

REVIEW OF
THE STUDY
OF THE COSTS OF
PAYMENT
SERVICES

Abbreviations

GDP	Gross Domestic Product
ECB	European Central Bank
ESCB	European System of Central Banks
MIF	Multilateral Interchange Fee

Totals / percentages in some tables may not add up due to rounding.

The Review was prepared by the Financial Stability Department of the Economics and Financial Stability Service of the Bank of Lithuania.

The Review is available in PDF format on the Bank of Lithuania's website at www.lb.lt.

The Review was prepared on the basis of 2011 data presented by AB Citadele bankas, UAB Medicinos bankas, AB DNB Bankas, AB SEB Bank, Swedbank, AB, AB Šiaulių bankas, AB Ūkio bankas, Danske Bank A/S Lithuania branch and Nordea Bank Finland Plc Lithuania branch. In the preparation of this Review, data of the Bank of Lithuania, ECB, and the central banks of Denmark, Finland, Sweden and Hungary were also used.

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INTRODUCTION

A modern economy would not be able to function without safe, innovative and accessible payment services; these services at the same time contribute to the growth and competitiveness of the economy. Cash or non-cash payments are faced by all market participants. The possibilities of the digital age form high consumer expectations and change their payment habits. Notwithstanding the obvious progress in the promotion of electronically initiated payments, cash payments have still been prevalent in the country. This is partly driven by a conviction that cash does not cost anything. Payments are characterised by inertia, which is not always beneficial for the society. It takes time to replace the well-established payment habits with more technologically advanced methods. Without in-depth information about the costs related with the provision of payment services available, it is complicated to form reasonable expectations about the fees for payment services, which aggravates the formation of a sustainable and modern payment services market.

In October 2011, the Bank of Lithuania started publishing the fees for basic payment services on its website. This initiative provided more favourable conditions for the public to compare the fees applicable by different banks, credit unions and payment institutions, and to choose the best conditions. As a follow-up to the work undertaken in order to boost transparency in the payment services market and promote sound and efficient functioning of this market, in 2012 the Bank of Lithuania initiated a study of the costs of payment services provided by banks and of their coverage by income. This is the field not addressed substantially to date either in Lithuania or in other states. Some European Union central banks jointly with the European Central Bank coordinated their action while conducting a study of the social costs of payment services. The Bank of Lithuania applied the methodology used by the European Central Bank too. The collected data on the costs that banks incur will be used for public information and formation of state policies that encourage a wider use of efficient payment instruments. This data will serve as a reference point for subsequent studies, for instance, of the social costs of payment services not only incurred by banks but enterprises and residents as well.

SUMMARY

The Bank of Lithuania has conducted an in-depth study of bank costs and income related with the provision of payment services. The methodology of the study was developed following the methodology for the study of the social costs of payment services prepared by the European Central Bank and the ESCB in 2009. The study included cash handling, payment card, domestic credit transfer in litas, credit transfer in euro and direct debit transactions. Direct and indirect bank costs of every payment service have been calculated, including the costs of staff maintenance, property exploitation and depreciation, commissions payable to third parties, customer consultancy, advertising and marketing, ensuring settlement security, and others.

In 2011, the direct costs of the banking sector related with the provision of the payment services under review amounted to LTL 428.6 million and the income to LTL 481.9 million. The income exceeded the direct costs by LTL 53.3 million. The level of coverage of direct costs by income¹ was 112 per cent and varied significantly across different payment services. The lowest coverage was of the direct costs of cash handling transactions (70%) and of direct debit (59%). The coverage of the direct costs of domestic credit transfers in litas (144%) and of credit transfers in euro (238%) was the highest.

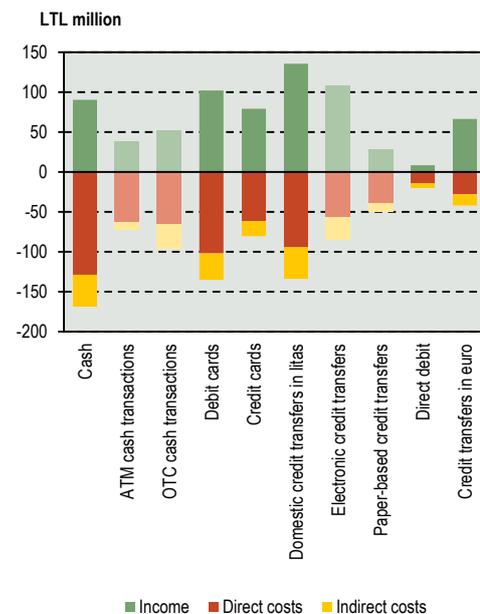
Considering the indirect costs attributable to payment services, the total costs of the banking sector stood at LTL 580 million (0.55% of GDP) and exceeded the income from payment services by LTL 98.1 million in 2011. The level of coverage of total costs was 83 per cent. The lowest coverage was of the total costs of cash handling transactions (54%) and of direct debit (42%). The income from domestic credit transfers in litas was higher than total costs with the level of coverage of 101 per cent, whereas the coverage of the total costs of credit transfers in euro remained the highest (158%).

International comparison with the data of EU central banks that have conducted similar studies and released their results suggests that the costs of payment services in Lithuania are relatively higher than in the Scandinavian countries.

In search of an optimal solution which would enable matching the interests of banks and users of payment services – individuals and enterprises, the use of payment cards, electronically initiated credit transfers and direct debit are to be encouraged. These payment instruments are more technologically advanced, and more efficient in terms of costs. A wider use of them would enable achieving lower average costs per transaction. It is also likely that this would provide preconditions for the decline in banks' fees for payment services.

Attention should also be devoted to alternative innovative payment instruments. Implementing and offering innovative solutions, new participants in payment services market, payment institutions and electronic money institutions have been operating actively. Cooperation between banks and other payment services providers without prejudice to the principles of fair competition could contribute to the introduction of new efficient payment instruments in Lithuania.

Chart 1. Income from and costs of payment services

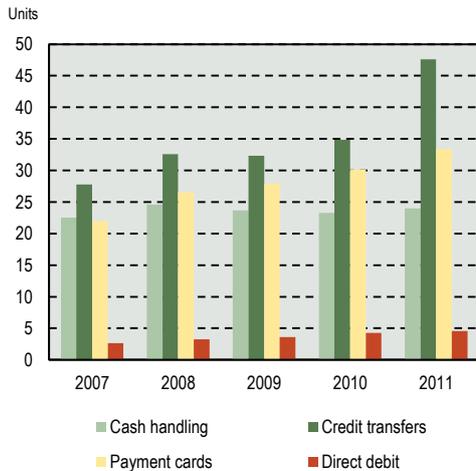


Sources: Bank data and Bank of Lithuania calculations.

¹ The level of cost coverage is the income to cost ratio. Where the level of coverage is above 100 per cent, it means that income is above costs; where it is below 100 per cent, the bank incurs losses.

1. PAYMENT SERVICES IN LITHUANIA

Chart 2. Number of cash handling transactions and payment transactions* per capita



Note: * Domestic and cross-border transactions executed by individuals and legal entities.

Sources: Payment Instruments Statistical Reporting data and Bank of Lithuania calculations.

