LIETUVOS BANKAS
EUROSISTEMA

# PAYMENTS MARKET REVIEW

2017

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**Abbreviations**

| | |
|---|---|
| ECB | European Central Bank |
| EEA | European Economic Area |
| EPC | European Payments Council |
| EU | European Union |
| LCCU | Lithuanian Central Credit Union |
| CSDL | Central Securities Depository of Lithuania |
| PSP | payment service provider |
| MSC | merchant services charge |
| % | percentages |
| p.p. | percentage points |
| SEPA | Single Euro Payments Area |
| SEPA-MMS | Payment system created in Lithuania and managed by the Bank of Lithuania |
| STEP2-T | European retail payment system managed by EBA CLEARING |

**Countries**

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

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

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

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## SUMMARY

**Standardisation of payment services due to SEPA provided more possibilities for payment service users, but there are still obstacles that impede taking advantage of SEPA in full.** Migration to SEPA payment instruments in Lithuania had, until now, been the widest-ranging project in the payments area, due to which not only PSPs, but also part of enterprises in the country had to make preparations. In 2016, implementation of SEPA requirements in Lithuania laid the technical foundations for higher competition among PSPs, more effective payment processes in enterprises; however, not every enterprise has still made use of these possibilities – mostly on account of pricing obstacles that are still applied to some payment services or necessary technical changes to the enterprise's systems. The SEPA credit transfer service is a smoothly functioning and currently prevailing SEPA product in Lithuania. The electronic invoice submission and payment service (hereinafter 'e-invoice'), launched in the market in 2016, provides the possibility for enterprises to make use of the one stop shop principle. Nevertheless, the pricing of this service applied to the enterprises of some PSPs shows that there still are obstacles that prevent PSPs to offer, and enterprises – to make use of the possibilities provided by the one stop shop principle. In 2016, the SEPA direct debit service was only provided by a few PSPs, and for payers only, while not one PSP offered this service for enterprises. PSPs did not urge payers to use the SEPA direct debit service by applying unfavourable fees.

**The positive impact of SEPA also depends on the extent to which payment service users will make use of SEPA's possibilities.** The application to SEPA of utility and other bill payment collection processes used by enterprises has been implemented, although with some delay. A large share of enterprises, however, has still not made use of the possibilities provided by common technical specifications in collecting utility and other bill payments. This is also characteristic of enterprises and institutions that must organise public procurements to purchase utilities and other bill payments collection services. Moreover, there still persists the practice among enterprises and public sector institutions to limit possibilities for employees to select a PSP to receive their wages.

**The amended Law on Payments came into force on 1 February 2017 and brought additional benefits for residents and created legal incentives for more intense competition among PSPs.** Among the major changes is the right, provided in the Law, for consumers to use the basic payment account service, which ensures the availability of basic payment services at a reasonable price – no more than EUR 1.5 per month; the price was set by the Bank of Lithuania. This encouraged changes in the standard pricing offered by banks – the market also offers other payment services baskets at a fixed price. One more no less significant change is the prohibition for PSPs to differentiate a commission fee for incoming payments subject to which PSP the payment was received from. This change, along with the SEPA requirements-driven technical standardisation of payments allows enterprises to streamline their payment processes and reduce the number of contracts with banks. The provisions of the Law on Payments facilitate migration of consumers from one PSP to another. Lithuania's payments market is characterised by low mobility of payment service users; consequently, considering the practices applied in foreign countries, PSPs could, on their own initiative, improve this service, thereby facilitating even more consumers switching to another PSP. Consumers who disagree with pricing or other changes are provided with the right to close their payment account with a PSP even when they have a housing loan or use other services. And yet the currently effective provisions on the closing of a payment account linked with other services can only be applied under certain conditions, while consumers would feel the highest benefits upon elimination of linking of the payment account with other services in all cases.

**The change in the pricing of payment services in early 2017 – introduction of payment services baskets – changes residents' experience in the use of payment services.** In reaction to the appearance of the basic payment account service, banks offered to their customers other payment services baskets in addition, mainly – providing for a larger or even unlimited number of payment transactions per month. This allows consumers to select the PSP that offers the best conditions, use one payment account and not divide payments into those performed within a bank and those directed to another bank. In 2017, compared to 2016, most residents holding a payment card and making at least one utilities or other bill payment or withdrawing cash from ATMs could save if selecting a payment services basket; residents most active in the use of payment services would save the most.

**In 2016, the market showed the first effects of the Interchange Fees Regulation.** The interchange fees reduced in 2015 by this Regulation significantly reduced the merchant services charge (MSC) applied to merchants by banks for acquiring card payments in Lithuania: the average MSC fell to 0.63 per cent (in 2016) from 1.00 per cent (in 2015). Moreover, there remained almost no difference between MSC when payment is made using payment cards issued by an acquiring bank and those issued by other banks, which strengthens competition among PSPs in providing the card payments acquiring service. The fall in MSC encouraged merchants in 2016 to look upon with favour at the opportunity to accept card payments. The Interchange Fees Regulation led to higher transparency in fees for merchants in the market, as well as entitled them to select which payment cards they might be willing to accept. Compared to other payment services, in 2016 the use of payment cards grew the most – by 13.5 per cent.

**The regulation of payment initiation and account information services starting from 2018 may markedly change the payments market as well as the PSP and customer relationship in the future.** The payment initiation service defined in EU law for the first time and to be regulated as of 13 January 2018 has occurred in Lithuania primarily as a response to insufficiently developed banking services intended for electronic commerce. The payment initiation service

will provide possibilities for market participants, mainly merchants, to reach all banks, will compete with already available market services in fees and the service quality; it may also be adapted for other fields. The account information service will allow payment service users (especially enterprises) to receive their account statements in the most acceptable way for them.

**Payment infrastructure developments help introducing market innovations: a new quality payment service – instant payments – is to be launched in the near future.** Aiming at higher competition in the payments market and promoting innovations, the Bank of Lithuania has provided non-bank PSPs with the possibilities for a simplified use of the SEPA-MMS payment system managed by it. In the near future, the so-called instant payments – a new quality payment service – are expected to be presented to the market, as well as the related new infrastructure is to be designed. Instant payments may replace cash, be useful in electronic commerce or compete with payment cards at points of sale. Innovative payment services, such as instant payments, are necessary aiming at the development of the market of payments executed without using a payment card and a wider use of such services, as in Lithuania, compared to other European countries, their use is limited.

**The development and efficiency of the payments market have become integral to electronic identification; state institutions should thus focus greater attention to this field.** The use of electronic identification means for remote authentication and verification helps PSPs attract new customers and create new products. Legalisation in Lithuania of the personal authentication method by video means, which has been spreading in the world, will create favourable conditions for the development of financial services. Legal provisions were adopted for that in 2016. Despite this, the unregulated variety of electronic identification schemes in Lithuania is becoming an obstacle for the development of electronic services. State institutions should thus take an active role in the formation of electronic identification policy by regulating this field at a national level and conducting its oversight.

**The Bank of Lithuania has included the measures, within its competence, as proposed in the draft National Payments Strategy, into its strategic plan for 2017–2020.** In 2016, the Bank of Lithuania prepared and made public a draft National Payments Strategy. Considering its functions, it has already started implementing and will further implement the tasks envisaged in the draft Strategy. To this end, the instant payment service is being introduced in the Bank of Lithuania’s payment system SEPA-MMS, preparations for the establishment of the Payments Council are being made, payments market standardisation initiatives are supported and cooperation with government and other state authorities in the fields of increasing public sector efficiency, fostering the development of innovations, and improving the quality of education services are maintained.

# 1. PAYMENTS MARKET DEVELOPMENTS AND THEIR IMPACT

## 1.1. Impact of SEPA requirements in Lithuania

**Implementing EU legal acts, Lithuania joined the SEPA as of 1 January 2016, which led to the standardisation of payments and provided more negotiating powers and possibilities for users.** Within the Single Euro Payments Area (SEPA), covering 34 countries[1], credit transfers and direct debits are carried out in observance of SEPA Regulation[2] requirements and rules, defined in SEPA schemes,[3] ensuring that electronic payments in euro between SEPA countries and in them are carried out under uniform conditions. The purpose of standardisation is to create a single electronic payments market in Europe with tighter competition among PSPs, in which consumers would be able to more easily choose the services of which PSP to use, and enterprises could streamline their payment processes. SEPA requirements include not only technical standardisation of payments: in order to ensure the consumers' right to select a desirable PSP, the SEPA Regulation prohibits payees and payers to specify to the other payment counterparty which PSP, operating within the SEPA area, it must hold a payment account with.

**Migration to SEPA payment instruments in Lithuania until now had been the widest-ranging project in the field of payments, which required preparations from not only PSPs, but also part of enterprises in the country.** Firstly, PSPs had to review the processes of all of their payment services being provided: adapt to SEPA requirements not only common credit transfers, modify the former direct debit service, but also specialised payment services widely spread in Lithuania – wage payments and utility and other bill payments. Secondly, following adoption of the euro in 2015, Lithuania had only one year to prepare for SEPA requirements – which was a short time span for preparations relative to the volumes of change. Thirdly, the implementation of changes also covered enterprises the accounting programmes of which had automated ties with banks or which used wage or utility and other bill payment services; therefore, PSPs not only had to prepare themselves, but also grant assistance to their customers.

**Migration of PSPs in Lithuania to the SEPA credit transfer service was smooth.** In January 2016, residents and enterprises could see changes in their internet banking: domestic payments and payments to other SEPA countries had the same payment order form, some field titles of the payment order form, their purpose or lengths were subject to changes. During the migration, PSPs did not face systemic incidents, while their focus on informing customers about the changes contributed to successful execution of SEPA payments. The survey of Lithuanian residents conducted in February 2016 on behalf of the Bank of Lithuania showed that during the first two months after migration to payment services meeting SEPA requirements only 8 per cent of the surveyed that were using bank or credit union services additionally contacted bank or credit union, payee or any other institution with questions related to changes in payments.

