



## Research on the development of

Latvian non-bank consumer  
lending industry

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# RATIONALE OF THE RESEARCH



Non-bank consumer lending, together with the field of Fintech, is developing both in Latvia and elsewhere in the world, occupying an important role in national financial systems.

The non-bank consumer lending sector in Latvia has developed significantly in recent years. The phrase "quick loans" currently describes only how quickly the industry is able to make a decision - to grant or not to grant a loan.

However, the industry's reputation in society still tends to be associated with the time when, due to the lack of regulation (lack of a unified database for borrowers, practically unlimited interest rates), the term "quick loans" was born.

**Is it deserved and relevant to what is happening in the industry right now?**

# OBJECTIVE OF THE RESEARCH:

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the Latvian non-bank  
consumer lending  
industry

## THE SCOPE OF THE RESEARCH INCLUDES:



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A modern **definition of the non-bank consumer lending industry**



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**The development of the industry is examined in depth**, incl. its contribution to the Latvian economy, the quality of the credit portfolio and contribution through corporate socially responsible activities

**This is an independently conducted research.**

**The research was initiated at the beginning of 2022 by the Fintech Latvia Association.**

# THE RESEARCH IS BASED ON THE FOLLOWING FOR DATA SOURCES:



In publicly available statistics



For expert interviews with representatives of FLA members



**Surveys of FLA members**

**Participated:** 4FINANCE AS, DelfinGroup AS (Banknote), VIZIA FINANCE SIA, NORDIC FINANCE SIA, MOGO AS, PRIMERO FINANCE AS, IPF DIGITAL LATVIA SIA: more than 50% of the industry in terms of non-bank consumer loans issued



Provided by the FLA information

# DEFINITION

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**Companies registered in Latvia that issue or administer non-bank consumer loans to natural persons in Latvia or abroad**

non-bank consumer lending companies in Latvia and abroad can be separated - a large part of the companies in the sector work/have registered subsidiaries in other countries.

The focus of this research is the activity of the industry in Latvia.

Non-bank consumer loans, according to CRPC classification, are distance loans (DL) and consumer loans (CL). In reality, such a division practically does not exist.

# LIST OF LATVIAN NON-BANKING COMPANIES:

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- 4FINANCE AS
- AZDEVUMS.LV SIA
- AVAFIN LATVIA SIA
- BIGBANK AS LATVIA BRANCH
- DELFINGROUP AS
- E LATS SIA
- ESTO LV AS
- EXTRA CREDIT SIA
- FERRATUM LATVIA SIA
- FINANCE SIA
- FRESH FINANCE AS
- HOLM BANK LATVIA SIA
- INBANK LATVIA SIA
- UAB BLENDER LITHUANIA LATVIA BRANCH FOREIGN BRANCH
- IPF DIGITAL LATVIA SIA
- LATEKO LEASING AS
- MC FINANCE AS
- MINICREDIT AS
- MOGO JSC
- NORDIC FINANCE SIA
- PRIMERO FINANCE AS
- SOTERO LV SIA
- TF BANK AB FOREIGN BRANCH
- VIA SMS SIA
- VITA CREDIT SIA
- VIZIAFINANCE SIA
- INCREDIT GROUP SIA

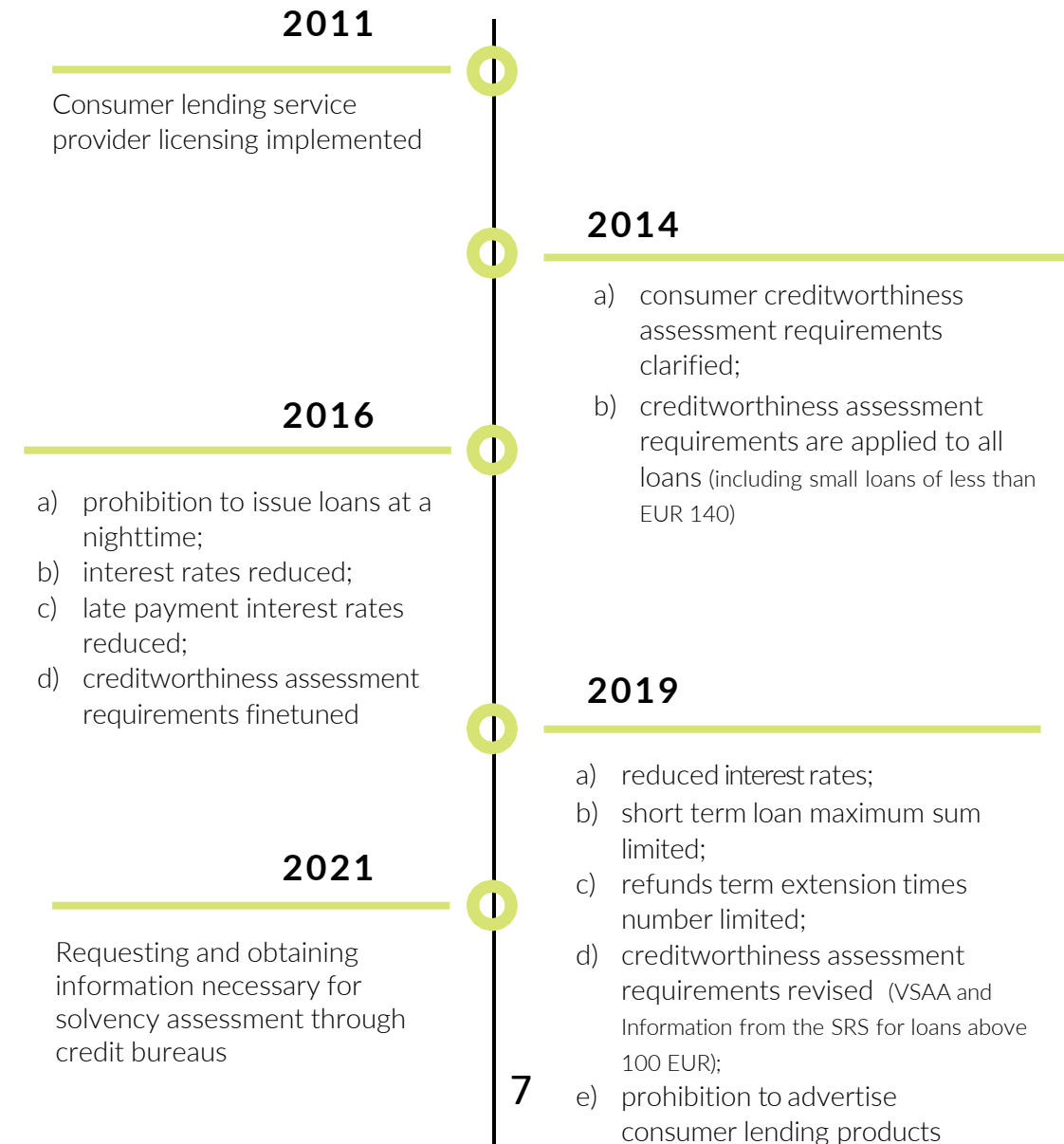
The list is created to vote on CRPC's (licensed consumer credit providers that issue and/or administer CL and DL), as well as information obtained from FLA members: about other companies that issue loans comparable to CL and DL

