The Structure of the Estonian Financial Sector

Eesti Pank
EUROSÜSTEEM

2023

The Structure of the Estonian Financial Sector covers the architecture and design of the financial sector in Estonia.

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CONTENTS

SUMMARY

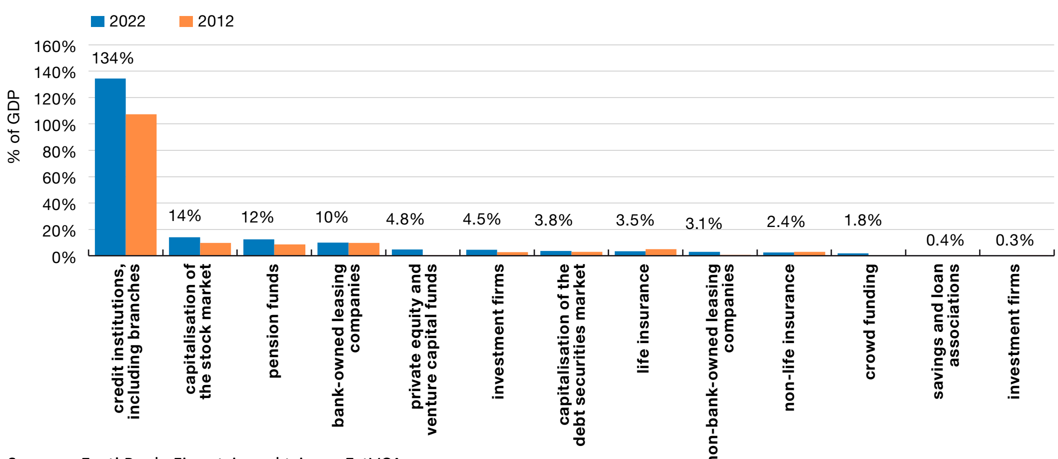
The Estonian financial sector has grown strongly in the past decade and is medium-sized in international comparison. Data in the financial accounts show that the financial assets of the Estonian financial sector in unconsolidated form were around 240% of GDP at the end of 2022. This ratio has increased by around a third over the past decade, but it is a little below the median for the European Union. The role of the financial sector in the value added created in the Estonian economy has also increased, as the financial sector created 4.6% of total value added in 2022, up from 4% ten years earlier. The average figure in the European Union in 2022 was 4.3%.

The Estonian financial sector is bank-focused. There are slightly fewer credit institutions than there were five or 10 years ago (see Table 1). However, the rapid growth in assets and the establishment of the Luminor head office in Estonia has caused the assets of the Estonian banking sector to increase as a share of GDP to 134% and as a share of the total assets of the financial sector to 69% (see Figure 1). Lease companies, which are mostly owned by big banking groups, are a further 5% or so of the financial sector and 10% of GDP. After the compulsory pension system was introduced in 2002, pension funds have become an important part of the financial sector, and they are also tightly connected to the banks through the fund managers. The volume of pension fund assets has decreased however since pension saving was made voluntary, and they declined as a share of GDP from 20% in 2020 to 12% by the end of 2022.

Table 1. Number of financial institutions supervised by Finantsinspektsioon

	31.12.2012	31.12.2022
Credit institutions	16	13
of which branches of foreign credit institutions	8	4
Creditors	N/A	41
Credit intermediaries	N/A	13
Life insurance companies	5	5
of which branches of foreign life insurance companies	1	3
Non-life insurance companies	11	14
of which branches of foreign non-life insurance companies	3	6
Management companies	17	11
Investment firms	3	9
Payment service providers/e-money institutions	12	18
Insurance brokers	45	45
Operator of a securities settlement system	1	1
Regulated market operator	1	1

Figure 1. The assets of the Estonian financial sector in ratio to GDP at the end of 2012 and 2022



Sources: Eesti Pank, Finantsinspektsioon, EstVCA

Capital markets have taken a back seat as a source of funding though they have advanced a little in recent years. The local stock market was worth around 14% of GDP at the end of 2022, and the bond market was around 4%. Estonia's ratio of capital markets to GDP is one of the lowest in the European Union. The capital markets in Estonia are relatively small primarily because Estonian companies are small, though also because of their ownership structure. It is cheaper for smaller companies to get funding from banks. As there is a relatively large share of foreign-owned companies in Estonia, some companies can borrow from their parent companies. The small size of the local market also leads large companies to borrow abroad to a significant extent and to issue bonds there. Furthermore, the level of borrowing by the Estonian general government is low, and so few bonds are issued.

The insurance market in Estonia is small and a major part in it is played by mandatory insurance products that are compulsory either by law or as a requirement of a lender financing the purchase of an asset. Life insurance products have so far not been popular. The total assets of insurance companies registered in Estonia are 6% of GDP. As life insurance is often used as a long-term savings product in many countries, the total assets of the insurance sector in the European Union are a little over half of GDP.

The role of the rest of the financial sector in financial intermediation is small, but it has increased rapidly in recent years. Private equity and venture capital funds and real estate funds have grown particularly fast, but there has also been growth at crowdfunders, at savings and loan associations, and at creditors and credit intermediaries, mainly instant loan providers and hire purchase companies. The growth in the savings and loan associations has halted in the past couple of years. Other financial intermediation in total is around 5% of the financial sector and 10% of GDP.

Not only is the Estonian financial sector bank-focused, but important parts of it are quite concentrated because the market is small. The banking sector has become less concentrated in the past couple of years as smaller banks have grown fast, but the assets of the three largest credit institutions continue to be the major part of the total assets of the banking sector at around 75%[1]. This figure makes the banking industry in Estonia among the most concentrated in the European Union. More than three quarters of the assets of pension funds are managed by the three largest fund managers. The life insurance industry is also quite consolidated and in 2022, 86% of life insurance payments went to the three largest companies. The figure in non-life insurance was 56%, meaning market shares are divided more evenly between the insurance companies. Other parts of the financial sector are also quite concentrated.

The ownership relations of the Estonian financial sector are tightly connected with the Nordic countries, as a large part of the sector, principally credit institutions, insurance companies and fund managers, is owned by Nordic financial groups. The financial groups that own the biggest banks in Estonia often also own the insurance companies, fund managers and lease companies with the largest market share through the banks. A smaller share of the financial sector is owned by Estonian residents, but this share has increased in the past five years. All payment institutions and savings and loan associations and a major proportion of fund managers, private equity and venture capital funds, creditors not associated with banks, and investment firms are Estonian owned.

