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Reinventing industry: **The most important transformation of the sector since the financial crisis** *4*

Finance in Latvia
Issue №2, August 2019

The annual magazine of
the Finance Latvia Association

Finance Latvia Association is an open-minded, Europe-facing, non-for-profit organization aimed at becoming a platform for cooperation and the broad and consolidated representation of finance, technology and related industries in Latvia, the Baltics, and Europe. Our vision — the Latvian financial industry pursues broad partnerships and is a leader in innovation throughout Europe.

Doma laukums 8A-6,
Riga, LV-1050, Latvia

+371 6728 4528
info@financelatvia.eu

Edited by *Copywriter* (writer.lv)
Designed by Alexey Murashko

Building a future with sustainability in mind

After turbulence in the industry last year and accelerated work on satisfying the highest compliance criteria, we are well prepared for any future challenges. Whatever we do, we have to have long-term sustainability in mind — for the good of both our business and society. Focusing solely on profits, optimization and stock price is not enough for the industry. It is also crucial to be a good employer, to take care of our environment and help businesses in other areas to transition to more sustainable strategies too. Nowadays environmental, social and governance metrics are widely used to evaluate any organization's sustainability practices.

Ieva Tetere, Chairwoman of the Finance Latvia Association Council and CEO at SEB Latvia

To ensure implementation of the sustainable finance approaches, the Finance Latvia Association has decided to endorse the UN Environment Programme—Finance Initiative's (UNEP FI) Principles for Responsible Banking. The principles provide the much-needed framework for the sustainable finance system of the future and enable the finance industry to demonstrate how it makes a positive contribution to society. The Association promotes the Principles of Responsible Banking within its network, is active in public consultations and will set up an Expert Group to advance the work on the Sustainable Finance agenda.

There are quite a few challenges facing us on a global level — Brexit, the trade conflict between the US and China, the continuous work on perfecting compliance practices, the race for applying new technologies. However these global processes are going to influence the Latvian economy — we can look to the future with optimism. Although there are many things that we cannot influence, we can work hard on bringing about a positive change in matters that are in our control. For example, we can help make Latvia's companies become more efficient, resilient and secure against outside shocks. There are multiple processes that we can automate and digitalize, which is definitely crucial for us in the financial sector as well as for related industries. By balancing all such factors, we will still be able to foster economic growth, despite the signs of a cooling economy this year.

Sustainability becomes a vital criterion. Companies' stock price will depend on the sustainability criteria of their portfolio — what type of companies they give credits to. Sustainability will influence how investors will see us. And the bottom line for all of us is disclosure and transparency. Financial institutions in Latvia are paying more and more attention to the corporate governance aspects of their clients when financing their development.

During a conference under the theme "How does a company's governance influence its financing?", organised in January this year by the Finance Latvia Association and the Baltic Institute of Corporate Governance, it was stated that banks evaluate not only a company's finances and business plan but also pay a lot of attention to aspects of corporate governance. These include the owners, along with the company's experience, reputation and the professionalism of its management. Financial institutions also evaluate whether there are clear decision-making and risk management mechanisms in place and what are the relationships with the partners, how transparent is the company's business and what is the quality of the information that it provides. The whole financial industry in Latvia has significantly stepped up its control and compliance functions, investing a lot in development and in the education of their employees, making improvements in the system. However, this doesn't mean that we should stop at what we have already achieved. One country cannot achieve excellent results without the group effort of the whole region. Europe has to be united, all of us have to look at the issues at hand together, making it a common achievement based on the same definitions, the same tools and the same requirements. ●

Sanctions compliance, coming to a company near you

Uldis Upenieks, Co-chair of the Finance Latvia Compliance and Control Committee and Chief Compliance Officer at *Citadele*:

"Neither direct nor indirect breaching of sanctions is acceptable, and banks will refuse to execute a transaction if there is space left for doubt."

Jānis Lielpēteris, Deputy Director of Policy department of Latvian Chamber of Commerce and Industry:

"A while ago, the discussion on the topic was mostly related to specific restrictions; now, many companies have used it as a push towards seeking new markets, and they have actually increased their profits as a result."

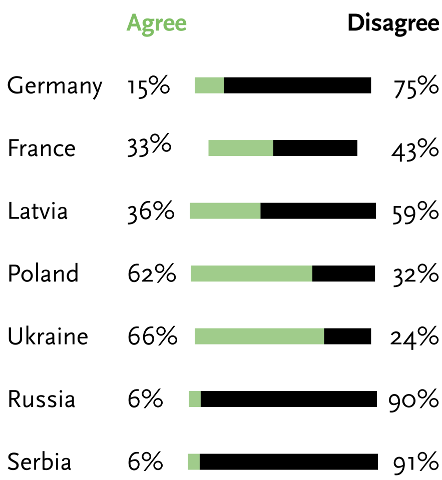
Understanding international sanctions may feel like walking on shifting sands, especially if you're not a big international bank but a medium-sized service or manufacturing company. As sanctions move closer to Latvia, companies face new compliance challenges. Foreign policy should be built on certain values, not just self-interest — European citizens largely agree with this thesis according to the "Security Radar 2019" report published by the Friedrich-Ebert-Stiftung (FES) think-tank. Yet their attitudes towards particular sanctions vary greatly. Besides the Russians themselves, Latvians, Serbs and Germans are the most sceptical about widening sanctions against Russia, compared to the other surveyed nations of France, Poland and Ukraine.

Sanctions come closer

This can be explained by traditionally close economic ties between Latvia and Russia, especially in transportation, natural resources, manufacturing and other industries. Conditions of business cooperation with Russia changed dramatically in 2014, as international sanctions were introduced after the annexation of Crimea. These sanctions have had considerably more effect on Latvian companies than previous measures that were aimed at remote countries (both geographically and in a business sense) such as North Korea, African dictatorship states and the like. Companies working in transit business and exports — the ones most exposed to requirements of sanctions compliance — are generally well aware of their risks and regularly consult specialists of the Ministry of Foreign Affairs (MFA), says Elīza Grīsle, sanctions expert of the Legal department at Latvia's MFA. "While two years ago we received just a couple of sanctions-related questions a month, now it happens almost every day," she says. Most often, business people want to know if their particular kind of trading goods are forbidden for import or if a particular service they provide could be illegal under any of the current sanction regimes. Most of the questions concern business conducted with Russia; however, companies are interested in trading with several African and Middle Eastern countries, and even with North Korea. The latter is under such a strict sanctions regime that virtually no corporate ties are legally possible, explains Elīza Grīsle, with delivery of humanitarian goods being the only exception. She notes that "the North Korean regime is actively looking for ways to avoid sanctions by using agents and complex transaction schemes, which means that companies need to be extremely careful".

At present, there are three main sources of sanctions binding on Latvia: sanctions imposed by the UN, the EU and the US. The latest addition to the list are the sanctions imposed by the US Office of Foreign Assets Control (OFAC). Since 2018, the MFA has laid out an extensive campaign to inform Latvian business owners about compliance issues. Amendments to the Law

Sanctions against Russia should be widened



Source: "Security Radar 2019", Friedrich-Ebert-Stiftung

Juris Bogdanovs, Co-chair of the Finance Latvia Compliance and Control Committee and member of the Management Board at *Swedbank*:

"Banks have more experience with international sanctions compliance, that is why business owners often choose to consult them."

Elīza Grīsle, Sanctions expert of the Legal department of the Ministry of Foreign Affairs of the Republic of Latvia:

"Two years ago, we received just a couple of sanctions-related questions a month, now it happens almost every day."

on International Sanctions and National Sanctions require certain companies to introduce internal control systems of compliance, as well as imposing impressive fines and forever changing the practical lives of such organizations. Previously, companies (especially small and middle-sized ones) experienced sanctions indirectly, explains Juris Bogdanovs, Co-chair of the Finance Latvia Association Compliance and Control Committee, and the head of Risk Management Latvia and member of the Management Board of *Swedbank*. "They faced the risk of not getting paid for their goods if they were delivered to a person or a company under sanctions, because banks wouldn't execute such a transaction. Now they are directly responsible for sanctions compliance themselves."

Enforcers and educators

While compliance with sanctions is the job of every company, banks—with more experience and resources at hand—have been at the forefront of both setting compliance standards and explanatory work as well. "Banks have more experience with international sanctions compliance, that is why business owners often choose to consult them," says Bogdanovs. "Yet reliance on banks for these subjects is not a workable solution, since banks are not able to advise and consult with each and every customer," he continues. His advice for companies is to go to the respective institutions that are directly responsible for ensuring sanctions compliance. Meanwhile, the MFA has especially created a dedicated section on its official webpage, aimed at gathering all necessary information in one place.