# STRICTLY REGULATED AND MATURE INDUSTRY

**"Very high rates, short terms and credit extensions are the three things that no longer exist in the industry.**

Few years ago loans with a repayment term of up to thirty days accounted for 99% from offered products. Currently the respective product type makes up only a few percents of the total portfolio. Products offered by the industry are at the moment **quite close to the ones that banks are offering**. Higher product prices can be explained by a bigger risk that these lenders undertake by issuing loans to those consumers that not always can access bank loans, thus contributing to the **financial inclusion** level in society."

## REGULATORY DEVELOPMENT: THE CONSUMER PROTECTION ACT



# STRICTLY REGULATED AND MATURE INDUSTRY

**" The non-banking sector in Latvia is one of the most strictly regulated in Europe .**

Market conditions and legal requirements dictated the development of an extremely strong AML system and high quality customer solvency assessment processes."

Licensing requirements, which provide for partner evaluation procedures in the field of **both sanctions and prevention of money laundering**

**The regulation of consumer creditworthiness assessment** is defined in the law and CRPC guidelines

The majority of members surveyed by Fintech Latvia Association have implemented **the company's internal code of ethics**

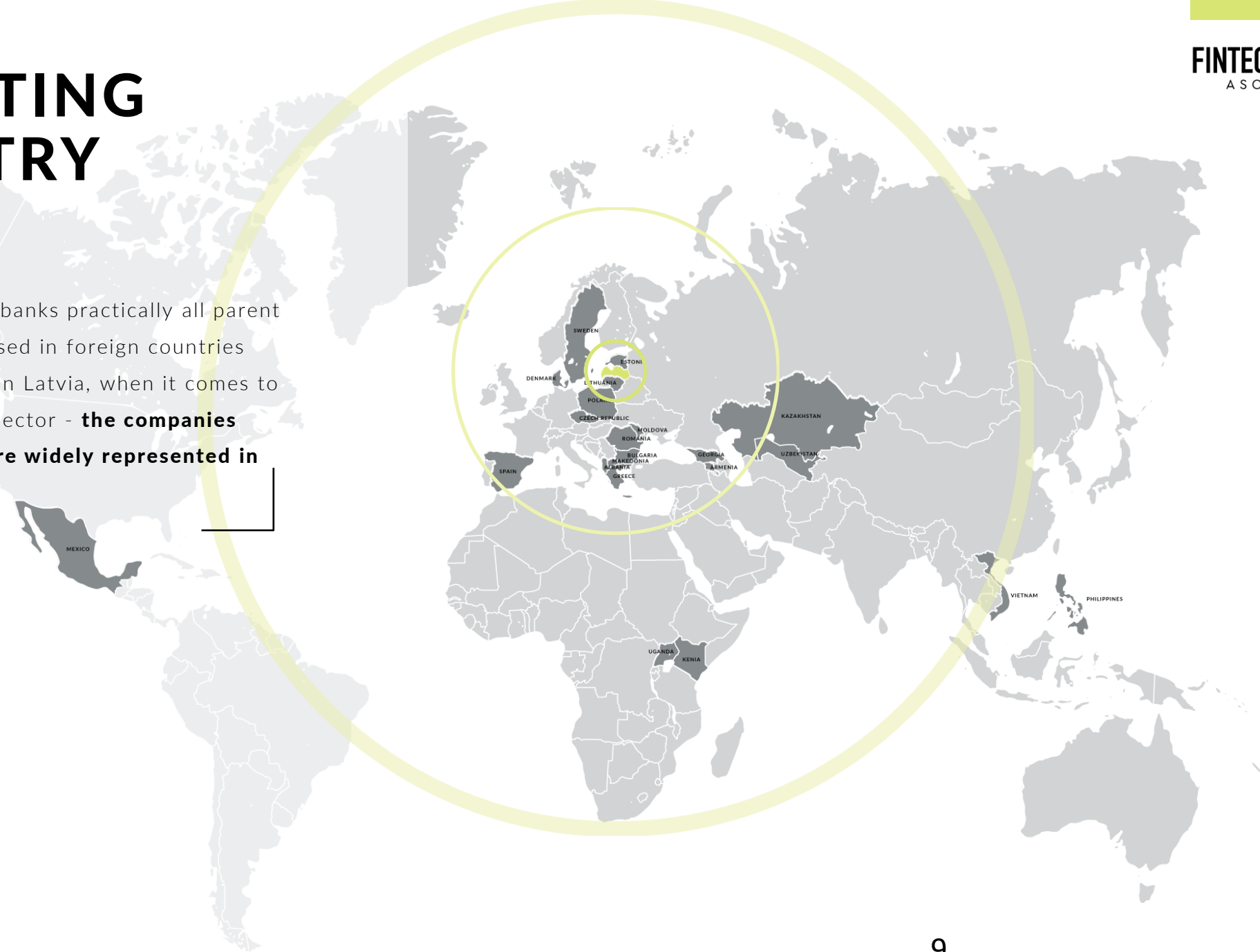
**Developed corporate governance** , which is a prerequisite for participating in public capital markets

