



# **THE LITHUANIAN SEPA MIGRATION PLAN**

**Version 1.0**

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## INTRODUCTION

The Single Euro Payments Area (SEPA) is the area where citizens, companies and other economic participants can make and receive payments in euro, within Europe, whether between or within national boundaries under the same rights and obligations, regardless of their location. SEPA will foster European integration by creating a competitive and modern euro retail payment market that can bring with it a higher level of services, more efficient products and less costly ways to make payments. SEPA, as a contributor to the so-called Lisbon agenda, is actively supported, and its progress is monitored by the European Commission and the European Central Bank. SEPA covers EU27 countries plus Iceland, Lichtenstein, Norway and Switzerland.

After the launch of euro banknotes and coins in 2002, consumers have been paying in the single currency in all euro area countries. On the other hand, a possibility of sending non-cash payments to entities in other countries under the same conditions and using the same instruments as domestically has not been implemented yet. Therefore, banks supported by European institutions have engaged in an unprecedented project to introduce standardized payment instruments at the European level. The European Payments Council (EPC) is the major body of the European banking industry for the SEPA project coordination and decision making. The EPC has already prepared the payment instrument schemes. They include the SEPA Credit Transfer Scheme that has been in use since 28 January 2008 and two SEPA Direct Debit Schemes (the core and business-to-business) to be launched in November 2009. The preparation of the payment card standards is still underway, but expected to be finalized by the end of 2009.

The SEPA project is much more than just a process to streamline cross-border payments. After payment instruments and related processes are standardized at the EU level, there will actually be no barriers left between domestic and cross-border payments. A possibility to reach any EU bank as safely and fast as any domestic bank will open new opportunities for customers. Companies that have euro area-wide business will be able to harmonize internal payments related processes (liquidity management, e-invoicing, reconciliation, etc.) and select a service provider from any EU country. Public administrations and private customers will benefit from SEPA as well.

Lithuanian banks with the strategic aim of Lithuania in mind, which is to finally adopt the single currency euro, support the SEPA project by actively contributing to its implementation; they already provide some SEPA services. Other SEPA services, such as the SEPA Direct Debit, are to be launched after Lithuania adopts the euro. Preparation for and migration of legacy payment instruments to SEPA instruments should be viewed by customers as a component of the preparation process for the adoption of the euro.

The aim of this document is to inform market participants about the progress made in preparation for the SEPA project in Lithuania. The Migration Plan covers bank agreements reached by December 2008. Not all decisions on how to work within the SEPA environment have already been adopted. The Migration Plan will therefore be subjected to updates taking into account new information, findings of ongoing analyses, and notes and suggestions by market participants.

# 1. SEPA COORDINATION COMMITTEE

All euro area and most EU member states outside the euro area have prepared SEPA migration plans. In the 4<sup>th</sup> and 5<sup>th</sup> SEPA Progress Report, issued respectively in 2006 and 2007, the Eurosystem encouraged stakeholders to prepare such plans. On 28 November 2007, Lithuania set up a SEPA Coordination Committee to work out a plan for legacy payment instruments to be replaced with SEPA instruments and, within its competence, to ensure compliance with this plan by the time the migration of legacy payment instruments to SEPA instruments takes place. The members of the SEPA Coordination Committee are the Bank of Lithuania, Association of Lithuanian Banks, and representatives of domestic commercial banks and foreign bank branches. The Ministry of Finance has been participating as observer. The Bank of Lithuania chairs the Committee.

The functions of the SEPA Coordination Committee are as follows:

- 1) To formulate the SEPA implementation policy in Lithuania and coordinate the SEPA project implementation
- 2) To address issues related with the preparation and introduction of SEPA payment instruments (SEPA Credit Transfer, SEPA Direct Debit, SEPA Payment Cards)
- 3) To assess SEPA clearing and settlement infrastructures according to the Committee-set criteria in order to establish alternatives meeting the needs of the banking community, including a possibility for the development of national infrastructure
- 4) To ensure that the level of services provided to end-users of SEPA instruments is not lower than the level of services provided with the help of payment instruments currently used in the domestic market
- 5) To work out proposals on legal acts to eliminate obstacles for the effective functioning of instruments compliant with SEPA standards, and initiate their presentation to competent authorities
- 6) To coordinate public information campaign on the SEPA project and its implementation in Lithuania.

The SEPA Coordination Committee set up seven working groups to deal with specific issues: Credit Transfers, Direct Debit, Payment Cards, Infrastructure, Legal, Standards for Exchange of Information between Customers and Banks, as well as Public Communication.

It is envisaged to enlarge the number of SEPA project participants by attracting the following groups of bank customers and associations representing their interests: customers, small and medium-size enterprises, large corporates, public administrations, IT vendors and other interested parties.

## 2. LEGAL BACKGROUND

The following legislation and rules form a legal background for SEPA:

- Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro (hereinafter referred to as Regulation). This Regulation that served the background for the harmonisation (and often reduction down to the domestic payments level) of fees for cross-border and domestic payments in euro may be considered the start of SEPA. In October 2008, the European Commission submitted a proposal on amending the Regulation which, *inter alia*, contains provisions aimed at application of the provisions of the Regulation to direct debit transfers. The new regulation is expected to come into effect in November 2009.
- Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (hereinafter referred to as the Payment Services Directive). The Payment Services Directive is aimed at creating an up-to-date and harmonized legal framework for payment services at the EU level. It provides a market-entry possibility to new payment service providers, establishes requirements for informing payment service users and defines rights and obligations for payment service providers and users. The Law of the Republic of Lithuania on Payments (recast) and the new Law of the Republic of Lithuania on the Payment Institutions that are expected to come into effect in November 2009 will transpose the provisions of the Payment Services Directive in Lithuania. The recasts of the Payments Law will form the legal background for implementing SEPA in Lithuania.
- The EPC-approved rulebooks, i.e. SEPA Credit Transfer Scheme Rulebook, SEPA Core Direct Debit Scheme Rulebook and SEPA Business-to-Business Direct Debit Scheme Rulebook. The rulebooks are based on the obligation of a credit institution, a party to the Adherence Agreement, to comply with the provisions contained in these rulebooks.
- The EPC's SEPA Cards Framework (SCF), the major objective of which is to build up an open area for payment cards and unify payment card products in terms of their functionality, pricing and safety.

