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PAYMENTS MARKET REVIEW

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Abbreviations

ECB	European Central Bank
EEA	European Economic Area
EPC	European Payments Council
EU	European Union
LCCU	Lithuanian Central Credit Union
PSP	payment service provider
%	per cent
p.p.	percentage points
SEPA	Single Euro Payments Area

Countries

AT	Austria	FR	France	NL	The Netherlands
BE	Belgium	GR	Greece	PL	Poland
BG	Bulgaria	HR	Croatia	PT	Portugal
CY	Cyprus	HU	Hungary	RO	Romania
CZ	Czech Republic	IE	Ireland	SE	Sweden
DE	Germany	IT	Italy	SI	Slovenia
DK	Denmark	LT	Lithuania	SK	Slovakia
EE	Estonia	LU	Luxembourg	UK	United Kingdom
ES	Spain	LV	Latvia		
FI	Finland	MT	Malta		

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The Review is available in PDF format on the Bank of Lithuania website (www.lb.lt).

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FOREWORD

The object of this Review is the Lithuanian retail payments market, encompassing payments between natural persons, enterprises and the public sector. In the past, the development of this market was mainly encouraged by banks and credit unions; however, since 2009, other PSPs, such as payment institutions and electronic money institutions, also joined in. Having followed the banking traditions of the Nordic countries since the start of their operation in Lithuania, Scandinavian capital banks implemented a secure and multifunctional internet banking, issued international payment cards and thus gave a major boost for retail payments. However, shortcomings in the market started to emerge in the middle of last decade. They resulted in a slower spread of payment card operations in comparison to the neighbouring countries and insufficient development of interbank services, which led to the fragmentation of payment services. These trends became even more evident when several banks closed and the market concentration of operating banks increased. This had a negative impact on the end-users in relation to both payment service fees (they are higher than in other Baltic countries) and business costs (they rose due to excess technical interfaces with bank systems).

In the payments market, the Bank of Lithuania has mostly devoted attention to the creation and administration of the payment systems. Such an activity is also important nowadays, however, the Bank of Lithuania assumed more responsibilities in the payments market. This is related to the functions of the competent authority under EU legal acts.[1] In addition, due to their importance to the domestic economy (in terms of competitiveness) and social life (in terms of financial inclusion), retail payments are automatically at the centre of attention, hence encouraging the Bank of Lithuania to allocate more resources to foresee and implement payments policy. Other functions of the Bank of Lithuania — prudential supervision, financial services supervision, safeguarding of financial stability, settlement of disputes between consumers and PSPs, and oversight of the interbank infrastructure — are also linked to retail payments and allow looking at the payments market in a comprehensive way and from different perspectives.

The purpose of this Review is to introduce the public and payments market participants to the achievements, shortcomings, trends and expected developments in the Lithuanian retail payments market. It is expected that this will encourage wider debate on issues related to payments and help determine measures that would help to overcome shortcomings in the market.

[1] Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001 (OJ 2009 L 266, p. 11); Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (OJ 2012 L 94, p. 22).

SUMMARY

Over the last decade, trends unfavourable to payment service users emerged in the Lithuanian payments market: concentration in the market increased, part of payment services became available only when the payer and the payee were customers of the same PSP, the latest payment innovations — contactless payments, instant payments — are not introduced for mass-use. All these aspects, as well as the lack of dialogue between PSPs and their customers, set Lithuania apart from the neighbouring countries' markets.

Concentration in a specific market may have a negative impact on competition, especially when the practices of tying and limiting customer mobility are followed in the market. In granting mortgage loans or distributing insurance products, banks often set a requirement to also have a payment account with that bank, from which funds would be debited. Such a practice not only binds customers and a specific bank together but also limits their possibilities of reacting to changing payment account fees in the future. Customer mobility, inter alia, is also limited by the underdeveloped payment account switching service in the banking sector.

A payment service provision model, popular in Lithuania, when the payer and the payee are in a contractual relationship with the same PSP (also called a three party model) is an extremity in the payments market. Although such a practice may also have advantages (e.g. it allows faster introduction of new services), it is detrimental in the payments market as it prevents new PSPs from entering the market, reduces the bargaining power of enterprises and limits payer mobility. The Bank of Lithuania sees the four party model as an example of good practice — it does not encompass the above-mentioned drawbacks and thus allows for full-fledged competition in the payments market.

In Lithuania, the banking sector has not yet taken the initiative to invest in payment innovations; they are usually introduced when faced with legal regulation. The new e-invoice payment service came about only due to SEPA requirements (as the legacy direct debit service was no longer in line with them), more secure electronic identification solutions — due to requirements set by the Bank of Lithuania on internet payments, investments in contactless card terminals — due to compulsory requirements set by international card schemes (VISA, MasterCard)[2]. Unlike in the Scandinavian countries, not a single interbank instant payment solution, which would ensure transfer of funds that would take only a few seconds (if the payer and the payee have accounts with different PSPs), has been implemented in Lithuania.

The lack of dialogue between PSPs and their customers with regard to the payment service development direction leads to the fact that services do not always meet customer expectations. In implementing SEPA requirements, major banks, without consulting with their customers, decided to use a payment system, which led to slower interbank payments in the country. While preparing the standard for the e-invoice payments, no active consultations with enterprises have been held since the initial stage of the project. This contributed to the fact that the proposed service was not in accordance with the needs of part of enterprises. Unmatched expectations have an impact on the level of satisfaction with services provided by banks; they also overshadow the achievements of PSPs when providing payment services, such as high level protection of funds and personal data, a wide range of services provided, and a variety of channels for their provision (services are provided via branches, intermediaries, ATMs, mobile apps, the Internet, etc.).

An initiative for dealing with the payments market's shortcomings should, first of all, be endorsed by the banking sector. New legal proposals as well as measures, laid down in the strategy for developing Lithuania's retail payments, will contribute to this goal. Capping the price of the basic payment services, a possibility to easily switch accounts from one PSP to another, while keeping set regular payments, prohibition of tying, provisions for payment card transactions, favourable to merchants, and the possibility to use the payment initiation service — all these are measures that will improve the operation of the payments market. When implementing the strategy for developing Lithuania's retail payments, other measures, e.g. enhanced cooperation between PSPs and customers, should be implemented as well. All interested parties will be welcome to contribute to the creation and implementation of the strategy.

The SEPA project — the major challenge in the payments market in 2015 — was implemented successfully. Even though there were problems, which had an impact on some enterprises' business processes, often related to the reconciling of funds received and the e-invoice payments service, a positive result was achieved when implementing the SEPA project. The main priority given by the banking sector to the SEPA project and professional work of the developers of accounting software contributed to this result. The objectives to be fulfilled in 2016 include the ultimate compliance of the utilities collection service with SEPA requirements, upgrade of the e-invoice payment service and the availability of the SEPA direct debit service for the Lithuanian market.

Banks continue to dominate in providing electronic payment services, while other PSPs — payment and electronic money institutions — are not fully-fledged competitors to banks and, for now, are seen as niche market participants. The only field in which payment institutions are dominating is the collection of cash-based over-the-counter payments, usually for utilities or other bills. However, since the popularity of transactions in cash is decreasing in the

[2] Payment card scheme — a collection of payment transaction rules, procedures, standards and/or implementation guidelines, governed by an individual institution or organisation.

country, payment institutions operating in this market segment will have to face the challenge of diversifying activities. Some of them have already extended business opportunities by taking out electronic money institution licences, granting them the right to offer payment services comparable to those provided by banks. In addition, non-bank PSPs are more prone to implementation of innovations, as they link the increase of their importance in the market to them.

Payments in cash still prevail among resident payments; they are substituted by electronic payments very slowly. In 2015, two thirds of funds spent using payment cards were withdrawn from ATMs and one third were spent when paying with payment cards. Such ration in terms of card payments is one of the lowest in the EU. However, this indicator is slowly improving (in 2011, the value of settlements with payment cards amounted to slightly more than one fifth). In recent years, the number of card payments increased quite rapidly. However, the increase in the number of payments per capita in absolute terms was smaller than in other countries in the region. The adoption of the euro did not accelerate more extensive use of electronic payments as well.

Even though banks view payment cards as the main substitute for cash transactions, there are still doubts over the long-term perspectives of payment cards — instead, instant credit transfers may become a viable alternative. In recent years, the intensity of payment card use was significantly lower than in other Nordic-Baltic counties, while the lagging behind in absolute terms only increased. The payment card infrastructure and its elements (processing of transactions, card scheme charges, certification of devices, and data security audit) remain rather expensive in comparison with other payment services, whereas the market is especially concentrated. This leads to major barriers to entering the market which reduce the competitive pressures for market leaders, hence the functional potential of payment cards remains unexploited. Currently in Europe a lot of attention is devoted to technologically-advanced instant credit transfers; they are considered to be an alternative to payment cards.

In 2015, 421.5 million electronic payment transactions, or 145 payment transactions per capita, were initiated in Lithuania through PSPs, payment service fees for natural persons increase somewhat. Banks continued to increase the fees for over-the-counter payments, and thus the gap between the fees for over-the-counter transfers and online transfers widened. The price of other services related to cash rose as well. The price of payment services provided by credit unions is generally lower; however, in 2015 their fees increased as well.

1. ACHIEVEMENTS AND SHORTCOMINGS IN THE LITHUANIAN PAYMENTS MARKET

IMPORTANCE OF STANDARTISATION IN THE PAYMENTS MARKET

Network externality is present in the payments market. It results in payment services, available to customers of various PSPs, being usually valued more than services that allow payment service users to reach customers of only one PSP. Respectively, payment services accessible on an international level are more beneficial than services provided on a national level. Hence, the network externality encourages PSPs to standardise payment services by setting interbank rules and harmonising technical formats (see Box 1). Thus, for example, card payments abroad become possible and such payments are processed in the same way as common payments at a local shop. Standardisation of payment services encourages PSPs to compete in terms of the price for a service, and ensures the so-called “one stop shop” principle, thus contributing to the development of a competitive and open payments market. One stop shop provides a possibility for a payment service user to receive necessary payment services through a single PSP.

Standardisation gives impetus for reducing payment service prices; however, it can also have negative side-effects, such as obstacles to introducing innovations, non-compliance with customer needs or closed management of the standard. With the emergence of innovative solutions, the majority of related parties have to be convinced of the necessity of upgrading the standard, especially in an integrated market. This takes time, additional resources are needed and quick changes are not guaranteed. To some extent, this happened during the implementation of the SEPA credit transfer scheme — for some years now, enterprises have not convinced PSPs to increase the amount of information passed together with a payment transaction. So far, the other SEPA standard — the direct debit scheme — is not offered to Lithuanian enterprises, since PSPs are of the opinion that this service is not in line with market needs, and preparation costs are high. Thus, in order to make standardisation beneficial for the public, it must go hand-in-hand with close cooperation between PSPs and their customers as well as reconciliation of interests; the market regulator may act as an independent broker or a catalyst.

Seeking to differentiate themselves, PSPs often give preference to individual payment services, in extreme cases provided only within a PSP[3], rather than harmonised ones. This is especially typical of concentrated markets. Customers would benefit from an attempt to differentiate between services, if in this way innovations spread in the market quicker. However, if through technical fragmentation competition is being limited, the process might be harmful. It is not easy to draw a line between pleasing customers and market abuse. One of the features of market fragmentation might be that payment services of the majority of PSPs are very similar and provided only within PSPs. Without any artificial barriers, the network externality in such a market would encourage setting a common service standard and ensuring a one stop shop principle useful for customers. When enterprises cannot get necessary services from a single PSP, they have to maintain legal relations, or sometimes, even technical interfaces with several PSP. This leads to the decline in their bargaining power and duplication of resources used.