**Currently, the industry is dominated by mature market players with good corporate governance and strict operational standards. Legal regulation in the field of granting loans is the same for banks and non-banks**



# EXPORTING INDUSTRY

"If in the case of banks practically all parent companies are based in foreign countries with subsidiaries in Latvia, when it comes to the non-banking sector - **the companies based in Latvia are widely represented in other markets.**"



# A DATA-DRIVEN INDUSTRY



The total number of inspections carried out by the surveyed members of FLA for existing and new clients in different registers (all requests sent to all databases in 2022):

**almost 2 million!**

"Currently, the non-bank lending industry is based on effective creditworthiness assessment models."

# DATA AND TECHNOLOGY BASED INDUSTRY

## Tools used in creditworthiness assessment

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**Currently, the non-banking lending industry is based on effective customer creditworthiness assessment models.**

Currently, the customer's creditworthiness is analyzed using the automated mathematical model - Scoring . According to its calculation, the client's risk level is determined, which is further used in the calculation of the credit limit and in issuing the loan.

**The following are taken into account:**

- Income (SRS/ CB)
- expenses (SRS/ CB)
- Other data available through Open-banking solutions
- Scoring models developed by lenders that help determine the client's risk level

If it is suspected that the amount has become or could become a great burden for the client, **the application is not approved.**

# HOW MANY LOAN APPLICATIONS ARE REJECTED? (2022)

- Fixed-term non-bank loans for new customers are rejected in an average of **74.6% of cases**
- For majority of the interviewed FLA members, this indicator is in the range of **80-90%**, especially closer to 2022. For credit lines: on average **84.1%** of cases.

	2018	2019	2020	2021	2022.
average rejection rate (%) for fixed term non-bank consumer loans *	68.3%	69.2%	74.4%	67.0%	74.6%
average credit line application rejection rate (%)	58.8%	73.1%	77.6%	84.1%	84.1%

The average loan approval refusal rate for new customers (defined as customers who apply for a loan for the first time and have never received a loan) for operations in Latvia (only distance credit operations).

\*One and the same person can be refused multiple times, with several companies.

# A DATA- DRIVEN INDUSTRY

## Customer support

If repayment difficulties occur, various solutions are offered, often without additional commission, for example:



refinancing



change of payment date



discounts on penalty interest



an individual approach is practiced

# NUMBER OF COMPLAINTS (2022)



Number of complaints (only for non-bank consumer credit operations) received directly by the surveyed 7 FLA member companies: **344**

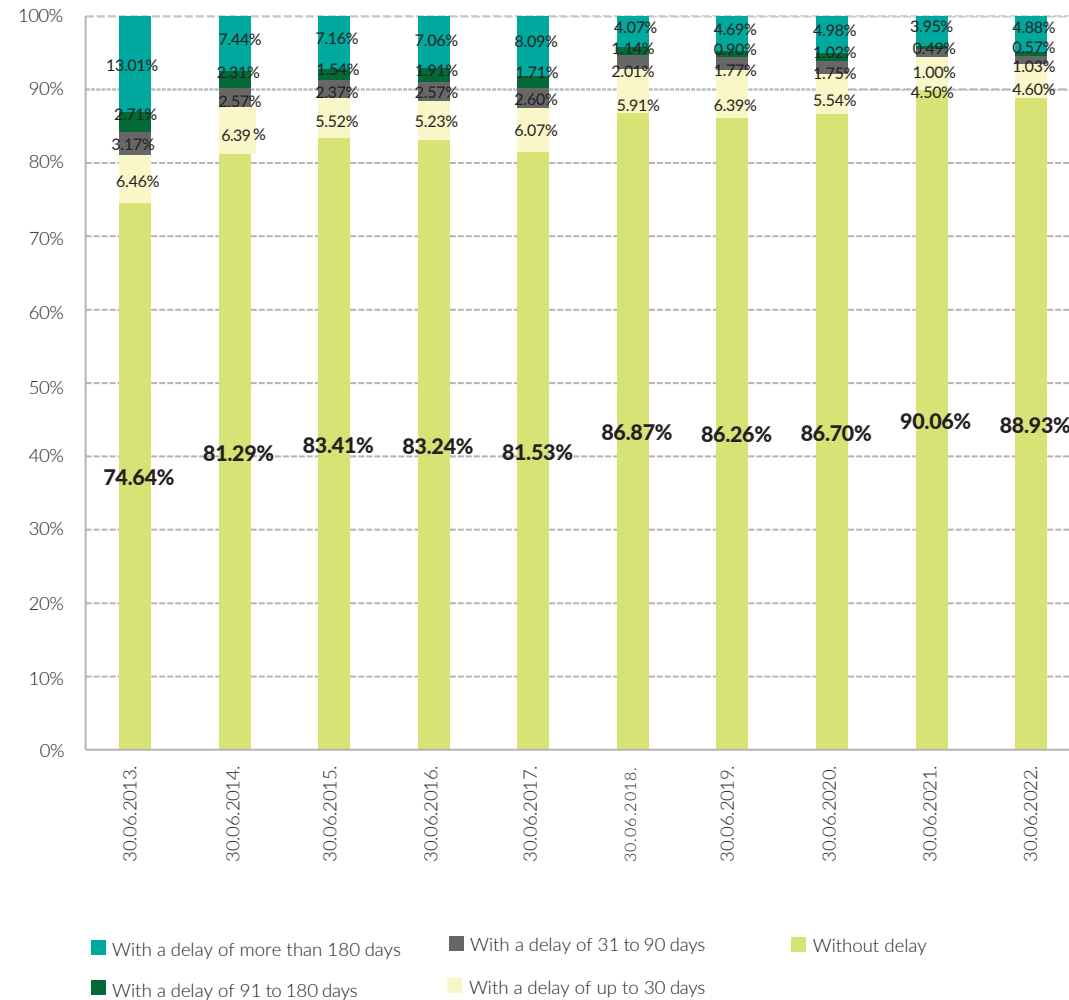
Percentage of total complaints in relation to the number of customers (average number of customers in a given year): **16**

