Vitas Vasiliauskas: Balancing FinTech opportunities and risks

Welcome speech by Mr Vitas Vasiliauskas, Chairman of the Board of the Bank of Lithuania, at the Joint Bank of Lithuania-International Monetary Fund seminar "Balancing FinTech opportunities and risks", Rise, Vilnius, 10 June 2019.

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Good afternoon, distinguished guests, innovators and leaders in financial technology, policy makers. Welcome to the seminar, jointly organised by the IMF and the Bank of Lithuania.

Over the years, we have successfully cooperated with the Fund on a number of issues relevant to Lithuania's economy and financial sector. And, when it comes to FinTech, we set a good precedent almost three months ago in end-March. Back then, our Member of the Board Mr Marius Jurgilas conducted an internal seminar on Lithuania's FinTech experience at the IMF's offices in Washington.

Today we find ourselves to be discussing financial technologies in Vilnius – indeed, an appropriate follow-up. Given the importance of the issue, we are deeply honoured to have IMF Deputy Managing Director Mr Tao Zhang participating in the event. His presence is truly a recognition of Lithuania's achievements in the FinTech domain.

To help frame today's debate, let me briefly depict Lithuania's FinTech landscape from the perspective of a regulator. But first, I should perhaps explain why the Bank of Lithuania has put strategic emphasis on FinTech.

I will be frank and open: we have some very pragmatic reasons. The most important is the market concentration. The share of the three largest banks, as measured by assets, now exceeds 80 %. We also observe similar levels of concentration in key market segments, for instance, payments.

This drives us to encourage new participants. In a truly competitive market, the incumbents can never feel at ease, because there's always someone ready to take your slice of the pie. Indeed, the free and dynamic market may be a harsh place. But it is best at providing the consumer with the highest quality services at a fair price. Needless to say, for a public authority, promoting the benefit of consumers is one of our key goals.

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Being an integrated regulator, the Bank of Lithuania has developed a wide range of instruments to attract new players and stimulate competition. In fact, I find the recent guidance provided by the IMF to well reflect our methods. This is particularly the case with the Bali FinTech Agenda – the IMF's blueprint for FinTech development, produced together with the World Bank. Being one of the jurisdictions to take on the FinTech challenge early on, this shows that the overall direction we have chosen has put us on the right track.

One example of our good practice is opening up the Bank of Lithuania's payment infrastructure to non-banking entities. Now they can directly, – without the middlemen – access the Single Euro Payments Area through our CENTROlink payment platform. Today, out of the total 80 users of the CENTROlink, over three quarters are e-money and payment institutions.

By streamlining licensing procedures, we have also shortened the time it takes for such entities to receive authorisation and begin their operations.

In addition to this, we've introduced the concept of a specialized bank, which offers most of the mainstream financial services, but features a lower initial capital requirement. As a result, already

3 specialized bank licences have been issued, with 4 applications under consideration.

And, on top of that, we have initiated the creation of a legal framework for crowdfunding and peer-to-peer lending. This helps avoid regulatory arbitrage and eliminates the obstacles to the much needed development of alternative financing sources.

The results of our efforts speak for themselves: in 2016, we had 6 licenced e-money and payment institutions operating in Lithuania; today, that number has surpassed 80.

And yet, despite these early results, we are constantly looking for new ways to adapt. That is a large reason why we actively engage with the novel financial market players. Take, for instance, the Newcomer Programme. Or our own regulatory sandbox, which enables innovative firms to test their business models under our guidance and supervision.

All this interaction is a two-way street. We do it not only to help new participants, but also to help ourselves identify regulatory shortcomings.

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This know-how is especially crucial in one particular area – managing risks that are stemming from FinTech.

The duality of potential benefits and risks, recognized in the Bali FinTech Agenda, is also the underlying theme in our event today.

In this regard, the Bank of Lithuania has brought the money laundering concerns to the forefront, substantially boosting human resources devoted to the issue. We have also started to look into the non-bank entities when conducting cyber security exercises on the financial services sector. And, when it comes to investor protection, we were among the first to announce our no-nonsense position on crypto assets, dissociating financial services from activities related to virtual currencies or ICOs.

In terms of the overall risk outlook, the Bank of Lithuania joined forces with 8 other national public authorities – from law enforcement to data protection – to anticipate and manage FinTech risks. Institutions will, under their remit, regularly provide us with the relevant aggregated information.

However, risk management is only one of the areas where cross-institutional cooperation has taken place. Public bodies in Lithuania have been active in complementing the efforts of the regulator on a range of issues, resulting in a Government-level FinTech strategy. Together, we have been singing in unison, delivering a consistent message, which has attracted international attention. This is despite the breeze of political headwinds, which I expect to pass without affecting our institutional backbone.

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In all of the efforts that I described, Lithuania is trying to overcome boundaries of a small domestic market. In fact, we have already established ourselves as a gateway for third country FinTechs to enter the European payments and banking markets.

However, this cannot mean that our goal is purely the greatest number of market participants. Rather, our aim is to enable the growth of the highest quality FinTech companies. Here I am talking about businesses that are transparent, that follow the supervisory requirements and that deliver excellent financial services for the public.

For the society at large, Lithuania's FinTech ecosystem will bring benefits through other channels as well. Expect positive spillovers to multiple sectors, which could help develop activities and innovations that yield high value added for the real economy.

This somewhat larger picture is also an important reason why we care about financial technologies.

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Ladies and gentlemen, on this note, let me once again welcome you to this event. We have the perfect blend of public authorities and market practitioners gathered here today. Hopefully, this will result in a candid and insightful conversation on the delicate balance between risks and opportunities brought about by FinTech.

I also expect that the seminar will lay a strong foundation for a fruitful cooperation between the IMF and Lithuanian institutions in the area of financial technologies.