In an ideal case, the payments market should be flexible and able to change from a harmonised to a fragmented one, when it is sought to implement innovations quicker, and vice versa, when innovations become a norm in the market and network externality occurs. Self-regulation initiatives and legislators would play the main role during such a change. The SEPA project, which led to the abandonment of national standards and migration to a single payment standard, shows that the market would not have ensured standardisation only by imposing self-regulation measures. EU legislators had a hand in this, i.e. they approved a separate EU regulation.

Box 1. Standards and competition when providing payment services

Interbank interoperability is understood as a process, when a customer can transfer funds through a single payment account to a payment account opened in any other PSP. Both at the EU level and in specific Member States, several payment service standardisation solutions have been applied (e.g. the SEPA project, or iDEAL, an online settlement solution in the Netherlands).

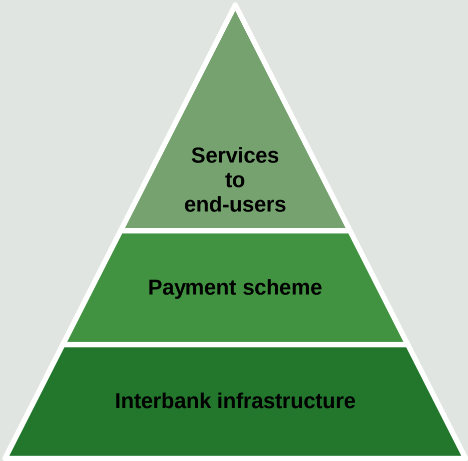
It is a common practice to rely on separation of cooperation and competition when standardising services. Having taken into account legal principles of competition, PSPs determine which service segments will compete for end users and which conditions will be the same in all PSPs. The line is ambiguous. The more services are standardised, the less space there is for competition. On the other hand, the very different services of PSPs may cause confusion among end users and thus decrease the attractiveness of the entire scheme.

In graphic terms, the level of standardisation might be presented as a pyramid (see Chart A). The top of the pyramid, or the first level, encompasses the least standardised and open-to-competition area of services. Usually this is the PSP price formation, reporting, customer consultations, dispute solution, etc. For example, according to the Lithuanian e-invoice

[3] Provision of payment services within PSPs is usually understood as a provision of services when the payer and the payee have a payment account with the same PSP. However, it could also be understood in broader terms, i.e. as a legal-based relationship of the payer and the payee with the same PSP.

payment scheme, which replaced direct debit in Lithuania as of 2016, the scheme participants compete in terms of the range of settlement means, price formation, quality of internet banking services, customer consultation, etc.

Chart A. Standards and competition when providing payment services



Source: Bank of Lithuania.

The second level of the pyramid — the payment scheme — is a collection of rules, practice and standards of payment transaction execution. Usually, a payment scheme is distinguished from an infrastructure (the payment system) and encompasses the decision-making entity, responsible for the operation of a scheme. Taking into account the specificities of a payment service, respective risk management elements might also be attributed to a payment scheme. For example, the scheme of e-invoice payments, managed by the Association of Lithuanian Banks, is subject to a technical message standard, the process of invoice exchange, participant obligations and other elements, necessary for ensuring the credibility of the scheme.

The third level of the pyramid — the interbank infrastructure — encompasses technical solutions that ensure a practical implementation of the scheme, i.e. bilateral or multilateral information exchange channels (e.g. SWIFT), one or more related payment systems (e.g. SEPA-MMS and TARGET2).

ACHIEVEMENTS IN THE PAYMENTS MARKET

The majority of residents trust the PSPs operating in Lithuania with regard to the security of funds, the level of personal data protection and protection of consumer rights. According to data of the 2015 Survey of the Payment Habits of Lithuanian Residents, 69 per cent of all residents in the country believe that their money held with PSPs is secure, 61 per cent of residents are of the opinion that personal data managed by PSPs will be safe, while 58 per cent state that the rights of PSP service users are protected properly.

Until now, payment services provided in Lithuania have been relatively secure. This is confirmed by a small share of residents who encountered fraud when using payment instruments. The Survey of the Payment Habits of Lithuanian Residents showed that, in 2015, 2 per cent of the surveyed suffered from fraud or theft when using payment cards, and even less residents (0.1%) encountered these threats when using internet banking. Of residents, however, 6 per cent suffered from cash theft. For now, PSPs' losses, incurred due to fraud related to the use of payment cards, are also insignificant. The report on card fraud, published by the ECB in 2015, indicates that the ratio of losses due to fraud related to payment cards issued by Lithuanian PSPs to the turnover of the payment transactions accounted for 0.004 per cent in 2013 (in 2012 — 0.005%).[4] This is the second lowest indicator in the SEPA area (its average indicator — 0.039%). However, the level of fraud is rapidly changing. This is also reflected by the change in losses, incurred by PSPs, which have not yet applied solutions for more secure internet payments, due to fraud. In addition, detailed statistics on fraud, arising when providing other payment services (e.g. credit transfers), has not been accumulated yet, hence it is not possible to determine the actual level of fraud in the country.

Box 2. New requirements for the security of internet payments

A low level of fraud in carrying out internet payments is partly explained by a relatively low payment card use, especially in e-commerce within the country. As a result, however, risk in the payments market is changing rapidly, and the practice of other countries shows that electronic identification means distributed by Lithuanian PSPs — code cards for internet

[4] See https://www.ecb.europa.eu/pub/pdf/other/4th_card_fraud_report.en.pdf.

banking and static data in online card payments — were insufficient for fraud prevention. The level of fraud if it rose unexpectedly could undermine public confidence in electronic payment instruments and thus disrupt the business processes of enterprises. This is why security of payment transactions is a priority for both the Bank of Lithuania and market participants.

Fourteen new requirements for PSPs were set in Resolution No 03-172 adopted by the Board of the Bank of Lithuania in 2014 and its later amendments; they laid the foundation for long-term payment security. Technologically-neutral requirements allowed strengthening the assessment of risk to payment security and better protection of sensitive payment data, provided conditions for initiating transactions more securely, and obliged PSPs to identify and block suspicious transactions. Also, more attention was paid to consumer education.

As of 1 January 2016, banks issue identification means in line with new security requirements to all new customers, and as of 1 April 2016 — to existing customers. As a result, persons that login to internet banking using a code card or perform online card payments will notice some changes. When carrying out a transaction in both cases the PSP will send an additional one-off code via SMS. This procedure will not be necessary when carrying out low-risk transactions (e.g. those amounting to less than EUR 30). The code sent via SMS will be one-off and valid for a limited period of time (up to several minutes), in many cases basic information on the transaction will also be provided in the SMS. This will help fight telephone fraudsters, as the SMS will show the purpose of the transfer of funds.

The new requirements will not affect those persons who are already using a code generator or one of the electronic identification (e-signature) solutions.

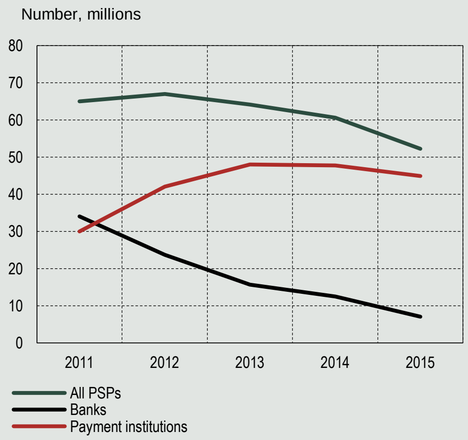
A wide range of payment services provided by PSPs and the possibility to receive services through various channels adds significantly to accessibility of payment services. Customers have the possibility to use services provided by banks, credit unions, as well as payment and electronic money institutions. Various channels are used for the provision of these services, such as client service offices, self-service points, including ATMs, points of sale, voice telephony, the Internet, payment cards and mobile apps. Payment services may be provided when one opens an account, or even when no account is opened (e.g. through payment institutions). In total, 4,465 client service offices were operating in the country at the end of 2015, 544 of which were ensured by credit institutions, 3,921 — by other PSPs. In addition, 1,216 ATMs and almost 46.5 thousand POS-terminals operated in Lithuania.[5]

Lithuanian residents are of the opinion that their ability to open payment accounts is not restricted; however, there are increasingly more residents who do not have a payment account. Results from the surveys reveal that there are no systemic signs showing that PSPs refuse to open accounts, thus residents choose not to have a payment account voluntarily, while some of them simply close the accounts. In 2015, 20 per cent of residents in the country did not have an account with a bank or a credit union.

Box 3. Banks and other payment service providers: competitors or partners?

In recent years, banks share the payments market with non-bank PSPs, which are trying to compete through technological innovations, a vast customer service network or competitive service fees. An example of such PSPs is payment institutions, another example — electronic money institutions. The main difference between them is that electronic money institutions have the right to hold customer funds for an indefinite period of time, whereas payment institutions transfer funds received to payees without any hold.

Chart A. Number of transactions at client service offices



Source: Bank of Lithuania calculations.

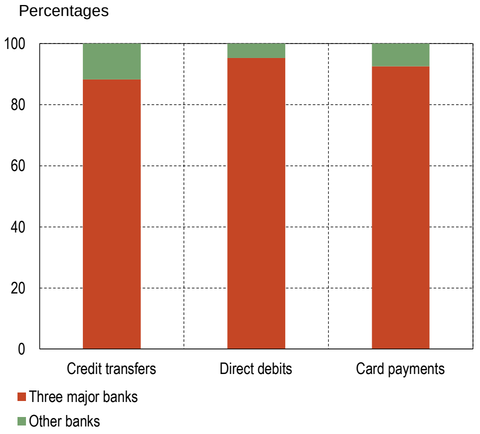
[5] The number of unique POS terminals in Lithuania is lower due to overlaps in data.

Having started operations in 2009, over several years payment institutions almost took over from banks the collection of cash-based over-the-counter payments (see Chart A), although in general the market of such payments is contracting. Judging from the actions of the majority of banks at that time, in particular the decrease in the number of client service offices and the increase in the fees for over-the-counter payments, cash-based transactions market was not even a domain of competition between banks and other PSPs. An active aim to reduce costs and the appearance of payment institutions provided conditions for banks to gradually retract from, in their opinion, a loss-bearing market segment. Nonetheless, banks did not entirely separate from the market, which accounts for approximately 50 million transactions and bears an annual income of EUR 12 million from transaction fees. Firstly, major banks shifted their focus from servicing customers at a branch to the servicing of other PSPs (payment institutions). According to legal acts, payment institutions must maintain account-based relations with banks, thus they carry out transfers of funds through the banking system. In this way, payment institutions maintain liquidity in the banking system and provide banks with income from payment institution transactions. Secondly, banks expect that part of cash-based over-the-counter payments will move to online mode. Apparently, they manage to partly accomplish this. The number of online transactions is continuously increasing in banks, unlike in payment institutions, and average fees for such payments applied by banks remain lower than average fees for cash-based over-the-counter payments provided by payment institutions.

Cash-based over-the-counter payments is a good example (but not the only one), when both competition and cooperation are present. The combination of these seemingly opposite strategies is determined by the fact that the possibilities of payment institutions or other non-bank PSPs to operate separately and independently from the banking sector are currently limited (the SEPA-MMS payment system, managed by the Bank of Lithuania, is one of few alternatives). This is related to the current legal regulation, payment systems' limited access options and economic factors (it is not always expedient to create overlapping infrastructures). In terms of mobile payments, payment initiation services, customer identification and other areas, banks and other PSPs must constantly seek cooperation and, at the same time, compete among themselves. Market dynamism and openness to innovations depend largely on how the major banks manage to reconcile these opposite strategies.

SHORTCOMINGS IN THE PAYMENTS MARKET

Chart 1. Bank concentration by the number of transactions in 2015



Source: Bank of Lithuania calculations.

