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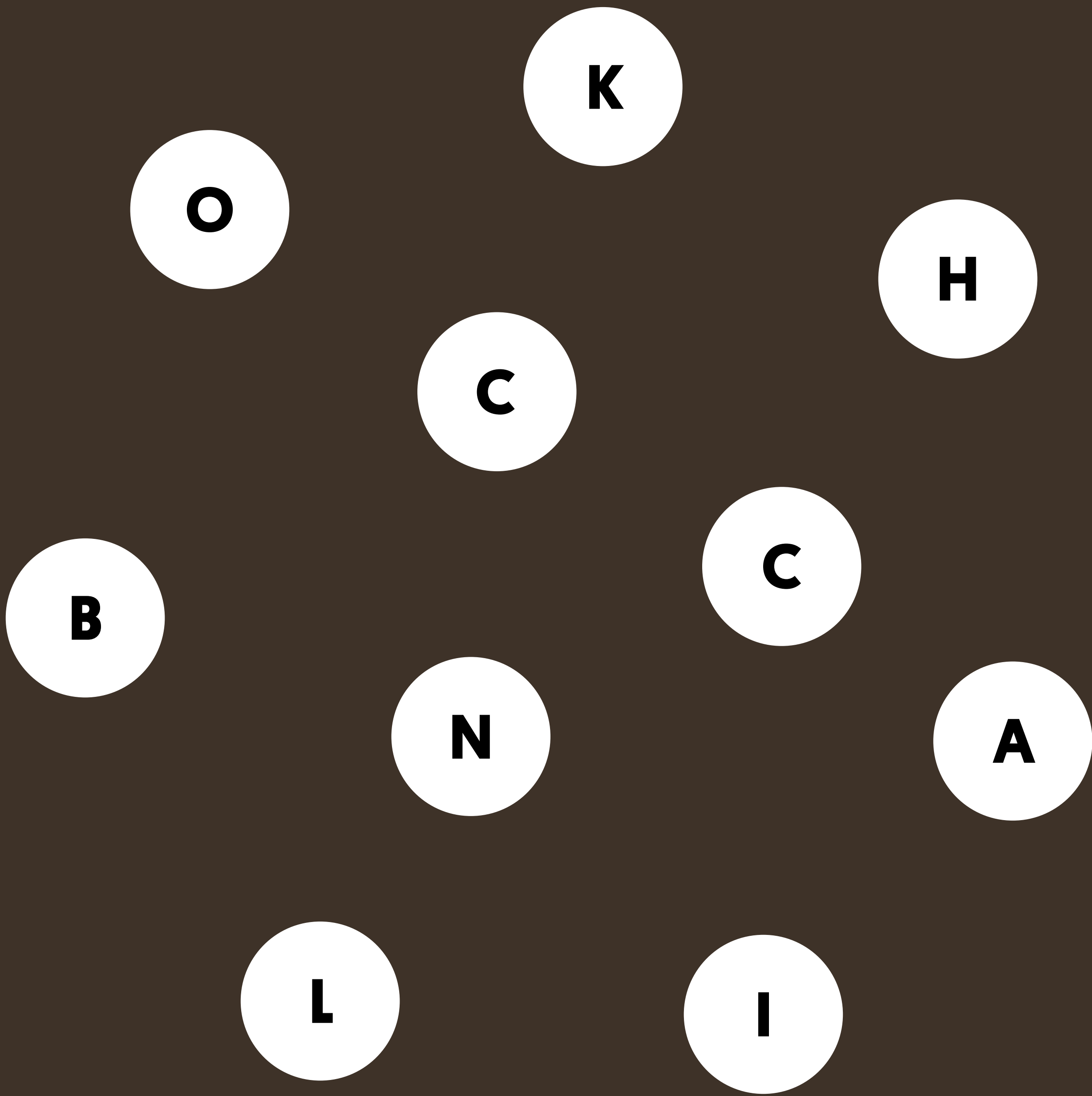

Move forward: Disruptive tech

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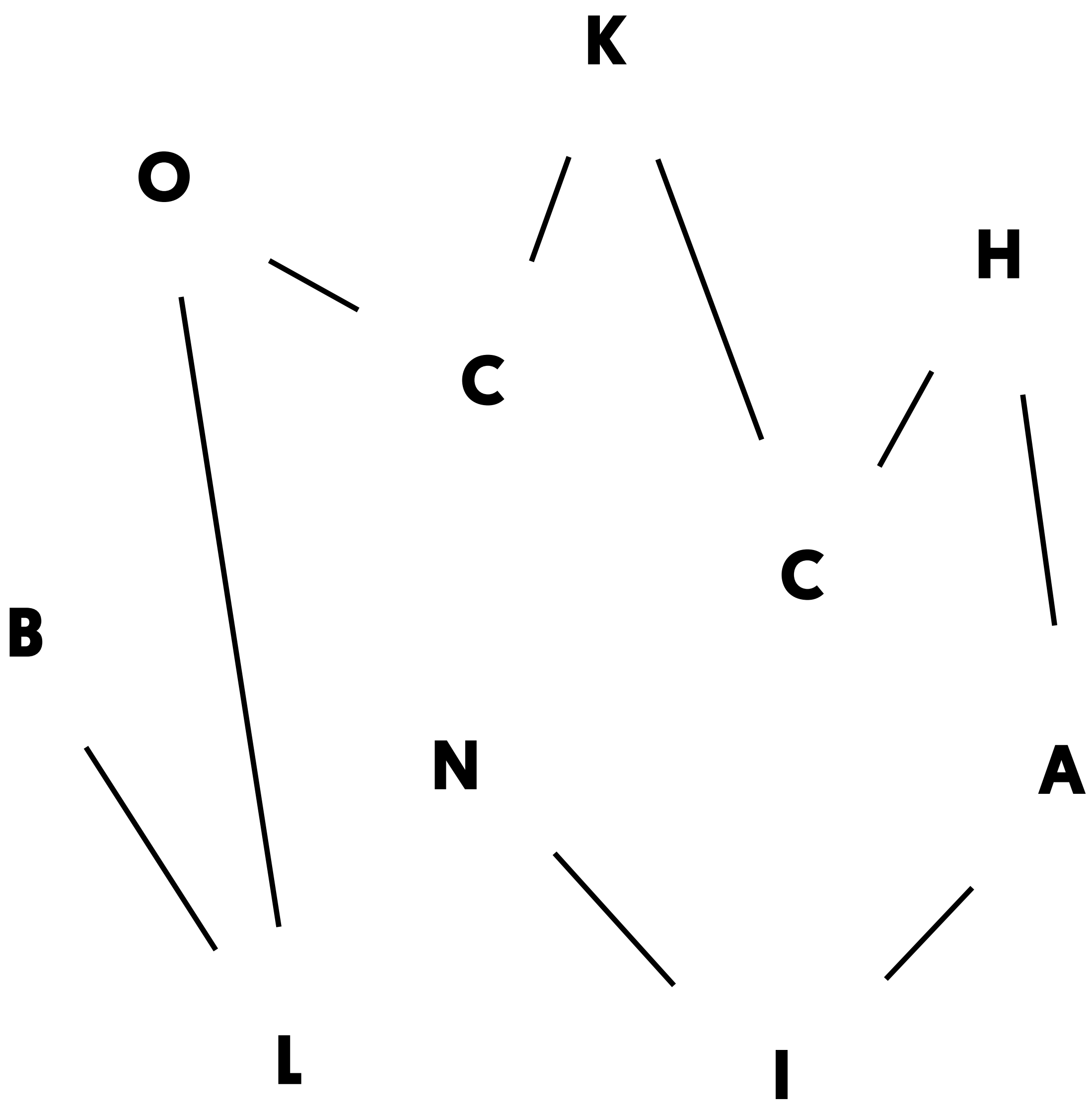

Looking into the future of tech on the crossroads of hype and hope *8*

Finance in Latvia
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The biannual magazine of
the Finance Latvia Association

As a result of the development of the finance industry and growing cooperation between participants in the sector, as well as the sustained creation of innovations in financial technology, the Association of Latvian Commercial Banks has expanded its activities and this summer became the Finance Latvia Association. The organisation’s development strategy states its aim of becoming a broad platform for cooperation between finance, technology and related industries, as well as for interest representation in Latvia, the Baltics and Europe. Established in 1992, it is one of the oldest and most experienced business organisations in Latvia.

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Living up to the growing challenges

"*The Baltics punch above their weight*". This was the conclusion of a Tech.eu study called *An Exploration of the Startup Ecosystems*, published last December. And indeed, as European Commission Vice-President Valdis Dombrovskis put it during one of this year's major tech-related forums, "the Baltics are among the EU's FinTech leaders, thanks to the early adoption of digital technology, a sense of entrepreneurship, and growing cross-border cooperation, to name a few factors." Being at the forefront fuels new ideas and further development. But it also places added responsibility on us to become ever more agile and innovative, and at the same time more risk-conscious.

Guntis Beļavskis, Chairman of the Finance Latvia Association Council and Chairman of the Management Board at *Citadele Bank*

According to the latest research from Citadele Bank, 81% of respondents surveyed in Latvia believe that innovative digital services help save time. This high level of digital savviness in the local market, as well as the fast pace of global technological development, has already given a boost to entrepreneurial energy in the Baltics. Therefore, it is vital to establish a strong platform for cooperation among all parties involved. This includes regulatory convergence—aligning legislation across the Baltics—so that companies operating in all three countries can leverage the strengths of these markets as an effective springboard for working further afield.

This is a time of rapid local and global development in many spheres, where the boundaries between the finance sector, financial and other services, and the regulatory environment are being blurred. So it's not surprising that the Finance Latvia Association is also going through a transformation of its own. As cooperation and openness are the key factors in ensuring sustainable development in finance and its related industries, we are now welcoming financial technology companies, financial service providers and companies from related industries to join the cause. Due to these changes, the need for platforms such as this magazine has been steadily growing over the last few years. Every member of society must be able to receive first-hand information about topical issues and challenges, and what to expect from them.