All experts agree—availability of information is the key. "The amount of data gathered and processed about business partners in sanctioned countries has increased dramatically," says Uldis Upenieks, Co-chair of the Finance Latvia Compliance and Control Committee, and chief Compliance Officer and member of the Management Board at *Citadele*. "Neither direct nor indirect breaching of sanctions is acceptable, and banks will refuse to execute a transaction if there is space left for doubt," he stresses. "So much more effort needs to be put into understanding one's business partner and all their supply chains; this is not something to be taken half-heartedly. Previously, as long as the money was flowing, the business partners were considered good enough—this has totally changed now."

Compliance as an investment

Small and medium-sized companies are in the greatest need of clear and simple guidelines, says Upenieks. The Finance Latvia Association, the MFA, the Latvian Chamber of Commerce and Industry (LCCI) and other organisations spent most of 2018 explaining the changes and procedures to business people across Latvia.

"The attitude towards international sanctions among business people has shifted significantly," explains LCCI's Jānis Lielpēteris. "A while ago, the discussion on the topic was mostly related to specific restrictions; now, many companies have used it as a push towards seeking new markets, and they have actually increased their profits as a result." A deeper integration into Western European markets and the general widening of Latvian companies' horizons is therefore one of the unanticipated consequences of the sanctions against Russia, says Lielpēteris.

From the banks' point of view, introducing strict and detailed procedures for risk management can also be regarded as an investment in the future, Bogdanovs and Upenieks believe. Due to Latvia's geopolitical position, our banks were historically more exposed to risks and therefore had to initially make greater investments in compliance than many of their Western counterparts, but it will pay off in the long run, experts explain. Investments in the transparency of supply chains may not bring immediate profit, but they contribute to the stability and sustainabilty of a company and industry as a whole. The ever-widening availability of transparency-related IT instruments facilitates this process and makes it accessible not only to big and tech-savvy companies, but small and medium enterprises as well—we dive into this subject in this issue's Talking Future discussion. ●

TRANSFORMERS

Geographical proximity to Russia and the CIS countries, proficient knowledge of Russian and low operational costs — these were the main drivers of transaction-oriented, non-resident banking business in Latvia. Despite the industry's efforts to reach the highest AML/CFT standards over the last number of years, it was a chain of events which triggered the most important transformation of the Latvian banking sector since the financial crisis: banks had to reinvent themselves to survive in the new reality.

Guntis Beļavskis, member of the Finance Latvia Association Council and Chairman of the Board at *Citadele*, in an introduction to the Policy Guidance and Guidelines on AML/CFT, and Enforcement of Sanctions:

Substantial engagement in the fight against financial crime, detailed knowledge of the commercial activities of clients and cooperation with law enforcement is already common practice in our industry. Through our daily work, we are at the forefront of sound risk management and the application of increased compliance standards in line with the common principles outlined in the Government-approved Financial Sector Development Plan of Latvia.

Significant progress has been achieved since 2016 in the implementation of adequate compliance standards, ensuring that the Latvian financial system cannot in future be used for criminal purposes. We have committed to reaching the highest AML/CFT compliance standards among member financial institutions within the next two to three years.

Earning on international transactions The local financial industry and state institutions to this day continue to face enormous issues associated with risk mitigation, which are largely traceable back to 2015, when excessive risk appetite was inherent to the whole sector. In the beginning of 2018, the world was shocked to learn that 1% of all international US dollar transactions were processed in just one small country—Latvia. Accusations from the US of "institutionalised money laundering" along with the violation of international sanctions, and its subsequent decision to cut Latvia's third largest bank at the time—ABLV—from dollar transactions, led to the bank's forced liquidation in February 2018. Both Latvian and European authorities were left with much auditing and soul-searching. Scandals all over Europe involving *Danske Bank* in Estonia, *Swedbank*, Austria's *Raiffeisen Bank International*, Dutch bank ING and others heated the debate even further.

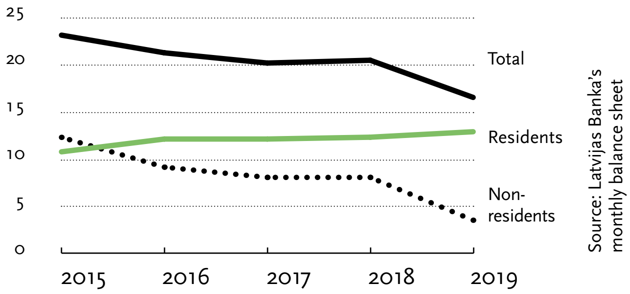
The resulting push towards risk minimisation in servicing non-European customers changed the Latvian banking landscape completely. The large number of East to West handling transactions developed in Latvia in the '90s due to its bankers' proficiency in the Russian language, and their competent knowledge not just of Russian business culture but also, as experts admit, the local Russian culture of banking secrecy as well. Historically, this has been the only way smaller local banks could compete with large western (mainly Scandinavian) banking institutions, says Viktors Bolbats, Co-chair of the Finance Latvia Association Strategic Development Committee and Chairman of the Board of *Baltic International Bank* (BIB). It became a substantial part of the local Latvian banking industry but has now almost disappeared in the course of just two years.

A short history of shrinking business Signs that non-resident banking business was approaching its end appeared as early as 2013, when stricter anti-money laundering rules came into force in the EU. In 2014, Russia annexed Crimea, triggering a change of attitude towards Russian money across the EU. Yet in Latvia, non-resident transactions and deposits were still a booming segment of the banking industry. At their peak in the last three months of 2015, non-resident customers transferred abroad, through Latvian banks, more than €35 billion. Most of the transactions were executed in US dollars, which is why any actions on the part of the US authorities have been such decisive factors in forcing a transformation. Latvia had been under intense criticism for its risky non-resident banking business for decades (especially during its accession to the OECD), and action was finally taken. The Finance Latvia Association and its members have analysed the case and acknowledged the seriousness of the situation stemming from such immoderate risk appetite. From 2016 onwards, banks gradually shed their high-risk clients, especially those working through shell companies. About 30,000 clients were refused service by their Latvian banks by the summer of 2017. It was evaluated that the whole adoptation process would take about a year and a half more.

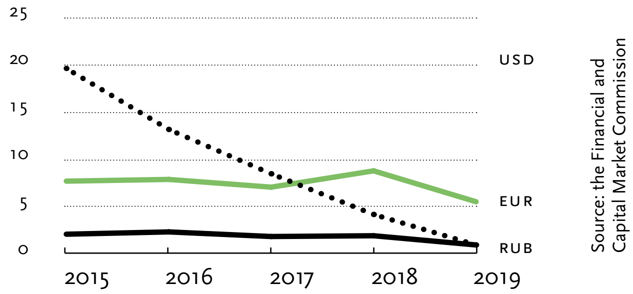
In October 2017, the Finance Latvia developed industry guidelines that set out the minimal standards for banks with respect to the risk evaluation of client jurisdictions (at that point, the association's members used individual standards for customer evaluations). Additionally, the high-level AML/CFT workshop "Building a Culture of Compliance and Effective Public-Private Partnerships to Prevent Financial Crime", organized by the Finance Latvia Association and the Baltics Chapter of ACAMS, in partnership with *Microsoft Baltics* and *Citadele*, took place on November 8th, 2017 in Riga. The most important topics were discussed in the context of AML/CFT compliance. However, despite all these efforts, the decisive blow came in February 2018 in the form of a report by the Financial Crimes Enforcement Network (FinCEN) about an alleged breach of international sanctions against North Korea by ABLV bank. From there on, events unfolded quickly. By the end of the month, ABLV had started a liquidation procedure—one that is ongoing and likely to take years. And the process of risk minimisation by all industry participants was finished by the end of June 2018, one whole year earlier than planned.

Rules and punishment At the same time, a government level political process started in both the EU and Latvia. European regulators responded with a wide range of AML reforms. These mostly focused on improving cooperation between

1 Deposits in Latvian banks (in € billions)



2 Transactions of non-residents via Latvian banks (in € billions)



national intelligence agencies (now, each EU member state is obliged to respond in three days to information requests from another member state about suspicious transactions) and on easing the access of international law enforcement agencies to national registers. A proposal to take AML supervision away from national governments and gather it under one EU-wide roof also emerged in the process. Yet it is still not clear whether this idea will move forward and who, in this case, would be responsible for such an agency. Currently, the Single Supervisory Mechanism of the ECB is as close as it gets to a single agency, yet it only scrutinises a bank's governance and the sustainability of their business models, leaving the supervision of AML operations to national authorities. Danièle Nouy, the EU's top financial regulator, has advocated strongly for creating a single body, while Valdis Dombrovskis, the EC's vice-president, sees the problem as residing in the lack of practical enforcement, rather than the lack of centralised rules or authorities.