The Lithuanian payments market is especially concentrated. The three major banks operating in Lithuania — *SEB bankas, DNB bankas* and *Swedbank*, *AB* — carry out approximately 90 per cent of the main payment service operations, i.e. credit transfers and card payments (see Chart 1). The direct debit market share of these three banks accounted for 95 per cent in 2015.

Concentration in a specific market may have a negative impact on competition, especially when the practices of tying and limiting customer mobility are followed. In granting mortgage loans or distributing insurance products, banks often set a requirement to also have a payment account, from which funds would be debited, with that bank. Such a practice not only binds customers and a specific bank together, but also limits their possibilities of reacting to changing payment account fees. Customer mobility, inter alia, is also limited by the underdeveloped payment account switching service in the banking sector.

Box 4. Payment account switching

Research done in various countries shows that a relatively small share of customers are considering the possibility of switching banks in search for better deals in terms of payment services, and an even smaller share actually does so.[6] The Survey of the Payment Habits of Lithuanian Residents, conducted in Lithuania, showed that, in 2015, only 6 per cent of residents with an account considered the possibility of switching to another credit institution over the last 12 months; less than half of them actually did so. This is due to various reasons: 1) payment service agreements are usually without a clear end-date and customers do not have a pretext for considering alternatives; 2) due to limited information and complicated bank price formation, it is difficult to assess which alternative is the best one; 3) the amount of funds that could be saved when switching banks is often underestimated; 4) the procedure of switching banks is complicated and inconvenient. This box discusses primarily the latter issue.

[6] E.g. https://assets.digital.cabinet-office.gov.uk/media/5627b571e5274a1329000003/Banking_summary_of_PFs.pdf.

Switching payment accounts is not the same as switching mobile operators: it is possible to retain the same phone number after switching mobile service providers; however, it is impossible to get the same account number after switching PSPs. Due to the account numeration standard, the IBAN, a payment account must always be linked with a specific PSP, which is why it cannot be transferred directly. In practice, account switching actually encompasses the opening of an account, transfer of information from the previous account, the process of providing information to third parties on the new account, and the closing of the old account. The overall success of switching services depends on how smoothly these processes work and how long they take.

Currently, residents wishing to switch banks can do so themselves or trust the account switching service adopted by the Association of Lithuanian Banks; however, in both cases it takes a long time and much effort is needed. In some cases, when the old payment account is subject of tying to another banking product, it is impossible to close the payment account and switch banks entirely.

Wishing to change its PSP, a resident firstly has to evaluate the terms offered by other banks. Learning about standard fees applied is not enough, as the resident also has to take into account the individual basket of payment services used. So far, PSPs do not offer the possibility of making a comparison based on individual usage profile via software tools.

Having chosen an account switching service provided by banks operating in the country, a natural person must provide a notarised request (authorisation) for the new bank and indicate in it which regular payment agreements he plans to execute. The new bank will present a standard form of a notification about the changed account that is intended for notifying persons carrying out regular payments to a user. It can also send these notifications. The entire procedure may take up to 30 days; a natural person may still have to contact the old bank with regard to closing of the account and may have to conclude some agreements related to regular payments. In addition, fees for this service are not clearly presented in banks' price lists.

A more user-friendly procedure for switching a payment account will be established in the latest Law on Payments, implementing the Payment Accounts Directive.[7] After its adoption, customers will only have to contact the new bank and grant it authorisation for the desired services, i.e. transfer regular payment orders to the new PSP, notify regular payers about the changed account, transfer the balance of funds to the new account and close the old account. PSPs will be obliged to ensure that the transfer of an account would take up no more than 12 business days, and users would not suffer any inconveniences related to the execution of payments in this transitional period. The service will be provided when transferring an account to another PSP operating in the same country.

The possibility of natural persons to switch their account to another bank was sometimes limited on contractual basis, while that of enterprises is limited by the scope of payment services. It is a common practice in Lithuania to provide some payment services only within PSPs, i.e. when the payer and the payee have legal relations with the same PSP. For example, the utilities payments or the *Bank link* service, as well as direct debit which was in force until the end of 2015, were available to domestic enterprises only upon a conclusion of an agreement with the bank of the payer.[8] Hence an enterprise wishing to reach more payers had to maintain several legal and technical interfaces with different banks, which reduced its bargaining power and lead to additional investments in order to ensure the interfaces.

A payment service provision model, popular in Lithuania, when the payer and the payee are in a contractual relationship with the same PSP (also called a three party model) is an extremity in the payments market. Even though such a practice may also have advantages (e.g. it allows introducing new services faster), it is not beneficial in the payments market, as it prevents new PSPs from entering the market, reduces the bargaining power of enterprises and limits payer mobility. In order to execute the payment transaction, the payer and payee have to reach each other conveniently. If the banking sector does not ensure such reachability through interrelations or necessary infrastructures, customers have to take care of it themselves. In some cases enterprises adapt to customer needs, i.e. open an account with a bank, where customers opened their accounts, or conclude agreements on additional procedures with that bank. In other cases, consumers have to adapt to enterprises' needs, i.e. switch to the same bank (this might be one of the conditions for salary payments). Maintaining of multiple technical and legal interfaces with several PSPs is neither an economic nor convenient decision for a payment service user.

The three party model not only increases enterprises' expenses but also has a negative impact on the competitive environment. Enterprises are deprived of the possibility to operate through one bank (applying the one stop shop principle), not to mention the possibility to choose a PSP from a foreign country. In providing payment services, to which, in technological terms, interbank reachability is applicable (e.g. credit transfers, the latest e-invoice payment service), banks, through the price formation, e.g. when charging a fee for the incoming payment from another PSP, encourage enterprises to refrain from operating through one bank only. The fee for incoming payments, applied in Lithuania when receiving funds from another bank, is unique and not charged in other countries in the region. Thus, the application of the three party model adds to the fact that interbank services remain poorer in quality or higher in price,

[7] The Payment Accounts Directive must be transposed into national law until 18 September 2016.

[8] Directly or through an intermediary.

innovations are implemented only within one bank and are usually not coordinated with other banks, and it is hard for new market participants to enter the payments market due to the underdeveloped interbank infrastructure.

In using payment services, Lithuanian enterprises sought to achieve the one stop shop principle through intermediaries. In providing the legacy direct debit service, which in Lithuania was available only through the three party model, an intermediary, a technical service provider, played an active role in providing technical interfaces with the majority of banks. This allowed achieving some standardisation from the enterprise perspective. In the e-commerce payment market, non-bank PSPs, payment and electronic money institutions, acted as intermediaries and offered the one stop shop principle for the *Bank link* services provided by different banks. However, such solutions were a technical arbitration, rather than full-fledged payment service alternatives, as they were based on banking services and their price formation.

Box 5. SEPA contribution in eliminating fragmentation of the payments market

As of 1 January 2016, Lithuania joined the Single Euro Payments Area, also called SEPA, encompassing 34 countries. In the field of settlements, this is the second major step (after the adoption of the euro) in creating a single payments market in Europe. Due to standardisation, SEPA, which eliminates differences between domestic and international payments in euro to the countries of the European Economic Area (EEA), allows reaching a new level of electronic payment service quality.

SEPA — one of the major projects in the field of payments in recent years — helps to solve the following issues in Lithuania: 1) to update and standardise technical interfaces between PSPs and enterprises; and 2) provide technical conditions for applying the one stop shop principle. In addition, the role of banks in passing on information to enterprises (e.g. when providing the utilities payments) becomes clearer.

The most important requirements of the SEPA project are defined in Regulation No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing the technical and business requirements for credit transfers and direct debits in euro and amending Regulation 924/2009 (hereinafter — SEPA Regulation). The SEPA Regulation regulates credit transfers and direct debits in euro, when both the payer’s and payee’s payment service provider is located in an EU country. Even though the SEPA Regulation does not lay down any specific payment service schemes, PSPs are obliged to use only standardised schemes. Currently, one SEPA credit transfer scheme and two SEPA direct debit schemes are active. During the creation of these schemes, the possibility for an enterprise to send and receive payments through one PSP (hence — via the one stop shop) was provided for. Thus such payment services (such as salary or utility and other bill payments), which until now were provided only in a closed network, are being reviewed and their provision is harmonised with SEPA requirements. This does not mean than an enterprise will have to operate only though one PSP. SEPA does not limit the number of bank interfaces; however, it provides technical conditions allowing operating through one bank, if this is beneficial to an enterprise. Nonetheless, during the first months of SEPA, a certain trend is emerging: banks, using price formation (e.g. the fee for crediting of funds), try to artificially keep excess interfaces with enterprises. In order to change this practice, the Bank of Lithuania will submit legal proposals.

In the past, banks were important partners in the process of information exchange between enterprises and their customers, for example, when enterprises collect electricity meter readings from the payers. Even with the emergence of the Internet and the information exchange taking new technological forms (e.g. provision of information via apps), banks remained important information collectors, passing on this information to some enterprises. It is always useful when funds and information related to them is included in the same process. It is not coincidental that the majority of elements in the SEPA payment order are informative (the name of the payer, purpose of transfer, etc.). However, it is important that information exchange carried out without applying SEPA standards would not technically limit customer ability to choose a bank freely and would not deter enterprises from the common standard, ensuring that the one stop shop principle is working.

The lack of dialogue between PSPs and their customers with regard to the service development direction leads to the fact that payment services do not always meet customer expectations. In implementing SEPA requirements, major banks, without consulting with their customers, decided to use a payment system, which led to interbank payments becoming slower in the country. In preparing the standard for the e-invoice submission and payment service, no active consultations with enterprises have been held since the initial stage of the project. This partially led to the fact that the proposed service was not in accordance with the needs of part of enterprises. Banks’ decisions not to develop the SEPA direct debit service were not consistently coordinated with representatives of enterprises and users. In other EU countries, a closer cooperation between PSPs and their customers panned out. In the Netherlands, it resulted in agreements between banks and merchants on the creation of conditions necessary for the payment card market development, for example, smaller interchange fees.[9] Cooperation between Danish banks and merchants encouraged them to share national payment card operating costs, while in Finland it helped to create a dynamic environment for e-invoice use. Banks and enterprises do not necessarily have to reach a common ground. However, evidence show that the

[9] See http://www.dnb.nl/en/binaries/fe_tcm47-311635.pdf.

payments market is more developed in those countries that have encouraged constructive dialogue between banks and customers.

In Lithuania, the banking sector has not yet taken the initiative to invest in modern payment innovations; they are usually introduced when faced with legal regulation. The new e-invoice payments came about due to the necessity to implement SEPA requirements, more secure electronic identification solutions — due to requirements set by the Bank of Lithuania on the security of internet payments, investment in contactless card terminals — due to compulsory requirements set by international card schemes (VISA, MasterCard). Unlike in Scandinavian countries, not a single interbank instant payment solution, which would ensure an instant transfer of the payer's funds to the payee, is implemented in Lithuania. In many countries, structural changes are taking place in retail payments (contactless payment technologies, instant payments, electronic wallets, payment initiation services); however, the banking sector in Lithuania has not yet taken the initiative to contribute to innovation.

Box 6. Measures for ensuring market openness in executing e-commerce payments

When carrying out non-cash payments for e-commerce transactions, *Bank link* services provided by PSPs are prevalent in Lithuania. In providing this service, a buyer is directed from the website of the merchant to a limited internet banking website of the bank, with which it has an account, and there executes a payment transaction. The merchant receives a notification about the status of the transaction (a guarantee that it will receive funds), while the buyer is redirected back to the website of the merchant. Currently, such services are provided only within a PSP, i.e. when the banks of the payer and payee are the same. This complicates the sellers' situation, as it is necessary to individually agree with different PSPs in order to reach customers of the majority of PSPs. The SEPA project, which enabled the application of the one stop shop principle when providing other services which were previously limited (salary payments, utilities payments), will not have a direct impact on the openness of the *Bank link* service, as the SEPA Regulation does not encompass technical interfaces necessary to ensure this service. Nevertheless, there are several alternatives that can open up new possibilities for the e-merchants.

