

Fintech in Iceland

An Overview of the Fintech
Ecosystem in Iceland

FEBRUARY 2020



FJÁRTÆKNIKLASINN
THE FINTECH CLUSTER

NORTHSTACK

SFF

Table of Contents

About the Report	4
Purpose	4
About The Fintech Cluster	4
About Northstack	5
SFF	5
Fintech in Iceland	6
What is Fintech?	6
The Fintech Ecosystem Map	7
Funding and Acquisitions	8
Technology Development Fund	8
Private Investment	8
Notable Acquisitions	10
2019	12
Profiles	18
Monerium	18
GRID	18
Lucinity	19
Igloo	20
Jiko	21
Interviews	22
Is there anything unique about Fintech in Iceland?	22
What are the biggest opportunities for Fintech in Iceland?	23
What are the biggest challenges for Fintech in Iceland?	24
How has the Fintech community been doing, and how can it do even better?	25
How well prepared is the government for the changes coming with Fintech?	26
If you had a magic wand and you could change anything in the Fintech ecosystem/environment, what would you change?	27
What advice would you to people looking to start a Fintech company in Iceland?	28

About the Report

Purpose

This report is a collaboration between The Icelandic Financial Services Association, Northstack and the Icelandic Fintech Cluster. The goal of the report is to give an overview of the Icelandic Fintech ecosystem, serve as an introduction to the community, and a calling card for those interested.

All data in the report is either from Northstack's proprietary funding database, or from public sources, like the Technology Development Fund.



About The Fintech Cluster

The Fintech Cluster is a society for those who work in Fintech and want to increase value creation, competition, and living standards. It was established in late 2018 and its purpose is to strengthen financial innovation and simplify business.

The Fintech Cluster hosts various events, meetings, presentations, and celebrations related to Fintech. It also enables the progress of Fintech in every possible way, by connecting people and projects within Iceland and abroad.

The Fintech Cluster is a society that benefits its members by sharing knowledge, research, and development and marketing from each other. It builds on the ideology that people working on similar things should be close to each other to gain expertise and experience from each other. This makes it easier to get capital, find co-workers, and find an entrance to markets for new products.

The Fintech Cluster established an Innovation Center, open to members of the Fintech Cluster, where companies work and host meetings and events. The center has also been used by students when designing software for members of the Fintech Cluster.

Further information can be found on www.fjartaekniklasinn.is.

NORTHSTACK

About Northstack

Northstack is Iceland's leading tech- and innovation-focused media and analysis firm. Since 2015, Northstack has provided news coverage as well as detailed analyses of the innovation ecosystem, venture capital and public policy related to the space. Apart from its own reporting, Northstack also collaborates with other industry organisations to conduct research and analysis.

The researchers who compiled this report are Dórothea Ármann, researcher at Northstack, and Kristinn Árni L. Hróbjartsson, founder of Northstack.

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SFF

This report is written with the support of SFF, The Icelandic Financial Services Association.

Information can be found on www.sff.is.

Fintech in Iceland

What is Fintech?

The purpose of this report is to give an overview of the Fintech Ecosystem in Iceland. To do that properly, a definition of what is meant by “Fintech Ecosystem” needs to be in place.

What we refer to as the Fintech ecosystem includes all Fintech companies, like start-ups, that are working on technology-based solutions to solve finance-related issues. It also includes incumbent financial companies, like banks and insurers, many of whom are going through a digital transformation with considerable investment in technology, both to simplify and automate internal processes as well as create more convenient services. The ecosystem also includes the financial infrastructure that makes the creation and digitization of financial products and services possible. Finally, there are supporting organizations that might not create Fintech products, but rather focus on the growth of the Fintech ecosystem and are therefore a necessary part of it.

In order to build a competitive Fintech industry in Iceland, a strong ecosystem is necessary. All these aforementioned links inside the Fintech ecosystem work together in playing an important role in the changes happening to our financial system and how we interact with money and finance.

With this report, we hope to provide a comprehensive overview and interesting discussion of the Icelandic Fintech ecosystem. We created a map of the current players in the ecosystem. We compiled highlights of interesting and important, newsworthy events for the sector and profile a few interesting Fintech companies, all of whom have recently raised money and are active across borders. Finally, we interviewed the following Fintech experts, to get their thoughts and views on the ecosystem and where it's headed:

- Kristján Ingi Mikaelsson, Managing Director at Icelandic Blockchain Foundation
- Krístrún Tinna Gunnarsdóttir, co-author of a white paper on the Icelandic financial sector, currently Head of Strategy at Íslandsbanki
- Danielle Neben, Marketing Director, ePassi Iceland Chinese Marketing and Payment Solutions
- Kári Þór Rúnarsson, CEO & Co-founder of Authenteq

We thank them kindly for their help.

Funding and Acquisitions

In Iceland, the two main sources for funding of companies are either public – through the Technology Development Fund – or private – through local and foreign investors, like angel investors or venture capitalist funds.

Technology Development Fund

The Technology Development Fund (TDF) is a public institution, funding early stage technology projects with grants from 1.5 to 70 million ISK (\$10.000 to \$530.000). The TDF is a generalist fund, with a focus on technology development companies in general, which means Fintech companies have to go through the same evaluation as every other company. The TDF has increased significantly from 2016 and currently has around 2.5 billion ISK (more than \$20m) to grant each year.

