



Latvian Fintech Report

2021

Content

- 01 INTRODUCTION
- 02 FINTECH LANDSCAPE IN 2021
- 03 SURVEY FINDINGS
- 04 FINTECH MAP
- 05 LATVIA IN FACTS AND FIGURES
- 06 STARTUP ECOSYSTEM
- 07 STATE SUPPORT
- 08 INVESTMENT LANDSCAPE
- 09 INFRASTRUCTURE & REGULATION
- 10 PARTICIPATING STARTUPS

01

Introduction



Reinis Rubenis
Swedbank Latvia CEO

"This is our second Fintech report, where we attempt to take stock of the status quo, both in figures and in attitudes within the sector. Against the backdrop of the last year's data, we have also tried to discern tendencies and trends – where do the market players stand today in comparison with the year before? How has the landscape changed, and what could we infer from that? In other words, we try to listen and analyse.

In recent years financial sector in Latvia has achieved a lot in terms of speed, transparency and ability to innovate and implement change quickly and at a necessary scale. For instance, currently more than 50 licensed tech companies are given access to Swedbank payments, accounts, and currency exchange APIs in four of our local markets, initiating more than half a million transactions a month. The concept of an open cooperation platform is also used to expand the services available to the bank's clients.

Fintech innovations can solve the most important issues that companies are facing nowadays – the increasing demands on scale, speed and transparency.

While Latvian Fintech industry has proven to be highly competitive, there are certain challenges that we must acknowledge and, putting our heads together, try to tackle in order to compete globally. As we see from the survey, the Fintech sector is dominated by small but powerful teams while the banking sector needs Fintech solutions of a bigger scale. As a step in this collaborative direction, Swedbank opened the first ever Fintech accelerator in the Baltics, which we hope will contribute to a much faster growth of the local Fintech field."

02

Fintech Landscape in 2021

About the report

At the core of each developed country is a strong and well-built financial industry. Latvia is known for consistently improving its financial system, which helped achieve a huge milestone in 2021. In January, Index Venture ranked Latvia as the most "startup-friendly" country in Europe, along with our neighbors Estonia and Lithuania. The finance industry has been lucky enough to grow the number of active Fintech companies registered in Latvia, which increased from 91 to 118. This growth is a considerable achievement taking into account restrictions and uncertainties brought by the Covid-19 pandemic that proves the potential of the industry.

Taking into account the central role of Fintech in the Latvian finance industry, Swedbank Latvia partnered with Startin.lv, LIAA, Change Ventures, FKTK, Latvijas Banka for a second in-depth survey of active companies in Latvia to discover the up-to-date situation in the industry. Startups participating in the survey are based in Latvia and operating in the Fintech industry. Thirty-nine startups of different sizes participated in the study, which is almost 32% of the entire field. The majority of the surveyed companies are founded relatively recently, mostly around 2016-2019, with 2019 standing out as the peak year of establishment. Startups reflected on

their current and future challenges, opportunities, and overall evaluation of the situation in the Fintech industry with a fresh view. Therefore, these findings can be used to evaluate what needs to be done to help new companies enter the Fintech industry and operate there more easily. This is the second report created about the Fintech landscape in Latvia, which allows gathering even more valuable insights across various points in time, thus creating a bigger picture of the Latvian Fintech industry by including all noteworthy trends compared to Latvian Fintech report 2020.

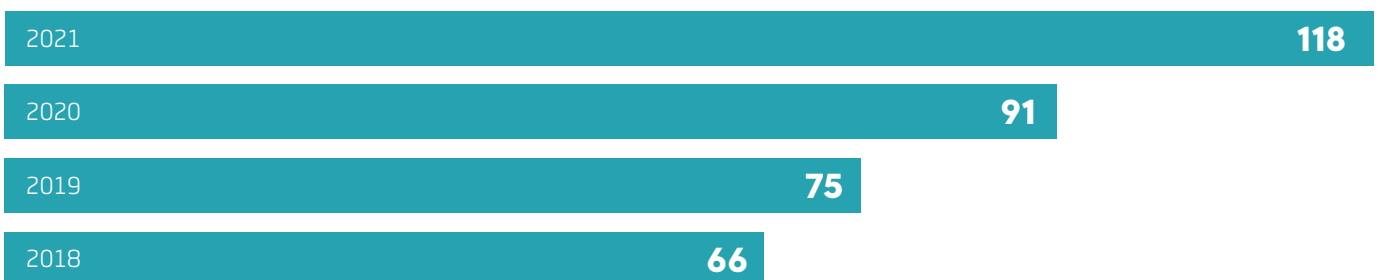
Fintech in Latvia

Latvian startup infrastructure consists of 400+ registered startups¹ out of which approximately one third operates in Fintech. Alongside such internationally acclaimed companies as Mintos, Creamfinance, Twino, Bitfury, 4Finance, there are new up-and-running players –

Fintelligence, Snapio, BeeSage, CellboxLabs, and others. Among the highest recent achievements in Latvian Fintech was the fact that one of the locally based companies, Sun Finance, was ranked the second fastest growing Fintech in Europe by the Financial Times

in its 1000 Europe's Fastest Growing Companies in 2021. It shows that, within the Latvian start-up landscape, Fintech companies are frontrunners in terms of scale, performance and adaptability to the global market needs, increasing the competitiveness of the Fintech sector.

No. of Fintech in Latvia



¹ <https://www.liaa.gov.lv/en/invest-latvia/start-ecosystem>

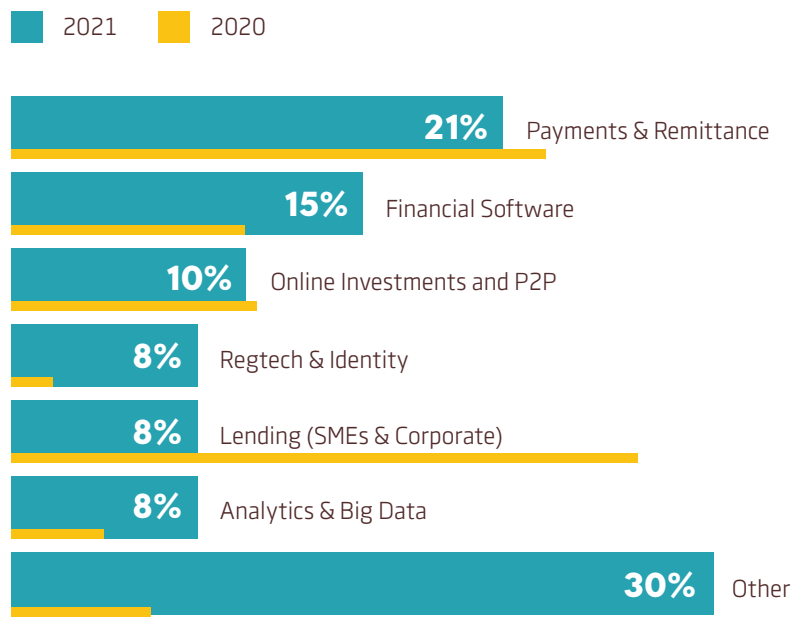
03

Survey Findings

Business segments & models

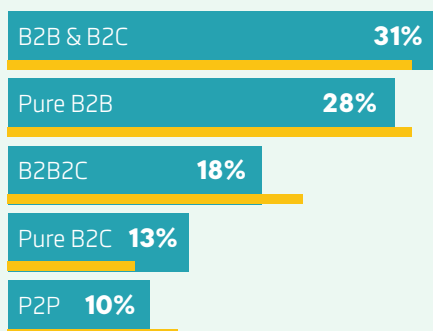
In 2021, the most widespread business segments are payments & remittance, financial software, and online investments compared to 2020 when payments & remittance, lending (SMEs & Corporate) and Online Investments & P2P were top segments. Segments that have become more widespread in 2021 are Regtech & Identity and Analytics & Big Data. The simultaneous decrease of lending and the upsurge of Regtech might not be accidental. As per definition, Regtech offers IT-driven regulatory solutions for the financial sector in terms of regulation, helping to combat money laundering and other fraudulent activities that the financial sector is exposed to. Owing to the recent adoption of much stricter AML regulation in Latvia and, increasingly, on a broader European level, this relatively new Fintech subsegment might be here to stay.