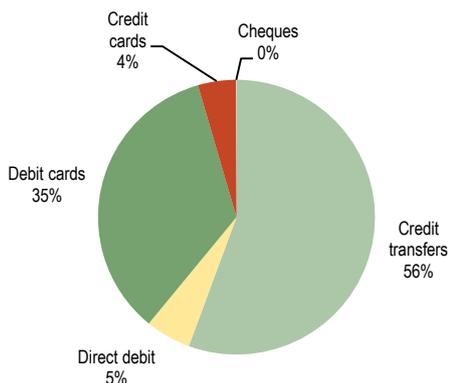
Table 1. Flows of cash handling transactions and payment transactions* in 2011

	Number of transactions, millions	Number of transactions per capita	Value of transactions, LTL billion	Average value of transaction, LTL
Cash handling	77.2	24.0	52.8	684
Debit cards	95.4	29.6	5.1	53
Credit cards	12.3	3.8	1.7	142
Credit transfers	153.4	47.6	760.6	4,960
Direct debit	14.7	4.6	2.2	153
Cheques	0.2	0.1	1.4	8,227

Note: * Domestic and cross-border transactions executed by individuals and legal entities.

Sources: Payment Instruments Statistical Reporting data and Bank of Lithuania calculations.

Chart 3. Composition of payments by number of transactions*



Note: * Domestic and cross-border transactions executed by individuals and legal entities.

Sources: Payment Instruments Statistical Reporting data and Bank of Lithuania calculations.

The possibility of effecting safe and inexpensive payments is a necessity in a modern efficient and competitive economy. The provision of payment services² in Lithuania is regulated by the Republic of Lithuania Law on Payments. Payment services in Lithuania are provided by banks, foreign bank branches, credit unions, electronic money institutions and payment institutions.

The number of cash handling transactions in recent years fluctuated at around the same level, while the number of non-cash payments³ in Lithuania gradually increased (see Chart 2). According to the data of the Bank of Lithuania, 275.8 million non-cash payment transactions were executed in 2011, most of which (96%) were domestic payments⁴. The value of these payment transactions amounted to LTL 771.0 billion, of which the value of domestic payments to LTL 604.0 billion (78%). 86 payment transactions per capita were effected in 2011.

Cash payments continue to be used often in Lithuania. 77.2 million over the counter (OTC) and ATM cash handling transactions were executed in 2011, with the value of these transactions amounting to LTL 52.8 billion.

Not at all times the use of banknotes and coins is convenient and practical, though. Payment instruments based on electronic funds transfer have been spreading fast. Such payment instruments include electronically initiated credit transfers, direct debit, card payments, and electronic money.

Credit transfer is a payment instrument whereby funds are transferred to a payee's payment account at the initiative of the payer. Credit transfer is the most common payment instrument in Lithuania, which accounts for over a half of the total number of non-cash payment transactions (see Chart 3). According to the data of the Bank of Lithuania, three-fifths of credit transfers are initiated via the internet banking systems of credit institutions, with every fifth credit transfer intended for transferring funds to a beneficiary at another bank. As can be seen from the comparison in Chart 4, the number of credit transfers executed per capita is almost equal to the European Union average, yet in the neighbouring Baltic States and Scandinavia the number is higher.

Card payments is a convenient alternative to cash at a point of sale (POS). Debit cards and credit cards are distinguished traditionally. Debit cards are cards designed for payments when funds are directly debited from the cardholder's account. Credit cards are payment cards for the holders of which an overdraft limit is provided. A cardholder can make purchases and/or withdraw cash up to a predefined ceiling, and at the end of the specified period must cover all or part of the resulting debt. The outstanding amount is retained as a credit extension subject to a set interest payable by the cardholder. Some cards, intended solely for online payments, can be immaterial – these are virtual cards.

² Payment services means services enabling cash to be placed on an account and withdraw cash from an account, transfer funds by executing credit transfers, direct debit operations or executing a payment transaction through a payment card or similar device.

³ Terms "payments" and "payment transactions" are used as synonyms.

⁴ Domestic payments are payments where the payment service providers of both the payer and the payee are established in Lithuania.

Debit card payments are a most common payment instrument in Lithuania, which accounts for over a third of all non-cash payments. Credit card payments are executed much more rarely, their non-cash payment market share accounts for just 4 per cent.

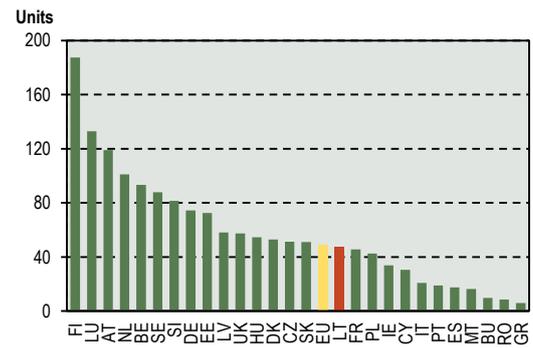
The number of payment card transactions increased gradually in recent years. Nevertheless, for many people in Lithuania, a payment card is not a payment instrument but just a means to withdraw cash. According to the data of the Bank of Lithuania, only one litas of five is spent using POS terminals.

The number of card payments per capita in 2011 was more than twice lower than the EU average (see Chart 5), although Lithuania is lagging just slightly in terms of the number of payment cards issued⁵. The number of payment card transactions is subject to the decisive influence of the network of POS terminals, which apparently should be expanded further in order to promote payments with the use of payment cards⁶.

Direct debit is a payment service in the provision of which funds are debited from the payer's account, when the payment transaction is initiated by the payee upon consent of the payer. This is a convenient instrument for those effecting recurring payments. The main beneficiaries of direct debit funds are companies rendering telecommunication, lease, insurance, security and utility services. This service is mostly used for collecting funds from individuals, although funds can thereby be collected from legal entities as well.

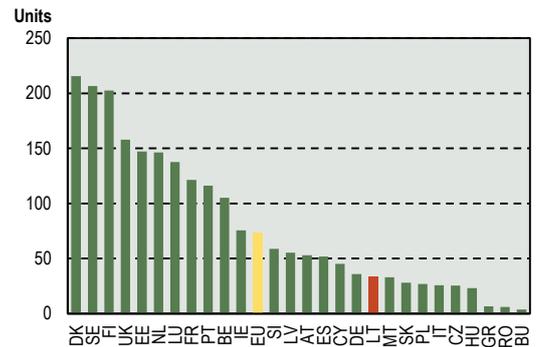
Direct debit is used very little in Lithuania, with less than 5 transactions per capita per year. This indicator is almost 10 times below the EU average (see Chart 6).

Chart 4. Number of credit transfers per capita in 2011



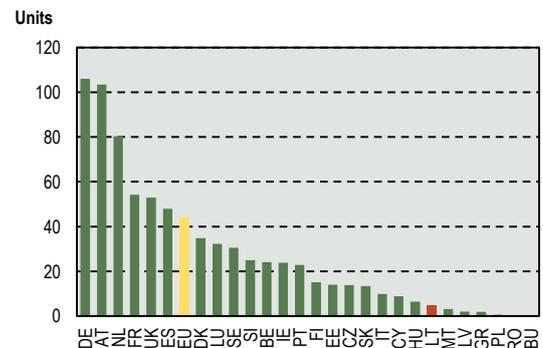
Sources: ECB.

Chart 5. Number of card payment transactions per capita in 2011



Sources: ECB.

Chart 6. Number of direct debit transactions per capita in 2011



Sources: ECB.

⁵ In 2011, the EU average was 1.4 payment cards per capita, in Lithuania 1.2 payment cards per capita.