1 Not including the assets of branches of Estonian credit institutions abroad.

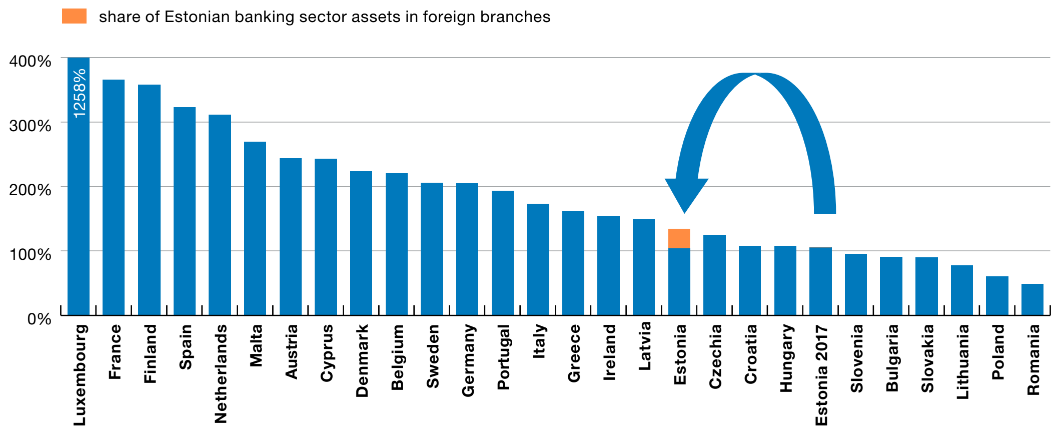
BANKS

The largest part of the financial sector is the banks. There were 13 credit institutions operating in the Estonian banking sector at the end of 2022, of which four were branches of foreign banks. Cross border banking services can also be provided in Estonia by more than 300 other financial institutions from the European Union.

The assets of the banks together with those of the branches of foreign banks were around 134% of GDP in 2022, and they were 104% without the branches (see Figure 2). The branches operating abroad accounted for more than a fifth of the volume of assets of the banking sector. This is mainly the assets of the Latvian and Lithuanian units of Luminor. The domestic assets of the Estonian banking sector have in recent years grown at around the same rate as nominal GDP. The addition of the branches means though that the total assets of the banking sector are around 1.4 times as large as they were five years ago.

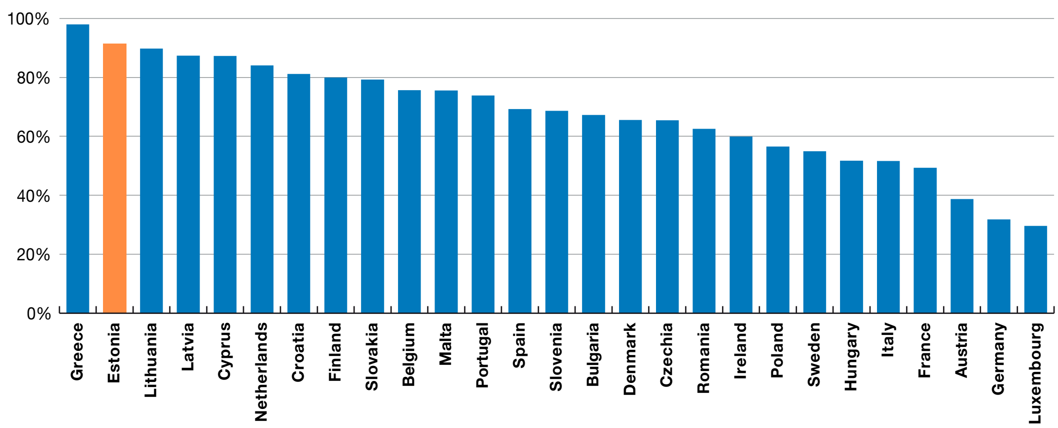
The biggest change in the Estonian banking market in recent years, apart from the creation of Luminor, has been the growth in the market share of smaller banks and some reduction in the concentration of the sector. The three largest banks had around 85% of the total assets of the sector in 2019, but this had come down to 75% by the end of 2022 as the smaller banks grew strongly. The concentration in the Estonian banking sector remains among the highest in Europe though, because the market is small (see Figure 3).

Figure 2. Ratio of bank assets to GDP



Data from 2022
Sources: European Central Bank, Eurostat, Eesti Pank

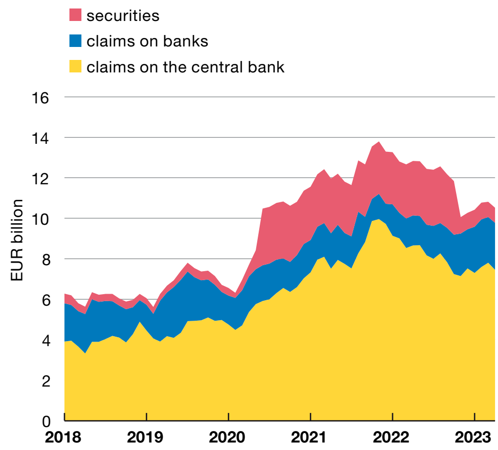
Figure 3. The share of total assets held by the five largest credit institutions



Estonian banking data from 2022, all other data from 2021
Sources: European Central Bank, Eesti Pank

Leaving the branches operating abroad aside, the market leaders in the Estonian banking sector remained the two Swedish subsidiaries, whose assets were 58% of the local banking market at the end of last year, though their market share has declined in recent years. The remainder of the market is mainly divided between credit institutions with Estonian and US backgrounds, and smaller branches of foreign banks.

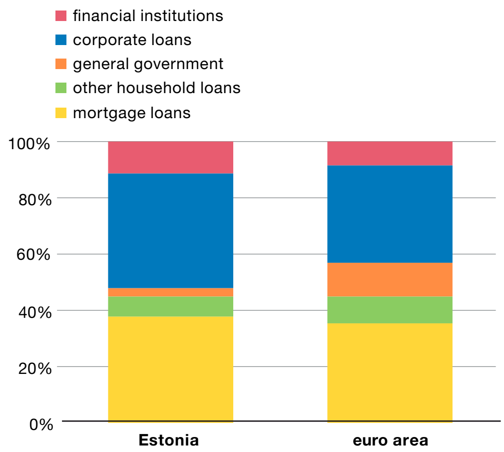
Figure 4. Structure of the liquid assets of the banking sector



Source: Eesti Pank

Loans to households at 45% of total lending and corporate loans at 41% are the largest part of the assets of the banking sector. The share of housing loans is larger in Estonia than the average for the euro area, as there is a preference for buying housing rather than renting it. Over 42% of corporate loans are issued to the real estate and construction sector, and so developments in the real estate market consequently impact the loan portfolio of the banking sector forcefully. The Estonian state debt is relatively small in international comparison, and so loans to the general government are a notably smaller share of the total. The large role of loans to financial institutions in Estonia comes mainly from the lease and consumer credit companies owned by the banks[2] (see Figure 4). Over 90% of the loans of the banking sector are issued with a floating interest rate, which is one of the highest figures in the European Union.

