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Inside...

Estonia and Lithuania have, for some time, been popular amongst FinTech companies and start-ups due to their investor-friendly regulatory regimes, friendly political climate, and favourable tax practices. As a result, they've become sought-after destinations for companies in the Baltic region and Europe as a whole.

This paper will look at the FinTech landscape in these countries in more detail and consider the available funding for FinTechs, FinTech regulation, accessing talent, and intellectual property protection.

/ The Fintech Landscape in Estonia and Lituania

When considering that, in 2014, there were only 55 FinTech companies in Lithuania and that this number has now grown to 230 by the end of 2020, it's easy to see why Lithuania is the largest FinTech hub in the European Union and the 4th largest FinTech hub globally. This was, to a large extent, due to the opportunities created by Brexit, which Lithuania was able to capitalise on.

Other contributors to this were the fact that Lithuania implemented the necessary infrastructure to make it more attractive for FinTechs. This was mainly done through the governmental strategy launched in 2016 to promote growth and create a FinTech hub in Lithuania. This aim was one of the main goals of the program of the government of Lithuania.

For example, the Bank of Lithuania, which is at the forefront of implementing the strategy, considered areas that could be the most significant deterrent for FinTechs wanting to set up their businesses in the country and created the infrastructure to fix these problems.

For instance, one of the most prominent examples of this is the development of CENTROlink. This payment system, operated by the Bank of Lithuania, provides businesses and payment service providers like banks, credit unions, and other payment institutions with access to the Single Euro Payments Area (SEPA). This allows FinTechs who don't have a partner to have access to the financial system.

Another contributor to Lithuania's growth as a FinTech hub is its FinTech-friendly regulation and favourable attitude of the regulator. For example, the process of applying for an EMI licence to issue electronic money, as many FinTechs do, has been significantly simplified.

Although there has been increased attention on Lithuania because their anti-money laundering regulation appears to be too lax, its rules and processes are stringent. In addition, the bank of Lithuania recently started es-

tablishing the Centre of Excellence in Anti-Money Laundering, which aims to strengthen further its efforts to prevent money laundering and terrorist financing.

In Estonia, the situation is no different, with its FinTech sector proliferating. At the end of 2020, there were 215 FinTechs in Estonia. This number is up from 84 at the end of 2018. One of the main reasons for this is Estonia's digital-first environment that encourages innovation and technological development.

For example, its e-residency is known as the first of its kind globally and allows companies to manage their companies remotely no matter where they are in the world. Likewise, it was one of the first countries globally to develop a blockchain-based healthcare system.

More importantly, though, the Estonian government has put several entrepreneur-friendly tax policies and incentives in place to attract foreign investment, especially from technology and FinTech companies. For instance, it has a low tax rate and companies don't pay tax on retained and reinvested profits. This is especially helpful for companies that want to grow.

Similarly, Lithuania has implemented several tax incentives in respect of small and medium-sized businesses and FinTech companies. These incentives include limiting the amount of tax small companies need to pay and offering companies the ability to reduce their taxes by the costs incurred on technological innovation.

/ Funding for FinTech

Several funding options are available for FinTechs in both Estonia and Lithuania, ranging from government agencies to investors, credit, and STOs.

// Government Support

In Estonia, Enterprise Estonia and KredEx, the state economic agencies, offer support to FinTech start-ups through various business grants and services. Enterprise Estonia (EAS) is a national foundation that provides FinTechs with a number of services and grants that aid in establishing a business and its growth. These include:

- **Start-up grants**. This grant aims to support new companies established in the 24 months before an application is made and can develop into larger organisations that expand regional entrepreneurship. Here, companies that receive the grant have the obligation to meet specific goals like job creation and increasing sales revenue.

- **Foreign recruitment grants**. This grant aims to support the recruitment of foreign experts in information technology, science, and engineering to reduce the skills shortage in these industries. It's important to note that applications for this grant were closed at the time of writing.

- **Development vouchers**. These development vouchers support initial research into an idea and enable entrepreneurs to obtain insights into whether their idea has the potential to grow into a business and move into further stages of development.

In turn, KredEx, established by the Estonian Ministry of Economic Affairs and Communications in 2001, helps companies develop and grow quickly and efficiently. It does this by offering loans, venture capital, and credit insurance with a state guarantee.

For example, it offers starter loans to companies that are in the start-up phase, lack the necessary seed capital to grow, and don't have the collateral and credit history to obtain bank loans. One of the main benefits of these starter loans offered by KredEx is that they have far lower collateral

requirements compared to ordinary bank loans, and, in most cases, personal guarantees from the owners of the company will be sufficient.

In addition to start-up loans, KredEx also provides access to venture capital that helps companies to expand and finance their growth. It does this through a variety of funds, including Superangel, Karma Ventures, Tera Ventures, United Angels, and more.

