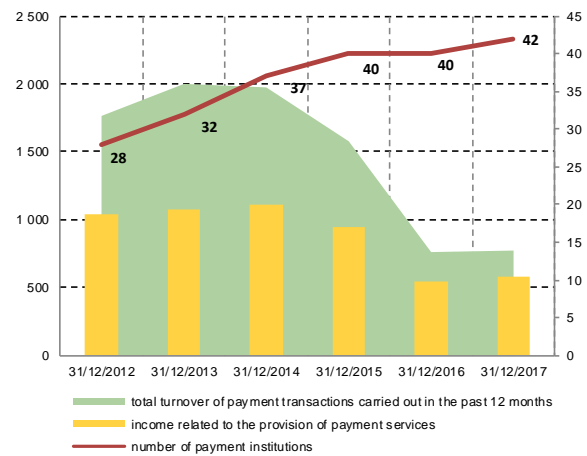




Public list of payment institutions. As at 31 December 2017, 42 payment institutions were in the Public List of Payment Institutions.¹ 5 new licences of a payment institution were issued, and 3 payment institutions changed their licences of a payment institution to those of an electronic money institution over 2017. 30 institutions held licences entitling to provide payment services in the Republic of Lithuania and other EU Member States, 12 held licences for restricted activity only valid in the Republic of Lithuania and providing that the average amount of payment transactions performed over the last 12 months shall not be above €3 million per month. The business model of the 28 institutions operating within the payment institution sector involves lower risks and covers utilities and other payments collection, pension and other benefits delivery services.

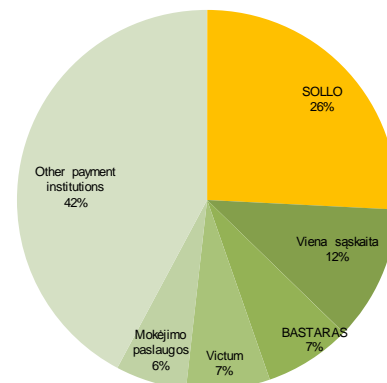
Activities performed. According to the audited (where audit is obligatory) and general shareholder meeting-approved financial statements, in 2017 payment institutions earned a €10.5 million in profits from the provision of payment services, an increase of 5.8 % over the year. The total turnover of payment transactions carried out over the past 12 months amounted to €772.8 million, an increase of €11.3 million, or 1.5% year on year. Even though payment transactions and income from payment services posted moderate growth in 2017, the two indicators declined, and this decline from 2016 was due mainly to the fact that AB Lietuvos paštas, which held a significant share of the entire payment institution system, in 2016 was granted a licence of an electronic money institution, i.e. expanded its business model by enabling its customers to open payment accounts, while the financial performance data of UAB Perlo paslaugos and Mokėjimo terminalų sistemos, UAB (which were granted licences of an electronic money institution at the end of 2015 and at the end of 2017 respectively) were included in the electronic money institution rather than the payment institution system. As in previous reporting periods, most payment institutions were engaged in other economic and commercial activities while providing payment services as additional ones only; hence, both the share of payment institution income from the provision of payment services and the share of debt for payment services provided accounted for 21.7% and 35.4% of total income and liabilities respectively. On the other hand, over 2017, 14 payment institutions earned income just from the provision of payment services or their income earned amounted to more than 90% of total earnings. In 2017, 6 payment institutions were not engaged in licensed activities yet.

Chart 1. Data on the activities of payment institutions
(2012-2017)



Source: Bank of Lithuania calculations.

Chart 2. Share of the largest payment institutions in the payment institution system by income from payment services
(31 December 2017)



Source: Bank of Lithuania calculations.

¹ UAB Perlo paslaugos and Mokėjimo terminalų sistemos, UAB hold licences of an electronic money institution; therefore, their financial performance data for 2017 were included in the electronic money institution system rather than the payment institution system.

The market share of 5 largest payment institutions remained almost unchanged in the reporting period: the total share of payment transaction turnover accounted for 66% (an increase of 2 percentage points), while income from licensed activities – 57.8% of the market (a drop of 0.7 percentage points.). SOLLO, UAB, engaged in money remittance via the network of MAXIMA LT, UAB, held the leading market position in 2017: its income from the provision of payment services accounted for 26% of total income from payment services, turnover – 33% of total turnover of payment transactions.

Compliance with prudential requirements. All payment institutions complied with the requirement of the protection of funds of payment service providers or those received from another payment service provider, established in the Republic of Lithuania Law on Payment Institutions (hereinafter ‘the Law’), separating these funds from the funds of other natural or legal persons who are not users of payment services, and holding them in accounts with credit institutions. On the reporting date, as in the previous year, 8 payment institutions also applied another method of protection of payment service users’ funds: they had concluded warranty (guarantee) contracts with an insurance undertaking or a credit institution on the insurance of these funds.

As at 31 December 2017, all payment institution holding a payment institution licence for restricted activity complied with the average amount of payment transactions (not in excess of €3 million per month) requirement, set forth in the Law.