Figure 5. Structure of the total lending portfolio of banks in Estonia and the euro area at the end of 2022



Sources: European Central Bank, Eesti Pank

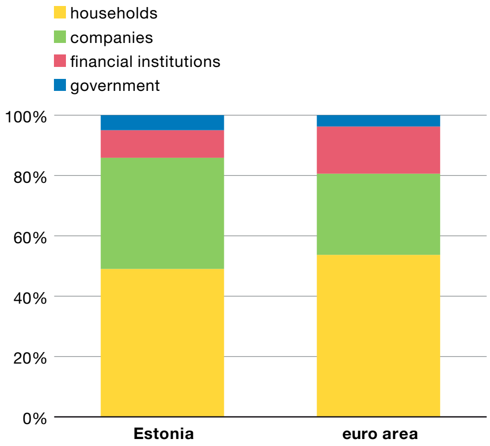
At 70%, the largest share of the liquid assets of the banks is the liquidity held at the central bank. The claims on the banks, which are mainly on the parent banks, increased a little in 2022, and covered a fifth of the liquidity buffers (see Figure 5). The volume of liquid assets declined a little as monetary policy loans were repaid, but even so they remained a larger presence on the balance sheet than the average in the European Union countries at around 27%. Securities, of which the 60% that are sovereign bonds made up the largest share, were one of the smallest shares of total assets of the banking sector in the European Union countries at around 8%.

One particular feature of the Estonian banking sector is that there is effectively no local money market. Loans between the banks operating in Estonia as a share of total assets was below 0.1% in April 2023.

The banking sector traditionally funds its loan portfolio mainly through client deposits, which were some 85% of the liabilities of the banks at the end of 2022. The structure of client deposits is a natural consequence of the corporate income tax system, as the share of corporate deposits is much larger than the euro area average and the share of household deposits is consequently smaller (see Figure 6). This is because the corporate income tax system makes it beneficial for companies to hold their available resources as deposits within the company. Demand deposits continue to dominate among deposits. When money market interest rates started to rise in summer 2022 though, and the growth in deposits slowed, the banks started to raise the interest rates on term deposits. Term deposits consequently made

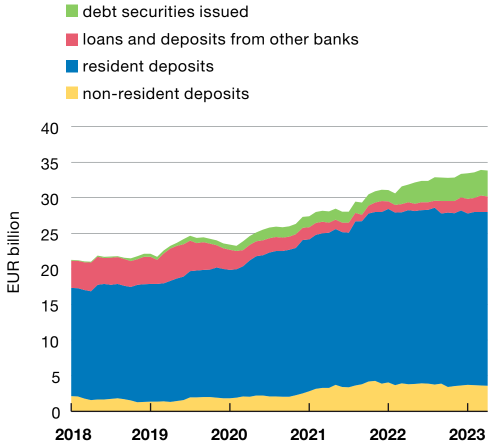
2 See also *Creditors associated with banks*.

Figure 6. Structure of the deposits of the banks in Estonia and the euro area



Sources: European Central Bank, Eesti Pank

Figure 7. Funding structure of the banks, without foreign branches of Estonian credit institutions

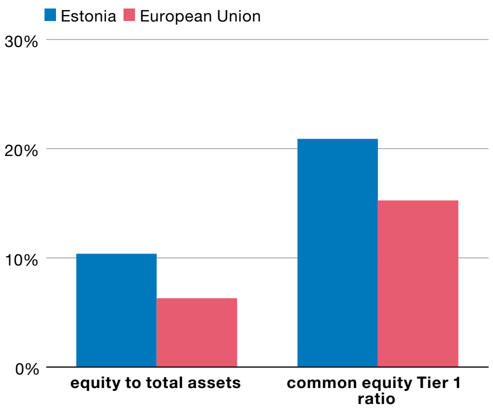


Source: Eesti Pank

up around 20% of client deposits by the end of April 2023, and the share of demand deposits had fallen to some 65%.

The loan-to-deposit ratio, which recently hit a record low level, started to rise again in 2022 and reached 90% at the end of the year. This means that overall banks can entirely fund their loan portfolios from client deposits, but slower growth in deposits meant that banks had to use alternative sources of financing more than before. This mainly meant taking in funds from parent banks, issuing covered bonds, and to a smaller extent issuing subordinated bonds. Some banks have also taken in funds from international deposit platforms, which is the main component of the non-resident deposits held in Estonian banks (see Figure 7).

Figure 8. Capital ratios of the banking sector in Estonia and the European Union



Data from 2022
Sources: European Central Bank, Eesti Pank

The aggregate indicators for the capitalisation of the Estonian banking sector are notably higher than the European Union averages in international comparison (see Figure 8). The banking sector in Estonia for years had a similar income tax system to the corporate system, where income tax was paid only when profits were paid out. Although the banks now pay quarterly income tax in advance, undistributed profit remains a relatively large share of equity at 45% at the end of 2022, while the share of equity on the balance sheet exceeds 10%[3]. The high level of capitalisation in the sector also points to good profitability, cost efficiency, and a low non-performing loan rate.

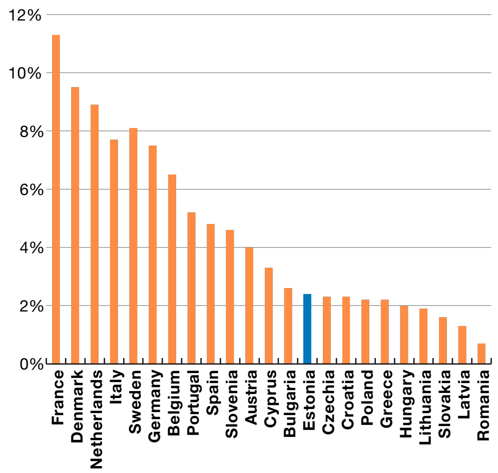
3 Includes branches abroad. Undistributed profit without branches was 47% of the balance sheet and 12.5% of equity.

INSURANCE COMPANIES

Insurance is a small share of the Estonian financial sector and of the whole economy, as premiums received account for around 2.4% of GDP. As life insurance is often used as a long-term savings product in many countries, the total assets of the insurance sector in the European Union are a little over half of GDP[4]. The figure for insurers registered in Estonia is 6%.

There are five life insurers and 14 non-life insurers operating in the Estonian insurance market. Three of the life insurers and six[5] of the non-life insurers are branches of foreign insurance companies, and they have 36% of the life insurance market and 36% of the non-life market. There are also several insurance companies from the European Union that offer insurance services internationally.

