information on available insurance products | Consumers are more informed | More active use of insurance services | LAA, LABA, LPABA | FM, PTAC, VRAA | 31.12.2019 |
| 5.1.2. | Educate youth on insuarence services (information campaings, training) | Opportunities are provided | More active use of insurance services | LAA,  LABA,  LPABA | IZM | 31.12.2019 |
| 5.1.3 | To assess the range of professions, that requires compulsory civil liability insurance | Evaluation is prepared | More active use of insurance services | LAA | FM | 31.12.2019 |
| 5.1.4. | To assess the range of professions, that requires compulsory accident insurance | Evaluation is prepared | More active use of insurance services | LAA | FM | 31.12.2019 |
| 5.1.5 | Vehicle civic liability insuarance (OCTA) market coverage increased, by reducing uninsured vehicles on the road | Amount of uninsuared vechilces on the road is reduced | Reduce amount of uninsuared vechilces on the road. | LTAB, LABA,  LPABA | FM, CSDD, VTUA, IEM, VP | 31.12.2019 |
| 5.1.6. | To evaluate the need to revise the limits for some compulsory civil liability insurance types | Evaluation is prepared | More efficient compulsory civic liability system | LAA | FM | 31.12.2019 |
| 5.1.7. | Align/review the management of compulsory insurance system, effective management | Evaluation is prepared | More efficient compulsory civic liability system | LAA,  LABA,  LPABA | FM | 31.12.2019 |
| **5.2. Effective exchange of information for risk assessment and obligations** | | | | | | |
| 5.2.1. | Efficient exchange of information (in electronic form online) with the national authorities for risk assessment and obligations | Exchange of information is provided | Improved insurance service quality - fast indemnity, less administrative burden | LAA | LTAB, FM, VID, VRAA, VARAM, IeM, PMLP, VM, NVD, CSDD | 31.12.2019 |
| **5.3. Expanding insurance product supply to satisfy more insurance needs** | | | | | | |
| 5.3.1. | To evaluate feasibility of insurance services for atypical risks | Evaluation is is prepared | Align the offer of insurance products corresponding to the needs of society | FM | LAA | 31.12.2019 |
| 5.3.2. | Further development of export guarantee schemes, with assessment of options for medium-and long-term export credit guarantee instrument implementation | Evaluation is prepared | Providing support to companies with ability to export | FM | EM, ZM, ALTUM | 31.12.2018 |

1. Data of the Bank of Latvia and the Latvian Central Depository, 30 June 2016. Total assets of financial sector (FCMC supervised and unsupervised institutions) at the end of 1st half 2016 was 39.9 billion euro, but including Nasdaq Riga stock exchange market (public securities) – 42.9 billion euro; [↑](#footnote-ref-1)
2. European Commission, Economic Analysis Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Action Plan on Building a Capital Markets Union. http://ec.europa.eu/finance/capital-markets-union/docs/building-cmu-economic-analysis\_en.pdf 30.09.2015., 99.-100 page. Financial sector assets in Estonia 154.7% from GDP, in Lithuania 94.9% (average from 2013 to 2015). [↑](#footnote-ref-2)
3. World Bank report on Non-resident (foreign client) Banking sector in Latvia, 15 June 2016, page 2. [↑](#footnote-ref-3)
4. FCMC data on 30 June 2016 and calculations; According to data on December 2015, foreign client turnover has been two times larger than domestic client turnover. [↑](#footnote-ref-4)
5. FCMC report on Financial and Capital market in the 2nd Quarter, 2016. [↑](#footnote-ref-5)
6. FCMC data on 30 June 2016 and calculations; According to data on December 2015, foreign client turnover has been two times larger than domestic client turnover. [↑](#footnote-ref-6)
7. Consultative Report, Correspondent Banking, Committee on Payments and Market Infrastructures, Bank for International Settlement, October 2015, p.8. [↑](#footnote-ref-7)
8. The Action Plan on the Declaration of the Intended Activities of the Cabinet of Ministers Headed by Mr. Māris Kučinskis, approved by the Cabinet Order No. 275 on 3rd May 2016, http://likumi.lv/ta/id/281943-par-valdibas-ricibas-planu-deklaracijas-par-mara-kucinska-vadita-ministru-kabineta-iecereto-darbibu-istenosanai, Article 51, Measure 51.1. [↑](#footnote-ref-8)
9. Bank of Latvia data. [↑](#footnote-ref-9)
10. Ministry of Finance forecast, GDP growth in 2017- 2019 (2017 – 3.5%, 2018 – 3.4%, 2019 – 3.4%). Taking into account that credit growth was 0.1% at the end 2015, then credit growth to be in line with GDP growth should reach at least 10% in three years. [↑](#footnote-ref-10)
11. Ministry of Finance calculations, 31.12.2015. [↑](#footnote-ref-11)
12. Ministry of Economics. Market Gap Assessment, 2014, Page 59.; [↑](#footnote-ref-12)
13. See previous, Page 82. [↑](#footnote-ref-13)
14. The Cabinet of Ministers, Informative Report “On the necessary action and designation of competent institutions, in order to ensure the implementation of the Investment plan prepared by the European Commission”, 2 June 2015. Page 2; [↑](#footnote-ref-14)
15. Banking and Finance, Capital Markets in the EU, Capital Markets Factsheet, 30.09.2015, European Commission, Page 2. [↑](#footnote-ref-15)
16. Banking and Finance, Capital Markets in the EU, Capital Markets Factsheet, 30.09.2015, European Commission Page 1.; [↑](#footnote-ref-16)