In 2018, Moneyval, the Council of Europe's expert group on AML matters, produced a rather critical progress report that laid out recommendations for higher efficiency and new regulation in Latvia. In September 2018, the Finance Latvia Association came up with the following proposals for further strengthening the EU wide AML/CFT framework with the European Parliament's TAX3 Committee: **(1)** Adopt EU AML Regulations and replace the Anti Money Laundering Directives (AMLDs), to ensure uniform rules across the EU. **(2)** Oblige the National Commercial and/or Company Registration authorities to verify the true identity of an Ultimate Beneficial Owner (UBO) at registration and upon the occurrence of any changes, thereby preventing the use of EU-registered companies in multilayered structures for illicit purposes. Full public access to UBO information should be mandatory. **(3)** Setup an EU Financial Intelligence Unit (FIU) with uniform suspicious activity reporting requirements, and information access rights across the EU and obliged AML entities. **(4)** Adopt an EU-wide set of criteria to restrict service provision by financial intermediaries to shell companies.

Restoring the international reputation of and trust in the Latvian financial system was included in the declaration of the incoming Krišjānis Kariņš' government, assembled more than three and a half months after the parliamentary elections. The plan included a bigger budget for supervisory authorities, stricter requirements for Know Your Customer (KYC) procedures for banks and a total ban on servicing shell companies that have no real business interest in Latvia. "Latvia's new AML standards are set remarkably high," says Līga Kļaviņa, Deputy State Secretary on Financial Policy Issues at the Ministry of Finance. She explains that the tightening of regulations is acting in concert together with internal pressure and self-regulation from the industry itself, which has resulted in a change of customer base and business models in several Latvian banks.

Communicating change By September 2018, the share of non-resident deposits in Latvia dropped to 20% and was composed of just €3.4 billion—a staggering change from 2015, when they made up more than 53% and €12.4 billion. The transaction business shrunk even more—from more than €28 billion in the last quarter of 2015 to a mere circa €6 billion in the first quarter of 2019, as reported by the Financial and Capital Market Commission of the Republic of Latvia.

In his opening speech to the high-level KYC workshop organized in 2018 by the Finance Latvia Association and the ACAMS Baltics Chapter in partnership with Microsoft Baltics and Citadele, Dmitrijs Trofimovs, State Secretary of the Ministry of Interior, said: "We have a very clear understanding of the importance of building very strong and resistant financial and supervision systems, based on an effective cooperation model between the state and private sectors. (...) We have a very high level of commitment to achieving all the goals that we have agreed upon together."

Photo: Natālija Petruhina

"If I were Moneyval, I would be very proud of what Latvia has accomplished in the past year. I would also be proud of what Latvia has done over the past five years, but I would admonish us for certain things moving too slowly. But Latvia has to be able to 'sell' what it has done over the course of a year," Guntis Beļavskis, member of the Finance Latvia Association Council and Chairman of the Board at *Citadele* said in an interview with the LETA news agency in February 2019. Many in the industry agree, stressing that much depends on the ability of local authorities to explain changes in the Latvian banking industry on an international level.

Where next? "Currently, we are in a situation where we need to switch from our specialisation in service of providing payments to private banking services — the management of client assets. This means that payments will only be a fraction of the whole range of banking services that are offered to a client," Jānis Brazovskis, a member of the Management Board said soon after the FinCEN report. It turns out that banks have taken this path rather enthusiastically. The changes, as the cases of *Baltic International Bank* and *BlueOrange* bank demonstrate, have been about closing enormous numbers of accounts that belonged to non-resident customers on the one hand, and finding new customers for the investment and lending sectors on the other. "The pressure has brought not just new challenges but also a growing ambition to prove how high value-added services are just as possible in a boutique privately-owned Latvian bank as they are in old and well-established western banks," says Viktors Bolbats, Co-chair of the Finance Latvia Association Strategic Development Committee and chairman of the Board of BIB. Not only was the bank's customer base and its income structure transformed, but its team as well. "We are hiring people with truly exclusive experience now," says Bolbats. "In the next five to ten years, we are willing to prove we can be niche, sustainable and profitable at the same time," he adds.

Speaking of robots Yet the focus on transparency in Europe is driven not just by geopolitical considerations, but by the ever-lingering impact of the 2008 financial crisis as well. The need to restore investor trust in the financial system (and the euro) has motivated the adoption of the second iteration of the European Markets in Financial Instruments Directive, better known as Mifid II. The most ambitious and all-encompassing piece of financial regulation ever rolled out in Europe, it reaches out to the most previously opaque corners of the financial system, such as derivatives and bonds. The new regulation that came into force in the very beginning of 2018 is binding not just to banks and large institutional investors, but also to exchanges, brokers, hedge funds and other traders. The Directive aims at achieving transparency within internal procedures vis-à-vis investment decisions. It requires firms to disclose their broker-selection procedures as well as to demonstrate the effectiveness of their policies for customers. That is an unprecedented requirement that could transform the banks' 'we-do-the-magic/you-get-your-interest' culture. Unlike any previous legislation, it also addresses the use of algorithms in investing and trading. However, the impact of Mifid II on industry practices is yet to be measured. Meanwhile, let's have a look at the transformation of the business models of two Latvian banks: *Baltic International Bank* and *BlueOrange* bank, in their own words. ●

Global citizens are welcome. Baltic International Bank

In 2016, in response to geopolitical transformations, the shareholders and council of *Baltic International Bank* adopted a series of decisions that completely shifted the bank's priorities, business and prospects for further development, paving a way to a new type of customer.

Viktors Bolbats, Co-chair of the Finance Latvia Association Strategic Development Committee and Chairman of the Board at *Baltic International Bank*

Our new typical customer is an ambitious individual that has already achieved wealth by successfully realizing their business idea or is currently developing their own enterprise. Our approach and tools allow us to actively manage and service clients all over the EEA and EU, but we, of course, are equally relevant and available to our Latvian clients—this is the market where we can also easily get customer feedback and pilot our services more quickly.

Transactions losing steam In response to market demand at the time, in the years preceding these decisions, our previous customer base and other aspects of our business model relied on transfers, servicing trade companies and processing high-volume transactions. This way of doing business was characteristic of nearly every bank in Latvia, which provided services to foreign clients. Many Latvian banks had adopted this approach as our country became part of the global financial system, and we were able to offer customers a quality of service of private banking comparable to that of any western bank, in a language they could understand, at a more attractive price. So, many banks in Latvia expanded their transaction businesses by working with Russia and CIS states. However, the changing geopolitical and domestic political landscapes, as well as a growing risk awareness in the system, made the banking sector understand that high-volume transactions alone could not be a sustainable business model going forward. Back in 2016, *Baltic International Bank* was one of the first in the sector to decide on a business model change.

Investments take centre stage Change of the bank's business model included the deliberate contraction of the transactions business, substituting it with services in asset management and investment as well as implementation of new risk-based approach in target customer areas. Up to this point in 2016, a large proportion of our bank's income came from payments and transactions fees; since late 2016 by 2018, we had observed a major change—servicing, brokerage and asset management fees already made up the major part of our commissions income. We continue to offer daily banking services to clients, but focus has shifted. We believe our new investment banking model will help achieve sustainability.

Services for global citizens Fighting for new markets is challenging and ambitious but change has also brought undeniable positive effects—it helped us revise and adjust our customer base to bring it in line with the bank's strategy. Under our old business model, the bank's target audience was based in the CIS countries. In 2016, we introduced dynamic changes to our client portfolio by rejecting certain customers after diligent analysis and began to actively engage with clients in the EU and the EEA. Most of the new customers we have attracted in the past twelve months come from our new target markets: Latvia, the Baltics, and the EEA.

Meetings move online Along with the model transition, *Baltic International Bank* needed to introduce changes to bank governance and structuring. We recruited people with a progressive fresh vision, skills and knowledge in good governance and responsible banking in general. We also made staffing changes to our executive employees—managers and specialists. We made our meetings more effective and more work is now done online. We rely more on our intranet to communicate ongoing changes as well. The content of our communication has also changed. We speak more openly, fairly and transparently about the bank, about our future development. Of course, our work goes on—completely implementing the bank's business model will take another one to two years. At least another twelve months will be necessary for us to see how our changes have improved our governance model, and how it generates the profit that we expect. ●

From international transactions to local loans. BlueOrange Bank

The Latvian financial industry has historically faced a very unusual situation in the global context: for decades, the Baltic market has been dominated by the capital of western banking institutions while locally-funded banks had limited opportunities for domestic development.

