

## Summary of discussion sessions

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### Local market

What have been the main trends in development of the demand for FS in Estonia?

What are the challenges currently facing the FS industry in the local market?

**Competitive functions/sectors** – international perspective (export of FS services)

Which functions/sectors currently service international demand?

What geographic markets (eg, Baltics, Baltics + Nordic, CIS, pan-European)?

**Future growth functions/sectors** – international perspective (export of FS services)

Which functions/sectors have strong growth potential?

What geographic markets (eg, Baltics, Baltics + Nordic, CIS, pan-European)?

### Factors that make Estonia attractive

-What makes Estonia attractive (eg, low costs, good FS infrastructure, good legal system) for particular functions or sectors?

### Obstacles to growth of FS

What are the obstacles that currently hamper growth of activity across different functions/sectors?

#### Table 1:

Local trends, there is trend that Scandinavian banks are draining the positions back to Stockholm. Globally -world is approaching cost effectiveness. Small and flexible states and companies have opportunities. Information is available for all practitioners; it does not matter whether you live in India or In Estonia. Small company can react quickly. The one who is acting faster, the one is the winner. New generation is coming. Not the money is driving them. They want to enjoy what they are doing, their ambition are: not to be rich, they want to do something that makes sense. With good environment we can attract them (new generation). Trend is personalized approach to the services and products. In Estonia universal banking belongs now to Scandinavian banks.

Investment culture is rising in local market. Pension fund were big help rising awareness of people. Present competitive functions. We have financial IT services and especially security. We have very well functioning central securities depository. Also we have well functioning wealth management and it is related to attractiveness Estonia has been east and west. We know culture and historical background of East- and West-Europe. New trend development of middle and back-office. Future growth of financial services: FS must be ready to provide necessary service to other growing sectors of Estonian economy. For example transit with China. Estonia must map problems of FS around the world and to be ready to provide solutions, new products. We are small and must focus on narrow functions.

Biggest problem in Estonia is the lack of ambition. Trade and marketing skills are low and migration is not regulated well to support entrepreneurship.

#### Table 2:

Estonian banking industry can be divided to III phases. I phase is accessibility. Access to banking, people got banking account, salaries to banking account etc. It happened in Early 90`. II phase – people got loans from the banks, wealth creation etc. First services were corporate banking services and then FS to the people. Then there was a wealth creation. II phase was sophistication. Hedge funds solutions etc. Now we are back in the second phase. We do not get loans at the moment. Estonia is not attractive market for FS because nobody is willing to invest or centralize their activities to Estonia. There are exceptions but no trend. Trend is to move back to Finland, Sweden, Germany, and England. There are two bright spots. Firstly cyber security related products and services. Estonia is noticed because we were under cyber attack recently. We have the experience to handle with it and resume. We have to use this negative momentum and turn it to marketing tool. We have to support small companies, solution provides for FS, internet banking and use cyber security as competitive advantage. Secondly, we have to deal with simple banking. Never Estonia will be asset management services or derivative product hub. We do not have ability to prepare human resource. Universities, professors are weak etc. We are not competitive. Future is focus in simple banking, solutions as mobile banking; provide solutions standardized products for developing countries, risk management solutions for Arabic countries etc.

About attractiveness - we have few positive factors but a lot negative ones. We have lack of accessibility, high labor cost, and weak FS regulation, too weak central bank. Our problem is lack of knowledge. People are ambitious, ready to change. We have to bring in knowledge. We have to change central bank law. Professors form UK, heads of central bank form Frankfurt etc. If we lower taxes to 0 then maybe we have a small change. Why should other countries to invest Biggest problem is politics, Russia is terra incognita. We should see in the world map, that Estonia is in the middle and all countries are welcome. Relationship with the Russia needs to improve. Let us focus in micro-banking. Let us sell internet banking to Ghana for example. We have to create products with our own intellectual property. If we have small company in Estonia who want to set up new product in foreign market, the green line must appear in EAS (Enterprise Estonia) for them.

Table 3:

We do not see any growth in local demand near future, there is very little growth opportunities maybe in life insurances., Generally internal growth is dependent of rise of income level and our income level is not rising in near future. We focused on supply, what can we export? What sort of products or services. Trend is centralization at the moment, services, decision making, core competence is moving to Sweden. Basically everything in core is centralized but marketing and some other elements of services.. There are possibilities in back office services. Our strength is IT infra and it is supporting development of back office service, cost of labor is relatively low. In higher value chain elements there is two opportunities. Main opportunity is in asset management in niche products. Highest amount of asset management people are working with CEE (central and east Europe) capital and markets. We have people who know the market. Before, during the boom, it was hard was to find skilled people, now there is a better situation in employment market. For example SEB manages its regional CEE assets for Tallinn. We have available human capital Another niche for us is venture capital; we have to use our location between east and west. Clearly not just venture capital generally but sector specific VS capital. We should focus on sectors where we

have strengths. Sectors like IT .We can provide services to bring Russian IT companies, closer to west market and capital. We can serve them to raise money etc.

About back office services, it is quite fast and also cheaper to operate in Tallinn. We may provide cost effective custody services.

We have some problems with regulatory flexibility legislation and inspection. At the same time financial inspection is quite pro business in many cases. It is easy to start a fund in Estonia and we should market it. At the same time there are not many technological barriers. There are generally quite low costs. We lack critical mass of capital, we are investing. It is low. Low amount of investors We need new fund law, but it is in process. there should be sealing in higher tax, because this is too high to compete with other European countries. Tax costs are too similar with other Europe. We have positive examples to manage foreign capital. We have knowledge about CEE. Investors in Europe usually do not know that we are managing CEE funds well. Message is – we have people who are experienced ready for new challenges, what is keeping away for success? Assets to manage are not big. We need to raise awareness the Estonia are ready to raise money. Problem is lack of direct flights from Tallinn. We have potential to innovate FS. We have small SME-s who started with micro-lending and are moved to internet based lending etc. Legislations should let them growing. We need to bring professors and experts and to be able to create new wiser generation in our universities. Maybe FS can grow around other businesses, like transit for example. There is not much to do with investment banking. Our future is in niche products.