



Review of the Activities of Electronic Money Institutions

2016

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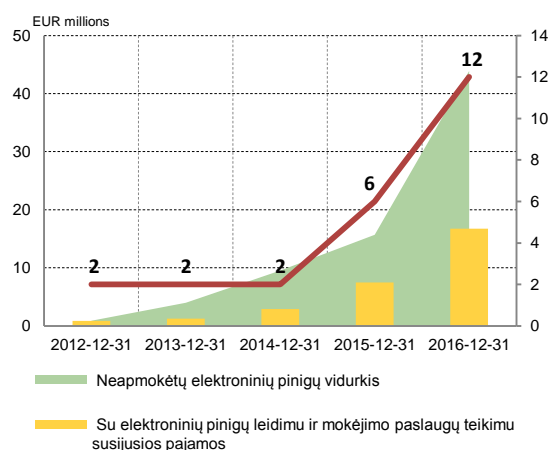
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Public list of electronic money institutions. On 31 December 2016, twelve electronic money institutions were registered in the public list of electronic money institutions; of these, six operated only in the Republic of Lithuania (holding a licence for restricted activity only valid in the Republic of Lithuania and providing that monthly average outstanding electronic money would not exceed EUR 900 thousand per month). In 2016, licences to issue electronic money and provide the payment services established in Article 5 of the Republic of Lithuania Law on Payments were issued to six undertakings, of which three changed their current payment institution licences to electronic money institution licences. Lithuania Post (*AB Lietuvos paštas*) expanded its business model with issuance of electronic money, providing the possibility for clients to open payment accounts, and mobile network operators intend to provide to their clients the possibility to execute instant payments via mobile phone in 2017. With the Bank of Lithuania and other state institutions seeking to make Lithuania an international centre for payment services and promoting development of innovative payment services in Lithuania, international financial technology companies (FinTech¹) are taking a greater interest in the possibilities offered by Lithuania, which encouraged an increase in the number of payment and electronic money institution market participants. The plan is to attract even more companies providing financial services, operating on an international scale, to Lithuania in the near future, as interest in the opportunities in Lithuania, such as access to the infrastructure of the Single Euro Payments Area (SEPA) for payment and electronic money institutions and a faster licensing process, will continue to increase.

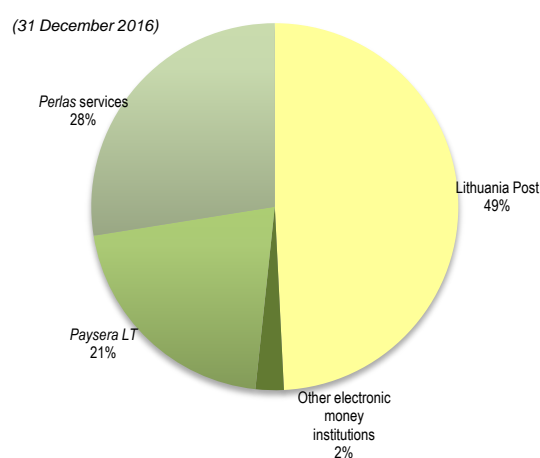
Activities performed. According to the audited (where audit is obligatory) and shareholder-approved financial statements, over 2016 electronic money institutions earned income from electronic money issuance and provision of payment services amounting to EUR 16.6 million. Compared to the previous year, this amount increased 2.2 times. This year, the major share of income from licensed activities was a result of Lithuania Post, having received an electronic money institution licence in 2016, moving from the payment services to the electronic money institution system. In the reporting period, four institutions had not yet begun providing electronic services. With mobile operators and Lithuania Post, the main activities of which are comprised of other economic and commercial activities, joining the electronic money institution system, in 2016 (compared to the previous reporting period), the ratio of electronic money institution income related to issue of electronic money and provision of payment services decreased by 60 p.p., amounting to 2.7 per cent. Average outstanding electronic money, calculated as the average of the total

Chart 1. Data on the activities of electronic money institutions (2012–2016)



Source: Bank of Lithuania calculations.

Chart 2. Share of largest electronic money institutions by income of electronic money and payment services (31 December 2016)



Source: Bank of Lithuania calculations.

