Fintech and Innovation Policy in Lithuania: balancing opportunities and risk mitigation

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Integrated regulator responsible for prudential and business conduct supervision as well as payment system management
Strategic directions of the BoL (2017–2020)

✓ Become a centre of excellence in economics and finance

✓ **Become a financial sector partner, promoting innovation and sustainable growth**

✓ **Create a competitive and advanced payments market in Lithuania**

✓ Enhance application of financial asset investment strategies

✓ Be one of the top three most efficient central banks in the Nordic-Baltic region
Commitment of all competent authorities

- National Fintech Strategy (from 2017)
- Network of competent public authorities
- Bank of Lithuania: Partnership approach
The toolkit is ready

- **NEWCOMER PROGRAM**: one-stop shop for new entrants
- **REGULATORY SANDBOX**: adapting the regulatory toolkit
- **REGTECH/SUPTECH**: reducing compliance burden
- **LB COIN**: blockchain-based digital collector coin
- **LB CHAIN**: blockchain-based sandbox
- **CENTROLink**: access for non-bank entities
- **AML Centre**: public-private partnership on AML
- **Licencing regime**: tailored/enabling framework
Lithuania’s thriving Fintech Hub

- Fintech strategy confirmed by Bank of Lithuania, Ministry of Finance & Invest Lithuania
- The Newcomer Programme to help potential financial market participants initiated
- 1st Specialized Bank license issued
- LB chain sandbox launched
- AML Center launched
- LBCoin released
- #230 Fintechs
- 4000+ people employed in the sector (18% growth in 2020)
Newcomer programme
Newcomer Programme: main entry point for Fintechs

One-stop-shop:
• Consulting new market players on legal/regulatory matters
• Assessing feasibility of business models

Focus on QUALITY:
• Financially sound, reliable & transparent market participants
• Feasible business plans required
• Risk-based approach when assessing potential financial market participants
Streamlining the licensing process: primary goal is quality, not quantity

Participants interested in licencing, providing financial services in Lithuania:

- 1040 Newcomer Program applicants
- 497 direct applications
- 543 total applications
- 113 total new licences
- 207 total licences
- 272 new licences
Regulatory sandbox
Regulatory sandbox – a two-way street

- Helps fintechs and incumbents navigate our regulations
- Allows us to identify risks at an early stage and take action immediately
- Increased know-how
Regulatory sandbox

- **Fully operative since October 2018**
- Regulated by the **Regulatory Sandbox Framework** of the Bank of Lithuania, approved by Resolution No 03-166 of the Board of the BoL of 19 September 2018
- **Financial innovation is currently being tested**
1. APPLICATION SUBMISSION

The APPLICANT provides reasoned arguments proving that the financial innovation meets the eligibility criteria.

2. APPLICATION EVALUATION

The BANK OF LITHUANIA reviews the application (1-2 months).

3. NEGOTIATION OF TESTING CONDITIONS

The APPLICANT and the Bank of Lithuania agree on the testing period, protection of consumer rights and other testing conditions (1-2 months).

The BANK OF LITHUANIA allows to start testing under the agreed conditions.

4. TESTING

An INNOVATIVE financial service is tested in a live environment for up to 6 months, with the possibility of extension of up to 12 months.

The BANK OF LITHUANIA provides consulting assistance.

The BANK OF LITHUANIA monitors compliance with testing conditions.

5. FURTHER IMPLEMENTATION

IF TESTING PROVES SUCCESSFUL, the applicant decides whether to continue service provision (after obtaining a licence, if necessary).
Eligibility criteria

- **Genuine innovation** - it is new to Lithuania’s financial market;
- **Consumer benefit** - if implemented, it would bring more convenient, safer and cheaper financial services or other identifiable benefits to consumers;
- **Need for testing in a live environment** - the necessity to test financial innovations in a controlled environment is objectively justified, while testing itself can contribute to the implementation of the said innovation;
- **Readiness for testing** - it is ready to be tested in a live environment: the financial market participant has carried out an assessment of its adaptability, allocated sufficient resources, carried out a risk analysis and understands any other testing conditions;
- **Ambition to provide financial services in Lithuania** - it will be further developed in Lithuania.
A peer-to-peer (P2P) insurance platform has finished testing regime.

The P2P insurance platform is based on the principles of the sharing economy, where its members form groups to protect themselves against losses, make their own decisions on loss compensation using pooled funds and get back those unused.

Tools used in the Regulatory Sandbox

- active consultation of financial market participants;
- active application of the principle of proportionality when interpreting and applying legal acts regulating the financial market;

What's next?
Risk management measures

✓ The structure of the Bank of Lithuania is constantly being adapted:
  ▪ Separate AML risk and EMI/PI supervision divisions;
  ▪ Additional staff in licensing and supervision divisions.

✓ Strengthening interinstitutional cooperation:
  ▪ A permanent format for information sharing has been established;
  ▪ The AML center is being established

✓ Strengthening international cooperation:
  ▪ Agreements have been signed with regulators
  ▪ We are strengthening international cooperation in the field of AML, especially in the Nordic-Baltic format.
The Centre of Excellence in Anti-Money Laundering

- **Pioneering in cyber resilience exercises.**
- **Operating a shared KYC database.**
- **The Centre of Excellence in Anti-Money Laundering.**

The goal: “Licenced in Lithuania” → a sign of quality
Focus: FinTech maturity

- Governance and compliance culture
- Capital adequacy = Financial health
- Client funds = safety warrant
- Providing activities within license issued
- AML/TF risk management
- Resilience to IT/Cyber risk
For Fintech supervision – innovatory models

Risk monitoring – an advanced EMI/PI riskiness assessment model

Riskiness assessment **model improvement:**

- development of new indicators (including shareholder, management and other risks)
- review of all available indicators (development of the methodology)
Thank you!