In the past two years, six Fintech companies have received a total of 76 million (\$610.000) ISK in grants from the TDF. In 2017, Fintech companies received around 40 million ISK (\$320.000) in total from TDF, accounting for approximately 1,7% of the total fund, and in 2018 Fintech companies received 35 million ISK (\$280.000), around 1,4% of the total fund.

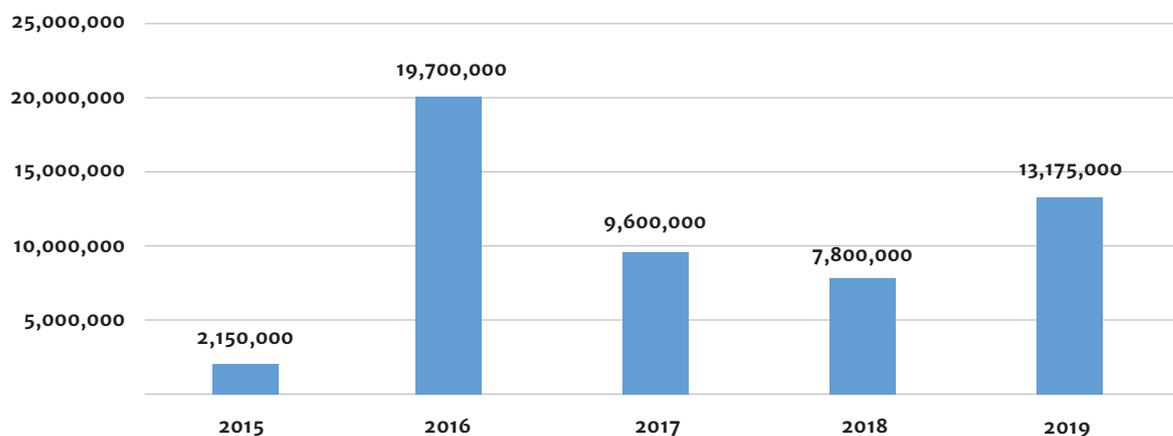
Fintech is not listed as a category or broken out specifically by the fund. This applies both to projects that receive grants, and applications. Therefore, it is difficult to determine whether Fintech companies have a hard time getting through the application process (low acceptance rate) or whether few Fintech companies apply (low application rate). In any case, there's an opportunity for the Fintech sector to apply for and receive more grants from the TDF to fund early stage Fintech projects.

Private Investment

Iceland has four private VC funds and one government-backed fund. All invest in early-stage technology startups. There's also a small angel community that regularly invests in companies in angel rounds or participate in bigger investment rounds led by funds.

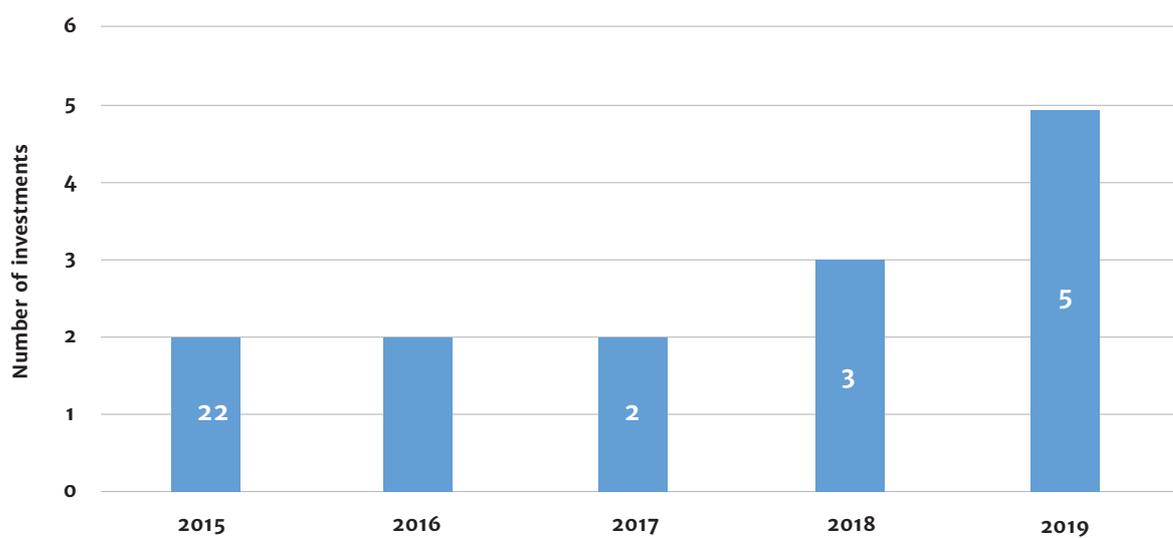
Looking at investment activity, there's been more than \$52 million invested by local and foreign investors in Fintech startup companies in the last five years (2015 - 2019YTD). These numbers are based on announced funding events and don't include accelerator funding.

Amount invested in Fintech startup in USD



There have been at least two investments in Fintech startups every year in the last five years, and in 2019 we already have five investments tracked.