Over the last year we have focused on the association's three priorities as reflected in our vision statement: development, technology and compliance. While fostering development the challenge has been to find new sources of growth, e. g. to expand the provision of services for the local economy. This has in turn meant a greater need for digital service development, for compliance and for establishing a clear vision of excellence for the next three years. We must note that the industry is still addressing issues stemming from the fact that until 2014 banks focused on clients from CIS countries, often taking on excessive risk. A real challenge lies in accelerating this process. We have developed, approved and introduced Policy Guidance and Guidelines on AML, Countering Terrorism Financing and Enforcement of Sanctions, as well as GDPR compliance guidelines. We have been actively monitoring and ensuring implementation of these guidelines, stressing that any related decisions be made in the interests of the public and financial sector as a whole.

Boosting innovation in the region is the main focus of this first issue of *Finance in Latvia*. Last December, the Association approved the Open Digital Finance Framework, which promotes a vision of Latvia being at the forefront of Open Digital Finance in the EU by the end of 2022. According to a survey commissioned by *MasterCard* (*Nordic Fintech Disruptors Report 2018*), the Nordic and Baltic markets already have an impressive track record of creating FinTech companies that succeed regionally and globally—indeed, over half of Europe's FinTech success stories originated in the Nordic and Baltic region. And with the rapid regulatory changes at local and EU level, we intend to strengthen this leading position, bringing on board the right partners and facilitators needed to reach this goal. ●

A drive to transparency

Uldis Upenieks, Co-chair of the Finance Latvia Association Compliance and Control Committee, Chief Compliance Officer and Member of the Management Board at *Citadele Bank*

Juris Bogdanovs, Co-chair of the Finance Latvia Association Compliance and Control Committee, Head of GSI Investigations in Latvia and member of the Management Board at *Swedbank Latvia*

Compliance with sanctions, the various strategies and business models used by banks, risks in dealing with shell companies — these topics have been on the minds of those involved with Latvia's financial industry for a few months now. This eventful year has made everyone realise that an acceleration of the transparency measures whose implementation was begun last year was a prudent step; however, even more effort is going to be needed in order to advance in that direction. Uldis Upenieks and Juris Bogdanovs, the two co-chairs of the Finance Latvia Association's Compliance and Control Committee, have come together to give important insights into the topic.

Ensuring the highest standards of compliance throughout the financial sector, and the sustainable development of the industry and the whole Latvian economy is only possible through joint effort. Something that is often not understood is that comprehending and complying with sanctions and ensuring efficient KYC procedures is not only the responsibility of banks — in the process of anti-laundering and countering terrorism financing all parties must be involved, including companies, clients and governmental institutions. Yes, this asks for more resources from all these parties, and asks these parties to once again reconsider the risk appetites, business focus and strategic stance of the industry participants. We are fully determined and committed to fighting financial crime and protecting the integrity of the financial system while serving our economy and customers in good standing. We are aware that this will require a constantly evolving level of legal and compliance sophistication, since, sadly, all kinds of "bad guys" — criminals, cartel members, terrorists — are also striving to keep up with all our improving control systems and regulatory and legal requirements as well. However, it is absolutely clear that the price of mistakes would be extremely high, so no precaution is too great.

Sanctions, sanctions, sanctions

Understanding sanctions is one of the areas that should be focused on. Not only because there are so many and the list tends to grow while you're looking at it, and thus one should be vigilant to ensure that sanctions are not being violated today even if everything seemed to be OK yesterday, but also because there is no definite checklist given on a customer's or a deal's evaluation. So every bank needs to assess the risk on its own and make the decision about each transaction going through it. What does the business model look like? Who benefits from it? Where are the cargo deliveries going? If they are going to countries close to or bordering countries under sanctions, what is the risk of this deal being just the middle part of a chain that ends in non-compliance? And questions of this kind just keep piling up. There are three types of sanctions: national, international and extraterritorial, and they can be measures against certain persons or companies, or even against whole sectors of an economy. As managing them is extremely complicated, it is advisable for companies working with international clients to have a sanctions officer or at least to outsource this function to competent parties. For companies the risk is enormous — for example, a shipped order can never be paid, as such a transfer would be blocked due to suspicion of non-compliance. So, it is advisable for companies to talk to their bank before entering into a deal, just to make sure the bank is satisfied with the client's understanding and the logic behind the compliance.

To shell or not to shell?

What are shell companies and why do they get so much attention? Companies registered across the world — even in so-called offshore zones — can be created for absolutely legitimate reasons. Companies that have a real business facility and activity,

In October 2017 the Finance Latvia Association Council approved a document on self-regulation of the industry—Policy Guidance and Guidelines on Anti-Money Laundering, Countering Terrorism Financing and Enforcement of Sanctions to ensure that in the next two to three years members of the Association reach the highest international standards in preventing and combating financial crime. It is important to mention that the new policy established a principle of zero tolerance for infringements of the law and illegal activities, and committed to strengthening active cooperation with governmental institutions and law enforcement authorities. While the adherence to the principles stated in the guidelines is voluntary for the members, and some industry participants may disagree with the Association's position, it is clear that active internal re-structuring has started, and that the companies, which are here to stay, have already accepted the new rules of the game.

that produce or trade things, pay taxes and regularly submit the reports, have nothing to worry about. However, those that fail to provide convincing evidence of at least two of these activities will have banking services discontinued due to presenting a high risk of tax evasion and incompliance. For any financial institution, transparency of their corporate clients is one of the top priorities. And most companies based in Latvia really have nothing to worry about. It is international corporate clients that need to make an additional effort and ensure full cooperation with their respective banks.

Assessing and handling risks

This is where the need for stronger KYC and client research practices comes in again. There is no practical checklist in this case either, so it's every bank's responsibility to demonstrate enough caution to ensure compliance. These principles are not new—it has always been essential for banks to know their clients and their clients' business. What has changed is the responsibility for thoroughness, and the tolerance to the level of money laundering risk a client might present. There are various risk parameters banks work with: the client's business model; sources of investment and ultimate beneficial owners; nature of their markets; business partners; suppliers and clients—also, atypically large transfers or payments by persons other than company customers will certainly draw attention from the bank—all that can be roughly summarised as risk created by a client, by the markets they work in, by the products or services they produce or use, and by the supply channels they employ.

A financial institution has to complete enhanced due diligence on its client within 45 days of the moment when triggers for such a review arise. In this case a client must be willing to cooperate quickly enough and to the fullness of its capacity. For corporate clients it is also important to realise that for a bank to provide services to a business model that raises many red flags on its internal compliance dashboard might be too expensive, only activities required to conduct enhanced due diligence and such clients' risk assessment might take too much resources. So, if a client is unwilling to de-risk their business model, a bank might refuse to provide services to them.

Much of the ongoing practical debate between the corporate and banking sectors boils down to putting substance over form or form over substance in both the companies' and the banks' decision-making process. For example, should Office of Foreign Assets Control's (OFAC) sanctions only be complied with in deals using US dollars as a currency? The Association's stance on this is clear: all sanctions have to be complied with in all currencies. That is, when making a decision to invoke the 'comply or explain' principle, the drivers of the decision should be the highest ethical standards and the interests of the public and the financial sector as a whole, instead of the profit motive. This is the only approach that will ensure long-term sustainability on the market for any financial services provider.

Coming closer for cooperation

There has been a need for closer cooperation between the banking and governmental sectors in information sharing for a long time, and a lot has changed since early 2017—a time when dialogue between the parties was rather inactive. The Financial Intelligence Unit has been established and its role reassessed to ensure more proactive, committed and cooperative work. At the same time, meetings between the banks and the State Revenue Service are now held regularly, promising visible results. There are three tiers to this cooperation: the exchange of views and information, information sharing using the Joint Money Laundering Intelligence Taskforce (JMLIT) model, and, finally, installing a special framework regarding taxes.

The Association-approved AML/CFT policy and guidelines clearly describe the standards and the additional procedures that need to be introduced in the industry. And it is certain that over the next few years banks will continue to strengthen their internal control systems and train staff in order to reach the common goal. ●

The new General Data Protection Regulation: Making it work

It has been a few months since May, when General Data Protection Regulation (GDPR) became applicable, and speculation about its impact was at fever pitch. For Latvian financial services providers, no drastic change took place — the industry's level of personal data protection for clients has always been high here. However, despite the wide publicity for many months before the GDPR became applicable, many other companies still came to that milestone unprepared. And for most, it is their way of thinking about their clients' personal data and its value which has to change first. Some of the fundamental truths about the GDPR are still misunderstood.

Myth 1: The GDPR is an unnecessary additional burden on organisations
This is a common misunderstanding, and is usually based on an awareness that there were already strict data protection laws in place across Europe. Then why was implementing the GDPR and spending all these resources necessary? Actually, the GDPR is not a revolution but rather a necessary regulatory upgrade, harmonising the key regulations that had existed for almost twenty years. Those companies which already had effective data governance and management processes in place did not need that much more to be done in order to be ready for the GDPR. Many of the key components of personal data protection remain the same: lawfulness, transparency, fairness, accuracy, security, confidentiality, and respect for the rights of the individual whose data is being processed. What is new is that the GDPR adjusts the regulation to the digital age and harmonises requirements across all EU member states.

Myth 2: It's all about (giant) fines
The GDPR is not about punishing organisations; it is about preparing them for dealing with security vulnerabilities and raising the level of protection for personal data across the whole region. It is understandable for organisations to be taken aback by the hefty potential fines, as the regulation envisages monetary fines of up to 4% of total worldwide annual turnover. However, an administrative fine is just the final step in a long process designed to understand the nature, scope and cause of the violation by a data controller or processor. Not every personal data breach will result in a fine, and it's definitely not the case that every fine will be of the maximum possible amount. So focusing on this aspect would mean missing the true point of the new regulation. Moreover, loss of reputation and customer confidence is a much greater threat to a company than a fine imposed by the data protection authority. So in order to work successfully within the new regulation, a company should make data privacy and security a part of their mindset.

Myth 3: There are no cases in which processing personal data without consent is lawful
This could not be further from the truth if consent is the right lawful basis for processing. In fact, consent constitutes one of the six lawful bases for processing, from which banks more often use only four. That is why clients' data can be processed and stored without consent. This is the case, most frequently, when the law imposes an obligation to process data. For example, if there are reasons to suspect that a client might be involved in fraudulent actions or unlawful activities, their data can be transferred to third parties within the framework of anti-money laundering activities. In such cases, the data subject's right to be forgotten does not apply either. Another case when personal data is necessary for entering into or performance of a contract with the client — for example, loan agreement. Personal data can also be processed when it is necessary to pursue the legitimate interest of the controller. For instance, in order to ensure service quality assurance and proof of transactions, banks may record phone calls with their clients.