⁶ Based on ECB payment statistics data, in all EU countries in which the number of payment card transactions per capita exceeds 100 transactions annually, there are at least 15 thousand POS terminals per one million residents. In Lithuania, there are 12 thousand POS terminals per one million residents.

2. DESCRIPTION OF THE METHODOLOGY

While conducting the Study of the Costs of Payment Services, the Bank of Lithuania followed the methodology for the study of social costs of payment services prepared in 2009 by the European Central Bank and the ESCB. The ECB analyses how much payment services cost for the society as a whole, i.e. the costs incurred by a central bank, payment services providers, merchants and residents inclusive. The study is also expected to trigger a constructive debate about which policy measures and payment instruments are suitable for improving social welfare and realising potential cost savings along the transaction value chain. The Bank of Lithuania based its analysis on the part of the methodology intended for the estimation of the costs and income of payment services providers.

In the course of the study, the costs of and income from payment services of banks which provide all or many payment services and are significant in the payment services market were analysed. The sector of payment institutions and credit unions was not included into the Study, as these payment services market participants hold a small market share and/or specialise in the provision of a specific service. Subject to a payment instrument, the payment services providers which participated in the Study hold 76 to 98 per cent of Lithuania's banking market⁷. The share of the costs and income of payment services providers that did not participate in the Study was estimated taking into account the amount and value of their payment transactions, based on the Payment Instruments Statistical Reporting data, and transactions, income and costs of other banks.

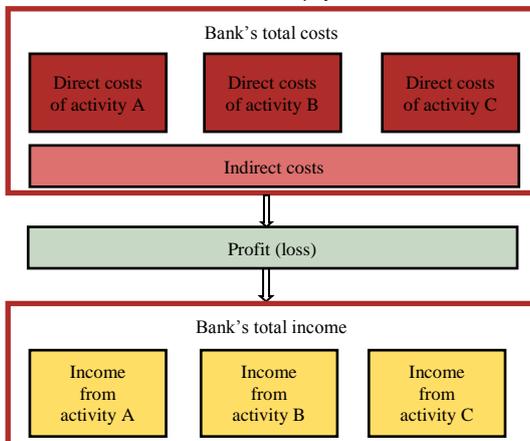
The Study includes the following payment services⁸: ATM and OTC cash deposit and withdrawal; the issuance of debit and credit cards; acquiring of payment cards (a service to merchants); domestic credit transfers in litas, including cash utility payments; credit transfers in euro (domestic and cross-border) and direct debit.

The banks that took part in the Study were asked to specify their income from payment services, distinguishing the income received from legal entities and individuals and costs. The Bank of Lithuania's periodically collected payment instruments statistics does not coincide with the scope of the Study, therefore banks were asked to provide the number and value of cash handling and payment transactions in 2011. Banks' costs have been calculated using the activity based costing method. This means that the costs of each payment service are estimated taking into account the pre-defined activities necessary to provide any specific service.

The collected data enables identifying the composition of the costs of payment services by activity, the ratio between the income from payment services and costs, and the costs per transaction. It is important to note that the costs include both direct and indirect costs of payment services.

Direct costs are those that are borne in carrying out an activity directly related with each payment service, for instance, the costs of staff directly involved in a specific activity in the provision of a payment service, information technologies used for the provision of payment services, etc., also commissions payable or other direct payments for third parties. Indirect costs include the costs of supporting functions necessary for the provision of payment services, for instance, accounting, audit, staff management, etc., also part of overhead costs, to which the costs of a board, administration, secretariat, persons carrying out other supporting functions, etc., are attributed. A general chart of banks' income and costs by activity is presented in Chart 7. As can be seen from it, the biggest proportion of banks' costs can be attributed to the specific activities a bank is engaged in. The indirect costs are of general nature, related with the activities of a bank as a whole. While being indirectly related with specific activities, they boost the costs of services provided by banks.

Chart 7. Income from and costs of payment services



Attribution of indirect costs to a specific payment service and to all payment services overall depends on the criteria for the classification of indirect costs chosen by banks, therefore indicators are calculated and compared taking into consideration both the direct and total costs of payment services, i.e. indirect costs inclusive.

It should be noted that estimation of the income from payment services may also be broader. Bank customers hold funds intended for the execution of payments on their accounts. In banks' view, their customers both pay and receive funds, thus the overall balance of funds on these accounts is of a certain level. Banks are able to lend the sum of this size; consequently, part of interest income could be attributed to payment instruments. Furthermore, it should be noted that banks also bear alternative costs because of holding cash, which does not generate interest for banks, in bank vaults.

⁷ Banks that participated in the Study held the smallest market share of the direct debit sector (76%), the biggest that of the debit cards sector (98%). The market share of each payment instrument has been calculated as the average of market share by number of transactions and market share by value.

⁸ Here and further in the Study the term "payment services" is only applied to the payment services under review.

3. COSTS OF AND INCOME FROM PAYMENT SERVICES PROVIDED BY BANKS IN LITHUANIA

In 2011, the banking sector earned an LTL 481.9 million income from the payment services under review, with the bulk of it (28%) representing the income from domestic credit transfers in litas. The lowest income (around 2%) came from direct debit. A slightly more than half income (56%) from cash handling and domestic payments came from individuals.

In 2011, the banking sector's direct costs of the payment services under review amounted to LTL 428.6 million. Cash handling accounted for the largest share (around 30%) of banks' both direct and total costs across all payment services. The smallest share of costs – around 3% – consisted of both direct and total costs of direct debit.

The income of banks in Lithuania from the payment services that were subject to the study was LTL 53.3 million above their direct costs, with the level of coverage of 112 per cent. On the other hand, if we were to estimate the total costs of payment services (the sum of direct and indirect costs), which in 2011 amounted to LTL 580 million or 0.55 per cent of GDP, the income from payment services was lower (LTL 98.1 million) and the level of coverage was 83 per cent.

Banks provide various payment services, including those the income from which does not cover the costs. This loss is covered from profitable payment services and other profitable activities.

The coverage of both direct and total costs varied significantly across different payment services. The lowest coverage was of the costs of cash handling and direct debit. The income from these payment services was lower than their direct costs. The most pronounced excess over the direct costs was of the income from credit transfers in euro – nearly 2.4 times. The income from credit transfers in euro was also higher than total costs (coverage 158%). In addition, the income from domestic transfers in litas was significantly higher than direct costs (coverage 144%), but exceeded total costs by a mere 1 per cent.

Table 2. Banks' income from payment services

	Income, LTL million	Composition of income	From individuals, LTL million	From legal entities, LTL million
Cash	90.4	19	66.4	24.1
Debit cards	101.9	21	31.7	70.2
Credit cards	79.2	16	64.4	14.8
Domestic credit transfers in litas	135.5	28	71.3	64.2
Credit transfers in euro	66.5	14	n.a.	n.a.
Direct debit	8.4	2	0.2	8.2
Total	481.9	100	234	182

Note: Payment card data include both issuance and acquiring.

Income from credit transfers in euro distribution data was not collected.

Sources: Bank data and Bank of Lithuania calculations.