Latvian Fintech companies by segment



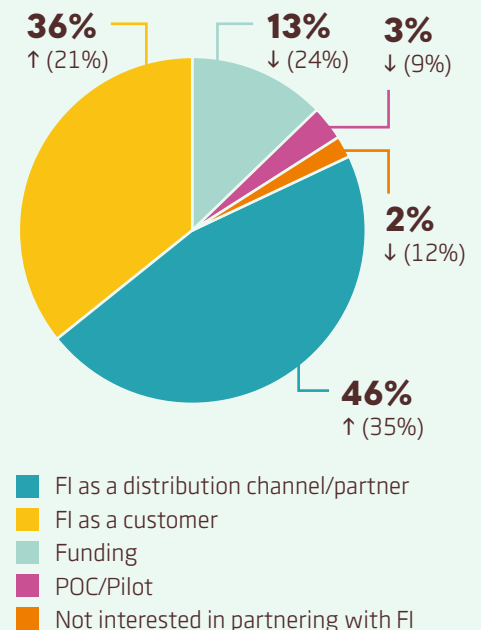
Business Models

Local Fintech companies try to maximise their gains by combining both business-to-business (B2B) and business-to-consumer (B2C) operation models. The second preferred working mode is pure B2B. Business-to-business-to-consumer (B2B2C), is gradually losing its ground whereas pure B2C has slightly increased.



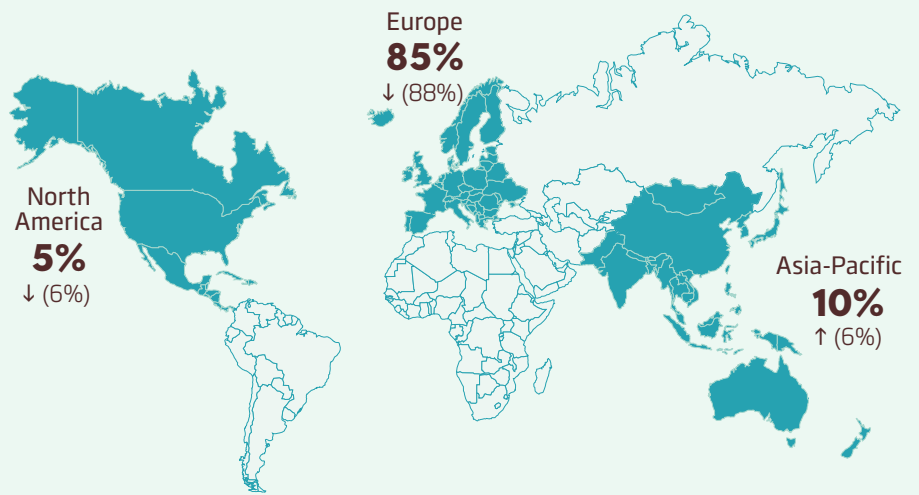
Preferred partnership with financial institutions (FI)

The attitude towards partnership with traditional financial institutions have significantly changed, leaning more towards cooperation. Fintech companies view banks as either potential distribution channels and business partners or as customers. The role of traditional finance as a source of funding or a generous provider of testing platforms (in the form of POC or pilot trials) is diminishing while the share of those respondents not interested in partnership altogether has fallen. In other words, Fintechs do want to cooperate, but on an equal footing.



Target markets

Market orientation remains largely Europe-centred. Asia-Pacific region becomes more attractive while the African market remains unexplored, which despite its intriguing potential is probably too hard of a nut to crack from the Baltics.

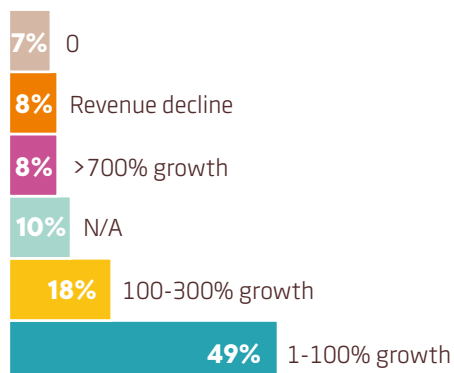


Funding & revenue

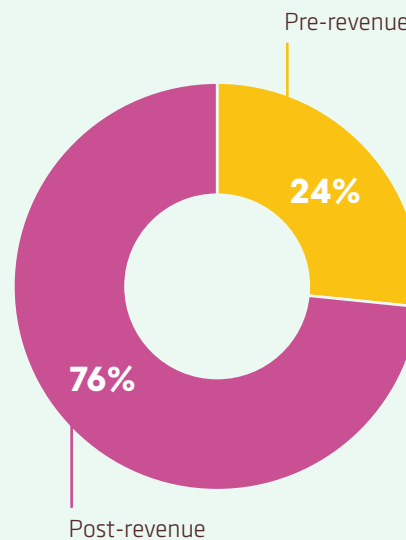
Most of the companies find themselves at the post-revenue stage, even slightly more so than the year before. The share of seed-funded companies has increased, while the share of the first-rounders (series A) in venture capital financing has declined. At the same time, a growing proportion of the companies are becoming self-reliant through their own revenues.

Fintech revenue growth turned slightly more moderate than anticipated in 2020, but still a good share managed to push over 700%. The most successful Fintech business segments in this respect seem to have been Payments & remittance, Lending (SMEs & Corporate), and Financial software. Most of the surveyed companies have managed to raise up to 100 000 EUR, but an equally impressive share (31%) – from 1 to 10 million EUR. 36% of the respondents aim for a 1-5 million EUR funding in the next round; 23% hope to attract over 5 million EUR, whereas 21% do not plan another round at all.