In much the same way, INVEGA offers FinTechs access to capital in Lithuania. It's a financial institution established by the state to provide financial services and other support measures to start-ups and SMEs. For example, it offers companies various loans depending on their specific needs and requirements, which include:

- **Start-up loans**. These loans aim to assist SMEs by providing them with the necessary funds to finance projects when starting new activities or growing or expanding their current activities.
- **Entrepreneurship Promotion Fund** (EPF). The EPF is a microcredit program that offers microloans up to a maximum of EUR 25,000. A unique feature of this program is that these microloans form part of a package of support that INVEGA provides to companies, including training, advice, and additional financial support.

In addition, and similar to Estonia, INVEGA also provides access to venture capital to give companies access to capital and allow them to grow. Here, depending on the specific set of circumstances, various funds are available, including Accelerator Funds, the Co-Investment Fund, the Business Angels Co-Investment Fund, and others.

// Investors

Apart from having access to venture capital through the government programs mentioned above, both Estonia and Lithuania have many opportunities for FinTechs to seek venture capital or early seed stage investment or raise funds through crowdfunding platforms.

Lithuania, for instance, has various local investors with proven track records of proven investments. Here, one of the key organisations is arguably the Lithuanian Business Angel Network. Established in 2018, it aims to connect start-ups with angel investors and thereby give companies more funding opportunities. In addition, other local investors that FinTechs have access to include, for example, Launchpad Capital, Practica Capital, Change Ventures, Coinvest Capital, and Iron Wolf Capital to name but a few.

Likewise, in Estonia, FinTechs have

access to a wide range of seed investors, venture capital firms, and crowdfunders, including Funderbeam, Fundwise, Prototron, ESTBAN, Superangel, and The Better Fund.

Another option for FinTechs to raise capital in both Estonia and Lithuania is to list the company on the stock exchange through an Initial Public Offering (IPO). Here, it's important to note that every country has its own stock exchange with distinct requirements companies need to comply with when listing.

The final option is for FinTechs to raise capital through Secure Token Offerings (STOs). These investment vehicles are quite a recent development and came about due to the popularity of ICOs. However, the problem with ICOs is that they were unregulated and, therefore, prone to misuse and scams. As a result, STOs started to replace them.

/ FinTech Regulation

Because both Estonia and Lithuania fall within the European Union, FinTech regulations start at the EU level, and EU-wide initiatives drive their respective regulations. For example, in March 2018, the European Commission introduced an action plan on FinTech to ensure more competition and, therefore, more innovation in the industry.

The primary purpose of this action plan is to:

- Allow business models at the forefront of innovation to grow and scale.
- Support the adoption of new technologies like blockchain, artificial intelligence (AI), and more.
- Increase cybersecurity and the integrity of the financial system.

Another significant change in EU regulations was the introduction of a new version of the payment services directive, widely known as PSD2. Its aim is to level the playing field for companies engaged in providing payment services.

In simple terms, these initiatives aim to encourage innovation while, at the same time, minimise security risks and protect consumers' rights. Keep in mind, though, that legislative and regulatory development can, at times, be slow at the EU level and, therefore, many jurisdictions create regulations on a national level.

Now, turning to Estonia and Lithuania, there are no specific regulations relating to FinTechs. However, depending on the product or services offered by one particular FinTech, regulations would apply. So, for example, FinTechs like payment and e-money institutions, investment firms, insurance companies, and FinTechs that offer credit products would need to comply with regulations if they provide the following services:

- Consumer lending.
- Receipt of deposits.
- Payment and electronic money services.
- Investment services.
- Currency exchange.
- Management of investment funds.

- Management of financial instruments.
- Peer-to-peer lending services.

It's important to note that this is not an exhaustive list of the services that are regulated and would require licences, so it's crucial to ascertain, based on the applicable laws and regulations and the services and products a FinTech offers, whether it needs to comply with them.

At the core of these regulations lies the financial regulators that supervise the relevant activities in each country. In Estonia, the Financial Supervision Authority is the primary regulator tasked with this function, and its regulatory powers are derived from the Financial Supervision Authority Act.

As such, it supervises and issues licences to banks, investment firms, payment service providers, e-money institutions, and other FinTech companies. Likewise, the Bank of Lithuania fulfils the same role and, once a FinTech offers products or services that fall under a specific regulatory framework, they become subject to its supervision.

With that in mind, we'll consider the relevant regulations applicable to specific industries and FinTechs.

// Banks and Consumer Credit Institutions

In Estonia, banks and credit institutions are regulated in the Credit Institutions Act and the Creditors and Credit Intermediaries Act. In terms of the relevant legislation, banks have the exclusive right to receive deposits from customers or to receive repayable funds in any other manner.

The minimum capital requirement for banks is 5 million euros, and it's also worth noting that only licenced banks in terms of this legislation may use the word "bank" in their business name.

In addition, to operate as a creditor or credit intermediary, or, in other words, a credit institution and offer loans to consumers, FinTechs would need to obtain an activity licence from the Financial Supervision Authority.