Figure 9. Premiums as a percentage of GDP, 2021



Sources: EIOPA, Eurostat

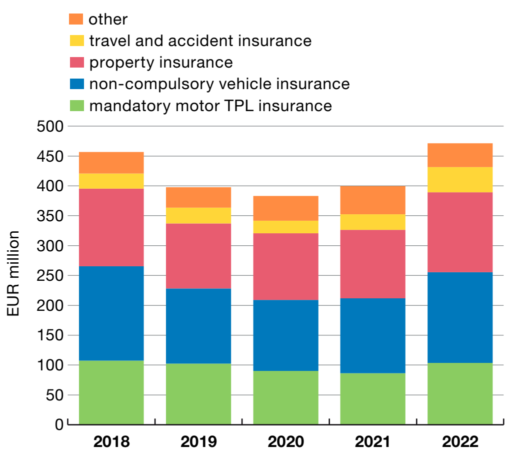
There are 38 insurance brokers and hundreds of insurance agents registered in Estonia, and they intermediate contracts from both Estonian and foreign insurance companies. Insurance brokers intermediate a little over one third of all the insurance premiums of non-life insurers in Estonia, but less than 2% of life insurance premiums. Insurance agents intermediated 18% of non-life insurance premiums in 2022 and 21% of life insurance premiums[6].

Several Estonian insurers also operate in the Latvian and Lithuanian markets, as the Estonian insurance market is small but it is similar to those in Latvia and Lithuania. This lets companies operate more efficiently, achieving cross-border synergies and economies of scale. Two life insurers licensed in Estonia and five non-life insurers operate in all three Baltic states.

The life insurance sector in Estonia is highly concentrated as the three largest market participants had 86% of the market in March 2023. There are more insurance companies in the non-life insurance market and their market shares are distributed more evenly. The three largest companies have a combined market share of 52%. The Herfindahl index showing the state of competition indicates a low level of concentration.

A major part in shaping the insurance market in Estonia is played by mandatory insurance products that are compulsory either by law or as a requirement of a credit supplier financing the purchase of an asset. In consequence the most common insurance products are motor third-party insurance, land vehicle insurance, and property insurance (see Figure 10). Sales of these products have also been increased in recent years by inflation. Life insurance products have not yet proved as popular, meaning non-life insurance has a larger share of the market (see Figure 11). This share was 83% of the total insurance market at the end of 2022. This structure is very different from

Figure 10. Insurance premiums by type of non-life insurance



Source: Statistics Estonia

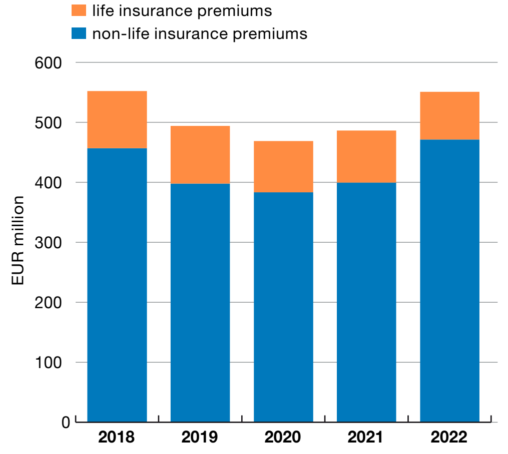
4 As at the fourth quarter of 2022 (EIOPA).

5 One of these only handles reinsurance.

6 The Estonian financial services market. Finantsinspektsioon.

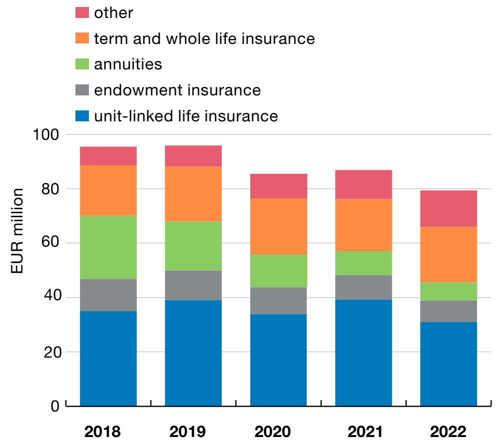
that found in the most highly developed nations, where insurance products are commonly used to build up pensions or other savings and so the life insurance market dominates. The largest share of life insurance is in unit-linked insurance, which accounts for 44% of the insurance premiums paid. Some 37% of the life insurance market is in the voluntary contributions to the third pension pillar with its income tax break (see Figure 12). Depending on the individual natures of the different products, they appear in the statistics for unit-linked life insurance, endowment insurance or pension insurance.

Figure 11. Insurance premiums received by the insurance sector in Estonia



Source: Statistics Estonia

Figure 12. Insurance premiums by type of life insurance



Source: Statistics Estonia

PENSION FUNDS

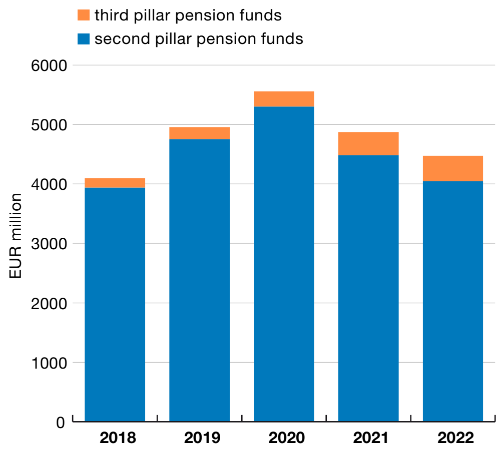


Figure 13. Assets of pension funds at the end of the year, million euros

Source: Finantsinspektsioon

The total value of pension funds stood at 4.5 billion euros or 12% of GDP at the end of 2022. The vast majority of 90% of the assets of pension funds are the assets of second pillar funds (see Figure 13). Changes to the pension system started to apply at the start of 2021, the most important of which was that pension investors could exit the second pension pillar before reaching retirement age. Before the changes to the pension system, the volume of assets in the second pillar funds grew every year, mainly through the constant contributions paid in but also through new members joining the pillar, but after the change to the system the total value of the assets of second pillar pension funds has fallen by almost 24% over two years. The value fell in 2021 mainly because a little over 152,000 people applied to exit the pillar, which was 20% of those who were in it, who owned 24% of the assets of the second pillar funds, but in 2022 the assets of the pension funds mainly declined because of the drop in securities prices.

The market for pension fund managers for mandatory pensions in Estonia is quite concentrated, and consolidation has by now happened in the market. No second pillar fund managers have left the market in the past five years, and no new ones have entered it. At the end of 2022 there were five fund managers in the market for mandatory pension funds, and the two largest of them had around 85% of the market.

Like the market for second pillar fund managers, the market for fund managers for the voluntary third pillar is also highly concentrated. The number of managers in the third pillar increased by one in 2019, as one fund manager started to offer third pillar pension fund management services alongside its second pillar funds. At the end of 2022 there were five fund managers, and three of them had combined market share of a little over 80%. The total value of third pillar assets is much smaller than that of the mandatory second pillar funds. Third pillar fund managers had total assets of 431 million euros, or 1% of GDP, under management at the end of 2022.