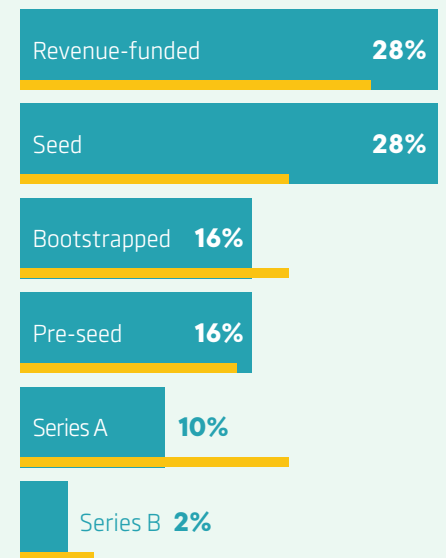
Median revenue growth in 2021



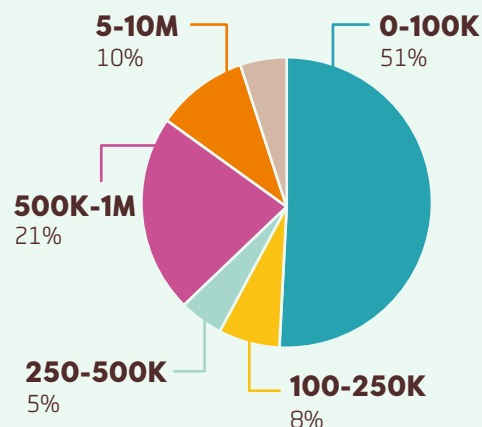
Company development stage



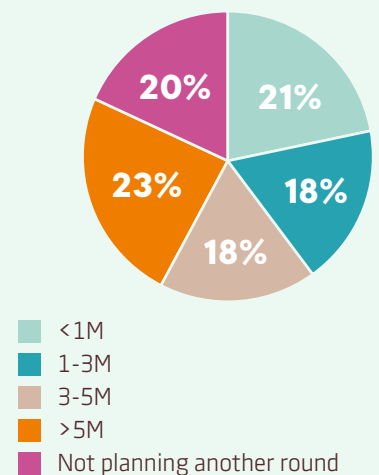
Stage of funding



How much funds have you raised so far?

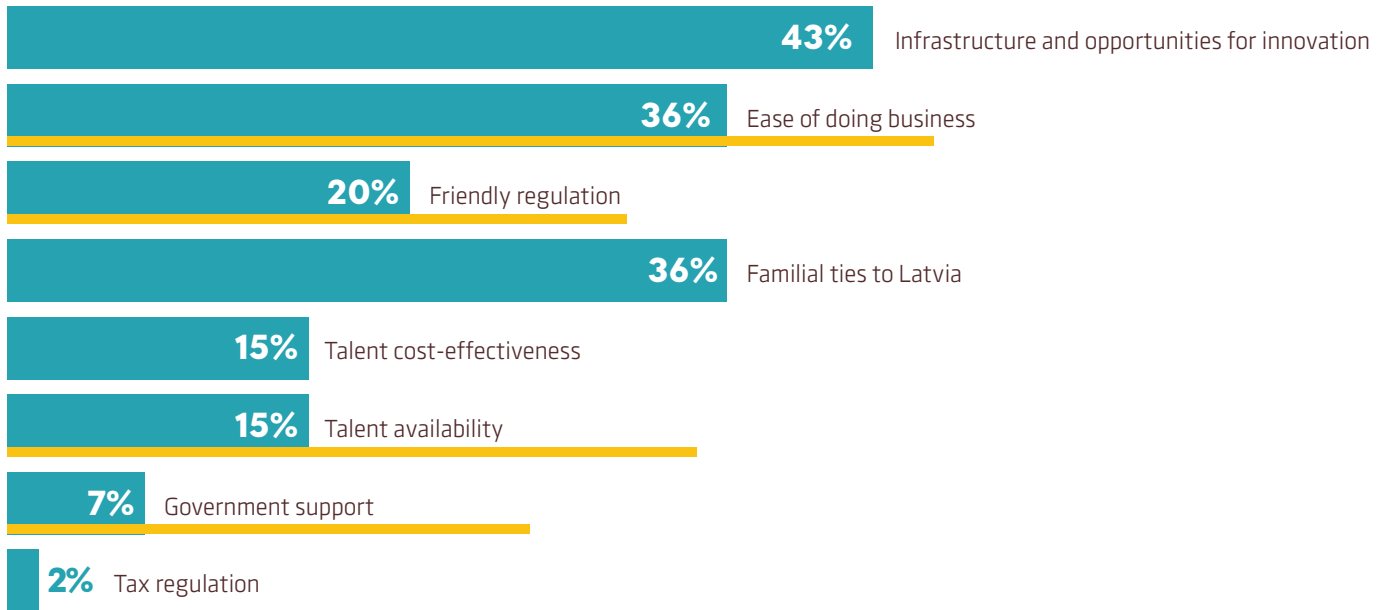


How much funding do you anticipate in the next round?

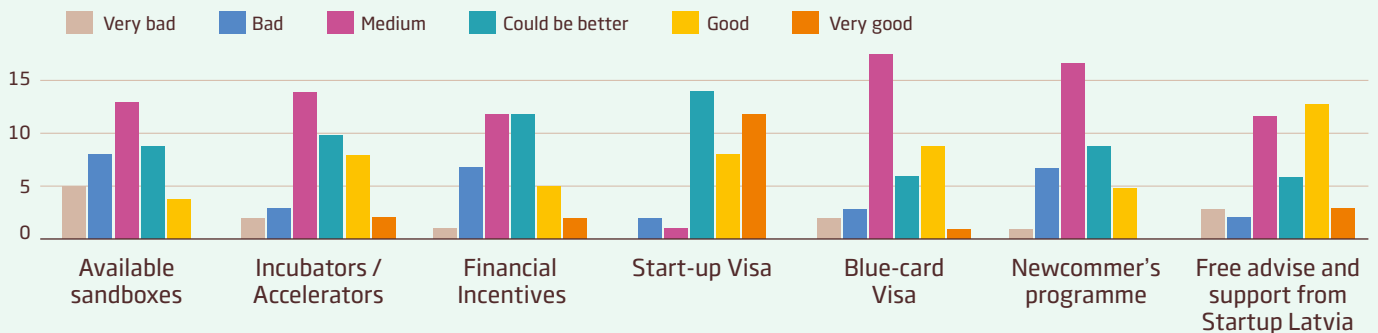


Latvia as a host country

What was the main reason for choosing Latvia?



Please evaluate these aspects of government support and the regulatory environment in Latvia

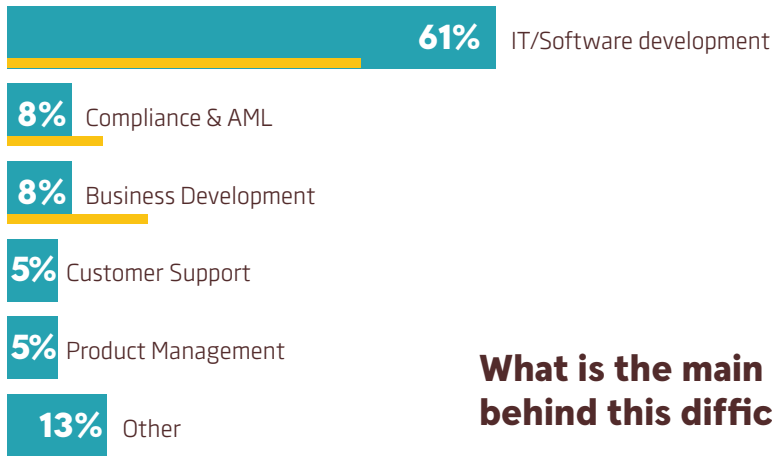


Latvia's infrastructure and opportunities for innovation are still the main driver behind opting for Latvia as a host country for one's business. Ease of doing business, although losing in importance compared to the year before, is still the second important factor. Familial ties with Latvia, where it is either one's home country or the country of residence, also play a substantial role.

The appreciation of government support, on the other hand, has considerably decreased, and a similar trend can be noticed regarding legislative regulation and ease of doing business. Out of the national support measures available, Startup Latvia are the best, followed by the Blue-card Visa and Startup Visa programs. The Newcomer's program and the available sandboxes, however, need some improvement, judging from the answers.

