



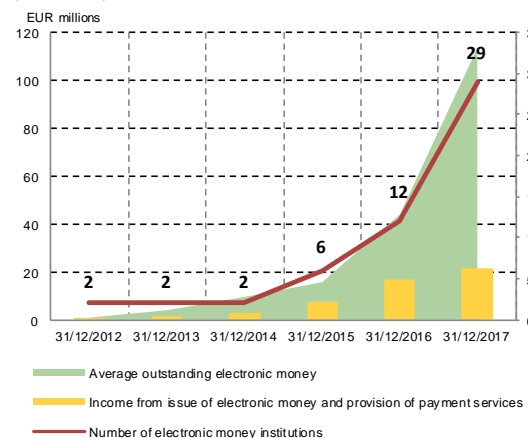
Review of the Activities of Electronic Money Institutions

2017

Public list of electronic money institutions. As at 31 December 2017, the Public List of Electronic Money Institutions had registered 29 electronic money institutions (see Chart 1), of which 6 operated only in the Republic of Lithuania (holding a licence for restricted activity only valid in the Republic of Lithuania and providing that monthly average outstanding electronic money were not in excess of €900 thousand per month). In 2017, licences to issue electronic money and provide the payment services specified in Article 5 of the Republic of Lithuania Law on Payments were issued to 17 undertakings, 4 of which changed their licence of a payment institution into a licence of an electronic money institution, 2 changed their licence for restricted activity into a licence entitling to the provision of services in other EU Member States as well. With the Bank of Lithuania and other state institutions seeking to make Lithuania an international centre for payment services and promoting development of innovative payment services in Lithuania, international financial technology companies (FinTech¹) continued taking a greater interest in the opportunities offered in Lithuania, which encouraged an increase in the number of payment and particularly electronic money institution market participants. It is projected that even more internationally operating companies providing financial services will set foot in Lithuania. The interest in the opportunities offered in Lithuania, such as exclusive access for electronic money institutions and institutions providing payment services to the Bank of Lithuania's upgraded payment system CENTROlink, which offers the widest range of SEPA services in the Nordic-Baltic region, continues to rise. Once members of the CENTROlink system, electronic money institutions can provide direct debit services and perform instant payments 24/7/365, including weekends and holidays.

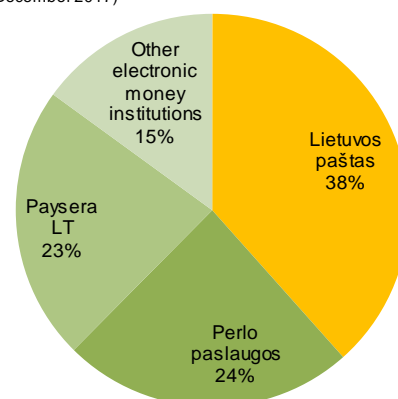
Activities performed. According to the audited (where audit is obligatory) and general shareholder meeting-approved financial statements, over 2017 electronic money institutions earned income from electronic money issue and provision of payment services amounting to €21.6 million. Compared to the previous year this amount increased by 1.3 times. This year, as well as last year, the major share of growth in the income from licensed activities was a result of Lietuvos paštas (the largest provider of postal services in Lithuania), having received a licence of an electronic money institution in 2016, moving from the payment services system to the

Chart 1. Data on the activities of electronic money institutions (2012–2017)



Source: Bank of Lithuania calculations.

Chart 2. Share of the largest electronic money institutions in the system by electronic money income and income from the provision of payment services (31 December 2017)



Source: Bank of Lithuania calculations.

¹ The concept 'FinTech' combines state-of-the-art information technologies and a wide range of financial services – from utility payments to lending or financing that are particularly important for small and medium-sized businesses.

electronic money institution system. Given that 8 electronic money institutions were issued licenses as late as the fourth quarter of 2017, even 15 institutions had earned no income from the provision of electronic services yet in the reporting period. Having supplemented the electronic money institution system by mobile operators and Lithuania Post in 2016 (their main activities are other economic and commercial activities), the ratio of electronic money institutions' income from the issue of electronic money and provision of payment services to total income remained almost unchanged, dropping by 0.1 percentage point, to 2.6%. Average outstanding electronic money, calculated as the average of the total amount of financial liabilities related to the electronic money issued at the end of each day during the last six months, as at 31 December 2017 amounted to €113.4 million, an increase of €69.5 million, or 2.6 times, year on year (see Chart 1). As in previous periods, the increase of this indicator was a result of growth in the number of electronic money institutions and rapid business expansion. By income from the issue of electronic money and provision of payment services earned, the electronic money institution market in 2017 was dominated by 3 market participants (85% of the market), while other electronic money institutions' income from licensed activities accounted for a relatively small market share.