It should be noted that in many cases provisions of the above-mentioned legislation will have to be transposed into agreements between banks and their customers.

## **3. CREDIT TRANSFERS**

### **3.1. Current Situation**

Credit transfer is one of the most popular payment instruments in Lithuania. In 2007, credit transfers accounted for 47.5 per cent of the total number of non-cash payments and 99 per cent of the total value of these payments. Payments within the national boundaries accounted for 98 per cent of the total number of non-cash payments, while cross-border payments made up 2 per cent only. The non-paper based way of initiating credit transfers prevails – two out of three credit transfers are submitted via Internet banking systems. Banks have prepared and have been using a unified credit transfer paper form.

The SEPA Credit Transfer (SCT) Scheme was launched on 28 January 2008. Banks intending to process the SCT must sign an Adherence Agreement. Since 28 January 2008 such agreement has been signed by twelve banks and foreign bank branches operating in Lithuania that hold about 94 per cent of the domestic retail payments market. A possibility to receive SCT is offered by all banks that have signed an Adherence Agreement. Two banks currently offer a possibility to initiate the SCT by bringing a paper-based instruction to a bank's branch or by connecting to their Internet banking systems.

Currently, payments in euro are dominated by cross-border payments. Since the payer is not required to fill in all the fields in the SCT Scheme, some of customer-submitted cross-border payments in euro already now comply with the SCT Scheme requirements and therefore may be executed according to the SCT Scheme. In October 2008, such payments accounted for 40 per cent of total cross-border payments in euro although only part of them were processed according to the SCT Scheme.

Domestic credit transfers in euro make up an insignificant part (less than 0.1 per cent) of all credit transfers. Such transfers are usually processed via correspondent banks using the cross-border transfer format.

Domestic credit transfers in litas make up a significant part (about 98 per cent) of all credit transfers in Lithuania. Every fourth credit transfer is sent to another bank and is processed via the payment system LITAS-MMS, owned and operated by the Bank of Lithuania. The system has four clearing cycles a day, which enables to process credit transfers submitted by noon on the same business day.

### **3.2. SEPA Credit Transfers**

The SCT Scheme is an inter-bank scheme defining common rules and procedures for credit transfers in euro. The scheme, which is in line with the provisions of the Payment Services Directive, defines common service level and the maximum execution time for a credit institution participating in the scheme to process a SCT. A payer may initiate a SCT in euro from a single bank account under the same conditions.

The major features of SCT are as follows:

- SEPA-wide reachability – any bank having signed an Adherence Agreement can be reached
- The full original amount of the payer-initiated transfer shall be credited to the beneficiary's account
- No limit on the value of payment
- Maximum execution time is three business days (starting 2012 – one business day)
- IBAN and BIC are used as account and bank identifiers.

### **Critical Mass of SEPA Payments**

Upon reaching the so-called critical mass of payments, the country will be considered to have migrated to SEPA instruments. For SCT, the critical mass must be achieved not only when banks are ready to provide the SCT service, but also when payment service users (public administrations, corporates and private customers) actively start using this product. In Lithuania, for the critical mass of SCT to be reached, no less than 80 per cent of banks have to be offering the SCT service and no less than 75 per cent of all payments in euro must comply with the requirements of the SCT Scheme.

### **IBAN Format**

In Lithuania, IBAN format for accounts has been used since 2004, both for domestic and cross-border credit transfers. This fact eliminates the need for the IBAN conversion and significantly facilitates the implementation of SCT in Lithuania.

### **3.3. Migration to SEPA**

Three groups of credit transfers are singled out:

- Cross-border credit transfers in euro
- Domestic credit transfers in euro
- Domestic credit transfers in litas.

#### **Cross-border Credit Transfers in Euro**

In October 2008, about 60 per cent of all cross-border credit transfers in euro failed to comply with SCT requirements. Differences in execution time as well as charging options were the major reasons behind it. Upon customer request, a part of cross-border payments in euro is processed either using (OUR) or (BEN) charging option. From 1 November 2009, after the transposition of the provisions of the Payment Services Directive into Lithuanian legislation is completed, the EU-wide cross-border payments in euro will be processed only using the charging option, when both the payer and the beneficiary pay fees to their service providers (SHA). Cross-border credit transfers in euro processed according the SCT Scheme requirements are expected to grow significantly after 1 November 2009, and the critical mass of cross-border credit transfers in euro is planned to be reached **by the end of 2010**.

## **Domestic Credit Transfers in Euro**

It is projected that **by the end of 2010** domestic credit transfers in euro will be carried out according the SCT Scheme requirements.

## **Domestic Credit Transfers in Litas**

The SCT Scheme requirements shall not be applicable to domestic credit transfers in litas. However, given Lithuania's strategic goal – to join the single currency, euro – the legacy credit transfer formats in the future will have to be replaced by SEPA formats. Therefore different scenarios will be analysed and it will be aimed at opting for an optimal solution to the satisfaction of customers and banks. The needs of the transition period will be discussed, during which the customers unprepared for sending and accepting SCT would still be in a position to carry out credit transfers in the legacy formats. It is particularly important to enter into a dialogue with all participants of the payment market. This will enable defining the works to be carried out and the time for their implementation. The first move in this direction has already been made: a dialogue with the public administrations on the features of domestic credit transfers and the possibilities for the public administrations to use SEPA services is going on. In 2009, it is envisaged to enter into a dialogue with the largest participants of the payment market, to present to them the SCT Scheme, the requirements for the infrastructure necessary to maintain it, to agree on the terms for the implementation of the changes.