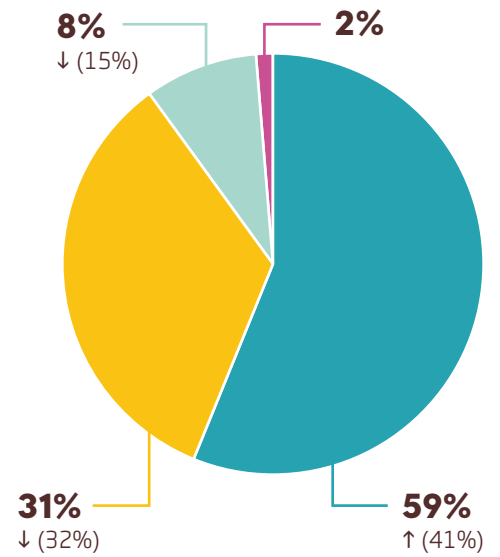
Local talent pool is yet another growing challenge – its availability is decreasing, with the IT/Software developers by far topping the shortage list. According to the companies, it is not so much due to inadequate skills or exaggerated salary requirements but, quite simply, because of the sheer lack of people. The second most wanted professional group is compliance & AML experts along with business developers, although the latter – to a much lesser degree than before.

Specialists most difficult to recruit in Latvia



What is the main reason behind this difficulty?

- Talent unavailability
- Lack of required skills
- Salary mismatch
- No reason to complain



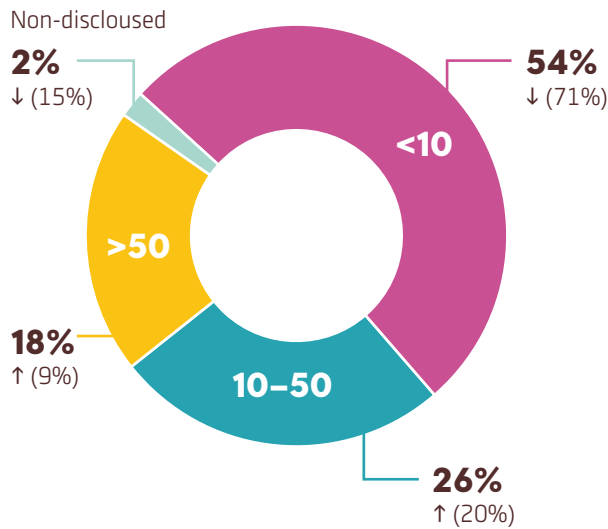
Do you have international staff working on your Latvian team?

It is no surprise then that the talent shortage is at least partly filled from abroad, since 66% of the surveyed companies have foreign employees working in their Latvia-based teams – mostly from Central Europe, but also Northern and Western Europe as well Asia-Pacific.

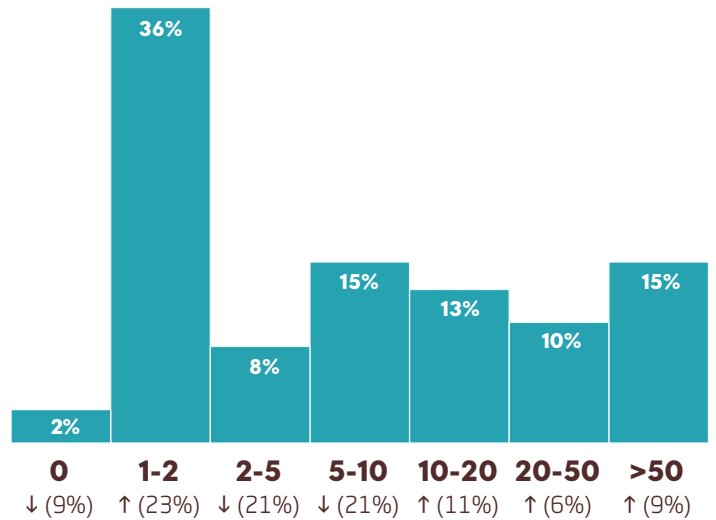


FinTech teams

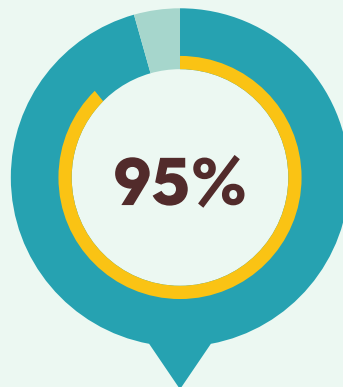
Team size in Latvia



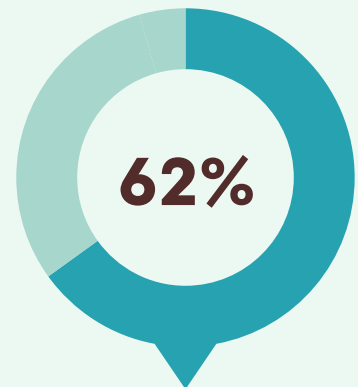
Number of specialists recruited in Latvia



Most of the locally registered Fintechs can be interpreted as small and micro-size companies even according to Latvian standards, as more than half of them consist of teams below 10. This could be explained by the comparatively young age of the companies, as well as the fact that most of them were established during the last five years, including the peak year of 2019. A comparison with the year before shows, however, that the teams have been expanding. While as much as 71% of the surveyed companies in 2020 were micro-teams of less than 10 people, now this proportion is down to 54%, while the rest employ 10-50 people and more.



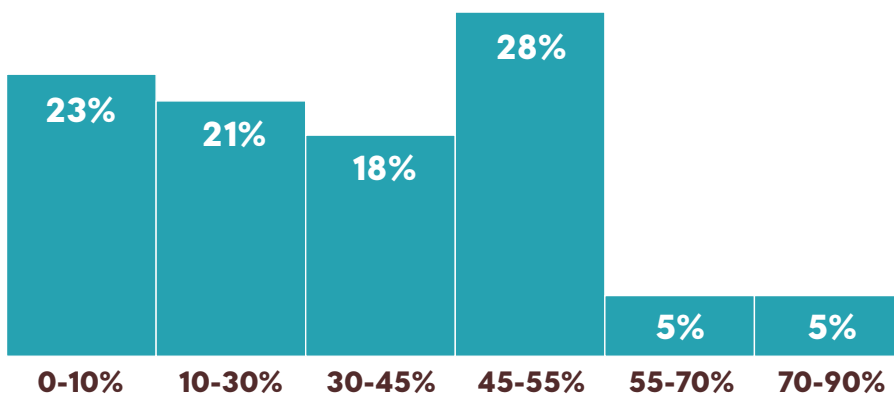
Planning to expand the team in the next year



Women executives

Gender split

(% of women in the company)



It is widely known that the Fintech sector, from a global perspective, is male dominated. In Latvia, the same was found to be true in roughly 62% of the surveyed cases, where women make up less than a half of the workforce. The women's role, however, is far from marginal – 60,5% of the surveyed companies have at least one woman in their executive team, and this tendency is pointing upwards compared to just a year before.

2020 in retrospect

Unsurprisingly, most of the companies were working remotely during the past year, with only a fraction of outliers staying true to the in-person work at the office. Obviously, it is hard to determine whether the remote work was necessitated by the Covid-19 pandemic, as the Fintech sector by its very nature is technology-reliant and unbound by

physical location, thus hardly needing any external pressure for relocating online.

