LIETUVOS BANKAS
EUROSISTEMA

NATIONAL PAYMENTS STRATEGY

REVIEW OF PUBLIC CONSULTATION RESULTS

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Contents

Introduction

In June 2016, the Bank of Lithuania submitted draft National Payments Strategy for public consultation. The aim of the strategy is to address the lack of competition in the payments market, slow innovation implementation, insufficient involvement of payment service users, and the cash usage habit. Draft strategy proposes acting in three directions: 1) to develop an infrastructure allowing the extensive use of contactless and instant payments; 2) to increase the involvement and impact of users in decisions on the payment services available in the market; 3) to build users' trust in electronic payments and to form habits of their use. If this is implemented, the objective of the National Payments Strategy could be achieved, i.e. contactless and instant electronic payment methods, which are closely-integrated into business models and meet the needs of consumers and entities, are extensively used by Lithuanian residents by 2020.

The public consultation lasted until 30 September 2016. Its purpose was to find out the public opinion about the objective, directions, and measures of the National Payments Strategy, and to receive comments and suggestions. The Bank of Lithuania received written feedback from 18 different institutions and organisations and one natural person (see Table 1). Three respondents did not agree that their opinion would be made public. All other responses were published in the Bank of Lithuania website. The opinion of the natural person was depersonalised as provided by the Personal Data Protection Policy.[1]

Table 1. Participants of the public consultation

Category	Quantity
Electronic money institutions	5
Natural persons	1
Commercial banks	5
Representatives of payment cards sector	2
Associations of payment service providers	3
Legal services firm	1
Public sector bodies	2

Source: Bank of Lithuania.

In order to include as many respondents in the public consultation as possible, the Bank of Lithuania was actively communicating the objective, directions and measures of the National Payments Strategy:

1) Over 20 bilateral meetings with participants in the payments market, experts, infrastructure providers, and representatives of payment service users. The main purpose of such meetings was to answer the questions that arise and exchange views on the situation in the payments market, its future prospects, and emerging challenges.

2) On 25 August 2016, an informational meeting was organised to discuss instant payments. It was attended by representatives from almost 30 different institutions. During the meeting, instant payments initiatives in Lithuania and other countries were presented and the guests from Denmark (NETS A/S) spoke of the development of instant payments in Denmark.

3) On 15 September 2016, a public discussion was held on other matters addressed in the National Payments Strategy: establishment of the Payments Council and the importance of electronic payments in schools. The discussion was attended by payment service providers, representatives of small and medium enterprises, researchers, representatives of the education sector, and other persons interested in payment issues. The representatives of two schools (progymnasium and gymnasium) presented the electronic payments projects and discussed the challenges of introducing the payment solutions and their achievements.

This review consists of three sections. The first section summarises the respondents' opinion about the current situation in the payments market and the second section presents the comments about the objective and directions of the National Payments Strategy. The third section provides an overview on how the respondents assess the measures proposed by the Bank of Lithuania.

[1] Order No. V 2016/(1.7-260603)-02-108 of 27 June 2016 of the Chairman of the Board of the Bank of Lithuania "On approval of the description of processing of personal data obtained during public consultations".

Assessment of the current situation in the payments market

1. COMPETITION CONSTRAINTS

Market concentration

In draft National Payments Strategy, high level of payments market concentration was identified as the causal factor determining lower market competitiveness. The practice of service tying[2] existing in the market and the relatively low mobility of customers in changing payment service providers were also considered.

Association of Payment and Electronic Money Institutions (PEMI Association) agreed with the statement that the concentration has adversely affected competition in the payments market. Two electronic money institutions (EMI) which are not members of the PEMI Association also agreed with the statement. In their opinion, the concentration lead to lack of attention to innovation and product development, an increase in service prices, and other market participants failed to develop a considerable alternative to banking services. Two banks also agreed with the view that concentration has had negative impact of competition and linked it with more convenient and cheaper services available to the clients of the same bank. One bank did not agree with the opinion that market concentration was increasing. According to that bank, new payment service providers are being established in Lithuania, the services are also provided by foreign companies, and the banks occupy a smaller market share as utility payments collectors. In the opinion of the Association of Lithuanian Banks, in order to reduce the concentration and increase the competitiveness, the legal environment should be changed by reducing obstacles for new market participants to enter the market, simplifying business rules, and reducing the administrative burden. One EMI argued that competition would be increased by equal opportunities for participating in interbank infrastructure.