**The SEPA direct debit service for enterprises was not implemented in Lithuania, while in the provision of the alternative e-invoice service offered to customers instead there still remain obstacles for making full use of the one stop shop principle.** The e-invoice service enables a payee to submit an e-invoice to the payer directly to their internet banking, whereas the payer may pay this invoice independently by a SEPA credit transfer or select automatic payment. Migration to the e-invoice service prompted enterprises to review their needs in the collection of funds from payers; they therefore shifted to the e-invoice service not all, but only active direct debit agreements. The e-invoice service scheme provided technical possibilities for enterprises to make use of the one stop shop principle, i.e. to submit e-invoices to the customers of all PSPs in Lithuania by using the services of only one PSP. The pricing offered by some PSPs, however, shows that there still are obstacles in making use of the one stop shop principle. At the beginning of 2017, the fee for received payments within a bank and those from other PSPs was unified (due to this requirement, in many banks it was eliminated), whereas the occurrence of payment service baskets removed the economic obstacles for residents to execute payments to other PSPs. These pricing changes improved the conditions for enterprises to make use of the one stop shop principle; however, some PSPs still apply different fees to enterprises for sending e-invoices to other PSPs. This is due to bilateral agreements between PSPs, by which PSPs mutually agree the financial conditions of e-invoice sending. In the first month after the e-invoice service was first provided, avoiding individual cases of unsuccessful submission or payment of e-invoices failed, but the arising problems were urgently solved. In 2016, the scheme was not improved, but, in order to satisfy the needs of enterprises the best, it is expedient to assess the possibilities of supplementing the scheme. Currently, two banks and one electronic money institution in Lithuania are reachable by SEPA direct debits and allow their customers

[1] SEPA countries include EU Member States, Norway, Iceland, Lichtenstein, which apply the provisions of the SEPA Regulation; also the Principality of Monaco, Switzerland and San Marino, where banks will also execute payments according to SEPA payment schemes, although in the latter three countries the SEPA Regulation is not legally binding.

[2] Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

[3] The following schemes have been designed and are currently in operation: SEPA Credit Transfer Scheme, SEPA Core Direct Debit Scheme and a scheme for business – SEPA Business-to-Business Direct Debit Scheme.

to pay SEPA direct debits orders received from abroad. In Lithuania, payees have not been provided this service so far. Nevertheless, banks do not encourage payers to use the SEPA direct debit service, applying to payers particularly high standard fees for this service, which also hinders Lithuanian enterprises to select collection of funds by way of SEPA direct debit using a PSP from another country. The Bank of Lithuania, when setting the composition of payment services included in the basic payment account service, included the direct debit service[4]; as a result, residents may benefit from choosing basic payment account service in order to use SEPA direct debit.

**Although the adjustment of utility and other bill payments processes to SEPA requirements took time, only part of enterprises made use of the benefits of a common technical specification.** SEPA requirements for all payment services had to be implemented by early 2016, yet, due to the short preparation period remaining after the euro adoption, importance of the utility and other bill payment service, as well as extent of changes for enterprises and residents, the utility and other bill payments collection service in Lithuania was adapted to SEPA requirements as of 1 April 2017. On 11 July 2016, the Lithuanian Standards Board announced Lithuania's technical specification 'Credit Transfers. Collection of Utility and Other Bill Payments', available to all market participants, which allows all enterprises to collect utility and other bill payments into one account with a selected PSP; however, to make use of the technical specification, enterprises also have to perform technical modifications in their accounting systems. All PSPs providing the utility and other bill payments service from 1 April 2017 allowed their customers to collect utility and other bill payments according to the new technical specification; however, some PSPs still maintained old interfaces with enterprises where they complied with SEPA requirements. Enterprises that chose collecting utilities and other bill payments only according to the technical specification requirements were able to unify the processes of utilities and other bill payments collection from all banks; besides, a PSP that began providing utilities and other bill payments collection according to the technical specification free of charge appeared in the market. Nevertheless, the technological changes and the need to additionally verify information provided by payers while initiating payments reduced the willingness of enterprises to streamline their utilities and other bill payments collection processes and therefore not every enterprise made use of the new possibilities. When preparing public procurement, enterprises procuring the utilities and other bill payments service had until now announced public procurement for each PSP and after the technical specification came into force most of them did not change their practices – the public procurement terms and conditions indicated the requirements which were non-compliant with the technical specifications.

**Following the migration to SEPA, part of enterprises still limited their employees' choice, indicating which PSP they should be holding an account with for receiving wage.** Before the implementation of SEPA, it was the usual practice, as the wage payment service for enterprises (when an enterprise transfers the package of wage payments to a PSP, which transfer individual payments for each employee) was only functional within a bank. For this, an employee was mostly offered certain discounts (e.g., a free payment card); at the same time it helped to avoid a fee for incoming payments from another PSP. Such practice used by enterprises is not compliant with SEPA Regulation requirements. Moreover, in Lithuania, the fee for incoming payments from any PSP was unified, thus providing every possibility for employees to select the PSP offering them the best conditions. The survey of non-financial enterprises in Lithuania conducted in February–March 2017 nonetheless revealed that employees of 33 per cent of enterprises may only select to receive their wage among Lithuanian PSPs and employees in as many as 19 per cent of enterprises still cannot select a PSP – their wage is transferred to the accounts of one or several PSPs chosen by the enterprise.

**The implementation of SEPA in Lithuania laid the foundations for tighter competition among PSPs and more effective payment processes in enterprises; however, its long-term benefits will depend on the extent to which the possibilities provided by SEPA will be made use of.** Some enterprises whose accounting programmes have automated interfaces with banks, in executing credit transfers, still keep using the conversion services provided by PSPs instead of changing their systems; they have not performed technical changes in their systems. Conversion services in the transitional period ensured uninterrupted execution of payments for enterprises; however, a long-term use of the conversion service does not allow an enterprise to make use of all possibilities provided by SEPA, making it more dependable on a PSP's decisions to provide conversion services and its pricing. Moreover, part of Lithuanian enterprises using the utilities and other bill payments service additionally purchase the payer information verification service (e.g. verification of structured remittance information, etc.) and submission of a specialised payment order form for customers. This determines the need for an enterprise to purchase additional services, related to utility and other bill payments collection, from most banks in Lithuania, thus reducing the possibilities for enterprises to negotiate more favourable prices with PSPs. The pricing of payment services also has a great impact on the use of the possibilities provided by SEPA. The Law on Payments lays down that as of 1 February 2017 PSPs cannot apply different fees on incoming payments received within a bank and on those from another PSP, whereas residents are entitled to using the basic payment account service, which encompasses 10 payments to any bank at a regulated price. These pricing changes eliminate part of economic hindrances for enterprises to make use of SEPA possibilities. The survey of Lithuania's non-financial enterprises conducted

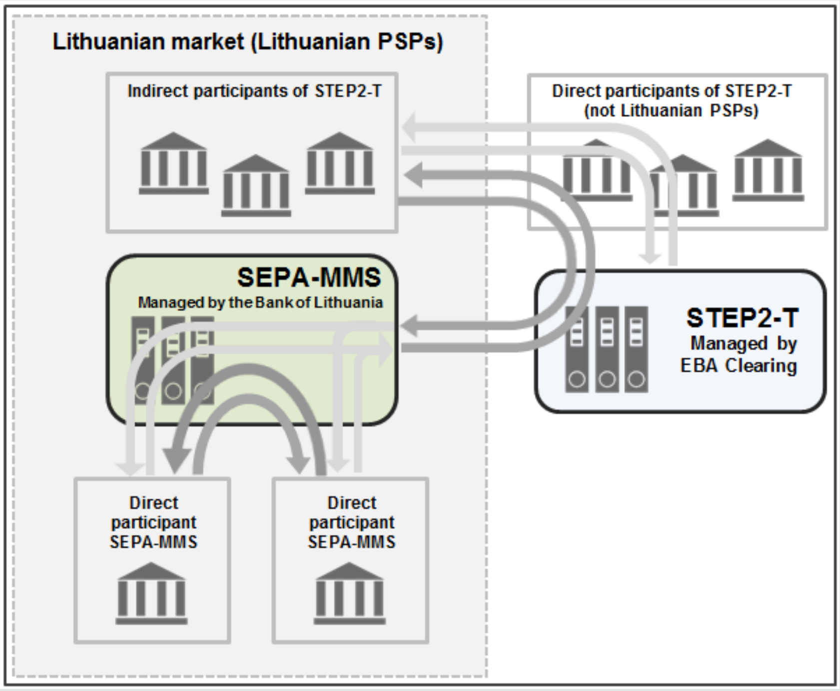
[4] The basic payment account service which banks and credit unions must provide at a price not exceeding EUR 1.5 encompasses at least 10 payment transactions, including SEPA direct debits, where the payment service provider does provide this service.

in early 2017 showed that 17 per cent of these enterprises have already been using fewer banks to perform payment transactions or receive transfers than they did before Lithuania joined SEPA; for 34 per cent of enterprises, their expenditure on bank payment services dropped.

**Box 1. Interbank settlement process and time changes after joining SEPA**

Implementation of SEPA requirements applicable to credit transfers in euro, when the payer's and the payee's PSP is within the European Union was accompanied by changes in the map of interbank payments executed in Lithuania. Several PSPs in Lithuania have chosen executing payments via the payment system SEPA-MMS, managed by the Bank of Lithuania, which was launched on 8 December 2015 and meets SEPA requirements.[5] The country's major PSPs, however, decided not to participate in SEPA-MMS and execute payments indirectly via parent banks or other banks within the group, directly participating in the European retail payment system STEP2-T, managed by *EBA Clearing.*

**Chart A. Interbank settlement process of PSPs operating in Lithuania**




*Source: Bank of Lithuania.*

Due to such choice, customers of Lithuanian PSPs had to be accustomed to different timing of payments execution. Credit transfers within the system SEPA-MMS, managed by the Bank of Lithuania, are executed in both real time and at a designated time; however, only payments between SEPA-MMS participants are executed in real time. Meanwhile, payments between SEPA-MMS and STEP2-T participants are executed at the designated time defined in the SEPA-MMS schedule, aligned with the settlement (clearing) cycles applied within the system STEP2-T.

STEP2-T has five settlement cycles for SEPA credit transfers in the daytime and two (not mandatory) – at night. Such a schedule set for the execution of payments is the reason why from the beginning of 2016 payments between Lithuanian PSPs not participating in the system SEPA-MMS are not executed in real time or at least on an hourly basis (from 8:00 to 18:00) as before.