## **4. DEBIT TRANSFERS**

### **4.1. Current Situation**

The concept of debit transfers in Lithuania currently comprises four individual services: “direct debit”, “debit payment instructions”, “debit payment instructions for agricultural production” and “debit payment instructions according to executive documents”. All these services have one feature in common – the payer’s account with a bank is debited according to the payment instructions provided by the payee.

In 2007, debit transfers accounted for 3.6 per cent of the total number of non-cash operations. While this share is not sizeable, in the recent years, however, the annual growth in the number of debit transfers was two-digit. According to the data as of October 2008, approximately 1 million debit transfers are carried out per month in Lithuania. The bulk (approx. 99 %) of debit transfers are carried out where the payer and the payee hold accounts with the same bank (intra-bank) and only 1 per cent of debit operations represent inter-bank payments, which are processed via the retail payment system LITAS-MMS. Major features of debit transfer services are presented below.

#### **“Direct Debit”**

“Direct debit” operations are carried out only within the bank (intra-bank). As a result, payees usually hold accounts for the collection of funds with several banks. Payees must sign an agreement, directly or via intermediaries, with these banks and maintain standardised data exchange interfaces for sending and receiving information. Currently, approximately 99 per cent of “direct debit” instructions are carried out in litas.

Payers may sign a “direct debit” mandate at their bank or directly with the payee. Mandates may also be provided to the bank electronically – via Internet banking systems of banks. A mandate is usually held at the payer’s bank, which is responsible for the debiting of funds according to the “direct debit” instruction submitted, i.e. checks out whether there has been the payer’s mandate for the instruction received. A mandate could also be held with the payee.

A “direct debit” instruction submitted by the payee shall be settled on the same banking day, where there is the payer’s mandate and sufficient balance of account. Where at least one of these conditions is not satisfied, a “direct debit” instruction is rejected. Partial payments according to “direct debit” instructions may be made according to payee needs; however such practice is not common. Presently, settled “direct debit” instructions may not be refunded.

For providing the “direct debit” service, the following infrastructures shall be used: information systems of payees, information systems of banks and, in some cases, information systems of information processing intermediaries. The main payees shall be companies rendering telecommunication, lease, insurance, press subscription, security and utility services. In practice, this service is used for the collection of funds from individuals.

It should be noted that the “direct debit” service is not a standardised scheme. Individual banks may alter its features without other banks’ consent. Still, historically, major features of the “direct debit” service and elements of interfaces between customers and banks are similar.

### **“Debit payment instructions”**

“Debit payment instructions” can be intra-bank and inter-bank. Currently all “debit payment instructions” are settled in litas. The payer must provide a debit mandate to its bank. Mandates may also be submitted to a bank electronically. The payer’s bank is responsible for keeping the mandate. Once the payee has initiated a “debit payment instruction”, the payer’s bank must check whether the payer has provided a mandate. Intra-bank “debit payment instructions” shall be settled on the same day, whereas inter-bank “debit payment instructions” shall be settled depending on the time of submitting a “debit payment instruction” in the bank – on the same or next banking day. Partial debits of “debit payment instructions” shall not be allowed.

For providing this service, the following infrastructures shall be used: information systems of banks, the retail payment system LITAS-MMS and, in some cases, information systems of payees. The “debit payment instructions” can be used by individuals and legal persons. In practice, however, this scheme is functional among business clients.

### **“Debit payment instructions for agricultural production”**

This is a specific debit transfer service the emergence of which has resulted from the Law of the Republic of Lithuania on Settlements for Agricultural Production. The main differences between this service and “debit payment instructions” include the possibility to make partial debits of funds, the obligation of banks to accept and keep for unlimited time debit instructions received, irrespective of whether there are sufficient funds on the payer’s account at the time. “Debit payment instructions for agricultural production” can be settled irrespective of whether the payer and the payee hold accounts with the same bank. Where accounts are held with different banks, a “debit payment instruction for agricultural production” shall be settled via the retail payment system LITAS-MMS. This service is used by legal entities engaged in the growing or producing agricultural production.

### **“Debit payment instructions according to executive documents”**

This kind of debit transfers is compulsory by its nature and it processed according to executive documents of authorised institutions. These debit transfers shall only be settled in litas and irrespective of whether the payer and the payee hold accounts with the same bank. Where accounts are held with different banks, a “debit payment instruction according to executive documents” shall be settled via the retail payment system LITAS-MMS.

For “debit payment instructions according to executive documents” the payer’s debit mandate shall not be required. The payer’s bank must accept and keep these instructions for unlimited time irrespective of whether there are sufficient funds on the payer’s account for the debiting at

the time. In settling these debit transfers, partial debits shall also be allowed. Where the funds on the payer's account(s) are insufficient, the payer's bank shall block the payer's account(s) for other payments until the full settlement of the "debit payment instructions according to executive documents". The payee may cancel a submitted debit instruction or change the amount of the document. The users of this service include: the State Social Insurance Fund Board, bailiff offices, the State Tax Inspectorate and the Lithuanian Customs.

#### **4.2. SEPA Direct Debit**

SEPA Direct Debit (hereinafter – SDD) will include domestic and cross-border payments in euro. The SDD Scheme shall establish the rules and processes of direct debits, the overall service level and the time limit for the financial institutions participating in the scheme to prepare for the fulfilment of their function. SDD shall be initiated by a creditor via its bank after agreement between the creditor and the debtor on this mode of settlement. SDD will mainly be used for effecting recurrent payments, but one-off payments will also be allowed.