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

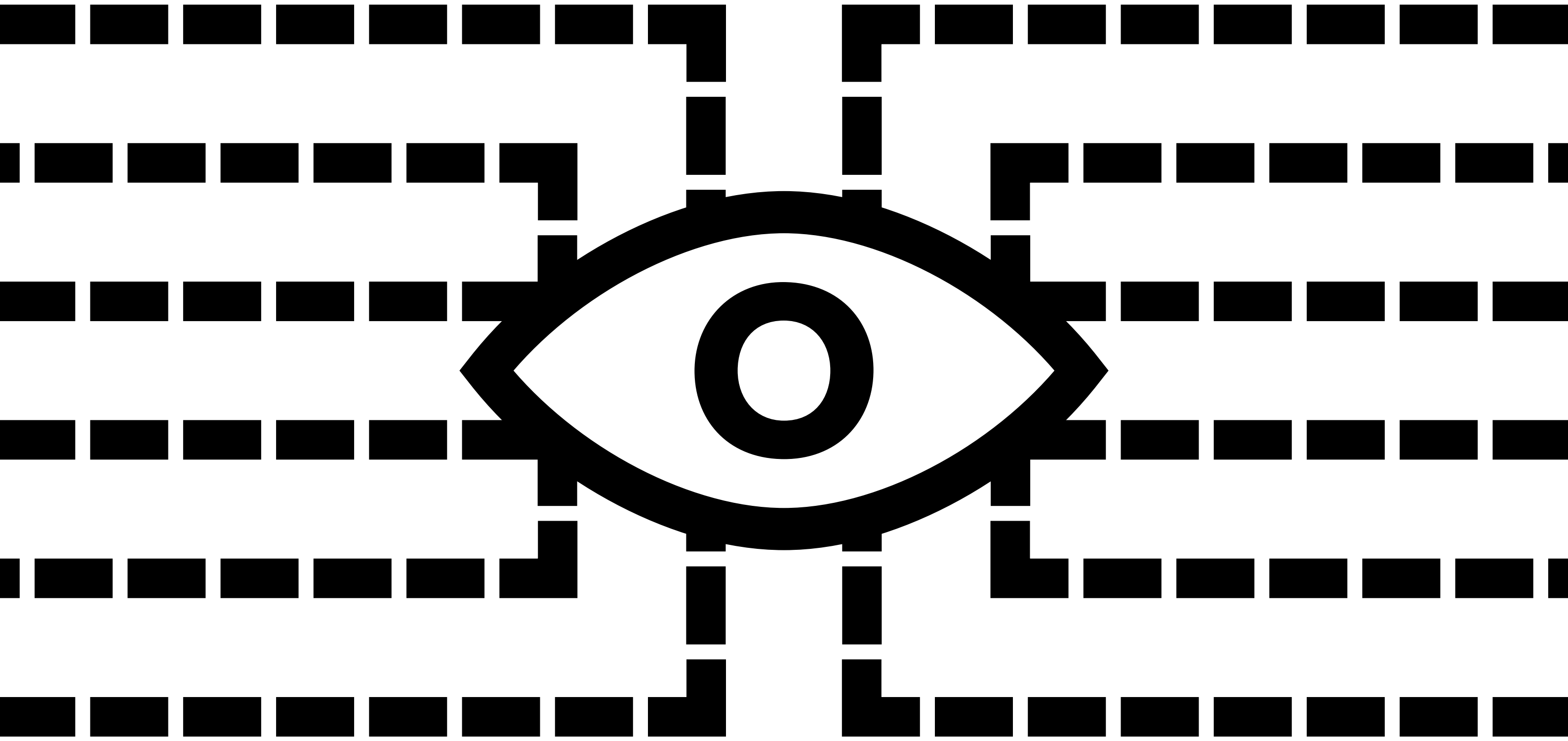
In January 2017, the bank also launched a new corporate identity, with a new name and logo to boost our recognition on the international market. But our rebranding effort was not merely an external process—it was just the tip of the iceberg and the hallmark of far-reaching internal changes in strategy, decision-making and governance.

In search of new approaches Our specific history and geography enabled smaller private banks to grow their capital in the 1990s by servicing clients from neighbouring eastern countries. This dual model of banking existed and developed for decades. For a small country, this is quite a unique situation, so no guidelines exist from elsewhere in the world that could be drawn on in cases of major change. 2018 marked a new era for the Latvian banking sector. Previous ways of doing business with foreign clients no longer functioned, setting-off a race for the search of viable alternatives. *BlueOrange* began its transition to a new business model in 2016. The fast pace of globalisation, stronger efforts to combat financial crime and new international requirements clearly pointed to the need to change and develop our banking approach, while at the same time mitigating financial business risks.

Rebranding from the inside The bank's shift to the new business model marks cardinal changes across every segment. We have a completely different market geographically with a different customer structure, a new selection of products and services on offer and a different income-generation structure. New technologies enabled us to lay the groundwork for new services, expanding our Western European customer segment. At the same time, the bank gradually refused to service clients from high-risk countries.

Minus 50%, then +10,000 The events that unfolded in Latvia's financial market in 2018 accelerated the ongoing transformation of the *BlueOrange* model. During a mere four months, the bank closed more than 4,000 accounts of customers from eastern countries. This meant letting go of €300 million, or 50% of its deposit base. Finding new opportunities when doors were closing swiftly was a massive challenge. We established a new resource base in record time, discovering alternative solutions for a substantial balance sheet contraction: most of the departing deposits were replaced by attracting term deposits from private individuals in the Baltics and western countries. This enabled us to more quickly develop opportunities for attracting private deposits from the residents of European countries. In turn, the incoming capital allowed us to expand our lending business and transform our income structure. In the summer of 2018, we finalised the process of terminating our services to customers in high-risk countries. The numbers of Latvian, Baltic and European customers have risen substantially, reaching 90% of our client base. Over 10,000 companies and private individuals became *BlueOrange* customers in 2018 alone. We also enhanced our internal controls and risk monitoring systems, last year investing €600,000 in automated IT solutions.

Expanding loans business The bank's development priority for 2018 was the servicing and lending to companies and individuals in Latvia, which drove the growth of lending for BlueOrange: the credit portfolio and lending commitments at the end of the year totalled €264 million, which is a 20% year-on-year increase. 73% of the loans issued are aimed at supporting small and medium-sized companies, promoting the growth of local businesses, manufacturing and exports, along with Latvia's national economy in general. In 2019 *BlueOrange* continues the programme supporting small and medium-sized businesses. ●



JUST DO IT

Will new IT solutions take up AML work from humans? What can governments learn from car manufacturers of the 1970s? Will data from social networks become a substitute for customer questionnaires? What has public trust to do with data quality? Three experts from the private and public sectors discuss the current and future challenges for the use of technology in ensuring financial transparency.

**Kārlis Danēvičs,
Co-chair of the Finance Latvia Association Lending Committee and Head of Credit and Risk at SEB**

**Sandijs Vectēvs,
Deputy Head of Financial Intelligence Unit of Latvia and member of the Board of the Association of Certified Anti-Money Laundering Specialists (ACAMS) Baltics Chapter**

**Laima Letiņa,
Expert at Ministry of Justice and Register of Enterprises of Latvia**

We need to start digging

Kārlis Danēvičs The way technology usually works is this: humanity has some problem and a solution is found over time. But today, at least with some technologies such as blockchain, humanity has found a solution and is still looking for a problem it can solve. For instance, blockchain is too cumbersome for payment systems, which makes its use impractical. Besides, the anonymity it provides runs entirely contrary to the aims of the prevention of money laundering.

Laima Letiņa The public sector has been using blockchain technologies specifically because of their traceability. For instance, Lithuania is currently evaluating the use of blockchain for the registration of shares — allowing the state to more reliably trace transactions in which shares change hands. In Latvia, we're also thinking about this, although we currently have other priorities. We'll see how it goes in Lithuania and perhaps come back to the idea.

KD So, what does blockchain solve here?

LL You see, public registers only record a transaction after the fact. But the ownership changes outside a registry's field of view; blockchain allows us to trace the transactions as they happen.

Sandijs Vectēvs *So far, the transparency potential of various technologies has not been studied comprehensively. Most of the information in the system is already digital. All our financial transactions are digital — as is all social network information, which can be tied to transaction data for KYC checks. Still, we ask customers to fill out questionnaires even though we can find out everything we need from registries and social networks. People put their own data out there on the internet. The amount of available information is vast — but I really don't know whether anyone in Latvia is analysing any of it with a single data tool that can compile all the available data in a way that will be useful for transaction monitoring in the finance industry. I believe it to be a much more realistic target than applying blockchain. It's all possible with the technologies we already have.*

KD As a bank supervised by the European Central Bank (ECB), we can compare very well the approaches of different countries. Latvian banks are quite far ahead of the curve within the European digital banking landscape. London and Stockholm may be more advanced, but banks in Germany, Greece, Italy, Spain and nearly every other European country are lagging behind dramatically. We often think things don't come easy for us, but we're actually spearheading digitalisation. And this is happening not just in the private sector, but in the government as well.

