



MICROFINANCE CENTRE

THE FINTECH MARKET IN UKRAINE

**THE CURRENT STATE OF THE FINTECH SECTOR
AND ITS POTENTIAL TO CONTRIBUTE TO
FINANCIAL INCLUSION AND HEALTH**



IN COLLABORATION WITH



2019

INTRODUCTION

IN RECENT YEARS, FINTECH (FINANCIAL TECHNOLOGY) HAS INCREASED IN PREVALENCE AND POPULARITY WORLD-WIDE. FINTECH IS DEFINED AS THE APPLICATION OF SOFTWARE AND OTHER MODERN TECHNOLOGIES IN THE WORLD OF FINANCE AND BANKING, OFTEN THROUGH AUTOMATION, THAT MAKES FINANCIAL SERVICES MORE ACCESSIBLE, MORE USER-FRIENDLY, MORE EFFECTIVE, AND MORE AFFORDABLE.

FINTECH OVERVIEW

Fintech includes anything from mobile payment platforms, mobile money accounts, robo-advisory services (automated algorithm-driven investment advice and portfolio management), savings and financial management apps, blockchain and peer-to-peer lending platforms. Fintech has helped bridge the gap between the banking industry and its customers, created a demonstration effect for more innovative services, and opened up services for previously unbanked segments of the market.

Overall, the fintech sector is in its early stages of development. To date, fintech companies have focused on creating new fintech products that help disrupt the existing market, but that are primarily targeted to the same traditional customer base. These products offer more personalized services, better interest rates, and lower (or zero) transaction fees.¹

FINANCIAL INCLUSION AND FINANCIAL HEALTH

Financial inclusion is when individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – that are delivered in a responsible and

sustainable way. Financial inclusion has been named as an enabler for seven of the UN's Sustainable Development Goals (SDGs). Access to a basic transaction account (that allows people to store money, send and receive payments) serves as a gateway to other financial services (including credit and insurance).

Since 2010, more than 55 countries globally (including Ukraine) have made public commitments to advancing financial inclusion, and more than 60 have launched (or are developing) a national strategy. Effective national financial inclusion strategies unite financial regulators, telecommunications and education ministries around common goals and action plans.²

Financial health, on the other hand, means that families and businesses have the ability to spend, save, borrow and plan. It includes both working towards long-term financial goals and weathering short-term unexpected emergencies.

According to "The Little Data Book on Financial Inclusion",³ the level of financial inclusion in Ukraine is growing. In 2017, 62.9 per cent of adults aged 15 and over had an account at a financial institution, up from 52.7 per cent in 2014, yet still slightly lower than the average for the region of Europe and Central Asia (65.3 per cent). Account penetration in rural areas and among the poor population

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1. WWW.WORLDBANK.ORG
2. WWW.WORLDBANK.ORG/EN/TOPIC/FINANCIALINCLUSION/OVERVIEW
3. [HTTPS://OPENKNOWLEDGE.WORLDBANK.ORG/HANDLE/10986/29654](https://OPENKNOWLEDGE.WORLDBANK.ORG/HANDLE/10986/29654)

FINANCIAL INCLUSION IS THE ABILITY (OF BOTH INDIVIDUALS AND BUSINESSES) TO ACCESS AND USE APPROPRIATE AND AFFORDABLE FINANCIAL SERVICES TO MEET A RANGE OF FINANCIAL NEEDS, INCLUDING CREDIT, SAVINGS, INSURANCE, TRANSFERS, PENSIONS, AND OTHERS.

FINANCIAL HEALTH, ON THE OTHER HAND, MEANS THAT FAMILIES AND BUSINESSES HAVE THE ABILITY TO SPEND, SAVE, BORROW AND PLAN. IT INCLUDES BOTH WORKING TOWARDS LONG-TERM FINANCIAL GOALS AND WEATHERING SHORT-TERM UNEXPECTED EMERGENCIES.

is lower compared to the general population (55.5 and 53.3 per cent, respectively), and lower than the regional average. The main reasons for not having a bank account are lack of money (58 per cent), lack of trust towards financial institutions (50 per cent) and high costs (40 per cent).⁴ See Annex 1 for more detail.

Although more Ukrainian adults save compared to the regional average, and while percentages of people saving at formal financial institutions increased between 2014 and 2017, Ukraine still lags behind regional averages in formal savings. Similarly, while more Ukrainians borrow money compared to the regional average, borrowing from financial institutions and credit card use is lower. These findings would indicate either a lack of trust in the formal financial system or barriers to access in terms of ease of use, affordability, or product design mismatch.

Digital payments are as popular in Ukraine as in the other countries in the region, with 60.7 per cent of adults making or receiving digital payments in 2017. What distinguishes Ukraine from its ECA neighbours is high penetration of government payments received to an account, and a lower tendency to use a mobile phone or internet to access an account.

A 2018 study conducted by the National Bank of Ukraine (NBU) using an OECD methodology highlighted that Ukraine lags behind its regional in financial literacy, and that the lack of financial literacy affects all segments of the population, irrespective of age, gender or

region. The study noted cultural stigmas attached to discussing money matters, and that long-term financial planning is not a priority.

Following this study, in 2019 the National Bank of Ukraine launched a financial literacy strategy (2020–2030).⁵ The strategy will aim to change financial culture, making Ukrainians more European and more financially aware. The goal is help people develop key skills and abilities (such as personal budgeting), make financial decisions responsibly, use financial planning (including long-term), manage their financial flows, save money and manage debt in a sensible way. It will also introduce a central communications hub to coordinate efforts between actors and provide clear financial literacy information to the population. By changing the culture of money, building financial skills, and creating information hubs, the NBU aims to increase financial inclusion and health. The strategy, however, is only focused on young people (10–24 years old), rather than the entire population.

The NBU has also been active in bringing international best practice in financial inclusion to Ukraine. In 2019, with USAID support, it held its second international financial inclusion forum, which brought together technical experts, academics, civil servants, banks, fintechs, and private companies from over 10 countries to share experience and lessons learnt in leveraging both the private and public sector to enhance financial inclusion as a means to improved economic growth.