Percentage of total complaints in relation to the number of customers (average number of customers): **less than 0.2%.**

Average time to resolve a complaint (days): depending on the company, **from 1 to a maximum of 30 days** (in rare cases). On average - 10 days.

# QUALITY OF THE CONSUMER LOAN PORTFOLIO

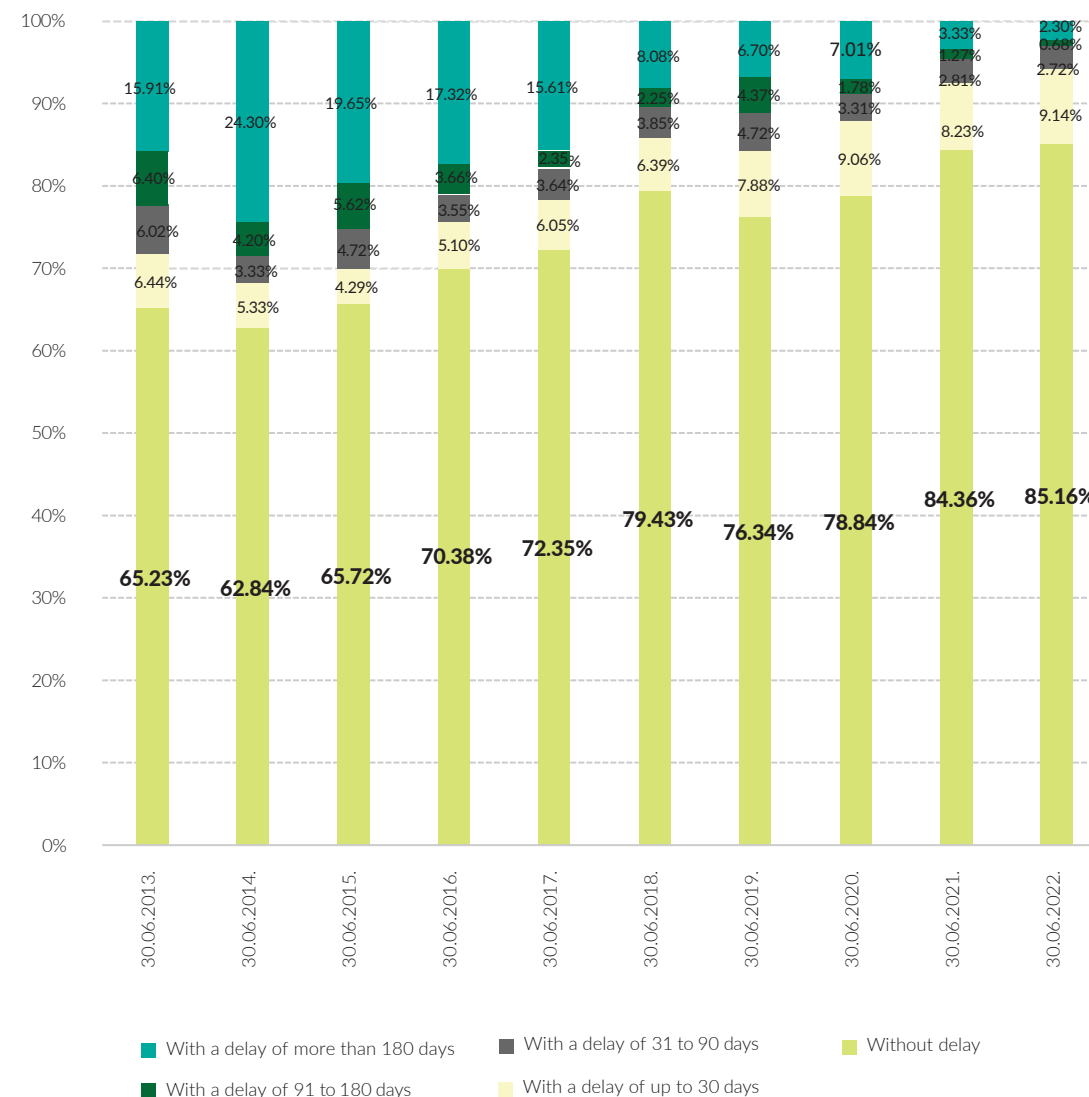
## Credit portfolio quality and loan repayment discipline of non-bank lenders (1st semester of 2021 and 2022)