LL There's a lot of data in the public sector and a good understanding of how to use it too. The problem is that European countries have no single standard for using and exchanging information. As long as each registry has a unique approach to holding, processing and providing its data, the entire process is not very efficient.

KD I've noticed that while the data is out there, how it can be used is not so clear. In many situations, the information provided by banks to the Financial Intelligence Unit of Latvia (FIU Latvia) and the State Revenue Service is not really processed in any way.

LL Yes. You're right, there's a lot of information but it's barely used at all. By putting together three simple things — the Procurement Supervision Bureau, data on donations to political parties maintained by the Corruption Prevention and Combating Bureau and Register of Enterprises records — we could do a lot to combat corruption. For instance, we could detect cases where a municipal tender had only one bidder and the same people had made donations to parties on the city council. This would be an ideal tool to faster discover cases of corruption.

SV *We have the data, what we need to do is start digging. We don't have to reinvent the wheel; the analytical tools are all there, what we should do is put them to use. Feed the data into them. If a person came to a bank today to open a company account, they would have to answer a question about intended counterparties and expected transaction volumes. Why should we be asking the customers? I think this practice will become obsolete very soon.*

KD After living and working in Sweden for some time, I realised we in Latvia are still a low-trust society. Therefore, form is often more important to us than content. People think about formalities and don't even get into content. People in the western world are often surprised by our obsession with form. We keep amending laws instead of successfully prosecuting big criminals. Changing the form isn't always enough to affect the meaning. If instead we preoccupied ourselves with what's essential, form could be made freer.

SV *You call it 'risk-based approach'.*

KD Yes. It means that a schoolteacher who receives a salary and some transfers from her son, up to a certain threshold, would not require to report this at all. But as soon as we're talking about the member of the board at a company that provides construction services to a municipal government, or donates to parties, and deposits cash to their account — that is an entirely different risk category. It wouldn't matter whether they have formally written everything up in the correct way. What we see now is the schoolteacher receiving as much attention as the board member.

SV *We don't see this concept performing optimally at the moment. All criminal cases, for instance, must be investigated equally — whether one is talking about a jar of jam or money laundering. Of course, stealing someone's jam is bad, but how much damage does money laundering cause to the state?*

LL It also creates a vicious cycle — no resources, no results. What we're trying to do right now is introduce a risk-based approach at the Register of Enterprises for determining who are ultimate beneficial owners. A bank can choose whom to service and whom to decline. State bodies are confined by laws. We can't say that specific jurisdictions or offshore territories are excessively risky for us, so we won't register any companies based in those locations. From the standpoint of the law, these risks must be considered in the context of other risks. Such an approach might be possible in the future if it enables a quicker service for those that act in good faith and more careful investigation of those that act suspiciously. This would actually rely on the oldest technology of all — the human brain.

KD Common sense. Right now, we assume everyone is crooked, we check everybody.

SV *It's important that a majority of the population agree to change the model.*

LL In the past few years, law-making has followed an approach where laws are not like strict instructions. They must provide a reasonable, logical framework rather than list every technical detail.

Learning to exercise trust

KD From my experience in Sweden, they write their decrees for the allocation of EU funds on the naive assumption that everyone is honest. In other words, if most are honest and just one is dishonest, the relevant authorities will investigate the bad apples. If you have a look at the same restrictions in Latvia, you will see they are all grounded on the assumption that most will not play fair. And this is society's problem in general. Somebody needs to be the first to trust others. And usually, the first step is not taken by the general public but by the state. Still, there's no need to be so negative — it's just we usually go on holiday to countries in Western Europe and compare Latvia unfavourably. We should take a trip to the Ukraine, Russia, Uzbekistan or Kyrgyzstan...

LL Yes, on average we do look quite good in comparison.

KD Take that first step, exercise trust in reasonable government authorities that know how to handle your data. This is not the 1990s. If you are honest and have nothing to hide, sleep tight. If you aren't, maybe it's good that you're getting worried.

SV *Nowadays, there's no such thing as transaction secrecy or banking secrecy. That's all in the past — history never to be repeated. You have to forget about it. The question today is, is the data processed, transferred and stored securely? Not, is the data secret, or inaccessible to government bodies.*

LL The more data there is available to state institutions — on the condition that it not only exists but is also meaningfully used — the less work banks have to do concerning customer due diligence. At the same time, however, data processing risks become higher. Everyone needs to understand this — whenever you process data, you must respect certain conditions. Internal control systems are needed to make it secure and traceable. As IT solutions increase the speed and efficiency of data processing, they call for a higher investment in security. Personal data is free

Photo: Andrejs Strokins

Sandijs Vectēvs: I can see that other countries and international organisations are doing their best to help us out. Where they understand that we can't cooperate effectively, they go the extra mile to help. I see it in a positive light— a learning opportunity.

to access in Scandinavia. You can find out anyone's income, address and, as I understand it, such openness has been accepted by the public there. Which probably means that the conditions of mutual trust, an understanding of objectives and a certain degree of security have been met.

KD Even as a non-resident [in Sweden], I could freely look online at the assets held by my colleagues… I believe that for society to trust state bodies, we need rulings convicting the largest swindlers. If the data was used in order to catch the big fish instead of chasing after small fry, the public would side with transparency.

LL The central concept in data protection is purpose. If you know the purpose for which the data will be used, and that purpose is legal, then everything is all right. It is clear that when your employee is using somebody's data to blackmail that person, for instance, the penalty must be severe.

SV *Fears about data disclosure or availability also come largely from incidents like this. But these risks can all be controlled and mitigated. You mustn't avoid exchanging information just because such an incident might happen once every ten years. There will be temptations like this, of course, so we do need effective controls — and the sanctions must be such that nobody in their right mind would decide to do it. Why did the large banking scandals happen in Latvia rather than, for example, Lithuania? Our two countries are nearly identical, both geographically and politically. Criminals don't much care which they use to route their money. The questions is, what took them to Latvia? I believe banking secrecy was the answer to this question. Latvia has a history of cultivating it, the degree of secrecy was very high. It remains higher than in the other Baltic states. For the police to receive any information from a bank, they need a court decision warranting such information. And criminals will always prefer to stay anonymous. The subpoena procedures in Lithuania are quicker. So far, little has changed — criminal proceedings in Latvia are still sluggish.*

KD This is a very good example because it doesn't affect a schoolteacher in Lithuania. Teachers there don't mind that state institutions have easier access to their data. In Latvia, however, the teachers are impoverished because we all, as a society, pay for the consequences of money laundering.

LL In many ways, it's about communication between government authorities. What the Moneyval audit discovered was that some state institutions had no idea how to request information effectively. They would send letters on paper instead of e-mailing digitally signed documents flagged 'respond today'. They could've had the information by the end of the day, rather than in fourteen days.

KD If people only come to work to deal with formalities, this is the result. They don't care about anything but writing things up so people leave them alone.

LL By the way, Moneyval showed that we are better at cooperating internationally than nationally. It turns out that getting information on ultimate beneficial owners outside Latvia is much easier than figuring out beneficial owners locally. This is because the officials we have engaged in international cooperation possess a different degree of competence. An interesting conclusion.

It's time to grow up

KD Overall, foreign partners are rather critical of us. We have joined every union we could: the EU, NATO, OECD. We happily take the benefits offered by these clubs, but we keep forgetting that we have obligations too. I've heard complaints about the difficulty of cooperating with Latvia for years.

SV *I can see that other countries and international organisations are doing their best to help us out. Where they understand that we can't cooperate effectively, they go the extra mile to help us out. I see it in a positive light — a learning opportunity. We are still a rather young country; we still have a lot to master before we mature. So, we can't be haughty or bitter with our international partners; we must consider their suggestions and follow their good examples.*

KD Latvia has been independent for 28 years. Now is the time to take off these 'teenage shoes'. Kennedy once said, when you're an adult, ask not what your country can do for you — ask what you can do for your country. We have always asked what others can give us but have never offered anything substantial ourselves.

Photo: Andrejs Strokins

Kārlis Danēvičs: I also have a bone to pick with my colleagues in banking—I believe the financial sector assumes a defensive stance all too often. "Oh dear, oh dear, we have to share our data once again"; "Oh, what will happen to it?" I have always seen it like this—honest customers and honest financial institutions have nothing to be afraid of.

LL Oh, it's not that bad.

KD Relatively little.

SV *This is a matter of state capacity as much as culture.*

KD There are rules to every club. In the finance industry in particular, the obligations are very serious. We are in the 'respectable countries' club', and we should act accordingly. Technology is just a tool in this context.

LL Technology must not become an end in itself. It solves nothing, it must be put to use first.