4. OWN CALCULATIONS FROM GLOBAL FINDEX DATABASE 2017 DATA

5. [HTTPS://FINCLUSION.BANK.GOV.UA/SRC/FILES/NATALIA%20BONDARENKO%20STRATEGY_FINGRAMOTNIST _NBU_PR_ENG.PDF](https://finclusion.bank.gov.ua/src/files/natalia%20bondarenko%20strategy_fingramotnist_nbu_pr_eng.pdf)

THE FINTECH SECTOR IN UKRAINE

CONDITIONS FOR THE DEVELOPMENT OF THE FINTECH SECTOR IN UKRAINE

When we think about the ideal conditions for the development of a national fintech sector, we first look at three key questions: To what extent are people connected to the internet? To what extent are people using mobile phones? And to what extent are they using basic digital tools such as debit cards (rather than being reliant on cash). In the case of Ukraine, the signs on all three questions point to a positive enabling environment for fintech.

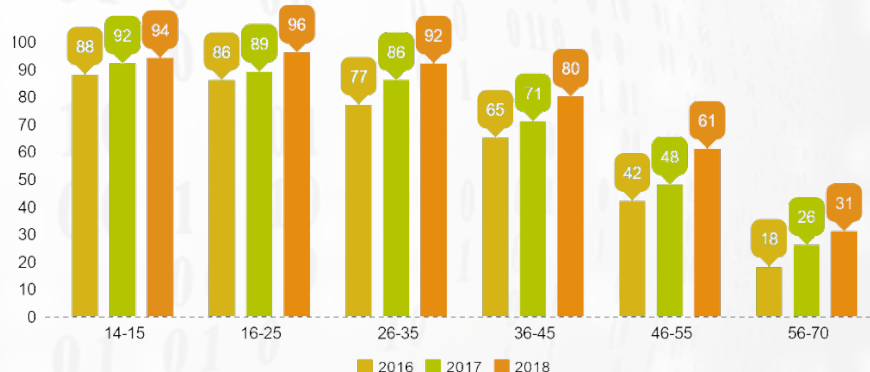
Firstly: year on year, the number of Internet users is growing in Ukraine (see Figure 1)⁶ and a trend that applies to all age groups (although younger generations are more likely to be internet users, as seen in other countries).

Secondly, over the past year the number of mobile device users has increased by more than 20 percentage points to 55 per cent (Figure 2) and 64 per cent of people use the internet regularly (Figure 3). Also, 63 per cent of all residents of Ukraine have internet at home

(Figure 4). Among regular internet users, mobile-only users are 15 per cent of all users (Figure 6), the rest use stationary only or mixed mobile/stationary devices. The percentage of people with internet access on one or more device is 99 per cent; the percentage of people with access on two or more devices is 41 per cent (Figure 7).⁷

In terms of moving towards a cashless economy (via the development of payment card market and payment infrastructure): in a population of 42 million, of which 38 million are over the age of 15, at the end of 2018 there were 42 million personal payment cards and

FIGURE 1: INTERNET PENETRATION AMONG UKRAINIANS (PER CENT)



6. <https://tns-ua.com/news/2431>

7. www.ukrinform.ru/rubric-technology/2384675-v-ukraine-vper-vye-sokratiilos-cislo-polzovatelej-interneta.html

FIGURE 2: % OF PEOPLE USING MOBILE DEVICES

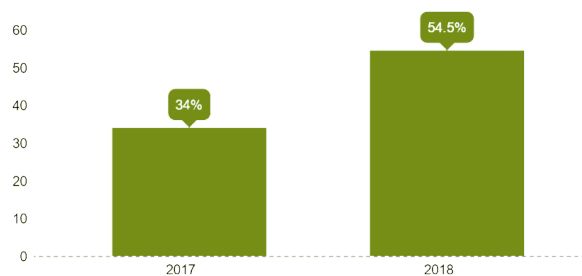


FIGURE 3: INTERNET USAGE CHARACTERISTICS

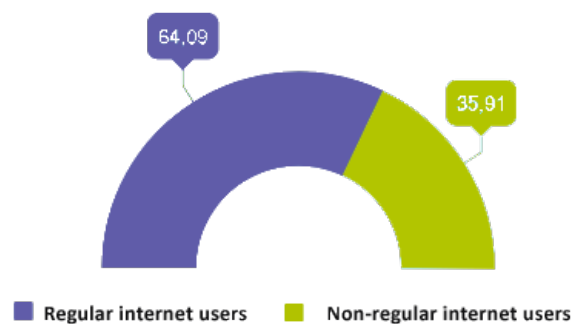


FIGURE 4 INTERNET AVAILABILITY AT HOME (%)

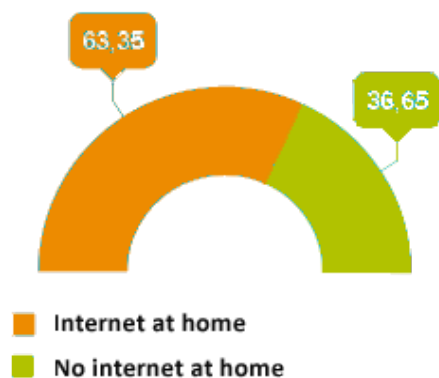


FIGURE 5: % REGULAR MOBILE INTERNET USERS

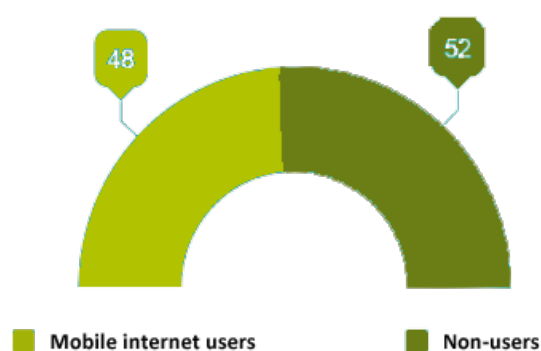


FIGURE 6: % INTERNET USE BY DEVICE

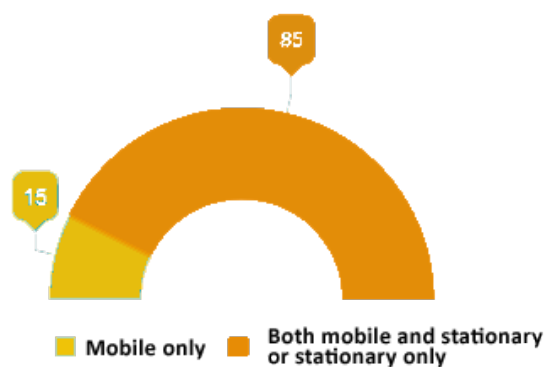
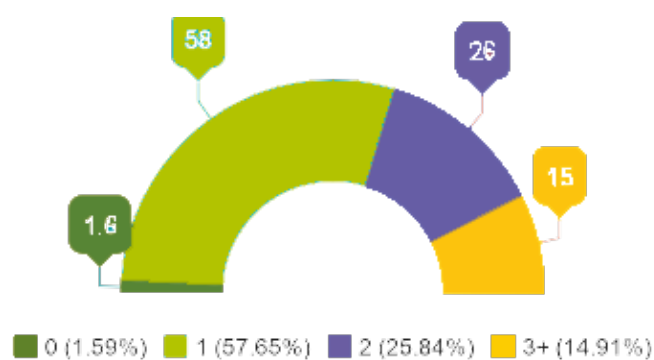