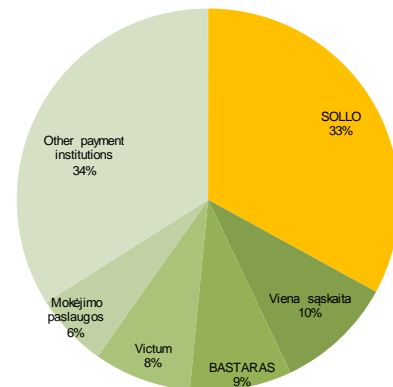
As at 31 December 2017, the own funds of payment institutions totalled €9.2 million. On the aforementioned date, the total own funds requirement (calculated by applying one of the Bank of Lithuania-approved methods chosen by a payment institution) stood at €1.7 million. Due to rather low volumes of payment transactions and other financial data, used for calculating the amount of own funds requirement, the own funds requirement of 10 payment institutions (out of all payment institutions that must comply with the own funds requirement) did not exceed the amount set forth in the Law (€20 thousand). 1 payment institution had to take measures to ensure that its calculated own funds were not below its own funds requirement. Having covered the accumulated losses, the institution ensured compliance with the own funds requirement after the reference date. It should be noted that 21 payment institutions applied method B for calculating their own funds requirement, which is based on the average amount of payment transactions in the course of 12 months, 4 – method C, which is based on payment services income and expenses, and 5 – method A, which is based on the fixed expenses of a payment institution. Information on each payment institution’s [key performance indicators](#) for the year and each quarter as well as on their compliance with prudential requirements is published on the Bank of Lithuania website.

Changes in the field of the legal regulation of payment institutions. Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (hereinafter – [PSD2](#)) came into effect on 13 January 2018. In pursuit of timely implementation of PSD2 provisions, in 2017 the Ministry of Finance of the Republic of Lithuania, together with the Bank of Lithuania, prepared [a legislative package implementing PSD2](#). The legal acts implementing PSD2 provisions in the Republic of Lithuania were adopted on 17 April 2018 and will come into effect as of 1 August 2018. The Bank of Lithuania is also preparing subordinate legislation that will regulate the content and periodicity of the provision of supervisory information for the Bank of Lithuania.

Institutions **holding a licence of a payment institution** must, no later than by 1 November 2018, submit to the Bank of Lithuania data and/or information as well as documentary proof of their compliance with all of the new legislative requirements for obtaining a respective licence. Note that this obligation has been imposed on payment institutions holding a licence of a payment institution, whereas those holding a licence for restricted activity shall not submit to the Bank of Lithuania information and/or data, as well documentary proof of their compliance with licensing requirements.

Institutions which had provided **payment initiation and account information services** by 1 August 2018 and intend to continue providing them will have to apply to the Bank of Lithuania for changing (supplementing) their licence, and submit required information. It should be noted that the European Banking Authority has prepared the [Guidelines](#) on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance under PSD2. In addition, the European Banking Authority has prepared the [tool](#) for

Chart 3. Share of the largest payment institutions in the payment institution system by total turnover of payment transactions
(31 December 2017)



Source: Bank of Lithuania calculations.

calculating the minimum monetary amount of the professional indemnity under PSD2. Having the above-named professional indemnity is required for payment institutions providing payment initiation services or account information services, while the criterion provides the basis for stipulating the amount of professional indemnity. The Bank of Lithuania will follow these Guidelines in carrying out financial market supervision services assigned to it. The Guidelines should also be followed by payment institutions established in Lithuania providing payment initiation or account information services.

In 2017, the Bank of Lithuania prepared several positions and guidelines (<http://www.lb.lt/pozicijos>) **relevant to the payment institution sector.** By its Position on Virtual Currency Offerings and Initial Coin Offering (ICO), the Bank of Lithuania recommends to dissociate and refrain from purchasing, holding or selling virtual currencies, carrying out ICO or coin offering in order to mitigate the risk arising from the interaction between virtual currency schemes and regulated financial services, including risks associated with money laundering and other financial crimes and with uncertainty surrounding the financial capability of market participants participating in virtual currency schemes. The Bank of Lithuania holds a view that virtual currency related activities are incompatible with the provision of financial services and thus activities related to virtual currencies should be dissociated from the activities of a payment institution.

The objective of the Position on Banks' Behaviour with Clients Holding Dormant Accounts is aimed at taking active action that residents' accounts that have been unused for an extended period of time, but cost, be closed. This position is designated for banks and credit unions, while payment institutions are recommended to adhere to it.

The Bank of Lithuania has been authorised to oversee compliance with the provisions of Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions. It therefore presented its opinion on the clarity of certain provisions of this Regulation in its Position on the Application of the Provisions of Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

The Guidelines of the European Banking Authority on Product Oversight and Governance Arrangements for Retail Banking Products will be followed. They discuss how the manufacturers and distributors should regulate and implement the product oversight and governance arrangements which would be an integral part of general organisation requirements in relation to internal control systems. The above-named Guidelines shall apply to internal processes, functions and strategies related to product introduction, distribution in the market, and their oversight throughout their life cycle. They establish procedures ensuring that the interests, goals and peculiarities of the target market be taken into account.