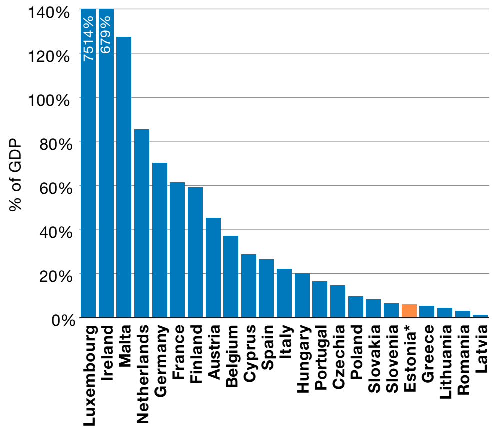
INVESTMENT FUNDS

The total value of the assets of investment funds stood at 1.6 billion euros or 4% of GDP at the end of 2022. The investment fund market in Estonia without the second pension pillar funds is one of the smallest in the European Union (see Figure 14).

There has been a notable shift in the Estonia investment funds market in the past five years. The number of equity funds and their share of the market have dropped substantially as several funds have left the Estonian market. Real estate funds now dominate by assets in the investment fund market with 57% market share at the end of 2022, followed by hedge and other funds, which had 39% market share at the end of 2022 (see Figure 15). The assets of real estate funds have increased because of new investment and because new funds have been added. The number of real estate funds has risen in the past five years from eight funds to 12 by the end of 2022, and their assets totalled 921 million euros at the end of the year. The amount in hedge and other funds has increased more than sevenfold in the past five years, and the growth has come largely from the increase in the number of funds. The assets of hedge and other funds reached almost 630 million euros at the end of 2022.

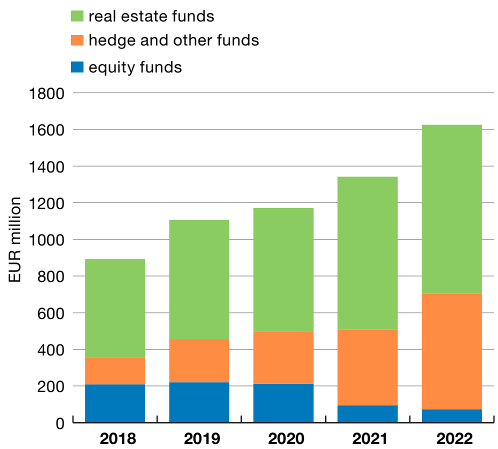
Although the assets of investment funds in Estonia are relatively small, the structure of investment fund managers is quite varied. A large number of unlicensed small fund managers have appeared alongside the usual licensed fund managers. There were a total of 11 licensed fund managers at the end of May 2023. Alongside the licensed fund managers there were 78 small fund managers operating in Estonia without a licence and six licensed small fund managers[7].

Figure 14. Total assets of investment funds, December 2022



* excluding second pillar pension funds
Sources: European Central Bank, Eurostat, Eesti Pank calculations

Figure 15. Assets of investment funds at the end of the year, million euros



Source: Finantsinspektsioon

7 Small fund managers are fund managers with a small volume of assets. Licensed small fund managers must meet the obligation to register, but also face a lot more other conditions than small fund managers operating without a licence. Unlicensed fund managers have to register their activities, but there is no supervision over those activities.

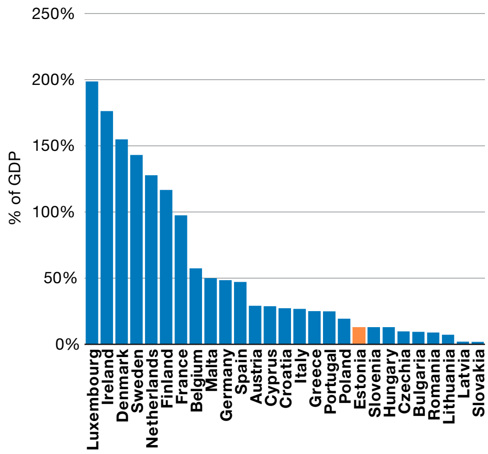
FINANCIAL MARKETS

THE STOCK MARKET

The local stock market in Estonia is quite small next to those in other countries of the European Union (see Figure 16). The market capitalisation of the stock exchange stood at 4.5 billion euros or 13% of GDP at the end of 2022. The shares of 20 companies were listed on the main and secondary lists of the exchange, and there were 12 registered members of the exchange with trading rights, most of them banks. Non-residents held 19% of the stock market capitalisation at the end of 2022, and that share has declined steadily over the past five years (see Figure 17). The majority of the foreign investors were residents of the Cayman Islands, Luxembourg and Finland, and they held 7%, 3% and 2% respectively of the corporate shares listed on the Tallinn exchange at the end of 2022.

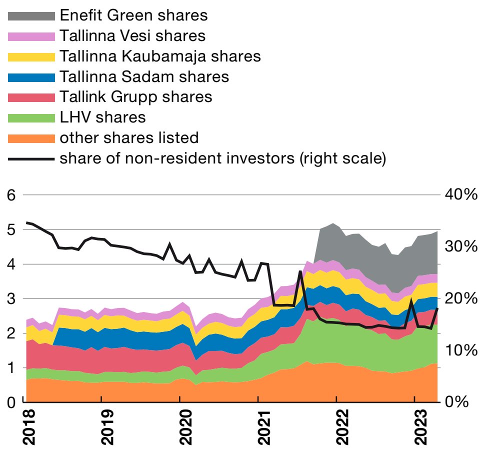
The local stock market has historically been a relatively small part of the Estonian financial sector for several reasons. One is that Estonian businesses are generally small, and it is usually cheaper for them to get money from credit institutions because the fixed costs of entry to the capital markets are higher. Another is that households are conservative about where they place their savings and prefer to hold them as bank deposits. Furthermore, Europe has historically been more banking-centred. Current obstacles to the development of the exchange include the small size of the market, the shortage of big enough companies that are suitable for the exchange and the well-developed banking sector. Development is also held back by the relative lack of liquidity in the market, which is reflected in the sluggish trading activity and in the relatively large spreads between ask and bid prices.

Figure 16. Stock market capitalisation, December 2022



Source: European Central Bank, Eurostat, Eesti Pank calculations

Figure 17. Stock market capitalisation and share of non-resident investors



Sources: Nasdaq Tallinn, Nasdaq CSD

Some temporary revival in the local stock market was apparent in 2021 for the first time in a long time as local investors became more active and several new companies listed on the exchange. The shares of eight companies were listed during the year, though most of them listed on the First North alternative market (for more see the section *The First North alternative market*). Shares of two companies were listed on the main list of the exchange. The capitalisation of the stock market increased by over 80% during the year, which came from the listing of one large company Enefit Green on the exchange, and from a general rise in securities prices in the market. In the first half of 2022 though there were only four companies listed on the First North exchange, and one new company was added in the second half of the year. There were no new companies that listed their shares on either the main or secondary lists of the exchange in 2022.