Their activities are regulated under the Creditors and Credit Intermediaries Act which was introduced to harmonise the requirements for creditors and credit intermediaries. To successfully apply for a licence, creditors must have a share capital of at least 50,000 euros.

In Lithuania, banks, consumer credit providers, and credit unions are regulated by the:

- Republic of Lithuania Law on Banks
- Republic of Lithuania Law on Consumer Credit
- Republic of Lithuania Law on Financial Institutions
- Republic of Lithuania Law on Payments
- Republic of Lithuania Law on Credit Unions

Each of these institutions has its own prudential and reporting requirements and needs to be licenced by the Bank of Lithuania to operate. For example, banks must hold a bank or specialised bank licence and are subject to specific capital, liquidity coverage, and other requirements. Likewise, credit unions and consumer credit providers are supervised by the Bank of Lithuania.

// Payment Service Providers and E-Money Institutions

In both Estonia and Lithuania, payment services providers and e-money institutions are also regulated. Here, it's worth considering what payment service providers and e-money Institutions are.

A payment service provider or payment institution is a company that primarily provides payment services to consumers. For instance, these services can allow consumers to make cash payments to payment accounts, withdraw cash, and execute payment transactions.

In turn, an e-money institution is a company that issues electronic money stored on an electronic device or medium and can be used for payment purposes.

In Estonia, payment service providers and e-money institutions are governed by the Payment Institutions and E-money Institutions Act. For them to operate, they would need a licence issued by the Financial Supervision Authority, and they are subject to minimal share or initial capital requirements.

In Lithuania, e-money institutions are regulated in the Republic of Lithuania Law on Electronic Money and Electronic Money Institutions. An e-money institution requires a licence issued by the Bank of Lithuania.

When holding a licence for a restricted activity, the institution's management will be subject to less stringent requirements, and there are no own funds or shareholder eligibility requirements applicable. There are, however, restrictions on the average outstanding electronic money and/or on the turnover of payment transactions, and such an institution may only operate in Lithuania.

In contrast, when an e-money institution holds a licence for an unrestricted activity, it may operate across the European Union, subject to own funds requirements.

Payment institutions that provide payment services in Lithuania are regulated by the Republic of Lithuania Law on Payment Institutions. Like e-money institutions, these institutions also have to have a licence issued by the Bank of Lithuania before they'll be able to operate.

Once again, it may hold a licence for a restricted activity where its management will be subject to less stringent requirements. There will be no capital and shareholder eligibility requirements. It is, however, subject to restrictions on the turnover of payment transactions and may only operate in Lithuania.

Likewise, it could hold a licence for an unrestricted activity which would allow it to operate across the European Union, but it will be subject to own funds requirements. In addition, a payment institution can also hold a licence of a payment institution only providing account information services which entitle it to operate across the European Union and without specific requirements relating to capital and shareholder eligibility, fund safeguarding, intermediaries, and outsourcing of operational functions.

// Investment Firms

In Estonia, investment firms, fund managers, and investment and pension funds are regulated by the Investment Funds Act. In addition, their activities and the issuers of securities are regulated by the Securities Market Act. According to the Financial Supervision Authority, investment services include:

- Buying and selling securities on behalf of a client.
- Receiving orders for securities transactions from clients and carrying them out on behalf of the client.
- Securities trading.
- Managing client portfolios.
- Underwriting the issue of securities.
- Organising and managing the issuance of securities and public offers.

FinTechs that offer these services are subject to the licensing requirements of the Financial Supervision Authority, and any investment firm or fund manager wishing to offer these services need to apply for a licence before doing so.

In Lithuania, these services are regulated by several pieces of legislation, which include:

- Republic of Lithuania Law on Collective Investment Undertakings Intended for Informed Investors
- Republic of Lithuania Law on Securities
- Republic of Lithuania Law on Markets in Financial Instruments
- Republic of Lithuania Law on the Accumulation of Occupational Pensions
- Republic of Lithuania Law on the Accumulation of Pensions
- Republic of Lithuania Law on Collective Investment Undertakings
- Republic of Lithuania Law on the Supplementary Voluntary Accumulation of Pensions

Like Estonia, investment firms, fund managers, and financial advisers need to be licensed by the Bank of Lithuania to operate. Here, each has its own licensing and prudential requirements it needs to comply with.

// Insurance Companies

Generally, the main activity of insurance companies or insurers is to provide insurance services whereby they take on the risks of a consumer or policyholder under an insurance contract and agree to compensate or reimburse the policyholder if an insured event in terms of the agreement occurs. Typically, insurance products are divided into life, non-life, and reinsurance products.

In contrast, an insurance intermediary is a company that specialises in intermediating insurance contracts and earning a broker fee or agent fee in return. Generally, the broker represents the client's interests in any insurance contract, while the agent represents the insurance company's interests.