**Table B. Timing of the settlement (clearing) of the systems SEPA-MMS and STEP2-T**

| **Timing of the acceptance of payments in SEPA-MMS intended for Lithuanian PSPs not participating in the system** | **End time of sending payments to the system STEP2-T** | **Timing of payment processing in the system STEP2-T** | **Timing of the receiving of payments from the system STEP2-T (transfer to Lithuanian PSPs)** |
|---|---|---|---|
| 21:00, *7:00 (next day (D+1))* | 7:15 | Up to 8:30 | 9:00 (10:00 at the latest) |
| 9:30 | 10:00 | Up to 10:30 | 11:00 (12:15 at the latest) |
| 12:00 | 12:30 | Up to 13:15 | 13:30 (14:15 at the latest) |
| 14:30 | 15:00 | Up to 15:45 | 16:00 (17:15 at the latest) |
| 16:30 | 17:00 | Up to 17:20 | 17:30 (17:45 at the latest) |

*Source: Bank of Lithuania.*

[5] At the end of 2016, beside the Bank of Lithuania, the system comprised 10 direct participants: *AB Šiaulių bankas, AB Citadele bankas, UAB Medicinos bankas*, Central Securities Depository of Lithuania, Lithuanian Central Credit Union and five credit unions operating independently – *Sostinės kreditas*, *Baltija* credit union, *Vilniaus kreditas*, *Vilniaus regiono* credit union and *Panevėžio regiono taupomoji kasa* credit union.

## 1.2. Novelties of the Law on Payments – benefits for payment service users, impact on payment service fees

**The renewed Law on Payments came into force on 1 February 2017, providing the conditions for the increase of competition among PSPs in Lithuania's payments market and additional benefits for consumers.** Amendments to the Law implement the Payment Accounts Directive[6], the main objectives of which are to create favourable conditions for consumers to use payment accounts with basic features, ensure easier switching of accounts from one PSP to another and ensure higher transparency and comparability of fees related to payment accounts.

**One of the major changes – the Law establishes that consumers are entitled to make use of the basic payment account service, which ensures essential payment services for a reasonable price.** The basic payment account service must encompass payment services needed by consumers to satisfy their basic payment needs, i.e. the consumer needs a payment account to which the income is transferred; a payment card to pay for daily purchases and where needed to withdraw cash; a means to log into their payment account via the Internet in order to pay for utility, telecommunication and other services. It should be noted that this right is only granted to consumers (i.e. residents). It is usually considered that legal persons have more possibilities to negotiate the conditions of services provided to them; hence, in many fields, regulation is focussed on the most sensitive segment, i.e. residents.

**The Law on Payments obligated the Bank of Lithuania to provide details of the composition of the basic payment account service and maximum price; the maximum price for the service will be revised annually.** After considering the requirements set forth in the Law and analysing consumers' payment habits it was established that, as of 1 February 2017, the basic payment account service must encompass opening and management of a payment account, administration of received payments, a means for logging into e-banking, provision of a payment card and payments using it, at least 10 electronic transfers per month, withdrawal of at least EUR 550 in cash per month, and depositing of an unlimited amount of cash into the account. The price for all of these services may not be above EUR 1.5 per month, whereas for those receiving social aid it would be twice as low – not exceeding EUR 0.75 per month. Regulation of the basic payment account service prompted changes in the previous pricing – in 2017, packages, encompassing a number of payment services for a fixed price, started dominating in the market. Similar changes in the charging of payment services were also implemented by PSPs with respect to enterprises, offering plans of payment services to enterprises, encompassing many payment services.

**One more change related to payment service fees is the prohibition to differentiate a fee for crediting of incoming payments subject to which PSP the payment was received from.** Until now, the prevalent practice in Lithuania was that the receipt of payments from another PSP costs and from the same PSP – does not. When implementing this provision of the Law, banks eliminated the fee for incoming payments, raising, however, the fee for account management. Two effects of this change can be singled out – for consumers and enterprises. Due to the raised fee for account management, consumers should narrowly scrutinise their payment accounts and services being made use of, considering whether they need several accounts, also, which method of charging for payment services is the most acceptable for them – to pay for each operation on an individual basis or select one of the service packages offered by PSPs. The elimination of the fee for incoming payments nevertheless increased the possibilities for consumers to select a bank applying the lowest fees – there remained no more economic incentives to hold an account with the same bank as the employer, family members or persons from whom funds are received most often. Most banks also changed the account management fee for enterprises, offering payment service plans. Elimination of the fee for incoming payments is of particular relevance to enterprises, as this fee often mattered in the decision of enterprises to hold payment accounts with several banks, i.e. it was aimed at processing as many payments within one bank as possible, thus avoiding the fee for incoming payments. This change, along with the SEPA requirements-driven technical standardisation of payments, enables enterprises streamlining their payment processes and reducing the number of contracts with banks. And yet a substantial portion of enterprises are small, and their needs as well as negotiating powers with PSPs are not higher than those of residents, and they thus must agree with new fees offered or may switch to another PSP. The Bank of Lithuania will be monitoring this sector's development under changed competitive conditions.

**In the field of payments, Lithuanian consumers cannot be characterised as mobile and switch their PSP particularly rarely.** The survey conducted in 2016 on behalf of the Bank of Lithuania shows that only slightly more than 5 per cent of residents holding a payment account had considered switching their PSP, while only a fourth of them did change it. Switching to another PSP is hindered by habits, holding of other long-term products with that PSP, also other processes related to the changing of PSP – conclusion of a new contract with another PSP, informing of permanent payers (e.g. one's employer) about the changed account, new setting of periodical payments within the electronic banking system. Like before, consumers who wish to switch to another PSP can now do it on their own, i.e. close their old payment account

[6] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

and perform other actions necessary for making use of the new account smoothly. Earlier, a consumer who wished to switch their payment account to another bank could also make use of the account switching service devised by the Association of Lithuanian Banks. It was inconvenient though – consumers had to submit a notarised application (authorisation) to the new bank, specifying the requested services; the whole procedure could take up to 30 days.

**The payment account switching service enforced in the Law on Payments facilitates consumers' switching to another PSP, but PSPs may enhance this service in order to attract new clients.** The payment account switching service enforced in the Law on Payments ensures that, for a consumer to switch a payment account, it would suffice to apply to the new PSP that will perform all necessary actions. Switching of an account takes no more than 12 business days. In order to make use of this service, consumers must file an application to the new PSP, indicating which services they want to make use of: to move recurrent payment orders, inform third parties about the changed account, transfer funds to the new PSP, close the old account. The Association of Lithuanian Banks has prepared the Rules for the Account Switching Service, which specify the main responsibilities of a PSP, establishes the templates for applications to PSPs and letters of informing third parties. These Rules also provide for the obligation of PSPs to inform about consumers requests to receive e-invoices and valid automatic credit transfers under their e-invoices. In practice, this service has been provided for a short period of time and making use of it has so far not been extensive. Considering the practices applied in foreign countries, PSPs could, on their own initiative, improve this service, thereby facilitating for consumers the switching to another PSP. E.g., in the provision of the account switching service in the United Kingdom, the old bank for some time redirects received payments to the new bank and thus mitigates the risk of 'lost' payments.

**The Law on Payments entitles consumers who disagree with fee or other changes to closing their payment account with a PSP even when they have a mortgage loan or make use of other services.** PSPs in Lithuania are active in the application of tying of provided services, e.g. in granting mortgage loans or distributing insurance products, they often set the requirement to also hold with that PSP an account, from which funds would be debited. As of 1 February 2017, the provision of the Law on Payments is effective that, even in that case, a consumer has the right to terminate their payment account agreement, if the PSP is offering changes to the agreement on payment services which the consumer disagrees with. And yet the above-named requirement of the Law on Payments is only related to the consequences of tying, and only can be applied under certain conditions and thus is rarely used. The Republic of Lithuania Law on Credit Relating to Immovable Property additionally provides that new agreements on credit for house purchase concluded as of 1 July 2017 shall not set the requirement to hold a payment account throughout the period of the credit agreement. It shall only be allowed to require holding an account for limited use free of charge, intended for the accumulation of credit funds being recovered and credit administration. These requirements make it easier for consumers to select the most suitable PSP. The issue of tying the payment account service to other services became particularly obvious once banks charged for all payment accounts, even those tied to another product. Customers would be able to avoid an additional payment account and charging for it indicating their payment account with another bank. This is ensured by the already implemented SEPA standards and applied payment services baskets pricing; however, consumers would reap the most substantial benefits from eliminating the practice of tying the payment account service to other services, not linked to the payment account, in all cases, not only providing a real property-related loan.

**In the field of transparency in fees and comparability, novelties have been provided for as of mid-2018[7], to help consumers more easily compare the fees applied by different PSPs and understand their expenditure on the use of payment services.** Firstly, prior to concluding a payment account agreement, PSPs will have to present to consumers a standardised price list of mostly used payment services. In this document, standard terms of payment services will be used, i.e. all PSPs will call the same services under the same names. The standard price list, which will also be published on the PSP's website and accessible at all customer service locations, will allow to easily comparing the fees for services applied by different PSPs. In each EU Member State, PSP fee comparable websites will have to be set up. In Lithuania, such a website will be administered by the Bank of Lithuania, thus continuing the fee publication activity currently implemented on its own initiative.

**At the beginning of each year, PSPs will submit to a consumer free of charge a statement of fees paid over the previous year.** This statement will provide systematised information on all fees paid by a consumer, related to their payment account. The statement of the payment account will also provide information on fees paid; however, because of massive amount of information, it may be more difficult for consumers to evaluate what exactly their expenditure on the use of payment services is.

[7] Detailed requirements will be approved by the European Commission and they will become binding 9 months after the date of their coming into force.

## 1.3. The Interchange Fees Regulation – influence of the regulation of interchange fees for payment cards transactions on the market

**The Interchange Fees Regulation[8] provided conditions for merchants to negotiate with banks better conditions for the acceptance of payment cards.** The major provision of this Regulation is probably regulation of the size of the interchange fee for payment card operations. It is a fee payable by a bank acquiring a merchant to the bank which issued the payment card. This fee is a component of the MSC payable by merchant to the merchant's bank. In addition, the Interchange Fees Regulation has ensured for merchants higher transparency in applied charges and the possibility to evaluate the cost for him of payment cards of a certain trade mark and category (debit, credit, business). Evaluation of this cost allows merchants to choose what payment cards to accept. This right for them is ensured by this Regulation, as well as the right to select an acquiring bank from any EU country.[9]

**Regulation of the size of interchange fees reduced it substantially in Lithuania.** The Regulation lays down that, as of December 2015, the interchange fee in the EEA for consumer's debit cards which is issued in the EEA shall not be more than 0.2 per cent, for consumer's credit cards – not more than 0.3 per cent of the value of a transaction. According to the data available to the Bank of Lithuania, the interchange fee in Lithuania fell from an average 0.62 per cent of the value of consumer's debit card transactions and an average of 0.78 per cent of the value of consumer's credit card transactions (in 2015). When payment is made with cards issued outside the EEA, the size of the interchange fee can be different, subject to payment card scheme regulations or mutual agreements between the issuer of payment cards and the bank acquiring the merchant.