Number of investments in Fintech startups



Even though the total amount invested is lower in 2019 than the peak year of 2016, the amount is still healthy and spread across more companies, which suggests that the ecosystem is growing and that activity is increasing.

Investors in these companies include local investors like Crowberry Capital and Brunnur Ventures, strategic investors like Íslandsbanki (Icelandic bank) and Swedbank, and international investors like Draper Associates, Blue Yard Capital, and Industrifonden.

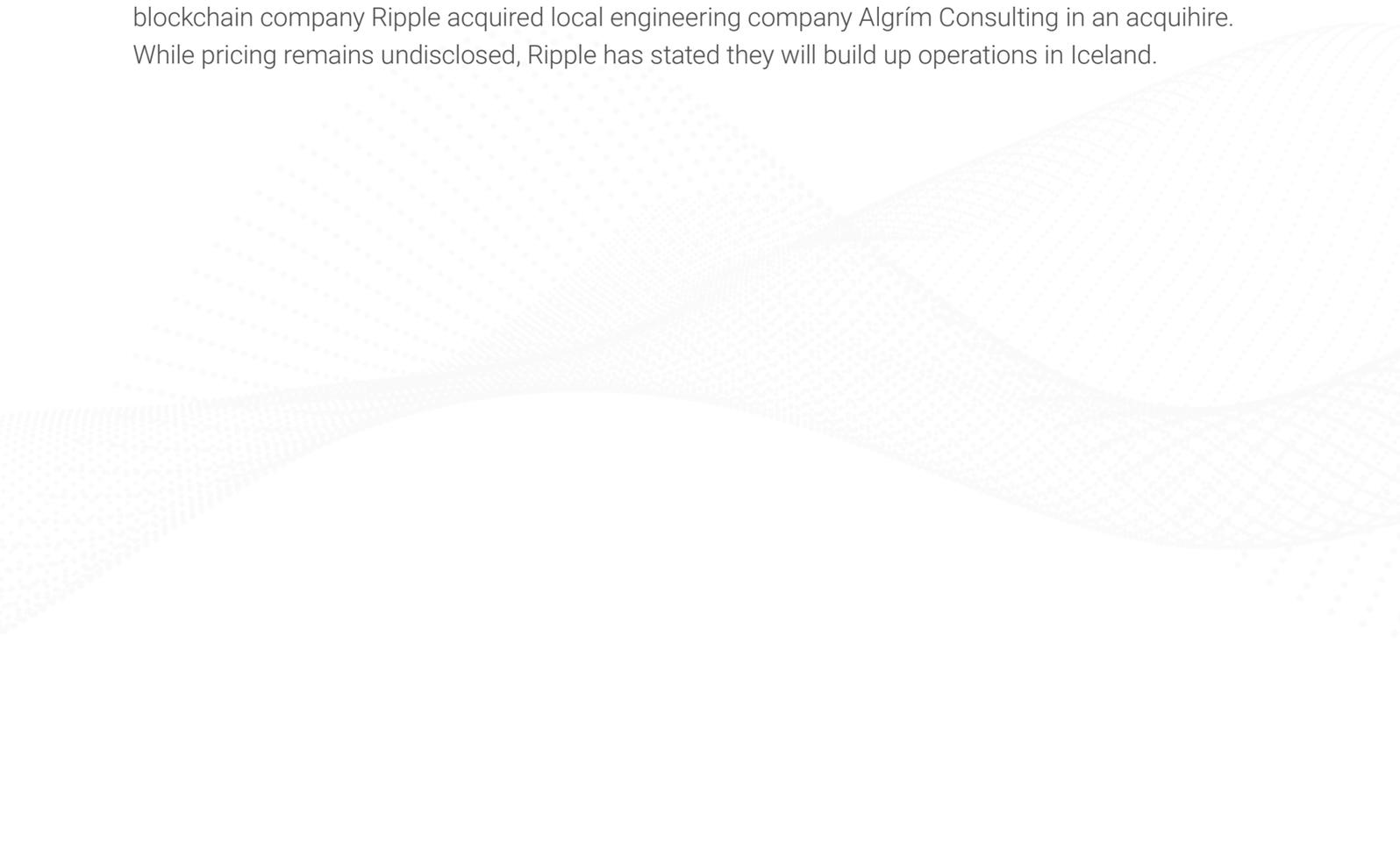
Notable Acquisitions

In 2016, local IT company Advania acquired mobile payment upstart Pyngjan and rebranded as Advania Mobile Pay. Terms remain undisclosed. Siminn later acquired and rebranded the product as Síminn Pay.

In July 2018, Dutch-Icelandic creator of core banking system Five Degrees acquired Icelandic Fintech company Libra. The roughly fifty employees of Libra in Iceland joined forces with Five Degrees, which also has operations in Iceland.

Meniga, one of Iceland's flagship Fintech companies, acquired Stockholm-based reward platform Wrapp in January 2019, merging the startups' rewards program into Meniga's own rewards program development, which among other things, powers Fríða, Íslandsbanki's rewards platform.

In September 2019, the second cross-border acquisition in the Fintech space happened, when global blockchain company Ripple acquired local engineering company Algrím Consulting in an acquihire. While pricing remains undisclosed, Ripple has stated they will build up operations in Iceland.