FIGURE 7: USERS BY NUMBERS OF DEVICES (%)



800 thousand business-owned payment cards in use. According to data from the National Bank of Ukraine, cashless payments are growing as the payment infrastructure continues to develop. The network of retail point-of-sale terminals increased by 20 per cent in 2018 to 278,993 outlets, and 79 per cent of those have contactless payment capability. Likewise, the number of businesses that offer customers cashless payments rose by 20 per cent to 208,661 between 2017 and 2019.⁸ At the same time, the number of ATMs has fallen between 2013–2017 (from 103 ATMs per 100,000 people to 98; this is still higher than the ECA average of 44 ATMs per 100,000).^{9,10} As a result, cashless transactions are increasing in both number and volume (see Figures 8 and 9).

While recent years have seen no significant increase in the number of payment cards users, there has been an increase in the number of payment cards overall, as well as a change in the type of cards

held. Magnetic stripe cards still account for 82 per cent of all payment cards, yet by January 2019 the number of contactless cards had increased 44 per cent from the previous year, and smartphone and other gadget-based payment services are gaining ground.¹¹

POLICY ENVIRONMENT

Alongside its national financial literacy strategy, the government will be taking steps to improve the legislative environment surrounding the fintech sector. These include: transparency and disclosure requirements to all financial products and services will be introduced to the market, in line with the G20 principle and respective EU Directives and Regulations; and a new law to support fintech startups in line with PSD2 EU Directive requirements. It is also working to boost data protection in Ukraine through the establishment of a national

FIGURE 8: NUMBER OF TRANSACTIONS BY TYPE (%)

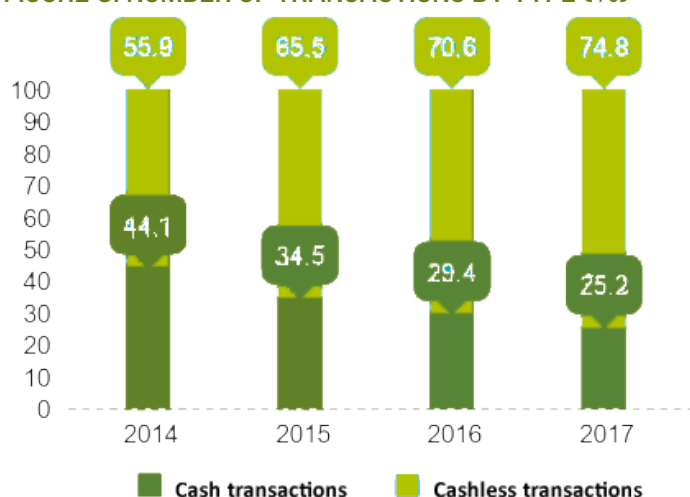
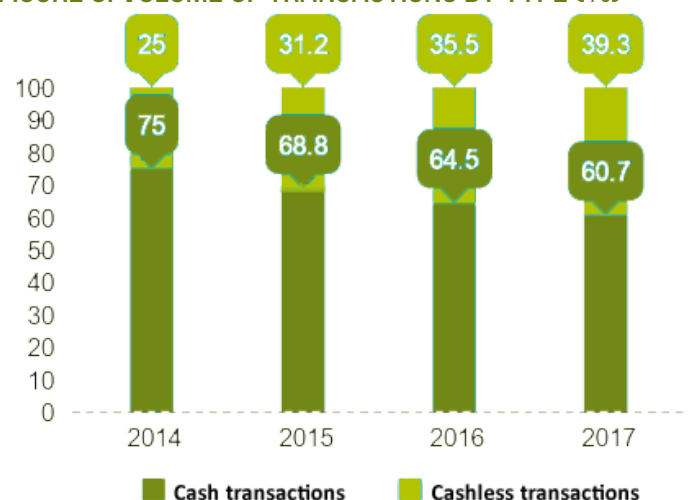


FIGURE 9: VOLUME OF TRANSACTIONS BY TYPE (%)



8. [HTTPS://OLD.BANK.GOV.UA/DOCCATALOG/DOCUMENT?ID=89102860](https://old.bank.gov.ua/doccatalog/document?id=89102860)

9. [WWW.STATISTA.COM/STATISTICS/564159/AUTOMATED-TELLER-MACHINES-PER-100000-ADULTS-UKRAINE-EUROPE/](http://www.statista.com/statistics/564159/automated-teller-machines-per-100000-adults-ukraine-europe/)

10. [HTTPS://BANK.GOV.UA/DOCCATALOG/DOCUMENT?ID=30432161](https://bank.gov.ua/doccatalog/document?id=30432161)

11. [HTTPS://BANK.GOV.UA/DOCCATALOG/DOCUMENT?ID=64347382](https://bank.gov.ua/doccatalog/document?id=64347382)

FIGURE 10: VISION OF THE CIRCULATION OF FUNDS IN THE ECONOMY OF UKRAINE IN 2020 BY THE NATIONAL BANK OF UKRAINE

	2014	2015	2020
M0/GDP, %	18,1	14,6	7,5
Cashless payments, %	25	31	55
POS ths. pcs./ min. people	4,7	4,5	11
National payment system "PROSTIR", %	1,46	0,73	30

centre for cybersecurity, and a new law on personal data protection in line with EU GDPR requirements.

While the National Bank of Ukraine NBU does not supervise fintechs, it does actively work to develop a positive policy environment specifically for fintechs. In 2017, it approved the Comprehensive Program of the Ukrainian Financial Sector Development (Resolution No. 391) which includes a number of initiatives:

- Cashless 2020 Strategy
- Transition to ISO 20022 standards for electronic data interchange between financial institutions
- Exchange of documents in electronic format using electronic signatures
- Cancellation of stamps, seals and paper copies
- Storage of documents in electronic format
- Remote customer identification
- Possibility to order financial services online
- Electronic certification of scanned copies and signing of cash documents
- Possibility to use the Bank ID system for remote identification
- Protection of the rights of financial services users
- New rules to facilitate the licensing of payment service providers.