**The fall in the interchange fee entailed a significant fall in MSC, which contributed to the expansion of places where card payments accepted.** According to the data available to the Bank of Lithuania, in 2015, the average MSC applied to merchants in Lithuania was 1 per cent, whereas in 2016 it decreased to 0.63 per cent of the value of a payment transaction. When payment is made with a card issued by a bank acquiring a merchant, such transaction is considered an *on us* transaction and the interchange fee is not applied. Consequently, such transactions usually cost less for a merchant. In the assessment of the Bank of Lithuania, once the interchange fee decreased significantly, the difference between the MSC for interbank transactions and on us transactions remained negligible. The largest merchants in Lithuania, due to economic incentives, often used the services of several PSPs; therefore, the decline in the MSC difference strengthens competition among PSPs in the provision of the card payment acquiring service and thus encourages merchants to select one PSP. It is considered that, after a decrease in the MSC, merchants' attitude towards accepting card payments became more positive and they widened the instalment of POS terminals. The POS terminal network widened to 50,760 units at the end of 2016, an increase of 8.9 per cent from 2015.

**The reduced size of the interchange fee had an impact on payment card issuers' income.** Due to the lower interchange fee, the income from card payments of banks issuing payment cards fell. The annual administration fee for holders of debit cards issued in banks in Lithuania increased from EUR 5.55 (in 2015) to EUR 6.36 (in 2016) on average. The impact on the increase of this fee stemmed not only from the reduction of the interchange fee, but also from PSP price formation, which changed together with the setting of the price for the basic payment account service, i.e. migration from individual fees for payment services to payment services baskets at a fixed price. For residents who have chosen a payment services basket, the rise in the standard payment card administration fee will not increase their expenses on payment services.

**The Interchange Fees Regulation provided the opportunity for merchants to obtain comprehensive information on the fees paid by them, along with the basis for them to decide which payment cards to accept or not accept.** Under this Regulation, PSPs agreements with merchants and reports on operations executed with payment cards must provide detailed information on the MSC, breaking it down into components. In agreements, PSPs must indicate MSC applied to payment cards of different trademarks and categories. Merchants may request to apply a uniform MSC for all payment card transactions on an aggregated basis. Reports, to be submitted on a periodical basis, must contain information on each transaction executed, singling out the interchange fee paid, or, at the request of a merchant, summary information can be provided by trademark, payment card category and size of the interchange fee applied. Such transparency enables merchants to select payment cards that would be more favourable for accepting.

**To encourage clients to pay with more acceptable payment cards for it, a merchant can apply different measures.** The Interchange Fees Regulation entitles a merchant to only accept payments of certain payment card categories. A merchant is not obliged to accept payments with all cards of a specific trademark, e.g. choosing to accept only debit cards of that trademark and not accepting that trademark's credit cards. Merchants must notify customers in a clear and visible manner of such decision to accept or reject certain payment cards. In addition, the merchant's right to

[8] Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

[9] Before the Interchange Fees Regulation came into force, the payment card acquiring service for merchants was only available from banks operating in their country. Such limitations would be set by payment card schemes.

encourage card holders to use payment card categories that are more favourable for the merchant has been provided for. A merchant can make public information on the fees applicable to it, request to use a payment card category which is more favourable for it, discount if payment is made with a more favourable category of payment card, set the minimum amount which can be paid by using a certain payment method. However, a merchant cannot charge for paying with a payment card.

## 1.4. New trends among PSPs – development of payment and electronic money institutions

**Globally prevalent practice is increasingly applied in Lithuania's payments market – trading or service provision businesses establish their payment or electronic money institutions rather than using bank services.** Enterprises' decision to establish their payment or electronic money institution can be determined by different factors. Usually enterprises which have a close coherence between their payment process and direct activities, i.e. sale of goods or services, aim at making use of payment market possibilities. A simple and imperceptible payment process encourages an enterprise's clients to make use of its services; concurrently with payment, the enterprise can gather additional information on the payer; also, payment services can be linked to granting a credit, etc., and thus increase the enterprise's turnover. Some enterprises are encouraged to establish their payment or electronic money institution by dissatisfaction about the services or service prices of already existing PSPs rather than the opportunities. Payment institutions and electronic money institutions, compared to the banking sector, mainly specialise in the provision of a narrow range of services; it helps them implement innovations and adapt to consumer needs faster. Enterprises such as Amazon, Google, Walmart, Tesco, known worldwide, have established their electronic money institutions and are active in the payments market.

**Payment institutions have been expanding their activities in the electronic payment services market.** Although most payment institutions have still been specialising in the collection of utility and other bill payments in cash, it has been observed that this sector increasingly expand their electronic services. Some payment institutions recently expanded or prepared to expand their activities, thus obtaining a license of an electronic money institution. All mobile network operators became electronic money institutions; they seek to be pioneers in the Lithuanian market and already in 2017 present most advanced payments innovation – instant payments. Such payments would be made by several pushes on the phone, and the funds would be credited in a few seconds.

**Development of the non-banking sector within the payments market not only tightens competition, but also increases the need for PSPs to cooperate.** PSPs making use of the services of intermediaries in offering consumers cash services are already a common practice in Lithuania. It helps share the large expenses of cash processing and client service office maintenance – supermarkets mediated PSPs in accepting utility and other bill payments in cash or accepting/withdrawing cash from their clients; some payment institutions also acted as intermediaries for banks or electronic money institutions in the provision of these services. Cooperation of PSPs in providing electronic services had been a rare phenomenon to date. Nevertheless, rapidly changing technologies are being adapted to payments, the occurrence of new forms of activity, such as the payment initiation service, encourages payment or electronic money institutions to concentrate in these fields and develop their activities by offering other PSPs with a large number of clients to mediate in the technical processing of payments.

## 1.5. Changes in payment service fees

**At the beginning of 2017, the prevailing pricing of payment services in the Lithuanian payments market was subject to changes: instead of the previously most often applied charging of individual payment services used, credit institutions offered their clients' payment services baskets.** A few banks before the regulation of the basic payment account service had offered their clients different baskets of payment services; however, as of 1 February 2017, not a single bank confined to only the basic payment account service – all of them offered in addition other payment services baskets different in composition or price, e.g. baskets encompassing more payments, withdrawal of a larger amount of cash, a credit card, etc.

**In offering different payment services baskets, banks compete among themselves in price and number of services offered, thus improving the conditions for consumers.** The market price for payment services baskets offered by banks, which include the number of the services which is not lower than that of the basic payment account service set by the Bank of Lithuania, as at 1 February 2017 fluctuated from EUR 0.6 to EUR 1.5 per month (see Table 1). *AB Šiaulių bankas*, *AB SEB bankas* and *Swedbank, AB* offer the cheapest baskets to those residents who receive income into their account at that bank. Payment baskets offered by most banks in addition to the basket of the basic payment account service include not one but all payment accounts opened with that bank, and allow making an unlimited number of payments. All credit unions, except for one, provide a payment services basket for EUR 1.5 per month. The payment services baskets offered by credit unions mostly differ in the included cash withdrawal amount and appointed location of taking it: credit unions provide the possibility to withdraw cash using payment baskets at their cash offices and (or) from ATMs. The basic payment account service differs from other payment services baskets offered by banks in that the basic payment account service includes SEPA direct debits, if the PSP does offer this service. Payment services baskets encompassing a large or unlimited number of payment transactions enable residents not to restrict themselves and make as many payments as necessary without increasing their expenses.

***Table 1. The price of the cheapest payment services baskets, encompassing no fewer services than the basket of the basic payment account service, in banks and credit unions in Lithuania as at 1 February 2017***
(EUR)

| Bank | Price of a payment services basket per month | Price of a payment services basket per year |
|---|---|---|
| *AB Citadele bankas* | 1.0 | 12.0 |
| *AB DNB bankas* | 1.5 | 18.0 |
| *AS Meridian Trade Bank* Lithuania branch | 1.5 | 18.0 |
| *Nordea Bank Finland Plc* Lithuania branch | 1.5 | 18.0 |
| *AB SEB bankas** | 1.0 | 12.0 |
| *Swedbank, AB* | 0.9 | 10.8 |
| *AB Šiaulių bankas** | 0.6 | 7.2 |
| Credit unions** | 1.5 | 18.0 |

*Source: Price comparability table on the Bank of Lithuania website.*
** The price applicable to consumers who receive income into their account with that bank.*
*** Only Trakai credit union provides the basket of the basic payment account service free of charge for clients who receive wages.*

**Payment services baskets change residents' experience in the use of payment services: they enabled to unrestrictedly select the PSP offering the most favourable conditions, use one account, and not classify payments into those that are made within a PSP or to another PSP.** First of all, baskets of payment services have eliminated differentiation of fees when making payments within the same PSP or to the account opened in another PSP. This changes the payer's experience – it is no more important for them in which PSP the payee holds a payment account. In addition, once there is no more fee for incoming payments, residents no longer have to match to their employer's PSP to avoid the fee for incoming payments and may hold a payment account with the PSP offering the best conditions. The possibility for a resident to perform all necessary operations using only one PSP encourages PSPs to more compete for a client and offer them the best conditions.

**Payment services baskets help residents who use payment services more actively to save.** On 1 January 2016, payment service users for the services included in the basic payment account service would have paid from EUR 39.87 to EUR 69.87 in standard fees (see Table 2), subject to the frequency of the use of interbank services. With the introducing of high supply of payment services plans in 2017, standard payment service fees changed in the market as well. The most pronounced change stemmed from the fact that banks raised their account managing fee; however, the fee for incoming payments, which banks previously applied to each payment received from another PSP, was eliminated in almost every bank. Having applied standard fees to all payment services included in the basket of the basic payment account service, on 1 February 2017 a consumer would have paid from EUR 67.8 to EUR 87 per year, subject to the selected PSP and payment services used, while by selecting a payment service basket these services would have cost from EUR 7.20 to EUR 18 per year.

