

# General Lithuania's Fintech industry overview

July 28, 2022



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## Key facts concerning the sector

As the number of established fintechs grows every year, it is evident that Lithuania is attractive to fintech companies. Thus, it is unsurprising that Lithuania ranks amongst the most developed countries in terms of the fintech environment, talent, regulation, and infrastructure.

### Business environment in Lithuania:

- The 6<sup>th</sup> in OECD for the tax competitiveness

Source: Tax Foundation, 2021

- The 15<sup>th</sup> position in the Index of Economic Freedom

Source: The Index of Economic Freedom, 2021

- The 19<sup>th</sup> in the world for the quality of life

Source: Quality of life index, 2021

### Fintech hub in Lithuania:

- 265 fintechs operating in the country

Source: Invest Lithuania, 2021

- 147 fully passportable Fintech licenses issued

Source: The Bank of Lithuania, Data for EMI, PI, SPB licenses as of 2021

- 5,900 people employed in the sector

Source: Invest Lithuania, 2021

### Fintech achievements:

- The 10<sup>th</sup> place in Global Fintech Ranking

Source: Findexable, 2021

- Lithuania is **the largest fintech hub** in the EU in terms of licensed companies

Source: EUCLID Register, European Banking Authority, Data as of the end of 2021

- The 9<sup>th</sup> position amongst the lowest risk jurisdictions globally

Source: Basel AML Index 2021: 10th Public Edition

### Digital infrastructure:

- The 1<sup>st</sup> place for public **wi-fi speed**

Source: Ooma, 2020

- The 4<sup>th</sup> in EU for enterprises using at least 2 AI technologies

Source: Digital Economy and Society Index, 2021

- The 6<sup>th</sup> in Global Cyber Security index globally

Source: Global Cybersecurity Index, International Telecommunication Union, 2020

## Flourishing sector in Lithuania

**Maturing Lithuanian fintech sector.** In the Lithuanian fintech market, more diverse companies in terms of services are being observed. Even though payments remained the main competence, companies representing other fintech subsectors like crowdfunding, regtech, digital banking, and blockchain & crypto have been established in the market.

**Lithuania – a gateway to Europe.** Lithuania continues to serve as a gateway for international fintechs to access European markets. This particular feature has been emphasized by fintech companies as one of the most attractive qualities to establish in Lithuania.

**Governmental focus on fintech.** The Bank of Lithuania and the Ministry of Finance have introduced and continuously updated the country's Fintech Strategy to promote the growth of the financial ecosystem and address the challenges in diversifying the sector. This strategic approach helped create a regulatory environment that facilitates the development and establishment of fintech companies.

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## Existing main sub-sectors

### Payments

Payments remained the main sub-sector of our fintech hub, reinforcing its potential to become a leader in innovative payment services-related solutions. Payment services are carried out by 31% of fintechs, with the majority providing cross-border payment transactions, online foreign exchange, and online payments and e-commerce transactions.

### Financial Software

Lithuania is an engineering hub in Northern Europe as the talent cost/quality ratio is particularly appealing to new companies. Additionally, Lithuania is exceptional considering the women in tech ratio (36.6 %), which is considerably higher than the EU average (24.9%).

Since the fintech market is maturing, the infrastructure for fintechs to set up is well-developed, making Lithuania attractive for financial software companies to expand or start the business.

## Target sub-sectors

Three other sub-sectors were identified as those that could replicate the success of the payment one. Therefore, in Lithuania, the priority shifts toward the wealthtech, crowdfunding, and insurtech companies.

### Wealthtech

In 2021, the Ministry of Finance with the Bank of Lithuania identified Wealthtech as a key area of development to support the growth of capital markets and the diversification of the Fintech ecosystem. With the measures like boosting financial literacy and attracting international financial brokerage firms, various stakeholders hope to steer new growth in the Wealthtech sector.

Last year, we saw the first signs of the development of Lithuania's Wealthtech ecosystem as more financial brokerage licenses were issued than in any prior year. This showcases Lithuania's friendly and welcoming regulatory environment for innovative financial service providers. One notable example was Revolut, which received a financial brokerage license. The company's Lithuanian entity will become their main hub for wealth and trading activities in Europe.

### Crowdfunding

Crowdfunding platform operators (CPOs) have been regulated in Lithuania for nearly 5 years. During this period, CPOs have been developing at a rapid pace, with the value of transactions made through crowdfunding platforms increasing 60-fold.

In 2021, Lithuania welcomed 6 new CPOs, which brought the total number of licensed CPOs to 21. Crowdfunding platforms are projected to demonstrate dramatic growth moving forward: according to the sub-sector's preliminary results, the value of CPO-funded projects doubled by the end of Q3 2021, amounting to nearly €81 million. The volume of financed projects during the first three quarters of 2021 grew by 80%, suggesting that crowdfunding is becoming an increasingly popular form of alternative business financing.