Table 3. Bank costs of payment services and cost coverage

	Total costs, LTL million	Composition of total costs, %	of which direct costs, LTL million	Composition of direct costs, %	Income and total costs difference, LTL million	Income and direct costs difference, LTL million	Coverage of total costs by income, %	Coverage of direct costs by income, %
Cash	168.8	30	128.6	30	-78.3	-38.1	54	70
Debit cards	135.1	23	102.0	24	-33.2	-0.1	75	100
Credit cards	80.3	14	61.4	14	-1.1	17.7	99	129
Domestic credit transfers in litas	133.9	23	94.3	22	1.6	41.2	101	144
Credit transfers in euro	42.0	7	28.0	7	24.5	38.5	158	238
Direct debit	19.9	3	14.3	3	-11.5	-5.9	42	59
Total	580.0	100	428.6	100	-98.1	53.3	83	112

Note: Payment card data include both issuance and acquiring.

Sources: Bank data and Bank of Lithuania calculations.

3.1. CASH TRANSACTIONS

Table 4. Cash handling transactions

	Number, millions	Value, LTL billion
Cash handling transactions	76.6	61.7
OTC cash withdrawals	3.4	14.1
ATM cash withdrawals	64.5	23.5
OTC cash deposits	5.6	21.0
ATM cash deposits	3.1	3.1

Sources: Bank data and Bank of Lithuania calculations.

Table 5. Composition of total costs of cash handling transactions

	Amount, LTL million	Composition, %
Collection, transportation and cash-in-transit services	24.3	14
OTC cash withdrawal and deposit transactions	52.3	31
ATM cash withdrawal and deposit transactions	39.4	23
Safe-keeping, cash handling	17.4	10
Management and monitoring of activities	22.1	13
Other activities	13.2	8
Total	168.8	

Sources: Bank data and Bank of Lithuania calculations.

Table 6. Income from and costs of cash handling transactions

	OTC transactions	ATM transactions
Income, LTL million	52.2	38.3
Costs, LTL million	96.5	72.3
of which direct costs, LTL million	65.8	62.8
Cost coverage by income, %	54	53
Coverage of direct costs by income, %	79	61
Total costs per transaction, LTL	10.77	1.07
Direct costs per transaction, LTL	7.35	0.93

Sources: Bank data and Bank of Lithuania calculations.

Cash handling transactions include OTC and ATM cash transactions. OTC cash transactions are transactions of cash withdrawal from customers' accounts and cash deposit on them, including transactions with cash-in-transit companies. ATM transactions include transactions of cash withdrawal and deposit with the use of payment cards at ATMs of banks in operation in Lithuania.

In 2011, the banks' cash handling network consisted of 438 client service offices and 1,305 ATMs. Banks in Lithuania executed 9 million OTC cash handling transactions and 67.6 million ATM transactions in 2011. The value of these transactions amounted to LTL 35.1 billion and LTL 26.6 billion respectively.

Cash handling transactions generated for banks an income of LTL 90.4 million in 2011⁹. Most of the income came from individuals (LTL 66.4 million or 73%), the remaining portion (LTL 24.1 million or 27 %) from legal entities. Income from cash handling consists mainly of commissions receivable from customers for ATM and OTC transactions.

The direct costs of cash handling transactions of the banking sector stood at LTL 128.6 million, and the total costs at LTL 168.8 million in 2011. While calculating the costs, all cash handling-related processes are estimated, i.e. ATM maintenance and depreciation, staff employed at branches and maintenance of branches, cash collection and transportation to/from branches, to ATMs, between a bank and the central bank, cash collection and delivery to legal entities, cash handling and safe-keeping, fraud control, including write-offs due to losses arising from robbery, dealing with customer complaints, and provision of additional information.

The major share of total costs consisted of the costs of OTC cash deposit and withdrawal transactions (31%) and ATM transactions (23%). The total costs related with the handling of banknotes and coins – transportation, cash-in-transit services, safe-keeping – accounted for a significant share of total costs (25%) too.

Cash handling was a loss-incurring activity for banks in 2011. Both OTC and ATM cash handling transactions were loss-incurring. The income from cash handling covers 70 per cent of cash handling-related direct costs. The total costs of cash handling exceeded the income received by LTL 78.3 million, and the level of coverage by income was just 54 per cent.

The total costs per OTC cash transaction are 10 times higher than the total costs per ATM transaction. Meanwhile the direct costs per OTC cash transaction are 8 times higher than the direct costs per ATM transaction. Significantly greater average costs per OTC cash transaction (both direct and total) are due to the fact that they are related with large amounts of money and require much manual work. Whereas ATM processes are more automated; moreover, average costs per transaction are brought down by their intensive use.

⁹ The Multilateral Interchange Fee for cash transactions for using one bank's cards at another bank's ATMs which is received and paid by banks is not included in the total income and costs of the banking sector, as through the Interchange Fee part of income is redistributed among banks, i.e. one bank's income is another bank's costs.

3.2. PAYMENT CARDS

Banks operating in the area of payment cards are members of the international payment cards organisations VISA Europe and/or MasterCard. Alongside these payment card schemes, American Express cards are also issued and acquired in Lithuania, yet their market share is insignificant. Domestic payment cards are not issued in Lithuania.

Debit and credit card transactions include payments at POS terminals and e-commerce payments.

By the end of 2011, banks in Lithuania had issued almost 4 million payment cards and the network of POS terminals consisted of 38,000 terminals. 100.4 million domestic payments by debit and credit cards with their value amounting to LTL 5.3 billion were executed in Lithuania in 2011.

In 2011, banks earned LTL 181.1 million in the payment cards sector, slightly more than half of the income from individuals (53%), the other portion from legal entities. Banks received LTL 32.4 million for debit cards and LTL 70.9 million for credit cards from cardholders. The large income from credit cards is due to income related with overdraft limit (payments of interests, penalty fees, charges for granting an overdraft limit or the change of its size). Such income accounts for 73 per cent of the income from credit cards. For cards acquiring, banks received from merchants LTL 77.9 million income. In 2011, this charge made up 1.44 per cent of the card payments amount on average.

In 2011, the direct costs of the issuance of debit cards of the banking sector stood at LTL 68.4 million and those of credit cards at LTL 58.6 million. The total costs amounted to LTL 93.4 million and LTL 76.8 million respectively. A significant share of the total costs in this segment are the costs of card issuance (card production, personalization, delivery to customers) – 23 per cent for debit cards and 12 per cent for credit cards. The total costs related with additional services and customer assistance also represent a significant share. For debit and credit cards, the total amount of these costs accounts for 16 per cent and 10 per cent respectively. For debit cards, the costs associated with the processing (authorisation and settlement) of payment transactions represent a significant share of total costs – 17 per cent. The costs of granting an overdraft limit and losses on non-repaid credit represent most of the total costs of the issuance of credit cards (47%).

In 2011, the banking sector's direct costs of debit and credit card acquiring amounted to LTL 36.4 million and the total costs of acquiring to LTL 45.3 million. In the card acquiring segment, POS terminal management is the most expensive for banks, accounting for 30 per cent of the total costs. The total costs related with payments authorisation and settlement also account for a significant share of the costs – 20 per cent of total costs incurred.

Box 1. Payment Card Issuance and Acquiring Segments

Activities associated with payment cards can be divided into two segments – card issuance and card acquiring. Card issuance represents bank services to cardholders, and card acquiring represents bank services to merchants (including e-commerce) accepting card payments.

Income from payment card issuance includes a commission fee for the issuance of a card, periodic fee for the card servicing as well as various additional service charges (e.g., for the replacement of a lost card). For credit cards, the income from the overdraft limit granted (e.g., interests, payments for overdue payments) is also included.

