



Weekly Briefing

**Lithuania political briefing:
Lithuania's Fintech Story
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Lithuania's Fintech Story

Summary

Lithuania has become one of the leading fintech hubs in the EU, and the largest one in the EU in terms of the number of licenses issued to fintech companies. Lithuania's hub is one of the EU leaders in areas of blockchain and cryptocurrency. Streamlined regulation, established "sandbox" facility, proactive stance of the country's government and the Bank of Lithuania – the financial regulator – are just some of the reasons why Lithuania has become increasingly attractive to fintech investors from the EU and beyond. In 2023 Lithuania's fintech sector has grown by 13 per cent, and the number of fintechs operating in Lithuania surpassed 270. In 2023, Lithuania's government prioritized the Fintech sector, developing a comprehensive five-year Fintech Strategy. While the sector presents opportunities, it also faces risks. Experts highlight concerns related to money laundering, particularly with the rise of cryptocurrency-focused businesses. Although Vilnius, the capital city, failed to secure and opportunity to host the Anti-Money Laundering Agency, the city continues to attract foreign investors and professionals due to its high quality of life.

Introduction

Lithuania stands as one of the largest fintech hubs in the European Union, holding the record for the highest number of licenses issued. The count of fintech companies operating in Lithuania has now surpassed 270, marking a consistent upward trajectory. Additionally, the sector boasts over 7,400 employees. The article describes one of Lithuania's hottest sectors. The article also looks at the strategy designed by the Lithuanian government specifically for the fintech sector, and what actions and initiatives are taken by Lithuania's government and other institutions.

Success Story

Brexit was a shock for the European Union but, for many member states, it was also an opportunity. Lithuania was among them: as Frankfurt, Paris and Amsterdam vied to lure

financial businesses away from London, Vilnius made a play for the world's fintech firms. Lithuania's strategy is based on streamlining regulation to entice fintech firms to set up their "EU shop" in Lithuania and appears to be paying off. In 2014, there were just 55 fintech companies based in Lithuania. Now, there are 265. Forty per cent of these have headquarters in other countries.

Fintech Growth Continued Across Lithuania Throughout 2023, Despite Global Economic Downturn. The number of fintechs operating in Lithuania surpassed 270 for the first time, continuing a steady upward trend. As a result, fintech employment figures also continued to rise, with the sector's talent pool expanding by nearly six per cent to over 7,400 professionals.

In 2023, Lithuania continued to embrace promising fintech subsectors, including blockchain and crowdfunding. The recent introduction of Europe-wide crowdfunding regulation saw the country's financial regulator, the Bank of Lithuania, swiftly making the necessary adjustments, helping Lithuania become one of the top three countries for licenced crowdfunding service providers in the EU. Blockchain and cryptocurrency-focused fintechs in Lithuania also rose from eight per cent in 2022 to 13 per cent in 2023.

In contrast to many other global regions, the fintech sector in Lithuania has made significant strides toward gender parity. Among the 77 Lithuania-based fintech companies that participated in Invest Lithuania's annual survey, women constituted 45 percent of the total workforce and held 43 percent of executive positions. Notably, in technical roles, women accounted for 25 percent of the workforce, a figure that stands among the highest in terms of female representation within the ICT industry across Europe.

Experts in the field believe that Lithuania's fintech future holds great promise for several reasons. The country's agile approach to fintech has facilitated the development of a stable and increasingly mature fintech sector. According to Invest Lithuania's survey, financial self-sufficiency plays a crucial role in maintaining this stability. Notably, 39 percent of fintech firms primarily rely on revenue funding, indicating a preference for sustainable growth models. The outlook for fintech in Lithuania this year appears optimistic. A remarkable 75 percent of surveyed Lithuanian fintechs anticipate consistent revenue growth in 2024, with over 30 percent expecting their revenues to at least double.

Strategy, efforts and initiatives by the Lithuanian government

Why did Lithuania manage to attract so many fintech companies and become a significant fintech hub in the European Union? This answer can be partly answered by looking into the efforts made by Lithuania's institutions, fintech strategy adopted and implemented by the Lithuanian government, as well as the flexible regulatory environment and incentives given to businesses investing into Lithuania's fintech sector.

Lithuania is serious about continuing to develop and grow its fintech hub, and in order to achieve this has developed the Fintech Strategy of Lithuania, a five-year plan for the years 2023 – 2028.

The document, prepared and issued by the Ministry of Finance, specifies that the Fintech strategy represents the collaborative efforts of industry experts, regulators, entrepreneurs and thought leaders who have come together to lay the foundations for a vibrant and sustainable ecosystem. It demonstrates a clear collective commitment to fostering an environment in which FINTECH can thrive. The Fintech Strategy of Lithuania Lithuania's strategic goal is to further strengthen its position as a high value-added European FINTECH hub by promoting the qualitative growth of the sector, opening up to companies creating innovative solutions, building competencies, strengthening risk management procedures and increasing our global recognition.