The National Bank of Ukraine envisions that by 2020 the country will have made great strides towards creating a cashless economy. Accordingly, it foresees that the money supply (M0) will decrease to 7.5 per cent of GDP, cashless payments will increase to 55 per cent, the penetration of POS terminals will increase to 1.1 thousand per 100,000 people and the penetration of the national payment system (PROSTIR) will increase to 30 per cent. The circulation of funds in the Ukrainian economy in 2020 envisaged by the National Bank of Ukraine is shown on (Figure 10).¹²

That said, future growth of fintechs will be to a large extent dependant on the successful improvement of the overall business environment, including regulatory improvements, changes in legislation, tax breaks for innovation, and greater simplicity and transparency in creating startups. That said, it has become increasingly easier to start a business in Ukraine over the past years: the World Bank's Ease of Doing Business Survey 2017 put Ukraine 76th out of 190 – and by 2019 it ranked 64th.¹³

OVERVIEW OF THE FINTECH SECTOR IN UKRAINE

The Ukrainian fintech sector is growing, with more than 100 firms at different stages of maturity. Of these, 63 per cent are self-financed (with 70 per cent of companies established after 2018 having

12. [HTTPS://BANK.GOV.UA/DOCCATALOG/DOCUMENT?ID=30432161](https://bank.gov.ua/docCatalog/document?id=30432161)

13. WWW.DOINGBUSINESS.ORG/CONTENT/DAM/DOINGBUSINESS/COUNTRY/U/UKRAINE/UKR.PDF

no external capital), 43 per cent do business abroad (mostly to Europe and the post-Soviet bloc). Of those that do gain external funding, most funds come from private investors rather than accelerators, venture capital or angel investors. Among all fintechs, 58 per cent are under three years old, 22 per cent have fewer than 5 staff and 14 per cent have over 75 staff. Fintechs are clustered around the capital, with 82 per cent of companies based in Kyiv. Of all fintechs, 27 per cent are headed or cofounded by women.¹⁴

At the present time, companies account for 74 per cent of fintechs' customer base (this segment is split evenly between large businesses and SMEs). Outreach to individuals in the mass market accounts for 21 per cent of fintech customers, whereas high net worth individuals account for only 6 per cent. In terms of revenue models, a third of fintechs rely on one-time payments for their services, whereas 18 per cent use a subscription model, and 20 per cent generate revenue through transaction fees.¹⁵

The fintech market in Ukraine emerged partly in response to the global financial crisis of 2008–2009 and, more recently, after the 2013–2014 crisis over Ukraine's relationship with the European Union (EU). Key events during this period included:

- Approximately 20 European banks operating in Ukraine froze their lending and limited their exposure due to the financial crisis
- Plummeting GDP, sharp devaluations and high inflation eroded the purchasing power of the population, contributing a rise in business bankruptcies
- Massive bank restructuring and consolidation (from 175 banks in 2008 to 96 in 2017)
- A decline in the number of bank branches which restricted access to banking services
- Loss of trust in the banking sector by the population.

Early fintech initiatives (emerging around 2009) focused on payments and money transfers. However, the majority of fintechs (58 per cent) have been launched since 2015. Fintech started to draw attention from financial sector players in Ukraine only in 2017 after a series of fintech forums and events.

KEY PLAYERS

GOVERNMENT

The primary role of government in the fintech sector is to put into practice its Cashless Economy 2020 objectives and digitize selected C2G and G2C¹⁶ payments. The National Bank of Ukraine (NBU) is tasked with analysing potential payment streams and implementing C2G fintech payment pilots. It is also working with the post office (UKR Post) to digitize the pension payments it delivers.

BANKS

The banking sector in Ukraine continues to experience challenges. In 2014, the NBU started pursuing banking sector sanitation by closing problem banks. Between 2014 and 2016, 80 banks, collectively holding almost 50 per cent of all client funds and loans in the system, were driven out of the market, and in 2016 their number decreased again by 19. The total number of banks in Ukraine as at the end of 2016 was 96. The recent government acquisition of PrivatBank is still being felt by the market. This is particularly important from a fintech perspective inasmuch as PrivatBank was the leading issuer of cards, the leading issuer of POS devices, and had the most robust online banking capabilities.

Other factors influencing the banking sector's impact of fintech is the trend by several banks to reduce the number of branches¹⁷ and drive customers to digital channels. Critical to this strategy is the technical capability and regulatory clearance to perform remote identification enabling account opening and completion of transactions. Banks also want the government to standardize its

14. [HTTPS://AIN.UA/EN/2019/07/24/FINTECH-COMPANIES-OF-UKRAINE-SINCE-1991/](https://ain.ua/en/2019/07/24/fintech-companies-of-ukraine-since-1991/)

15. *IBID.*

16. C2G: CUSTOMER TO GOVERNMENT; G2C: GOVERNMENT TO CUSTOMER

17. THE NUMBER OF BANK BRANCHED DECREASED FROM ALMOST 12 THOUSAND AT THE END OF 2015 TO 10 THOUSAND AT THE END OF 2016. SEE MORE HERE: WWW.EPRAVDA.COM.UA/COLUMNS/2017/05/30/625432/

bills and develop a common interface so that customers can pay government bills (e.g. fees, taxes, fines) digitally from their bank accounts. Finally, many banks want government to incentivize customers to make government payments digitally by refusing cash payments or offering a discount for digital payments.

NATIONAL BANK OF UKRAINE (NBU)

The regulator's primary fintech supply side role is to encourage and facilitate digital payments through the licensing of e-money and payment systems. Another important fintech area for the regulator is the expansion and enhancement of PROSTIR. The regulator views PROSTIR as a lower cost alternative payment system that is ideal for processing government payments. The final area where the regulator is playing an important role is the examination of cryptocurrency based on blockchain technology. The NBU organized a blockchain pilot in 2016–18 to better understand the capabilities and limitations of the technology. NBU will continue to look into the possibility of issuing e-currency.¹⁸

MOBILE NETWORK OPERATORS

The three big mobile operators (KyivStar, Vodafone, and LifeCell) have shown varying degrees of interest in entering the financial services market either through their own branded products or through partnerships and white labeling (removing the developer's brand and logo from a product and replacing it with the branding of the mobile network operator). Their primary area of interest is gaining the ability to issue e-money to offer or host mobile wallets. Their large subscriber base, national coverage, and deep pockets make them potentially formidable players in the fintech market once regulations are clarified.