Fintech Ecosystem News

2018

January

The Icelandic Fintech Association, a lobby group for Fintech in Iceland, was founded

The Icelandic Fintech Association hosted its inaugural meeting in January 2018. The association represents Icelandic Fintech companies and protects their interests and works as a driver for change and improvement in the financial environment. Founding members were Aur, Framtíðin, Memento, Meniga, Kóði and RB.

March

Meniga awarded Best of Show at Finovate

The Icelandic Fintech company Meniga was awarded Best of Show at the Finovate Fintech conference in London. The company previously received the award in 2011, 2013 and 2015.

April

Swedbank invested in Meniga

Swedbank announced it had invested \$3.7m in Meniga in a strategic financing round, following a partnership agreement to launch Meniga's digital banking solutions across Swedbank's markets.

June

UniCredit invested in Meniga

UniCredit signed a strategic partnership with Meniga as well as a EUR 3.1 million investment through UniCredit EVO (Equity Venture Opportunities).

September

Skiptimynt ehf licensed as a service provider

Skiptimynt, which runs the Icelandic exchange ISX.is, was licensed by the Icelandic Financial Supervisory Authority (FME) as a service provider for virtual currency, e-money and currency. ISX is the first Icelandic exchange market offering exchanges of cryptocurrencies for Icelandic currency.

October

The Icelandic Fintech Cluster established

The Fintech Cluster was established in late October 2018, with 64 members. Now the members are around 90, including financial- and Fintech companies, as well as universities, law offices, institutions, and consultants.

October

GRID closed a \$1M angel round

GRID, a software company here to “Free the Spreadsheet,” closed a \$1M angel round of funding. Investors were both local and international, institutions, and private individuals.

October

Landsbanki issues its card app

In October Landsbanki issued its card app for Android, making mobile payments of that kind possible for the first time in Iceland.

November

‘Mapping Icelandic Fintech’ conference hosted in Harpa

On November 1st, a seminar called ‘Mapping the Icelandic Fintech’ was hosted in Harpa which aimed to give an overview of the Fintech industry in Iceland, and various speakers gave examples of the multiple aspects of the industry. In addition, a map of the Icelandic Fintech Ecosystem was unveiled, showing the various fields of Fintech, making it easier to find colleagues and customers.

November

Íslandsbanki invested in Meniga

Íslandsbanki, one of Iceland’s “big three” banks, invested €3m in Meniga, roughly ten years after Íslandsbanki became the Fintech startup’s first customer. The funding round marked the third strategic funding round Meniga had raised in 2018.

Desember

German challenger bank N26 opened for customers from Iceland

N26, the German online bank, opened up for customers from Iceland. It serves both individuals and companies. Banking accounts are in euros and customers get debit Mastercards. Business is solely done online, so no actual offices were opened.

Desember

The Fintech Center and Copenhagen Fintech Lab signed a cooperation agreement

In December 2018, the Fintech Center and Copenhagen Fintech Lab signed a cooperation agreement which led to all of the Nordic Fintech clusters signing a cooperation agreement. This gives Icelandic companies support all over the Nordic countries.

Desember

Reykjavik University established the RU Center of Financial technology

Reykjavík University established a Fintech research center, due to the fast-changing technology and working environment of financial services. RU’s Fintech center is supposed to be a sandbox for students to try and develop new projects in a safe environment. The projects are developed in collaboration with the Icelandic working environment.

2019

January

The Fintech Cluster introduced its operations to university students

In January 2019, a group of computer science students from Reykjavík University and the University of Iceland visited the Fintech Cluster, where a couple of members from the cluster explained their operations. Many students signed up as interested in being a part of projects under the aegis of the Fintech Cluster.

January

Meniga acquired Wrapp

The Icelandic Fintech company Meniga announced the acquisition of Wrapp, a Stockholm based reward platform. The purchase price remains undisclosed, all-stock, with maximum earnings totaling up to a 25% share in Meniga. Current shareholders, including Scandinavia's biggest bank Nordea, join Meniga's shareholders.

January

Authenteq announced \$5m first close in a Series A round

The Reykjavik and Berlin-based identity verification startup Authenteq announced a \$5m first close in a Series A round. Draper Associates and capital300 led the round. The company raised a \$1.3m seed round a little over a year earlier. Authenteq has 21 employees working in their Berlin and Reykjavik offices.

January

Monerium announced a \$2m seed round

Monerium, the Icelandic Crypto Fintech startup, announced a \$2m seed round led by Icelandic VC fund Crowberry Capital. Also participating in the round were blockchain company ConsenSys and Hof Holdings. In addition to a new funding round, the company announced that it had applied to become a licensed financial services company in the EEA.

February

Landsbankinn introduced a new developer website

In February, members of the Fintech industry were invited to the headquarters of Landsbankinn. Lilja Björk Einarsdóttir, CEO, introduced Landsbankinn's new developer website, developers.landsbankinn.is, where the online services of Landsbankinn can be reached.

March

Funderbeam opened in Iceland

Estonian equity crowdfunding platform Funderbeam opened in Iceland, celebrating with an event co-hosted by the Fintech Cluster. FLOW meditation and Lava Cheese were the two first Icelandic companies to use the funding platform.