First alternative relates to online card payments. For quite some time now payment cards allow payments online; such a means of payment is prevalent when buying from foreign e-shops. However, in Lithuania payment cards are used quite rarely when buying something online. This is partly due to the decision of banks not to provide the card acquiring service to local e-shops. The service price factor is also important. Both aspects are covered by the EU provisions on interchange fees for card-based payment transactions.

The Regulation on interchange fees for card-based payment transactions[10] lays down that, as of December 2015, the interchange fee for debit card transactions must be no more than 0.2 per cent, for credit card transactions — no more than 0.3 per cent of the value of a transaction. As a result, the fee, which is a sum of the interchange fee and the bank mark-up, applied by banks to merchants should reduce. The Regulation will also encourage competition and transparency of fees. First of all, there will be a possibility to issue cards and provide card acquiring services across Europe. Until now, banks, wishing to expand their activities to other countries, usually had to obtain an additional card scheme authorisation for operating on an international level. Removing these limitations would lead to greater competition between banks providing services to merchants. Thus, Lithuanian merchants will be able to choose from foreign service providers. Second, the Regulation aims at enhancing transparency in commission fees paid by merchants — banks will have to provide to merchants detailed reports on charges paid in which the interchange fee would be highlighted.

Another alternative — the new payment initiation service. The principles of this intermediation service are defined in the EU Directive on Payment Services in the Internal Market.[11] The requirements laid down in the Directive should come into force in January 2018. In Lithuania, during the transition period, the service will be subject to general civil law provisions. The payment initiation service is often based on the following principle: instead of being directed from an online shop to a bank, as is usually the case now, a buyer will be directed to a payment initiation service provider. Hence, any e-shop will be able to conclude only one agreement with a payment initiation service provider instead of concluding several agreements with different banks. The buyer will have to indicate to the service provider his one-off internet banking credentials: one pair of passwords will be designated to login to internet banking, while the other — to confirm the generated payment transaction. Using these credentials, the payment initiation service provider will log into the buyer's payment account by creating a software bridge and originate a transaction designated to settle with the e-shop. The e-shop will be notified of the successful settlement, and the buyer will be redirected back to the shop to complete the purchase. The payment initiation service may spread in the Lithuanian payments market, as it would compete with *Bank link* services, offered by banks, and could ensure the one stop shop principle to the e-merchants.

[10] Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (OJ 2015 L 123, p. 1).

[11] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (OJ 2015 L 337, p.35).

Seeking to encourage payments market participants to set high operating and security standards[12], the Bank of Lithuania prepared the good practice principles for the payment initiation service. The list of enterprises committed to the good practice principles will be made publicly available on the Bank of Lithuania website.

An initiative for dealing with payments market shortcomings should, first of all, be endorsed by the banking sector. New legal innovations as well as the strategy for developing Lithuania's retail payments will contribute to this goal. Capping the price of basic payment services, possibility to easily switch accounts from one PSP to another, while keeping set regular payments, prohibition of tying, provisions for payment card transactions, favourable to merchants, and the possibility to use the payment initiation service — all these are measures that will have a positive impact on the payments market. When implementing the strategy for developing Lithuania's retail payments, other measures, e.g. enhanced cooperation between PSPs and their customers, should be implemented as well. All interested parties will be welcomed to contribute to the creation and implementation of the strategy.

[12] See http://www.lb.lt/the_good_practice_principles.

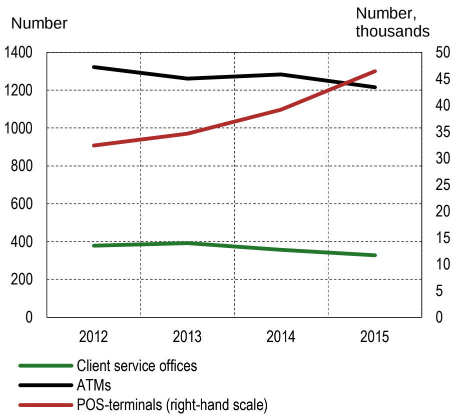
2. PAYMENT SERVICE PROVIDERS IN LITHUANIA

Table 1. Market share of banks in 2015

Service	Market share, %
Number of payment accounts	91
Number of payment cards	94
Number of credit transfers	91
Number of direct debit transactions	100
Number of card payments	99.8
Number of remittances	0.7

Source: Bank of Lithuania calculations.

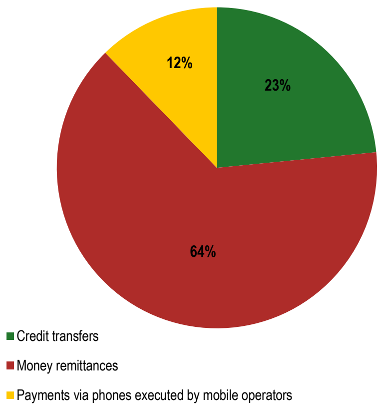
Chart 2. Changes in the number of bank client service offices, ATMs and POS-terminals



Source: Bank of Lithuania calculations.

Note: the number of branches in 2012 does not include the branches of AB Ūkio bankas.

Chart 3. Distribution of payment services provided by payment institutions in 2015



Source: Bank of Lithuania calculations.

This section presents the main groups of PSPs operating in Lithuania, their business models and challenges that they face. The most important market participants remain to be banks. So far, they basically have no competitors in the electronic transaction market. Payment institutions, mainly collecting cash-based over-the-counter payments, will have to diversify activities due to the contraction of such payments market. So far, electronic money institutions are only niche market participants.

BANKS

The major participant in the Lithuanian payments market is the banking sector. At the end of 2015, 6 commercial banks and 2 foreign bank branches operated in Lithuania; they offered their customers a variety of payment services: cash transactions, credit transfers, the e-invoice payments, which replaced a legacy direct debit, the *Bank link* service, utilities payments, standing orders, and payment cards, allowing to pay at points of sale and via the Internet. Banks also maintained the ATM network, allowing customers to withdraw cash from their accounts and deposit it, as well as check account balances. Banks control the largest share of the Lithuanian payments market and, overall, are the sole providers of some services (see Table 1). Other PSPs compete with Lithuanian banks only in collecting utilities payments and carrying out credit transfers.

Lithuanian banks focused on internet banking, major banks put in an effort to reduce the provision of payment services at their branches. Banks were reducing the number of client service offices, increasing the price of services provided at their branches, especially those related to cash, and hence gave priority to electronically-initiated payment transactions. Over the last three years, the number of bank branches decreased by 13 per cent (see Chart 2).[13] There were also fewer ATMs — their number decreased by 8 per cent; however, there were additional possibilities for customers to withdraw cash from their accounts or deposit it using the services provided by intermediaries.

PAYMENT INSTITUTIONS

Usually payment institutions provide only one or several payment services; however, they take up a significant part in the market of cash-based over-the-counter payments. The prevailing service provided by payment institutions is the collection of cash-based over-the-counter payments from residents for utility and other regular services, seen as money remittance from a legal perspective. Nonetheless, several payment institutions specialise in providing electronic payment services. In total, 40 payment institutions had the right to provide payment services in Lithuania at the end of 2015. 27 of them had licences, granting them the right to provide services in the Republic of Lithuania and other EU Member States, other payment institutions could provide services only in the Republic of Lithuania. At the end of 2015, 32 payment institutions had licences, granting the right to provide only one service — money remittance. Money remittance transactions accounted for 64 per cent of all payments carried out by payment institutions in 2015 (see Chart 3). There are three mobile operators[14] among institutions holding licences of payment institutions that offered their customers a possibility to carry out payments via phone (e.g. pay parking fee). In 2015, these payments accounted for 12 per cent of payment transactions executed by payment institutions. Another

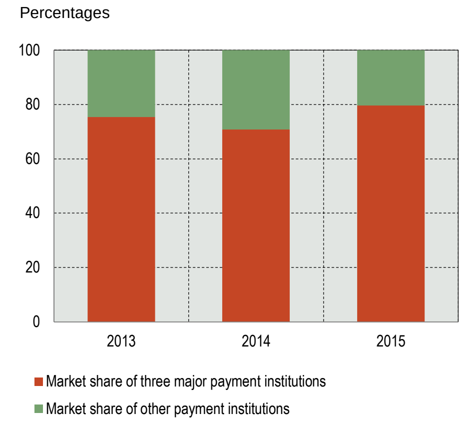
[13] Excluding *AB Ūkio bankas* branches, closed after its bankruptcy.

[14] One of them — *UAB TELE2* — obtained an electronic money institution licence for restricted activity at the end of 2016.

5 payment institutions had the right to offer customers more than one payment service — credit transfers, money remittances, etc.

Even though payment institutions encompass many different institutions, the market is concentrated. In 2015, by the number of transactions executed, three major payment institutions (*AB Lietuvos paštas, UAB Perlo paslaugos,* and *UAB Sollo*) accounted for 80 per cent of the entire payment institution market (see Chart 4), and this is a year-on-year increase of 9 p.p. Payment institutions stand out in terms of a vast customer service network — at the end of 2015, it encompassed 3,920 client service offices. The use of service points not dedicated to the provision of payment services helped in developing the network, i.e. provision of payment services via shop counters, kiosks, and post offices. In the surveys, convenience of the network was indicated by residents as being the main feature of payment institutions.

Chart 4. Payment institution market concentration

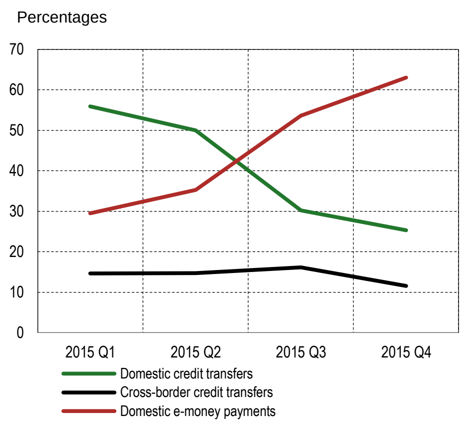


Source: Bank of Lithuania calculations.

ELECTRONIC MONEY INSTITUTIONS

2015 was exceptional in terms of the number of electronic money institution licences issued. In December 2015, 6 electronic money institutions operated in Lithuania, 4 of which started their activities less than a year ago. This increase is partly related to the transition of active payment institutions to an electronic money institution sector, which offered more opportunities. Electronic money institutions, as the name suggests, focus on the issue and redemption of electronic money as well as payment transactions, covered by electronic money. The main difference between electronic money and funds held with banks is that electronic money are not considered to be a deposit and thus deposit insurance does not cover it. Protection of electronic money holders is ensured by the separation of own funds of electronic money institutions and customer funds.

Chart 5. Distribution of payments executed by electronic money institutions by payment services in 2015



Source: Bank of Lithuania calculations.

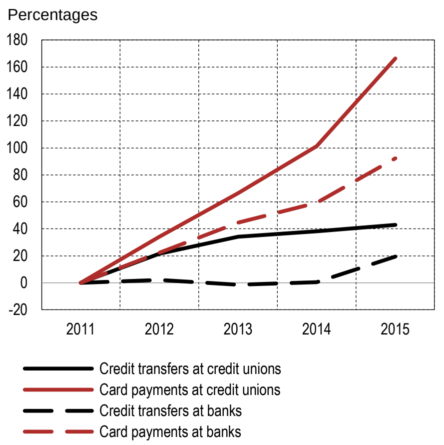
In competing with other PSPs, electronic money institutions tend to direct their activities more towards various payments market niches and innovations. Besides electronic money transactions, electronic money institutions have the right to provide all usual payment services: issue payment cards, execute credit transfers or direct debits. Due to the possibility to provide various payment services without developing client service offices, activities of electronic money institutions are similar to those of banks operating only via the Internet. In Lithuania, electronic money institutions compete with banks mainly in a chosen narrow field, for example, when providing cross-border transfers and urgent interbank transfers or executing e-commerce payments. Usually they adapt to new possibilities quicker than the incumbents of the market and are less cautious when trying payment innovations. For example, one electronic money institution cooperates with a crowdfunding platform, while another provides services to schools.