Myth 4: If a company has a process for consent management in place, it is fully GDPR compliant
It is a common belief that a customer putting a tick on a webpage, giving consent to their data processing, makes a company fully GDPR compliant. As mentioned above in Myth 3, in addition to consent there are some other lawful bases. So, the regulation touches upon far more issues than simply complying with the requirement for consent. It calls for re-evaluation of the whole philosophy of data security management by companies. One should start with an audit in order to understand the amount of personal data, what is being gathered and why. Then an organisation can thoroughly work out and implement internal data protection procedures. These should include provisions for protecting data by design and by default, for protecting personal data if it is being transferred outside the

**Veronika Sajadova,
Co-chair of the Finance Latvia Association GDPR working group,
Data protection officer at *Swedbank Latvia***

For the banks, the GDPR was mostly an adjustment of their processes and procedures to the new regulatory requirement. Still, it demanded a great deal of hard work from us. In order to form good practice and ease the financial industry's preparation for the new requirements, in 2017 the Finance Latvia Association developed and approved the Guidelines for Implementation of the GDPR with the aim of promoting a single approach in implementing it throughout the whole sector. If we take Swedbank's case, preparation for the GDPR meant not only training about 2000 employees, but also the revision of 5000 cooperation agreements, as banks, being data controllers, are responsible for the whole data processing chain. So it was extremely important that the companies we were working with were guided by the same principles and sense of responsibility as we were.

EU, and allow customers to exercise their rights with regards to their data, including the right of access.

Myth 5: The GDPR is a set of rules harmonised throughout the EU, so if an organisation is compliant in one country it is compliant in all EU countries
While this was certainly the hope going into the process of creating the new regulation, it didn't quite work out that way. The member states did not agree on all aspects of the regulation and were allowed to add special rules. Currently there are more than 50 of them — the most prominent are related to the processing of employee data. So Latvian organisations operating outside of Latvia must acquaint themselves with each country's specific rules and laws and have sufficient flexibility in the technology and processes they use to comply with all of them.

Myth 6: It applies only to EU companies
The GDPR has an extraterritorial scope, which means that it would also apply to a company located outside of the EU offering services and goods to individuals in the EU. For example, the GDPR would apply to a US company selling textiles from its online platform to customers in the EU. Moreover, the regulation applies not only to customers, but also to an organisation's employees in the EU. It is important to note that it also applies if a company is just monitoring the behaviour of individuals in the EU, even if the data is not being stored permanently (such as a research firm). Similarly, the GDPR continues to ensure that personal data transfers to non-EU countries are possible, as was the case under the previous legislation, subject to specific provisions and circumstances — for example, the binding corporate rules.

Myth 7: The GDPR is mainly to prepare against external cyber security incidents
Stories like the *Cambridge Analytica* data scandal or the data breach of the sports company *Under Armour*'s app *MyFitnessPal*, in which around 150 million users' data was stolen, make headlines and resonate widely. Yet there are often less notorious cases of data theft or loss, due to a simple human factor, although this doesn't make the consequences of breaches of this kind any less painful for customers. The General Data Protection Regulation makes provisions not only for technical and organisational measures that need to be taken by organisations to protect their customers' data against breaches, but also requires them to take actions that would make breaches of this kind less damaging, such as storing older data in an anonymised way, not storing data without a clear purpose, and paying special attention to health data and other sensitive information.

Myth 8: The GDPR is just an IT issue
Not exactly. And this relates not just to the GDPR, but to data protection as a whole. This is a pie to be eaten from both ends — enhancing the data security hygiene and the technical ability to withstand a breach on one side, and having the undivided attention of the management to the matter on the other. Because if the head of an organisation doesn't care about it, an IT specialist will care even less. In fact, the GDPR specifically forces organisations to work interdepartmentally to ensure compliance. In order to fully understand the flow of data, where it originates and where it is going to be stored and why, information from multiple departments is required. Thus, the whole organisation should be trained and be aware of the best practice in order to meet stringent requirements.

Myth 9: GDPR compliance is focused on a fixed point in time
One should be prepared for the GDPR compliance to be an ongoing journey; it definitely didn't end on May 25th. The GDPR requires ongoing effort, continuous training and changing organisations' mindset about processing and storing customers' data as the markets and data environments change. It is a long-term and cyclic work for enhancing and maintaining trust from customers — something which is hard to gain, and so easy to lose. ●

COMPREHENDING DISRUPTION

Looking into the future of tech on the crossroads of hype and hope

Ten years after the financial crisis another challenge is lurking ahead—new technologies. Some of them have the potential to disrupt the financial system again, reshaping completely its relationship with governments and customers alike. But will this happen? The answers to many questions are still uncertain.

The future of financial technologies has been among the central topics of discussion for the Latvian financial sector this year. It started building up in 2017 with the submission of proposals to the European Commission (EC) by Latvia's financial industry associations and later with the Finance Latvia Association's approval of the Open Digital Finance Framework, which has the ambitious goal of bringing Latvia to the forefront of open digital finance in the EU by the end of 2022.

Early this year the topic was followed by expert discussions about the regulation of remote identification and onboarding, as well as about the overall vision for the financial industry as such. And some time after that Valdis Dombrovskis, Vice-President of the EC, presented to the Baltic financial industry the EC's Action Plan on Financial Technology, which lifts the curtain on the EU's set of priorities for the near future. In this article, we give you a picture of the most hotly debated issues.

Picking up the speed Ding-dong! It has been recognised that there is a need to move from the situation where every company stands for itself towards an ecosystem economy, where everyone who has been proved to be of value can participate and profit from what one is doing best. Bigger institutions need not only to ensure exponentially faster growth and adaptability, but also to deliver real value to the end customer. Because today the challenge is not about technology and figuring out its applicability — technology is not a goal in itself. It is much more about sustainability, customer trust and proving that a new business model can run for decades, not just for the current moment. Maybe that's why the revolutionary tagline "in few years there will be no banks and FinTechs will take over" which was on the tongues of many analysts and businesspeople a few years ago, is not heard much these days. Banks are still there with their aura of tradition and prudence. But what should be definitely gone by now is slowness and reluctance to engage in change — this is something that no company working in the financial sector today can afford.

So what's the plan? March 8th, 2018 was marked by a special event, which was covered extensively not only by traditional media, but also enthusiastically shared across social networks by FinTech start-ups, industry enthusiasts and anyone excited by new opportunities. The European Commission unveiled details of its nineteen-step *FinTech Action Plan* to promote the digital transformation of the financial services sector. The initiative had long been awaited by all member states, and NGOs of the financial sector in many countries, including Latvia, had submitted their proposals for it last year. And with the launch earlier this year of the EU Blockchain Observatory & Forum by the European Commission, we can hope to become fully equipped to make Europe a single market with rapid advances in new technologies, such as blockchain, artificial intelligence and cloud services — a safe market and one that is easily accessible for consumers, investors, banks and new market players alike.

These steps are especially welcome because the USA and China have taken their financial technology markets so far ahead of Europe. It is anticipated that it won't be long before they decide to come and compete for the European financial services consumer market. "The rapid advance of FinTech is driving structural changes in the financial sector. In such a fast-moving environment, overly prescriptive and precipitous regulation carries the risk of undesired outcomes. However, there are also risks that refraining from updating policy and regulatory frameworks may place EU financial service providers at a disadvantage in an increasingly global market. There is also the possibility, for example in the case of cyber security, that key risks remain unaddressed," states the communication from the Commission about the action plan.

Sandboxes and crowdfunding Among many other activities this year, the Commission will host the EU FinTech Laboratory, where European and national authorities will engage with tech providers in a neutral, non-commercial space during targeted sessions on specific innovations. It is planned that a comprehensive strategy on distributed ledger technology and blockchain will be worked out, addressing all sectors of the economy. Additionally, the tech providers will consult on how best to promote the digitisation of information published by listed companies in Europe and how to connect national databases using innovative technologies, which should give investors far easier access to key information required for their investment decisions. Workshops will be run to improve information-sharing in the field of cybersecurity, and, finally, the Commission will present a blueprint for best practice regarding regulatory sandboxes, based on guidance from European supervisory authorities. Regulatory sandboxes are gaining popularity, mostly in developed financial markets. This term refers to a regulatory framework that allows FinTech startups and other innovators to conduct live experiments in a controlled environment, under the supervision of a regulator.

At the same time the Commission has outlined new rules that will promote growth in crowdfunding platforms across the EU's single market. Crowdfunding is currently underdeveloped in the EU when compared to other major world economies. Once adopted, the proposed regulation will allow platforms to offer their services across the EU on a single base of regulations regarding information disclosure, governance and risk management, as well as a coherent approach to supervision. Crowdfunding will improve access to funding, especially for start-ups and other small businesses.

And who will be leading the way? What all this means for banks is that they have to step up their game and move faster, embarking on a fundamental transformation. Developing and implementing everything in-house and taking six months to say yes or no to an idea doesn't work anymore. Baltic banks already have a good track record of working with FinTech startups, making them integral partners — testing, analysing and embedding new products into the bank's ecosystem and customer's interface. The financial sector is now all about becoming even more intuitive and all-encompassing. The market is crowded and nobody is waiting for clients to come to them. Sooner rather than later, supportive and easy-to-use customer services won't suffice on their own anymore and the question to ask will be not "where should a customer click next?", but "who will do the clicking instead of the customer?". This is where AI and robo-assistants come on the scene. And banks who have gathered so much data about customers' financial behaviour over the years are in a good place to take the lead in bringing personalisation to a whole new level.

At the end of the day, it doesn't matter to the end user what channel the service is supplied through, as long as it brings value and is simple enough to use. It's so much easier to maintain one relationship (with a bank) than a dozen (with payment companies, wallets, investment services, analytics apps and others) and so having your smartphone screen crowded with endless app icons. And those companies that are able to make themselves trusted information operators now will be at the wheel, deciding which product to add or not to add. And those who control the interface will also control relationships with customers, as well as the end price — and thus have much higher earning potential.