The country's Fintech Strategy has a number of guiding principles:

- supporting the qualitative development of the fintech sector in Lithuania;
- attracting innovative fintech solutions to Lithuania;
- ensuring that Lithuania is the centre of excellence for fintech;
- ensuring that Lithuania is a safe and reliable jurisdiction;
- ensuring that Lithuania is universally recognised as a European fintech hub.

The document provides a strategic action plan with deadlines, and has plenty of specific and measurable objectives, some in the form of KPIs (key performance indicators) whereby the extent of success of the strategy could be judged.

Streamlined regulatory regime and Lithuania’s financial regulator

In 2023, Lithuania’s institutions demonstrated remarkable flexibility when responding to the rise of new and promising fintech subsectors, including blockchain and crowdfunding. Following the introduction of Europe-wide crowdfunding regulations within the EU, the Bank of Lithuania, Lithuania’s financial regulator, swiftly adapted, positioning the country as one of the top three for licensed crowdfunding service providers in the EU. Additionally, the percentage of blockchain and cryptocurrency-focused fintechs in Lithuania increased from 8 percent in 2022 to 13 percent in 2023. Notably, Europe’s first international Blockchain Centre was established in Vilnius—a global hub for blockchain-related services, community building, and education. At Blockchain Centre Vilnius, entrepreneurs, developers, investors, and regulators from around the world come together to exchange ideas, knowledge, and best practices.

Lithuania’s financial regulation, the Bank of Lithuania, is already famous among investors for its proactive regulatory stance in financial technology. For example, Lithuania is already aiming to become a leader in embracing the EU’s upcoming Markets in Crypto Assets (MiCA) regulation. Lithuania is keen to welcome MiCA-compliant crypto companies ready to prioritise and invest in anti-money laundering and counter-terrorism financing (AML/CTF) functions.

Rosvaldas Krušna, advisor to a board member of the Bank of Lithuania, commented: “Under the new regulations, the Bank of Lithuania will be responsible for licensing crypto companies. We feel rather well prepared to ensure that access to the market is granted only to those applicants that are able to prove their maturity and commitment to compliance, with particular attention to the AML/CTF area.” By the end of 2023 Lithuania was already home to one of the biggest numbers of crypto companies in the EU.

As Lithuania’s policymakers had hoped, the regulatory regime created and overseen by the Bank of Lithuania, has become a central part of the country’s appeal for entrepreneurs. As well as overseeing a well-respected “sandbox” facility that allows fintechs to test their ideas under regulatory supervision, the Bank of Lithuania enjoys a reputation for efficiency and transparency in the licensing process. A fintech can get up and running with an electronic banking licence in Lithuania in as little as three months — compared with a European average

of 12 months — and can also apply remotely. Without a licence, companies cannot directly offer services such as mortgages, loans and overdrafts.

This factor played a big role in British neobank Revolut’s decision to seek its European banking licence from Lithuania. It was granted a specialist banking licence in December 2018, which was upgraded three years later to a full European banking licence.

“We picked Lithuania because the central bank promised speed, which is what we wanted most,” says Nik Storonsky, Revolut’s chief executive, who has been waiting almost two years for a banking licence in the company’s home country, the UK. “The strictness of regulation is the same everywhere but, in Lithuania, it doesn’t feel like a series of vague judgments,” he explains. “It’s just fast, clear and efficient.”

In other respects, too, Lithuania’s regulators appear to be doing a good job. Specifically, Lithuania is doing a great job in the area of Anti Money Laundering (hereinafter – AML). The country is the eighth lowest-risk jurisdiction for money laundering in the world, according to the AML Basel Index, which ranks the UK 12th and the US 30th.

Opportunities presented by Anti Money Laundering

As mentioned above, Lithuania has managed to implement and enforce robust AML processes and was largely able to avoid scandals and crises related to money laundering. In fact, Lithuania had been looking to harness its expertise in fintech and success at AML in order to further solidify its status as a growing financial hub and try to grab a huge win – hosting the Anti-Money Laundering Agency (hereinafter – AMLA). The establishment of this new EU authority is a core element of the package of legislative proposals presented by the European Commission on 20 July 2021 with the aim to strengthen the European AML/CTF regime. Ability to host the AMLA would give huge prestige to the hosting country.

In November 2023 Lithuania formally submitted the application to host the Anti-Money Laundering Agency (AMLA) in Vilnius. The official application was signed by Minister of Finance Gintarė Skaistė and submitted to the European Commission. Lithuania’s Ministry of Finance pitch for hosting the AMLA included a number of points. Firstly, one of the key advantages of Vilnius, as the future home of AMLA – successful experience in managing money laundering risks in both the conventional banking sector and the innovative Fintech segment, which is reflected in the country's international rankings. Lithuania holds 1st place in the EU in terms of digital and technological skills, based on the World Competitiveness Report

2022. Lithuania boasts a developed compliance ecosystem, characterised by close cooperation between the public and private sectors, as well as a deep talent pool of compliance specialists. Finally, locating AMLA in Vilnius would be in line with the principle of geographical balance, while living in one of Europe's greenest capitals would ensure excellent quality of life to the staff of the new institution.