SV *When they invented the wheel, I imagine many farmers kept using logs to pull their carts. In terms of information technology, we are at this same spot—clearly this is the next evolutionary step, but the question is, how can we adapt it to our goals? This needs to start at the legislative level. Technology is already knocking at our door. It will certainly take place in the private sector before it happens in government.*

LL I believe we've been witnessing a positive trend—laws are being written for content, for results, rather than for the technologies applied. Laws must not limit processes from a technological standpoint; they should be tech-free.

KD Banks nowadays are mostly preoccupied with machine learning and automated decision-making. Everything is developing towards a stage where robots perform the initial sorting of situations into reliable and suspicious scenarios, and humans make decisions on the unclear suspicious cases. This applies to credit decisions, transaction monitoring and many other fields. Robots mark-off the green category where everything is safe, the yellow which needs some thought, and the red which carries high risk. By learning from data, algorithms gradually expand the green category at the expense of yellow—meaning that people need to get involved less and less. The green group starts at maybe 5% of the entire volume, with as much in the red. The 90% yellow area is where people need to participate. Gradually, as data quality rises and tools are adjusted, the yellow area shrinks. But it can't happen overnight.

LL We're seeing this in the public sector as well—a lot of what was previously performed by people can now be handled by automatic solutions. At the same time, demand for in-depth analysis of information is rising, and we can't do it without people. So, specialists need to be retrained, from data entry and basic processing towards analysis. This has already happened at the Register of Enterprises—customers are serviced by a robot called UNA, while specialists are training it instead of responding to thousands of basic questions.

SV *The same thing is happening in monitoring. I believe artificial intelligence solutions and analytical tools are the only way to accomplish good results.*

KD Data quality in Latvia is also higher than the European average.

LL The quality of data at the disposal of government authorities must be a priority, considering the many ways it will be reused by others.

KD First of all, it is essential that we answer the 'why' question, and only then move on to 'who', 'what' and 'when'. Automotive and aircraft manufacturers introduced this approach in the 1970s: first they thought of a strategy, and then involved designers and engineers. First, they visualised what they wanted to achieve, then executed it. This approach should also be applied to data. As these goals are made more transparent to the public, people's attitudes will also change. Right now, customers that do nothing wrong and those that do feel equally threatened by supervisory authorities. Instead, life should be made easier for those who obey the law and harder for those that violate it.

SV *The biggest issue is ignorance. Take an example: a bank must report accounts with over €15,000 in annual turnover to the State Revenue Service. Why did this raise a fuss? If all you receive into your account is your salary, nothing bad will come of this information being received by the authorities.*

KD People have a very good sense of proportionality and fairness. I believe most will adopt the changes once they see how it helps get the really big offenders behind bars. And that should give small-time crooks pause to reflect on their lifestyles and make the right choices. ●

Kārlis Danēvičs **As a bank supervised by the ECB, we can compare very well the approaches of different countries. Latvian banks are quite far ahead of the curve within the European digital banking landscape. London and Stockholm may be more advanced, but banks in Germany, Greece, Italy, Spain and nearly every other European country are lagging behind dramatically. We often think things don't come easy for us, but we're actually spearheading digitalisation. And this is happening not just in the private sector, but in the government as well. A chat with someone from the US makes it clear — the information and services we can get online via latvija.lv is just beyond their wildest dreams.**

Laima Letiņa Everyone needs to understand this — whenever you process data, you must respect certain conditions. Internal control systems are needed to make it secure and traceable. As IT solutions increase the speed and efficiency of data processing, they call for a higher investment in security. Personal data is free to access in Scandinavia. You can find out anyone's income, address and, as I understand it, such openness has been accepted by the public there. Which probably means that the conditions of mutual trust, an understanding of objectives and a certain degree of security have been met.

Sandijs Vectēvs ***Nowadays, there's no such thing as transaction secrecy or banking secrecy. That's all in the past — history never to be repeated. You have to forget about it. The question today is, is the data processed, transferred and stored securely? Not, is the data secret, or inaccessible to government bodies?***

INSIDE OUT

What goes on behind the closed doors of companies within the Latvian financial sector? Inside Out gives you behind the scenes access. In this issue, we look at a book on the heraldry of distinguished families in Latvia and view a smart private house of one marketing director; we appreciate a cool working environment in a business centre, get to know about a selfie-team (yes, it's a selfie!) and a mobile banking branch; we visit a finance-themed escape room and learn about a very special charity programme.

Photos: corporate media archives of *Citadele*, SEB, *Swedbank*, *BlueOrange*, *Baltic International Bank*, *Altum* and *Intrum Global Technologies*

Swedbank: Money, demystified

The idea about a finance-themed escape room for kids grew out of Swedbank's "Ready for life" education programme. Now, the "Finance lab" game is played by more than 1000 kids every month. 10 to 18 year olds come here from all over Latvia to raise their financial awareness in an engaging and witty way.

Making decisions as members of a credit committee, assessing a family's budget, staying safe on the internet, solving mathematical puzzles—and all of it to get a precious code from a safe!

EDUCATION

Citadele: The selfie team

A breastfeeding selfie, a very make-up-y selfie, lots of serious and lots of smiley selfies — these are the working materials for the team at *Citadele's* Skybranch, the bank's customer service department. *Citadele* bank is the first in the Baltics to introduce customer onboarding through selfies — the option that younger clients in particular fancy.

Currently, 95% of payments in *Citadele* are made via its internet banking platform or app. "We aim to provide almost all of the bank's most important services digitally", says Vladislavs Mironovs, a Co-chair of the Strategic Development Committee of the Finance Latvia Association and member of the Board of *Citadele*. He adds that "the relationship between the bank and the customer has changed substantially — people are not ready to spend time visiting a branch for simple everyday services. They expect a bank's functions to be available immediately on their laptops, tablets and phones. Checking your account balance or making a payment in a branch seems like nonsense! And this trend of digital banking is very likely to continue at an ever-growing pace".

With the development of distance services, Skybranch has become the fastest-growing branch of Citadele. Almost 100 people work here; six form a special team focused on processing customer applications that are made via the bank's app, which feature selfies as one of the means of customer identification.

TEAMWORK

CHARITY

BlueOrange: Special friends for special children

At least two years of vigorous training—this is what it takes to prepare a much-needed service dog for a child with disabilities. They are not just great helpers, but also excellent therapists. A well-established combo in many countries, yet a new initiative in Latvia.

BeOpen has financed playrooms at the main Children's hospital of Latvia; created attractions for education and entertainment for families on Lucavsala; and even organised a sports camp for orphans and special-needs children with the legendary Real Madrid football club.

BlueOrange bank's charity fund BeOpen has been focusing on special-needs children since its establishment five years ago. "We believe it's a duty of every stable and successful organisation and, indeed, individual, to contribute to the development and welfare of all members of society," says Dmitrijs Latiševs, CEO of *BlueOrange* bank. In 2018, the bank invested more than €84,000 in various charity programmes. Over the years, it has also developed cherished traditions such as collective blood donations, decorating Christmas trees in the Children's hospital and—most importantly—redoubling the bank's charity team donations.

SEB: Bank in a briefcase

Starting this year, SEB is taking the next step in its digital development agenda, introducing a Mobile Branch to address the issue of access to financial services in the countyrside, while teaching customers how to easily conduct their financial transactions through the internet bank, mobile application or a video consultation. Now, when code cards are being replaced by other means of authorisation, the Mobile Branch is involved in reaching customers with special needs as well as residents in the areas where there are no branches of SEB. The Mobile Branch provides all day- to- day financial services that are traditionally available at the branch (excluding cash transactions).

Arnis Škapars (in the photo), member of the Board at SEB, says about the Mobile Branch: "Our aim is to ensure the possible broadest coverage of quality bank services by offering a wide variety of channels—branches, customer center, video appointments, and also now the Mobile Branch. It is also an opportunity for Mobile Branch to be available to customers where we do not have traditional branches, and most importantly, it is an opportunity to teach and show customers how to do things easily and quickly. A number of services are already remotely available to customers, while important issues can be discussed during a video consultation. Similarly, we still welcome customers to face-to-face appointments to provide our advice on more difficult financial issues, such as getting funding for buying a house or developing a company. In addition, mobile affiliate resources are being planned to be used when it is necessary to reach, for example, disabled customers as well as to reach individuals in their workplaces. The companies which the Mobile Branch visited last year as a pilot project highly appreciate that SEB Bank's team comes to them, so employees do not have to think about going to a branch which is not always close to."

Mobile Branch equipment fits in just one briefcase and weighs up to 5.5 kilograms. There is even no need for electricity connection to ensure that the mobile branch works for 8 hours with one battery charge, scanning and printing documents up to 600 pages. Till now Mobile Branch team has served more than 500 customers, visiting them in their workplaces or local municipalities in the countryside.

HERITAGE

Baltic International Bank: Focus on Latvian heraldry

A book on the coats of arms of distinguished Latvian families, set to be published in 2020, will be the first comprehensive attempt to collect and analyse private coats of arms in Latvia.