In Estonia, insurance companies are regulated in terms of the Insurance Activities Act. As such, any FinTech that wants to offer insurance services will need a licence to do so issued by the Financial Supervision Authority. Likewise, insurers and insurance intermediaries are regulated by the Republic of Lithuania Law on Insurance in Lithuania and need to be licenced by the Bank of Lithuania.

// Regulatory Sandboxes

For countries that want to attract investment and create an innovation-friendly environment, regulatory sandboxes are often necessary. The regulatory sandboxes are regulatory approaches that allow companies to test their products or services in real-time in a real environment under the supervision of regulators, which enables them to bring products to the market faster.

Regulatory sandboxes have specific distinct characteristics and benefits, which include:

- It creates a conducive and contained space where companies can experiment with innovations at the edge or even outside a current regulatory framework but still under a regulator's supervision.
- It decreases the cost of innovation and reduces barriers to entry which encourages companies to experiment and allows regulators to collect valuable insights before deciding if further regulatory action is necessary.
- It gives companies the ability to have continuous consultations with the regulator throughout the process.
- It could result in several outcomes, which include full authorisation of the innovation or changes in regulations.

Lithuania launched a regulatory sandbox in 2018 in order to foster financial innovation and increase competition in the market for financial services. Here, FinTechs can enter the financial sandbox if their innovation meets the following requirements:

- Is new to Lithuania's financial market.
- If implemented, it would lead to consumers having access to more convenient, safer, more affordable financial services or other identifiable benefits.
- Its testing in a live environment is objectively necessary and may contribute to its implementation.
- The company has performed an assessment of its adaptability, allocated sufficient resources to its development, and carried out a risk assessment.
- The innovation will be further developed in Lithuania.

The European Bank for Reconstruction and Development and Estonia's Ministry of Finance launched the first regulatory sandbox in Estonia in 2019. The reason for this was to create a supportive regulatory environment that would encourage innovation and attract FinTech companies.

So, the sandbox facilitates innovation and allows FinTechs to test financial products, services, or business models while also allowing the authorities to learn more about innovative businesses and develop the necessary frameworks and regulations to facilitate financial innovation further.

// Cryptocurrencies

In recent years, many countries globally have implemented legislation and regulations in an attempt to regulate cryptocurrencies. For example, countries like the UK, Canada, and Singapore have regulated cryptocurrencies, and, typically, companies engaged in cryptocurrency-related business activities need to register or are governed by legislation.

Likewise, countries like the United States and Brazil have proposed to regulate cryptocurrencies, while others, like China, have banned crypto-currency-related activities.

Currently, Lithuania has no form of cryptocurrency regulation or supervision, and, as such, crypto-asset related services and products are not regulated or supervised by the Bank of Lithuania. The result is that there's no statutory obligation on any FinTech to obtain authorisation from the Bank of Lithuania prior to offering any cryptocurrency-related products or services.

In contrast, Estonia regulates cryptocurrency-related activities through its Cryptocurrency Exchange licence. This licence, which aims to simplify the licensing process, is a merger of the Virtual Currency Exchange Service Licence and the Virtual Currency Wallet Service Licence, both of which were introduced in 2017.

This means that, although it's legal for residents in Estonia to own, buy, and sell cryptocurrency and blockchain-based assets, FinTechs would need a license to offer cryptocurrency-related services and products to consumers.

To apply for this license, FinTechs need to incorporate an Estonian company, present certificates of non-criminal backgrounds of the shareholders and/or board members, provide information about the person responsible for compliance, and obtain a minimum of 12,000 euros in share capital. In addition, there are a number of other requirements that need to be complied with.