***Table 2. Comparison of payment service fees in 2016–2017***
(EUR)

| Service | Quantity | Expenses as at 1 January 2016, when applying standard fees | | Expenses as at 1 February 2017, when applying standard fees | | Expenses as at 1 February 2017, when payment services baskets are used |
|---|---|---|---|---|---|---|
| | | only a payment card is used | all services are used* | only a payment card is used | all services are used* | |
| Managing an account | Expenditure per year | 0.00 | 0.00** | 8.40 | 8.40 | – |
| Debit card | Expenditure per year | 5.79 | 5.79 | 6.60 | 6.60 | |
| Payments received | 2 transactions per month | – | 0.00–8.40 | – | 0.00 | |
| Online payments | 10 transactions per month | – | 27.60–49.20 | – | 26.40–45.60 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash withdrawals at ATMs | EUR 550 per month, 2 transactions | – | 6.48 | – | 26.40 | |
| Total | | 5.79 | 39.87–69.87 | 15.00 | 67.80–87.00 | 7.20–18.00 |

*Sources: Fee comparability table on the Bank of Lithuania website and Bank of Lithuania calculations.*
*Note: In evaluating standard payment service fees, a median of fees offered by banks in Lithuania is applied.*
** In evaluating residents' expenses of payment services if they would use the services included in the basic payment account service but would have chosen standard fees rather than payment baskets, the interval between residents' expenses when payment transfers are received from clients of the same bank and performed for clients of the same bank, and expenses when payment transfers are performed to the account of another bank's client or received from him/her, is calculated. In evaluating 10 payment transactions within a bank, it is assumed that the consumer used the cheapest payment transactions – initiated utility or other bill payments.*
*** In evaluating standard fees in 2016, the fact that banks mostly did not apply the account managing fee to consumers holding a payment card was taken into account.*

**In 2017, compared to 2016, expenses of payment services increased for inactive clients; however, most clients who hold a payment card and perform at least one payment operation per month may spend less for payment services in 2017, if they choose a payment services basket.** Residents who held a payment account with a payment card and performed at least one utility and other bill payment online or at least once withdrew cash from an ATM (most banks applied a fee for each cash withdrawal transaction) in 2016 spent on payment services more (residents who made a payment – EUR 8.55, residents who withdrew cash – EUR 9.03) than the price of the cheapest payments service basket encompassing all necessary payment services, offered in 2017. Inactive residents, holding a payment account and a debit card, but not making any payments and not withdrawing cash from their account, in 2016 spent on payment services EUR 5.79 per year on average, while those who chose standard fees – about EUR 15 per year as at 1 February 2017. These residents may choose the cheapest payment services basket for EUR 7.2[10] and make full use of payment services offered by banks for this amount. Residents holding payment accounts with several PSPs are recommended to make up their mind as to whether they need several opened accounts, especially where these are subject to account managing fees. Payment services baskets enable to perform all necessary transactions using one payment account, thus residents may additionally save by closing unnecessary accounts.

[10] Residents holding an account and a debit payment card but performing no payment transactions and not withdrawing cash from their account would spend about EUR 1.41 per year more in 2017 by choosing the cheapest payment services basket than in 2016, but would be able to use all necessary payment services for this amount. Residents holding a payment account and a debit card but not making use of any services, by choosing the cheapest payment services basket in 2017 would spend on payment services more than two times less (EUR 7.8 ) than holding a payment account and a debit card but not choosing a payment service basket and using services for standard fees.

# 2. WHAT CAN THE PAYMENTS MARKET LOOK FORWARD TO?

## 2.1. Payment initiation service – opportunities and challenges

**The adoption of the reviewed Payment Services Directive[11] on 25 November 2015 for the first time in EU law defined the payment initiation service, which was put on the list of licensed payment services.** This is a service whereby, at the request of a payment service user, a payment order is initiated from the account held with another PSP's institution, i.e. when the payer initiates online payments via an intermediary rather than directly, as it is common practice now. The Directive also regulates one more new service – account information service, whereby an account information service provider allows a payment service user to receive information online about their account opened with another or other institutions (this service is the most relevant for enterprises). The Directive's provisions will have to be applied in national law as of 13 January 2018 and the requirements for a special technical interface among institutions are likely to come into force somewhat later – in the first half of 2019.[12]

**The payment initiation service primarily occurred as a response to insufficiently developed banking services for electronic commerce.** For example, most banks operating in Lithuania do not provide card acquiring services to local e-shops. Usually, the *bank link* service[13] is offered instead; however, it only reaches the clients of one bank. It means that a merchant needs to enter into agreements with all banks from the clients of which it wants to accept payments when making use of this service. A provider of the payment initiation service may offer the accessibility of all banks that the merchants lack, competing with the fees of the *bank link* service and its quality. The new service can also be adjusted in other fields, e.g. in organising peer-to-peer lending platform activities, replenishing electronic wallets, paying various utility and other bills, i.e. in those fields where the fact of securing funds is relevant for the payee's further business processes.

**The reaction to the payment initiation service in the Lithuanian market was not unambiguous.** Some market participants expressed doubts as to whether the security of the payment initiation service, protection of client data and guarantees for an account handling institution, if the intermediary's activities would bring losses, can be ensured before national legal acts come into force (by 13 January 2018). Others held the opinion that, upon implementation of proper security measures, reliable processes and due notification of clients, the payment initiation service would not jeopardise payment reliability. The Bank of Lithuania sticks to the latter opinion. Seeking to encourage payments market participants to set high operating and security standards, in 2016 the Bank of Lithuania prepared the good practice principles for the payment initiation service. The list of enterprises committed to the good practice principles is published on the Bank of Lithuania website.

**The Payment Services Directive provides that the payment initiation service providers will be able to obtain authorisations and begin providing services earlier than ensuring of special technical interfaces becomes obligatory.** These special technical interfaces will also be used in the provision of the account information service. Both existing and new providers of the payment initiation and account information services will for some time still be able to provide these services via the existing internet banking interface by logging in in the client's name, and will still not have to confirm their identity to the PSP handling the payer's account. Presently, it is still unknown whether market participants will implement special technical interfaces only close to the deadline 2019 or, to the contrary, will try to prepare as early as possible.

**The Bank of Lithuania has initiated analysis of common technical standard possibilities jointly with market participants,** thereby aiming to avoid diverse technical solutions that would aggravate investment in the provision of mediation services in Lithuania, which, in the worst case, may reduce the access to Lithuanian payment accounts while using foreign e-shops. It is planned to prepare by the end of 2017 a report containing proposals that the interfaces be secure and contribute to the development of the payments market in Lithuania.

**Box 2. Cybersecurity**

Cybersecurity incidents constantly jeopardise the financial sector and trust in electronic services. As financial undertakings and enterprises providing payment services shift increasingly more functions and services to the virtual space, the risk of cybersecurity incidents increases, leading to incurrences of losses. Improper management of incidents undermines

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

[12] Technical requirements, to be approved by the European Commission, will become binding 18 months after the date of their coming into force.

[13] In providing the *bank link* service, a buyer is directed from the website of the merchant to a limited internet banking website of the bank with which it has opened an account, and there executes a payment transaction.

residents' and enterprises' trust in the services provided in the virtual space, while poor cyber resilience may significantly affect the financial sector and the economy as a whole.

Europe and the world understand the importance of cybersecurity. In addition to the publication in 2013 of the Cybersecurity Strategy of the European Union[14] and the Directive on Security of Network and Information Systems[15], Directive on Attacks against Information Systems[16], the activities of various EU specialised entities (such as the European Network and Information Security Agency (ENISA), the European Cybercrime Centre (EC3) under Europol and the Computer Emergency Response Team – EU (CERT-EU), sectoral initiatives have recently been undertaken as well (e.g. in the field of energy and transport), by which it is aimed at increasing cybersecurity in various sectors of significant importance. In 2016, the European Commission published a communication[17], which considers the ways to address the evolving cybersecurity reality and assesses what additional measures may need to be taken to increase the resilience of the EU in the field of cybersecurity and improve the response to incidents. The Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements and the Technical Committee of the International Organisation of Security Commissions (CPMI-IOSCO) in 2016 prepared the Guidance on Cyber Resilience for Financial Market Infrastructures[18], which aims at advising these infrastructures, including payments systems, on how to enhance their resilience to cyber-attacks.

A national framework for ensuring cyber security is being created in Lithuania, a major focus of which is on payment systems. The Law on Cyber Security, adopted in 2014[19], establishes the organisation, management and control of a cyber security framework, defines the cyber security policy building and implementing institutions, their competencies, functions, rights and obligations, as well as the rights and obligations of cyber security participants. One of the participants of the cyber security framework has become a critical information infrastructure (hereinafter 'CII'). It is an infrastructure the occurrence of a cyber incident in which may cause serious damage to national security, the domestic economy, national and public interests. In order to objectively design a CII, in 2016 the Government of the Republic of Lithuania approved the Methodology for the Identification of a Critical Information Infrastructure[20] and recognised payment transfer services as critical services. It means that some PSPs, having been assessed and selected according to this methodology, will become administrators of the CII and gain the rights and obligations set out in the Law on Cyber Security and subordinate legislation.

Administrators of the CII will have to meet the established organisational and technical requirements. They will have to implement organisational requirements, prepare plans for the implementation of technical means and incident management, and to submit them to the National Cyber Security Centre. Upon occurrence of an incident, the administrator of the CII will have to register it, assigning a significance level, and notify the National Cyber Security Centre. Subsequently the incident is assessed, managed and analysed. Where the Nation Cyber Security Centre identifies that the incident is critical, it may take over the management of the incident.

## 2.2. Electronic identification and remote authentication.

**The usage of electronic services is integral to electronic identification[21] and the requirements for the credibility of its instruments are related to the service provider's responsibility.** Electronic identification is perceived as the use of electronic personal data, which indicates a specific person, in order to verify that person's identity, i.e. establish that the login is performed by the person who matches the personal data. Electronic identification is encountered on almost a daily basis when logging to various accounts. Taking over and illegal use of electronic identification means may have material or other consequences for the service user and provider, especially with respect to financial services.

[14] Joint communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Cybersecurity Strategy of the European Union: An Open, Safe and Secure Cyberspace (JOIN/2013/01).

[15] Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union as well as the EU cyber security strategy.

[16] Directive 2013/40/EU of the European Parliament and of the Council of 12 August 2013 on attacks against information systems and replacing Council Framework Decision 2005/222/JHA.

[17] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Strengthening Europe's Cyber Resilience System and Fostering a Competitive and Innovative Cybersecurity Industry (COM (2016) 410 *final*).

[18] CPMI-IOSCO – Guidance on cyber resilience for financial market infrastructures – June 2016.

[19] Republic of Lithuania Law on Cyber Security No XII-1428 of 11 December 2014.

[20] Resolution No 742 of the Government of the Republic of Lithuania on the approval of the methodology for the identification of a critical information system.

[21] Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC (eIDAS Regulation).

Therefore, electronic identification means, when using internet access to financial services (e.g. internet banking) must be credible and ensure high security.