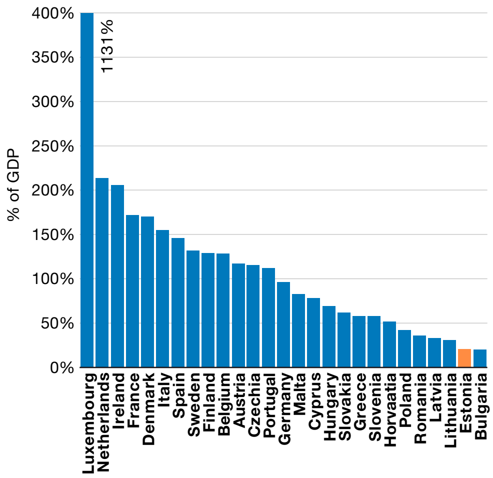
The local stock market stands out in comparison to large markets in other places around the world for the relatively low level of activity in the secondary market. Activity in the local secondary market increased in

2021, and an average of 1.9 million euros of share transactions were made each day throughout the year, which is more than two and a half times as much as the average of the previous five years, though that total turnover is still relatively small. A large part of the transactions on the Tallinn exchange are made with the shares of a select number of companies. Transactions with shares of the three companies traded most accounted for 63% of the transactions on the exchange in 2022.

THE BOND MARKET

The total stock of bonds issued in the local Estonian market at the end of 2022 stood at a little over 1.3 billion euros, or 4% of GDP. The volume of bonds issued by Estonian issuers was also among the smallest in Europe (see Figure 18).

Figure 18. Total volume of bonds issued, December 2020



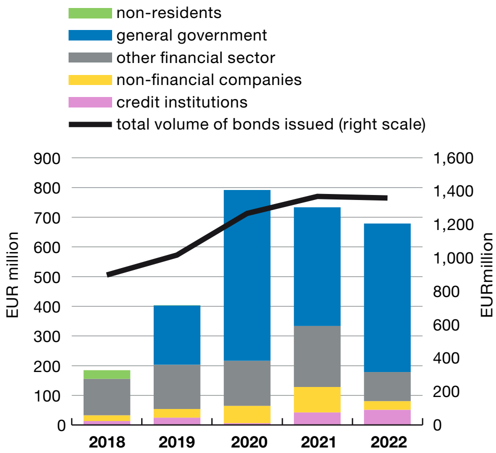
Sources: European Central Bank, Eurostat, Eesti Pank calculations

The bond market in Estonia has been relatively small since independence was regained for various reasons. Firstly the Estonian central government has not habitually issued government bonds. The Estonian state issued its first government bonds for a long time during the Covid-19 pandemic in 2020, since when their presence in the local bond market has grown substantially, though this has not led to any broader growth in bond issuance in other sectors. Secondly, the local bond market is not able to support the issue of bonds by big infrastructure companies as it is too small for them, and they prefer to issue their bonds in foreign markets. Thirdly, Estonia has a lot of small and medium-sized enterprises that prefer to get their financing from the banking sector, as issuing bonds can be a relatively expensive solution for them given their size.

The primary bond market in Estonia is mainly for private placements, meaning that the wider public has little opportunity to invest in local bonds. Although new bonds have increasingly been issued in the past three years, there has been no major increase in financing for the non-financial sector from bonds. The tone is mostly set by the bonds issued by the Estonian state (see Figure 19). There were 2.2 billion euros of new bonds issued on the local bond market in 2020-2022, but almost 1.5 billion of that was government bonds. Non-financial sector companies issued only 173 million euros of bonds during the same period, which is very small against the 37 billion euros of bank loans and leases issued during that time.

The secondary market in Estonia is extremely illiquid. It is only possible to trade with 10 companies and 16 different bonds on the regulated secondary market. Other bond transactions only take place off the exchange, so it is generally quite difficult and quite expensive to find a suitable buyer or seller. There are several reasons for the low level of activity in the secondary market. Firstly, bonds are generally held until maturity. Secondly, resident investors hold a large share of the bonds issued with some 70% of them, and 70% of those residents are in the financial sector. This equally means that there is quite low interest in active trading with bonds.

Figure 19. New bonds issued and total volume of bonds issued



Source: Nasdaq CSD

THE FIRST NORTH ALTERNATIVE MARKET

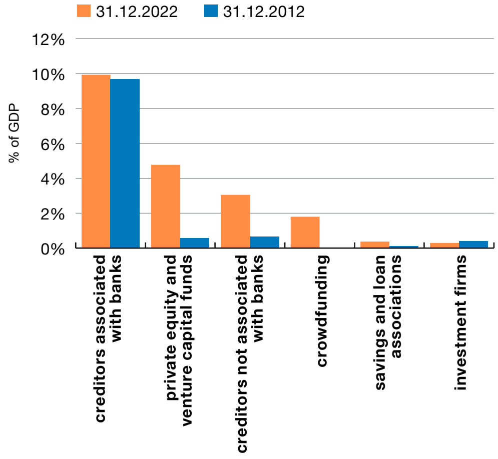
Alongside the regulated securities market, Estonian companies are also able to list their securities on the First North alternative market, which is not a regulated market in the sense of the European legal rules. Companies that list securities in that market do not have to meet the requirements of the regulated market, but only the looser requirements set by First North. The cost to companies of listing on the alternative market is much lower than for the regulated market but as the requirements are less strict, the risks for investors are larger.

First North was founded in the Baltic states in 2007. Alternative markets have been quite popular among companies in the Nordic countries, but in Estonia and the other Baltic states the interest in them has been more lukewarm. More new companies have listed on First North in the past five years than on the regulated market, but the number of companies currently listed on First North is still below that on the regulated market. There were 13 Estonian companies with shares listed on the First North market at the end of 2022 and three Estonian companies with bonds listed on it, while at the same time the shares of 500 companies and the bonds of 70 were listed in the Nordic countries.

THE REST OF THE FINANCIAL SECTOR

Financial intermediation by the rest of the financial sector has increased rapidly in Estonia in the past decade, though the sector remains relatively small as a share of GDP (see Figure 20). The largest part of non-bank finance in Estonia comes from lease companies.