// Crowdfunding

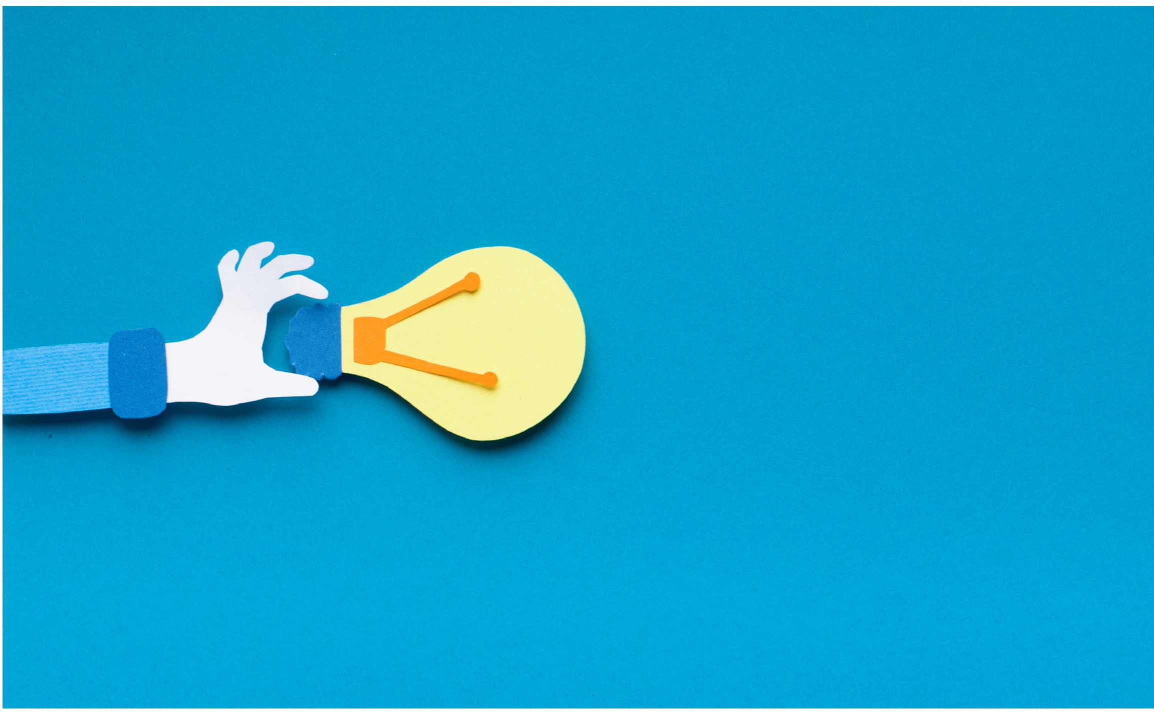
In September 2016, the Estonian Financial Supervision Authority proposed a law to regulate companies involved in crowdfunding. It decided, however, not to implement any crowdfunding-specific regulations. Despite this, and as a result of the growing popularity of crowdfunding, FinanceEstonia, in collaboration with Deloitte Legal, created some best practices specifically relating to crowdfunding.

This best practice aimed to make the activities of crowdfunding platforms more straightforward, more transparent, and easier to understand for clients while also providing a code of conduct for crowdfunding providers and platforms.

Likewise, in November 2016, Lithuania enacted its Law on Crowdfunding. This legislation regulates the activities of crowdfunding operators and the procedure to follow to be included on the public list of crowdfunding operators. This made Lithuania one of the few European countries with national crowdfunding regulations.

In October 2020, the European Parliament adopted the EU Regulation on European Crowdfunding Service Providers (ECSP), aiming to create common rules and a single licensing procedure for crowdfunding platforms across Europe.

Lithuania's crowdfunding legislation encompasses the requirements set



out in the regulations. As a result, Lithuania is expected to be one of the first EU countries to adopt the new regulations into its national legislation.

Likewise, in order to implement these regulations, the Estonian Ministry of Finance has published a draft Crowdfunding and Other Investment Instruments Act, which creates a legal framework that regulates crowdfunding, cryptocurrencies, and other financial instruments that were previously unregulated. It's expected that this act will be adopted by November 2021.

// ICOs

There are currently no regulations in Estonia and Lithuania that deal specifically with Initial Coin Offerings (ICOs). However, both countries similarly deal with ICOs.

According to the Financial Supervisory Authority, an ICO might, depending on the specific ICO offering, be considered a security in terms of the Securities Market Act or might fall under the provisions of the Law of Obligations Act, the Credit Institutions Act, the Investment Funds Act, or could be considered a donation. In these cases, it would therefore need to comply with the necessary regulations.

Similarly, according to the Bank of Lithuania, an ICO could be subject to the Lithuanian Law on Securities requirements if the coins offered have features of securities. In addition, in this case, a prospectus should also be drawn up and approved by the regulator.

As is the case in Estonia, depending on the specific offering, an ICO in Lithuania could also fall under the statutory requirements for crowdfunding, collective investments or the provision of investment services, the secondary market, or the formation of a financial market participant's capital.

/ Other Regulatory Regimes

Apart from the above laws and regulations that relate specifically to the services FinTechs could offer, there is also other legislation they should comply with. The most prominent of these relate to privacy and data protection as well as anti-money laundering measures that aim to reduce cybercrime.

// Privacy Laws

The collection and use of personal data by FinTechs in both Estonia and Lithuania are primarily governed and regulated by the European Union General Data Protection Regulation 2016/679 (GDPR), which applies to data collected, processed, or used inside the European Union, irrespective of the location of the data controller or processor.

In addition, it also regulates the transfer of data outside the European Union. Here, the transfer is allowed if the receiving jurisdiction also applies appropriate data protection regulations and has been approved by the European Commission. Transfers of data to countries that have not been approved must be subject to the necessary safeguards as specified in the GDPR.

The GDPR outlines six fundamental principles that encompass its many requirements. These are:

- Lawfulness, fairness, and transparency. Data must be collected for legal purposes, and customers must be informed that their data will be collected and processed.
- Data use limitation. Organisations can only collect data for a specific purpose, customers must be informed what that purpose is, and data can only be collected for as long as necessary to complete that purpose.
- Data minimisation. Organisations should only collect the data they need to achieve their purposes.
- Data accuracy. Organisations should take all steps necessary to ensure data integrity and accuracy and delete or erase inaccurate or incomplete data.
- Storage limitation. Organisations should delete personal data when they no longer need it.
- Integrity and confidentiality. Organisations should implement the necessary technical and organisational measures to ensure data security and that personal data is protected.