**The use of electronic identification means for remote authentication and verification helps PSPs attract new customers.** When entering into an agreement with a new client, a PSP must be sure of the client's identity, collect certain information to know the client. These requirements stem from the requirements of legal acts regulating the prevention of money laundering and terrorist financing. This procedure is usually performed by physically meeting the client. However, it costs for the PSP and is not convenient for the client. The probability of attracting a client is much higher if it is convenient for the client to start using new PSP's services. Electronic identification means, functioning according to high or sufficient security level electronic identification schemes would create conditions for new clients to more easily enter into a business relationship and start using the services provided by a new PSP. This would not only prompt new PSPs to enter the market, but also the mobility of clients among operating PSPs.

**Legalisation in Lithuania of the personal authentication method by video means, which has been spreading in the world, will create favourable conditions for the development of financial services.** Financial institutions providing services only via the Internet are becoming common market practice. Quite often these institutions offer their services not only in the internal market, but also in other countries, e.g. an electronic money institution established in one EU country provides services in other EU countries. To identify a new client, such institutions usually rely on a talk and submission of documents via video means in real time, to collect necessary information. Such a procedure is only applied by institutions the business jurisdiction of which allows for such authentication procedure. In 2016, legal acts were adopted in Lithuania[22], which provided for remote authentication of a client using electronic means that enable direct video view.

**Many different electronic identification schemes are presently applied in Lithuania, which hinders the development of electronic services, including payments.** The large number of schemes indicates that entities that are willing to identify a client need to adapt to plenty scheme. This increases costs and impedes manifestation of the network effect, when the more a mean will be used, and in more places, the more users of it will be. Under such circumstances, state institutions should take an active and focused role in establishing objectives in the field of electronic identification and implementing them. This would provide clarity and more definiteness for business entities in taking decisions to develop their electronic identification schemes and use those already existing.

**Responsible state institutions should focus more attention to the regulation and supervision of electronic identification.** The eIDAS Regulation focuses little attention to the regulation of electronic identification. It establishes its security levels, but does not provide how they should be assessed, assigned, and how compliance with them should be ensured. This gap in the regulation should be bridged at a national level. Assignment of electronic identification security levels should be regulated and the supervision of these schemes should be envisaged. The institution responsible for this field would at the same time formulate policy in this area, which is important for digitalisation.

**Trends in the development of electronic identification will be significantly affected by security requirements, arising from the new Payment Services Directive (PSD 2).** PSD 2, to come into force as of January 2018, sets the obligation to use higher security level authentication[23] in performing payment transactions. The European Commission will approve regulatory technical standards, prepared by the EBA, which will define the use of higher security authentication in greater detail. These standards will balance the requirements to ensure payment security and convenience of use. Higher security authentication requirements, with some exceptions for low-value transactions, have been applied in Lithuania since 2016. They have prompted major market participants to cooperate in creating a common electronic identification means (*Smart-ID*) that would meet the tighter requirements.

## 2.3. Innovations in the payments market

**The major payments market innovation in 2016 was the contactless cards – they began to be distributed by one of the largest banks in Lithuania.** Along with the issue of the contactless card, the network of POS terminals

[22] Resolution No 1073 of the Government of the Republic of Lithuania of 26 October 2016 on the amendment of the Rules of Customer and Beneficial Owner Identification as well as Detection of Several Interconnected Monetary Operations, approved by Resolution No 924 of Government of the Republic of Lithuania of 24 September 2008 On the List of Criteria for Considering a Customer to Pose a Small Threat of Money Laundering and/or Terrorist Financing and Criteria Based on Which a Threat of Money Laundering and/or Terrorist Financing is Considered to Be Great; on the Approval of the Rules of Customer and Beneficial Owner Identification as well as Detection of Several Interconnected Monetary Operations, and on the Establishment of the Procedure of Presenting Information on the Noticed Indications of Possible Money Laundering and/or Terrorist Financing and Violations of the Law of the Republic of Lithuania on Prevention of Money Laundering and Terrorist Financing as well as the Measures Taken against the Violations.

[23] It is an authentication procedure, when at least two of the elements, divided into the knowledge (what only the payment service user knows), holding (what only the payment service user holds) and inherence (what is only inherent in the payment service user) categories, are used, while the infringement of one element should not entail the credibility of the other two.

providing the possibility to pay in a contactless way [24] was developed. Small-sized merchants were offered smart payment card POS-terminals which can be easily connected to a smart phone or another device, and transported. PSPs improved smart phone applications to provide the possibility to conveniently check account balances as well as quickly and conveniently (by choosing a payee from the list of contacts) transfer money into accounts to other clients of the same PSP.

**In order to establish themselves in the market, new PSPs must offer an innovative product which would at the same time be attractive for users, the use of which would spread significantly and fast.** Banks operating in Lithuania introduce to the market mainly products already tried and tested in other markets that would be commercially successful, which takes time. Finding the right product and its development in the country which is slowly migrating to electronic and innovative payments is a difficult task; therefore, newcomers to the payments market often try their 'luck' in several countries, primarily orientate themselves to large countries where electronic payments are widely spread, for instance, the United Kingdom.

**To encourage coming of new market participants and product creation, the Bank of Lithuania has provided the possibilities for non-bank PSPs to access the interbank payments infrastructure.** Due to the limited possibilities for accessing interbank payment systems and high cost of the creation of the infrastructure, participants which are new to the payments market, mainly payment or electronic money institutions, usually orientated themselves to the provision of payment services to customers by using the available and other PSPs-managed infrastructure. The payment initiation service can also be attributed to this trend. All of them are united through the fact that the new PSPs were dependent on payment cards and the old PSPs internal infrastructures. This reduced their possibilities of establishment in the market and competition. The Bank of Lithuania provided possibilities for payment and electronic money institutions, without other commercial banks' mediation, via the Bank of Lithuania's infrastructure to reach the payment system SEPA-MMS managed by it; as a result, both Lithuanian and foreign non-bank PSPs were provided the possibility to develop business models and products in Lithuania; in May 2017, this possibility was already made use of by six non-bank PSPs and a few more prepared to use the interbank infrastructure.

**A new quality payment service – the so-called instant payments – is expected in the near future, as well as the related new infrastructure is to be designed.** Modern technologies enable executing payments on a 24-hour basis between client accounts with different PSPs and credit funds to the payee account in a few seconds; investment in a new infrastructure is, however, necessary for that. On the European Retail Payments Board's initiative, a SEPA instant credit transfer scheme was prepared in 2016 in the EU; as other SEPA schemes, it was prepared by the European Payments Council. The instant payments scheme defined the foundations for how instant payments will be carried out in the SEPA area and what infrastructure is necessary for that. In Lithuania and other EU countries, the interbank infrastructure for instant payments is being developed. It is planned to be prepared at the end of 2017. The instant payments infrastructure and their implementation scheme enable PSPs creating instant payments products and offer them in the market.

**Instant payments may replace cash, be useful in electronic commerce or compete with payment cards at physical points of sale.** Users will often associate instant payments with the application installed on their smart phone. In Scandinavian countries, instant payments have already been used for several years and are becoming increasingly popular. Transfers between persons by choosing a phone number from the contacts list are becoming usual daily payment practice. In addition, small merchants apply the increasingly popular practice to announce a phone number by dialling which residents can pay at points of sale. Instant payments are also highly popular in electronic commerce.

## 2.4. National Payments Strategy – a response to structural payments market issues

**Aiming at significant payments market change, in 2016 the Bank of Lithuania prepared and made public a draft National Payments Strategy.** It aims at solving issues related to lack of competition in the payments market, slow implementation of innovations, insufficient user involvement and cash usage habits. The draft National Payments Strategy proposes acting in three directions: 1) to develop the infrastructure which would enable executing contactless and instant payments on a massive scale; 2) to increase the involvement of payment service users and their influence in deciding on payment services offered in the market; 3) to increase payment service users' trust in electronic payments and foster their usage habits. Once this is implemented, the aim of the National Payments Strategy could be achieved – to provide conditions for the availability to Lithuanian residents in 2020 of contactless, instant and closely business models-integrated electronic payments, and for their massive prevalence.

**During the public consultation, the strategic directions and measures proposed were generally supported.** The Bank of Lithuania received written feedback from 19 different institutions, organisations and persons. Most responses were generally supportive of the strategic directions and measures proposed by the Bank of Lithuania; useful

[24] Payment card POS-terminals enabling contactless payments are usually adapted to payments by inserting a card into a terminal. Contactless payment card contains a lust, as in usual payment cards. This enables its user to choose in which way to pay – by inserting the card into a terminal or touching it. Such a card can also be used in terminals which are not adapted to contactless payment.

insights were provided. Respondents often explained payments market issues by lack of economy of scale, high cost of the infrastructure and regulatory burden. Out of all measures specified in this draft strategy, the idea to set up a Payments Council received most support. This Council would provide enterprises and residents with the possibility to analyse payments market issues on a systemic and coordinated basis and submit proposals for their solution. Initiatives of the financial education of the public were also supported. Instant payments are seen as a prospective payment instrument. The outcomes of the public consultation on the draft National Payments Strategy are presented in the review published at the end of 2016. The Bank of Lithuania also made available in public all the comments received after the public consultation whose authors had not objected the publication.

**The Bank of Lithuania has included the measures proposed in the draft National Payments Strategy, which are within its competence, into its strategic plan for 2017–2020.** To this end, the instant payment service is being introduced in the Bank of Lithuania's payment system SEPA-MMS, preparations for the establishment of the Payments Council are being made jointly with the Ministry of Finance, payments market standardisation initiatives are supported. Other measures, which are mainly within the competence of the Government and other institutions, will be presented by the Bank of Lithuania to respective institutions, proposing to implement them. The Bank of Lithuania will also propose draft legal acts which will contribute to the implementation of the measures laid down in the draft National Payments Strategy, e.g. to ensure prevalence of instant payments.

**Box 3. *Fintech* sector**

**Banks operating in Europe spend about EUR 63 billion per year for IT needs; however, in recent years they are no longer considered innovation leaders.** Financial services are mainly based on information management rather than physical goods, and because of this feature the financial market is attractive for digital innovations and digital innovation-intensive. The prevailing opinion that financial services will inevitably change has prompted experts in finance and technologies to cooperate proposing innovative solutions without waiting for financial institutions themselves, using internal resources, to react to the possibilities of new technologies. Companies that specialise in the adaptation of new technologies to financial services are often called financial technology, or *FinTech*, companies. Both newly established companies proposing IT solutions and those which have already established themselves in the market are considered FinTech ones. In Europe, about EUR 2 billion invested in *FinTech* companies in 2016.