Figure 20. Volume of assets in non-bank financial intermediation



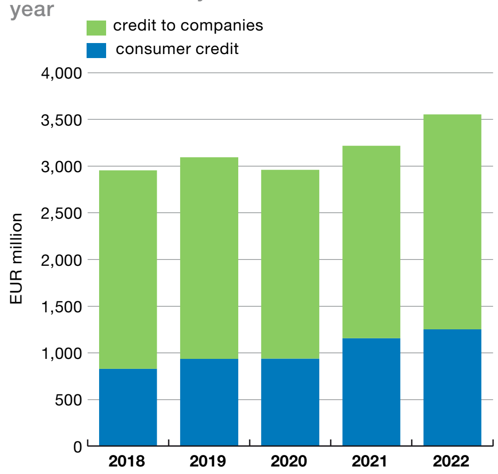
Sources: Eesti Pank, EstVCA, Statistics Estonia

CREDITORS ASSOCIATED WITH BANKS

There were 11 creditors associated with banks in May 2023. Most of the creditors in the same consolidation groups as the banks are leasing companies, but some banks have also moved their portfolio of small loans into a separate legal entity in recent years. Creditors associated with banks had issued 3.5 billion euros in leases, factoring and loans at the end of 2022, equivalent to around 10% of GDP (see Figure 21). Of this, 2.3 billion euros had been issued to companies and 1.3 billion euros to households.

All of the biggest leasing companies operating in Estonia are owned by banks and the market for leases is very concentrated as the assets of the three biggest leasing companies accounted for around 78% of all the assets of creditors associated with banks at the end of 2022. This figure has not particularly changed in recent years. The Estonian lease market is relatively large in international comparison as a ratio to GDP. The estimate by Leaseurope of the events in European leasing markets was that new sales of leases in Estonia in 2021 as a ratio to GDP were among the largest in Europe[8]. The ratio of new sales of leases to GDP in 2022 was similar what it was in the previous year at 4%[9].

Figure 21. Stock of financing issued by creditors owned by banks at the end of the year



Sources: Eesti Pank, Finantsinspektsioon

CREDITORS INDEPENDENT OF BANKS

Creditors not associated with banks include lease companies that are not owned by the banks; merchants that allow customers to pay in instalments; and providers of instant loans or pay day loans, which have high interest rates and short repayment deadlines. In May 2023 there were 41 companies licensed as creditors. The market for creditors not associated with banks is much less concentrated than many other parts of the Estonian financial sector and at the end of 2022 the volume of loans issued by creditors not associated with banks was 39% of the portfolio of loans issued by the three largest creditors.

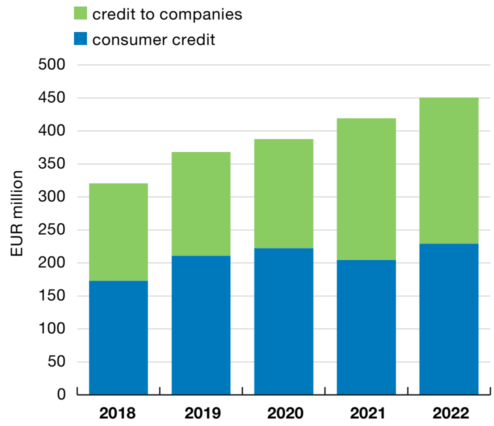
The stock of loans issued by creditors not associated with banks to households was around 229 million euros at the end of 2022. Some 68% of the stock of consumer credit was in unsecured small loans. The structure of credit issued has not changed significantly in recent years. On top of the consumer credit, the balance sheets of creditors not associated with banks contained around 222 million euros in other

8 Leaseurope.

9 Estonian Leasing Association, Statistics Estonia.

loans issued at the end of 2022 (see Figure 22). The stock of loans issued by creditors not associated with banks was around 1.2% of GDP at the end of 2022.

Figure 22. Stock of credit issued by creditors independent of banks at the end of the year



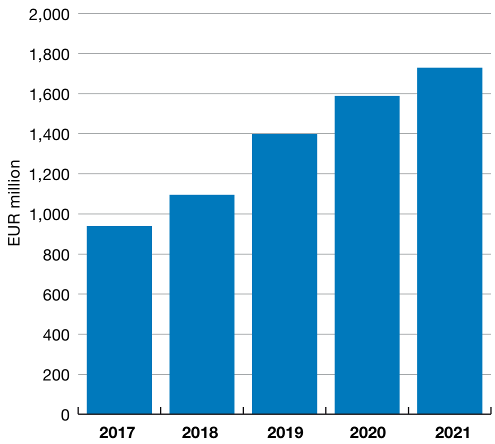
Source: Finantsinspektsioon

PRIVATE EQUITY AND VENTURE CAPITAL FUNDS

Private equity and venture capital funds invest in the equity of companies that are not listed on the stock exchange. Among the funds operating in Estonia are venture capital funds that are focused on companies in very early phases of development, and funds that invest in companies that have already made more progress.

The market for private equity and venture capital is still relatively new in Estonia, but the number of funds and the size of their investments has increased rapidly in recent years. For a long time there were only two professional fund managers in Estonia, there are now more than 10 and the market is less concentrated. The assets of the three largest funds are around a third of the total market. The rapid growth in funds and assets is closely linked to the creation of a new joint fund of funds, the Baltic Investment Funds, by the three Baltic states and the European Investment Fund, which has breathed a lot of life into the Estonian private equity market. It has encouraged pension funds and other private investors to invest in private equity funds.

Figure 23. Value of assets managed by private equity and venture capital funds



Source: EstVCA

New private and venture capital investment in Estonia has averaged around 0.5% of GDP over the past five years, which is similar to the average figure for Europe[10]. Data from the Estonian Private Equity and Venture Capital Association (EstVCA) show that at the end of 2021 its members held around 1.7 billion euros of assets, or around 5% of GDP[11] (see Figure 23).

CROWDFUNDING

Crowdfunding is a form of funding that uses small investments from large numbers of investors. The parties to the transaction are mainly brought together over the internet on specialised platforms created for crowdfunding, and run by companies that find projects and investors who want to invest in those projects, and provide technical solutions to allow them to do so. There are some crowdfunding platforms in Estonia that are specialised in financing companies, and others that finance households. Among those financing companies are some that provide financing in the form of loans and others that do it by investing in equity. A lot of crowdfunding companies and investors operate internationally.

At the end of 2022 there were around 20 companies registered in Estonia that managed crowdfunding platforms. Some of the platforms intermediating consumer credit have applied for licences as a creditor

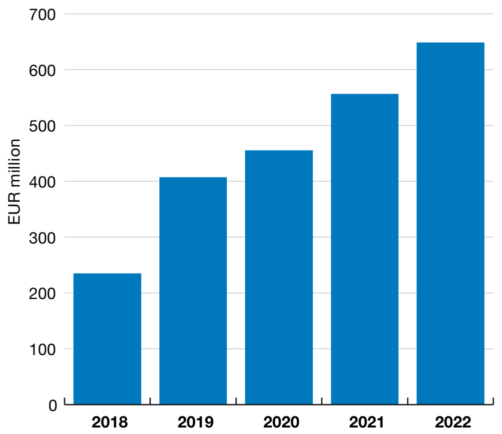
10 Invest Europe, 2022 European Private Equity Activity.