Income from payment card acquiring includes charges payable by merchants for the acceptance of card payments and for the rent of POS terminals.

Table 7. Domestic payment card transactions

	Number, million	Value, LTL billion
Debit cards	92.5	4.7
of which: on-us transactions	47.8	2.3
Credit cards	7.9	0.6
of which: on-us transactions	3.6	0.2

Note: On-us transactions are such payments when the same bank provides services both to cardholder and merchant.

Sources: Bank data and Bank of Lithuania calculations.

Table 8. Composition of total costs of debit card issuance

	Amount, LTL million	Composition, %
Acquiring new customers, advertising and marketing	8.3	9
Card issuance	21.8	23
Authorisation and settlement	15.6	17
Costs for additional services to customers and customer assistance	15.2	16
Management and monitoring of activities	10.3	11
Other activities	22.3	24
Total	93.4	

Sources: Bank data and Bank of Lithuania calculations.

Table 9. Composition of total costs of credit card issuance

	Amount, LTL million	Composition, %
Acquiring new customers, credit risk analysis, advertising and marketing	7.4	10
Card issuance	9.1	12
Authorisation and settlement	3.2	4
Costs for additional services to customers and customer assistance	7.9	10
Granting of credit and losses on non-repaid credit	35.7	47
Management and monitoring of activities	4.4	6
Other activities	9.1	12
Total	76.8	

Sources: Bank data and Bank of Lithuania calculations.

Table 10. Composition of total costs of card acquiring

	Amount, LTL million	Composition, %
Acquiring new customers, advertising and marketing	2.7	6
Authorisation and settlement	9.1	20
Customer assistance	4.5	10
POS terminal management	13.5	30
Management and monitoring of activities	3.5	8
Other activities	11.9	26
Total	45.3	

Sources: Bank data and Bank of Lithuania calculations.

Part of the income is redistributed between the card issuance and card acquiring segments through an interchange fee. In Lithuania, the interchange fee payable by card acquiring banks to banks that have issued them is 0.94 per cent of the value of transactions on average for debit cards and 1.07 per cent for credit cards. For more information on the interchange fee see Box 2.

When a card payment is executed at a POS terminal serviced by a card issuer (on-us transactions), the interchange fee is not paid. However, even in this case, part of the income received from merchants should be treated as income from card issuance. Therefore, for the execution of on-us transactions, a perceived interchange fee is calculated, the amount of which is estimated taking into account the average interchange fee received by every bank.

Considering the paid and received interchange fee and the perceived interchange fee for on-us transactions, banks' income from card issuance stands at LTL 153.5 million and the income from card acquiring at LTL 27.6 million.

The costs of payment card issuance include the costs of production of a card and its delivery to customers, and the costs of the processes related to payments by that card that are incurred by the issuing bank in the execution of payments authorisation (checking and confirmation or rejection of received requests for payment transactions) and checking the account balance, debiting the customer's account and settlement with the payee's bank. Furthermore, these costs also include processing of applications of new customers, opening of accounts, development and implementation of marketing strategies to acquire new customers, loyalty programmes, fraud control and losses on illegally used customer cards, payments to card schemes (VISA Europe, MasterCard, American Express), advertising and marketing (e.g., special campaigns oriented to current customers, preparation of brochures), dealing with customer complaints and provision of supplementary information (e.g., activities of the call centre). For credit cards, the costs of granting an overdraft limit, including the price of the money, are also included.

Payment card acquiring costs include maintenance of POS terminals and processes associated with payments at POS terminals, also the costs incurred by a card acquiring bank in the execution of payments authorisation (sending requests for payments to the payer's bank and acceptance of the transaction confirmation) and transfer of funds to merchants. Payments for card schemes, processes associated with the acquiring of new customers, fraud control, dealing with customer complaints as well as provision of supplementary information are also included in these costs.

Table 11. Income from and costs of payment card Issuance and acquiring

	Card issuance		Card acquiring
	Debit cards	Credit cards	
Income from cardholders and merchants, LTL million	32.4	70.9	77.9
Income redistribution due to the interchange fee, LTL million	21.9	4.2	-26.2
Additional redistribution of income due to the perceived interchange fee for on-us transactions, LTL million	21.7	2.4	-24.1
Post-redistribution income, LTL million	75.9	77.5	27.6
Costs, LTL million	93.4	76.8	45.3
of which direct costs, LTL million	68.4	58.6	36.4

Sources: Bank data and Bank of Lithuania calculations.

Banks' income from payment cards-related activity covers direct costs but not all total costs. Banks' income from debit cards (including card issuance and acquiring¹⁰) nearly equalled direct costs and the level of coverage was almost 100 per cent. For credit cards, the difference between income and direct costs was higher and the level of coverage was 129 per cent. Considering also the indirect costs attributable to payment cards, the income from both debit and credit cards activities is lower than total costs, and the levels of coverage are 75 per cent and 99 per cent respectively.

Both direct and total costs per debit card transaction are significantly – as much as seven times – lower than the costs per respective credit card transaction. Moreover, average direct and total costs per debit card were almost four times lower than average direct and total costs per credit card. This can be explained by the different method of operation of these cards and the relatively small number of credit card transactions.

Table 12. Income from and costs of payment cards

	Debit cards	Credit cards
Income, LTL million	101.9	79.2
Costs, LTL million	135.1	80.3
of which direct costs, LTL million	102.0	61.4
Cost coverage by income, %	75	99
Coverage of direct costs by income, %	100	129
Total costs per transaction, LTL	1.46	10.20
Direct costs per transaction, LTL	1.0	7.80
Costs per card, LTL	37.30	139.49

Note: Income and costs include both issuance and acquiring.

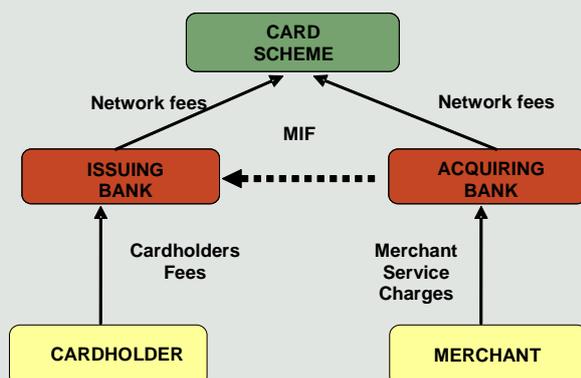
Sources: Bank data and Bank of Lithuania calculations.

¹⁰ Card acquiring income and costs have been attributed to debit and credit cards considering the composition of the number of transactions.

Box 2. Multilateral Interchange Fee (MIF)

When executing each card transaction, the merchant's bank (acquiring bank) pays an interchange fee to the cardholder's bank (the issuing bank). The interchange fee may be agreed on a bilateral basis (the issuing bank and the acquiring bank agree between themselves) or a multilateral basis (by taking a decision mandatory for all banks participating in a payment card scheme).

The interchange fee is a fee charged by the issuing bank for transactions executed with the cards issued by it. The costs of this fee are borne by acquiring banks and are afterwards shifted onto merchants having set a higher merchant service charge. Accordingly, it is the interchange fee that mainly determines the price to be paid by merchants to banks for card acquiring.



Normally, MIF is based on the fact that it provides the grounds for issuing banks to encourage consumers to use payment cards. When charging this fee, issuing banks may issue cards without charging a cardholder's fee or for a small cardholder's fee, and render additional services to customers (e.g., travel insurance, payment discounts). Owing to this balancing mechanism, more extensive use of cards increases effectiveness.