In addition to the GDPR, national laws also apply in both Lithuania and Estonia. In Lithuania, data collection and use are also regulated by the Law on Legal Protection of Personal Data. This law is only applicable to companies established in Lithuania or that have a representative in Lithuania and offers goods or services to citizens within the European Union.

Likewise, Estonia's Personal Data Protection Act 2018 incorporates the measures of the GDPR into Estonian law. As such, it provides the standards of implementation of the GDPR, the extent of state supervision over the requirements for data processing, and the liability for violation of the requirements. Also, it has no variations in respect of the area of applicability of the GDPR.

Penalties for non-compliance with the requirements of the GDPR can be severe. For instance, it provides for fines of up to 20 million euros or 4% of a company's global annual turnover. In addition, affected individuals can claim damages due to a violation of the data protection regulations as set out in the GDPR.

In the case of both Estonia and Lithuania, neither the Personal Data Protection Act nor the Law on Legal Protection of Personal Data makes provision for penalties in addition to those set out in the GDPR.

// Anti-Money Laundering Regulations

In recent times, money laundering and anti-terrorism measures have become increasingly important across Europe, with many countries implementing the necessary strategies to combat it.

In Estonia, the basis of its measures against anti-money laundering can be found in the Anti-Money Laundering and Terrorist Financing Prevention Act. This is fully compliant with European Union anti-money laundering and regulations. Typically, financial institutions like banks, financial service providers, and real estate service providers have a reporting obligation under this law.

Similar to the other regulations and licensing requirements, the Ministry of Finance is responsible for implementing the necessary policies and measures to prevent money laundering. In turn, the Financial Intelligence Unit is responsible for the analysis and verification of all suspicious transactions.

Once any suspicious transactions are detected due to reporting thereof by any organisation obliged to do so, the Financial Intelligence Unit reports them to the relevant legal units.

In Lithuania, all anti-money laundering regulations are based on the Lithuania Law on the Prevention of Money Laundering and Terrorist Financing. Here, FinTech companies

that provide financial services will have several obligations in terms of this legislation.

Generally, this legislation places obligations on FinTech businesses to establish an internal anti-money laundering risk management system, identify customers, monitor customers' business relationships on an ongoing basis, and notify the Financial Crime Investigation Service of any suspicious transactions.

In addition to the relevant anti-money laundering legislation in Lithuania and, in an effort to strengthen its anti-money laundering measures, the Bank of Lithuania recently (in 2020) established the Centre of Excellence for Anti-Money Laundering (AML Centre).

This is a public-private partnership that's made possible through the cooperation of several government agencies, including the Ministry of Finance, the country's commercial banks, and other financial role players who will be invited to join the centre's activities in the future. The centre's main purpose is to mobilise both public and private efforts and strengthen the fight against money laundering and terrorist financing.

/Accessing Talent

Because both Estonia and Lithuania encourage the employment of highly skilled individuals from outside the European Union, their respective employment regulation regimes reflect this.

For example, in Lithuania, there are no onerous burdens on employers regarding the hiring and dismissal of staff. Instead, the obligations and formalities on employers typically include concluding a written employment agreement with the employee and notifying the social security authorities when an employee's employment commences.

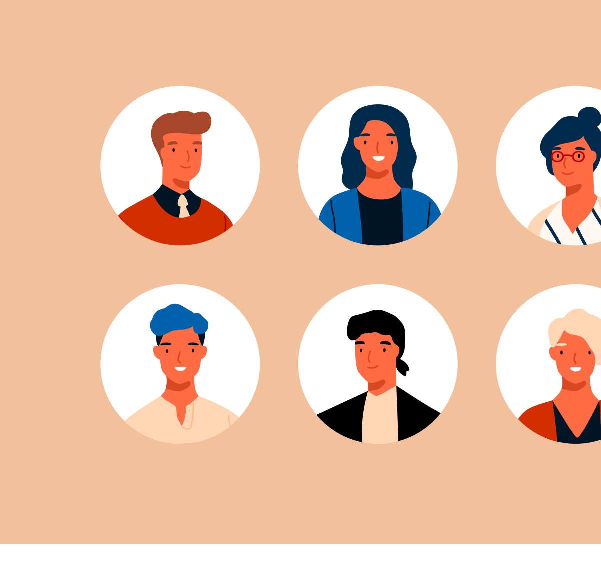
The required employment agreement may be concluded with the employee using a standard employment contract form and should include essential terms relating to the employee's job function, remuneration, and workplace. In this agreement, the parties can also agree on other employment terms and conditions while Lithuanian legislation determines several grounds for the termination of employment agreements.