PAYMENT PROVIDERS

This group includes payment network providers (such as MasterCard and Visa) as well as payment providers (such as UAPay and EasyPay) which enable a

range of payment transactions via the internet and payment kiosks. Payment providers offer a range of bill aggregation and peer-to-peer transfer (i.e., card-to-card) services. Companies such as EasyPay rely on a network of kiosks that require customers to insert cash and then perform a range of functions including bill payment, purchases, transfers, and card loading. The reliance on these kiosks to perform financial transactions typically performed via the internet in other developed markets reinforces the unique characteristics of the Ukrainian fintech sector. Other payment companies such as UAPay serve more as a bill aggregator and operate primarily over the internet. Generally, the payment companies want to achieve the ability to issue e-money, open some form of wallet account and be able to employ direct debit as a means of extracting bill payments directly from subscriber accounts.

OTHER FINTECH COMPANIES

Ukraine has a number of small and medium size enterprises developing and marketing products both to larger companies and directly to the public. As an example UAPay's fintech division has developed and provides a digital payment solution for Nova Poshta. Another company, MobiPay, has developed a third-party smartphone mobile wallet application that can be used as both a value storage mechanism as well as a payment mechanism. This application includes the ability to generate unique QR codes that enable merchants to use their smartphone as a POS device.

POST OFFICE

UKR Post recognizes that its traditional market and customer base is shrinking and that without new sources of revenue, it will need to cut costs and reduce its infrastructure. UKR Post is looking to develop a fintech solution that can be used to digitally deliver pension payments directly into an account. Pensioners can access the account and perform basic financial transactions.

18. [HTTPS://BANK.GOV.UA/CONTROL/EN/PUBLISH/ARTICLE?ART_ID=99831159](https://bank.gov.ua/control/en/publish/article?art_id=99831159)

NON-BANK FINANCIAL INSTITUTIONS (NBFIS)

This includes insurance companies, leasing companies, credit unions, and other finance companies. This segment is looking to fintech companies to provide mechanisms to facilitate the registration and processing of customers and the delivery of funds.

ASSOCIATIONS AND INDUSTRY EVENTS

Organizations such as UAFIC (Ukrainian Association Fintech and Innovation Companies) provide advocacy and expertise for the fintech market and can be influential in shaping and promoting new legislation and associated regulations. An annual fintech event UAFIN.TECH organized by UAFIC is a one-day event that gathers fintech companies, startups, SMEs, investors, global experts and bankers to consider the top trends in the digital banking sector, the digital transformation of payment services and how to improve collaboration between traditional players and fintechs. Additionally, there are other fintech events, such as annual KRIEK Ukrainian FinTech Forum.

TYPES OF INSTITUTIONS, EXAMPLES OF SERVICES

In many ways, Ukraine is aligned with leading global fintech trends and innovations. Its banking sector has developed a range of digital products and several banks are exploring strategies that reduce branch locations and expand online access.

NBFIs are exploring innovative methods for delivering financial services including money transfer, mobile wallets, lending, insurtech, wealth management and comparison website. By encouraging the expansion of POS devices and adjusting regulations on merchant acquiring and card issuing (including virtual) cards, the NBU is facilitating the necessary expansion of fintech companies supporting infrastructure.

Mobile network operators also are leveraging their large national subscriber bases to offer financial services (e.g. mobile money wallets). Whether they offer services directly to customers (KyivStar) or through partnerships (Vodafone) the entry of mobile network operators into the financial sector will present multiple opportunities for consumers and challenges for the regulator.

Another important trend evident in Ukraine is the use of blockchain technologies and crypto currencies. The NBU has committed to pilot activities to determine if block chain technology can support its currency issuing responsibilities and augment its deployment and expansion of PROSTIR. When talking about the advantages that are gained designing a national payment system with blockchain technology, the NBU noted that the use of a public high-efficiency retail platform and new payment instruments can provide market and end-users an alternative solution with minimal transaction costs and instantaneous speed of transfer from one participant to another.

Fintech companies in Ukraine are present in all segments of the financial market (Figure 11). Most fintechs (31.6 per cent) facilitate payments and money transfers, followed by financial technology companies which provide infrastructure and enabling technologies (19.3 per cent). Digital lending companies constitute 14 per cent of fintechs. There are also insurtech companies (cvik.in, ewa, insart, Alfa Protection) and mobile wallet operators (Payforce, Wallet Factory).

FIGURE 11: MAP FINTECH ECOSYSTEM OF UKRAINE (SOURCE: UKRAINIAN FINTECH CATALOG 2019)



THE FINTECH PERSPECTIVE ON FINANCIAL INCLUSION AND FINTECH ROLE IN UKRAINE

THE MAIN GOAL OF THE RESEARCH WAS TO STUDY THE ACTUAL STATE AND OPPORTUNITIES FOR FINTECH COMPANIES TO SERVE VULNERABLE GROUPS, AND TO MAINTAIN OR IMPROVE THE FINANCIAL HEALTH OF THESE GROUPS.

STUDY PARTICIPANTS

As part of our research, we selected 17 fintech companies in Ukraine to interview. Brief information on the companies is presented here.

Agency21 has developed a technology allowing users to make fast Tap&Go payments without a pin code. It works in the charity sector and makes it possible to accept non-cash charitable contributions and provide financial assistance to NGO projects. Agency21 has developed the NFC Donation Box: a terminal to make cashless charity donations. Charitable contributions can be made by simply touching the NFC Donation Box interface with a contactless payment card. The terminal accepts any payment tool which supports PayPass (MasterCard) or PayWave (Visa) technology, as well as any card emulators such as smartphones, smartwatches, etc.

Treeum is an online platform that provides users with access to up-to-date financial information and personalized financial products. The company owns well-known brands in the B2C (Business to customer) segment such as Finance.ua,

Minfin.com.ua, and in the B2B (business to business) segment, such as Finline and Bank Online.

The **MoCash** platform is the first online peer lending service in Ukraine that unites individual creditors and borrowers. Site users are those who either have a surplus of funds they want to lend, and those who lack of funds and the need to borrow them. The platform MoCash helps them find each other, collect the funds from the lender, and verifies the borrower's repayment ability and reputation.

Uplata is a service designed to simplify user access to day-to-day banking services. The company provides technical solutions to facilitate cashless transactions and remove the stress of digital finance transactions. Uplata allows you to order a bank card without leaving your home and without communicating with the bank. All you have to do is to register at its website, create a card name, and send a scan or photocopy of your passport and Taxpayer Identification Number. The card can be managed from your personal Uplata account.