MIF can be a certain proportion of the settlement amount, a fixed fee for each transaction or a combined fee (proportion of the payment amount and a fixed fee). In the European Union, very different MIFs are applied. Not all of them are published. However, under formal and informal settlement with the European Commission, MasterCard and Visa Europe currently publish their fixed MIFs (in some countries, MIF is fixed by domestic banks using the card schemes MasterCard and Visa Europe, in which cases the fees normally are not published). In the card schemes MasterCard and Visa Europe, MIF ranges from zero (Maestro debit cards in Switzerland) to 1.62 per cent (MasterCard debit cards in Poland) and 1.90 per cent (Visa debit cards and business cards in Poland), depending on the card category and country.

Under informal settlement with the European Commission, MasterCard reduced its MIF for cross-border consumer debit and credit card transactions to 0.20 per cent and 0.30 per cent respectively. Visa Europe reduced its MIF for cross-border consumer debit card transactions and transactions involving the use of these cards in nine EU Member States to 0.20 per cent. Under these settlements, a standard – the so called merchant indifference test – was applied. On the basis of this test, MIF is fixed of such a magnitude that for merchants a card payment does not cost more than cash payment and, therefore, for the merchant the choice of one of these two payment instruments becomes not important. Hence, this magnitude is regarded as ensuring that merchants and subsequently their customers receive part of the benefit resulting from the effectiveness which allegedly depends on MIF.

Source: The European Commission.

3.3. DOMESTIC CREDIT TRANSFERS IN LITAS

Table 13. Domestic credit transfers in litas

	Number, millions	Value, LTL billion
Domestic credit transfers in litas	100.6	425.4
Paper-based	13.1	66.0
Electronic	87.5	359.3

Sources: Bank data and Bank of Lithuania calculations.

Table 14. Composition of total costs of domestic credit transfers in litas

	Amount, LTL billion	Composition, %
Acquiring new customers, advertising and marketing	9.5	7
Initiation of paper-based transfers	37.3	28
Initiation of electronic transfers	9.0	7
Processing of transfers	22.3	17
Filing and archiving of data	9.3	7
Customer assistance	5.7	4
Management and monitoring of activities	15.3	11
Other activities	25.5	19
Total	133.9	

Sources: Bank data and Bank of Lithuania calculations.

Table 15. Income from and costs of domestic credit transfers in litas

	Credit transfers in litas	Electronic	Paper-based
Income, LTL billion	135.5	108.0	27.6
Costs, LTL billion	133.9	84.4	49.5
of which direct costs, LTL billion	94.3	55.7	38.6
Cost coverage by income, %	101	128	56
Coverage of direct costs by income, %	144	194	71
Total costs per transaction, LTL	1.33	0.96	3.77
Direct costs per transaction, LTL	0.94	0.64	2.94

Note: Income from electronic and paper-based transfers has been calculated taking into account their fees ratio, i.e., assuming that paper-based credit transfers cost twice as much as electronic transfers.

Sources: Bank data and Bank of Lithuania calculations.

and of the balance of account, execution of the order internally or via payment systems or correspondent banks, also processing of received transfers and their recording in the payee's account, cancellation and return of orders, processing of applications of new customers, advertising and marketing, fraud control and losses on fraud, prevention of money laundering, safekeeping and archiving of database records and paper documents, dealing with customer complaints and provision of supplementary information (e.g., activities of the call centre) are included.

In the provision of the service of credit transfers in litas, banks incur the highest total costs for the initiation of transfers – 35 per cent of total costs. The major proportion of these costs (28% of the total costs of credit transfers in litas or 81% of initiation costs) goes for paper-based credit transfers in litas. By the amount of costs, processing of transfers is the second activity, accounting for 17 per cent of the total costs of credit transfers in litas. The costs of other activities not attributed to the activities listed in Table 14, e.g., provision of additional services related to credit transfers in litas to customers, design and enhancement of products and processes, accounted for 19 per cent of the total costs of credit transfers in litas.

The profitable service of electronically initiated credit transfers compensated for the loss incurred on paper-based transfers. Overall, the income earned from credit transfers in litas was LTL 1.6 million above total costs (the level of coverage 101%). On the other hand, if we were to estimate only the direct costs of credit transfers in litas, the level of coverage would rise to 144 per cent. It should be noted that the costs of paper-based credit transfers in litas (both total and direct) exceeded the income from such credit transfers. Meanwhile the income from electronically initiated credit transfers in litas substantially exceeded both direct and total costs of these transfers (the coverage was 194% and 128% respectively).

Electronically initiated credit transfers in litas is a more effective payment instrument, as the total average costs of these credit transfers per transaction were nearly four times lower than the average total costs of paper-based transfers per transaction. Analysis of direct costs revealed that, for electronic credit transfers, these costs were nearly five times lower.

Domestic credit transfers in litas comprise credit transfers inside the bank and to other credit institutions in Lithuania as well as cash payments for services at branches. Credit transfers can be initiated electronically (mostly through using internet banking applications) or can be paper-based at a bank's client service office.

At the end of 2011, 8.5 million accounts were opened in Lithuania. The funds on these accounts can be transferred to other economic entities using normal payment instruments without a significant delay, restriction or penalty. 5.5 million of these accounts are managed by electronic means. 100.6 million domestic credit transfers with their value amounting to LTL 425.4 billion were executed in Lithuania in 2011. The majority portion (87%) of the transfers with their value accounting for 84 per cent of a total of domestic credit transfers in litas was electronic credit transfers.

Most income from credit transfers in litas is generated for banks by electronic transfers. In 2011, banks earned a total income of LTL 135.5 million from credit transfers in litas. The contribution of electronic credit transfers to this income was LTL 108 million or 80 per cent. By payer, the income from individuals and legal entities was more or less equal, 53% and 47% respectively.

Income from domestic credit transfers in litas consists of commissions for the initiation of credit transfers and administration of payments received as well as a periodic fee for management of the account and income for additional services (e.g., revocation of transactions).

Although the number of paper-based credit transfers in litas is seven times smaller than that of those initiated electronically, due to them, banks incur over a third of the costs of all both direct and total domestic credit transfers in litas. In 2011, the direct costs of domestic credit transfers in litas amounted to LTL 94.3 million, i.e., 70 per cent of the total costs (LTL 133.9 million) of these credit transfers.

When estimating costs, collection of customer orders submitted via the Internet, over the counter or by other means, data recording to the bank's system, verification of the authenticity (of a signature, documents)

3.4. CREDIT TRANSFERS IN EURO

Credit transfers in euro include credit transfers inside the bank and to other credit institutions operating in Lithuania and foreign countries. This category also comprises SEPA credit transfers¹¹.

The number of credit transfers in euro is relatively small with international payments prevailing. In 2011, bank customers initiated 1.7 million credit transfers in euro in Lithuania whose value amounted to LTL 143.6 billion, and received 1.4 million credit transfers in euro, valued at LTL 78.2 billion, from other credit institutions.

In 2011, banks earned an LTL 66.5 million income from credit transfers in euro. This accounted for 14 per cent of the total income from the payment services under review, surpassing direct debit by income earned only.

Income from credit transfers in euro, as in the case of domestic credit transfers in litas, consists of commissions received for the initiation of credit transfers and administration of payments received as well as income from additional services (e.g., revocation of transactions).