Most often, national payment transactions were carried out at electronic money institutions, the share of on-us transactions continued to increase. In 2015, payments in electronic money within an institution or to another electronic money institution accounted for approximately 48 per cent of all transactions executed by electronic money institutions. Domestic credit transfers intended for PSPs not accepting electronic money accounted for 38 per cent of transactions, cross-border transactions — 14 per cent (see Chart 5). In 2015, electronic money payments intensively replaced credit transfers of electronic money institutions to other PSPs, the share of these payments in the first quarter of 2015 accounted for 30 per cent, in the fourth quarter — already 63 per cent.

Electronic money institutions mainly compete with banks, however, so far not many Lithuanian residents use their services. The Survey of the Payment Habits of Lithuanian Residents, conducted in 2015, showed that approximately 5 per cent of respondents who are older than 18 use services provided by electronic money institutions. When asked to indicate features characteristic of these institutions, the surveyed most often indicated fees lower than those of other PSPs.

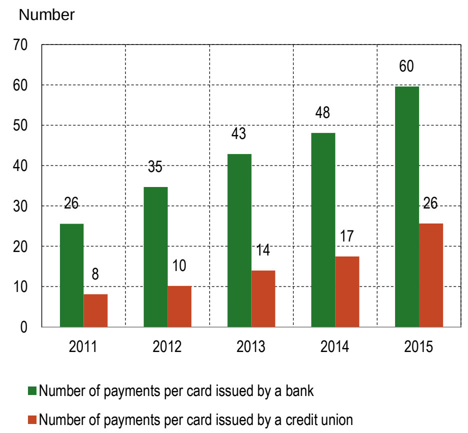
Most electronic money institutions operating in the country face problems characteristic to new market participants, i.e. challenges in assuring the critical mass of customers and establishing competitive payment interfaces with the banking system. SEPA-MMS, a new payment system created by the Bank of Lithuania, ensuring technical access for both banks and other PSPs, thus providing equal operating conditions, should help solving these problems. However,

Chart 6. Change in payment transactions carried out by credit unions and banks, compared to 2011



Source: Bank of Lithuania calculations.

Chart 7. Number of payments of customers of credit unions and banks per payment card issued



Source: Bank of Lithuania calculations.

the importance of electronic money institutions in the Lithuanian market would increase, if they cooperate more and standardise solutions when solving mutual problems.

CREDIT UNIONS

Credit unions have a possibility to compete with other PSPs in terms of payment services; however, so far they provide services only to a small share of residents in the country. At the end of 2015, 74 credit unions had licenses for their activities issued by the Bank of Lithuania and united 157.5 thousand members. According to data of the Association of Lithuanian Banks, the banking sector had 3,603.6 thousand active customers at the end of the third quarter of 2015[15], 95 per cent of which were natural persons. The Lithuanian Central Credit Union (LCCU) includes 62 members, 12 credit unions are operating independently. Like banks, credit unions offer their customers credit transfers, issue payment cards (only members of the LCCU); however, it does not provide the e-invoice payment service or money remittances. They did not offer direct debit as well. Due to peculiarities of the sector, credit unions are operating in smaller territories than those covered by other PSPs.

Credit unions operating through the LCCU took full advantage of the cooperation. Operating through single shared platforms, credit unions were able to offer payment services that were equal to those provided by banks. Even though these market participants have fewer customers than the major payment institutions or electronic money institutions, they surpass the latter in issuing international scheme payment cards or offering the multifunctional internet banking service.

The number of payments made at credit unions is growing faster than that of payments carried out in the banking sector; however, their customers are still lagging behind in terms of intensity of payment transaction initiation. The number of credit transfers at credit unions in 2011–2015 increased by 43 per cent (see Chart 6), and in 2015 customers executed 1.5 times more payments using payment cards issued by credit unions than in 2011. Even though the number of payments is growing faster than in banks, credit transfers made at credit unions amounted to only 0.8 per cent of credit transfers made at banks in 2015 (compared to 2011, more by 0.14 p.p.), while card payments — only 0.2 per cent of such payments done by bank customers (compared to 2011, more by 0.05 p.p.). In addition, as seen from Chart 7, the annual number of payments using payment cards issued by banks (60), in average, is more than twice higher than that of payments using payment cards issued by credit unions (26).

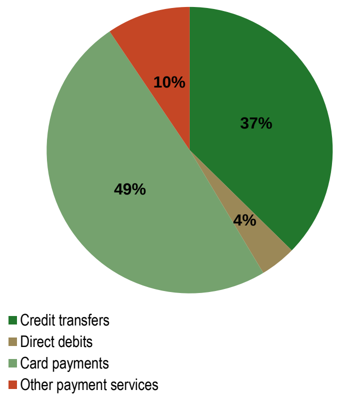
[15] A single natural or legal person can be a customer of several banks.

3. PAYMENT SERVICES

This section reviews the main payment services provided in Lithuania, their usage levels[16] and emerging trends as well as draws a comparison with other countries. In 2015, significant changes in provision of credit transfer and direct debit services occurred due to the implementation of the SEPA project. As of 2016, the latter service has been replaced by the e-invoice payment service. The major changes in payment card transactions are related to the preparation for more secure internet payments: during the preparation, the usual static passwords were supplemented by dynamic codes. More changes related to payment cards should occur in 2016, when the provisions of the EU Regulation (2015/751)[17] will be fully implemented.

In 2015, 421.5 million payment transactions were initiated in Lithuania through PSPs, 95 per cent of which were domestic, i.e. executed between the payer and the payee, whose PSP operates in Lithuania (see Table 2). Approximately half of payment transactions were executed using payment cards; 4 out of 10 were credit transfers. Every tenth transaction (money remittances) was initiated through payment institutions. The value of domestic transactions amounted to 83 per cent of the total value of transactions. Due to payment peculiarities that determine large-value transactions (e.g. settlements between enterprises), credit transfers were dominant in terms of the value of payments — they accounted for 97 per cent of the value of all transactions. However, according to absolute numbers, a significant portion of funds was also transferred using payment cards (EUR 4 billion).

Chart 8. Structure of non-cash payments in Lithuania by number of transactions in 2015



Source: Bank of Lithuania calculations.

Note: electronic money transactions are not shown separately due to data confidentiality requirements; the share of these transactions, compared to the overall number of non-cash payments, is not significant.

Table 2. Non-cash payments in Lithuania in 2005

Payment services	Volume of transactions (number in millions)	Value of transactions (EUR millions)
Non-cash payments	421.5	215,199
Credit transfers	157.4	208,703
Money remittances	39.8	1,781
Direct debits	17.1	713
Card payments	207.2	4,002

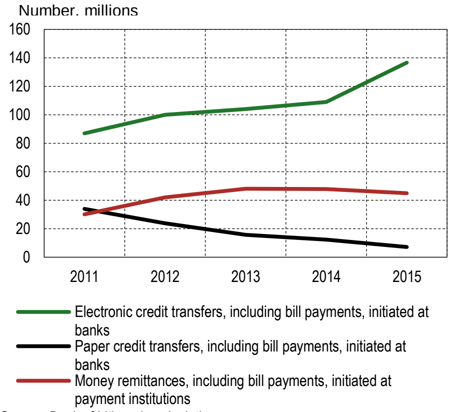
Source: Bank of Lithuania calculations.

CREDIT TRANSFERS

A credit transfer is one of the most significant payment services in Lithuania, used by various types of customers (natural persons, enterprises and the public sector). According to data for 2015, credit transfers accounted for 37 per cent of all non-cash payments in Lithuania (see Chart 8). They are prevalent when enterprises make payments among themselves and employers pay salaries to their employees. Public sector institutions use credit transfers when transferring funds (pensions, sickness benefits, social benefits) to residents' accounts with credit institutions and collecting taxes. Natural persons use credit transfers when paying for utilities and other services bills, goods and services bought online, as well as for person to person payments.

In recent years, the number of electronic credit transfers in Lithuania increased (see Chart 9); however, the number of over-the-counter transactions decreased and a large portion of this flow was taken over by payment institutions. Seeking comparability with other EU countries[18], credit transfers and money remittances are included in the same category. Hence in 2014 there were 60 of such payment transactions per capita in Lithuania. According to this indicator, Lithuania is slightly ahead of the EU average, however it lags behind other Nordic-Baltic countries (see Chart 10).[19]

Chart 9. Number of credit transfers and remittances in 2011–2015



Source: Bank of Lithuania calculations.

Note: due to the latest statistical reporting that came into effect in 2015, some data series are not entirely comparable with historical data.

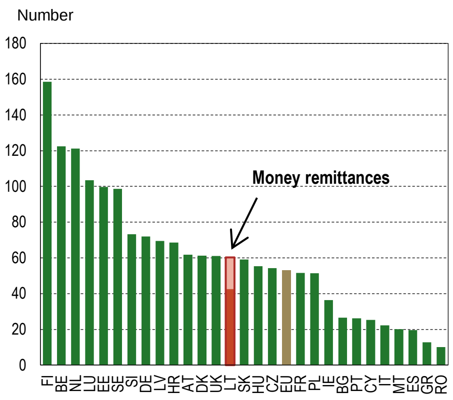
[16] New statistical reporting requirements came into effect in 2015, thus some data series are not entirely comparable with historical data, even though greater data comparability was sought.

[17] Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (OJ 2015 L 123, p. 1).

[18] Only data for 2014 was available during the preparation of the Review.

[19] There is no data on what share of transactions do money remittances account for in other countries.

Chart 10. Number of credit transfers per capita in 2014



Source: ECB.

The credit transfer market has an opportunity to expand into areas of utilities payments, e-commerce and instant payments (at points of sale and person-to-person). Approximately a third of utilities payments are paid via online credit transfers, the other part — in cash at payment institutions or client service offices of credit institutions. In Lithuania, payment service users still do not have a possibility to use interbank instant payments, which would be an alternative to cash payments. Some PSPs offer urgent credit transfers using apps, however, such a service can be used only by customers of the same PSP. Currently *SCTinst*, an instant credit transfer scheme, is being prepared by the European Payments Council; it should be introduced at the end of 2017. It is expected that it will encourage Lithuanian PSPs to offer interbank instant payments which, over time, may become an alternative to payment cards.

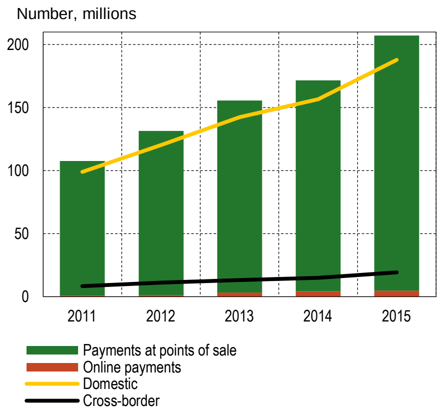
Box 7. Next-generation Bank of Lithuania payment system

In December 2015, the retail payment system SEPA-MMS, created by the Bank of Lithuania and complying with SEPA requirements, was launched. System participants are able to send and receive SEPA credit transfers and SEPA direct debits. Payments between system participants are executed instantly, this leads to faster customer payments of PSPs which use the system. The new system is linked to the European clearing houses network, hence its participants can reach all PSPs operating in the SEPA area.