The financial market situation is unique, as a separate ecosystem, orientated solely to innovations and directly independent from financial institutions, is currently in the process of formation. The major contribution to its formation stemmed from the fact that, currently, as many as a few different technologies, urgent for the financial sector, such as cloud computing, artificial intelligence, distributed ledger, open application programming interfaces, etc., are concurrently being developed. As financial institutions only use their internal resources, it is particularly complicated to have a good knowledge of and adopt individual innovative technologies or their combinations, and adapt business processes accordingly. It should also be noted that a financial end-product can be devised faster and made more widely available when this is done not only as an internal endeavour of a financial institution but together with *FinTech* companies, invoking application programming interface for data exchange. The fact that *FinTech* companies are separate from financial institutions (at least in the initial phase) is beneficial for innovation risk management, as failures, which occur relatively frequently, are not directly associable with the financial institution.

Financial services should change owing to new technologies, and the entire segment of *FinTech* companies competes in this respect. However, the expectations that future changes will be beneficial for society and will be appreciated are no less important. For example, residents and businesses can be offered cheaper, better and more transparent financial services; small enterprises will have alternative measures for capital attraction, international lending and investment channels; owing to automation of processes and artificial intelligence residents will have access to financial consultancy services, which are currently only available to VIP clients; adaptation of new data exchange practices will ease the regulatory burden; the use of new data arrays and methods of its analysis will enable insurers to more accurately assess risks and offer new insurance services.

*FinTech* companies compete for the attention of financial institutions, while countries do that for *FinTech* companies. Considering the specificity of such companies, countries often offer various *FinTech* company establishment promotion programmes. For example, accelerator programmes or sandbox platforms, offered by regulators, have been spreading; they enable developing and testing new products or services in secure, restricted environments. In its strategic activity directions for 2017–2020, the Bank of Lithuania plans to become a financial sector partner encouraging innovations and sustainable growth. The Bank of Lithuania actively contributed to the preparation of the action plan for the development of financial technology (FinTech) industry in Lithuania**,** approved by the Minister of Finance of the Republic of Lithuania.

# 3. THE USE OF PAYMENT SERVICES IN LITHUANIA

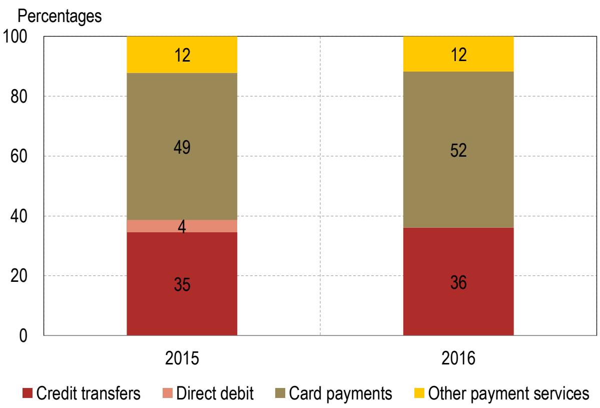
**Growth in payment transactions performed using the Lithuanian PSPs in 2016 was due to higher use of payment cards.** In Lithuania, 451 million payment transactions were initiated using the PSPs in 2016, with above EUR 216 billion in value (see Table 3). National payment transactions, i.e. those executed between the payer and the payee, the PSPs of which operated in Lithuania, accounted for 94 per cent. Compared to 2015, in 2016 the number of total transactions executed via PSPs increased by 6.9 per cent; this growth mainly stemmed from an increase in payment card operations by 13.5 per cent. Payment transactions executed in Lithuania via PSPs averaged 156 per capita (in 2015 – 145), of which 81 transactions were card payments. Card payments accounted for 52 per cent of total payments executed using PSP services (see Chart 1); compared to 2015, the card payment market share expanded by 3 p.p. Card payments stand out among other payment services because currently they are the only alternative to cash at points of sale. Due to payment peculiarities that determine large-value transactions (e.g. payments between enterprises), credit transfers were prevalent in terms of the value of payments, accounting for 97 per cent of the value of total transactions.

***Table 3. Payment services provided by PSPs in Lithuania in 2015–2016***

| Payment services | Number of transactions, million pcs. | | | Value of transactions, EUR millions | | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | Change, % | 2015 | 2016 | Change, % |
| Total payments executed via PSPs | 421.9 | 451.0 | 6.9 | 215,277 | 216,223 | 0.4 |
| Credit transfers | 146.0 | 162.7 | –0.2 | 208,440 | 209,331 | 0.1 |
| Direct debit | 17.1 | – | | 712 | – | |
| Card payments | 207.2 | 235.2 | 13.5 | 4,002 | 4,682 | 17.0 |
| Other payment services | 51.5 | 53.0 | 2.9 | 2,058 | 2,102 | 2.1 |

Source: Bank of Lithuania calculations.
Note: e-money payments not assessed.

***Chart 1. Composition of payments in Lithuania executed via PSPs by number of transactions in 2015–2016***

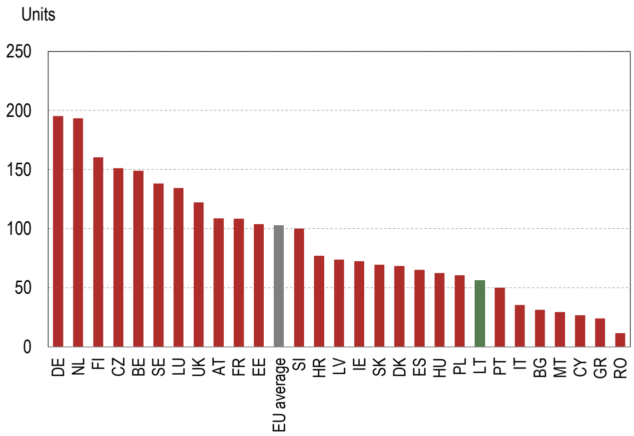



Source: Bank of Lithuania calculations.
Note: e-money payments not assessed.

**Development of the non-card payments market was highly moderate.** Credit transfers accounted for 36 per cent of total payment transactions in 2016, the share of credit transfers increased by a mere 1 p.p., although e-invoice payments that have replaced the direct debit service as of 2016 were performed as credit transfers (see Chart 1). Moreover, if we consider that direct debit payments executed in 2015 were to become credit transfers in 2016, the number of credit transfers in 2016 was by 0.2 per cent smaller than the overall number of direct debit and credit transfer transactions in 2015. Other payment services included money remittances, which are mostly initiated in cash at payment institutions' client service offices, and payments via telecommunication, digital or IT devices which are executed by mobile network operators. In 2016, as in the previous year, these transactions accounted for 12 per cent of the market of total payments which are executed via PSPs. In 2016, compared to 2015, other payment service transactions increased by 2.9 per cent in number. The occurrence of instant payments, when non-card payment transactions will become adapted both to payments between natural persons and resident payments at points of sale, are likely to significantly encourage credit transfer market expansion.

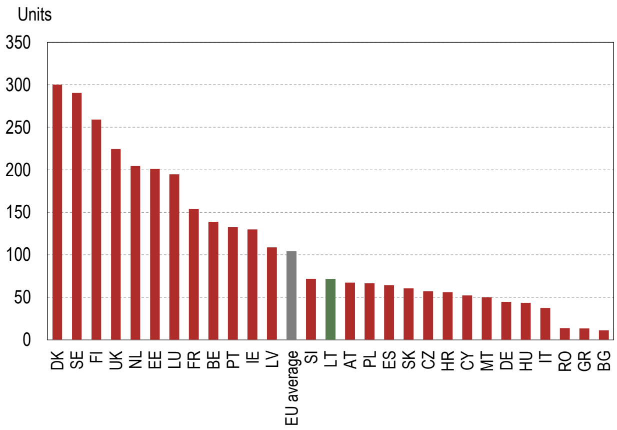
**In comparison with other EU countries, in Lithuania credit transfers and card payments are used rarely.** In 2015, credit transfers and direct debit transactions in Lithuania averaged 56, payment card operations – 71 per capita (see Charts 2 and 3). Compared to the EU average, in Lithuania, one resident performed almost half as little credit transfers and about a third as little card payments on average. The use of card payments and credit transfers was the least among the Baltic States. It is worth mentioning that in Lithuania other payment services account for a relatively large market share (money remittances and payments via telecommunication digital or IT devices); however, these services are mainly meant for executing niche payments (e.g. utility and other bill payments in cash, payment for car parking, etc.) and therefore are not comparable on an EU scale.

*Chart 2. Credit transfer and direct debit transactions per capita in 2015*




*Source: ECB database.*

*Chart 3. Card payment transactions per capita in 2015*

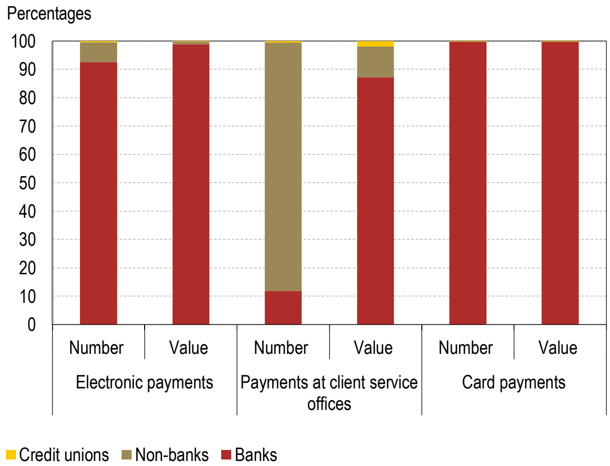



*Source: ECB database.*

**Lithuania's payments market is dominated by banks: they perform nearly all card payments and hold about three quarters of other transactions market.** In 2016, bank clients performed 86.9 per cent of total payment transactions executed via PSPs, clients of payment and electronic money institutions – 12.7 per cent, of credit unions – 0.3 per cent. 90.4 per cent of the value of total payments executed via PSPs was initiated in banks. Within the card payments market banks do not have any competitors – in 2016, 99.8 per cent of total card payments were performed using cards issued by banks, and the other share was comprised of payments of clients of credit unions (see Chart 4). Within the market of transfers which comprise credit transfers, money remittances and payments via telecommunication, digital or IT devices, clients of banks performed 73.1 per cent, those of payment and electronic money institutions – 26.4 per cent, while those of credit unions – a mere 0.5 per cent of transactions.