Fondy is an international payment platform for web sales, allowing users

to process payments in online stores, mobile apps and other internet devices. Fondy offers a cloud-based white-label solution for banks, IPSPs and processing centres that provide online sales services and financial transactions. It automates internal processes for clients and transfers back office tasks to Fondy. The Fondy system supports card transactions from any country, as well as many other payment methods (Qiwi, Yandex, Privat24, cash payments, PayPal, SEPA, swift, instalment and credit payments, direct debit and payments via Ukrainian, Russian and EU internet banks).

Paylastic is a service for accepting payment cards through a smartphone messenger for small and medium enterprises.

IPLAN offers a comprehensive financial planning and investment planning service. It has three basic packages: a starter package, for young people who want to start their investment journey; a family package, to help lay a foundation for family goals; and a pro package, with comprehensive investment planning and advice services.

Hotline.finance is an independent banking information resource that helps consumers take the right financial decisions in a few clicks. The service is an easy way to verify the stability of a bank, and quickly and simply choose a bank or insurance product.

MOSST Payments is a versatile money transfer service with a first-of-its-kind application in the EU and CIS countries using Facial recognition for user authentication. The aim of the company is to simplify transfers and transactions as much as possible, and to introduce innovative technological solutions, including: a mobile transfer service, a service for online payments and transfers in offline sales, a solution that includes a mPOS terminal and can turn any Android/iOS smartphone or tablet into a card-ready cash register.

PORTMONE offers electronic delivery of bills from service providers to customers (housing and utility services,

mobile operators, internet providers, insurance companies, etc.), online payment of customers' bills, delivery of customers' electronic bills to banks and payment via ATMs, self-service kiosks and online banking systems, and technical assistance in acquiring international payment cards for online stores.

EasyPay is a widespread payment system. The company positions its model as a multilateral platform that provides a comprehensive payment tool supported by offline (EasyPay-branded payment terminals) and online (easypay.ua, e-commerce tools, and mobile applications) infrastructure.

UAPay is a financial company that provides over 1,600 services. The company's main business is the sale of financial services such as payments (aggregation and distribution of bills due through its partner network), acquiring solutions, escrow for e-commerce and all types of transfers (the Any2Any concept). The company has demonstrated expertise and project implementation experience in eight areas: e-commerce (marketplaces and online stores), banks and financial companies, logistics companies, insurance businesses, mobile operators, retail solutions, transport projects (parking and public transport payments), payments for public services.

UkrPay offers remote issue/maintenance of international payment cards; cost-effective credit calculation and borrower risk analysis services; mobile banking; factoring for banks/enterprises.

Forpost is the brand of the POST FINANCE company, a member of the Nova Poshta Group. The main types of financial services provided by Forpost are cash and cashless fund transfers, and e-money payments for postal services provided by Nova Poshta. Forpost provides COD payment services for the partners and clients of Nova Poshta Ltd. (including e-money payments).

Finkee is a free mobile application for effective personal finance planning and accounting. This app helps you insert and edit income and expenditure items, assign

labels to transactions, specify payment times, and calculate the balance. Finkee users can specify multiple income sources and split expenditures by categories. Charts and reports will help you organize income information. This program allows you to keep record of your incomes and expenditures in several currencies.

FINMAP.online is a web-based business accounting service. The main task of the service is a complex organization of management accounting in small and medium enterprises. In FINMAP, you can keep financial records and receive automatic cash flow reports, profit and loss statements and others.












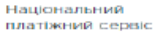







LiqPay is an open web interface and electronic wallet that allows you to accept payments and transfer money using your mobile phone, the internet and payment cards all over the world.

According to a 2018 USAID report, fintech providers in Ukraine identified 'hot topics' as digital banking, automation, biometric identification, machine learning, artificial intelligence, forecasting and modelling, smart contracts, chatbots, blockchain, big data, registry digitization, ICO, IT security, cybersecurity, payment security, and open APIs.¹⁹ Those 'hot topics' of the past that are now considered 'cold', according to the same report, are electronic wallets, mobile applications, cash transactions, mobile technologies, payment cards and internet acquiring.

The majority of fintech companies, predominantly those providing payment services, concentrate on the mass market, targeting both individuals and businesses, rather than one or the other.

FINTECH PRODUCT AND SEGMENT FOCUS

TABLE 1: FINTECH COMPANIES BY TARGET GROUPS AND TYPES OF SERVICES

	INDIVIDUALS	ENTREPRENEURS
Payments and transfers	 	 
	 	
	  	
	  	
Financing		
Financial management	 	 
Marketplace		
		

19. ICO: INITIAL COIN OFFERING IS THE CRYPTOCURRENCY INDUSTRY'S EQUIVALENT TO AN INITIAL PUBLIC OFFERING (IPO). ICOS ARE A WAY TO RAISE FUNDS, WHERE A COMPANY LOOKING TO RAISE MONEY TO CREATE A NEW COIN, APP, OR SERVICE LAUNCHES AN ICO. SOURCE: INVESTOPEDIA.COM

TABLE 2: COVERAGE OF FINTECH COMPANIES FOR VULNERABLE GROUPS OF POPULATION

COMPANY NAME	SELF-EMPLOYED	MICROENTERPRISES	LOW-INCOME PEOPLE	SMALL FARMERS	MILITARY/ IMMIGRANTS/ TRANSMIGRATOR
Portmone	+				+
Easypay			+	+	+
Hotline FINANCE	+		+	+	+
UAPay	+		+		+
Treeum	+		+	+	+
Finkee			+		+
Paylastic	+	+			
MOSST	+		+		+
FONDY	+	+			
Uplata			+		+
FINMAP	+	+			
Agency21		+			
MOCash	+	+		+	
UkrPay	+	+	+	+	+
LiqPay	+	+	+	+	+
FORPOST	+	+	+	+	+
Iplan	+	+		+	

By comparing the services of fintech companies to vulnerable groups of the population, we observe that while there is good service coverage overall (Table 2, orange), there remain key opportunities for the development of fintech in Ukraine (Table 2, green), notably in the small and medium enterprise (SME) and farm segments.

IMPACT ON FINANCIAL INCLUSION AND HEALTH

All companies that took part in this study confirmed that the services they offer increase financial inclusion and improve financial health in line with commonly understood definitions.

Details on how fintechs increase financial health and inclusion are presented in Table 3 (overleaf). It should be noted, however, that most of the fintech companies (except for payment services providers), still have a very small scale of operations, meaning that their potential impact on financial health and inclusion will only be felt by a small number of beneficiaries. As the sector is very young, less than a fifth of the fintechs are mature companies. Almost half of the fintechs in Ukraine are in the phase of scaling-up, and a quarter is just launching the product and looking for an appropriate market fit.