The Bank of Lithuania ensures that not only banks, but also credit unions, payment and electronic money institutions operating in Lithuania or other countries could use the services of SEPA-MMS. Until now, payment and electronic money institutions operating in Lithuania did not have access to the payment systems and were forced to use bank services. The SEPA-MMS system uses the indirect participation method, which allows these PSPs to avoid dependence on banks and offer more diverse and higher-quality services to their customers.

Nonetheless, the majority of banks operating in Lithuania[20] execute payment transactions through STEP2, which belongs to EBA Clearing, and not SEPA-MMS. Such a decision has an impact on bank customers, as STEP2 does not process payment transactions instantly, clearings are performed five times per day. This leads to the fact that, in 2016, credit transfers in Lithuania were executed slower than they were until then.

Chart 11. Card payments in 2011–2015



Source: Bank of Lithuania calculations.

CARD PAYMENTS

Payment cards — the only fully-fledged alternative to cash when paying at points of sale. Payment cards of three card schemes are issued in Lithuania, namely VISA, MasterCard and American Express. When executing card payments, debit card payments prevail, while credit cards are more often used for higher-value payment transactions. Card payments is the most often used payment service in Lithuania: in 2015, the number of card payments amounted to 49 per cent of all non-cash payments. Cards can also be used for online payments — usually, when buying goods or services at e-shops. However, this type of payment is more often offered by foreign e-shops. The number of transactions shows that in 2015, for the first time, debit cards were used more often for internet payments than credit cards and their special subtype — virtual cards — that prevailed in the past. At physical points of sale, more than 90 per cent of transactions were paid using debit cards (see Charts 11 and 12).

20 *Swedbank, AB, AB SEB bankas, AB DNB bankas, Danske Bank A/S* Lithuania branch, *Nordea Bank AB* Lithuania branch, *Pohjola Bank plc* Lithuania branch, *Svenska Handelsbanken AB* Lithuania branch, *AS Meridian Trade Bank* Lithuania branch.

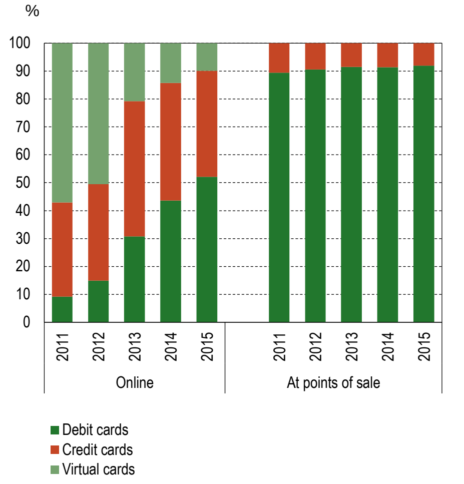
In Lithuania, the payment card market is concentrated, especially the part that relates to card acquiring services. Almost all banks and the majority of credit unions active in the payments market issue payment cards; however, by the number of payment cards issued, three major card issuers accounted for 91 per cent of the market, by the number of payments with cards issued by them — 93 per cent. Concentration is even greater when providing the card acquiring service for merchants — three major banks had 96 per cent of all card acquiring market by the value of card payments at POS-terminals.

The number of card payments increased in recent years; however, Lithuania is well below the EU average. The number of payment cards issued in Lithuania is above the number of residents (at the end of 2015 there were 1.2 payment cards per capita). According to data of the Survey of the Payment Habits of Lithuanian Residents, conducted in 2015, 92 per cent of the respondents having an account in a credit institution had at least one type of payment card. However, compared to other EU countries, card payments are rarely used in Lithuania — the number of payments per capita in the EU is almost 60 per cent greater, whereas numbers of some EU countries are 3–4 times greater (see Chart 14) than in Lithuania.

Even though banks view payment cards as the main substitute for cash transactions, there are still doubts over the long-term perspectives of usage of payment cards — instant credit transfers may become a viable alternative to them. In recent years, Lithuania lagged significantly behind other Baltic-Nordic countries in terms of the intensity of payment card usage; the lagging behind in absolute terms increased as well. The payment card infrastructure and its elements (processing of transactions, card scheme charges, certification of devices, and data security audit) remain rather expensive in comparison with other payment services, whereas the market — especially concentrated. This leads to major barriers to entering the market that reduce the competitive pressures for market leaders, hence the functional potential of payment cards remains unexploited. Currently in Europe a lot of attention is devoted to technologically-advanced instant credit transfers; they are considered to be an entirely likely alternative to payment cards.

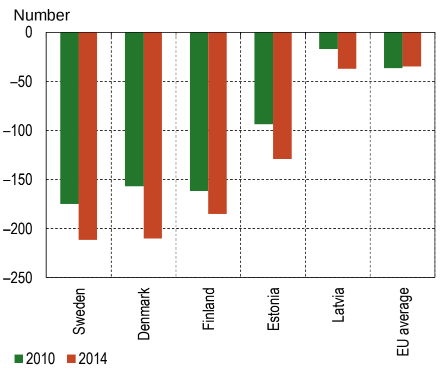
Contactless payment solutions, more active card usage in e-commerce and the development of the POS-terminal network could give impetus to the growth of the card payments market. Contactless cards would allow quicker payments at points of sale and encourage residents to use cards instead of cash more often, especially when making low-value payments. So far, however, Lithuanian PSPs do not offer any contactless payment solutions. Online payments using a payment card are also not encouraged. Often Lithuanian e-shops do not offer a possibility to pay with a card, instead other means of payment are offered — payment using the *Bank link* service, payment through intermediaries, or in cash, when the goods are delivered. Another reason behind such passive card usage is the insufficient expansion of POS-terminal network. Often merchants hold back from accepting card payments due to expenses related to this service — bank charges for acquiring card payments, expenses related to acquisition or rent of POS-terminals. Nonetheless, clearly-evident trends in the decrease in charges for merchants are a result of the EU Regulation on interchange fees for card-based payment transactions (see Box 5). POS-terminal solutions that are inexpensive and attractive to small merchants are already present in the EU (e.g. mobile add-ons, which make it possible to accept a card payment using a mobile phone). The appearance of such solutions in Lithuania would promote the growth of the payment card market.

Chart 12. Structure of card payments by place of settlement, 2011–2015



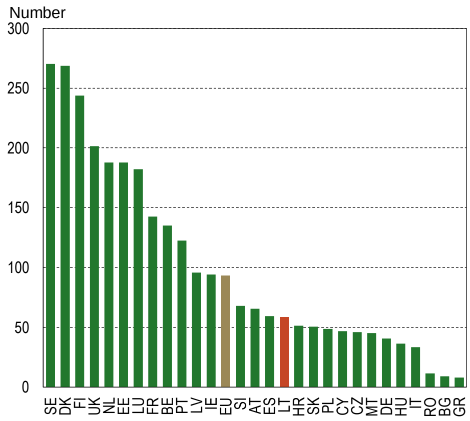
Source: Bank of Lithuania calculations.

Chart 13. Gap between Lithuania and selected countries by card payments per capita



Source: ECB and Bank of Lithuania calculations.

Chart 14. Number of card payments per capita in 2014



Source: ECB.

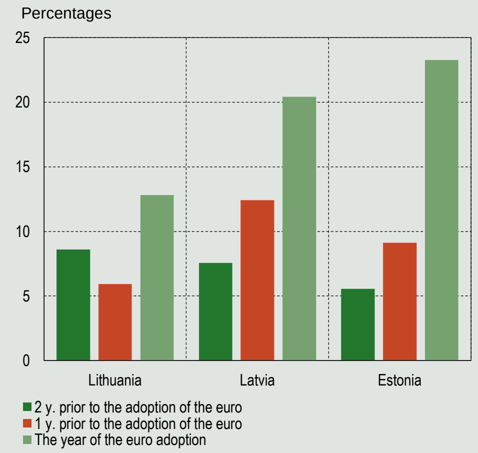
Box 8. Impact of euro on payment habits

In order to exchange litas into euro more smoothly, many residents had deposited litas into their accounts with credit institutions in advance, and thus decreased the usual amount of cash withdrawn from ATMs. Over the year prior to Lithuania's accession to the euro area, the amount of litas banknotes and coins in circulation decreased by half. It is likely that not only funds devoted to saving but also those that supposed to be used for daily payments were deposited into accounts, which encouraged card payments. Immediately after the adoption of the euro, card payments became a payment alternative posing the least trouble. As a result, discussions began as to how the adoption of the euro could change residents' payment habits and encourage card payments.

In fact in 2015, compared to the previous years, the number of card payments grew by 21, while their value rose by 28 per cent. In absolute terms, this is the largest increase in card payments over the entire period of the use of cards in Lithuania. In Estonia and Latvia, which adopted euro in 2011 and 2014 respectively, a significant increase in the number of card payments was also recorded during the first years after the euro adoption — 26 per cent in Latvia and 18 per cent in Estonia (see Charts A and B). However, the number of card payments per capita is the smallest in Lithuania. A year prior to the adoption of the euro in Estonia (in 2010), there were 126 card payments per capita, in Latvia (in 2013) — 75, in Lithuania (in 2014) — 59. In the year of the euro adoption, these indicators increased respectively: in Lithuania — by 13 payments, in Latvia — 20, in Estonia — 23. Hence, in Lithuania, the adoption of the euro had a less significant impact on the absolute intensity of payment card usage than in other Baltic countries.

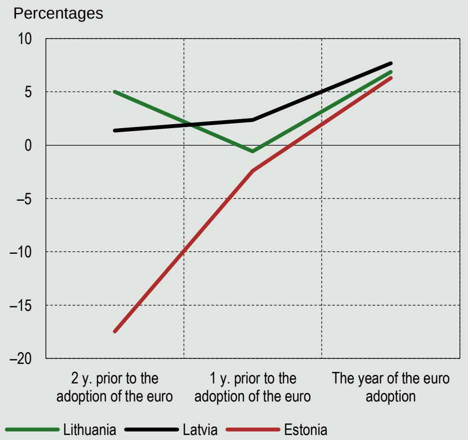
In all Baltic States AMTs were used more intensively in the year of the euro adoption than in the year prior to the adoption of the euro. However, one cannot determine how much of an impact did the recovery of savings held in cash and the possibility of a simpler currency exchange via ATMs have, and how much — the return to old cash usage habits.

Chart A. Change in the number of card payments per capita over the year



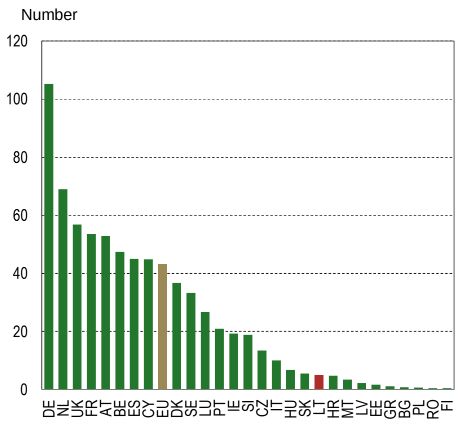
Source: Bank of Lithuania calculations.

Chart B Change in transaction value at ATMs, year on year



Source: Bank of Lithuania calculations.

Chart 15. Number of direct debit transactions per capita in 2014



Source: ECB.

DIRECT DEBIT

Direct debit is a service when the payment is initiated by the recipient of funds that has the consent of the payer. The direct debit service is attractive for enterprises that receive regular resident payments for services provided, as it allows for rather accurate projections of the flow of funds received and diminishes the possibility of incorrect payments. Residents will find this service convenient as they will not have to take care of payments themselves once permission for debiting of funds is given, hence the risk of late payments is avoided.

However, the direct debit service did not become popular in Lithuania. In 2015, direct debit transactions amounted to only 4 per cent of all non-cash payment transactions. Nevertheless, some enterprises (leasing, utility, insurance service) found this service to be significant — up to a third of all payments amount could have been collected using this service. Unlike in Lithuania, the direct debit service is rather popular in other EU countries (see Chart 15). In 2014, there were less than 5 direct debit transactions per capita in Lithuania, while the EU average was 43 transactions.