The book is set to feature 75 ensigns, each charged with a unique set of symbolic meanings. "This book is our gift to Latvia in the beginning of its second century," says Valērijs Belokoņs. It demonstrates that "Latvia has always had strong people and strong families that could maintain their dignity at the best and worst of times in our history. We believe that families that can pass on to new generations their identity and love for their country form the real foundations of each free and independent state," says Belokoņs. The book will offer insights into the history of family heraldry in Latvia; detailed semiotic analysis of symbols, colours and quotes used in family and clerical emblems; as well as personal stories of the holders of the collected coats of arms. Valērijs Belokoņs, who officially registered his coat of arms in 2011, will be among those who will share the motivation and symbolism behind their family emblem.

The editorial team of the book is indeed impressive: it features four members of the National Heraldic Commission; an ex-president of Latvia Vaira Vīķe-Freiberga; as well as Valērijs Belokoņs, Chairperson of the Supervisory Board and Jekaterina Kuzņecova, head of the Strategic Planning department of the Baltic International Bank.

Altum: Changes in your mind... and home

Supporting energy efficiency and renewable energy projects is the main focus of *Altum's* financial tools. We get to talk a lot with our clients about the benefits of investing in sustainable living for society and business, along with its influence on the climate and environment. Nothing better illustrates how the concepts of what we believe in and promote enter minds and reality than the example of *Altum's* own marketing director **Kristians Pudans**. He built a sustainable private house, winning "The most good-looking energy-efficient house" national award last year.

"To my mind, energy efficiency simply equals being pragmatic! And I must say that the benefits are not just limited to the low utility bills. An energy-efficient house is simply comfortable. You don't feel any outside temperature fluctuations; big windows and abundant lighting are not going to make you shudder when it's snowing outside. It's really cool that the house serves me—not vice versa," Kristians shares his experience. He points out how thinking can change when an energy-efficient home inspires one to consider other aspects, like the transport one uses daily and recycling. "This planet is going to be home for our kids, so let's leave it sustainable and loved," he emphasizes.

Each era has its key ideas and buzzwords illustrating the central concerns of the period and which slowly influence society. For the Baltic states in the nineties, it was "freedom"; in the beginning of the 21st century, it was "EU integration and NATO". Today, it's the topic of sustainability. From sorting waste to energy efficiency in transport and housing—these concerns have come into our lives to stay.

SUSTAINABILITY

TRENDS

Intrum Global Technologies: Work environment matters

As a leading credit management company, *Intrum* made digitalization the key priority for its business strategy. *Intrum Global Technologies* (IGT) was established in 2010 and has since grown into a centre with over 200 IT specialists. Rapid business growth also requires a bigger space, so this spring IGT moved to new modern premises that provide a comfortable, sustainable and efficient working environment. There are numerous meeting rooms to assure confidentiality for each project; a relaxation and a recreational room for rest or exercise; and even a children's room for occasions when an employee must take their kid to work for a couple of hours.

"The opening of an IGT centre is a great opportunity for those willing to gain international work experience and be a part of an innovative stream in this era of digitalization. For example, for three years now, IGT has organised the Intrum hackathon, each year bringing together about 80 spectacular IT minds (in the photo). And the region where such a centre is based also wins—for many reasons: it improves its image and boosts its attractiveness for investment, as well as increasing employment and competitiveness among IT specialists," adds IGT director Maksims Paukovs.

"I think Latvia is a great place for establishing a shared service centre! We have a stable economy and a very convenient geographical location, an educated society with great professionals in many spheres, friendly people with nice cultural traditions, as well as clean and untouched nature."

NEW COM ERS

Since the summer of 2018, Finance Latvia has welcomed several new associate members—Intrum, one of the top credit management service providers in Europe; Microsoft Latvia, representative of Microsoft in Latvia; Mintos Marketplace, the global online marketplace for loans; Latvian Baltic Energy Efficiency Facility; one of the leading law offices in Latvia—Eversheds Sutherland Bitāns; and Worldline Latvia, part of Worldline Global.

Finance Latvia continues its development strategy aimed at becoming a platform for cooperation amongst finance, technology and related industries to ensure a broad presence in Latvia, Baltics and Europe.

Eversheds Sutherland Bitāns
Year of establishment: **1999**
Field of work: **Law office of sworn advocates**
Geographical spread: **34 countries worldwide**
Employees (2019): **30**

Māris Vainovskis, Senior partner at *Eversheds Sutherland Bitāns*

As part of a global company with a mission to help our clients' business thrive, *Eversheds Sutherland Bitāns* closely follows the events in the Latvian business environment and actively engages in their improvement. Our expert legal team is ready to support the Finance Latvia in achieving its goals. One of the most essential challenges currently facing not just the Latvia financial sector but the sector worldwide is the challenge of adjusting to all the compliance-related regulatory changes, and to tackle industry-related risks more efficiently. Although Latvia has lately made significant progress in this direction, we have to continue to work together to improve cooperation between the private sector and regulatory agencies in order to achieve a balanced level of regulation and a healthy Latvian business environment, one based on fair and legal competition. Only by strengthening compliance and promoting the financial sector's international reputation can we achieve a rapid change in technology and boost our competitiveness.

Intrum
Year of establishment: **1999**
Field of work: **Credit management service**
Geographical spread: **24 European countries and Brazil**
Net revenue (2018): **13,442,000 SEK**
Employees (2018): **9,000**

Ilva Valeika, *Intrum* Managing Director Baltics

Intrum was founded when *Intrum Justitia* and *Lindorff* combined their 100-year-long history to become one company. As a market-leading credit management enterprise, we are an integral part of the financial eco-system: a sound economy is not possible if debts are not paid (both individual and corporate). Market leadership, however, comes with great responsibility. We have responsibility to set new standards and change the way people perceive credit management. We make sure that companies get paid, help people get out of debt and enable society's growth. Lately, banks across Europe have been facing pressure to decrease ratios of non-performing loans and this is where companies like *Intrum* step in, offering various solutions—for example, by buying bank portfolios or servicing them. Through ethical and sustainable business practices we want to become the true benchmark of our industry and as a member of the Finance Latvia Association, we are ready to contribute to a sound economy by sharing our expertise and deep customer insights.

Guntis Beļavskis, the member of the Finance Latvia Association Council and Chairman of the Board at Citadele, sees the main tasks of the Association as being the promotion of the development of innovation and technology in the financial sector, as well as strengthening the implementation of the highest standards of compliance.

LABEEF

Full title: **Latvian Baltic Energy Efficiency Facility**
Year of establishment: **2016**
Field of work: **Financial services**
Geographical spread:
Latvia, Netherlands

Nicholas Stancioff,
CEO at LABEEF

LABEEF is a Green Finance Instrument. It is a sustainable refinancing model for deep building renovations for better homes and reducing CO_2. With the growth of well-being, the demand for wealth management products will increase. But is the offer competitive on a global market? Globally, a multi-dimensional convergence is the trend to focus on: CIT, AI, data and identity security on the one hand and markets and access to them on the other. Yet the trends that are now affecting Latvia's financial reputation here must be confronted. There is one solution — to increase competence and capacity of financial organizations, deepen knowledge of their customers, offer multidisciplinary solutions, be fast and deliberately responsive and conversant with economic actors at all levels. For instance, develop financial services that encourage the sustainable use of our forests by creating products with high added value. The banking sector must lead by example while investing in a financially literate civil society.

Mintos Marketplace

Year of establishment: **2015**
Field of work: **Online marketplace for investments in loans**
Geographical spread:
Worldwide
Turnover (2018): **4,646,885 EUR**
Employees (2019): **138**

Mārtiņš Šulte,
CEO and Co-founder
at *Mintos*

The future potential of Latvian financial industry is its people — their talents and creative ideas. Our limited national market has made us think globally from day one and encouraged us to compete internationally. And the main thing nowadays is the right mindset, because smarter technologies ask for more agile thinking, creating maximum value to the end user. We are interested in growing new talents and sharing our experience. In this way, we support the industry's global development and the emergence of new innovative financial solutions. Technologies are part of our everyday now. And market redistribution among its main players — traditional banks, fintechs and big tech companies — continues. Everybody has a role. Clients' and regulators' standards in relation to service security and quality risks have become higher. Modern management style, careful risk mitigation, transparency, reliability, and innovative solutions are making Mintos competitive globally, promoting also Latvia as a relevant international fintech player.

Guntis Beļavskis admits that it is positive to see how, over the past year, Finance Latvia has been joined by new associated members not just from the finance but also the technology sector—confirming that Finance Latvia's productivity is being increasingly valued by other areas linked with the finance sector as they consider opportunities for productive collaboration.