In addition, employers are entitled to terminate employment contracts unilaterally in several statutory cases with notice to the employee, which notice depends on how long the employee was in the employ of the employer. Likewise, employers may terminate an employee's employment at will in certain circumstances subject thereto that the employee is given three days' notice in advance, and the employer pays severance pay to the employee.

Generally, employers in Lithuania are not required to offer any mandatory employment benefits to employees, but employees are subject to certain statutory protections, including:

- A minimum wage as approved by the Lithuanian government but only in respect of work of an unqualified nature.
- Annual leave of 20 days per year if the employee works five days per week and 24 days if the employee works six days per week.
- Sick allowance for the first two days of an employee's sick leave.

In Estonia, the position regarding employment is similar to Lithuania, and an employment contract is required where the employment of an employee is for longer than 14 days. Typically,



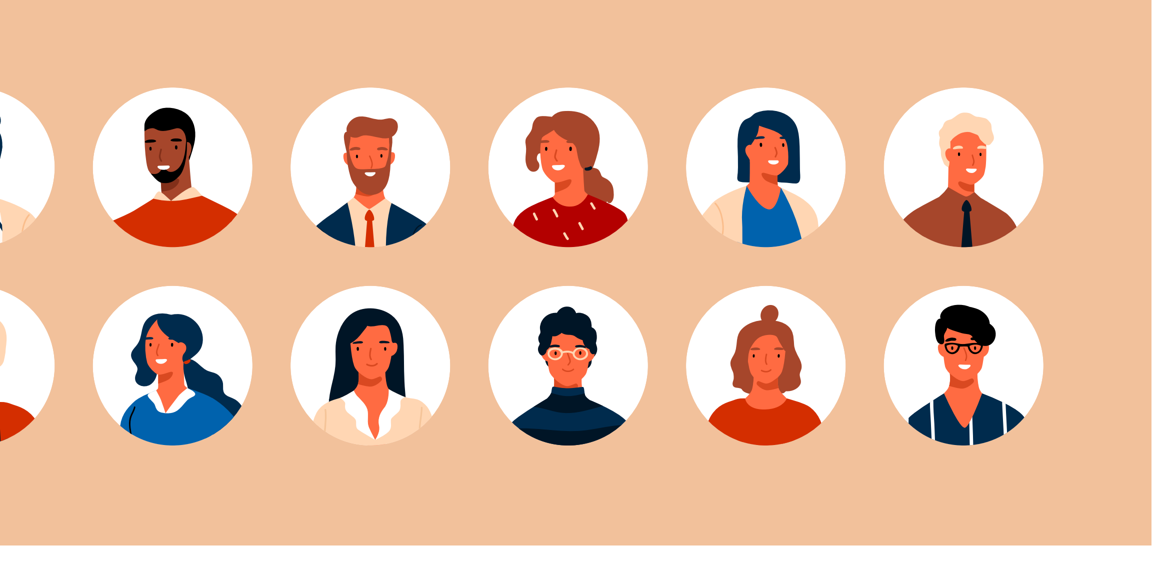
though, the employment agreement is provided before the employee's employment commences.

In this agreement, the parties are free to agree on the terms of employment subject thereto that the terms comply with the minimum and mandatory requirements set out in the relevant laws.

However, unlike Lithuania, employers in Estonia are obliged to provide employees with mandatory employment benefits. These mandatory employment benefits include:

- A three-pillar pension system. This system includes a state pension paid for by the state, a mandatory funded pension paid by contributions from an employee's salary, and a supplementary funded pension that requires a contract with a life insurance company or contributions to a voluntary pension fund.
- Legislative leaves. The required annual vacation is 28 days while, for some professions, this can be extended. In addition, employees are entitled to maternity leave, parental leave, and sick leave.
- Employment insurance. Unemployment insurance is compulsory in Estonia, and employees contribute 1.6% of their salary to unemployment insurance while employers contribute 0.8%.
- Dental care. The Health Insurance Fund in Estonia reimburses dental care for adults in the amount of 40 euros per year.

In addition to these mandatory benefits, employers can offer employees certain supplementary benefits, including health insurance, a range of voluntary benefits, gym memberships, and workplace canteens.



Due to the fact that both Estonia and Lithuania fall within the EU, citizens of the European Union enjoy the freedom of movement in these countries and don't need to obtain work permits to work in these countries.

There are, however, specific requirements that employers need to comply with. For example, in Lithuania, EU citizens only need to obtain a certificate confirming their right of temporary residence and declare their place of residence if they intend to stay in Lithuania for more than three months in six months.

In Estonia, EU citizens are allowed to work and stay in it for up to three months if they have a valid identity document issued by their home country. Here, the only thing the employer needs to do is register the employee with the Estonian Employment Register.

In contrast, if an employer plans to hire an employee for longer than three months per year, the employee must obtain a right of residence for the purpose of working and staying in Estonia. To do this, the employee must register their place of residence in Estonia's population register.