The banks rejected the argument of low client mobility. According to the banks, market conditions for changing the bank are favourable, because in most cases, there are no account opening or closing fees and the service of payment account switching as a means for increasing client mobility is not relevant in the Lithuanian market, in part due to the fact that there is no possibility to retain the same account number when switching the account information and that the results may be achieved faster, if the clients take care of the process themselves. One EMI also agreed that payment account switching service would not be a significant contribution to enhancing competition. According to the EMI, more useful means of increasing competition would be a simpler procedure for closing an account. However, PEMI Association had a different opinion. According to PEMI Association, an actually working account switching service, which would not require excessive formality and additional actions of the user, would undoubtedly increase the competition among payment service providers. This was confirmed by two EMIs which are not members of the PEMI Association.

One bank considers the tying of services to be a natural need of clients seeking to repay financial obligations arising from other financial products more comfortably and free of charge. However, credit unions see the tying of services in banks as a competitive constraint and give an example that salaries to employees are transferred to the bank with which the employer has a contract. PEMI Association pointed out that its members have also faced the service tying requirements in banks, i.e., when negotiating for one service, a requirement to use other services of the same bank is imposed.

Three party model

In draft National Payment Strategy, the three party model[3] was identified as an extremity for the payments market, which is often economically disadvantageous for users, promoting market fragmentation, and restricting competition.

One bank did not agree with such assessment. According to that bank, both the negative impact of the three party model and the benefit of the four party model are overestimated, while the one-stop shop principle may contribute to market stagnation and reduction of competition. According to the bank, mandatory application of one-stop shop principle would make the Lithuanian market less attractive to new entrants. Another bank sees both advantages and disadvantages of both models. For example, the three party model ensures the balance of the user’s rights and obligations. The four party model would be beneficial, if the interbank infrastructure operation scheme and the harmonised rules were clear and objectively and equally applied to all market participants. To achieve this, a defined business model must be developed, which would ensure the involvement and influence of all parties. One bank had doubts whether the four party model would in all cases ensure the satisfaction of clients’ needs, best business practice, and low prices, because its development would require additional investment in infrastructure, involvement of intermediaries, additional solutions for data protection and money laundering prevention, and administrative costs, which would lead to certain pricing and service level. Another bank and the representatives of credit unions agreed with the assessment of the Bank of Lithuania and added that a four

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[2] Tying of services is different from grouping of services. Tying of services leads to the absence of possibilities for the clients to buy one service and they must buy additional services. Grouping of services provides for such possibility, but the clients themselves decide to buy several services.

[3] The three party model is characterised by the fact that the payment service provider provides the service only if there is an agreement signed with the payer and the beneficiary. Based on the four party model, the payer and the beneficiary may have agreements signed with different payment service providers.

party model is missing in internet payments, utility payments collection, and card acquiring services. According to this bank, interbank infrastructure and harmonised rules should be ensured and harmonised with the market by a competent neutral body; however, the one-stop shop principle should not be mandatory. The involvement of a neutral authority was welcomed by another bank, which however associated the prevalence of the three party model with lower bank costs.

Both EMI and the representatives of the public sector agree that application of the four party model would be beneficial; however, they point out that its mandatory application could only be used as last resort. Part of EMIs and representatives of credit unions believe that the Bank of Lithuania should be the institution to ensure interbank infrastructure and harmonised rules.

Owner of the international card scheme MasterCard indicated that its activity is based on a four party model, which is characterised by such values as compatibility, openness, and non-discrimination.

Pricing that increases concentration

Service pricing principles indicated in draft National Payments Strategy may have contributed to further increase in market concentration. For example, the fee[4] applied for crediting funds received from another payment services provider or different fees for initiation of payment transactions encourage carrying out payment transactions within the bank.

The Association of Lithuanian Banks did not comment on this matter directly, but had a negative opinion on the possibility of resolving the problem of concentration-raising pricing by regulatory measures. PEMI Association agreed with the opinion of the Bank of Lithuania and proposed resolving the problem by regulating the fee for crediting funds, provided the service provision price is not lower than its cost. The representatives of credit unions partially agreed with the opinion of the Bank of Lithuania. However, they expressed concern that if fee regulation is chosen as a means, it would further increase market concentration.