March

The Fintech Cluster and Origo hosted an Artificial Intelligence seminar

Another seminar was hosted by the Fintech Cluster and Origo, where the topic of discussion was Artificial Intelligence in Fintech. The seminar discussed the many solutions that exist for those who want to use artificial intelligence in Fintech.

March

User Experience Design seminar at the Fintech cluster

The Fintech Cluster hosted a seminar on User Experience Design to emphasize the need to take into account the different experiences of different people when designing products.

March

GRID announced a \$3.5 m seed funding round

GRID announced a \$3.5m seed funding round, only five months after their initial \$1m angel round. The funding round was led by Berlin-based Blue-Yard, with participation from Slack Fund, Acquia Capital, and angel investor Charles Songhurst. Previous investors, including Brunnur Ventures, also participated.

May

Valitor, along with Arion Bank and Landsbankinn, enabled Apple Pay in Iceland

Two of the Icelandic banks, Arion Bank and Landsbankinn, announced in collaboration with Valitor, that their customers can now connect their cards to Apple Pay and therefore they can now pay for various products and services all over the world, as well as online.

May

RB and the Fintech Cluster hosted the conference “Is Iceland Big Enough for the Banks of the Future?”

Reiknistofa Bankanna, which runs the core infrastructure of the Icelandic banking system, invited the Fintech Cluster to co-host their annual spring conference. The conference was called “Is Iceland Big Enough for the Banks of the Future?”

June

Lucinity raised \$2m in seed funding round

Lucinity, a startup working in the anti-money-laundering space, raised \$2m to build their augmented intelligence anti-money-laundering solution. The seed round was led by Crowberry Capital, with participation from Preceptor Capital and international angel investors.

June

Monerium became the world's first crypto company to be granted an e-money license

Monerium became the world's first crypto company to be granted an e-money license. It was approved to provide fiat payment services on a blockchain and use it throughout the European Economic Area.

July

Íslandsbanki enabled Apple Pay

Íslandsbanki adds the possibility to pay with Apple pay.

July

Landsbankinn introduced new A2A payment solutions

In July, Landsbankinn was the first Icelandic bank to offer access to an "account-to-account" (A2A) payment solutions. This enables Fintech companies to install software solutions (apps) enabling the bank's customers to pay directly from their accounts.

September

indó became a challenger to the "big three" Icelandic banks

The Icelandic Fintech company indó announced that they are to become the first challenger bank aimed at the Icelandic market. indó stated that in 2020, they will offer customers current accounts fully insured by government bonds and deposits in the central bank of Iceland. indó will offer current accounts connected to the customer's debit card, fully controlled from the customer's smartphone. Unlike in traditional banking operations, customer's deposits will only be lent out to the government.

September

Ripple acquired Algrím Consulting

The global blockchain company Ripple acquired Algrím Consulting for an undisclosed amount. Following the acquisition, Ripple will open an office in Iceland, with ambitions to grow its presence in Iceland.

October

Ikea settled the world's first invoices with smart contracts and licensed digital cash

Nordic Store purchased goods from IKEA Iceland, by settling an e-invoice with Monerium's programmable digital cash, using Tradeshift's platform and smart contracts on the Ethereum blockchain. With the transaction, Monerium and Tradeshift proved government-regulated, programmable e-money is ready for mainstream markets.

October

The Fintech Cluster and the Icelandic Financial Services Association hosted a symposium about the coming projects in Fintech

The seminar included 22 micro-presentations about the evolution of Fintech and financial services in Iceland, as well as the upcoming projects of Fintech. The purpose was to introduce the future of the Fintech and financial industry in a quick and fun way.

Five Profiles of Recent Startups



Monerium

Monerium is the first company in the world authorized to issue e-money on blockchains. It was founded in 2016 by Gísli Kristjánsson, Hjörtur Hjartarson, Jón Helgi Egilsson, and Sveinn Valfell. Monerium makes digital currency accessible, secure, and simple to transact online. The first service offered by Monerium is e-money on blockchains, ISK, USD, EUR, and GBP. Monerium is located in Reykjavik with less than 20 employees. Further information can be found on the company's website monerium.com



GRID

GRID is the new face of spreadsheets. GRID ehf is an Icelandic limited liability company, founded in late 2018 by a group of web software veterans and data enthusiasts. As a Software-as-a-Service (SaaS) startup, GRID empowers knowledge workers to turn their spreadsheets into beautiful, interactive web content - leveraging their existing spreadsheet skills - and then securely share with others. GRID's mission is to empower people to think and communicate on the fly using data and numbers, as naturally as they do with words and text. Right now, the team consists of 14 people, based in Reykjavik, Iceland. GRID is currently rolling out its beta program to a sizable waiting list of spreadsheet enthusiasts. Anyone is welcome to join the beta program by signing up on the company's website: grid.is