When it comes to non-EU citizens, the position differs markedly from the above. In Lithuania, these citizens are required to obtain a work permit unless they fall under one of the statutory exemptions that allow them to work and stay in Lithuania without a work permit.

Once a work permit has been issued to non-EU citizens, they must apply for either a temporary residence permit valid for two to three years depending on the specific application or a national long-term visa valid for one year.

In Estonia, employers have the option of hiring employees for short-term employment up to one year or long-term employment for longer than a year. When hiring for short-term employment, the employee doesn't need a residence permit to start working with the proviso that the short-term employment is registered with the Estonian Police and Border Guard Board prior to work commencing.

When hiring for long-term employment, the employee should apply for a temporary residence permit. This permit is valid for two years and can be extended for up to five years at a time. Once the employment has resided permanently in Estonia for five years, they can apply for a permanent residence permit.

/Technology

For any FinTech wishing to start a business in Estonia or Lithuania, one of their common questions is how their technology, inventions, or innovations will be protected.

In Lithuania, innovations can be protected in terms of Lithuanian law as patents, copyrights, or commercial secrets. Generally, innovation can be protected as a patent if it fulfils the requirements for patentability such as novelty, if the innovation constitutes an inventive step and if it has an industrial application.

When complying with these criteria, computer software is also patentable according to the latest practice of the European Patent Office and the State Patent Bureau of the Republic of Lithuania. Irrespective of the innovation, patent protection starts at the date of application.

Innovations can also be protected as copyrights if they comply with the requirements of originality and when they're expressed in any medium. In respect of computer software, this means that they're protected by copyright even if an application to register it as a patent is declined.

It's also possible to protect innovations and inventions as commercial secrets. This is possible in terms of the laws of commercial secrets that implement directive 2016/943. To qualify as a commercial secret, the innovation must be a secret; it must have some commercial value to its owner, and the owners should have taken reasonable steps to keep it confidential.

In Estonia, the most critical pieces of legislation dealing with the protection of intellectual property rights are the

Copyright Act and the Patents Act. So, like Lithuania, inventions can be legally protected by patents subject thereto that it complies with the general requirements of novelty, that it involves an inventive step, and can be used for an industrial application.

Here, it's also possible to protect an innovation or an invention as a utility model. While here the invention must also be new, this model has lower inventive step requirements.

In turn, copyright protection includes all the stages of creating a new invention or innovation, including the sketches, plans, design material, figures, or chapters—generally, copyright vests in the creator of these without having to register it. In turn, the economic rights relating to copyright can be transferred to another person against the payment of a charge.

Although intellectual property protection in both Estonia and Lithuania requires that rights should be conferred within their territories, it's important to note that they are both, as mentioned earlier, members of the EU, and both are members of international agreements and treaties for the protection of intellectual property rights.

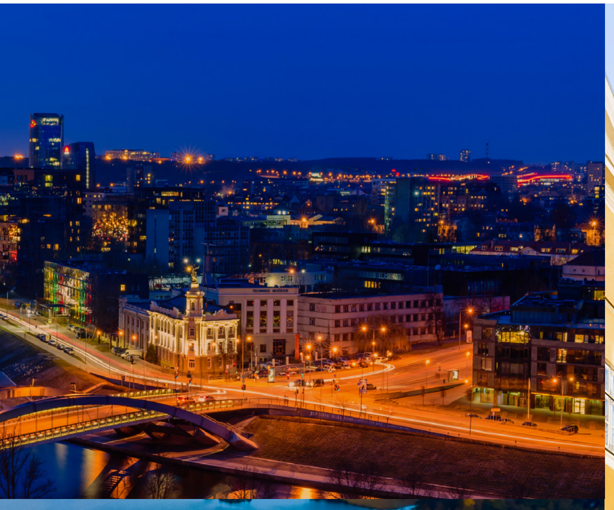
As a result, apart from the protection of inventions, innovations, and other intellectual property within these countries, intellectual property can also be protected in terms of the EU and other international regimes.

/ Conclusions

The Baltic countries of Lithuania and Estonia are proving to be a global hub for FinTech innovation and activity, thanks to the favourable conditions for the market's operators.

With many similarities and some differences, both countries offer a supportive regulatory framework and a stable political environment. It's not surprising, then, that Estonia and Lithuania are quickly becoming more and more attractive for young and fast-growing FinTech companies.

It can be expected that, in the very next future, the number of foreign-capital FinTech startups in Lithuania and Estonia will increase. The outlook for the Baltic FinTech market is very positive. In a recent survey conducted by Invest Lithuania and Swedbank, FinTech executives said that international expansion would be a top business priority.



Due to the enforcement of Brexit, business owners, specifically in the Fintech sphere, have been searching for reliable European jurisdiction to shift operations into the European Union. This has resulted in an influx of business owners establishing their legal entities in Estonia and Lithuania, due to the favorable fintech regulations.

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