EMIs that are not members of the PEMI Association agreed about the effects of pricing principles on market concentration and gave an example of pricing of sending electronic invoices to the online banking system, which determines that for business entities it is more financially beneficial to have direct links with the major banks. According to these EMI, the problems could be resolved by introducing pricing based on the payment package principle. According to yet another EMI, competition could be increased by payment account switching service provided free of charge.

One bank disagreed that pricing may determine the concentration and gave an example of utility payments collection, large share of which is not initiated via banks. Several other banks agreed with the opinion of the Bank of Lithuania and expressed an expectation that the situation would change after the Payment Services Directive[5] is transposed to national law and the right to initiate payment transactions through intermediaries, i.e., other providers of payment services, is provided for.

Limited possibilities of non-bank payment service providers

Draft National Payment Strategy concludes that in the field of electronic services, payment and electronic money institutions do not form fully-fledged competition for banks and so far they are considered as niche players of the market.

The majority of respondents agree with such assessment of the situation. However, a few respondents discerned the utility payments collection services, because payment institutions and electronic money institutions take up a large market share in their collection.

Market participants saw different causes of the situation. The representatives of banks associated the causes with financial and entrepreneurial possibilities of payment institutions and electronic money institutions, while the representative of payment cards sector linked them with the lack of economies of scale. According to PEMI Association, this situation was a result of several factors: 1) inherited inequitable legislative requirements that companies must have bank accounts; 2) lack of reputation; 3) need of significant investment for developing new infrastructure. PEMI Association pointed out that it still is less consulted on various payment-related matters than the Association of Lithuanian Banks.

Other EMIs specified the following reasons: inadequate cooperation in resolving common problems, lack of negotiating power, not including electronic money into deposit insurance system, and inadequate regulation of deposit accounts for keeping funds.

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[4] In 2016, amendments to the Law on Payment of the Republic of Lithuania were adopted and it was established that the fee for crediting funds may not be different for internal transactions and transactions from another payment services provider as of 1 February 2017. With regard to the above, many banks have already announced about eliminating this fee.

[5] 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).

2. THE LACK OF DIALOGUE REGARDING THE DIRECTION OF PAYMENT SERVICE DEVELOPMENT

Draft National Payments Strategy notes the lack of consulting of payment service providers and their clients regarding the direction of service development, which leads to the fact that payment services do not always meet the clients' expectations. The decisions which resulted in slower interbank payments in Lithuania were given as examples. The functionality of presenting and payment of electronic invoices should also be improved.

In the opinion of PEMI Association, precisely the lack of dialogue between the banks and clients gave rise to a niche for non-bank payment service providers, who are able to adapt to clients' needs more flexibly and quickly. According to other EMIs, the dialogue exists, but it is sluggish, inadequate, and there are no measures to ensure it. The representatives of credit unions believe that cooperation could be more active, but the involvement of both parties (payment service providers and clients) is necessary. The matter of coordination should also be resolved. While there is no coordination, the clients are more willing to cooperate with the major payment service providers only.

Several banks pointed out that they were regularly consulting with their clients regarding their products or projects significant to the whole market. One bank agreed that dialogue should be strengthened and awareness of digitalisation should be increased by joint effort. Another bank did not see a lack of dialogue, especially in major projects. According to that bank, there only is a lack of equal treatment of and compliance with the decisions. Yet another bank pointed out that innovations were lately being introduced in the market, mainly in relation to legal requirements, which resulted in less consulting with the clients. Moreover, when preparing business development project (recently less often), the banks avoid publicity for the purpose of competition. However, this bank pointed out that the dialogue in the market is becoming more active.

3. LIMITED USE OF PAYMENT CARDS

Draft National Payments Strategy states that payment cards are still the only alternative to cash when paying at the points of sale. However, taking into account the relatively low number of payment transactions, high market concentration, and considerable market entry barriers, long-term prospects of payment cards in Lithuania is causing doubt.