The biggest challenges, anticipated by the survey respondents just a year ago, were indeed related to international expansion and difficulties in attracting qualified talent. What's more, market expansion and product/IT development turned out to

be even bigger of a challenge than anticipated – probably at least partly due to Covid-19 and the ensuing restrictions, which had not been anticipated.

Remote work during the past year

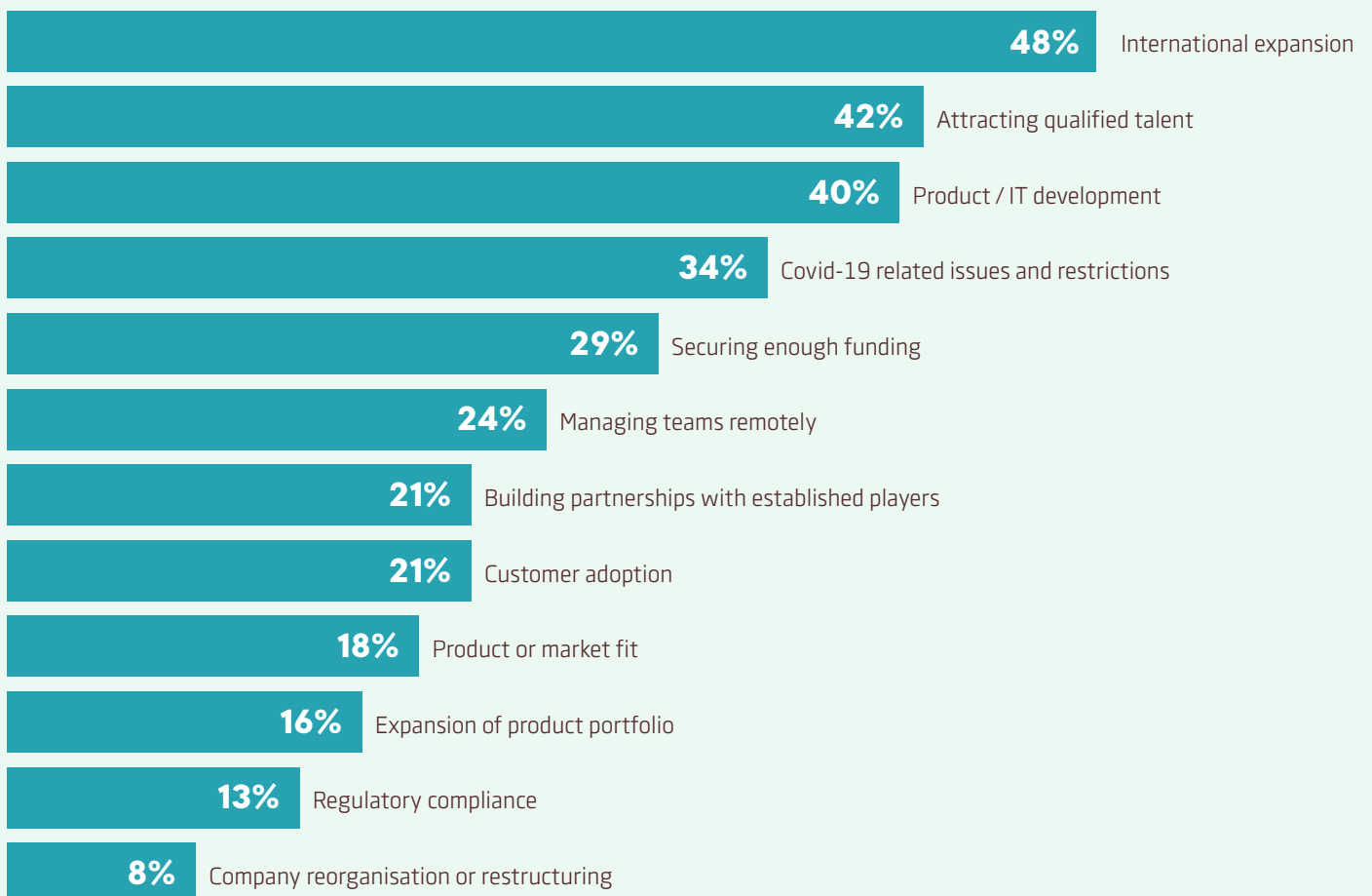


Yes, most of the time



No, mostly in office

Key challenges in 2020

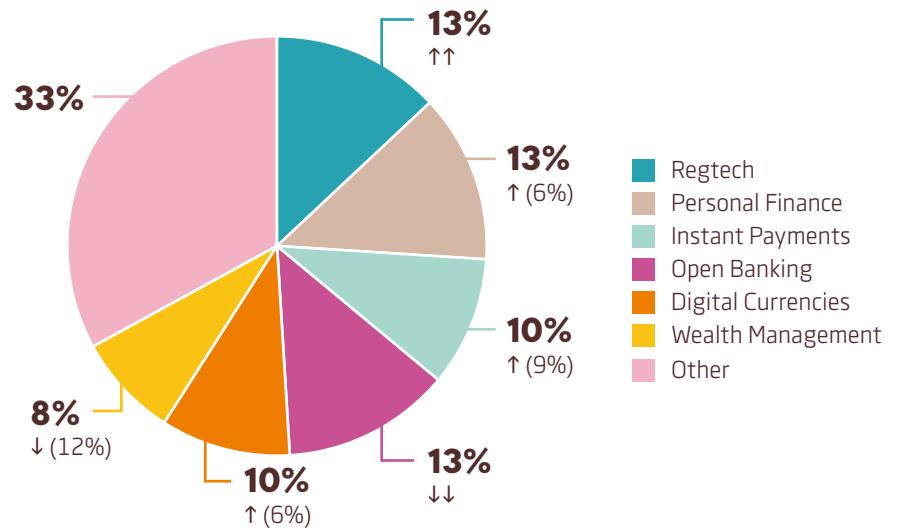


Future outlook

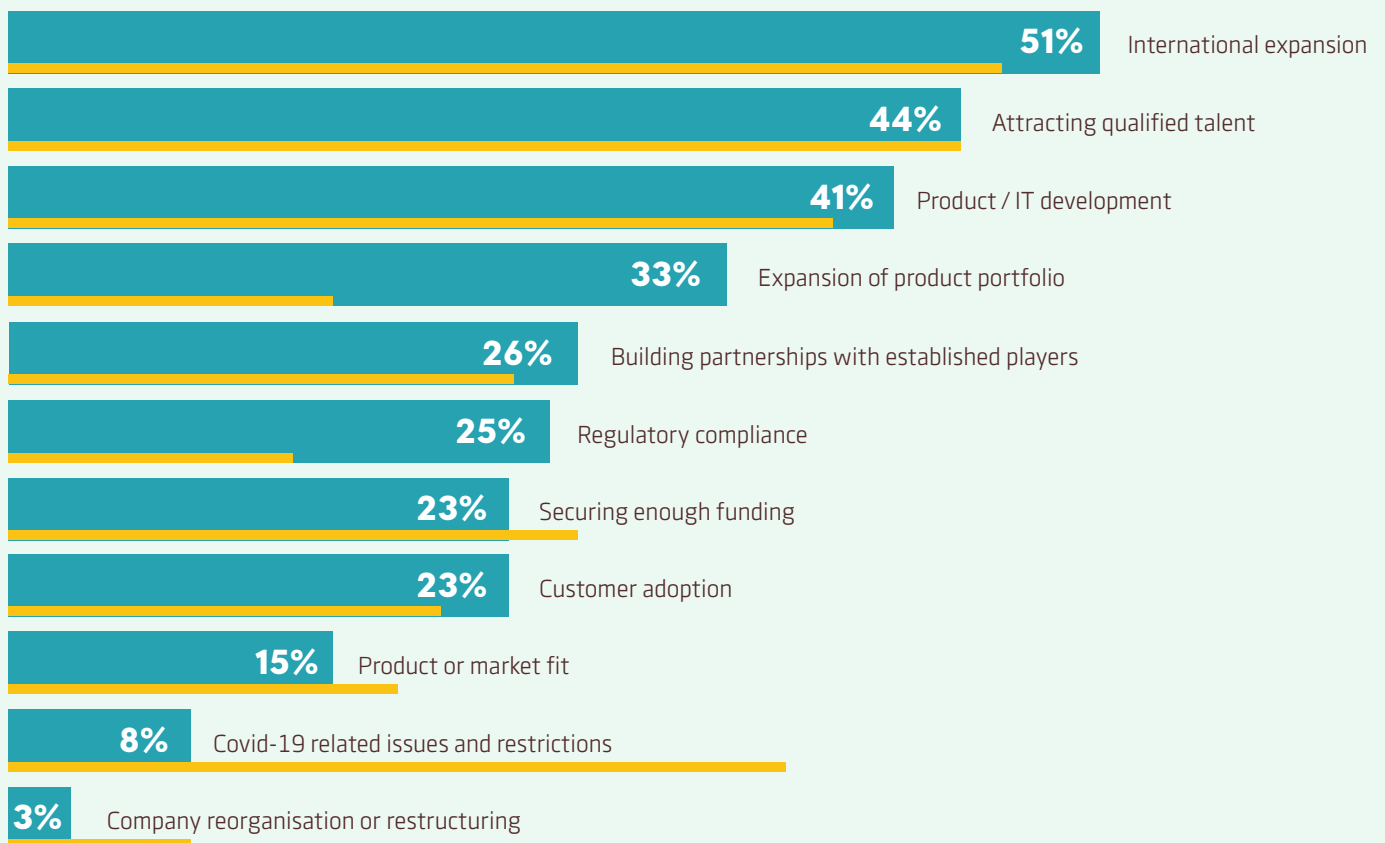
Along with personal finance, the segment of Regtechs is viewed as the most promising in the near future, which corresponds to the latest developments observed in Europe. Open banking, although still holding a great deal of promise, has lost its future appeal fourfold compared to just a year ago.

Challenge-wise, the list remains familiar: international expansion, attracting talent, and product/IT development. Meeting regulatory demands is yet another concern, which is expected to play a much bigger part than before (compared to key challenges in 2020). At the same time, Covid-related restrictions are believed to subside considerably, at least in terms of their detrimental impact on the Fintech activities.

Where do you see the biggest opportunities for Fintech in the next 1-2 years?



Expected challenges in 2021/22



compared to key challenges during the past year