The main features of the SDD Scheme are as follows:

- It will be possible to make direct debit at the domestic and cross-border level
- The Scheme is adapted to recurrent and one-off payments
- The time limit for making a first collection is at least 5 business days, for subsequent collections – 2 business days
- The responsibility for keeping direct debit mandate shall be on the creditor
- IBAN and BIC bank codes respectively shall be used as account and bank identifiers
- Payers shall have a possibility to refund direct debits already made within 8 weeks of the moment of settling them.

Debtors will only need one bank account for direct debits in euro to other European countries to be as smooth as national payments. It will be convenient for persons residing and studying in foreign countries to pay for their insurance services, studies, telecommunication services and utility services. They will be able to pay direct debit from their bank account in their native country and will know exactly when the funds will reach the creditor. They will also know in advance how much this service will cost them.

Creditors initiating cross-border payments in large volumes (educational and scientific establishments, insurance and brokerage companies) will be provided a possibility to carry out their business more effectively by using one bank account for the collection of funds. Management of payments will be simplified, there will occur a possibility to automate the flows of payments – the same format of data transmission will be used both for incoming and outgoing payments. Corporates running their businesses on a European scale will be provided a possibility to consolidate their payments, and thus their human resources at one place.

For direct debits between business undertakings, the EPC has worked out a separate direct debit scheme (hereinafter – B2B). Differently from the core SDD Scheme, the SEPA B2B Scheme:

- Does not enable to refund direct debits

- Applies shorter settlement times (i.e. up to one banking day (for the core SDD Scheme – up to five banking days for a first collection and up to two business days for subsequent collections)
- The debtor’s bank shall undertake to verify and keep the mandate data.

### 4.3. Migration to SEPA

Given the likely flows of SDD, Lithuanian banks do not intend to begin providing this service from **November 2009**. Their opinion is that that the SDD Scheme may only be applied in Lithuania after the changeover to the euro. This does not imply that individual banks will not be able to begin providing this service at an earlier date.

Lithuanian banks have been addressing the issue of continuity of the existing mandates. Presently it is not clear whether the replacement of currently valid mandates, as well as the data contained therein, by SDD mandates will be possible. **In 2009**, Lithuanian banks, in cooperation with creditors, will seek a solution that would help them to avoid rewriting of all direct debit mandates.

The opinion of Lithuanian banks is that the “direct debit” and “debit payment instructions” services will in the long run be replaced by SDD products. **In 2009**, Lithuanian banks will be addressing the terms of maintaining the “direct debit” and “debit payment instruction” services, after which the said services will not be provided.

The replacement by SDD products of the other debit transfer services, i.e. “debit payment instructions for agricultural production” and “debit payment instructions according to executive documents”, will not be possible due to their specific character. They will remain functional according to existing "domestic" schemes. The migration of current debit transfer services to SDD products is presented in the scheme below (Fig. 1).

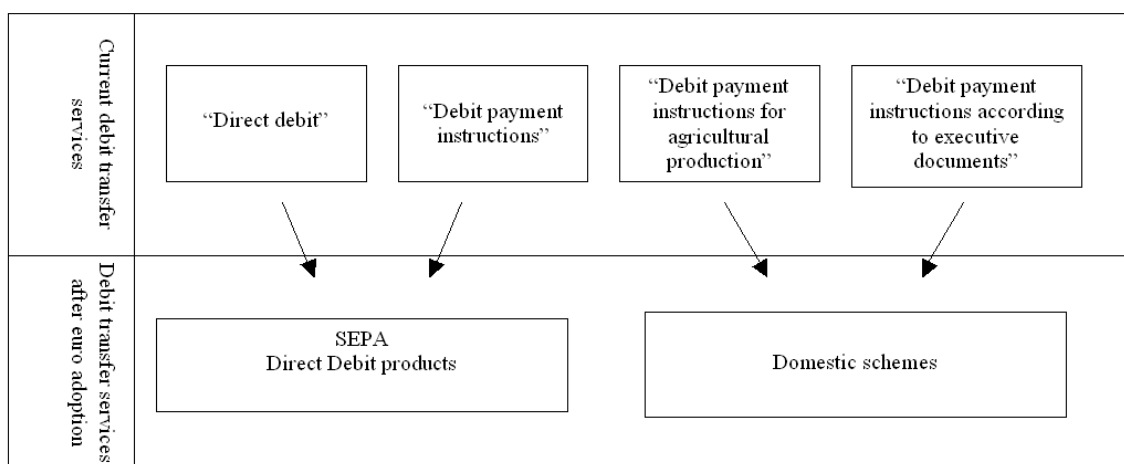


Fig.1. The migration of debit transfer services to SEPA products

In order to prepare for the requirements of the SDD Scheme Lithuanian banks, jointly with the Scheme participants, project the following works:

**In 2009:**

- To analyse the possibilities for the continuity of existing mandates

- To agree a uniform SDD mandate form and the data structure requirements
- To carry out a comprehensive analysis of the future migration to SDD standards and mandate, and to work out the migration rules.

From 1 November 2009, Lithuanian banks will be ready to provide the existing services in line with the requirements of a recast of the Republic of Lithuania Law on Payments with transposed provisions of the Payment Services Directive. The new recast of the Republic of Lithuania Law on Payments would provide a legal basis for the implementation of SDD in Lithuania.

**In 2010:**

- To launch a wide-scale information campaign on the SDD Scheme, the requirements for the infrastructure necessary to maintain it, new mandate and instruction forms, data structures, the requirements for data exchange and functioning of the service
- To agree with creditors on the roadmap for the implementation of the replacements.

It must be noted that when the date for the adoption of the euro in Lithuania is clear, the projected work dates may be adjusted accordingly.