According to the Association of Lithuanian Banks, currently, the infrastructure of payment cards is very well developed in Lithuania (1.2 cards per capita) and its development should be encouraged and not rejected as one of payment options. The Association of Lithuanian Banks agreed that card infrastructure was expensive and associated it with high safety and convenience of the service. However, in the long run, the investment may pay off. According to the Association of Lithuanian Banks, market participants have equal opportunities for business and its development depends on financial possibilities and entrepreneurial skills.

According to the representatives of credit unions, the infrastructure is expensive due to high fixed costs, lack of economies of scale, high costs of compliance, and consumer behaviour (the habit of withdrawing cash).

PEMI Association stated that none of the non-bank market participants could issue a local payment card by themselves or participate profitably in the international payment card scheme. It agreed that international card schemes provided the necessary business administration solutions, but they were too expensive. If market participants had to develop similar solutions on their own, the business risk and costs would be even higher, which would reduce the economic advantage.

Other EMIs pointed out that the costs of adapting the points of sale to make card payments possible were relatively high. This and the bank fees discourage small businesses from accepting payment cards.

One bank indicated that such features as the ability to make payments in different countries, shopping security guarantees, and the possibility of including card payments into business models encourages payment service providers to invest into payment cards. Another bank listed the main components of card issuing costs: high transaction processing costs, international card scheme fees, ATM network support costs, relatively small transaction amounts at points of sale and low income from interbank fee, which has lately been restricted by legislation. Moreover, there also are various compliance costs and loss due to fraud. Card acquiring costs are even higher.

A representative of the payment cards sector pointed out that a large share of costs is comprised of fixed costs, which can only be covered by expanding the volume of transactions.

4. LOWER SECURITY OF ELECTRONIC FUNDS IN THE ENFORCEMENT PROCESS

Draft National Payments Strategy indicated that so far, funds in a payment account and cash have been treated differently in the enforcement process. This can give an impression that electronic funds are less secure and reduce trust in electronic payments.

In the opinion of the legal services firm, there is a conflict of laws: The Enforcement Instructions[6] do not meet section 1 of Article 668 of the Civil Procedure Code of the Republic of Lithuania. The legal services firm suggests several alternatives: 1) proper identification of the problem and presenting it to the Ministry of Justice; 2) cooperation with judicial officers and the Chamber of Judicial Officers implementing their self-government.

The Association of Lithuanian Banks believes that the situation should be resolved by establishing relevant regulation in the legislation by specifying possible cases of enforcement process and ensuring the imminence of enforcement, regardless of the type of payments and accounts used.

PEMI Association also agreed with the above opinion and pointed out that there were cases when the clients choose foreign payment service providers, because they cannot be reached for enforcement via PLAIS. According to the Association, the debtors should be allowed to dispose of a minimum amount of money thus ensuring minimum vital needs.

5. BARRIERS FOR INNOVATION

Draft National Payments Strategy reviewed the pace of spread of innovation in the payments market of Lithuania and stated that payment service providers in Lithuania, compared to Scandinavian countries, are slower to invest in contemporary payment innovations; usually they are only implemented when faced with legal regulation.

The Association of Lithuanian Banks believes that development of innovative solutions is an objective, but in recent years, the representatives of the banking sector allocated all available resources to achieve the compliance with legal regulation (e.g., introduction of the euro, SEPA project, PLAIS system). According to the Association, current legal regulation is particularly conservative and detached from innovation.

One bank expressed an opinion that the new Payment Services Directive would undoubtedly encourage innovation in Lithuania, because it opens the market up for fintech companies. Another bank does not agree that innovation is delayed. According to the bank, the innovations reach the market almost as fast as in other countries of similar economic development. This bank indicated that it was evaluating the needs of clients and investing in mobile applications and electronic invoices, changing service plans, etc. Yet another bank agreed with the Bank of Lithuania about the delay of innovation and gave the following reasons: 1) small market; 2) insufficient clients' need for innovation; 3) lack of political will, which leads to unavailability of payment by alternative means in public institutions. This bank missed a more systematic approach of the state to the development of payments market and its compliance with strategic objectives of the state.

Yet another bank believes that introduction of innovation in the Lithuanian market meets the market size, capacity to absorb innovation, legal regulation, and the possibilities provided by it. According to this bank, excessive regulation of the payments market and the development of niche national products do not promote innovation. Therefore, it suggests integration and use of internationally developed products.