However, Lithuania's daring pitch to host the AMLA was met with stiff competition from a number of European capitals that have well established traditional financial markets, vast amounts of professionals in fields of finance and AML in particular, and long and rich experience safeguarding their banks and markets against money laundering. Brussels, Dublin, Frankfurt, Madrid, Paris, Riga, Rome, Vilnius and Vienna were all in the race, deploying their national finance ministers to make the case for their respective bids and lobbied the bloc heavily for support. On the 22nd of February it was announced that it was Germany's city of Frankfurt that won the race and won the right to house the EU's future anti-money laundering authority, adding further weight to Germany's financial powerhouse, which is already home to the European Central Bank.

Although some may regard the failure of securing the AMLA in Vilnius as a setback for Lithuania's ambitions to grow its fintech and finance hub, the very fact that Lithuania was able to compete with other European giants of finance has only solidified the country's name in the eyes of potential investors.

Fintech's risks and future in Lithuania

However, as in every dynamic sector, in Lithuania's fintech sector not everything is smooth, and some critics point out certain problems within the country's fintech sector, and question how much more the sector can grow.

For example, Lithuania, being a small country, has a rather limited pool of talented specialists, which may soon become a significant factor limiting the sector's growth. Lithuania's government is forced to constantly think about different solutions how to address this problem. Furthermore, as a number of fintech companies grows in Lithuania, financial as well as money-laundering risks are increasingly more difficult to manage.

Furthermore, some fintech companies, which appear very promising, may swiftly and unexpectedly go under.

Kevin, a payments software start-up, was once hailed as Lithuania's fintech poster child. It held the distinction of being Lithuania's most valuable fintech, having raised a substantial \$65 million in a Series A funding round from investors like Accel and Eurazeo. With a workforce of over 300 employees across the continent, Kevin was well on its way to achieving unicorn status. In 2022, this Lithuanian startup shone brightly in the regional and even European fintech landscape. However, in an unexpected turn of events during January and February 2024, Kevin faced serious financial difficulties. Reports emerged that the company struggled to pay salaries on time during this period. To mitigate cash burn, Kevin underwent significant layoffs, and it is anticipated that by April, the company will have reduced its workforce to around 100 employees.

Other risks may be related to money-laundering. "We now have over 500 cryptocurrency companies in Lithuania and we are leading in the European Union," says Gediminas Šimkus, the chief of the Bank of Lithuania. "It's only that this indicator does not evoke good emotions. On the contrary, it is a signal that we are facing a serious challenge." According to the Financial Crimes Investigation Service (hereinafter – FNTT), almost half of these companies have not filed a single transaction report. The FNTT and the Bank of Lithuania believe that cryptocurrencies can be used for money laundering and to finance criminal activities. Moreover, they can be used by Russia and Belarus to circumvent sanctions.

Rolandas Kiškis, director of FNTT, says that in the EU and globally we have seen „big collapses in the last year or a year and a half and we see some former FTX executives registering companies in Lithuania, one of Binance branches is in Lithuania.”

Although the European regulation on cryptocurrency markets, which will come into force in 2025, is expected to bring the situation under control, the Lithuanian government has drafted its own legislation that is expected to be passed by the end of the year. "Until the [EU] regulation comes into force, we need to have the tools at our national level so that our institutions can function and this sector can be regulated and controlled," says Interior Minister Agnė Bilotaitė.

Crypto companies will be obliged to maintain a capital of at least 125,000 euros. The FNTT could suspend or ban one or several services for breaking the law. Currently, only licensed crypto businesses are subject to such measures.

Advantages of Vilnius city

Despite the above risks and challenges, it is undeniable that Lithuania has got its selling points when vying for international investors in the fintech and finance fields. In addition to the co-operative and flexible attitude both by the Lithuania's government and the country's financial regulator which was discussed above, Vilnius has got to offer even more distinct strengths.

Vilnius city, home to more than 600 thousand citizens, is a developed yet compact and green city with a rich history boasting an Old Town – one of the UNESCO Heritage Sites. The city has already amassed a pool of specialists who have experience not only in traditional banking but also in the fintech sector. The city is attractive for international finance specialists because it can offer a range of job opportunities for their family members as well as access to a wide range of international schools for their children. The city may be described as exceptionally green, where “almost half of the city is covered by parks, squares, and forests, so everyone can be in nature without leaving the city or even the Old Town”. This offers a good quality of life at a competitive price compared to other capitals in the EU. Another advantage is that Vilnius Airport is just a few kilometres from the city centre. Flights to the EU's main cities are already easily accessible and Lithuania is working to expand the list of destinations

Conclusion

The fintech sector has been one of Lithuania's success stories. It is a high-value-adding sector that offers plenty of highly paid employment opportunities. So far, Lithuania has maintained its competitive advantage by providing a streamlined regulatory environment and being proactive and flexible in attracting fintech investors. However, competition within the EU for this lucrative sector is set to increase. Therefore, it remains to be seen how much more Lithuania's fintech hub can grow.

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