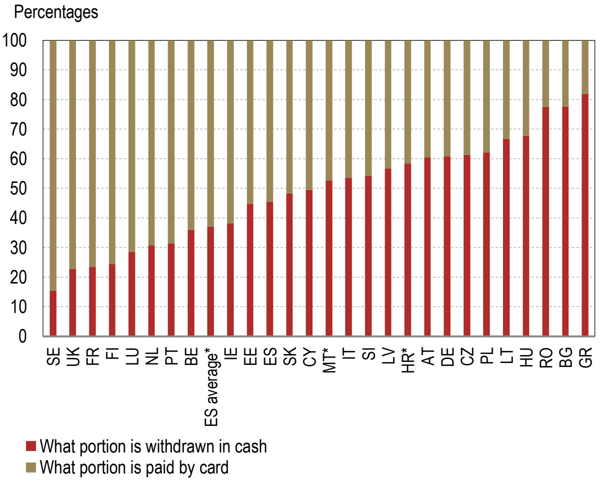
**Non-banks (payment and electronic money institutions) have taken over the market of payments performed at client service offices and have been increasingly expanding their activity by executing payments online.** In 2016 in Lithuania 76 per cent of transfers were performed online, 24 per cent – at client service offices. The electronic payments market is dominated by banks, their clients performing 92.5 per cent of total electronic payments in number and 98.8 per cent in value. Nevertheless, the market share of non-banks (electronic money and payment institutions) has been growing gradually in terms of the number of transactions performed; compared to 2015, it has expanded by 2.3 p.p. The market of payments performed at client service offices is dominated by non-bank PSPs which hold 87.6 per cent of the market, with their market share having grown by 1.6 p.p. over the year.

*Chart 4. PSP market share in terms of payment services in 2016*




*Source: Bank of Lithuania calculations.*

*Chart 5. The ratio of value spent on payments using a payment card to cash value withdrawn from the card in 2015*




*Sources: ECB database and Bank of Lithuania calculations.*
**Denmark's data is not included; also the EU average is an estimate since the indicators of several countries are not published in full for confidentiality reasons.*

**The use of cash in Lithuania is among the most extensive in the EU and although the use of cash is decreasing, the rate of deceleration is too low for cardinal changes.** One of the indicators for the prevalence of cash – an amount, indicating what part of payment card funds is used for payments at POS terminals or via the Internet (the other part is withdrawn in cash at ATMs) – increased gradually in Lithuania. Over five years this increased to 36 per cent (in 2016) from 22 per cent (in 2011), while compared to 2015, in 2016 it was 3 p.p. higher. However, the share of the value of cash being withdrawn in Lithuania using payment cards (67%) was almost twice above the EU average (37%), and also larger than in the other Baltic States (Latvia – 57%, Estonia – 45%). In Lithuania, the use of cash has been decreasing at a low rate: the share of the value withdrawn in EU countries using payment cards dropped on average by 2 p.p., while in Lithuania – 4 p.p.

# ANNEX. STANDARD PAYMENT SERVICE FEES

*This Annex presents a comparison of standard fees for main payment services provided at banks, credit unions, payment and electronic money institutions on 1 January 2016 and 1 February 2017. As of 1 February 2017, banks and credit unions in Lithuania had to offer to residents the basic payment account service at a price not above EUR 1.5; along with this service PSPs have changed a large portion of their standard payment service fees. The fees for cash withdrawal from the account due to their exceptional pricing are not included in the tables of standard fees below, and are described separately.*

***Table 1. Standard payment service fees at banks***
***(in EUR)***

| Payment service | 1 January 2016 | | | | 1 February 2017 | | | | Change** |
|---|---|---|---|---|---|---|---|---|---|
| | lowest | highest | average* | median | lowest | highest | average* | median | |
| Opening of an account | 0.00 | 5.00 | 0.50 | 0.00 | 0.00 | 50.00 | 5.50 | 0.00 | ○ |
| Closing of an account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | ○ |
| Annual account managing | 0.00 | 3.48 | 2.50 | 3.48 | 0.00 | 9.60 | 6.46 | 8.40 | ● |
| Annual debit card administration | 2.90 | 8.40 | 5.55 | 5.79 | 4.34 | 8.40 | 6.39 | 6.60 | ● |
| Over-the-counter credit transfers in euro within a bank to another customer's account | 0.58 | 2.03 | 1.20 | 1.16 | 1.00 | 3.00 | 2.04 | 2.00 | ● |
| Over-the-counter credit transfers in euro to other PSPs | 0.72 | 2.03 | 1.49 | 1.58 | 0.72 | 3.00 | 1.85 | 1.85 | ● |
| Online credit transfers in euro within a bank to another customer's account | 0.00 | 0.29 | 0.23 | 0.23 | 0.00 | 0.30 | 0.21 | 0.23 | ○ |
| Online credit transfers in euro to other PSPs | 0.23 | 0.43 | 0.38 | 0.41 | 0.00 | 0.43 | 0.34 | 0.38 | ◌ |
| Online utility and other bill payments | 0.10 | 0.29 | 0.20 | 0.23 | 0.00 | 0.29 | 0.20 | 0.22 | ◌ |
| Over-the-counter utility and other bill payments in cash | 0.69 | 3.00 | 1.79 | 2.32 | 0.64 | 3.00 | 1.57 | 1.16 | ◌ |
| Credit transfers received from another PSPs in euro | 0.23 | 0.41 | 0.34 | 0.35 | 0.00 | 0.35 | 0.06 | 0.00 | ◌ |

*Sources: Data of PSPs and Bank of Lithuania calculations.*
○ *– fees of banks providing services remained unchanged,* ● *– fees of banks providing services increased,* ◌ *– fees of banks providing services decreased.*

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

*** The change in payment service fees shows changes in the medians of fees applied by institutions that provided services from 1 January 2016 to 1 February 2017.*

On 1 February 2017, two banks (*Swedbank, AB*, and *AS Meridian Trade Bank* Lithuania branch) offered their clients withdrawal of a set amount of cash from their ATMs using a debit card free of charge; other banks charged a fixed commission fee for each cash withdrawal from their ATMs or a percentage commission fee with the smallest set amount of commission fee. Compared to 1 January 2016, four banks raised their applicable fee: *AB Citadele bankas* raised the applied fixed commission fee, *AB DNB bankas* and *AB Šiaulių bankas* started applying a percentage commission fee for any amount being withdrawn, while *AB SEB bankas* eliminated the amount of withdrawal that was allowed in 2016 free of charge. As on 1 January 2016, no bank charged a commission fee for depositing cash into the account using ATMs.

***Table 2. Standard payment service fees at credit unions***
***(in EUR)***

| Payment service | 1 January 2016 | | | | 1 February 2017 | | | | Change** |
|---|---|---|---|---|---|---|---|---|---|
| | lowest | highest | average* | median | lowest | highest | average* | median | |
| Opening of an account | 0.00 | 2.90 | 0.08 | 0.00 | 0.00 | 2.90 | 0.08 | 0.00 | ○ |
| Closing of an account | 0.00 | 5.00 | 0.13 | 0.00 | 0.00 | 5.00 | 0.18 | 0.00 | ○ |
| Annual account managing | 0.00 | 3.60 | 0.16 | 0.00 | 0.00 | 7.20 | 0.32 | 0.00 | ○ |
| Annual debit card administration | 0.00 | 5.79 | 2.26 | 2.90 | 0.00 | 6.60 | 2.55 | 2.90 | ○ |
| Over-the-counter credit transfers in euro within a credit union to another customer's account | 0.00 | 1.00 | 0.20 | 0.07 | 0.00 | 1.00 | 0.29 | 0.29 | ● |
| Over-the-counter credit transfers in euro to other PSPs | 0.00 | 1.16 | 0.57 | 0.58 | 0.00 | 3.00 | 0.69 | 0.60 | ● |
| Online credit transfers in euro within a credit union to another customer's account | 0.00 | 0.58 | 0.06 | 0.00 | 0.00 | 0.58 | 0.10 | 0.10 | ● |
| Online credit transfers in euro to other PSPs | 0.00 | 0.58 | 0.12 | 0.14 | 0.00 | 0.58 | 0.17 | 0.20 | ● |
| Online utility and other bill payments | 0.00 | 0.23 | 0.04 | 0.00 | 0.00 | 0.23 | 0.06 | 0.00 | ○ |
| Over-the-counter utility and other bill payments in cash | 0.00 | 0.58 | 0.12 | 0.12 | 0.00 | 0.58 | 0.14 | 0.14 | ● |
| Credit transfers received from PSPs in euro | 0.00 | 0.60 | 0.25 | 0.29 | 0.00 | 0.58 | 0.18 | 0.15 | ◌ |

*Sources: Data of PSPs and Bank of Lithuania calculations.*
○ *– fees of credit unions providing services remained unchanged,* ● *– fees of credit unions providing services increased,* ◌ *– fees of credit unions providing services reduced.*

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

*** — the change in payment service fees shows changes in the median of fees applied by institutions that provided services from 1 January 2016 to 1 February 2017.*

On 1 February 2017, 59 credit unions provided the cash withdrawal at ATMs service to their clients, of which 45 credit unions allowed withdrawing the set amount free of charge, 14 credit unions applied a percentage commission fee, mainly with the smallest set amount of fee. Compared to 1 January 2016, 22 credit unions changed their fee for cash withdrawals at ATMs using a debit payment card, of which 16 credit unions reduced the amount of cash which can be withdrawn free of charge or raised a commission fee, whereas 6 credit unions reduced their commission fee or increased the amount of cash which can be withdrawn free of charge.

***Table 3. Standard payment service fees of payment and electronic money institutions (in EUR)***

| Payment service | 1 January 2016 | | | | 1 February 2017 | | | | Change** |
|---|---|---|---|---|---|---|---|---|---|
| | lowest | highest | average* | median | lowest | highest | average* | median | |
| Online credit transfers in euro within a PSP to another customer's account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.23 | 0.05 | 0.00 | ○ |
| Online credit transfers in euro to other PSPs | 0.01 | 0.08 | 0.05 | 0.05 | 0.00 | 0.35 | 0.18 | 0.20 | ● |
| Online utility and other bill payments | 0.00 | 1.01*** | 0.51 | 0.51 | 0.00 | 1.01^ | 0.37 | 0.10 | ● |
| Over-the-counter utility and other bill payments in cash | 0.19 | 1.01*** | 0.44 | 0.30 | 0.21 | 1.01^ | 0.43 | 0.30 | ○ |

*Sources: Data of PSPs and Bank of Lithuania calculations.*

○ *– fees of payment and electronic money (payment) institutions providing services remained unchanged,* ● *– fees of payment and electronic money (payment) institutions providing services increased,* ● *– fees of payment and electronic money (payment) institutions providing services decreased.*

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

*** The change in payment service fees shows changes in the medians of fees applied by institutions that provided services from 1 January 2016 to 1 February 2017.*

**** A EUR 1.01 fee is applied for all payments per month.*