PEMI Association believes that the innovations are delayed due to relatively small number of payment service users and preference of cash among the population. More favourable conditions for electronic payments created by the legislative process would increase the demand for such payments and would allow predicting the extent of pay-off of innovations.

The legal services firm believes that developing overlapping systems should be avoided and the regulatory environment should be adapted to new payment services.

[6] The Enforcement Instructions were approved by Order No. 1R-352 of 27 October 2005 of the Minister of Justice of the Republic of Lithuania.

Assessment of strategy objectives and directions

Objective

Draft National Payments Strategy formulated the objective to achieve that contactless and instant electronic payment methods, which are closely-integrated into business models and meet the needs of consumers and entities, are extensively used by Lithuanian residents by 2020.

The Association of Lithuanian Banks believes that the wording of the objective is too narrow and only addresses one of the payment market development possibilities, i.e., instant and contactless payments. This opinion was confirmed by responses of several banks. In the opinion of the Association of Lithuanian Banks, the strategy should provide for overall management of all means of payment and target trends, because a single technology does not allow deciding about the operation of and added value created by alternative solutions. For example, greater progress in the payments market would be achieved by effective use of the existing payment cards infrastructure, digital wallets, and e-commerce channels. Moreover, the measures for reducing cash payments should be provided for. In the opinion of the banking sector, the time period of strategy implementation should coincide with the transposition of the Payment Services Directive into national law (January 2018).

One bank pointed out that it is important to ensure the privacy of personal data and the use of payment information for preventive rather than tracking purposes. Another bank stated that the current strategy objective is limited to the needs of natural persons and does not reflect the needs of businesses and the public sector. Yet another bank stated that the SEPA instant payment solution mentioned in draft National Payments Strategy could encourage the consumers to change their habits and would better meet their needs. Most banks maintain that the strategy should be harmonised with the EU standards and national solutions should not be adopted.

The owner of the international card scheme agreed that effective, secure, and transparent payment methods should be encouraged; however, the strategy should also include regular payment cards. Another representative of the payment cards sector agreed with this opinion. It pointed out that a detailed analysis was necessary to determine why the alternatives to cash are not being used in the sectors where they are available. In addition, more extensive analysis of new technology costs is also necessary.

In the opinion of the representatives of credit unions, the role of credit unions is not visible in the strategy and more consulting with market participants regarding the proposed instant payment technology is necessary.

PEMI Association agreed with the wording of the strategy objective, because it is not categorical and does not exclude other means of payment. However, it believes that the possibilities of existing payment methods are not yet fully disclosed and therefore, the strategy objective could include the development of these methods.

One EMI that agreed with the wording of the objective believes that it should provide for an aim to simplify the establishment of legal relations with a new payment services provider for the consumers. Another EMI suggested providing for an aim to ensure minimum instant and contactless payment infrastructure costs, because high costs would restrict the opportunities for non-bank institutions to develop instant payments.

Objective achievement indicator

Draft National Payments Strategy provides that the objective of the strategy would be fulfilled if the number of electronic payment transactions in Lithuania by 2020 reaches or exceeds 300 transactions per capita per year. In Lithuania, 145 payment transactions per capita were initiated in 2015.

Most respondents indicated that this objective achievement indicator could not be achieved by itself, however, but application of only one indicator is too narrow and would not disclose the full market development. Additional objective achievement indicators were also proposed: 1) changes in cash turnover; 2) share of electronic payments in the general payments structure; 3) increase of electronic payments in points of sale; 4) increase of internet electronic payments; 5) increase of electronic payment transactions between natural persons; 6) increase of electronic payment transactions between businesses; 7) increase of value of electronic payment transactions; 8) electronic payments coverage map; 9) share of contactless and instant payments in the payments structure; 10) number of points of sale where electronic payments are accepted.

Directions

Draft National Payments Strategy provides for three strategic directions:

> 1) to develop an infrastructure at points of sale and amongst payment service providers, allowing the extensive use of contactless and instant payments, and ensuring that the issuing and acquiring of payment instruments is economically attractive to the large number of payment service providers;

2) to increase the involvement and impact of users in decisions on the payment service development direction and measures;

3) to build users' trust in payment service providers and payment services, and to purposefully form payment habits.