04

Fintech map

Wandoo
PeerBerry | viacinvest
SWAPER | TWINO | mintos
DEBITUM NETWORK | Sneaky peer | LendSecured
do Finance | viventor | Grupeer
ALFA finance

Online Investments and P2P

Blockchain & Cryptocurrency

paybis
Fintelum | DATAGNITION
Blockvis | BITFURY
Point-X Blockchain Rewards Program

IT solution

MaxTraffic
Datakom[®] | efumo
Alpha Visum | UVS GROUP

CROWDESTOR
BOLDYIELD | SOLUT | DYNATECH
viasms.lv | Sun Finance | FINANCE
factris | ferratum | CAPITALIA
FLEXIDEA | FINITERA | ROBOCASH GROUP
monify | CREAM FINANCE | Finko | altero
ERST FINANCE | Yield-Up | mogo

Lending

Grapho | xero
nptakey | Lahdes
inLable | Dokobit
FINTELLIGENCE

Regtech & Identity

Payments & Remittance

RoyalPay | Confi.de
klix | Globitex | V/ALET
LATCARD | ecommpay | TRANSACT PRO
xpate | MONEY EXPRESS | CONNECTUM
paydo | lastbit | Snapio
DECTA | spell | NEXPAY
sharentic | doli doli

Financial Software

Fractio | FOREX TEAM
Bank Launch.io | KNOWLEDGEPRICE.COM
tapbox | crassula | FinanceFlow
Nordigen | Flipful | Aheads
INFOTECH | LOVAT | iizi

INDEXO¹
typbot | Global Future Solutions
delfin group | ZELF | jeff
Sellfy[®] | ESTATEGURU
SummarizeBot

Other

05

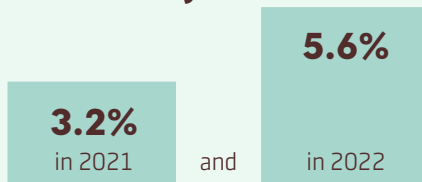
Latvia in facts and figures

Latvia is comparatively small country yet Latvians can be extremely proud for ongoing measures that have been taken to improve regulations and business infrastructure. Efforts definitely have been successful as Latvia is now recognised as the best place for startups globally.