# QUALITY OF THE DISTANCE LOAN PORTFOLIO

## Credit portfolio quality and loan repayment discipline of non-bank lenders

(1st semester of 2021 and 2022)





"Choosing which of the loans to take and whether to borrow at all is the consumer's decision. Over the years, consumers have become much more educated. It should be taken into account that currently a strict customer evaluation process is carried out in the industry - "to grant or not to grant a loan" and approximately **70% of clients who apply for a loan are rejected, and, accordingly, 30% are approved** . But those who decide to take a loan as a result are even fewer."

*Quote from an FLA member  
interviews*



The total volume of consumer loans (DL + CL) issued by **the non-banking sector in Latvia in 2021 reached:**

**350.4 million**

**EUR**

*Source : CRPC, 2023*

The total volume of loans for private individuals issued by **the Latvian banking sector** (new consumer loans for households\*) in 2022:

**365.5 million**

**EUR**

*Source : Latvian bank , 2023*

*\*does not include credit card amount*

# BANKING <-> NON-BANKING INDUSTRY

## AVERAGE LOAN AMOUNT, EUR (2020)

	Consumer credit (with guarantee )	Consumer credit (without guarantee)	Credit cards/line of credit (with warranty)	Credit cards/line of credit (no warranty)
Banks *	3785	3785	2745	1764
Non-bank creditors	746	743	709	709