17. Statistics on securities market, 2015, Latvian Central Depository, Page 4; [↑](#footnote-ref-17)
18. Statistics on securities market, 2015, Latvian Central Depository, Page 4; [↑](#footnote-ref-18)
19. Statistics on securities market, 2015, Latvian Central Depository, Page 4; [↑](#footnote-ref-19)
20. [www.manapensija.lv](http://www.manapensija.lv) [↑](#footnote-ref-20)
21. http://www.fktk.lv/lv/statistika/pensiju-fondi/ceturksna-parskati/5775-valsts-fondeto-pensiju-shemas-lidzeklu-parvaldisana-2016-gada-1-ceturksni.html [↑](#footnote-ref-21)
22. http://www.fktk.lv/lv/statistika/pensiju-fondi/ceturksna-parskati/5778-privato-pensiju-fondu-darbiba-2016-gada-1-ceturksni.html [↑](#footnote-ref-22)
23. European Commission, Economic Analysis Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Action Plan on Building a Capital Markets Union. http://ec.europa.eu/finance/capital-markets-union/docs/building-cmu-economic-analysis\_en.pdf 30.09.2015., 99.-100 page. [↑](#footnote-ref-23)
24. Ministry of Economics. Market Gap Assessment, 2014, Page 132-140; [↑](#footnote-ref-24)
25. Banque de France, Assessment of Risks to the French Financial System, Dec.2015, p.45

    https://www.banque-france.fr/en/publications/evaluation-des-risques-du-systeme-financier-francais.html. [↑](#footnote-ref-25)
26. Ministry of Economics. Market Gap Assessment, 2014, Page 122.; In the capital market sector the market gap is assessed at 568 million euro. [↑](#footnote-ref-26)
27. European Commission, Communication “Action Plan on Building a Capital Markets Union” [↑](#footnote-ref-27)
28. Ibid. [↑](#footnote-ref-28)
29. This section covers crowd-funding platforms (Crowdfunding platforms and investment platforms), leasing companies, credit unions, non-bank credit providers and payment service providers; [↑](#footnote-ref-29)
30. Report on non-bank consumers lending market in 2015, Consumer Rights Protection Centre, Page 11; [↑](#footnote-ref-30)
31. Report on non-bank consumers lending market in 1st half 2016, Consumer Rights Protection Centre, Page 13; [↑](#footnote-ref-31)
32. Report on non-bank consumers lending market in 2015, Consumer Rights Protection Centre; [↑](#footnote-ref-32)
33. Ministry of Economics. Market Gap Assessment, 2014, Page 88-94; [↑](#footnote-ref-33)
34. Ministry of Economics. Market Gap Assessment, 2014, Page 79; Financial instruments investment total financial instruments market gap for small and medium businesses in the segment 878 million euro, consists of 184 million euro microfinance sector, 101 million euro leasing industry, 196 million euro factoring sector; [↑](#footnote-ref-34)
35. Wardrop R., Zhang B., Rau R., Gray M. Moving Mainstream, European Alternative Finance Benchmarking Report. University of Cambridge, Ernest and Young. February, 2015. p.13. [↑](#footnote-ref-35)
36. European Commission, Economic Analysis Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Action Plan on Building a Capital Markets Union. http://ec.europa.eu/finance/capital-markets-union/docs/building-cmu-economic-analysis\_en.pdf 30.09.2015., Page 37. [↑](#footnote-ref-36)
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38. https://www.mintos.com/lv, last viewed on13.06.2016.; [↑](#footnote-ref-38)
39. https://www.bank.lv/statistika/procentu-likmju-statistikas-raditaji/galvenas-procentu-likmes; [↑](#footnote-ref-39)
40. World Economic Forum, “The Future of Financial Services. Final Report.” June, 2015, p.27. [↑](#footnote-ref-40)
41. Same, p.43. [↑](#footnote-ref-41)
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43. PwC. Blurred lines: How FinTech is shaping Financial Services. Global FinTech Report. March 2016. Global. http://www.pwc.com/gx/en/industries/financial-services/fintech-survey/report.html [↑](#footnote-ref-43)
44. http://www.fktk.lv/lv/tirgus-dalibnieki/maksajumu-iestades/licencetas-maksajumu-iestades.html, informācija uz 03.08.2016. [↑](#footnote-ref-44)
45. FCMC “Report on Financial and Capital Market in 2015”, Page 7. [↑](#footnote-ref-45)
46. Ibid, Page 7 [↑](#footnote-ref-46)
47. Latvia, Review of the Insurance System, OECD, April, 2016.,7.lpp. [↑](#footnote-ref-47)
48. Ibid, Page 7 [↑](#footnote-ref-48)
49. http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?page=3 [↑](#footnote-ref-49)
50. Ministry of Economics. Market Gap Assessment, 2014, Page 103-104.; [↑](#footnote-ref-50)
51. Ministry of Economics. Market Gap Assessment, 2014, Page 103; [↑](#footnote-ref-51)
52. See previous [↑](#footnote-ref-52)
53. Information Report “On the implementation of recommendations of the Phase 2 Report by OECD Working Group on Bribery in International Business Transactions” and its annexes, presented in the Cabinet of Ministers on September 27, 2016 (meeting minutes No. 48 61.§) [↑](#footnote-ref-53)
54. Based on the Ministry of Finance GDP growth forecast for 2017- 2019 (2017 - 3.5% 2018 - 3.4%, 2019 - 3.4%). At the end of 2015, lending growth was 0.1%, and in order to have its adequate impact on GDP growth, it is necessary to ensure at least 10% lending growth in three years. [↑](#footnote-ref-54)
55. Financing gap in the capital market financial instrument segment is 568 million euro. [↑](#footnote-ref-55)
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