The direct costs of credit transfers in euro of the banking sector amounted to LTL 28 million, and the total costs of these credit transfers to LTL 42 million. The costs of credit transfers in euro encompass basically the same activities and processes that are typical in the execution of credit transfers in litas.

The bulk of total costs (33%) go for processing of transfers. The total costs of initiation are second by amount (16%). The breakdown of these total costs of credit transfers in euro is different from that of domestic credit transfers in litas, where the major proportion of total costs goes to initiation. The major proportion of the total costs of credit transfers in euro goes to processing because the processes needed for the execution of these transfers cost more than the processes for the processing of domestic credit transfers in litas. Credit transfers in euro is a profitable payment service for banks. In 2011, banks' income from credit transfers in euro exceeded the total costs of these transfers by LTL 24.5 million and direct costs by LTL 38.5 million. The level of coverage of the costs was 158 per cent and 238 per cent respectively. Cross-border transfers make up the major proportion of credit transfers in euro and, therefore, cross-border credit transfers in other currencies are likely to have been profitable as well. These services contribute substantially to the coverage of the costs of loss-incurring payment services.

Average total and direct costs per credit transfer in euro transaction were the highest among the total average costs per transaction of the payment services under review. This can be explained by the more costly processing process of these transfers and the relatively small number of transactions. A larger number of credit transfers in euro would enable reducing the costs per transaction whose amount depends to a little extent on the number of transfers.

Table 16. Credit transfers in euro

	Number, millions	Value, LTL billion
Sent credit transfers in euro	1.7	143.6
Credit transfers in euro received from other credit institutions	1.4	78.2

Sources: Bank data and Bank of Lithuania calculations.

Table 17. Composition of total costs of credit transfers in euro

	Amount, LTL million	Composition, %
Acquiring new customers, advertising and marketing	2.4	6
Initiation of transfers	6.9	16
Processing of transfers	13.7	33
Filing and archiving of data	3.5	8
Customer assistance	2.9	7
Management and monitoring of activities	5.6	13
Other activities	7.0	17
Total	42.0	

Sources: Bank data and Bank of Lithuania calculations.

Table 18. Income from and costs of credit transfers in euro

	Credit transfers in euro
Income, LTL million	66.5
Costs, LTL million	42.0
of which direct costs, LTL million	28.0
Cost coverage by income, %	158
Coverage of direct costs by income, %	238
Total costs per transaction, LTL*	21.54
Direct costs per transaction, LTL*	14.35

Note: * The number of transfers in euro used for calculations is the average of the number of sent and received credit transfers in euro so that the processing of received payments is also taken into account.

Sources: Bank data and Bank of Lithuania calculations.

¹¹ SEPA credit transfers are domestic and cross-border transfers in euro executed in the Single Euro Payments Area (hereinafter – SEPA), which includes the EU Member States, Iceland, Liechtenstein, Norway, Monaco and Switzerland, applying the same basic conditions, rights and obligations.

3.5. DIRECT DEBIT TRANSACTIONS

Table 19. Composition of total costs of direct debit transactions

	Amount, LTL million	Composition, %
Acquiring new customers, advertising and marketing	8.0	40
Filing and archiving of data, management of mandates	2.7	13
Funds collection procedures and processing of payments	2.8	14
Customer assistance	2.3	12
Management and monitoring of activities	2.5	13
Other activities	1.6	8
Total	19.9	

Sources: Bank data and Bank of Lithuania calculations.

Table 20. Income from and costs of direct debit transactions

	Direct debit
Income, LTL million	8.4
Costs, LTL million	19.9
of which direct costs, LTL million	14.3
Cost coverage by income, %	42
Coverage of direct costs by income, %	59
Total costs per transaction, LTL	1.45
Direct costs per transaction, LTL	1.04

Sources: Bank data and Bank of Lithuania calculations.

Direct debit transactions comprise payments initiated by a payee; debit transfers when settling for agricultural products are also included in them¹².

13.7 million direct debit transactions were executed in Lithuania in 2011 with their value amounting to LTL 1.6 billion. These are the smallest figures across the payment services under review.

The major proportion of income from direct debit transactions comes to banks from legal entities. In 2011, banks received an LTL 8.4 million income from direct debit transactions, of which LTL 8.2 million (97%) from legal entities and LTL 0.2 million (3%) from individuals. The income consists of commissions received from a payee for the initiation of direct debit and from a payer for the execution of transactions. The service of direct debit is mostly used by enterprises for collection of payments from individuals. Many banks provide the service of direct debit for payers free of charge; accordingly the share of income from individuals is so small.

The banking sector's total costs of direct debit made up LTL 19.9 million in 2011 and were the lowest among the costs of all the payment services under review. The direct costs of direct debit accounted for 72 per cent of its total costs. The following activities and processes were included in the calculation of direct debit costs: search for potential customers and processing of new applications, management of direct debit mandates database, reception of files from a payee, their checking and submitting for the processing of transactions, debiting of funds from a payer's account, return or revocation of direct debit transactions, safekeeping and archiving of database records and paper documents, assessment of a payee's credit risk, advertising and marketing, dealing with customer complaints and provision of supplementary information (e. g., activities of the call centre).

Banks put a great deal of effort to popularising direct debit. The costs of acquiring new customers accounted for the largest share of total costs (40%). Another large group of costs includes funds collection procedures, payment processing and data safekeeping, with 27 per cent of direct debit costs.

The service of direct debit was loss-incurring for banks in 2011. Both total and direct costs exceeded the income earned by LTL 11.5 million (the level of coverage just 42%) and LTL 5.9 million (the level of coverage 59%) respectively.

Relatively high costs per transaction (both direct and total) are due to little use of this service yet. Average total costs per direct debit transaction made up LTL 1.45.

¹² This service is used by entities engaged in the growing or processing of agricultural products.

3.6. COMPARISON WITH OTHER COUNTRIES

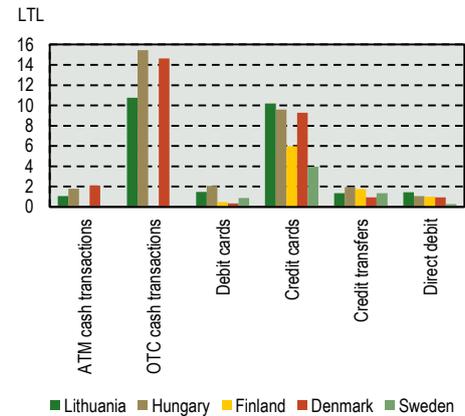
The ECB is carrying out a study of the social costs of payment services, which includes the central banks of 13 EU member states¹³. Some participating states have already released their collected data¹⁴ and singled out the banking sector in the published reports. Given that the methodology for the Bank of Lithuania's Review of the Study of the Costs of Payment Services was developed on the basis of the ECB's methodology, we are able to compare other countries' results with the data of the study carried out by the Bank of Lithuania. This comparison should be interpreted with caution, though, on account of the different periods of the studies¹⁵. In addition, there may be discrepancies between the definition and the scope of payment services.

In comparison with other states, banks in Lithuania stand out by somewhat higher total costs of debit cards and direct debit per transaction than in the Scandinavian countries. This can be explained by lower use of these payment instruments in Lithuania.