## **5. PAYMENT CARDS**

### **5.1. Current Situation**

Lithuanian banks are members of the international payment card organizations VISA International and/or MasterCard International. The European products of these organizations and the payment card settlement principles comply with SEPA requirements. The bulk of Lithuanian banks partly meet SEPA Cards Framework requirements already now, whereas the remaining banks project to meet them by the end of 2010:

- Issuance of cards – 8 out of 9 banks and foreign bank branches issuing cards issue EMV-chip cards
- Automated teller machines (ATM) – the ATM network of 7 banks and foreign bank branches (of 9) is EMV-compliant
- Point of sale (POS) terminals – the POS network of 6 banks and foreign bank branches is EMV-compliant, that of 2 – partly compliant, and that of one – not compliant
- Integrated cash register systems – currently these systems are not EMV-compliant.

Apart from the VISA and MasterCard payment cards system, American Express cards are also issued in Lithuania, however their market share is insignificant. Domestic cards are not issued in Lithuania.

#### **Issuance of Payment Cards**

According to the data as of 30 September 2008, 4.2 million payment cards were issued in Lithuania, of which 3.7 million were debit cards. The bigger part (99.3 %) of payment cards issued in Lithuania belong to the VISA or MasterCard network, of which 58 per cent are EMV-chip cards. The changeover to chip cards is implemented at their renewal.

#### **Acceptance of Payment Cards**

Currently, part of the payment card acquiring network facilities support EMV: 58 per cent of ATMs and 90 per cent of POS-terminals are EMV-compliant.

Preparation of integrated cash register systems at shopping centres requires more efforts in the move to the EMV standard, as this process requires substantial investment and time performing equipment certification and updating. Presently about 6.0 thousand integrated cash registers installed at major shopping centres, petrol stations, catering establishments do not comply with SEPA requirements. Also, currently there is no plan agreed with petrol station network operators for supporting the EMV standard at automated petrol stations in Lithuania.

#### **Card Processors and Other Service Providers**

Currently there is one card processor, UAB “First Data Lietuva”, which has an interface with the VISA and MasterCard system. The implementation and maintenance of integrated cash register

systems is performed by several companies whose solutions currently are not compliant with the EMV standard and have not been certified by international payment card organizations.

## **5.2. SEPA Requirements**

The principle objective of applying SEPA principles in the field of card payments is creating an open environment for card payments and harmonizing payment card products in terms of their functionality, pricing and security. The said principles are laid down in the SEPA Cards Framework (SCF) elaborated by the EPC and the Clarification of 11 June 2008.<sup>1</sup> The implementation of these principles was established to cover the period from 1 January 2008 to 31 December 2010.

The application of SEPA principles in the field of card payments will ensure:

- Uniform and unified operation of payment cards across the EU
- Uniform implementation of technological solutions (EMV standard) for chip cards and card acquiring equipment
- Application of uniform fees in carrying out card operations within the single EU area, i.e. a uniform fee for euro cash withdrawal will have to be established in the ATMs in the other EU countries and in Lithuania<sup>2</sup>.

### **Impact on Card Holders**

The application of SEPA principles will have a favourable impact on the security of a service and will ensure the customers' greater confidence in a service being provided. Already today card holders are accustomed to using a chip card, confirming by a PIN code not only cash withdrawal but also a purchase at a POS terminal. As a result, the new technological SEPA requirements will not affect customer habits markedly. In addition, upon the adoption of the euro, a uniform fee for cash dispensing will have to be established in the ATMs in Lithuania and in the euro area countries, which will foster the use of payment cards outside Lithuania.

### **Impact on Merchants**

The new technological solutions will affect the updating of software and replacement of hardware at shopping centres with implemented integrated cash register systems and at automatic petrol stations, and these changes will involve additional financial expenses. And yet these solutions will ensure the security of card payments and reduce fraud. SEPA principles will also ensure more effective servicing of international chain stores, as they might be provided with a unified solution to accepting payment cards in any SEPA country.

### **Impact on Card Processors**

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<sup>1</sup> Questions&Answers clarifying key aspects of the SEPA Cards Framework.

<sup>2</sup> This requirement is specified in Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro.

The card processor UAB “First Data Lietuva” supports EMV requirements already today and performs the processing of chip card operations as well as the maintenance of acceptance equipment. Additional technological changes are likely to be unnecessary. The realisation of SEPA principles will ensure higher competitiveness among such processors, as in the SEPA environment banks will be able to use the services of any card processor, and the processors will be able to provide services to banks in any EU country.

### **5.3. Migration to SEPA**

Currently no plan of common solutions to the migration of integrated cash register systems in ensuring SEPA requirements is available in the market. Every bank agrees EMV solutions and terms of implementation on the basis of trilateral agreements with merchants and service providers.

Credit institutions operating in the Republic of Lithuania, ensuring SEPA requirements for payment card services, project:

1. Jointly with merchants, the card processor and vendors of integrated cash register systems, to harmonise the plans for the updating of these systems in the move towards the EMV standard. To accomplish the updating works of these systems **by 31 December 2010**. A working group of specialists from the said businesses should be formed for the task.
2. Jointly with operators of the automatic petrol station network and the card processor, to harmonise the plans for the updating of these systems in the move towards the EMV standard. To accomplish the updating works of these systems **by 31 December 2010**.
3. To adopt a decision that **starting 1 February 2010**, newly installed payment card acceptance equipment and integrated cash register systems introduced to the existing and new customers in Lithuania should comply with the EMV standard, and to inform card processors, vendors of integrated cash register systems and merchants about these changes **by 2 March 2009** at the latest.
4. On the changeover to the euro, Lithuanian banks issuing payment cards should make uniform the fee for euro cash withdrawal at the ATMs functioning in Lithuania and in the other EU countries.

## 6. INFRASTRUCTURE

Currently two retail payment systems have been in operation in Lithuania: the system LITAS-MMS of the Bank of Lithuania and the system KUBAS<sup>3</sup> of the Central Credit Union of Lithuania. The system KUBAS, by number and value of transactions processed, accounts for a small non-cash payment market share and is therefore not referred to in this Plan.