Microsoft

Year of establishment: **1975**
Field of work: **Information technologies**
Geographical spread: **Worldwide**
Turnover (2018): **110 billion USD**
Employees (2018): **114,000**

Renāte Strazdiņa, Dr. Sc. Ing, Country Manager Baltics, *Microsoft*

Nowadays, financial institutions should be able to ensure increasingly strict monitoring, data security and privacy requests on the one hand and an efficient, innovative, personalized services and outstanding client experience on the other. This is where technologies are coming in to help create new products and ensure better client service; to offer employees the necessary support instruments for more efficient work practices; and to optimize processes according to the industry's regulation and risk management requirements. As a member of the Finance Latvia Association, we would like to share our global experience in cloud technologies, data analytics and use of visualisation tools, AI and blockchain technology for secure modern and personalised services. Moreover, we cooperate with hundreds of regulators and standardisation institutions around the world in order to develop comprehensive solutions which comply with today's security, privacy and AML requirements, as well as KYC principles.

Worldline Baltics and Nordics

Year of establishment: **1993**
Field of work: **IT and retail outsourcing in the financial services industry**
Geographical spread: **Baltic countries, Scandinavia**
Turnover (2018): **25 million EUR**
Employees (2018): **210**

Zanda Brīvule-Jansone, CEO Baltic countries and Head of region for Nordic and Baltic countries at *Worldline Baltics*

This local division of *Worldline Global* is a key player in ensuring core infrastructure for all kinds of payments. We have solutions that cover the full value chain of all services. We also cover the infrastructure between all the participants of payment systems; our point of sale devices are both the fastest and most secure. And our ambition is to take safe, instantaneous, seamless and affordable payments in the Baltic states to the next level. Already, 15% of all retail purchases in Latvia are currently made via e-commerce (mostly from online stores operating abroad). We aspire to help retailers in the Baltics to follow this trend by offering solutions and infrastructure that facilitates growth of the local online retail sector and helps local acquirers, issuers and retailers remain competitive in the globalised retail world. In this globalized world, our main mission is to help the local finance industry by lending *Worldline's* global scale, solutions, knowledge, local expertise and delivery to ensure the industry stays in the forefront of latest developments.

2018–2020

What's up

Nov. 9, 2018

Conference "Sustainable Finance in Baltic–Nordic" (*Helsinki*)

Finance Latvia and Finance Finland, in partnership with the European Commission, organized a deep dive on the key aspects of EU strategy for sustainable finance in the Baltic–Nordic region, how to align it with local agendas, and to discuss the potential of the region in driving sustainable financing across industry and in the public sector, including municipalities. There were high-level speakers from the European Commission, European Investment Bank, Nasdaq Nordic, Nordic Investment Bank, Latvian Baltic Energy Efficiency Fund, BBVA, Bank of Finland, Varma Mutual Pension Insurance Company and other organisations.

Nov. 23, 2018

High-Level Workshop "National and Regional KYC Utilities — from concept to implementation"

The key topics of the event included Know Your Customer (KYC) Utilities and how they contribute to better KYC, anti-money laundering/combating the financing of terrorism (AML/CFT) and targeted financial sanctions (TFS) compliance programmes; and how RegTech and technology are being applied. The speakers shared experiences of different KYC Utilities concepts and developments and their understanding of the next steps to be taken to setup a pan-Baltic or country-level KYC Utility. The event was organised by Finance Latvia and the Baltics Chapter of the Certified Anti-Money Laundering Specialists (ACAMS) in partnership with *Microsoft Baltics* and *Citadele*.

February 21

POLITICO and L'AGEFI "The Future of Finance Summit" (*Paris*)

Finance Latvia partnered with POLITICO and L'AGEFI for the 4th financial summit and participated in the AML round table. The event gathered over 130 of the industry's top minds from banking, asset management, insurance and other divisions, together with European policymakers to examine the challenges and opportunities for the financial services sector during the final push to strengthen Europe's financial architecture before Brexit and the European elections.

March 28

Discussion "Payments of the Future #2025 — from Contactless Payments to Cash-free Society"

Based on Mastercard's and Finance Latvia's information campaign "Piik and done", this discussion on the future of payments and how it will change our everyday life took place in the University of Latvia (UL) and the Microsoft Innovation Centre; moderated by technology blogger Kristaps Skutelis.

April 23

Industry event "Impact of PEPP on EU Capital Markets and Sustainable Pensions Income"

This dialogue between industry and public sector experts regarding PEPP in the EU and its impact on capital markets and sustainable pensions income in the Nordic-Baltic region was organized by Finance Latvia, the European Commission and Nasdaq Nordic, in partnership with the Free Trade Union Confederation of Latvia and the Estonian Banking Association. The keynote speech was delivered by Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, European Commission.

In the photo (from the left): Vadims Frolovs (*Swedbank*), Ronalds Platkājis (SEB) and tech enthusiast Kristaps Skutelis.

Photo: Ieva Makare, *LETA*

What's next

April 29

Presentation of the Lending Index and expert discussion "The Future of the Student Loans System in Latvia: Challenges and Possible Solutions"

Finance Latvia, the Latvian Chamber of Commerce and Industry and the Student Union of Latvia organized an expert discussion on the existing student loan systems and the possible scenarios of their development. At the event, the Finance Latvia Lending Index for the private customer segment was presented by the Co-chair of the Lending Committee Kārlis Danēvičs.

June 12

Nordic-Baltic industry event "Various Facets of the Data Economy — Private and Public Sector Approaches to Information Sharing, Decision Making and Execution in the new Open Data, AI and RPA world" (*Oslo*)

The event focused on the various facets of the data economy and the latest thinking on information sharing, decisions and execution in the new open data, AI and robotic process automation world. The event was organized by Finance Latvia and *Microsoft Baltics* in partnership with Finance Norway, *EY Norway*, the Norwegian Chamber of Commerce in Latvia and Magnetic Latvia. The Latvian delegation consisted of almost 30 high-level representatives from the public and private sectors, including Latvijas Banka, the Register of Enterprises, the Ministry of Environmental Protection and Regional Development, the State Revenue Service of Latvia, the Representation of the European Commission, etc.

August 22–23

Workshop "Culture of Compliance" by Dr Roger Miles

Organised by the Association in cooperation with UK Finance the closed workshop "Restoring Public Trust in Financial Services" exclusively for members' management will happen on the 22nd, and public workshop "Policies and Tools forming an Embedding Culture of Compliance" — on the 23rd of August.

October 1

The EBF Cybersecurity Conference (*Brussels*)

Within the context of the current interest in cybersecurity shown by regulators, policy-making bodies and the broader public, and given the sensitivity of the financial services sector when customer trust and the safeguarding of data are of critical importance, the goal of the EBF Cybersecurity Conference is to facilitate dialogue between the involved parties and to encourage an exchange on the challenges faced by banks in managing cyber risk.

October 2–3

European Banking Summit 2019 (*Brussels*)

Over 300 experts, senior policy makers and key industry stakeholders are invited to come together to discuss the industry's challenges and opportunities and set-up new trends. It is an unique opportunity to share ideas with renowned sector analysts, experts and leading industry participants. "Building trust at a time of disruption" is this year's theme for the 2019 summit. This year's edition will be introducing many smaller workshops, addressing topics on financing growth, financial education, banking supervision, digital, fintech and much more.

October 10–11

Industry event Riga COMM 2019

An annual IT and business event for entrepreneurs, multi-level executives of state institutions and organisations and professionals representing multiple fields of operation, where they can learn about the latest offers of digital service providers and manufacturers from the Baltics and other countries.

November 14–15

Digital Freedom Festival

The Digital Freedom Festival is a multi-event platform where the geeks of the digital era meet with policymakers to solve problems caused by the clash of the digital and analogue worlds.

May 22, 2020

Baltic International Bank Investment Forum "Old money. New world!"

The Baltic International Bank Investment Forum is the key event of the region for the investment banking sector. The forum is a platform to discuss and share world-class expertise on wealth creation and succession, to learn the newest investment management strategies, generate future business prospects and hear firsthand about the latest investment opportunities. The event will bring together extraordinary personalities and top names in Latvia and worldwide; the honourable keynote speaker of the event will be Charles Morgan who will share his legacy and visionary ideas.

A great teacher inspires

Photo: Bernard de Keyzer (bdkz photography) for EBF

"I have never seen kids so happy!" Laimrota Surska remembers her students on the day of their Big Win. She inspired them to compete at the "European Money Quiz" national competition organized by the Finance Latvia Association, LIZDA and JAL; they ultimately beat over 1,000 other students to claim victory. In the photo: Laimrota Surska accompanying her students during the finals organized by the EBF in Brussels in May 2019.

Bright minds are Latvia's treasure. This year, a talented financial literacy teacher from the small town of Limbaži made her students shine nationwide.

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