TABLE 3: INFLUENCE OF FINTECH COMPANIES IN THE CONTEXT OF FINANCIAL INCLUSION AND FINANCIAL HEALTH

FINTECHS AND FINANCIAL INCLUSION	
Bringing financial inclusion to the excluded and underserved	
Financial services for unbanked individuals	 MOSST MASTERS OF SIMPLE & SMART TRANSFERS
Financial services for underserved businesses	 MO Cash
Facilitation of access to financial services	
Presenting the offer of financial institutions in a transparent way	 Treeum
Improving accessibility of bank services	portmone.com
FINTECHS AND FINANCIAL HEALTH	
Managing income and expenses	
Household finance management for better managing day-to-day financial matters	 Finkee
Business finance management	 FONDY FINMAP
Resilience to weather financial ups and downs	
Access to P2P transfers in case of financial emergency	portmone.com   LIQPAY
	 MOSST  UA pay Національний платіжний сервіс
Access to insurance products	
Long-term perspective	
Planning of family finance	 iPlan FINANCIAL LIFE

PARTNERSHIPS BETWEEN FINTECHS AND TRADITIONAL FINANCIAL SECTOR PLAYERS

Many fintech companies cooperate with traditional participants of the financial sector, in particular, with banks, financial and insurance companies. This historical trend is partly due to a lack of specialized legislation that would fully regulate the activities of fintech companies and allow them to work independently from traditional players—especially those facilitating payments and money transfers. We see three main types of collaborations: partnerships in service delivery, in technology and in development of the fintech industry itself through funding and other support. According to a recent USAID report,²⁰ primary partners include PUMB, Oshadbank, Alfa Bank, Raiffeisen Bank Aval, Tascombank and global service providers VISA and Mastercard.




Among other fintechs, partnerships in service delivery are seen in the area of facilitating access to banking services through online marketplaces and product comparators. Both Hotline Finance and Treeum partner with banks and insurance companies and other finance companies²¹ to promote their products.

Partnerships in technology are mainly seen among financial technology providers which do not directly serve target populations but rather work with financial services providers such as banks, non-bank financial institutions and telecoms. Their business model is described as “B2B2C2” (business to business to customer). Among the fintech companies interviewed within the study, Portmone deserves special attention as it is engaged in two types of services: B2B2C, within which it works with banks and Ukr Pochta, and B2C where it provides services directly to individual clients and businesses through its website.

The other type of partnership refers to the development of the fintech industry. Several banks are engaged in supporting business incubators and accelerators where start-up companies can develop and test their innovating products and services. MO Cash is an example of a fintech that benefitted from this support.

As yet, no example of partnership that helps customers rejected by traditional financial institutions to obtain services at fintech companies was found.

TABLE 4. PARTNERSHIPS BETWEEN FINTECHS AND TRADITIONAL FINANCIAL INSTITUTIONS

Partnership in service delivery	
Fintechs provide a marketplace from which clients can access bank products	
Bank refers clients whom it cannot serve to a fintech company	No such example in Ukraine yet
Partnership in technology	
Fintechs provide solutions that are utilized by banks to improve the quality of services, both front-end and back-end	
Partnership in development	
Bank supports an incubator/accelerator where fintech startups can develop their products (UkrSibBank) Popcorp accelerator for Mo.Cash	

20. [HTTP://DATA.UNIT.CITY/
FINTECH/F6T34K067MOK/
FINTECH_IN_UKRAINE_2018_EN.PDF](http://data.unit.city/fintech/f6t34k067m0k/fintech_in_ukraine_2018_en.pdf)

21. THE OTHER FINANCE COMPANIES
INCLUDE PERSONAL CREDIT PROVIDERS,
CURRENCY EXCHANGE FIRMS.

OPPORTUNITIES FOR FINTECHS IN IMPROVING FINANCIAL INCLUSION AND HEALTH IN UKRAINE

COOPERATION WITH TRADITIONAL PLAYERS

One of the main reasons for the emergence of new and the development of existing fintech solutions in the local market is the intensification of cooperation amongst traditional players and startups.

Over the past 10 years, the banking system of Ukraine has experienced two major crises and most players have not had the opportunity to invest the necessary amount of funds in the continued development of their own infrastructure. By and large, traditional players prefer to remain “closed” structures, relying only on their own research and development.

Departure from the outdated development paradigm of in-house solutions in favour of cooperation with fintech companies will be a win-win strategy. However, key barriers remain. The first of these is legal and regulatory: including the development of infrastructure to simplify the integration of third-party solutions and data-sharing between traditional banks and fintechs, and a cultural shift towards cooperation with companies that are competitors in other markets (so-called “coopetition”).

According to a recent UAFC/NBU publication, cooperation is more likely to take place with respect to customer-facing solutions that would require too many resources to develop in-house—whereas banks are more likely to develop their own solutions for simple back-end solutions that are easily integrated into their infrastructure. Cooperation (and profit sharing) will occur when win-win scenarios are seen: giving banks the opportunity to improve their services and giving fintechs the opportunity to leverage the bank’s existing client outreach.

Some traditional players have already begun to take the first steps in this process: conducting hackathons, creating incubators, etc., but these are isolated examples that have as yet failed to produce the momentum needed for a complete revolution.

ENABLING ENVIRONMENT

The restraining factor is still the under-developed legal framework, in particular with regard to remote identification (using Bank ID, Mobile ID etc.) - a critical issue, given the stricter AML / KYC rules. A

serious positive change in the market can also be the plans of the National Bank of Ukraine to implement the PSD2 directive. Unfortunately, quick major changes in the legislative field in the coming year are unlikely due to the upcoming Presidential and Parliamentary elections.

Nevertheless, a number of necessary legislative and regulatory changes can be implemented without the involvement of Parliament. In addition to those mentioned, BankId, for example, is a regulatory sandbox. A number of countries that launched the sandbox, including the nearest neighbours of Ukraine (Hungary, Poland), positively assess the results of the work and its effect on the country's fintech ecosystem. Properly organized sandbox gives startups the opportunity to test the business model in practice under the supervision of the regulator and get a certificate of KPI implementation and successful completion of the sandbox. From another perspective it's a positive signal for investors.

EXPANDING OUTREACH TO THE MOST EXCLUDED

At present, fintechs target two main groups. First, they target advanced users who are interested in innovation, and second (to a lesser extent) people whose access to traditional service providers is limited, either on account of physical limitations (difficulties in accessing branches for people with disabilities), geographic (a reduced network of branches in small communities), or financial (lack of products for the underprivileged population or SMEs).