Lucinity

Lucinity is building a global brain for Anti-Money-Laundering to protect its clients from organized crime. The company was founded in 2018 by industry veteran Guðmundur Kristjánsson, a former Director, Compliance Surveillance Technology at Citigroup. Lucinity's patent-pending technology enables customers to improve compliance and their relationship with regulators, while simultaneously saving money on AML operations. The results are achieved with better detection and explanations of suspicious money laundering activity, based on extensive regulatory research. The innovative Case Manager is carefully designed for efficient AML case investigation. Lucy, the embedded AI review coach, helps AML teams by contextualizing information and suggesting actions. Lucy is Lucinity's foundation for using Augmented Intelligence to increase automation in AML, without sacrificing quality. Lucinity has a strong research focus and currently has two patents pending in the US. The first, Federated Learning, will enable financial institutions to learn from each other without sharing data. The second, Actor DNA, is a procedure around pseudonymized data to be able to compare individuals without using any personally identifiable information (PII). Lucinity has high confidence that these innovations will prove groundbreaking in the fight against money laundering and for wider applications. Now the Lucinity team counts 12 employees with experience from leading vendors, regulators, and financial firms such as Citi, Oracle, NICE Systems, Goldman Sachs, and the FCA. The team operates out of Reykjavík and New York.



Igloo

Igloo is an insurtech startup focused on insurance and finance solutions for the rental market. The company was founded in 2018 by Vignir Lydsson, CEO (economist and computer scientist) and Vilhjalmur Kjartansson, who is a lawyer. Igloo's flagship product is the deposit-free rental guarantee which enables tenants to rent without being required to put down a security deposit. Instead of paying thousands of dollars upfront, tenants pay monthly premium or subscription fee, and hence broaden their choices of safe and better-quality housing. The company has already made a significant impact on the rental guarantee industry in Iceland and is close to market saturation and dominance in a few quarters. Igloo has six employees and is located in Reykjavik, Iceland. Igloo is already planning its market entry into Scandinavia, the UK, Canada, and several states in the US. In Q4 2019, Igloo finished its seed funding of \$675,000 from Arion Bank in Iceland and already started planning its series A round of \$20m, which is scheduled in mid or late 2020 for its US scaling. Igloo was a part of the fall group of TINC 2019, an accelerator run by the Nordic Innovation House in Palo Alto, located in the heart of Silicon Valley. During the program, the company grabbed the attention of a number of venture capital firms and received useful information on its product-market fit and the go-to-market strategy in the US. Currently, Igloo is selling the product with the brand name Leiguskjól in Iceland. Further information can be found on that brand's website leiguskjol.is.



Jiko

Jiko is an innovative financial institution that enables safe, liquid, and rewarding features. It was founded in 2016 by Stephane Lintner, Jeffrey Neuman, and Rocky Motwani. Jiko's mission is to build a scalable infrastructure that provides individuals with direct, transparent services in everything from banking to personal data management. They believe in the power of technology and integrity to simplify the banking system and return financial control to their users. Jiko has built a full-stack technology that allows real-time movement from cash to high-yield U.S. Treasury Bills and works closely with the U.S. regulators to be a fully compliant partner with national banking and broker-dealer licences. The Jiko spendable T-Bill experience is the first hub on a wider network to come. Our team is committed to engineering new features that support our core tenets of user privacy, safety, and control. Jiko is located in San Francisco Bay Area, New York City, and Reykjavík (the Technology Hub and our largest office). Jiko's team consists of 22 individuals, with 12 members based in Reykjavík, where we are rapidly growing and hiring. Jiko just launched a Beta App that is limited to 500 lucky testers and can only be accessed from the US. However, the product will be opened up to other markets in the near future, and there are 50.000 people on a waitlist to get a Jiko account. More information can be found at jiko.io.

Interviews

- **Kristján Ingi Mikaelsson**, Managing Director at Icelandic Blockchain Foundation
- **Kristrún Tinna Gunnarsdóttir**, co-author of a white paper on the Icelandic financial sector, currently Head of Strategy at Íslandsbanki
- **Danielle Neben**, Marketing Director, ePassi Iceland Chinese Marketing and Payment Solutions
- **Kári Þór Rúnarsson**, CEO & Co-founder of Authenteq

Is there anything unique about Fintech in Iceland?



Kristján: This might not be a popular opinion, but I think we have a unique position because of the hardship the nation had to face together after the financial crisis. The crisis made us develop a different mindset and realize that the system we're using is not the best one, because it's still the same as we used before the financial crisis and failed. Therefore, people are ready to accept the challenge to change it. Also, the nation owns two out of the three banks that are here in Iceland. That's a hopeless position to be in, but also something we can try to utilize. We can try to take some technology leap and work as a nation to push things faster than other countries can. Another unique thing about Iceland is that we are a wealthy nation, which is always beneficial for innovation. And then one last thing that makes Fintech in Iceland unique, which you won't hear from anyone else, is that we're so prioritized to live in Iceland. All the smartest people in the world stop in Iceland. I'm attending meetings every week where I'm talking to the most powerful people in the world, who are either just having a layover in Reykjavík or who I met, and they were interested in me, just because I'm Icelandic. This is really valuable, and we should use it as a strength.



Kristrún: We are clearly smaller and that makes it more difficult to be profitable or reach scale in the local market, but it also makes Iceland a perfect test bed for "network-effect" solutions that depend on high market penetration.