The direct debit service in Lithuania did not comply with SEPA requirements, whereas banks operating in the country decided not to provide the SEPA direct debit service, which would comply with the requirements, for payees. The SEPA direct debit service has substantial differences from the debit service provided in Lithuania. For example, the responsibility of collecting, managing and saving the SEPA direct debit mandates is borne by payees. In addition, an opportunity is foreseen for the payer to get back the funds paid within 8 weeks from the date of debiting of funds, and the payer does not have to provide any justifications for that. The SEPA Regulation binds PSPs to ensure a possibility for the payers to set a number of parameters related to the debiting of funds themselves, e.g. a certain limit on the amount of a direct debit transaction or its periodicity, or both, as well as the 'white' and 'black' lists of payees (enterprises that are allowed or prohibited to debit funds by using the direct debit service). Even though Lithuanian PSPs are not planning to offer the SEPA direct debit initiation service to payees, several major banks committed to ensuring that payers could pay SEPA direct debit orders received from abroad. Lithuanian enterprises wishing to use the SEPA direct debit service to collect funds have such a possibility; however, they have to choose a PSP from another EU country. The SEPA direct debit service allows collecting funds from payers in any SEPA area country using only one payment account.

Box 9. The e-invoice payment service replaces direct debit

As at 1 January 2016, PSPs offer domestic enterprises an alternative to the direct debit service in terms of funds collection — the new e-invoice payment service. This is an e-invoice, which is created, sent, registered and stored in the digital space. Having agreed with PSPs, payees (usually enterprises) may submit e-invoices to their customers and business partners via internet banking, while they in turn will be able to pay the e-invoices with one click of a button or select an automatic payment. The e-invoice payment service allows enterprises to partially change the direct debit service used until the end of 2015, while payers can receive and pay invoices using their internet banking.

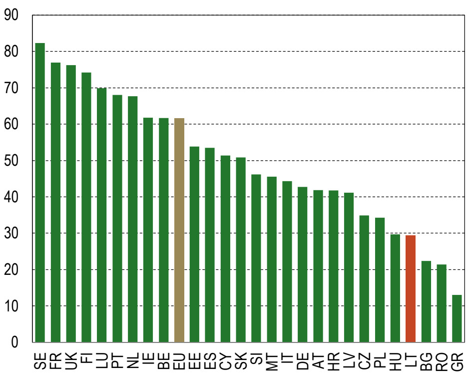
Payers can choose an e-invoice payment method, i.e. decide whether to pay e-invoices each time by themselves, or choose an automatic payment using SEPA credit transfers. If an automatic payment is chosen, its terms might be adjusted (e.g. the limit on the monthly amount). A partial e-invoice payment is also an option; the payer can learn about the data and amount of the e-invoice payment in advance; if there are any inaccuracies in the e-invoice, it can refuse an e-invoice payment without breaching the automatic e-invoice payment agreement.

Payees may choose to present e-invoices to payers using one or several payment service providers, since banks offering this service use the same data transmission standard. The e-invoice payment service allows enterprises to present e-invoices to customers of all Lithuanian PSPs using services of only one PSP, i.e. the one stop shop principle is technically ensured. In order to exploit maximum benefits, not only technical possibility to access customers of other PSPs, but also fees applied by PSPs (both for enterprises for the provision of e-invoices, and for payers for the payment of e-invoices) are important; these fees should not encourage enterprises to make several contracts instead of only one. However, there is a trend that banks, using pricing (e.g. the fee for crediting of funds from other PSPs or the e-invoice dissemination fee), try to artificially maintain surplus relations with enterprises. In order to change this practice, the Bank of Lithuania will put forward legal proposals.

CASH PAYMENTS

Cash is one of the most often used retail payment instruments by Lithuanian residents. According to data of the Survey of the Payment Habits of Lithuanian Residents, conducted on behalf of the Bank of Lithuania in 2015, in the day prior, 46 per cent of residents used only cash, 20 per cent — cash and payment cards, 10 per cent — only payment cards, others did not make any payment transactions or did not answer the question. Persons who used cash made, on average, 1.8 cash payment transactions and spent EUR 22.9 per day. The average value of one cash payment was EUR 12.5. Residents that had a payment card prioritised cash when paying in smaller amounts. According to the data of the survey, in paying the amount up to EUR 3, 80 per cent of residents that have a payment card would give priority to cash, in paying the amount to EUR 3–15 — 65 per cent. When paying in larger amounts, residents were more prone to using payment cards — 39 per cent of residents give priority to cash when paying EUR 15–60, while paying for goods whose price is higher than EUR 60, only every fourth resident would pay in cash.

Chart 16. Share of the use of payment card funds for settlements in 2014



Source: ECB and Bank of Lithuania calculations.

There are signs that cash is used to a lesser extent in Lithuania, yet more than in other EU countries. One of the indicators for the distribution of cash is the index, indicating what part of funds spent using payment cards is used for payments at points of sale or via the Internet (the other part is withdrawn from ATMs). This index in Lithuania increased gradually from 22 per cent (in 2011) to 33 per cent (in 2015); however, it is still one of the lowest ones among EU countries. In 2014, the EU average reached 62 per cent and exceeded that of Lithuania by more than two times; indicators of only three EU countries were lower than the indicator of Lithuania (see Chart 16).

4. PAYMENT SERVICE FEES

On its website, the Bank of Lithuania constantly informs the public about the changes in payment service fees in the country and regularly publishes reviews on fees. In order to provide better conditions for the public to more conveniently observe the standard payment service fees applied to natural persons by domestic bank and foreign bank branches, credit unions, and payment and electronic money institutions, the Bank of Lithuania began publishing them on its website (http://www.lb.lt/payment_services_fees) in October 2011. In January 2013, it also provided a possibility to monitor the history of the changes in payment service fees (since October 2011). In 2012–2013, two issues of *Review of Payment Service Fees* were published on the website of the Bank of Lithuania. Starting with 2014, information on payment service fees and their developments have been included in this publication. In analysing the payment service fees, the data on standard fees for payment services, most often used by consumers, which was collected by the Bank of Lithuania under an agreement with 10 banks and foreign bank branches (hereinafter — banks)[21], 7 payment institutions[22], 2 electronic money institutions[23] and credit unions that are members of the LCCU, has been used.[24] The market share of PSPs was not taken into account when calculating the average fees. Payment service fees as at 1 January 2016 and 1 January 2015 are compared in the Review.

CHANGES IN PAYMENT SERVICE FEES APPLIED BY BANKS

In 2015, an account opening fee was first introduced to residents, average fees for account handling and issuing of debit cards increased. *Danske Bank A/S* Lithuania branch began to charge an account opening fee for new customers; this is linked to the decision of this bank to focus on the servicing of legal persons. The account opening and closing fee remained unchanged in other banks operating in Lithuania — they provide this service free of charge. Furthermore, two banks (*Nordea Bank Finland Plc* Lithuania branch and *Svenska Handelsbanken AB* Lithuania branch) did not charge a fee for the handling of an account that is not linked to the payment card.[25] *AB DNB bankas* does not charge a fee for handling an account, if the amount of transactions carried out over the respective month exceeds EUR 202.73. In 2015, *UAB Medicinos bankas* began to charge an account handling fee — EUR 2.4 per year. *AB DNB bankas* and *Nordea Bank Finland Plc* Lithuania branch increased somewhat the annual debit card maintenance fee (from EUR 6.12 to EUR 6.60, and from EUR 5.16 to EUR 5.88 respectively), while *AB SEB bankas* reduced it by almost one euro (from EUR 5.79 to EUR 4.80). A debit card issuing fee was charged by *AB DNB bankas* (in 2015, the fee was increased from EUR 1.45 to EUR 1.50), *AB Šiaulių bankas* (it decreased the fee from EUR 4.34 to EUR 0.45) and *AB SEB bankas* (it started to charge a EUR 5 fee).

In 2015 banks continued to increase fees on over-the-counter credit transfers in euro, which lead to a gap between fees for over-the-counter transfers and online transfers. In 2014, 6 out of 11 banks increased their fees on over-the-counter transfers to other PSPs; part of them also increased fees on such transfers within a bank. In 2015, less banks increased fees on over-the-counter transfers: *Nordea Bank Finland Plc* Lithuania branch increased fees for transferring funds to another customer's account with the same bank as well as for transferring funds to other PSPs (from EUR 1.45 to EUR 2), while *AB Šiaulių bankas* increased the fee for transfers to another PSP from EUR 1.01 to EUR 1.70. Only two banks changed the fees for online credit transfers: *AB DNB bankas* decreased the fee for transfers to other PSPs (from EUR 0.41 to EUR 0.35), whereas, as at 1 January 2016, *UAB Medicinos bankas* began to charge a EUR 0.2 fee for transfers to another customer's account with the same bank. As at 1 January 2016, the fees for over-the-counter credit transfers to another customer's account within the same bank were, on average, 5.3 times higher than those for online transfers, while fees for over-the-counter credit transfers to other PSPs — almost 4 times higher. Similarly to the previous years, in 2015, all banks credited funds to a customer's account free of charge, given that the payer's account was with the same bank, whereas the fee for crediting of funds to a customer's account, applied when initiating a payment from an account opened in another PSP, varied from EUR 0.23 to EUR 0.41. After the reorganisation of *AB bankas Finasta,* which provided this service free of charge, the average of the fee for crediting of funds increased somewhat.

In 2015, fees for utility and other bill payments applied by banks increased slightly — fees for both utility and other bill payments in cash and online were raised. Fees for utility and other bill payments in cash increased in branches of two banks: *AB DNB bankas* (from EUR 2.90 to EUR 3) and *UAB Medicinos bankas* (the fee for different bill payments varied from EUR 0.23 to EUR 1.15, while previously the fee for such payments was EUR 0.23–0.87). As a result,

[21] *AB Citadele bankas, AB DNB bankas, UAB Medicinos bankas, AB SEB bankas, AB Šiaulių bankas, Swedbank, AB, Danske Bank A/S* Lithuania branch, *Nordea Bank Finland Plc* Lithuania branch, *AS Meridian Trade Bank* Lithuania branch and *Svenska Handelsbanken AB* Lithuania branch. When calculating average fees, observed as at 1 January 2015, fees of *AB bankas Finasta* were also included.

[22] *UAB Kauno spauda, AB Lietuvos paštas, UAB Mokėjimo terminalų sistemos (Foxbox), UAB Perlo paslaugos, UAB Sollo (Maxima), UAB Viena sąskaita, UAB Virtualių paslaugų operatorius (Lietuvos spaudos Vilniaus agentūra).*

[23] *UAB EVP International* and *UAB Mistertango*. The latter one began to provide information in 2015.

[24] This data is published on the Bank of Lithuania website.

[25] Usually no commission fee is charged for an account which is linked to a payment card — only a card maintaining fee is to be paid.

the average fee for over-the-counter utility and other bill payments in cash increased from EUR 1.75 to EUR 1.79. Several banks allow executing utility and other bill payments in branches from an existing payment account. *AB Citadele bankas* halved the fee for this service — to EUR 0.87, while *AB DNB bankas* increased it from EUR 2.03 to EUR 2.50. *UAB Medicinos bankas* applies the same fee for this service as it does for utility and other bill payments in cash, hence the fee increased to EUR 0.23–1.15. *UAB Medicinos bankas* increased the fee for online utility and other bill payments as well — in 2015, a EUR 0.10 fee was introduced (previously they were free of charge). *Nordea Bank Finland Plc* Lithuania branch increased the fee for such utility and other bill payments from EUR 0.14 to 0.23. Hence the average of fees for online utility and other bill payments increased from 18 to 20 cents over the year.