11 EstVCA 2021 Report.

or a credit intermediary. Some of the crowdfunding companies also have a licence as a payment institution or an investment firm. Pan-European regulation came into force in 2022 and requires all market participants allowing investment in companies to apply for a pan-European operating licence by November 2023. Finantsinspektsioon had issued two such licences by the middle of 2023.

Like elsewhere in Europe and around the globe, the number of crowdfunding platforms and the amount of funds mediated by them has grown rapidly in Estonia in the past decade. Estonia is one of the leaders in Europe by the amount of crowdfunding per resident[12]. The stock of funding intermediated through those platforms was around 650 million euros at the end of 2022, or 1.8% of GDP (see Figure 24). The total value of transactions in the past five years is around 1.5 billion euros[13]. The crowdfunding market is relatively concentrated even though new platforms have been set up. The funding issued by the three largest companies accounts for more than 90% of the total.

Figure 24. Stock of funds intermediated through crowdfunding platforms

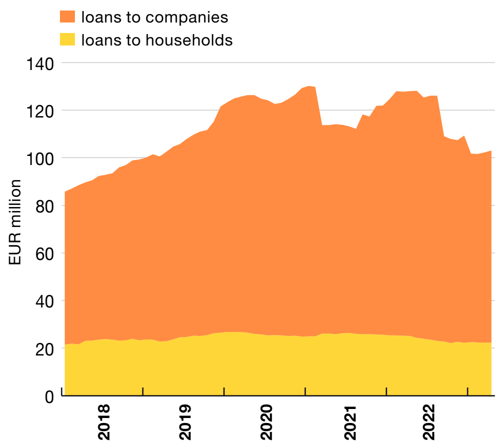


Sources: Eesti Pank, crowdfunding platforms

SAVINGS AND LOAN ASSOCIATIONS

Savings and loan associations are cooperative financial institutions that provide members with deposit and loan facilities. The membership and operating volumes of savings and loan associations in Estonia grew strongly from 2013 until 2020, but then the growth in operating volumes was stopped by the pandemic and by a couple of associations ceasing operations. Savings and loan associations are a small part of the size of the economy and are small compared to the banks, as their deposits taken in and the loans they had issued were worth a little over 100 million euros by the end of 2022, or 0.4% of GDP (see Figure 25). This is equivalent to 0.3% of the deposits and loans of the banks. Some 80% of the loans were to companies and around 20% were to households.

Figure 25. Stock of loans issued by savings and loan associations



Source: Eesti Pank

At the end of 2022 there were 21 savings and loan associations operating in Estonia with a total of 13,500 members. The increase in market concentration that had been fast for years slowed a little, but has accelerated again after a couple of savings and loan associations ceased operating. The assets of the three largest associations accounted for some 72% of the total assets of the sector at the end of 2022, and their deposits were 76% of the total deposits of savings and loan associations.

INVESTMENT FIRMS

There were nine licensed investment firms operating in Estonia at the end of 2022, and the number of them has risen in recent years. Investment firms mainly make transactions with securities on their own

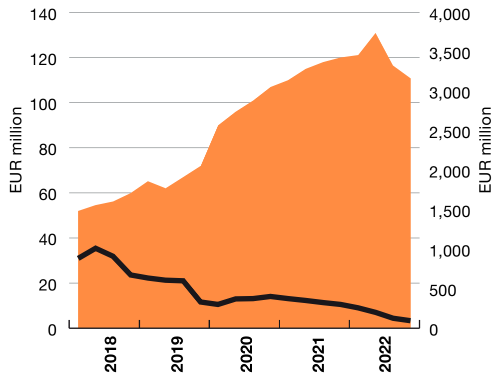
12 The 2nd Global Alternative Finance Market Benchmarking.

13 Data compiled by Eesti Pank from the websites of crowdfunding platforms and the annual reports of companies managing them.

behalf and on behalf of clients, hold securities and manage portfolios of them, organise and guarantee offers and issues of securities, and provide investment advice[14]. On top of the investment firms that have an Estonian operating licence are more than 2000 investment firms registered in countries in the European Economic Area that have informed Finantsinspektsioon that they want to offer international investment services in Estonia.

The total value of the assets of investment funds licensed in Estonia stood at 110 million euros or 0.3% of GDP at the end of 2022 (see Figure 26). The total value of the client assets managed by investment firms was around 93 million euros. The three largest firms by volume of investment firm assets had 90% of the total market, and by client assets they had 83%.

Figure 26. Total assets of investment firms and customer assets managed by investment firms



Source: Finantsinspektsioon

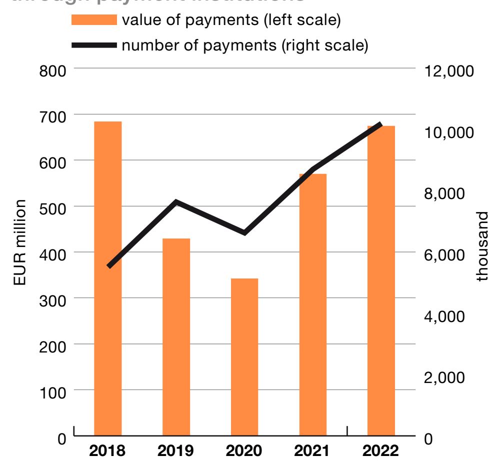
PAYMENT INSTITUTIONS

Payment institutions are companies that provide payment services, and compete to do so with banks. Unlike banks though, they are not allowed to take deposits of money, but may only provide the payment services for which they are licensed. The most common payment services in Estonia are money transfers, card payment processing, and initiation of payments from an account or with a card. To initiate payments, Estonian payment institutions give their clients a payment account with an IBAN identification number and process payments through payment systems.

The number of payment institutions operating in Estonia has been quite stable over the years. The first operating licence for a payment institution was issued by Finantsinspektsioon in 2011. At the end of 2022 there were 12 payment institutions and two e-money institutions operating in Estonia.

The turnover of payment transactions at Estonian payment institutions was 674 million euros in 2022, and a total of 10 million transactions were made (see Figure 27). The payment transactions of payment institutions accounted for only a very small share of all the payment transactions in the country at less than 1%. The market for payment institutions in Estonia is relatively concentrated, as the three largest of them had around 85% of the whole market by turnover of payments.

Figure 27. Value and number of payments through payment institutions



Source: Finantsinspektsioon

14 The Securities Markets Act allows investment services and activities to be provided by banks and to some extent by fund managers and the regulated market operator, as well as by investment firms.