Danielle: I think because of the crisis, people needed to find other things to do, other opportunities. Icelanders are tough but not necessarily planned, so they focus on execution. I think that's what also makes Icelanders good, they execute. Icelanders don't wait around and try to plan everything. It can be a plus, it can be a minus, but I actually think it's a really good plus. Icelanders have great opportunities to study at top universities such as Harvard and Cambridge, build up their network, and they're not afraid to do so. This opens so many doors. It's in their nature; their personal networking is really good.



Kári: I only see the Fintech ecosystem in Iceland from the outside, because our company's focus is mainly on foreign markets. But from the outside, the uniqueness of Iceland is the small environment it operates in and therefore the short channels. It is easy to reach people and influencers when the environment is so small. Additionally, with such a small country, the government administration should be simpler and easier to make digital, taking Estonia as an example. However, I do not know if this is the case in Iceland yet.

What are the biggest opportunities for Fintech in Iceland?



Kristján: Fintech is an ingenuity sector which doesn't require any natural resources. We are just using human resources, and here in Iceland, we have a lot of ingenuity, especially in programming and the financial sector. We should be focusing on the industries in Iceland that are strong. There are opportunities in building core infrastructures, for example, to issue eMoney via Blockchain or help insurance companies to have their contracts available all over the world and so on.



Kristrún: I think the Fintech wave is driven by changing customer expectations. New technology creates new opportunities, but it's also vital to take an approach based on the customer's point of view and listen to the customer's demand. Also, Iceland is such a small country, so things often spread incredibly fast, which makes it a great test market for new products.



Danielle: If I knew, I'd be doing it! There are opportunities for the banks because they have fast decision making compared to bigger banks in Europe. They could try something out here and sell it abroad. Try to find an opportunity and sell banking as a service abroad, not just lending on their balance sheets. That is, how to do things differently in order to increase the value to the customers. Also, Iceland is one of the most digital countries in the world. People being so digital creates many opportunities. For example, with Blockchain in the government; we all have a social security number, and it should be relatively easy, and we could do it quite quickly. Why do we still need so much paperwork and certificates for residential/business properties or vehicles, when this could all be put on the Blockchain?



Kári: The opportunities are connected to the uniqueness of Fintech in Iceland. We're in a position to develop things here that are hard to do elsewhere, because of the size of the country and the short channels.

What are the biggest challenges for Fintech in Iceland?



Kristján: There are several challenges for Fintech in Iceland. First and foremost, it's the Icelandic krona. It's quite challenging to run a Fintech company in the smallest money economy in the world. Secondly, salaries in Iceland are incredibly high. It's difficult to justify a big development in Iceland when you can get the same talent elsewhere. The third challenge is the same one as many start-up sectors are fighting; getting foreign specialists to Iceland. Fintech is serving the whole world, and we can't just be Icelanders in Iceland, creating solutions for the entire world, we have to get foreign human capital to help us. The slowness of the government implementing directives from the European Union is making things difficult. Lastly, the government lacks a strategy. We don't require some great regulations yet; we just need declarations that we are going to be a Fintech country or that we are going to support innovation in this sector. This doesn't require a lot of work, just solidarity, and courage.



Kristrún: The biggest challenge for Fintech in Iceland is how small the market is. Even though you're doing business with the whole population, it's still tiny compared to AliPay's 1.2 billion users. The Icelandic krona and "special Icelandic solutions" and regulation also create a barrier to entry.



Danielle: I think the biggest challenge is that Iceland is small, and you need to be international from day one. It's really hard to just think of Iceland as a target market. It's good to test, but it's really homogeneous here, you need to get out. Icelanders are used to networking within their personal networks; they need to learn how to reach out outside of these networks. In terms of funding, the funding is ok with the angel investors, but when you get into the Series A round, it's tough. I think there's a real gap here in the market to be able to go to the next level. Also, funding is difficult because of the risk of funding in the Icelandic krona.



Kári: The biggest challenge is that few investors in Iceland have experience and industry knowledge in Fintech to mentor others and help startups based on their own experience. This is natural and largely because of the small size of the country. Also, Iceland is so far away from the big markets abroad, which makes it difficult for Icelanders to network overseas or benefit from the selection of meetups and smaller events that larger Fintech hubs benefit from - although we can jump on a plane for a 2-3 day event, you won't go to London for 2 hour events that happen throughout the week all over the city.

How has the Fintech community been doing, and how can it do even better?



Kristján: The Fintech Cluster has been doing an incredible job. We've been seeing big events which are connecting the old ways of doing things to the new ones. We are on a great path. I don't really know what to do differently except for just keep pushing the government and require regulations to be done to lower the power of the banks.



Kristrún: Many exciting things are going on and there are several interesting Fintech companies. In my view the local Fintech Cluster has been doing great things, hosting successful events and meetings. The Icelandic Blockchain Foundation has also been proactive and provided useful and constructive input into the discussion. In Iceland we tend to believe we need "special Icelandic solutions" which is not helpful in a global marketplace. Uncertainty and delays in implementation of for example PSD2 can hurt Fintech companies that are reliant on those regulations for their business models to work. I think that's a real challenge.