The Bank of Lithuania has been developing and owing the retail payments infrastructure in Lithuania for 15 years already. During that time, 3 technological generations of payment systems were developed and implemented successfully, a modern XML syntax-based message exchange system was created, experience in running payment systems was gained. However, the consequence of the SEPA project – international competition among automated clearing houses – forces the Bank of Lithuania to review its role in this field.

In 2008, banks and the Bank of Lithuania addressed the SEPA infrastructure-related issues in the Infrastructure Working Group, set up to the SEPA Coordination Committee. The Working Group assessed according to the established criteria the SEPA-compliant automated clearing houses (ACH) already functioning in other countries<sup>4</sup>, and discovered that the service level currently offered in the market met the requirements of Lithuanian banks. There is available information that the service level offered in the market will still be enhanced in the future. In view of this, Lithuanian banks hold the position that they would not be able to assume long-term obligations relating to the establishment and use of national SEPA-compliant ACH. By **the end of 2009**, the Bank of Lithuania intends to adopt a decision, whether a national SEPA-compliant ACH should be established or not.

Currently, most Lithuanian banks process SEPA credit transfers via the STEP2 payment system. This decision meets bank requirements, when relatively few credit transfers in euro are carried out (up to 2 per cent of total credit transfers in Lithuania). In preparation for the changeover to the euro in Lithuania and the retail payments market<sup>5</sup> migrating to SEPA standards, Lithuanian banks will be in a position to change their decision and to choose another functioning ACH, if appropriate.

Lithuanian banks will be seeking solutions to enable customers to prepare for the adequate and timely performance of SEPA payments following the changeover to the euro, when the payment system LITAS-MMS is closed down. **In 2009**, an analysis will be carried out which, among other things, will focus on the expediency of preparation of the payment system LITAS-MMS for settlement in SEPA formats in the national currency before the changeover to the euro, thus providing conditions for customers to gradually prepare their internal information systems for new payment services.

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<sup>3</sup> The system KUBAS is used by credit unions participating in the Central Credit Union of Lithuania.

<sup>4</sup> 3 infrastructures assessed: Equens, VocaLink Euro CSM, and STEP2.

<sup>5</sup> It is likely that at that time the market of credit transfers performed among different banks may amount to 30 million payments per year.

## **7. INFORMATION STANDARDS AND FORMATS**

### **7.1. Current Situation**

In Lithuania, information exchange between customers and banks began to be explored with the first remote account management tools (in the late 1990's). These tools enabled the customer to carry out major banking operations and to integrate them with available bookkeeping and accounting systems, and to partly automate the process of daily banking operations.

Historically, a text file-based format is used for data exchange in Lithuania. The first attempts to standardise the interface between customers and banks in Lithuania were made in January 2004, coming up with the LITAS ESIS (<http://www.lba.lt/index.php/lt/28751/>) data exchange format, which today has been widely used in Lithuania in Internet banking systems. This format has defined the following structures of used data:

- Statement of account
- Credit transfer order
- Debit transfer order
- Cross-border payment order

The fields described in LITAS-ESIS do not cover the SEPA data attributes in full.

Within the country, separate credit institutions use other formats for services as well, which are not covered by LITAS ESIS ("direct debit", utility bills, the general paybook, payment of wages and different benefits, etc.). These formats are based on bilateral agreement between customer and bank, and vary considerably. Non-Internet banking customers use virtually the same paper forms for credit transfers.

### **7.2. SEPA Formats**

The EPC has defined general principles for the development of standards in relation to the automation of processing of all euro payments, as well as business requirements, i.e. what data shall be exchanged by financial intermediaries. These data are specified in the SEPA Credit Transfer and SEPA Direct Debit Rulebooks, and the SEPA Cards Framework.

The EPC has developed logical data links according to business requirements. These data links are specified in the SEPA Data Model. The International Organization for Standardization has developed universal financial industry message standard, namely UNIFI (ISO 20022) XML. This standard provides a basis for creating messages in a certain format. The EPC has worked out implementation guidelines and defined the application of UNIFI message standards. The EPC has decided that it would be mandatory to follow the UNIFI standards in carrying out operations in the interbank environment, and following them in operations with customers is recommended.

In Lithuania, customers are not very experienced in using the XML tool in mutual communication between bank and customer. The implementation of UNIFI (ISO 20022) XML may require more substantial time resources on the customer's side. Several realisations of the

standard may emerge in the country. Every credit institution may start using a format of its own, based on the UNIFI (ISO 20022) XML standard.

Until the changeover to the euro, two formats might have to be maintained: one meeting SEPA requirements, the other – meeting the formats applicable to the local market services.

It will be impossible to use part of existing national services in SEPA with the current infrastructure. Such services include utility bills, the general paybook, list payments, etc. The requirement may partly be satisfied through direct debit and e-invoice services. Currently no common standard for e-invoices has been developed.

Combined with the adaptation of the open standard UNIFI (ISO 20022) XML and adoption of the recast of the Law of the Republic of Lithuania on Payments, credit institutions shall revise the interfaces of their Internet banking systems used, adjusting them for the use in SEPA (additional fields, field length match, control of the input of necessary information, etc.). It is worth noting that active participation of customers in the migration-to-SEPA process is a factor behind successful migration.

### **7.3. Migration to SEPA**

To offer their customers an opportunity to make settlements in the SEPA environment, credit institutions operating in the Republic of Lithuania envisage:

1. To switch to the EPC-recommended UNIFI (ISO 20022) XML standard. This provision shall apply irrespective of the euro adoption date. The switch to the UNIFI (ISO 20022) standard is expected to be finalised **by 31 December 2010**. A new working group will be created for the task to include experts of banking technologies and/or banking IT services.
2. To prepare for customers an explanatory note (both in Lithuanian and English) on the use of the UNIFI (ISO 20022) standard-based format. The note must set down explicitly the structure of the used format, highlighting the mandatory, non-mandatory and optional elements, as well as algorithms for information reconciliation.
3. To replace currently used paper-based forms of credit transfers ensuring a possibility to enter information both mandatory and optional for SEPA Credit Transfers.