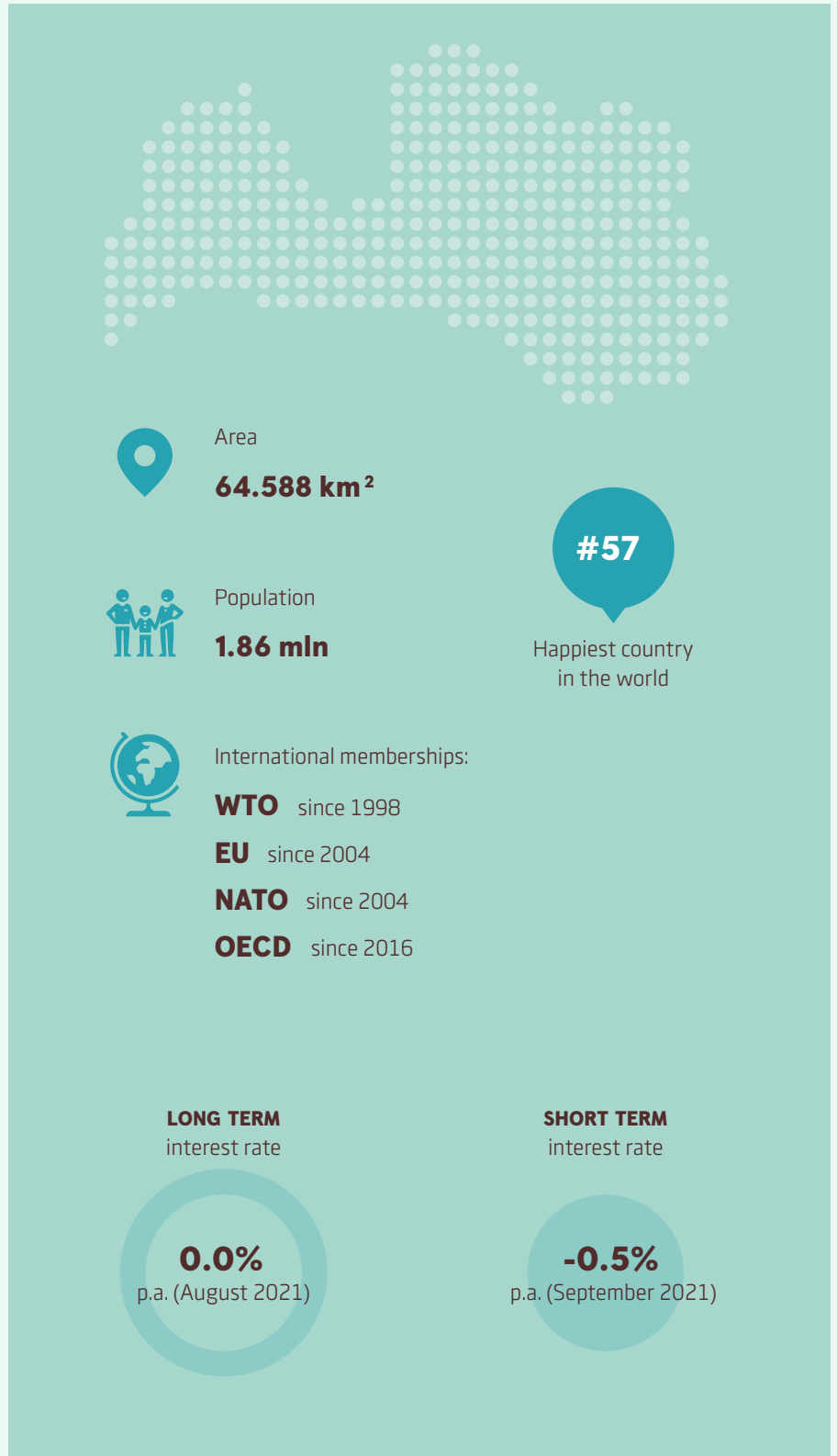
Credit ratings

- Fitch Ratings**
A- (Outlook: Stable)
- Moody's**
A3 (Outlook: Stable)
- Standard & Poor's**
A+ (Outlook: Stable)
- R&I**
A (Outlook: Stable)

Output in the Latvian economy is projected to increase by



Low interest rates in combination with several reforms the government plans to implement to help the economy to recover from the Covid 19 negative impact is also a unique opportunity to intensify green and digital transition.



06

Startup ecosystem

Swedbank is proud to be involved in the startup community. Over the recent years, we have been involved in several activities, helping the development of the startup ecosystem in Latvia. We are always looking for new ideas; we are ready to share our expertise and help create a supportive environment that is needed to develop groundbreaking solutions.

Hack for the Future hackathon

In 2020, open innovation management company Helve and Swedbank organized the sustainability hackathon Hack for the Future. It took place online and brought together over 300 technology enthusiasts and sustainability experts. The event's goal was to develop sustainability solutions for a better future. 30 teams made it to the final, and Adventums, a team that created a solution to reduce construction risks and improve the working environment on construction sites, were announced as the winners.

Cooperation with TechChill

Swedbank had a strong cooperation with TechChill for four years. Swedbank and TechChill have organized quite a few events together. For instance, the first Swedbank Seedtalks of 2021 revealed how acceleration programs could help startups stay true to their cause and help companies drive sustainability. Swedbank's team also provided valuable content about sustainability for TechChill 2021 conference.

Swedbank co-creation space

In 2018, Swedbank became a home for Europe's most experienced B2B startup accelerator, "Startup Wise Guys." While the accelerator operated in the Swedbank office building, it has been a space for numerous startups, which have grown to successful market-changing companies.

Sustainability accelerator Future Hub

To encourage open innovation that offers sustainable solutions and strives to create a better future, Swedbank Latvia partnered with the technology ecosystem's most active players Helve, Greentech Alliance & TechChill, established a new co-creation format sustainability accelerator Future Hub. The accelerator allowed ten selected GreenTech startups to co-create with leading enterprises in the Baltic market during the acceleration program from March to May 2021. These startups joined leading Baltic companies such as Swedbank Latvija, Latvenergo, Rimi Baltic, Orkla Latvija, and Riga City Council to develop solutions for their sustainability challenges.

As a sustainability and open innovation accelerator, Future Hub is the first of its kind in the Baltics. This has given us a unique opportunity to both encourage and facilitate open innovation practices in market-leading enterprises and also demonstrate that sustainability can and, in many cases, should be tackled with innovation and the help of startups in particular. The remarkably high interest from startups from all over the globe indicates that startups are genuinely eager to work with the Baltic enterprises and explore the market itself. We are thrilled to see Baltic market leaders match this demand and propose relevant and forward-looking challenges for these startups. Being open to solving their sustainability challenges with the help of startups is brave and example-setting action that we hope inspires others to follow.



07

State support

Latvian startup ecosystem is young and dynamic. It is big enough to ensure all advantages of a regional entrepreneur friendly business hub, but it is small enough to provide ample networking opportunities and a sense of belonging. The growth of this ecosystem has been facilitated by a range of stakeholders in the public and private sectors, non-profit organisations and academia. The strongest verticals are Fintech, DeepTech and Drones. Latvia is a great place for starting or expanding business as there are various support mechanisms available.



Kaspars Rožkalns

Director General of the Investment and Development Agency of Latvia

"The fintech industry is growing steadily year after year, and new financial services providers, as well as early-stage fintech startups keep emerging to shape the future of finance.

Following a legislative change to the country's stock options policy, Latvia is now ranked as the most startup-friendly country globally, and we are striving to continue this positive trend. Latvia is currently working on a strategy for streamlining the development of startups, and a unique role in this strategy will be given to fintech companies. Our goal is to strengthen the country's position in the international market by providing opportunities to develop fintech companies already working in this sector and by attracting new ones.

Latvia has all the assets to stand out as an innovation centre, to test and develop

the latest and most innovative fintech solutions. We aim at becoming a sandbox where everybody can easily test new ideas. The challenge for all stakeholders is to improve the regulatory framework and expand the necessary infrastructure for fintech startups. We will work on the new strategy in close cooperation with the financial sector, as currently banks in Latvia are not ready to expand their cooperation with the fintech industry.

It is also clear that we need to look for alternative sources of financing like venture capital companies and other funds that are interested in working with fintech companies. A significant challenge is attracting talent and boosting the speed at which we can do it. The new strategy will serve as a roadmap for the next steps, both in improving the legal framework and developing the necessary support instruments."

Startup law

The Latvian workforce offers clear value for money, but wages may nevertheless pose a challenge for startups that are taking their first steps in the world of business or are looking for the most talented employees. Introduced in 2017, the Startup Law:

- ▶ Defines the startup as scalable business with high economic potential,
- ▶ Describes two support mechanisms aimed at easing the labor-related costs, namely, flat social tax EUR 340.90 + 0% personal income tax or 45% co-financing for highly qualified employees.

Stock option regulation

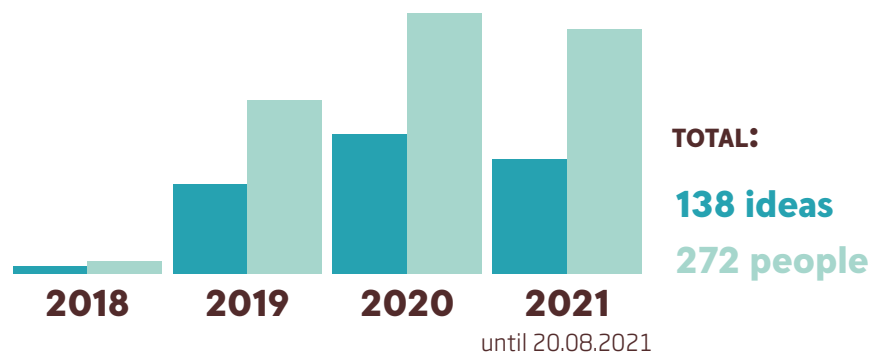
Stock options give employees the opportunity to acquire the company's shares for a nominal price or free of charge after a certain period of time, regardless of the company's shares of the current fair value. The employee thus gains the opportunity to sell the shares and earn additional income if the value of the company has increased. The granting of stock options is a bonus payment system that allows companies to attract important employees for several years.