¹ FinTech – new information technologies and financial services, covering a wide range, from utility payments to lending or financing, something that is particularly important for small and medium-sized businesses.

amount of financial liabilities related to the electronic money issued at the end of each day during the last six months, as of 31 December 2016 amounted to EUR 43.9 million, an increase of EUR 28.2 million, or 2.8 times, year on year. As in previous periods, the increase of this indicator was a result of the growth in the number of electronic money institutions and rapid development of activities. By income earned, related to issue of electronic money and provision of payment services, the electronic money institution market in 2016 was shared by three market participants (98% of the market), while other electronic money institution income coming from licensed activities amounted to only a small share of the market.

Compliance with prudential requirements. Electronic money institutions, having a licence for restricted activity, on the reporting date were in compliance with the average outstanding electronic money (not exceeding EUR 900 thousand per month) requirement. As of 31 December 2016, the total amount of the own funds of electronic money institutions was EUR 22.6 million. The total own capital requirement (calculated by applying Bank of Lithuania-approved methods, applicable to electronic money institutions) on the aforementioned date amounted to EUR 3.2 million. One electronic money institution had to take measures for its calculated own capital to be no less than the equity capital requirement. By increasing authorised capital, the institution ensured compliance with the equity capital requirement after the reference date. It should be noted that information on each electronic money institution's [major performance indicators](#) for the year and each quarter as well as on their compliance with prudential ratios is published on the website of the Bank of Lithuania.

Electronic money institutions, in complying with the safeguarding requirements for the holders of electronic money obtained in exchange for electronic money issued and payment services provided, held them in accounts opened with credit institutions, as secure and liquid assets involving low risk (time deposits with credit institutions, cash).

Future changes in the field of the legal regulation of electronic money institutions. On 25 November 2015, having adopted Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (hereinafter – [PSD2](#)), the Republic of Lithuania Ministry of Finance, together with the Bank of Lithuania, prepared a [series of legal acts implementing PSD2](#) and it was presented to the market for notes.

PSD2 was transposed into national law by 13 January 2018. Electronic money institutions, having an electronic money institution licence, will be able to continue operations, without complying with the PSD2 requirements, until 13 July 2018, while institutions with a limited electronic money institution licence — until 13 January 2019.

On 30 June 2016, the Seimas of the Republic of Lithuania adopted the amendments to the Republic of Lithuania Law on Payments. They implement Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (Payment Accounts Directive, PAD). The Law provides the opportunity for users to easily and quickly change payment service providers, i.e. transfer their payment account from one payment services provider to another. For users to more easily and simply prepare the rates applied by various payment service providers, the Bank of Lithuania website will publish information on all commission fees for services, related to payment accounts. The goal is also for payment service providers to provide to users reports, free of charge, about the commission fees paid by them – every half year for the whole year.

The Seimas of the Republic of Lithuania on 3 November 2016 adopted the Republic of Lithuania Law on Crowdfunding, which came into force on 1 December 2016. This Law provides that natural and legal persons can publicly borrow through crowdfunding platforms from unidentified persons for business, professional, educational, scientific and other purposes, excluding consumer purposes. The Law on Crowdfunding establishes the terms and conditions for crowdfunding, for the activities of crowdfunding operators, requirements for such operators, which are necessary for revealing the volume of information in the financing platform, inclusion in and removal from the public List of Crowdfunding Platform Operators, as well as the basis for the procedure for the supervision of the activities of crowdfunding platform operators.

The [position](#) of the Bank of Lithuania Supervision Service on funds held in payment accounts was announced. Having established that financial market participants have a different understanding of the contents and functionality of a payment account, as well as of the possibility to hold funds in a payment account for an unlimited time or for a period longer than is necessary for performing payment operations, the position was adopted that presents an explanation on the differences between payment accounts at payment institutions and electronic money institutions.

Settlement of disputes. In 2016, the Bank of Lithuania received seven consumer claims regarding disputes with electronic money institutions. In three cases, the disputes were settled through a peaceful agreement between the parties in the dispute. During the reporting period one decision was made on the subject matter of a dispute, wherein the consumer's demands that an electronic money institution return the deducted commission fee were rejected, as in the case under review it was established that the electronic money institution performed the payment transaction properly, in line with the terms and conditions of the agreement concluded with the consumer.