Before the introduction of the euro, Lithuanian banks will:

- a) Retain the data submission formats currently in use in the domestic market
- b) Apply the format based on UNIFI (ISO 20022) standard in the SEPA environment
- c) Retain the formats for services (utility bills, general paybooks, POS reports, list payments) currently in use in the domestic market and agreements, and develop them, where appropriate.

## 8. COMMUNICATION ON SEPA

To provide target groups with appropriate and comprehensive information on the SEPA project, its impact on the banking sector, business, public administrations and private customers, as well as the preparedness of banks for the implementation of SEPA and other issues associated with the SEPA project, the SEPA Coordination Committee has approved the SEPA Communication Strategy that provides conditions for the coordination of the SEPA communication measures.

The following objectives can be found in the SEPA Communication Strategy:

- To inform about SEPA
- To promote SEPA instruments
- To contribute to a smooth SEPA migration process in Lithuania
- To raise SEPA awareness.

The following target groups are distinguished: (1) public administrations, when they function as users of payment services (taxes, custom duties, social insurance contributions/benefits, public procurement, wages for public servants, etc.) (2) corporates (3) private customers, (4) media and (5) business associations, NGOs, other organisations of various interest groups.

The SEPA Communication Strategy offers various target groups-oriented communication means to implement the goals set. They include:

- To work out and ensure permanent update of FAQ
- To organise regular public opinion surveys to learn about SEPA awareness among target groups and changes thereof
- To issue publications for one or more target groups, which would deal with the issues relevant to the target group and provide practical information on the SEPA project
- To organise seminars for target groups
- To inform media on latest developments related with the SEPA implementation through press conferences held to present important decisions or events related with the implementation of the SEPA project
- To provide information on SEPA on the websites of competent authorities involved in the implementation of the project. Also, a possibility to prepare a specialised website for the SEPA project is under discussion (the Association of Lithuanian Banks has reserved the internet address [www.sepa.lt](http://www.sepa.lt)), where those interested could find all information on SEPA.

For the purposes of further implementation of SEPA products and faster migration, banks will solve SEPA marketing issues.

## ANNEX

The Annex is based on the text of the present Plan and according to 12 general provisions set out by the Eurosystem to be covered in SEPA plans. Not all decisions on how to work within the SEPA environment have been adopted yet. The Annex therefore will be updated taking into account the latest information, findings of ongoing analyses, as well as comments and suggestions by market participants.

General provision	Current situation	Plans/expectations
<p>1. SEPA services offered by the vast majority of banks</p> <p>The plan should explicitly specify the date on which the banking industry shall undertake an obligation to provide the SEPA Credit Transfer (receiving and initiating) service. Also, it should specify whether all banks or only part of them will provide this service. Where some bank plans to provide the SEPA Credit Transfer service later, the plan must specify since when. In addition, the plan must specify when the banking industry is to launch the SEPA Direct Debit.</p>	<p>Lithuanian banks support the SEPA initiative and have been actively participating in its implementation; they have already been offering some of SEPA services, such as SEPA Credit Transfers and SEPA payment cards. Twelve banks operating in Lithuania and foreign bank branches that hold about 94 per cent of the domestic retail payment market are engaged in the processing of SEPA Credit Transfers. The possibility to receive SEPA Credit Transfers is available at all banks that have signed an Adherence Agreement. The possibility to initiate SEPA Credit Transfers is available at 2 banks.</p> <p>SEPA Direct Debit is linked with the euro introduction in Lithuania. Currently, the direct debit service in euro is not available; therefore it is considered expedient to have it in Lithuania only after the national currency litas is replaced by the euro. Individual banks are free to launch this service earlier.</p>	<p>The plan is that <b>in 2009</b> all banks that have signed the Adherence Agreement on the SEPA Credit Transfer Scheme will offer to their clients a possibility both to receive and initiate SEPA Credit Transfers.</p> <p>It is also expected that banks that have not yet signed the Adherence Agreement on the SEPA Credit Transfer Scheme will do this <b>in 2009–2010</b>.</p> <p>Currently, there is no demand for the direct debit service in euro, so the banking industry is to offer the SEPA Direct Debit only after the Lithuanian national currency, litas is replaced by the euro or after the demand for this service springs up.</p>
<p>2. Commitment of public administrations and corporates and indication of starting date</p> <p>The plan should contain information about</p>	<p>Public administrations do not use SEPA services. SEPA services have already been used by corporates that initiate cross-border payments in euro. The number of such</p>	<p>Plans are for the public administrations and remaining corporates to start SEPA preparations in 2009.</p>