Danielle: It's a tough market; it's so small here. But to be honest, I've been really impressed. The Fintech Cluster has been doing a great job in such a short time, and I've heard that people are pleased about it in general. They've been very proactive and professional in the last year: setting up the facilities, hosting events with the Icelandic Financial Services Association, and showcasing the various companies during investor roadshows and international events such as Slush.



Kári: The Fintech Cluster is a great driving force. I wouldn't know about half of the Fintech companies that exists, if it wouldn't be for the Fintech Cluster. The Fintech Cluster has been increasing knowledge and networking inside the Fintech ecosystem, which is of course great. It's always good to expand the network of contacts. However, it would be good to see more networking across countries. It's difficult for Icelanders to network abroad because we're so far away from other countries.

How well prepared is the government for the changes coming with Fintech?



Kristján: The government has started making some changes, for example, in technical infrastructures. We are seeing strategy changes and changes in plans, but we need more direct actions. We need a clearer vision, strategy, and action from the government. However, it is difficult to turn an aircraft carrier, even just a few degrees. But I think, since we're such a small country, that we can just skip a few phases and go straight into the next chapter. If we make mistakes, it's easy to go back and do things like everyone else. If we'd take the step to move our infrastructures to the form people are using in this sector, for example Blockchain, we'd have a substantial competitive advantage. It's difficult to run a Fintech company if one of your employee's job role is to stand in the queue at the district magistrate.



Kristrún: I think it's extremely important that the government sees Fintech as an opportunity and a chance to enable more efficient and effective banking- and financial services in a way that will benefit the consumer.



Danielle: The Financial Supervisory Authority (FME) is fairly proactive. It's very open and helpful; they tell things like they are. They're really supportive. So in terms of regulators, it's excellent. In terms of costs, like RB (Reiknistofa Bankanna), I think the structure is really much in favor of the big banks, so maybe that's a challenge for smaller Fintechs. Even though RB is not a government institution, they are the core of all the banks in Iceland. The government itself through Rannís have various grants that companies can apply for - but they need to be quite proactive on that front. I don't know if they could be more proactive in letting people know about these grants. The government is trying its best to digitize itself more, I know there's been a lot of talk about how to better digitize the government, there are a lot of opportunities there.



Kári: Since Authenteq is mainly operating abroad, I haven't given this much thought. However, it seems that Iceland is often late to adopt EU regulation, which makes it difficult for Icelandic startups that may look at Iceland as a test market or starting market, as there isn't the same sense of urgency here as abroad (mainly thinking about GDPR and PSD2 here).

If you had a magic wand and you could change anything in the Fintech ecosystem/environment, what would you change?



Kristján: I'd definitely change the mindset that the government controls, that is, to not be so afraid of change and don't push so much back when people are trying to create change. I'd make it easier for small companies to start up business and go through all these heavy regulations in Iceland. I'd change our currency, open up for foreign specialists to come work in Iceland, and I'd like to see more courage. We just need to dare to do things, why not? This is just people using their brains to create something, and we can always back out from things.



Kristrún: I really believe in collaboration and teamwork. Financial services have broken down into smaller units where Fintech companies are really specialized. I think we'll see re-bundling where these small units will reunite and create a more holistic product offering. So, I think with the increased collaboration we can create platforms and ecosystems that are stronger than what individual companies can create on their own.



Danielle: Get the banks to cooperate more with the Fintechs and be more transparent. Fintechs can bring a lot of good value to the banks; they bring in creativity and innovation. Banks, here and abroad, take so long to decide that it can be detrimental to the Fintechs. The Fintechs need access to the banks in terms of distribution to their client platforms. The banks need to act better towards the Fintech community in general. They're so powerful, they have the balance sheet, but lack the innovation and execution needed from the startups. They can also be really slow to make decisions in working with Fintechs, that really impacts them. Fintechs are startups, and if Fintechs are looking to work with the banks, then it's challenging. On the other hand, the Fintechs have the opportunity to focus on niche areas to service clients directly (B2C) where they can execute better better than the banks. We have seen this with Monzo and Revolut. For banks to survive, they need to bring innovation and execution into the Bank and better manage their relationships with the Fintechs.



Kári: We need more investors focusing on Fintech, but for now there's nothing we can do about it. It's only limitation for now, it can change through time.

What advice would you to people looking to start a Fintech company in Iceland?



Kristján: Talk to as many people as they can. The Fintech sector is known for companies being helpful and supportive of each other. Talk to the Fintech Cluster, the Fintech Foundation in Reykjavík University, and use the infrastructure that already exists in Fintech. Also, don't be afraid to go abroad, seek out relevant conferences, and get to know the Fintech industry elsewhere.



Kristrún: My advice is to begin by thinking about the customer and try to solve some daily pain-points customers struggle with. Do not just look at the technology and think about what's possible to create.



Danielle: It's all about execution. What startups can do is execution. When you focus on something, you can just execute. This is what it's all about. Get some good key investors, have a minimum viable product, don't try to have all the bells and whistles. Get to the crossing lines so you can get your license, get your case studies. Keep things really, really simple and execute, execute, execute.



Kári: Apply for grants at the TDF, it's a great springboard for startups. Also, just dive into the ecosystem, go to the seminars and networking events, meet people and get started.



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