Table 3. Dynamics of fees in banks for most-used payment services from 1 January 2015 to 1 January 2016

(EUR)

Payment service	1 January 2015				1 January 2016				Change**
	lowest	highest	average*	median	lowest	highest	average*	median	
Opening of an account	0.00	0.00	0.00	0.00	0.00	5.00	0.50	0.00	
Closing of an account	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Annual account handling	0.00	3.48	2.06	3.48	0.00	3.48	2.50	3.48	
Debit card maintenance	2.90	8.40	5.53	5.79	2.90	8.40	5.55	5.79	
Over-the-counter credit transfers in euro within a bank to another customer's account	0.58	2.03	1.09	1.16	0.58	2.03	1.20	1.16	
Over-the-counter credit transfers in euro to other PSPs	0.72	2.03	1.34	1.30	0.72	2.03	1.49	1.58	
Online credit transfers in euro within a bank to another customer's account	0.00	0.29	0.22	0.23	0.00	0.29	0.23	0.23	
Online credit transfers in euro to other PSPs	0.23	0.43	0.39	0.41	0.23	0.43	0.38	0.41	
Online utility and other bill payments	0.00	0.29	0.18	0.19	0.10	0.29	0.20	0.23	
Over-the-counter utility and other bill payments in cash	0.55	2.90	1.75	2.32	0.69	3.00	1.79	2.32	
Administration of received credit transfers in euro from another PSPs	0.00	0.41	0.31	0.35	0.23	0.41	0.34	0.35	

Sources: data of PSPs and Bank of Lithuania calculations.

Markings: — fees applied by banks providing services remained unchanged, — fees applied by banks providing services increased, — fees applied banks providing services reduced.

*Notes: * — the market share of PSPs was not taken into account when calculating the average fee.*

*** — the change in payment service fees shows changes in average fees from 1 January 2015 to 1 January 2016, applied by institutions that provided services in 2015.*

In 2015, fees for cash withdrawals from a customer's account increased: two banks increased the price of over-the-counter cash withdrawals; the price of cash withdrawals using a debit card at own ATMs was increased by three and reduced by one bank. In providing the over-the-counter cash withdrawals, *AB Šiaulių bankas* and *Nordea Bank Finland Plc* Lithuania branch increased both the percentage of the amount withdrawn and the minimum commission fee in 2015. The fee charged by *AB Šiaulių bankas* increased from 0.6 per cent (at least EUR 0.87) to 0.7 per cent (at least EUR 0.93), by *Nordea Bank Finland Plc* Lithuania branch — from 0.7 per cent (at least EUR 1.45) to 0.8 per cent (at least EUR 2.50). Four banks changed the fee for cash withdrawals from own ATMs with a debit card. *AB Citadele bankas*, which previously allowed their customers to withdraw EUR 1,500 per month free of charge, introduced a EUR 0.25 fee for each transaction in 2015, while *AB DNB bankas* began to apply a percentage for an exceeded amount per month — currently a EUR 0.30 fee is applied when withdrawing up to EUR 500 per month, should this amount be exceeded — 0.3 per cent, at least EUR 0.30 (previously a EUR 0.29 fee was charged for each transaction). *AB Šiaulių bankas* decreased the monthly limit from EUR 870 to EUR 700, for which a fixed fee is charged, should the amount is not exceeded (currently the fee is EUR 0.29 for withdrawals up to EUR 700 per month and 0.4 per cent, at least EUR 0.29, should the amount be exceeded). *AB SEB bankas* set a monthly limit for free-of-charge withdrawals up to EUR 500; a fee of 0.4 percent for the amount exceeding the monthly limit is applied (previously a higher fee was applied — 0.4%, at least EUR 0.29, when withdrawing up to EUR 8,700 per month, and 0.8% of the exceeded amount). As before, *Swedbank, AB* allowed their customers to withdraw EUR 580 from their ATMs for free, *AS Meridian Trade Bank* Lithuania branch also began to provide this service — it allows its customers to withdraw up to EUR 1,450 free of charge.

In 2015, more banks applied fees for over-the-counter cash deposits to an account, yet more banks made it possible to deposit cash free of charge via ATMs. In 2015, *AB Šiaulių bankas* and *Nordea Bank Finland Plc* Lithuania branch began to charge a fee for over-the-counter cash deposits to an account — 0.05 per cent (at least EUR 0.60) and 0.05 per cent of the deposited amount (at least EUR 0.85) respectively. *AB DNB bankas* increased the fee for this service

— from 0.05 per cent (at least EUR 0.87) to 0.10 per cent of the withdrawn amount (at least EUR 1). As of 1 January 2016, branches of two banks — *UAB Medicinos bankas* and *AS Meridian Trade Bank* Lithuania branch — did not charge for cash deposits. Customers of these banks did not have an opportunity to deposit cash via ATMs free of charge. All banks, applying fees for over-the-counter cash deposits, offered alternative cash deposit services free of charge. *AB Citadele bankas* allows depositing cash at *UAB Perlo paslaugos* terminals free of charge, other banks provided the same possibility at the ATMs with cash depositing function, two banks (*AB Šiaulių bankas* and *Danske Bank A/S* Lithuania branch) began to offer this service in 2015.

CHANGES IN PAYMENT SERVICE FEES APPLIED BY CREDIT UNIONS

In 2015, fees for opening an account remained unchanged in credit unions[26], while fees for closing and handling an account, as well as debit card issuing and maintenance fees increase in several credit unions. Three credit unions applied an account opening fee in 2015, a fee for closing an account in 2015 — two, a fee for account handling — three credit unions. Other credit unions provided these services free of charge. As of 1 January 2016, compared to 1 January 2015, the average fee for debit card maintenance increased somewhat: from EUR 2.15 to EUR 2.26 per year — it was increased by 7 credit unions. Even though the price of debit card maintenance was lower in credit unions than in banks, the majority of credit unions applied fees for debit card issuing; only 3 banks applied it. In credit unions, the average fee for debit card issuing was EUR 2.48.

Table 4. Dynamics of fees in credit unions for most-used payment services from 1 January 2015 to 1 January 2016

(EUR)

Payment service	1 January 2015				1 January 2016				Change**
	lowest	highest	average*	median	lowest	highest	average*	median	
Opening of an account	0.00	2.90	0.07	0.00	0.00	2.90	0.08	0.00	●
Closing of an account	0.00	2.90	0.05	0.00	0.00	5.00	0.13	0.00	●
Annual account handling	0.00	3.48	0.10	0.00	0.00	3.60	0.16	0.00	●
Debit card maintenance	0.00	5.79	2.15	2.90	0.00	5.79	2.26	2.90	●
Over-the-counter credit transfers in euro within a credit union to another customer's account	0.00	0.58	0.16	0.00	0.00	1.00	0.19	0.00	●
Over-the-counter credit transfers in euro to other PSPs	0.00	1.16	0.51	0.58	0.00	1.16	0.57	0.58	●
Online credit transfers in euro within a credit union to another customer's account	0.00	0.58	0.04	0.00	0.00	0.58	0.05	0.00	●
Online credit transfers in euro to other PSPs	0.00	0.58	0.11	0.10	0.00	0.58	0.12	0.14	●
Online utility and other bill payments	0.00	0.23	0.03	0.00	0.00	0.23	0.04	0.00	●
Over-the-counter utility and other bill payments in cash	0.00	0.58	0.11	0.13	0.00	0.58	0.12	0.12	●
Credit transfers received from PSPs in euro	0.00	0.60	0.25	0.29	0.00	0.60	0.25	0.29	○

Sources: data of PSPs and Bank of Lithuania calculations.

Markings: ○ *— fees applied by credit unions providing services remained unchanged,* ● *— fees applied by credit unions providing services increased,* ● *— fees applied credit unions providing services reduced.*

*Notes: * — the market share of PSPs was not taken into account when calculating the average fee.*

*** — the change in payment service fees shows changes in average fees from 1 January 2015 to 1 January 2016, applied by institutions that provided services in 2015.*

As before, fees for over-the-counter and online credit transfers continued to increase in 2015, while the average fee for crediting of funds to the account remained unchanged. In 2015, five credit unions applied a fee for online credit transfers within an institution and one credit union increased its fees; fees for online credit transfers to another PSP increased in seven credit unions (in three credit unions, the fee was first applied in 2015), not a single credit union reduced this fee. Six credit unions increased the fees for over-the-counter credit transfers within an institution, while 13 credit unions increased fees for over-the-counter credit transfers to other PSPs.

Credit unions continued to offer lower fees for over-the-counter utility and other bill payments than banks, while almost two thirds of credit unions accepted these online payments free of charge. As of 1 January 2016, one could make utility and other bill payments free of charge at the branches of 20 credit unions, while 8 credit

[26] The average fee for debit card issuing increased somewhat, since information on fees applied by one credit union is no longer collected due to its withdrawal from the LCCU.

unions increased and 2 credit unions decreased the fee for over-the-counter utility and other bill payments in 2015. 43 credit unions did not charge a fee for online utility and other bill payments, whereas 7 credit unions increased the fees for online utility and other bill payments.

The majority of credit unions made it possible to withdraw a certain amount of cash free of charge, and all credit unions allowed depositing cash for free. In 2015, 49 credit unions allowed to withdraw a set amount of cash at a branch, 46 credit unions provided a possibility to withdraw a set amount from ATMs using a payment card. In 2015, all credit unions did not charge for over-the-counter cash deposits to one's own account; however five credit unions limited the amount of funds deposited free of charge and applied fees if the amount was exceeded.

CHANGES IN PAYMENT SERVICE FEES APPLIED BY ELECTRONIC MONEY AND PAYMENT INSTITUTIONS

In 2015, electronic money institutions opened, closed and handled accounts free of charge; they did not charge a fee for crediting of funds received from other PSPs to an account, while fees for online payments decreased. In 2015, electronic money institutions did not apply a fee for online transactions within institutions, one institution offered to carry out 30 transfers to another PSP per month free of charge, another one applied a 1 euro cent fee. One electronic money institution offers an online bill payment service free of charge. Another one offers not only online payment services but also provides services at its branch (accepts credit transfer orders, offers service of cash deposits to one's account and cash withdrawals). This institution also offers the possibility to carry out cash transactions through intermediaries of the institution.

Payment institutions accept utility and other bill payments in cash, the average fee for this service increased somewhat over the year. In 2015, two payment institutions increased the fees for utility and other bill payments in cash, and, as at 1 January 2016, the average fee amounted to EUR 0.44. One payment institution offers a possibility of aggregating several utility and other bill payments into one, which is paid in cash or via the Internet using another PSP, thus the fee applied by this payment institution is higher than fees applied by banks for utility and other bill payments via the Internet or fees for utility and other bill payments in cash applied by other payment institutions.

Table 5. Dynamics of fees in electronic money institutions and payment institutions for most-used payment services from 1 January 2015 to 1 January 2016

(EUR)

Payment service	1 January 2015				1 January 2016				Change**
	lowest	highest	average*	median	lowest	highest	average*	median	
Electronic money institutions									
Online credit transfers in euro to other PSPs	0.20	0.20	0.20	0.20	0.00	0.01	0.01	0.01	
Online utility and other bill payments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Payment institutions									
Over-the-counter utility and other bill payments in cash	0.16	1.01	0.43	0.30	0.19	1.01	0.44	0.30	
Online utility and other bill payments	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	

Sources: data of PSPs and Bank of Lithuania calculations.

Markings: — fees applied by electronic money (payment) institutions providing services remained unchanged, — fees applied by electronic money (payment) institutions providing services increased, — fees applied by electronic money (payment) institutions providing services reduced.

*Note: * — the market share of PSPs was not taken into account when calculating the average fee.*

*** — the change in payment service fees shows changes in average fees from 1 January 2015 to 1 January 2016, applied by institutions that provided services in 2015.*