As yet, fintechs have made little inroads in reaching the most excluded groups: namely SMEs and rural customers. Reaching these groups requires significant costs for building communications to explain the benefits of using new products and developing financial literacy in general. While the NBU's financial literacy strategy is aimed at youth, we see an opportunity to also target these more vulnerable segments of society with

financial literacy education and tools.

We also see an opportunity to increase knowledge and skills amongst fintechs to understand the role they potentially play in increasing financial inclusion and improving financial health among these groups. To date, there has been little systematic outreach from the startup community to these more vulnerable segments of the population. In part, this is by default, as fintech startups are typically led by more urban and more educated people with little understanding of the challenges facing poor communities. To effectively reach these groups, they need: a) a deeper understanding of the specific problems of these groups and b) motivation to look for solutions to the problems raised. One of the possible options could be hackathons, organized jointly with state representatives responsible for social protection of the population and/or SME development.

KEY ROLE FOR LOCAL FACILITATORS

The main facilitator for the development of the fintech sector in Ukraine is UAFIC, a professional association. Understanding the opportunities and problems of its members and working together with other NGOs will help to find effective ways for enhancing of financial inclusion and financial health. Particularly important is the participation of the state to identify problems and create conditions for solving them. Not only that, but we see space for the network to play a bridging role between the Ukraine's fintech sector and those of other countries, to bring international best practices and lessons learnt into the national dialogue. Presently, most of the momentum for this is coming from the NBU and agencies such as the World Bank and USAID—but ideally in future the local network will step into the leading role here.

CHALLENGES FOR THE DEVELOPMENT OF FINTECH IN UKRAINE

Our interviews identified key sector-specific challenges facing the development of fintech companies in Ukraine. These are:

- Absence of specialized legislation of Ukraine in the field of fintech
- Difficulty in attracting investments, related to a lack of long-term investments in the country generally following the crash
- Inability to issue electronic payment cards and money, forcing them to partner with banks if they want to offer payments
- Remote identification of citizens (where fintechs have access to bank customer identification data) is not fully implemented.

Broader challenges for the development of fintech include:

- Political instability
- Low income levels among the population
- Weak investment climate and high level of corruption
- Lack of conditions for more dynamic development of fintech such as incubators and accelerators (as in other countries).

CONCLUSIONS

Our conversations with key actors in the fintech sector in Ukraine on its potential role in financial inclusion and financial health revealed the following insights:

1. The regulations for the development of fintech in Ukraine are on the starting stage. In particular, the legal requirement for fintechs to partner with banks – combined with the recent drastic reduction in the number of banks – has been a key barrier.
2. Fintech companies already

provide services to vulnerable groups, but in small numbers and without deliberate targeting.

3. Fintechs improve financial health in several ways, including improved planning, increased savings, access to insurance and emergency funds, and financial management tools. That said, in its infancy fintechs mainly contribute to improved quality of financial inclusion and access to banking services rather than financial health per se.
4. Fintech companies have limited access to the domestic and foreign investors needed for the dynamic development and improvement of the quality of financial inclusion of Ukrainian citizens.
5. Further development of the ecosystem and financial infrastructure is needed, including idea incubators and accelerators, equity investors and angel investors.
6. In terms of the financial infrastructure (payment system): there is a need to make it more digital
7. The government should develop a national strategy for fintech to set the direction of its development and eliminate barriers to progress. This should include, among other things, a mechanism to facilitate data-sharing between banks and fintechs in terms of transactional and identification data.
8. Growing numbers of potential fintech clients are migrant workers and their families, opening borders with the EU for Ukrainian citizens allowed for work migration thus creating a new target group for transfer services.

ANNEX 1: FINANCIAL INCLUSION INDICATORS FOR UKRAINE

Europe & Central Asia: Ukraine, 2017		Lower middle Income		
Population, age 15+ (millions)	38.1	GNI per capita (\$) 2,310		
		Ukraine	Europe & Central Asia	Lower middle income
Account (per cent age 15+)				
All adults, 2017		62.9	65.3	57.8
All adults, 2014		52.7	57.8	41.9
All adults, 2011		41.3	44.8	28.9
Financial Institution account (per cent age 15+)				
All adults, 2017		62.9	65.1	56.1
All adults, 2014		52.7	57.8	40.6
All adults, 2011		41.3	44.8	28.9
Mobile money account (per cent age 15+)				
All adults, 2017		...	3.2	5.3
All adults, 2014		...	0.2	3.2
Account, by individual characteristics (per cent age 15+)				
Women		61.3	62.5	53.0
Adults belonging to the poorest 40 per cent		53.3	56.3	50.7
Adults out of the labour force		54.8	52.8	50.8
Adults living in rural areas		55.5	61.7	57.6
Digital payments in the past year (per cent age 15+)				
Made or received digital payments, 2017		60.7	60.4	29.2
Made or received digital payments, 2014		44.1	46.1	19.7
Used an account to pay utility bills		20.0	23.0	7.5
Used an account to receive private sector wages		20.7	21.2	5.5
Used an account to receive government payments		34.3	28.8	8.3
Used the internet to pay bills or to buy something online		29.5	30.6	6.8
Used a mobile phone or the internet to access an account		18.1	23.1	8.3
Used a debit or credit card to make a purchase		39.1	38.5	10.0
Inactive account in the past year (per cent age 15+)				
No deposit and no withdrawal from an account		4.9	6.6	21.6
No deposit and no withdrawal from a financial institution account		4.9	6.7	22.0
Domestic remittances in the past year (per cent age 15+)				
Sent or received domestic remittances through an account		8.1	12.8	10.1
Sent or received domestic remittances through an OTC service		2.8	7.0	4.7
Sent or received domestic remittances through cash only		10.1	8.0	8.8
Saving in the past year (per cent age 15+)				
Saved at a financial institution, 2017		12.9	14.4	15.9
Saved at a financial institution, 2014		7.8	11.0	14.4
Saved using a savings club or person outside the family		2.2	5.0	13.0
Saved any money		39.6	37.0	39.7
Saved for old age		11.2	15.0	13.2
Credit in the past year (per cent age 15+)				
Borrowed from a financial institution or used a credit card, 2017		21.8	24.2	9.8
Borrowed from a financial institution or used a credit card, 2014		21.7	22.3	10.0
Borrowed from family or friends		30.8	24.5	30.4
Borrowed any money		46.9	44.0	42.9
Outstanding housing loan		4.6	11.6	5.0

SOURCE:
THE LITTLE DATA
BOOK ON FINANCIAL
INCLUSION, 2018



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