Startup Visa

Up to five founders of the same company can apply for the Latvian Startup Visa programme that provides non-EU entrepreneurs, their spouses and their children a temporary residency permit for a maximum period of three years with flexible renewal options. It grants no-visa travel across the whole Schengen Area and allows obtaining a certified eSignature. The main criteria for getting a Startup Visa is an innovative, scalable startup idea with a high growth potential.

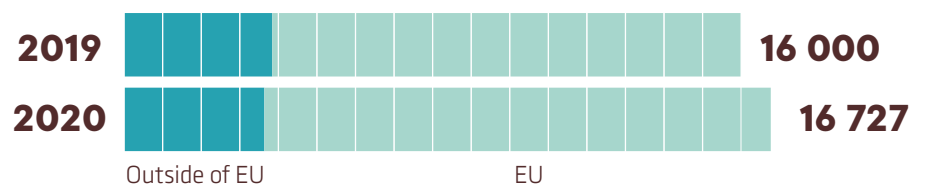
Number of startup ideas and visa receivers from 2018 to 2020

LIAA estimates that until the end of 2021, the number of start-up visa receivers will be 50% higher due to considerable demand.



Direct investment in Latvia (in millions)

In case of startups, the share of foreign investment is more than 80% and main foreign investors are from the USA, EE, GB, RUS, UAE.



Other support mechanisms

LIAA (Investment and Development Agency of Latvia) provides various other support mechanisms that may be useful in fostering the growth of the startups. Many startups have recognized the "Promotion of International Competitiveness program" and "Innovation voucher" program. The participating startups should correspond to the eligibility criteria outlined by LIAA. While these are the main support instruments, many other programs are available to develop international competitiveness and innovations.

08

Investment landscape

While H1 2020 was when the total number of funding rounds (pre-seed, seed, and Series A) for Baltic startups reached the all-time highest point (108), the number dropped to 84 in H2 2020 due to the beginning of the covid pandemic. Yet already in H1 2021, pre-seed rounds have significantly recovered from the pandemic slow-down, and the number of pre-seed rounds is catching up with the level of H1 2020. Pre-seed and seed funding rounds suffered the biggest decrease during the pandemic, while series A funding rounds have not suffered much during the slow-down. From H1 2020 until H1 2021, there is a stable growth in pre-seed rounding size, currently reaching 300,000 euros. At the same time, seed round size is dropping.

It is important to point out that large Series A and growth rounds are now a regular occurrence in the region. In H1 2021, 649M euros were raised. Thanks to several years of growth, it is the highest amount of capital raised and indicates a certain maturity level that the investment ecosystem has reached. Growth rounds show strong growth, with the number of deals more than doubling, signaling new growth money coming into the Baltic



market. Regarding seed rounds, they are becoming more competitive. Compared to the prior periods, startups raised less capital, at slightly higher valuations, with a lot less traction at the time of investment. This indicates investors are taking more risk, backing less mature startups at the seed stage.

Particularly in Latvia, 2021 is a record year - it is the most successful year during the last ten years! Latvian startups have managed to secure 171 million euros only during the first eight months of 2021. For comparison: 246 million euros have been secured during the last ten years collectively.



Andris K. Berzins

Managing Partner at Change Ventures

"The Latvian Fintech ecosystem has been fed by the Startup Wise Guys accelerator program during the past couple of years as the backer of a number of pre-seed teams, including Partly, Agroplatforma and Flipful. Nordigen, a long-time player in the country, has continued to attract seed capital, culminating in the 2.1M round led by Black Pearls VC in June 2021. Jeff App is the main new entrant, backed largely by Estonian business angels in early 2020 and again in 2021. The amount of funding raised per 6

months grew in 2H 2020 to 6.5M Euros thanks to Mintos' crowdfunding campaign for their Series A, largely raised from their customers. However, no pre-seed or seed deals closed during the latter half of 2020, as funding slowed for very early stage teams in general."

Infrastructure & Regulation



Marine Krasovska

Director of the Financial Innovation Department, Financial and Capital Market Commission (FCMC)

"A much anticipated event in connection with Fintech and the financial sector in general is the new Financial Sector Development Plan for the upcoming three years, prepared under the auspices of the Ministry of Finance and expected to be finalised by October 2021. The plan will serve as an important point of departure determining the main priorities for the entire sector, also containing a more detailed plan of activities with defined objectives, timelines and institutions in charge.

Already at this stage we can predict that a greater emphasis on strategic level will be put on the role of innovations like AI, and open data, as well on the setup of environment and infrastructure for adaption of innovations and financial technologies. The establishment of cooperation between Fintech and national institutions is one of success factor in raising the industry. Latvia did significant progress forward straighten AML risk management and now is open to focus on financial sector's growth and development.

A great share of the new strategy's objective will be focus on the national Fintech ecosystem – how to eliminate any barriers, improving regulation and licensing process to boost innovation. We need to tackle the current trend of 'innovation stagnation', when most of the resources are funnelled into the digitalisation of already existing processes rather than invested in new innovations.

For the Latvian Fintechs to thrive, first of all we need to expand the talent base, mainly through digital skills and various educational programs in IT, Data science, and business, as well as to work on attracting suitable resources from abroad.

We should also strive to raise risk capital availability, especially for startups that might spur creativity and innovation in the sector. The state could provide here a safe testbed for ideas that could later on be upscaled on a wider European level. Finally, due national leadership is needed in providing access to open data, which is impossible without sufficient engagement from state-run institutions. A wider incorporation of open data could boost the emergence of new skills and let us, with the help of new technologies, spot trends and tendencies that are hard to capture manually.

With that being said, let us not forget about all the advantages that already exist in Latvia: start-up law providing for state aid (see "Law on Aid for the Activities of Start-up Companies"), startup visa instrument, new regulation on employee stock options, the still fairly lower costs of doing business, the top-level infrastructure, e.g., a fast and reliable internet connection, submission of electronic signed documents at the most of state the institutions and the regulatory sandbox available. All of these perks create the value proposition and deserve solid marketing, most preferably under a unified Latvian Fintech brand."

Participate in FCMC Innovation Hub

The Innovation Hub is a special contact-point for FinTech and Startups to ask questions and receive guidance directly from FCMC experts about innovative financial products, services or business models under development, licensing requirements, supervision and regulations (including PSP, AML, IT security, crowdfunding, crypto, etc.).

What kind of benefits Innovation Hub may give you?

- ▶ get quick guidelines about whether a new service or business model could be subject to any regulation of the financial sector
- ▶ understand the requirements for the supervision of the regulated financial sector and policy application
- ▶ identify potential issues that the authors of the business idea should solve during further development
- ▶ get advise on the FCMC approach regarding the implementation of innovative solutions, including IT security field
- ▶ obtain support in licensing issues.

10

Participating startups







The financial sector is constantly evolving, especially now with Open Banking being one of the main drivers of this change. Swedbank is open for innovative ideas, enterprising people and new technologies, striving to be a bridge that connects with experience and access to international markets. We are open to collaborations to help industry start-ups grow, providing knowledge and practical support.

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