Compliance with prudential requirements. Electronic money institutions holding a licence for restricted activity met the average outstanding electronic money requirement (not in excess of €900 thousand per month) on the reporting date. As at 31 December 2017, the total amount of the own funds of electronic money institutions was €38.2 million. The total own capital requirement (calculated by applying Bank of Lithuania-approved methods applicable to electronic money institutions) amounted to €8.7 million on the aforementioned date. Four electronic money institutions had to take measures for their calculated own funds to be no less than their own funds requirement. 2 of them increased their authorised capital and two covered resulting losses. Hence, they ensured compliance with the own funds requirement after the reference date. It should be noted that information on each electronic money institution's [major performance indicators](#) for the year and each quarter as well as on their compliance with prudential ratios is published on the website of the Bank of Lithuania. Electronic money institutions, in complying with the requirements for the protection of funds of holders of electronic money obtained in exchange for electronic money issued and payment services provided, held them in accounts opened with credit institutions, as secure and liquid assets involving low risk (time deposits with credit institutions, cash).

Changes in the field of the legal regulation of electronic money institutions. Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (hereinafter – [PSD2](#)) came into effect on 13 January 2018. In pursuit of timely implementation of PSD2 provisions, in 2017 the Ministry of Finance of the Republic of Lithuania, together with the Bank of Lithuania, prepared [a legislative package implementing PSD2](#). The legal acts implementing PSD2 provisions in the Republic of Lithuania were adopted on 17 April 2018 and will come into effect as of 1 August 2018. The Bank of Lithuania is also preparing subordinate legislation that will regulate the content and periodicity of the provision of supervisory information for the Bank of Lithuania.

Institutions **holding a licence of an electronic money institution** must, no later than **by 1 November 2018**, submit to the Bank of Lithuania data and/or information as well as documentary proof of their compliance with all of the new legislative requirements for obtaining a respective licence. Note that this obligation has been imposed on electronic money institutions holding a licence of an electronic money institution, whereas those holding a licence for restricted activity shall not submit to the Bank of Lithuania information and/or data, as well as documentary proof of their compliance with licensing requirements.

Institutions which had provided **payment initiation and account information services** by 1 August 2018 and intend to continue providing them will have to apply to the Bank of Lithuania for changing (supplementing) their licence, and submit required information. It should be noted that the European Banking Authority (EBA) has prepared the [Guidelines](#) on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance under PSD2. In addition, the EBA has prepared the [tool](#) for calculating the minimum monetary amount of the professional indemnity under PSD2. Having the above-named professional indemnity is required for electronic money institutions providing payment initiation services or account information services, while the criteria provides the basis for stipulating the amount of professional indemnity. The Bank of Lithuania will follow these Guidelines in carrying out financial market supervision services assigned to it. The Guidelines should also be followed by electronic money institutions established in Lithuania providing payment initiation or account information services.

In 2017, the Bank of Lithuania prepared several positions and guidelines (<http://www.lb.lt/pozicijos>) **relevant to the electronic money institution sector**. A position regarding virtual currency offerings and initial coin offering has been announced. By the Position on Virtual Currency Offerings and Initial Coin Offering (ICO), the Bank of Lithuania recommends to dissociate and refrain from purchasing, holding or selling virtual currencies, carrying out ICO or coin offering in order to mitigate the risk arising from the interaction between virtual cur-

rency schemes and regulated financial services, including risks associated with money laundering and other financial crimes and with uncertainty surrounding the financial capability of market participants participating in virtual currency schemes. The Bank of Lithuania holds a view that virtual currency related activities are incompatible with the provision of financial services and thus they should be dissociated from the activities of an electronic money institution.

The objective of the Position on Banks' Behaviour with Clients Holding Dormant Accounts is aimed at taking active action that residents' accounts that have been unused for an extended period of time, but cost, be closed. This position is designated for banks and credit unions, while electronic money institutions are recommended to adhere to it.

The Bank of Lithuania has been authorised to oversee compliance with the provisions of Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions. It therefore presented its opinion on the treatment of certain provisions of this Regulation in its Position on the Application of the Provisions of Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

The Guidelines of the European Banking Authority on Product Oversight and Governance Arrangements for Retail Banking Products will be followed. They discuss how the manufacturers and distributors should regulate and implement the product oversight and governance process which would be an integral part of general organisation requirements in relation to internal control systems. The above-named Guidelines shall apply to internal processes, functions and strategies related to product introduction, distribution in the market, and their oversight throughout their life cycle. They establish procedures ensuring that the interests, goals and peculiarities of the target market be taken into account.