The transformation of competition Digitisation is nothing new; we have seen it advance for about five decades now. But further developments call for another kind of competition in the market. Banks no longer look at FinTechs as companies which will eat their lunch, but instead see them as companies which could help them to strengthen their position on the market. Working with FinTech startups might not be the most predictable process in the world, but in order to create a customer-driven ecosystem, the inflow of new ideas is vital. As the creation of sandboxes and, eventually, new regulation should open doors for untapped opportunities and for testing and embedding new products influenced by new technology, we should be able to look forward to lower banking costs and the creation of more convenient services with enhanced accessibility. However, banks are not only looking out for new ideas. Initiatives such as technology labs, investing in prototypes, and idea-

"To compete globally, Europe's innovative companies need access to capital, space to experiment and scale to grow. This is the premise for our FinTech Action Plan. An EU crowdfunding licence would help crowdfunding platforms scale up (...) and match investors and companies from all over the EU, giving more opportunities for firms and entrepreneurs to pitch their ideas to a wider base of funders." — *Valdis Dombrovskis, Vice-President of the EC (Brussels, March 8th, 2018)*

Photo: Audiovisual services of European Commission

In his speech during the "Future of Financial Technology in the Baltics and the EU" event, Valdis Dombrovskis noted that, according to the World Economic Forum, Latvia, Lithuania and Estonia are all in the top 7 in Europe for entrepreneurship and innovation.

"I see blockchain as a game changer and I want Europe to be at the forefront of its development. We need to establish the right enabling environment — a Digital Single Market for blockchain so that all citizens can benefit, instead of a patchwork of initiatives. The EU Blockchain Observatory and Forum is an important step in that direction."
— Mariya Gabriel, EU Commissioner for the Digital Economy and Society (Brussels, February 1st, 2018)

pitching channels for employees are coming to life in banks in the Baltics as well. Moreover, successful measures to get employees into that entrepreneurial mindset and promote innovation culture might become instrumental in competing among the interface-holders. Recognising the need for quality development rather than physical expansion, some financial institutions are putting a cap on the number of employees, and some are reducing the number of branches they have, encouraging customers to use online and mobile banking.

All eyes are on blockchain But which one of the many new technologies will be the one to cause a snowball effect and win it all? Many of the hopes are concentrated on blockchain. Last year, *Accenture Consulting* calculated and published potential cost savings for a so-called High Performance Investment Bank Model, which would fully embrace and integrate blockchain technology (*Banking on Blockchain. A value analysis for investment banks.*). The report claims that, on average, estimated potential savings will be around 30% annually, and adds that "at this stage, these estimates could prove conservative." "Blockchain is challenging industry players to fundamentally reimagine their data-sharing processes. There is no turning back," state the authors. The technology, they predict, will influence all areas — from business operations to compliance, financial reporting and centralised operations like onboarding. Another analysis looking at investments in FinTech (*The Pulse of FinTech Q2* published in 2017 by KPMG) also documents a growing interest in blockchain, stating that it "remains a catalytic force in FinTech innovation." Both the financial and governmental sectors are increasing their investments and efforts to be on top of the latest blockchain developments, and "the diversity of blockchain prototypes and pilot projects appear to have grown exponentially." However, there are still many unresolved questions (like how blockchains are going to communicate with each other, what the implications for compliance are, etc.), which results in lack of implemented production systems. "Over the next few quarters, there needs to be a shift from proving the technical capabilities of blockchain prototypes to proving that blockchain can create value by transforming different organisational functions," the KPMG report concludes.

There are no safe bets One cannot perfectly predict the future of the financial sector — it is created through hard work, experiments and listening to customers. And if a company strives to grow by embracing new technology, this aspiration demands a high level of dedication and prioritisation. "We think nowadays it is imperative that also in banking services one should be able to introduce innovations as fast as in FinTech," said the Technology Development Director of a Latvia-based bank, having just launched 'all the bank in one' app with extended functionality, Face ID and Touch ID for authorisation — which all took just 10 months to develop. "During the course of development we thought and worked not like a bank but as a FinTech company," he added. And we look forward to more agile thinking and dedication of this kind quickly becoming a new standard in the Baltic financial sector. ●

Dmitrijs Latiševs, Member of the Finance Latvia Association Supervisory Board, Chairman of the Board and Executive Committee, CEO at *BlueOrange*

The rapid development of technologies has fostered changes in the financial industry: from classical institutions banks have evolved into platforms for meeting their clients' financial needs. Today banks must be safe, fast and flexible; they should be able to offer their services and financial solutions anywhere and any time. Remote authentication and remote services are among the most up-to-date solutions for this issue. For instance, in the spring of 2018 BlueOrange became the first online bank in Latvia to receive permission to perform customer onboarding using a remote or online authentication process—a process which allows us to offer online services to a much broader range of residents of Latvia: individuals anywhere in the world. We believe that, with the technologies being developed, the possibilities offered by banks will become ever wider, which will further promote healthy competition and also positively influence the range of options available to clients.

Luminor: working like a FinTech

Jevgenijs Kazanins, Head of Daily Banking Products at *Luminor*

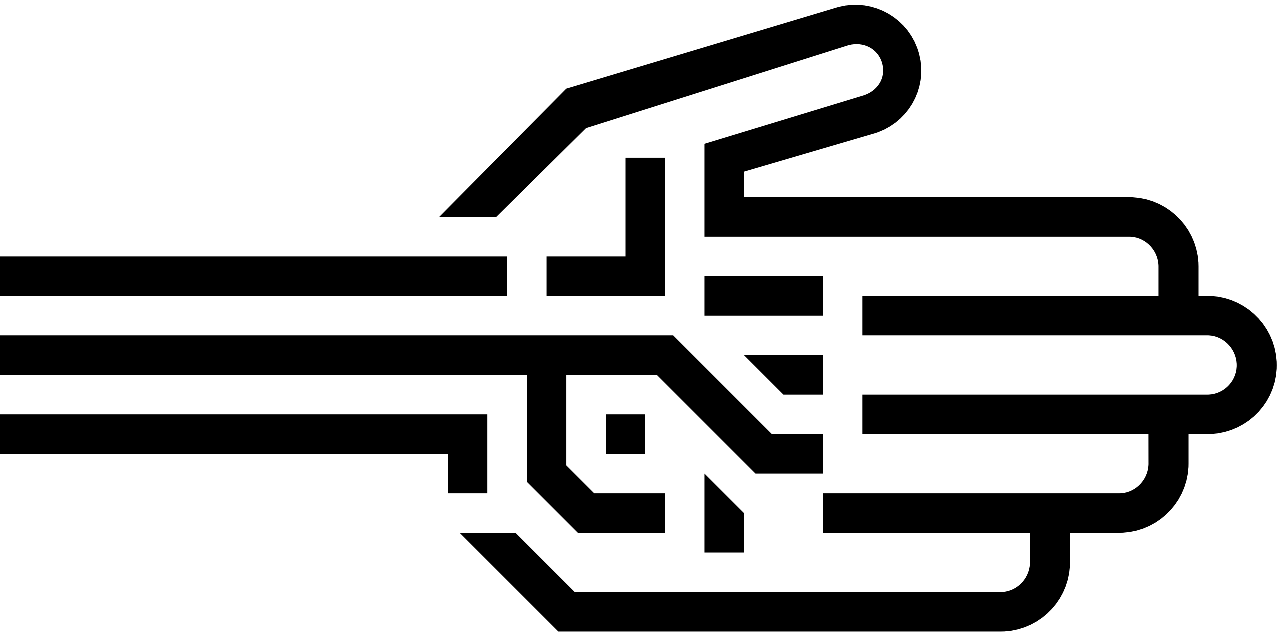
The Baltic states are an exciting place to be right now if you are part of the financial services sector. While previously one would think of New York, London and Frankfurt as the hubs for financial innovation, the next wave of innovation might actually take place in the Baltic region, with money transfers, peer-to-peer lending and the application of blockchain being the main areas in which Baltic FinTech startups excel.

Limitations create opportunities One might find it ironic, but in the context of cooperation between FinTech companies and local banks, it is the limitation of the Baltic financial market that creates unique opportunities for both parties. For innovative projects, cooperation with banks forms a unique kick off platform that helps to prove the value of their business model, and afterwards to expand to other markets. And for banks, it gives more freedom, agility and potential for innovation—we don't have to invent everything from scratch ourselves. Commercial banks in the Baltics have always been the front runners of digitalisation and now they are fully embracing Open Banking. Openness of the society, higher business flexibility arising from smaller scale, as well as limited heritage of legacy systems and processes, allow the banks to deliver innovations at extremely fast pace. In a way banks in the Baltics were made to try harder, so they are more willing to review their procedures in order to successfully work with FinTech companies. There is a strong interest in the industry in cooperation of this sort, and *Luminor* is no exception in this respect. Understanding the shifts in customer behaviour, now that the formula "need a financial service? go to your bank!" doesn't work anymore, *Luminor* last year included data intelligence, the integration of innovation and improving customer experience through cooperation with FinTechs into its strategic development plan. We are already actively working in these directions, preparing efficient integration infrastructure, and reviewing and negotiating with numerous FinTech projects.

Spotting the innovation momentum There are several challenges on the way to truly getting the hang of working with FinTech companies. And here we aren't even talking about IT, but rather about banks' internal organisation and procedures. First and foremost, how should you choose a new partner? A lot of good new ideas die without funding, as already established projects are safer to work with. However, they do not offer the precious innovation momentum that brings greater value later on. And working with ideas which are not even on the market yet is riskier than working with established ideas, and a bank has to evaluate and consider these risks. In each case such decisions should be made rather sooner than later, so we are reviewing our standardised procedures and trying to be more flexible.

The main challenge and advantage is speed When a project is finally chosen, the next challenge is to quickly introduce it to the market. If there is a problem of being slow, it will always be on a bank's side—never on the side of the FinTech company. So we learn from and adopt their proven practices to work more quickly and in a more proficient manner. *Luminor* has practically merged its daily products department with IT, forming agile cross-functional teams. For any company, the process of restructuring and modernising organisational structures and internal processes can be hard and even painful at times. So you can't make it without powerful drive and determination—and this is what we have at *Luminor*. ●

Cooperating with robots



How technology will bring humanity closer together, the growing importance of creativity and how banking will look like in a few decades — these are just some of the questions touched upon by two of the most sophisticated digital banking gurus in the Baltics, Ģirts Bērziņš and Iļja Nogičevs in their fireside chat. Let's join them.