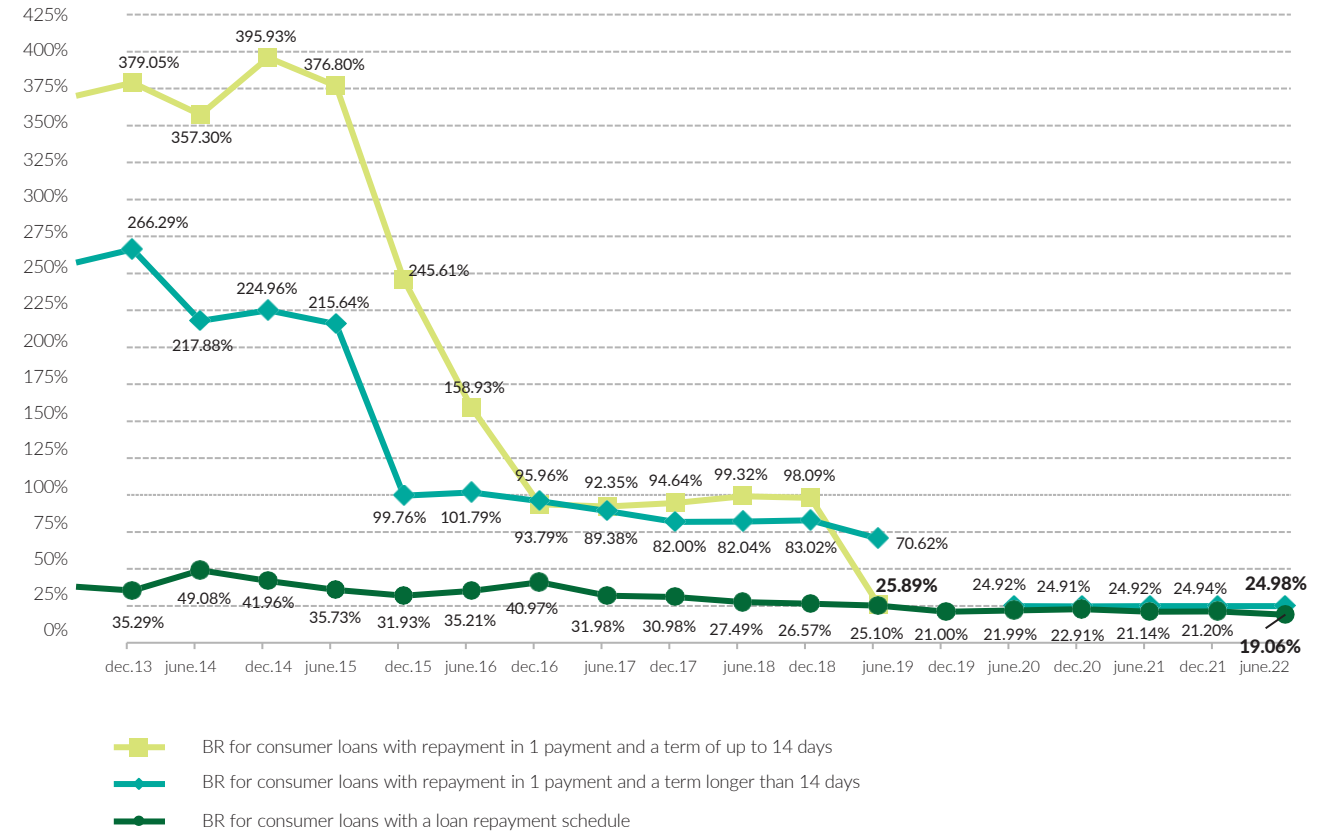
Source : CB, 2022

\* Not counting in mortgages credits

# NON-BANKING SECTOR:

## Average borrowing rates from newly issued consumer loans

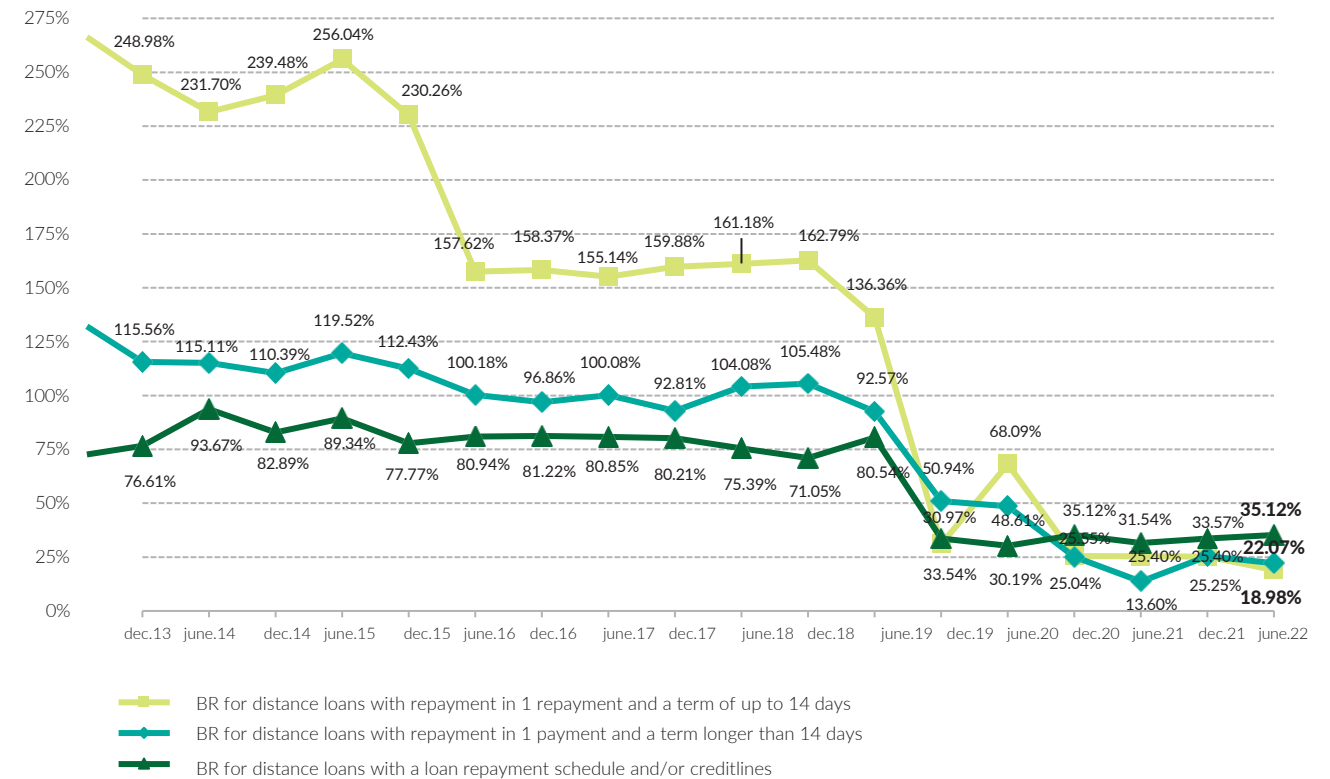
(December 2013 - June 2022)



# NON-BANKING SECTOR:

## Average borrowing rates from newly issued distance loans

(December 2013 - June 2022)



# BANKING SECTOR

**AVERAGE % RATE OF EUR LOANS TO HOUSEHOLDS (DOES NOT INCLUDE LOANS TO HOUSEHOLDS FOR THE PURCHASE OF A HOUSE)**

	02 / 2023			01 / 2023					
	With variable percent rate ; up to 1 year	1-5 years	5-10 years (with warranty)	Undivided term	With variable interest rate; up to 1 year	1-5 years	5-10 years	Longer than 10 years	Undivided term
<b>Consumer loans for households</b>	13.82	15.57	12.17		11.28	15.95	12.20	10.92	
Including consumer credits for households with collateral or warranty	5.76	4.92	6.63		4.82	8.26	8.19		
<b>Total effective annual cost interest rate for consumer loans to households</b>				<b>16.49</b>					<b>15.49</b>
Other loans for households	5.19	11.26	12.49 p.m		3.96	11.04	8.18		

# USE OF NON-BANK CONSUMER LOANS

- For unexpected expenses
- For making regular payments
- Medical expenses
- For the purchase and repair of cars and other vehicles
- For traveling
- For organizing various events
- For learning, education
- For various electrical goods, furniture, etc. larger purchases
- For home improvement
- For everyday spending needs
- For refinancing

"Regulatory environment: **Latvia's consumer lending market is highly regulated.** Legislative requirements also change and are difficult to predict. Regulations limit the types of credit that non-bank lending companies can offer, as well as the interest rates they can charge, which in turn affects profitability."

*Source: FLA members survey , 2023*

**“The understanding of the relationship between risk and rate by the broader public, as well as by regulators and legislators, is a problem.** Since non-bank consumer lenders are the ones able to serve higher risk customers as well, these companies tend to be the only ones able to provide these customers with a legal source of money. This means that high rates do not necessarily mean greed, but reflect the risk inherent in an unsecured loan.”

*Source: FLA members survey, 2023*







"Why a well-functioning economy needs a well-functioning credit market? Finance and money in general are the lifeblood of the economy, allowing the economy to function better.