<p>migration of major clients (public administrations, corporates) to SEPA services and, if available, the dates thereof.</p>	<p>corporates though is not very big compared to the total number.</p>	
<p>3. Ability of the ACH to send and receive SEPA Credit Transfers</p> <p>The plan should include ACH plans for processing SEPA schemes and their commitment to comply with requirements set for SEPA infrastructures.</p>	<p>There is no ACH in Lithuania complying with SEPA requirements.</p>	<p>By <b>the end of 2009</b>, the Bank of Lithuania is to decide finally whether the establishment of a national SEPA-compliant ACH is necessary or not. Lithuanian banks stick to the position that they would not be able to assume long-term obligations concerning the establishment and use of national SEPA-compliant ACH.</p>
<p>4. Critical mass of payments and expected migration end date</p> <p>The plan should clearly define what is understood under “critical mass“, and specify the end of transitional period, if any.</p>	<p>In Lithuania, no less than 80 per cent of banks must be offering the SEPA Credit Transfer service and no less than 75 per cent of all payments in euro must comply with the SEPA Credit Transfer Scheme requirements for the critical mass of transfers to be reached. The same criterion is used to define the critical mass of SEPA Direct Debit.</p> <p>The duration for transition period has not been established.</p>	<p>It is projected that by the <b>end of 2010</b> both SEPA domestic and cross-border credit transfers in euro will reach the critical mass.</p> <p><b>By the end of 2009</b>, banks are to determine the need, form and duration for the transition period. The transition period (except in isolated cases) should end with the adoption of the euro.</p>
<p>5. BBAN-IBAN conversion facility for databases</p> <p>The countries that use BBAN account codes should specify in their plan the way to shift to IBAN/BIC codes.</p>	<p>In Lithuania, IBAN format for accounts has been in use since 2004, both for domestic and cross-border credit transfers. This fact eliminates the need for the shift to IBAN codes and significantly facilitates the implementation of SEPA payment instruments in Lithuania.</p>	<p>The BIC identifier currently is not used in the customer-to-bank domain in Lithuania where domestic transfers in national currency are initiated. Such practice could be also applied to payments in the SEPA environment.</p>
<p>6. Direct debit mandate migration</p> <p>The plan should specify the way to maintain existing mandates and the way to shift to the mandates for SEPA Direct Debit.</p>	<p>Meanwhile, it is not clear whether the currently effective mandates, as well as the data contained therein can be replaced by SEPA Direct Debit mandates.</p>	<p><b>In 2009</b>, banks, in cooperation with payees, will analyse the feasibility for the continuity of the validity of already existing mandates.</p>

<p>7. Structured remittance</p> <p>The plan should cover the structured remittances issue, if this is a standard or would-be practice in the country</p>	<p>Structured remittances are not used.</p>	<p>Banks so far do not expect the demand for structured remittances to emerge.</p>
<p>8. EMV implementation</p> <p>The plan should contain information on the terms for transition to the EMV-compliant payment cards and terminals in the market.</p>	<p>In Q3 2008, the EMV compliance figures were as follows:</p> <ul style="list-style-type: none"> <li>• 58 per cent of all debit cards</li> <li>• 66 per cent of all credit cards</li> <li>• 46 per cent of all POS terminals</li> <li>• 58 per cent of ATMs</li> </ul>	<p>A work group is planned to be formed in <b>2009</b> to include representatives of merchants, card processor, operators of automated filling-stations and vendors of integrated cash register systems. This group will focus on harmonizing plans for the introduction of the EMV-compliant equipment.</p> <p>All newly installed payment terminals are expected to comply with the EMV standard on <b>1 February 2010</b>, and all payment card accepting equipment and payment cards in the market will be in compliance with this standard <b>by 31 December 2010</b>.</p>
<p>9. Customer information</p> <p>The plan should specify where to refer for relevant information on SEPA. The plan should explain any changes in customer rights and obligations related with the use of SEPA payment instruments, and specify the dispute solving procedure.</p>	<p>Information on SEPA is not provided actively to customers.</p>	<p><b>In 2009</b>, a dialogue with the payment market participants will start to introduce SEPA services, requirements for the infrastructure necessary to maintain it, and, where necessary, agree on the terms for the implementation of the changes.</p>
<p>10. Guidance on standards in C2B/B2C domain</p> <p>The plan should include information on standards that are used and will be used in the C2B/B2C domain.</p>	<p>A standard text file format for data exchange between customers and banks has been in use since 2004.</p> <p>Some individual (not harmonized yet) data formats are also in use for some payment instruments.</p>	<p>The transition to the EPC-recommended UNIFI (ISO 20022) standard for interface with customers is expected to be completed <b>by 31 December 2010</b>. A new work group will be created for the task to include experts both for banking technologies and/or IT services for banks. Also, it is planned to draft an explanatory note (both in Lithuanian and English) for customers on the use of the UNIFI (ISO 20022) standard-based format. The note must explicitly set down the structure of the used format, highlighting the mandatory, non-mandatory and optional elements as well as the algorithms for information reconciliation.</p>

		<p><b>Before the adoption</b> of the euro Lithuanian banks will:</p> <p>a) Retain data submission formats currently in use in the domestic market</p> <p>b) Apply the format based on UNIFI (ISO 20022) standard in the SEPA environment</p> <p>c) Retain the formats for services (utility bills, general paybooks, POS reports, list payments) currently in use in the domestic market as well as agreements, and develop them, if needed</p>
<p>11. Additional optional services published in English</p> <p>The plan should explicitly describe such services. Also, the plan should contain a link to websites that provide technical description of such services, including English version.</p>	<p>Banks have not documented additional optional services.</p>	
<p>12. Announcement of communication events</p> <p>The plan should contain a list of communication events designed to inform target groups on SEPA.</p>	<p>SEPA Communication Strategy has been approved, which provides the background for the coordination of SEPA communication measures.</p>	<p>The following communication events are planned for <b>2009</b>:</p> <p>1) Preparation of FAQ (responsible: Bank of Lithuania and Association of Lithuanian Banks; deadline: Q2)</p> <p>2) Publication “SEPA: Useful Information” (provisional title) (responsible: Bank of Lithuania and Association of Lithuanian Banks; deadline: Q3)</p> <p>3) Seminar “SEPA Introduction in Lithuania” (provisional title) (responsible: Bank of Lithuania, Association of Lithuanian Banks, and Ministry of Finance; deadline: Q2)</p> <p>4) Seminar “SEPA: New Opportunities” (provisional title) (responsible: Association of Lithuanian Banks; deadline: Q3)</p> <p>5) A public opinion poll (a survey of company managers) (responsible: Bank of Lithuania; deadline: Q4)</p> <p>6) Placement of information about SEPA on websites (responsible: Bank of Lithuania, Association of Lithuanian Banks, banks and public administrations; on an ongoing basis)</p>