Ģirts Bērziņš, Co-chair of the Finance Latvia Association Digital Transformation Committee, Member of the Board, Head of Strategy, Digital Banking at *Swedbank AB*

"I believe the future will come to life much faster than we think now. Because as yet we're still dependent on the tools that customers have. However, AI will be built into the world outside. So the infrastructure is ready."

Iļja Nogičevs, Co-chair of the Finance Latvia Association Digital Transformation Committee, Head of Digital Development at *SEB bank*

"Yes, it will be nothing like what we have now. Yes, we should definitely think about how it might be, and also think about what would be the baby steps."

How is artificial intelligence (AI) understood in banks today?

Ģirts Bērziņš It's a buzzword. Today in banking everything is based on data; it's a non-material service — money and cash are already a secondary stage. So AI can be applied pretty much everywhere; there are no limits. If I look into the future, I see that there may not be just one robot working with all the customers, but each customer will have their own virtual assistant (VA) or robo-private-banker looking after them, and knowing about their particular spending, and about their lifestyle and habits. So, instead of relying on mass marketing and trying to sell stuff, virtual assistants will make customers want to buy stuff by giving them advice. Here, trust is the most important thing, as customers will have to trust that their VA is working in their best interest. And maybe your personal assistant will tell you that it is in your best interest to go and buy this product from a competitor of your bank. Because for your particular need it's much better — and since it's your trusted advisor telling you this, you would do it. And from the open banking perspective, this is the most crucial thing banks need to understand: that you may need to give something up, but you will gain much more back in the shape of trust — the more trust you have, the more business you can do.

Iļja Nogičevs I totally agree with what you just said. For me it's important to know where I can turn if I have a question to ask. And I feel that this is the status we'll be fighting for — to be the one you come to with a specific question. And it's OK if you are not selected for all the services your customers need. I was also thinking about whether AI is just a buzzword or not, and now I actually decided that it's rather a long-term trend. Talking about it from a more primitive perspective: it's just robots mimicking humans, and it's already been there for some years. For example, when a customer sends an insurance agreement including extensive terms and conditions for their insured mortgage, we have a machine to read it and put it into the system. It's already up and working, and we're quite good at things like this. Text, voice and speech recognition, this is the basic stuff, but what about understanding unstructured data? For example, we're getting information from all these questionnaires and putting them into a specific tool and getting results that are already structured, like "your customers are complaining about this, this and that. And if you fix this and that, your results will be much better." Previously there'd be a few operators trying to do all the data entry and analysis by themselves, which takes ages. That's my understanding of the AI applications which currently exist. The next stage is machine learning. How do you train an algorithm and how will this algorithm be capable of training itself? And then the last one: the output, and how to bring it to the customer. Either it's via some sort of hint to the person who is serving the customer, or it's via a chatbot or VA. And here it's actually up to the customer to say "no, I'd like to speak to somebody, but I'd like that to be somebody human-ish."

ĢB You are right. I just think the challenge lies in how we think about the development of AI, as we tend to only think about it from the perspective of what we know today.

Making the most of one's personality

ĢB Our chat is being recorded at the moment, but imagine if it wasn't just transcribed into text straight away, but that it was also adapted by AI or your VA to fit exactly its reader's personality. We know that humans differ: some are visual types, and for them maybe it's better to convert a text into an info-graph or a picture. Others like bullet points and PowerPoint presentations. And some might like formulae! AI will individualise services. By the way, this is how humanity started; there wasn't any mass production of one-size-fits-all products. And I think of this as maximising human capacity, in a good way. Not squeezing people out, but boosting their personality. And think wider than banking — your individualised robo-teacher or enhanced doctor with immediate access to a vast amount of data and research. Imagine now that you have a choice between using a regular doctor or an AI-enhanced one. I think that before long you will come to prefer the latter.

IN Again, my thinking is: 'step by step'. There will be nothing like what we have now tomorrow. Yes, we should definitely think about how it might be, but also think about what the baby steps will be to get there. And maybe I am too cautious, but I would say that, in order for us to succeed, there are a lot of things that need to be prepared or at least done in parallel. I'm thinking here about legislation. And as banks we are regulated quite differently, so we cannot do things like that at the snap of a finger. One can buy a company or services, which then would be integrated into a bank's offer but then there is the question of the legal burden — who is doing that? Is it you, or is somebody doing it for you?

ĢB I can explain why I believe this shift will come to life much faster than we think it will at the moment. Because in implementing better self-service, we're still dependent on the tools that customers have. However, AI will be built into the world outside. So, the infrastructure is ready; it's just a question of use. Self-service will fully disappear after some time, except maybe for those who still would like to be in control.

... and the button which shuts it all down

IN And another thing AI can do: it can make you feel in control.

ĢB That's a good point, and I have one example in mind. We all know that in the world there are several boxes with special buttons that launch things. I think that in the future there will probably be only one self-service button remaining...

IN ...the one which shuts everything down.

ĢB Yes, the one which stops everything. Because I think that humanity will become extinct the moment it loses control. And this is a real-life example. We know that there are companies that stopped AI projects because the robots started speaking a language that humans did not understand. And that means you're out of control. So, I hope that humanity will still manage to keep this 'stop' button.

What is the future going to look like?

ĢB I am quite sure that AI and VAs will come very soon, and that customers will adapt to them quickly. And then it will disrupt the whole service industry because you suddenly won't need to understand exactly how a service provider's website works in order to use the service, for example. And yes, for services where customers already know what to do, self-service is brilliant. But quite often, even the most technologically advanced customers stop at the point where they need support. And then the gap between the experience of helpline support and an instantly responsive VA is enormous. Self-service has raised the customer's expectations to a level that they now think everything should be instant. AI will help solve this problem.

IN I agree that this is true with regards to basic products like daily banking. Still, if we are thinking about financing and investment, I have a strong feeling that customers are not ready yet to get this instant advice. This also may be a question of perception — why I am paying so much if this takes so little time? Customers tend to perceive the process of getting advice as more valuable if it is longer. So, I think that maybe it's better to put it just as assistance, not as a robo-advisor.

ĢB Yes, I was rather talking about customer support. But since you touched the topic of advisory services and sales, I think that selling financing, for example, will stop too. Nowadays payments are already built into real-life situations — that's the first banking service which is disappearing. Today you will use *Taxify* or other services — you just use it and your payment is made automatically. Because what the customer needs is not to make a payment, but to get a taxi ride. Also, customers don't think of their needs as things like 'a consumer loan' or 'a mortgage loan', but as 'a house' or even 'improving my life'. It's obvious that with time financing will be built into situations that somebody who arranges the service will take care of. That's the thing — almost all the services that banks provide today are not primary needs of customers; they are secondary needs. And in the future such services will become invisible for the customer. Except, I'd say, advisory services. Advisory service is a first level need — how should I manage my finances in order to improve my situation?

IN I think this is a question for the customer: "how do you see interactions in your daily life?" Imagine that in the future you come home from your vacation, for example, and your fantastic VA says "I see that you've spent less than you thought you would. Would you like to put the money left over into your savings account, so your next vacation will be sooner, or so you can afford a fancier

Photo: Finance Latvia Association media archive

Ģirts Bērziņš (left) and Iļja Nogičevs (right) met on the premises of the Finance Latvia Association to talk about how AI is going to change the way we understand services, interaction and information flow, as well as how banking is going to transform over the next two decades.

hotel next time?" So, here I see our job as being how to bring in more value.

ĢB Well, maybe not in this stage but the next one, I think that AI will basically disrupt how we understand all areas. Let's take HR, for example. Today HR strives to maximise value for each employee. In the future, each employee will have a virtual HR assistant, who will take care of their personal skillset. You can't efficiently develop skills for all employees from a central point. It's in the hands of each individual employee. And now you'll have a VA saying "look, there is this vacancy. Knowing your skills and strengths it's going to be a good opportunity, so now let's have this module of training..."

IN Or something like: "I feel like you're lagging behind..."

ĢB Yeah, and "I know where you want to be in your career in five years' time. So you should be more active in this area. Maybe go to this conference, learn that." So, I think that this will open up new opportunities, which will maximise the human potential.

IN Because we're used to thinking that AI will take our jobs, that it's only about cost reduction and stuff like that. But this is not how it works. The way we'd like to see this is basically 'how can we help'—to help the customer or the employee, or the nation itself. And from the perspective of a new customer, what we're talking about now is in fact already operational in HR—there is technology that can understand your behaviour remotely and from all the readings it takes interpret what you like or don't like, what your preferences are. Imagine the use of this technology from a recruitment perspective.

ĢB I think that the recruitment process will become obsolete too, because if you have your virtual HR assistant in the organisation you're working in, the assistants from all the different organisations will agree among themselves what the best place for you is.

IN And it could be that your VA will say "Ģirts, now it's time for you to work in another bank, because it's a much better workplace." And our VA will say "do you know about Ģirts? He's kind of OK—let's take him." And today it sounds like a joke. But the question is: will it be a joke in twenty years?

ĢB A lot will happen in twenty years. And here one more thing we should consider in coming back to banking services—banking services are invisibly interconnected. So, if we want to meet our customers, we don't always have to push our customers to come to us. For most situations, they can be wherever they are—*Facebook*, *Amazon*, etc. And banking just happens. Now customers have the feeling that banking happens only when customers interact with the bank (and at the moment this may still be true). But banking is moving away from this. In the past you visited a bank branch something like once a month or once a week, then banking started happening daily via apps. But today banking is not even instant—it's becoming constant.