In the opinion of PEMI Association, the above directions are most important and all-inclusive. The directions determine one another and are listed in a logical chronological sequence. According to the Association, the direction of instant payments is fundamental. One of the EMIs that expressed an opinion suggested choosing one priority direction and it should be the development of instant payments, because it would allow affecting the development and competitiveness of the whole payments market. Another EMI also considers this direction to be most important, because absence of necessary infrastructure would prevent the development of other two directions. Yet another EMI pointed out that the aspiration to reduce the costs of infrastructure use should be established as an additional direction of the strategy.

The legal services firm expressed regret that the National Payments Strategy did not give enough attention to the changes determined by the Payment Services Directive.

The owner of international card scheme stated that there was no need to develop an alternative infrastructure for transactions at points of sale, because all needs are satisfied by the existing payment card infrastructure. According to the owner, the third direction (formation of habits) is most important.

The representatives of the credit union sector also consider the third direction to be most important. According to the credit union sector, another target could be developing a common national digitalisation strategy. Moreover, it is essential to create a regulatory and tax environment, which would promote investment into different digital solutions.

The Association of Lithuanian Banks agreed that the above directions would help achieve the objective, but it had doubts whether it would be cost-effective to invest in an alternative network for point of sale payments. The Association believes that an alternative direction could be amendment of the outdated regulation of electronic payments.

One bank believes that the third direction is most important and an additional direction could be limiting cash payments and development of electronic payments in state institutions. Other banks have a similar approach and especially emphasise the feasibility of investing in instant payments.

Assessment of strategy measures

Draft National Payments Strategy provides for the following measures:

1. development of new brands that would realise instant payments;
2. development of infrastructure which would allow instant payments;
3. standardisation initiatives;
4. establishment of the Payments Council;
5. alternatives to cash in primary and secondary education institutions;
6. publicity on electronic payment possibilities and user education.

1. DEVELOPMENT OF NEW BRANDS THAT WOULD REALISE INSTANT PAYMENTS

Draft National Payments Strategy sets forth a position that payment scheme implementing new brands should be available in Lithuania, which would be economically attractive for non-bank payment service providers and would be based on the technology of contactless and instant payments. This scheme should be based on the functionality of instant credit transfers prepared by the European Payments Council and additional elements would be agreed upon. It is believed that such measure would help resolve the lack of competition, technical fragmentation, slow innovation implementation, and the absence of an alternative to payment cards.

According to PEMI Association, alternatives are always beneficial, because they provide a choice and increase competition. However, potential benefits are reduced by economic factors: costs of implementing infrastructure, service charges, and network breadth. PEMI Association emphasised that non-bank payment service providers are discouraged from joining the payment card infrastructure by price alone and for the proposed scheme to be competitive its costs must be lower. PEMI Association agreed that when developing the scheme, the actions should be coordinated, and it would agree that the Bank of Lithuania be the process coordinator. However, one EMI believes that the Bank of Lithuania should carry out system monitoring only, while the system governing bodies should be comprised of payment service providers. Another EMI agreed with all proposals of the Bank of Lithuania and believed that exploiting the opportunities offered by mobile phones would allow developing a full-fledged substitute for payment cards. However, another EMI does not agree with this approach and believes that the Lithuanian market is too small to develop a separate infrastructure.

Although the representatives of credit unions did not reject the idea of a scheme, they did not agree that instant payments could become an alternative to payment cards, and were inclined to dismiss the role of the Bank of Lithuania as the scheme manager due to incompatibility of supervising and business functions.

The Association of Lithuanian Banks missed a clear business model and its management possibilities. It believes that instant payments cannot replace the functionality of payment cards and development of national brand would not give added value to the Lithuanian market, because national solutions would interfere with the country’s integration into the European market.

One bank agreed with the majority of the Bank of Lithuania proposals and saw opportunities of expanding such scheme in other Baltic states. However, it believed that payment cards would remain the preferred means of payment for travelling clients. Another bank emphasised the importance of harmonising the solutions with the European ones. Therefore, it would prefer payment cards at the moment, although instant payments are a viable means of payment. Yet another bank that participated in the public consultation emphasised the importance of ensuring lower costs of the scheme and suggested that the management of instant payments scheme be entrusted to the Payments Council. Another bank doubted the economic benefits of instant payments scheme and emphasised the importance of ensuring the development of uniform financial products harmonised at the EU level.