### Insurtech

Identified as one of the key priorities in 2022, Insurtech could have a significant impact on changing consumer habits and disturb the insurance sector. The Bank of Lithuania, too, encourages insurtech companies to present their ideas and use the regulatory sandbox.

Besides, Lithuania has the potential to become a regional hub for insurance providers, brokers and R&D activities. The country could be the gateway into EEA for non-EU-based companies and the second wave of Brexiteers.

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## Regulation

The **Bank of Lithuania** is known as one of the most innovative regulators in Europe. Therefore, BoL has demonstrated a fair, proactive and welcoming approach to new financial market participants. Being an innovation-friendly supervisor, BoL also emphasises the importance of sustainable growth of the sector and constant efforts for the highest standards of services licenced in Lithuania and compliance culture.

The **Bank of Lithuania** promotes fintech growth through the following key **initiatives**:

- **Newcomer Program**: a one-stop-shop consultation service for financial market participants interested in applying for a licence in Lithuania;
- **Regulatory Sandbox**: a live environment to test financial innovations under the guidance and supervision of BoL;
- **Regtech**: innovative solutions for financial market participants to streamline reporting procedures;
- **CENTROlink**: the Bank of Lithuania's 24/7/365 payment system that provides technical access to the Single Euro Payments Area (SEPA) for payment service providers licensed in the European Economic Area (EEA), including electronic money and payment institutions;
- **LBChain**: a sandbox to test blockchain-based services.

## Talent

Lithuania boasts a multilingual and well-educated talent pool, enabling the continued growth of the fintech ecosystem. More than a quarter of international fintechs indicated the availability of high-quality talent as one of the key reasons for choosing Lithuania to scale their business.

In Lithuania, the society and government are focused on boosting the local talent pipeline. Key examples of these efforts include continuously improving access to tertiary education and various reskilling programs, as well as promoting Lithuania as an attractive career destination to international professionals and Lithuanian expats.

### Private and governmental initiatives regarding fintech talent pool

- Partnerships between universities and businesses.  
Example: Vilnius University partners with **Nasdaq** and **Tesonet**; KTU has partnerships with **Accenture** and **TransUnion**.
- The Ministry of the Economy and Innovation of the Republic of Lithuania launched **the National Requalification Program**, which is expected to add nearly 19,000 in-demand specialists by 2026. The comprehensive education program is focused on niche areas, such as Cyber Security, Cloud Computing, AI, Automation, Robotics, Data Science and others.
- Promoting IT degrees on the national level.

### Cost to quality

The cost-to-quality ratio is extremely important when considering where to expand or start the business. Lithuania is exceptional in this sense since the salary is considerably lower than in other EU fintech hubs, yet the qualifications of the specialists do not disappoint.



Source: Glassdoor, 2022

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## Cooperation initiatives

Members of the Lithuanian fintech ecosystem emphasise that **cooperation is an important factor in the ecosystem's development.**

Fintechs are joining forces to diversify their offering of products and services. The companies are also enhancing their process-based security and compliance capabilities through collaboration with numerous technology solutions providers. Financial software, compliance management, cyber security and Regtech are seen as prerequisites for fintechs to partner up and boost their capacity. Additionally, partnerships between fintechs and banks or other businesses are becoming more widespread and common.

## Tax reductions and financial incentives

- **Invest LT+ financial incentive:** from 10% to 20% potential reimbursement of the total cost of employment for 24 months if the employment commitments are met.
- **3x R&D expenses deduction** from taxable income.
- A **5% reduced CIT rate** on the profit derived from the commercial exploitation of patented inventions.

## Success stories

 <p><b>Development office</b></p> <p><b>Functions</b> Product development, engineering</p> <p><b>Headcount:</b> 103      <b>Established:</b> 2020, Vilnius</p>	 <p><b>EMI license</b></p> <p><b>Functions</b> Engineering, sales, support, fraud analysis, marketing, data analytics, quality supervision, finance</p> <p><b>Headcount:</b> 90      <b>Established:</b> 2017, Vilnius</p>
 <p><b>Development office</b></p> <p><b>Functions</b> Product development, engineering, testing, technical customer support</p> <p><b>Headcount:</b> 250      <b>Established:</b> 2015, Vilnius</p>	 <p><b>EMI license</b></p> <p><b>Functions</b> Compliance &amp; AML, operations, business development</p> <p><b>Headcount:</b> 10      <b>Established:</b> 2019, Vilnius</p>
 <p><b>Development office</b></p> <p><b>Functions</b> R&amp;D center, global support center</p> <p><b>Headcount:</b> 260      <b>Established:</b> 2016, Vilnius</p>	 <p><b>Development office &amp; EMI license</b></p> <p><b>Functions</b> Product development, engineering, quality assurance</p> <p><b>Headcount:</b> 60      <b>Established:</b> 2018, Vilnius</p>