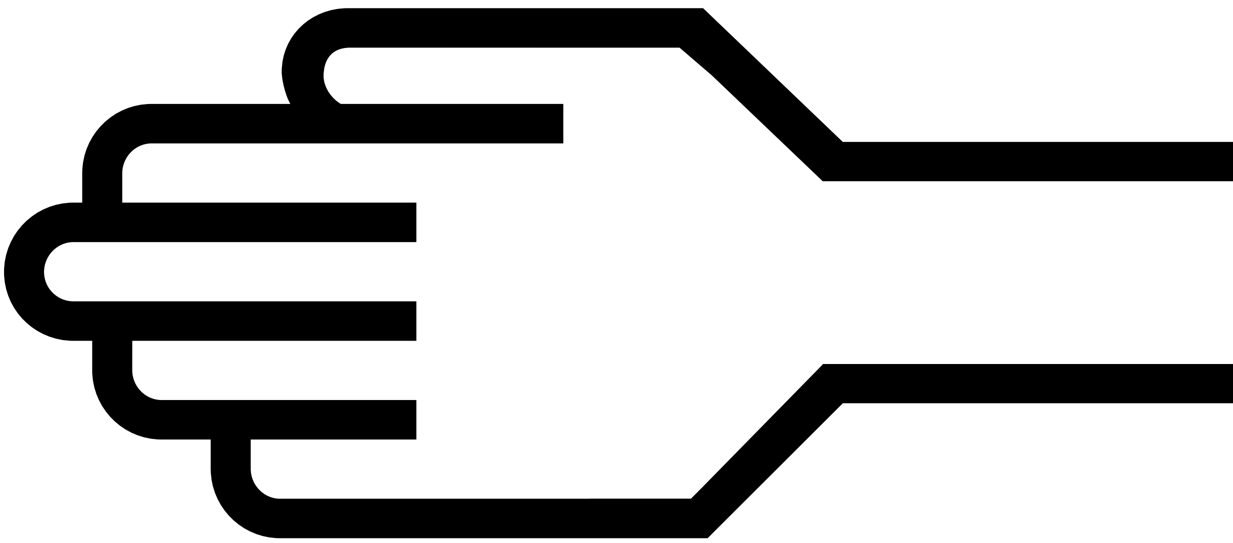
Will the Baltics become the next hub for innovation?

ĢB Will the Baltics be the next Silicon Valley? No. It can be a chapter or it can plug into the ecosystem of another region. But it's just too small. And in terms of becoming a part of something bigger, I think the outlook is rather good. Really finding a niche, like, for example, *Tilde* have done with small language technologies; I haven't seen anybody else in the world who has progressed so far with this type of algorithms. But I think any company will start to have a problem if it decides to limit itself to here. They need to become part of something bigger, a part of development of this kind of AI on a larger scale and plug their developments into somebody else's ecosystem. So if this happens, then we will have a bright future.

IN I think we have a high level of potential, as the customers and the economy at large and the players on the market are all ready to try, test and do this. The Baltics are a good playground (sorry, I don't want to say Latvia—it's way too small). But as you said, it's a very small playground. The only question is about the scalability perspective. It's OK for trying out and testing, but what's the next step? If you don't have this established, you can have a chapter, a hub or whatever, but what's next? Where will you take what you've created and copy it on a different scale? For the bigger players like US and China, it's kind of easier for them to do that. And here we don't have a strong partner. Is it Europe? Is it the Nordic countries? Maybe, I don't know. ●

Ģirts Bērziņš **The more humanity invests in robots, the more people come closer to each other. Because there will come a time when we don't need to solve small technical tasks anymore. Then humanity will need to solve creative challenges. And for creativity people will need to move closer. I think that creativity is the next step after Industry 4.0. Yes, today AI can compose music, but it composes it based on the past. It's too much synthesised. The next frontier will be to disrupt true creativity.**

Iļja Nogičevs Customers need to feel like they are the key and that the bank is doing the boring work for them while in many cases staying invisible. However sometimes they would still like human interaction. We can create a super virtual assistant who will know where to invest and what your risk tolerance is, but one still should remember— let's start from single and simple things and build up trust. And it is our job to make clients' lives better, to assist them in taking the right decision.



On the Inside out pages, banks share information about their projects and ideas, introduce new personalities and talk about pressing issues in the sector. Everybody is welcome to read and discover the life of Latvian banks—the life which goes on behind the sleek front-end office. In this issue we will talk about the largest service centre in Latvia; financial literacy and banks' contribution to society; supporting businesses through financing; cooperating with FinTechs; and the future of private banking.

INSIDE OUT

Photos: corporate media archives of *SEB bank*, *PrivatBank*, *Swedbank*, *BlueOrange* and *Signet Bank*

SEB Global Services: Fostering a culture of innovation

SEB Global Services, a company within the *SEB Group* which provides high-quality services for *SEB Group* customers and has business divisions at twenty sites all over the world, was the first centre in the banking sector in Latvia established with the intention to grow into a Global Business Service Centre (GBSC). Today, after more than twelve years of operation, it is one of the largest and well-established global service centres in the country, employing more than 500 people. With a unique onboarding and mentoring programme, *SEB Global Services* is a great place for the development of raw talent, encouraging a culture of continuous innovation and operational excellence—it is a fantastic opportunity for graduates to gain international work experience while remaining in Latvia.

The deputy head of the company, **Alesja Kirčenko** (*in the photo*), notes about the company's culture: "Open-minded, ready to learn and develop—that is the profile that new employees who we immediately click with have. Fostering innovation within the organisation is in the DNA of our company culture—when doing any task we always ask ourselves how we can go about it more efficiently." As GBSCs are becoming one of the priority sectors for development in Latvia, *SEB Global Services* is looking for more opportunities and quality growth on the local market, in areas such as banking and finance operations, risk, compliance, IT and automation.

Having grown many times over since its establishment in 2006, SEB Global Services is still displaying rapid development and has ambitious plans for the future.

EXCELLENCE

PrivatBank: Promoting and investing in financial literacy

This year the JuniorBank School celebrated its fourteenth graduating class. The students not only learnt the basics of economics, but also acquired practical skills in handling money, financial discipline and drawing up a budget. Kids of eight to fifteen years can sign up absolutely free, and learn from *PrivatBank* experts in Latvian or Russian.

Anna Svarena, the Head of the JuniorBank School, says: "Some of our first programme graduates have already finished high school and are studying further, dreaming of a career in banking or management, and some even aspire to open their own business. JuniorBank School's popularity among schoolchildren is an indication of how important both kids and their parents consider an education in the modern world of finance to be." She adds: "An understanding about finance and money is slowly growing in children, and it is even advised to impart the first knowledge about it at the age of three. Our school is a great opportunity to broaden kids' horizons and understanding about the world."

Since 2011, when the financial literacy programme was established with the support of PrivatBank, almost 1000 students in Riga, Liepaja, Rezekne and Daugavpils have learnt essential skills in finance.

KNOWLEDGE

TRENDS

Norvik Bank: Holacracy—developing an entrepreneurial mindset throughout the business

In this knowledge-based economy, traditional management hierarchies are showing their limitations. When this is combined with dynamically changing technology, the challenges to current management theory are significant. At the same time, having an entirely 'flat' organisational structure with unclear responsibilities for people in the team may seem too relaxed. In this light, let's take a look at Holacracy—the middle ground in organisational structures, with well-defined roles, while still maintaining a peer-to-peer atmosphere and culture.

Holacracy is a management theory built around ensuring that personnel are autonomous and self-reliant, without ignoring the greater whole of which they are part. This helps to reduce administrative functions and internal bureaucracy, without harming productivity and efficiency. The key to success with Holacracy is based on its constitution that is elaborated on its homepage (*www.holacracy.org*) and in numerous research books on this topic (Brian J. Robertson. *Holacracy: The New Management System for a Rapidly Changing World.* 2015). The first article in the Constitution—"Energising Roles"—explains the overall approach. One of the key steps is defining 'roles' within the organisation, and ensuring autonomy of execution for each role. A role can be one-to-one, many-to-one or one-to-many in terms of people executing the actions defined in that role. An employee is not defined by their job title or job description in this approach, but can dynamically move between roles over time. This provides fluidity and dynamism, and helps keep people permanently motivated by new challenges. Take a look at the Holacracy website for more details, and consider to what extent this new approach to management can be implemented in your organisation.

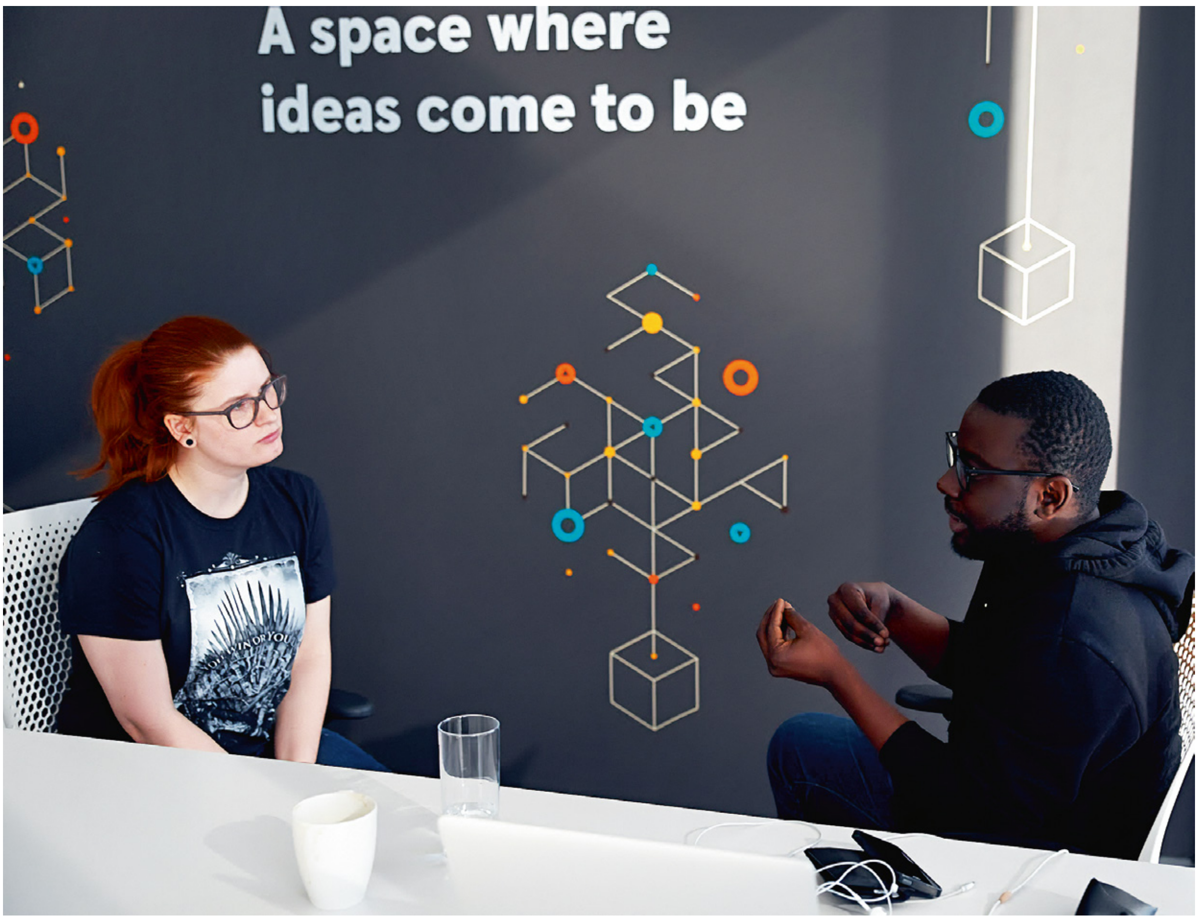
Text by Oliver Bramwell, CFA, CAMS, Chairman of the Board at *Norvik Bank*