Estimation of the costs of payment services provided by banks in terms of the national GDP reveals that in Lithuania, the costs exceed those in Finland, Denmark and Sweden, but stand below those in Hungary. This suggests that banks in the said Scandinavian countries incur relatively lower costs in the provision of payment services. The value of this ratio is determined both by banks' ability to streamline their costs of payment services and the number of transactions in line with the composition of payment services. Although the total costs per transaction of the payment services under review in Lithuania and in other countries in many cases vary insignificantly, the ratio of banks' total costs to GDP is in favour of the above Scandinavian countries due to more extensive use of non-cash payments¹⁶.

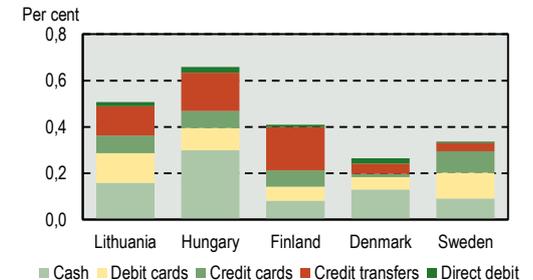
The study results suggest that in the Scandinavian countries mentioned above and in Hungary, the costs of only a few payment services are covered by income from these services (see Chart 10). It should be noted that the results vary a lot across the countries, i.e., in some countries the costs of some payment services are covered by income, in other countries they are not, or the costs of other payment services are covered. To sum up, it should be noted that, earning less income from payment services than incurring total costs, banks compensate their losses by aiming to earn relatively higher income from other activities or services. One thing is clear – cash handling is loss-incurring in all countries.

Chart 8. Costs per transaction in Lithuania and other countries



Note: 2011 data for Lithuania, 2009 for other countries. Sources: Central banks of listed countries, the Bank of Lithuania and Bank of Lithuania calculations.

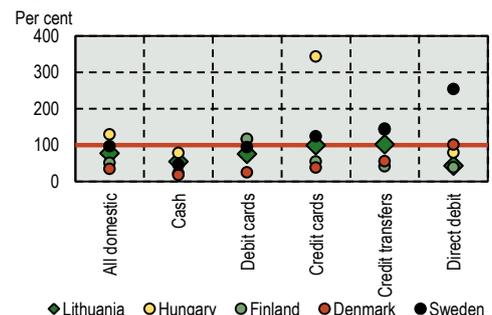
Chart 9. Ratio of total costs of payment services provided by banks to GDP in Lithuania and other countries



Notes: 2011 data for Lithuania, 2009 for other countries. Total costs of credit transfers in euro incurred by the Lithuanian banks are not included into the calculation of the ratio for the sake of a similar scope of payment services compared with other countries.

Sources: Central banks of listed countries, the Bank of Lithuania and Bank of Lithuania calculations.

Chart 10. Coverage of the costs of payment services in Lithuania and other countries



Note: 2011 data for Lithuania, 2009 for other countries. Sources: Central banks of listed countries, the Bank of Lithuania and Bank of Lithuania calculations.

¹³ Ireland, Denmark, Estonia, Greece, Spain, Italy, Latvia, The Netherlands, Portugal, Romania, Finland, Sweden, Hungary.

¹⁴ Study of the central bank of Sweden "The Cost of Consumer Payments in Sweden" (<http://www.riksbank.se/en/Press-and-published/Reports/Working-Paper-Series/2012/No-262-The-Cost-of-Consumer-Payments-in-Sweden/>). The central bank of Sweden's subject of study only includes consumer payments.

Study of the central bank of Hungary "Nothing is free: A survey of the social cost of the main payment instruments in Hungary" (http://english.mnb.hu/Root/ENMNB/Kiadvanyok/mnben_muhelytanulmanyok/mnben_op_93).

Study of the Danish National Bank "Costs of payments in Denmark" (http://www.nationalbanken.dk/C1256BE9004F6416/side/Cost_of_payments_in_Denmark).

Study of the Bank of Finland "Vähittäismaksamisen kustannukset pankeille"

(http://www.suomenpankki.fi/fi/julkaisut/selvitykset_ja_raportit/bof_online/pages/bof_onl_07_2011.aspx). The Bank of Finland studied the banking sector.

¹⁵ The central banks of other states mentioned herein analysed 2009 data, the Bank of Lithuania 2011 data.

¹⁶ Based on ECB statistical data releases, Denmark, Finland and Sweden were EU leaders by number of non-cash payments per capita in 2011.

4. CONCLUSIONS

In the provision of payment services, banks bear the highest costs on cash transactions. Because of the wide spread and use of cash, banks execute many cash handling transactions the costs of which are not covered by income earned from this payment service. The loss-incurring activity is covered from other profitable payment services and other profit-making activities of the bank.

Less cash handling services would be needed if more non-cash payments were executed. Consequently, with regard to costs, the use of more technologically advanced and more effective payment instruments is to be encouraged, including debit cards, electronically initiated credit transfers, and direct debit. The infrastructure of these payment instruments has already been developed, it has been active, and its wider use would enable reducing average costs per transaction. Accordingly, this would provide a possibility to revise the fees, making services cheaper for consumers and ensuring the amount of income that covers the costs of these payment services for banks at the same time.

Lithuania's payment cards market is technologically up-to-date, however, we are among the last in Europe and are lagging behind our neighbours in terms of their use. It is expedient to develop the market's potential and payments infrastructure (by installing more POS terminals). This would enable banks to achieve a sustainable business model and satisfy the expectations of cardholders and cards accepting merchants to have a cheap payment instrument.

Direct debit slowly finds its way into the habits of residents despite the fairly significant financial resources banks allocate for acquiring new customers. While the income from this payment service does not cover its costs, the situation would change with a significant increase in the number of transactions involving the use of this payment instrument. Nearly all banks provide this service to payers free of charge, hence the reasons why this service is not popular should be analysed more comprehensively.

With the increasing diversity of payment instruments across the world and the growing number of payment services market participants, it is also appropriate for banks operating in Lithuania to pay attention to alternative innovative payment instruments, for instance, Near Field Communication (NFC), which is based on payment cards "migration" to mobile devices. It should be noted that, apart from banks, communications operators as well as other services providers such as Google, PayPal have ambitions to participate in new business models under way. New payment services market players – payment and electronic money institutions – also start actively offering various payment services solutions. Enjoying their exclusive position in the payments infrastructure, banks might contribute to the development of payment services by the non-banking sector. On the other hand, new players should consider a possibility of creating a payments infrastructure of their own.

The conducted study of the costs of payment services provided by banks revealed a lot of valuable information about the payment services market in Lithuania, thereby contributing to the boosting of market transparency. The income and costs indicators of the banking sector's payment services and public expectations about payment services are suggestive of the need for change in this market and monitoring of its further development. In this regard, it is worthwhile considering a possibility of carrying out an analogous study after a few years or even doing it on a regular basis. With the approval of the central banks of the neighbouring countries for this, such studies might be carried out concurrently in the whole region using the same methodology. This would ensure data comparability and enable more effectively assessing the functioning of the payment services market in individual countries, thereby contributing to even higher market transparency.

The expansion of a balanced and sustainable payment services market can be implemented with difficulty without a constructive dialogue among all parties concerned – payment services providers, residents, enterprises, state institutions. It is therefore worthwhile considering the expediency of establishing, taking into account the practice and experience of other countries, an organisational structure in Lithuania which would coordinate the implementation of important payment services market projects, including SEPA, match the interests of payment services providers and users, and address emerging problems.