**Consumer lending provides an opportunity to achieve goals, organize financial flow and implement thoughtful development!"**

*Source: FLA members survey, 2023*

# FIERCE COMPETITION



**intense competition** in the Latvian consumer lending market, which forces market participants to constantly think about good price offers, the ease of use and availability of services, as well as the quality of customer service



Non-bank creditors compete not only **with each other, but also with the banking sector**



Fierce competition in the market drives to the **lowering interest rates**



**Consumers are benefiting** - the market has a wide selection of technologically advanced and easy-to-use services that are constantly evolving

In response to demand, the industry has launched brand new products and services. The non-bank lending segment in Latvia is technologically developed and strategically important for the national economy, so its potential can no longer be ignored. However, favorable conditions are necessary for this potential to manifest itself. It is essential that the state promotes the growth of local entrepreneurs.

"The industry fills the needs of customers both in the purchase of used cars and in the financing of other necessary purchases. The customer has a wide choice between different service providers and products. The industry is currently quite heavily regulated and highly competitive. Industry companies develop new and innovative products that can become Latvian success stories on an international scale. Additional initiatives in the regulation of the industry are not necessary and will hinder the development of companies and the emergence of new products."

*Source: FLA members for interviews*



# INDUSTRY IN NUMBERS

The total volume of consumer loans (DL + CL) issued by **the non-banking sector in Latvia in 2021** reached:

**350.4 million EUR**

*Source: CRPC, 2023*

The total volume of loans for private individuals issued by **the Latvian banking sector** (new consumer loans for households\*) in 2022:

**365.5 million EUR**

*Source: Latvian bank, 2023*

*\*does not include credit card amount*

**amount of non-bank consumer loans (DL + CL) issued by the surveyed FLA members** in Latvia in 2022 reaches

**175 million EUR**

**non-bank consumer credit portfolio of the surveyed FLA members** in Latvia (as of December 2022) reaches

**198 million EUR**

Latvian non-bank consumer lending industry's companies (average per month) **employs more than 1300 employees**

**DYNAMICS OF THE NUMBER OF EMPLOYEES FROM 2020 TO 2022**

	In the country	Latvian non-bank consumer lending sector
2020 year	809,854	1,324
The year 2021	816,432	1,304
The year 2022	818,217	1,334

Source: SRS (data as of 14.03.2023)

**The number of employees** of surveyed FLA members in the company (average PLE in the relevant year - employees involved in non-bank consumer lending) in 2022 was approximately

**500**

The number of employees in companies was similar in 2019-2021. years.

**The total number of employees employed by these companies and their subsidiaries, in Latvia and abroad, is much higher.**

Average salary in non-bank consumer lending companies **is significantly higher than the average salary in the country as a whole**



**AVERAGE MONTHLY GROSS LABOR INCOME OF EMPLOYEES  
FROM 2020 TO 2022, EUR**

	The year 2020	The year 2021	The year 2022
All employees in the country	1,125	1,244	1,368
Latvian non-bank consumer lending industry	1,995	1,987	2,259

*Source: SRS (data as of 14.03.2023)*

**Salary expenses of surveyed FLA members:**

for employees involved in non-bank consumer lending, in 2022 exceeded

**7 million EUR**

and have been on an increasing trend since 2020.

**Social insurance and health insurance contributions of surveyed FLA members to employees** involved in non-bank consumer lending in 2022 are approximately

**2 million EUR**



In 2022, the number of **non-bank consumer** (average annual) **customers** of surveyed FLA members exceeded

**600,000\***

**Of those active customers** who have a loan now or have had it in the previous 12 months (data as of 31.12.): approx.

**150,000\***

*\*Indicated is the total number of customers of all surveyed FLA members. The same customers can be served in several companies, so the number of unique customers is smaller in reality.*

	2019 year	2020 year	The year 2021	The year 2022
Common customer number (of all companies activities : average number of per year)	573,929	582,285	600,784	628,583
Customer number : non-banks consumption in lending (average number of per year )	555,982	566,242	582,202	605,616

Source: FLA members survey, 2023

The non-bank consumer lending industry **makes a contribution in the state budget:**

**18.59 million EUR** (year 2020)

**23.4 million EUR** (year 2021)

**26.89 million EUR** (year 2022)

**TOTAL BUDGET REVENUES ADMINISTERED BY SRS FROM THE LATVIAN NON-BANK CONSUMER LENDING INDUSTRY TO TAXPAYERS FROM 2020 TO 2022, MILLION EUR**

		Administered by general budget revenues in total	
2020 year	Latvian non-bank consumer lending industry	18.59	
	All taxpayers	9,743.78	
The year 2021	Latvian non-bank consumer lending industry	23.40	
	All taxpayers	10,454.65	
The year 2022	Latvian non-bank consumer lending industry	26.89	
	All taxpayers	12,431.21	
Changes (2022 - 2021)	Latvian non-bank consumer lending industry	million EUR	3.49
		%	14.9%
	All taxpayers	million EUR	1,976.56
		%	18.9%

Source: SRS (data as of 14.03.2023)

**Profit of non-bank consumer lending industry companies has significantly decreased in 2020 and 2021, compared to 2019**

Source: SRS (data on 13.03.2023)