A representative of the payment card sector doubted the economic prospects of the new scheme and pointed out that in order to achieve the economies of scale, a market with at least 20 million cards, 500,000 points of sale, and 4 billion transactions per year is necessary.

2. DEVELOPMENT OF INFRASTRUCTURE WHICH WOULD ALLOW INSTANT PAYMENTS

Draft National Payments Strategy offered centralised development of instant payments infrastructure and its elements in order to reduce infrastructure costs per payment service provider. This would reduce barriers for entry into the market.

The Association of Lithuanian Banks did not reject the idea of common infrastructure, but missed a financing and development model as well as provisions for joining, participating in and withdrawing from the infrastructure. It also had questions whether other elements of infrastructure would be linked to participation in the interbank instant payments system.

Most banks agreed that the National Payments Strategy contains all essential infrastructure elements, but they emphasised that infrastructure development is a secondary issue and the business case of the instant payments must be assessed and its management agreed on first. One bank pointed out that by consensus infrastructure elements could be implemented by any legal person of respective qualification and management should be entrusted to permanent specialist groups of the Payments Council. Another bank missed infrastructure elements on the side of payees. According to this bank, attention to the payer and payee link should be given at the stage of project planning. This bank believes that the infrastructure should be managed by an international company with respective experience.

The representatives of credit unions were not discussing the infrastructure elements before the instant payments business model and brand owner are known.

PEMI Association agreed that the National Payments Strategy contained the essential infrastructure elements, but suggested adding a customer identification platform to the list. It believes that entry barriers may be reduced, but the practical success would be determined by the final participation price per market participant. PEMI Association saw a threat that if many participants are attracted, managing their needs and expectations would be more difficult and the process would be prolonged, meanwhile the consumers would be attracted by a variety of third-party solutions. It believes that one institution should be responsible for infrastructure management. However, it expressed doubt whether it should be the Bank of Lithuania. One EMI believes that if the manager is a private entity, it would probably seek profit instead of promoting competition and developing innovation. Another EMI emphasised that the infrastructure should be managed by payment service providers.

3. STANDARDISATION INITIATIVES

Draft National Payment Strategy emphasised the importance of standardisation for ensuring a competitive and open payments market. The areas which could be subject to additional technical standardisation were suggested: electronic identification, Bank link services, and technical interoperability of payment initiation services. It is believed that such measure would help resolve the lack of competition, technical fragmentation, slow innovation implementation, and lack of dialogue (insufficient involvement of users).

The Association of Lithuanian Banks agreed that technical standardisation was necessary in fraud and money laundering prevention systems. It was also relevant to future service providers offering the service of providing information about bank accounts as set forth in the Payment Services Directive. The representatives of credit unions also agreed with this opinion.

One bank pointed out the lack of common standards and welcomed the initiative to harmonise and approve some procedures with the Lithuanian Standards Board. If the open scheme is applied, standardisation would be unavoidable and would ensure long-term provision of the service and indirectly contribute to the trust in the electronic payments system and the shaping of consumer expectations.

Another bank pointed out that compulsory standardisation of existing services would lead to significant investments for payment service providers and the clients. In addition, this bank suggested using European standards instead of developing local solutions. This view is maintained by several other banks.

One bank that expressed its opinion agreed with the opinion of the Bank of Lithuania and added that a common standard was necessary for identification of clients, especially non-residents.

PEMI Association agreed about the need for standardisation in the areas specified in draft National Payments Strategy, but pointed out that standards should not be mandatory, because this would reduce flexibility an prolong the time of response to change.

Many respondents believed that the needs of further standardisation could be discussed by the Payments Council.

4. ESTABLISHMENT OF THE PAYMENTS COUNCIL

Draft National Payments Strategy suggested establishment of the Payments Council in Lithuania. The Council could seek the following objectives: 1) to allow companies and consumers to analyse the problems of payments market systematically and concertedly, and to make proposals on solutions; 2) to monitor the implementation of the National Payments Strategy and make proposals for its amendments; 3) to identify areas where standardisation initiatives are necessary; 4) to form payment services users' position in EU initiatives. It is maintained that this measure would help solve the problem of the lack of dialogue with regard to the payment service development direction (insufficient involvement of users).