Swedbank: Building next generation services together with FinTechs

With the launch of *Swedbank*'s Open Banking platform last autumn, which has been so far joined by over 1400 developers, *Swedbank* opened collaboration opportunities for FinTechs on a wider scale. What's more, *Swedbank's* Riga headquarters is home to DoBe, a co-creation space with one of the most spectacular views of the Old Town. Startup companies actively work on their own business ideas at *Swedbank*, giving the bank a chance to introduce innovation culture whilst supporting the startup ecosystem of the Baltics. It is also the home of *Wise Guys* Fintech— the first FinTech accelerator programme in the Baltic countries. The first accelerator programme graduated in June this year and several companies are continuing to work on collaboration and piloting ideas together with *Swedbank*. After such success in the first round, the second accelerator programme is set to begin this fall, creating a space where ambitious B2B FinTech companies can learn from leading *Swedbank* experts from all its home markets, and grow their business thanks to the extensive experience of *Startup Wise Guys* in acceleration programmes. As Open Banking continues to build momentum, there will be many more connection points between the bank and FinTech companies wanting to build next generation banking services together.

Swedbank is working together with FinTech companies to build the future of banking for its more than seven million customers in four home markets.

FINTECH



INITIATIVE

SEB bank: Financial literacy starts in schools

In 2015, *SEB bank Latvia* started its tradition of visiting schools to teach high-school students about financial literacy and smart ways of money management. Later colleagues from Lithuania and Estonia also joined the initiative. In total during this time *SEB* employees have visited 500 schools in all three Baltic countries. “Every year between 50 and 70 colleagues voluntarily take part in the initiative in each country. They gladly share their knowledge and experience with young people, offering not only theoretical knowledge but also their personal experience. Furthermore, the youngsters are very responsive as an audience—they are knowledgeable, interested and actively participate in discussions. I’m really happy when students ask me questions about how to properly save money or share their thoughts about the pension system—we see that the young generation is thinking long-term, which is a good basis for us to create a developed and prosperous country together,” says **Ieva Tetere** (*in the photo*), Chairwoman of the Board at *SEB bank*, who also visits schools and meets young students every year.

In the last three years SEB professionals have visited 500 schools in the Baltics, giving over 1000 lessons on financial literacy to more than 21 000 kids.

BlueOrange: Bank financing as a fundamental for business

BlueOrange Bank has many years of experience in lending and trade financing. Among our clients are local and international entrepreneurs who are engaged in the import and export of goods via Latvian ports. They use the ports' infrastructure and services of the logistics companies, thus increasing the amount of cargo going through Baltic seaports. At the same time, we grant loans to large-scale companies that successfully develop their production activities in Latvia. We support transport and logistics companies in Latvia, in this way helping them to compete with international enterprises and further increase domestic cargo turnover thanks to their growth, as well as promoting the export of Latvian goods, developing infrastructure and at the same time creating new jobs in the Latvian transit sector. The support offered by *BlueOrange* to sectors such as consumer goods and food manufacturing, the metal and wood industries, and transport and logistics, as well as real estate development, has facilitated the growth of both medium and large-scale businesses. In the last five years the total sum of loans granted has grown by 4.5 times and in 2018 it is planned to grant financing of up to 100 million euros. The bank is planning to keep on working in this direction, developing trade financing services and granting loans to transport and logistics companies, producers of goods and international businesses working in other sectors, which efficiently use bank financing and develop their businesses, thus adding value to Latvia's job market and economy as a whole.

A strong economy is shaped by successful businesses. Our bank's long-term objective is to facilitate this common growth.

DEVELOPMENT

Signet Bank: The future of private banking in the age of tech

RELATIONSHIPS

Private banking is much more than just finance. It is about interconnected relationships between a client and a bank driven by a mutual goal to be successful, so that the client receives financial solution exactly tailored to his or her real needs.

Roberts Idelsons, the Chairman of the Board at Signet Bank

That's why I think that in the 21st century, when technological development has changed our perception of ourselves and of the world around us to an unprecedented extent, as well as revolutionising global competition by introducing rapid-growing client service tools, personal interaction and the ability to listen closely to a client's needs will be no less valuable and crucial than the newest technology solutions.

In capital management we often face non-standard situations, and to solve them it's important not only to answer the client's questions about 'how', but also to look deeper and answer 'why', 'for what purpose' and 'whether'? In order to offer the most suitable solution for capital preservation and growth, one can't replace this exchange of information only with robots and other technological solutions. In the future there will undeniably be a specific range of products that will be based on AI. However, while technology and figures present a rational outlook, a person's decision-making process includes emotions. And if we can be available in order to support and advise on these decisions, we are ready to do so anytime, including beyond the internet or telephone zone of coverage.

Lending index in the private sector: Growth and responsible lending

At the beginning of this year the Finance Latvia Association presented its own lending index, which analyses fourteen different indicators, integrating the most significant aspects related to the banks' willingness and ability to lend, as well as borrowers' willingness and ability to take out loans. The index has observed rapid growth of lending in the private sector over the last three years. It has attested economic growth, as well as residents' ability to borrow for their needs and banks' readiness to lend. Despite this, people are still cautious: the ability to borrow in the private sector in general is higher than the desire to do so. What does this mean and how can this period of stability be used for further development?

Development of the lending sector results from supply and demand synergy with the government handling the broad set of factors in the middle. The level of lending is directly correlated to the overall state of the economy and the most important task at hand for the government, and for the Parliament of Latvia (the Saeima), is to foster its growth using the instruments at their disposal. It was this field in specific where the Finance Latvia Association took an active part in advancing important initiatives for more responsible lending.

This year the Finance Sector's Development Council established a workgroup under the umbrella of Ministry of Finance with the aim of developing, by September 1st, a range of suggestions for fostering more responsible consumer lending and reducing the extent of the informal economy. The complex of draft laws and suggestions developed and jointly submitted for consideration to the Saeima by the Ministry of Economics of Latvia in cooperation with the Association, and by the Ministry of Finance and deputies of the Saeima this year already includes measures such as significantly decreasing the interest rate ceiling for daily lending and setting 0.07% as the maximum rate allowed, and widening the scope of the Credit Register by including lenders licensed by the Consumer Rights Protection Centre, as well as imposing limitations on remote short-term lending.

In 2016 over 1.1 million cases were handed over to debt collector companies for further pursuance. Such a high number of debtors struggling to keep up with loan payments creates systematic motivation for such borrowers to look for possibilities to receive their salaries in ways that encourage the development of the informal economy. That is why the Association's suggestions on strengthening the principles of responsible lending were principally concerned with disadvantaged borrowers.

The suggestions developed by the Association mainly concern four issues. The first one is the importance of taking into account the whole scope of the loans taken out by a borrower both from financial institutions and other licensed lenders when evaluating their ability to repay a new loan. This would eliminate situations in which a person is able to simultaneously take or receive a loan from several enterprises at the time when commitments for previous loans are not yet met. At the moment, the law does not envisage a direct duty or possibilities for a lender to evaluate all other loans given to a borrower; it is left to the discretion of each lender. And so far this approach has not proved itself to be successful.

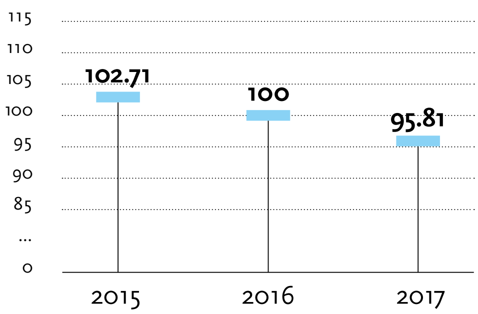
Second, it is of vital importance to decrease the barriers to information exchange between the banking sector and non-bank financial sector. At the moment lenders in these sectors are not allowed to share information about borrowers' successfully repaid loans. An information flow of this kind could be organised through a credit information bureau or a similar body within or regulated by the Bank of Latvia. The third suggestion is to make insolvency proceeding from 2000 to 5000 euros without debtor's assets being disposed of available to the disadvantaged groups. At the moment, to initiate proceedings of this kind is only possible starting from 5000 euros and involves expenses of around 1200 euros. Ways of decreasing expenses should also be discussed and anticipated.

Finally, the application of a single approach to the credit risk management tools for financial institutions and other licensed lenders is essential. At the moment all the lenders working in the private sectors are supervised and licensed by the Financial and Capital Market Commission (FCMC), and other lenders are overseen by the Consumer Rights Protection Centre. However, the Association's position is that, with regard to credit risk management, a single legal framework would be more efficient. Such an approach would exclude the application of arbitration courts in the sphere of consumer rights protection and is a good example of preventing the fragmentation of market regulation.