**Profit of the Latvian banking sector in 2022: EUR 325,046 million ( 13.9% increase compared to 2021)**

Source: Bank of Latvia, 2023

**INFORMATION ON THE INDICATORS OF THE COMPANY'S ANNUAL REPORT**

	Turnover , million EUR			Profit, million EUR			Losses, million EUR		
	2019 year	2020 year	2021 year	2019 year	2020 year	2021 year	2019 year	2020 year	2021 year
All taxpayers	77,475.84	64,110.92	76,845.50	6,353.51	5,405.99	7,772.98	1,669.67	2,346.75	1,723.60
<b>Latvian non-bank consumer lending industry</b>	<b>141.28</b>	<b>120.58</b>	<b>130.30</b>	<b>91.74</b>	<b>27.38</b>	<b>27.85</b>	<b>1.28</b>	<b>4.48</b>	<b>1.74</b>

Source: SRS (data on 13.03.2023)

**Responsible lending and business** - one of the values of FLA members



**MEMBERS OF THE ASSOCIATION IMPLEMENT A SERIES OF DIFFERENT ACTIVITIES:**



promotion of financial literacy



to support different groups of society



sustainability and climate neutrality

# PROMOTING FINANCIAL LITERACY

- **4Finance** created and maintains the financial education platform [aiznemiesatbildigi.lv](https://aiznemiesatbildigi.lv), where the public is provided with answers to more important questions related to the issuance of a loan, the terms of granting a loan and the loan repayment process, and also realizes the Financial Literacy training course for 12th grade students "Financial Skills" in cooperation with the professional further education center "Digital Skills Center".
- **Eleving Group** developed Financial literacy platforms [www.smart.eleving.com](https://www.smart.eleving.com), localizing it in 8 countries, including Latvia. It offers to complete a financial literacy test, in which everyone can evaluate their existing credit obligations or evaluate financial options for themselves and their household
- **DelfinGroup**, together with the Association of Latvian Senior Communities, organizes financial literacy **seminars for seniors**

# SUPPORTING VARIOUS SOCIETY GROUPS

In the focus of 2022  
**support for Ukraine**

- **4Finance** has implemented **12 different charity actions** in 2022, the total amount of donations reaching 555,270 euros.
- **DelfinGroup** 2022 **the biggest attention dedicated for support for Ukraine** (together With partners 255,000 euros were donated Ukrainian for support), continued to support long-term partners - Children hospital fund and Latvia seniors community association. Of 2021 focus supports in the field It was connected with medical, educational and youth, as also seniors activities echoing
- **Eleving Group** **has provided support to Ukraine** for more than 100 thousand in the amount of EUR, so-called participation in the projects "Entrepreneurs for Peace", "Free Ukraine in Europe". Support was also provided in the field of sports by supporting team sports clubs

# SUSTAINABILITY AND CLIMATE



- One of **Eleving Group** the long-term strategic goals are **to become a climate-neutral company**. The company continues to engage in "Carbon Footprint Ltd." in the organized carbon dioxide emission compensation campaigns to offset the entire carbon dioxide footprint (114 tCO<sub>2</sub>) generated by the operations of the company's head offices (Riga and Vilnius).
- **Eleving Group** in cooperation with the company "Bolt" (Estonia) and "STIMA" (France) has started an **e -motorcycle financing project in Kenya since November**. With the help of the project, the company is committed to promoting environmentally friendly and sustainable mobility in one of the largest African countries, etc. projects.
- **DelfinGroup** By creating **a reliable second-hand goods circulation system** ("Banknote"), ensures sustainable circulation of goods in society.
- **Sun Finance** **received the highest level of carbon footprint standard** in the 2nd quarter of 2021, becoming a **climate neutral company**. The company is also a member of the Green Office Program of the World Wildlife Fund.

# MESSAGES TO POLICY MAKERS AND REGULATORS



## 1. SRS data exchange with CB

Currently, the system through which SRS transfers data to credit bureaus does not work or works with errors approximately 20-30% of the time. This complicates the solvency assessment processes.

## 2. Frequency of data transfer to credit bureaus

Possible improvements in the speed of data exchange between the parties, which would reduce the number of cases where non-responsible borrowing takes place at several lenders at the same time. Companies are obliged to report new customer commitments within 5 working days after taking on commitments (in this period, theoretically, additional commitments can also be undertaken with other lenders). This time could be reduced, thus making the information included in the databases even more efficient.

## 3. Self-refusal register - in credit bureaus

A unified register of persons who refused the possibility of receiving a consumer loan, which works similarly to gambling industry. It currently operates on a voluntary basis and is not mandatory for all lenders.

## 4. A better level of understanding on the part of decision-makers about the link between the price of financing available to lenders and the risk level of the customers served and the appropriateness of the price of credit products



# ABOUT THE AUTHOR

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- Dr. Arnis Sauka is a professor at the Riga University of Economics, director of the Sustainable Business Center, as well as the chairman of the Vidzeme University supervisory board, and an associate researcher at the IfM Bonn (Germany) research group.
- He received his doctorate at the University of Siegen (Germany), worked as a visiting researcher Jönköping International Business School (Sweden) and University College London (Great Britain).
- Based on his academic research, which has been published in leading, peer-reviewed journals, he also actively participates in applied research. This manifests itself in the development of regular studies and consultations according to the orders of international organizations including OECD, the European Commission, as well as the request of various industry associations in Latvia and abroad.
- Co-author of the annual "Shadow Economy Index in the Baltic States", author of the annual "Foreign Investment Environment Index", etc. studies.

# FINTECH LATVIA REPRESENTS

## MEMBERS:



AS "4finance"



SIA "Finanza "



AS " Renti "



AS "WEST  
KREDIT"



SIA "IPF Digital Latvia"



SIA " ViziaFinance "



AS "Mogo"



DelfinGroup JSC



SIA "Nordic Finance"



AS "Primero Finance"



SIA "Extra Credit"

## BRANDS:



**THANK YOU!**  
For more information, please  
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