The absolute majority of respondents supported the idea of establishment of the Payments Council.

PEMI Association agreed that the Payments Council would help resolve the problem of the lack of dialogue. At present, various organisations uniting service providers or users are attempting to take on this initiative; however, their primary objective is representing the interests of one side. This results in ineffective dialogue. PEMI Association agreed with the purposes of the Payments Council set forth by the Bank of Lithuania and suggested adding one more purpose, i.e. an advisory voice in legislative matters. In the opinion of the Association, it is essential that the Payments Council relies on the widest possible variety of specialists and opinions (pluralism). A large number of council members is not necessary for this as it may have an opposite results. Operating specialist working groups are more important. PEMI Association agreed that the Payments Council would be an advisory body to the Bank of Lithuania. The representatives of credit unions did not agree with this and believed that the Payments Council should be independent from the Bank of Lithuania. The Association of Lithuanian banks believes that the status of advisory body to the Bank of Lithuania is too narrow and it would be ineffective and irrational in adopting strategic decisions. In the opinion of the Association, the Payments Council should set broader objectives, for example, establishing the guidelines or policies oriented at development of digital economy in the country and assessing the impact of implementing such policy.

One bank suggested that the Payments Council should be an advisory as well as a supervisory body and have appropriate powers. It should ensure that the standards are uniformly applied in the market, the development of innovations and services would be consistent and relevant, and legal regulation of innovative services would be liberal. However, the representatives of credit unions see a risk that the Payments Council may impede the innovation.

5. ALTERNATIVES TO CASH IN PRIMARY AND SECONDARY EDUCATION INSTITUTIONS

Draft National Payments Strategy pointed out that Lithuanian pupils and their parents need alternatives to cash in educational institutions. This way, more than 300,000 pupils form habits of exclusive cash usage, and the advent of innovations in educational institutions is halted.

The Association of Lithuanian Banks indicated only one measure to address this problem: integrating financial literacy in general education programs. It pointed out that the use of cash was widespread in higher and vocational education institutions, but did not specify what measures would be appropriate there. One bank stated that personal finance skills based on the use of cash were formed in schools and pointed out that it was also offering products for young customers. Another bank indicated that it was implemented a special youth-oriented programme, which included payment cards and internet banking. This bank informed about increasing the number of points of sale that accept contactless payment cards in educational institutions. Yet another bank which recognised the problem of young people's habits stated that initiatives aimed at changing the situation were not being developed and indicated that it would be willing to contribute to educational initiatives. Another bank pointed out that it was necessary to create conditions for payment by card and other means of electronic payment in educational institutions and offered to contribute to financial literacy initiatives.

PEMI Association also saw the prevalent use of cash in schools as a problem. It pointed out the following reasons: 1) payments of very small amounts; 2) complex procedure of payment card issue; 3) administering children's accounts would lead to additional costs. Reducing new customer registration and identification procedures was proposed.

One EMI indicated that in catering institutions which exclusively accept cash as a means of payment, the children can easily see which children get free meals, which indirectly promotes bullying.

6. PUBLICITY ON ELECTRONIC PAYMENT POSSIBILITIES AND USER EDUCATION

Draft National Payments Strategy notes that with the rapid speed of change, payment service users can easily get lost among many different payment services. Users do not completely understand how one payment instrument is different from the other, what is the difference between user rights and responsibilities and associated risks. The lack of information leads to undermined trust in payment services.

PEMI Association was certain that knowledge of payment possibilities and risks strengthens the overall trust in payment services. PEMI Association saw two directions: 1) promoting young people awareness of the payment system and its functionality; 2) encouraging the people who have payment instruments but do not use them, first of all, elderly people, to change their habits.

According to the representatives of the credit unions, as the number of divisions of credit institutions is decreasing, education and training of elderly people gains sense. The representatives of credit unions were willing to contribute to such programmes.

The association of Lithuanian banks suggested using the spaces of public libraries and municipality, elderate, and community buildings to introduce the users to safe use of electronic payments. One bank would start financial literacy programmes from the students, because this part of society is facing greatest changes in personal budget management.

The absolute majority of respondents would agree to contribute to implementation of financial literacy programmes, many of them are already implementing programmes of different scope.