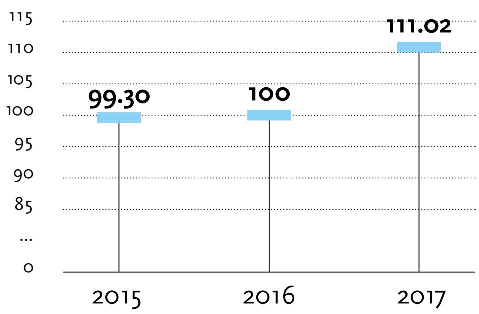
Kārlis Danēvičs,
Co-chair of the Finance Latvia Association Lending Committee,
Member of the Board at *SEB bank*

Lending in the private sector showed stable growth: it outpaced last year's index figures, marking a 4 percentage point improvement—the sharpest increase in the last 3 years. When compared with 2016, results in 2017 show a steeper increase in people's ability to borrow (+8%). However, willingness to borrow has not grown as fast (+2%). In a country where pessimism prevails, nobody is willing to take on additional debt and invest. This leads to an economy with limited development. If the mood is too optimistic, it can lead to the economy overheating. So, lending is like a balance wheel—it can quickly pull the economy up or just as quickly pull it down. To keep society's mood in a state of cautious optimism is a huge challenge that the government and banks need to address. Today Latvia is on the right path, no shocks are anticipated.

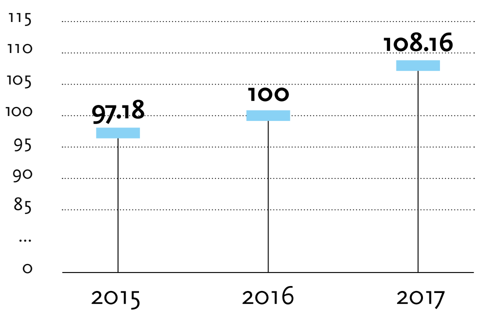
1 Banks' ability to lend (intermediate index)



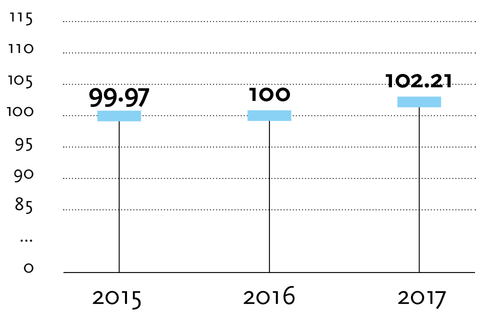
2 Banks' willingness to lend (intermediate index)



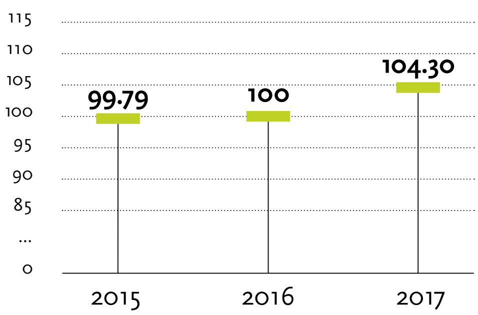
3 People's ability to borrow (intermediate index)



4 People's willingness to borrow (intermediate index)



5 Lending in the private sector (resulting index)*



More initiatives are expected to follow on the topic from governmental bodies and deputies. It is now clearly understood that in order to ensure the development of a long-term lending environment, further improvements are needed both concerning the process of loan granting and the whole life of the loan until its full repayment. ●

* The Lending index is a unique and complex measure used in the private lending sector. It measures both the willingness and the ability to borrow of Latvian customers, as well as the willingness and ability of banks to lend. Fourteen different measurements are taken into account, including delays in payment, changes in the unemployment level, proportional share of the informal economy, financial data from the banking sector, consumer sentiment, etc., thus providing a complete picture of lending—the propelling force of the economy. The Lending index has been developed in cooperation with leading Latvian lending and economic experts by analysing world best practice.

2018

What's up

January 10
Pan Baltic event "A Nordic vision of the financial industry"

The Finance Latvia Association, the Association of Lithuanian Banks and the Estonian Banking Association, organised a Baltic-level event in Stockholm, Sweden with more than 40 participants to share experience of FinTech implementation.

January 26
Discussion on the future regulation of remote electronic identification and onboarding

The Association, in collaboration with *Cobalt Latvia*, the University of Latvia and *Microsoft* Innovation Centre, organised an expert discussion to showcase the digital onboarding solutions that are already in use by financial sector players in some EU countries, and discuss what it takes to achieve compliance with the global AML/CFT standards.

February 1
Lending index presented by Finance Latvia Association

Presentation of the latest results of the Lending index—the first all-encompassing measure of the interaction between lending growth trends and Latvia's economic situation.

February 2
Approval of Guidelines for implementation of the GDPR

The Guidelines were developed by the Association's GDPR working group, in cooperation with its Legal, Compliance and Internal Audit committees.

March 9
Approval of proposals for several legislative amendments

Working towards effective self-regulation for the industry, the Finance Latvia Association Council approved the policy and guidelines on anti-money laundering, counter-terrorist financing and sanctions compliance.

March 23
An international discussion "The future of Financial Technology in the Baltics and the EU" with the participation of Valdis Dombrovskis

The discussion on the European Commission's initiatives on FinTech was organised by the three Baltic banking associations.

March 26
Seminar about daily digital processes in banks, financial technologies and innovations

The seminar was targeted at the employees of the Ministry of Justice to acquaint them with the digital reality in the banking sector.

April 4
Decision to set up an Advisory Group for Managing Change in the Financial Sector of Latvia, and Coordinated Communication

During the meeting with the Association and heads of the largest banking groups, the Prime Minister of Latvia, Māris Kučinskis agreed to the establishment of the Advisory Group for Managing Change in the Financial Sector of Latvia.

April 10
Forum "Pension savings: Trends and challenges"

A discussion with the participation of representatives from governmental bodies, the banking and insurance sectors, and the Association about the structure of pension savings, as well as upcoming challenges and ways to solve them.

April 19
Financial literacy day for the winners of the panel game "European Money Quiz" from Ogre

The European Banking Federation initiative for schoolchildren, organised in cooperation with banking associations in 30 countries with the aim of promoting financial literacy among young people. On the day, the top three achievers enjoyed a day-long programme of financial literacy at *SEB* finance centre in Valdlauči.

April 26
Signing the "Memorandum of Cooperation for the development of Global Business Service Centres"

The Ministry of Economics of the Republic of Latvia, Riga City Council and the Investment and Development Agency of Latvia; and the National Alliance of Real Estate Developers, the Finance Latvia Association and the Foreign Investors' Council in Latvia, sign a Memorandum of Cooperation and commit to the action plan for further development of Global Business Service Centres in Latvia.

April 26
Workshop: Cooperation between entrepreneurs and banks

A meeting of more than 60 Latvian entrepreneurs was organised by the Association in cooperation with the Employers' Confederation of Latvia and the Latvian Chamber of Commerce and Industry.

May 17

Accepting ten new associated members

Ten new associated members joined the Association. It is declared it now also welcomes FinTechs and companies in related industries to join the organisation.

June 14–15

Riga Compliance Forum

The Association cooperated with experts from *Temple Grange Partners* and *Consortix* in hosting an event to ensure the implementation of the highest AML/CFT compliance standards, and of the OFAC sanctions in particular.

August 9

Workshop "Blockchain in the financial industry — future perspectives in EU and Baltics"

The Association together with the EC Representation in Latvia and *Eversheds Sutherland Bitāns Law Office* organised a discussion amongst policymakers and experienced practitioners on the future of blockchain in the financial industry from the EU and Baltic perspective (over 80 attendees). The regulation "Procedure and scope of remote identification performed by a subject of the Law on the Prevention of Money Laundering and Terrorism Financing" which came into force on July 6th was also introduced during this Baltic-level event.

What's next

September 11–13

Services and Outsourcing Week 2018 (*Vilnius*)

The autumn edition of Europe's number one shared services and outsourcing event. Offering a rich programme and over 70 inspirational speakers talking on digital transformation, data analytics, retention and millennial engagement, among other topics.

September 26–27

Digital Finance Europe and European Banking Summit 2018 (*Brussels*)

The European Banking Federation (EBF) and B-Hive present this event with speakers from EU institutions, regulators, financial professionals and innovators who will discuss the latest transformation of finance, AI, FinTech collaboration and regulatory impact. "Financing Growth" is the theme for the summit. The key focus will be the role of banks in financing the economy, as well as the challenges and opportunities for Europe in the coming years.

October

Professional courses at RTU Riga Business School

The Certified Anti-Money-Laundering Specialist's (CAMS) course (6 weeks), The Chartered Institute for Securities & Investment's (CISI) courses "Fundamentals of Financial Services" (7 weeks) and "International Introduction to Investment" (8 weeks) at RTU Riga Business School.

October 17

The EBF Cybersecurity Conference (*Brussels*)

In the context of an interest in cybersecurity by regulators, policymaking bodies and the broader public, and given the sensitivity of the financial services sector, the EBF Cybersecurity Conference aims to facilitate dialogue between the involved parties and exchange of expertise on the challenges faced by banks.

October–November

ACAMS Baltic Chapter event (*Riga*)

An international-level event focusing on public-private, public-public and private-private partnerships in fighting financial crime.

November 28–29

Conference on Investment, Technological Transformation and Skills (*Luxembourg*)

This high-level event, co-organised by the European Investment Bank and European Central Bank with the cooperation of the Massachusetts Institute of Technology, Columbia University and the European Monetary and Finance Forum will provide a platform for leading academics, policy-makers and practitioners to share their views and knowledge of investment finance and competitiveness.

November 30–December 1

Digital Freedom Festival (*Riga*)

At the Digital Freedom Festival, to which the Association is contributing as a content partner, around a thousand participants will discuss the latest trends in tech, their impact on startups and corporations, on policymaking and modern lifestyles.

The song must go on

Photo: *Swedbank* media archive

This year, when Latvia celebrates its 100th birthday, Swedbank introduced the app DzieDot designed to ensure that the singing will go on for generations to come. Now everyone can learn to sing and practise popular Latvian folk songs in chorus, while the app will select a section based on the singer's voice and play supporting voices for a more confident performance. And, yes, now everyone can make a stylish music video too!

In the photo young sportsmen from the *Mītava* rugby club master singing using the voice game app DzieDot.

Find in this issue: