



**LIETUVOS BANKAS**  
EUROSISTEMA

Activities of financial market participants

# **Review of the Activities of Electronic Money and Payment Institutions**

2018

The review was prepared by the Supervision Service of the Bank of Lithuania.

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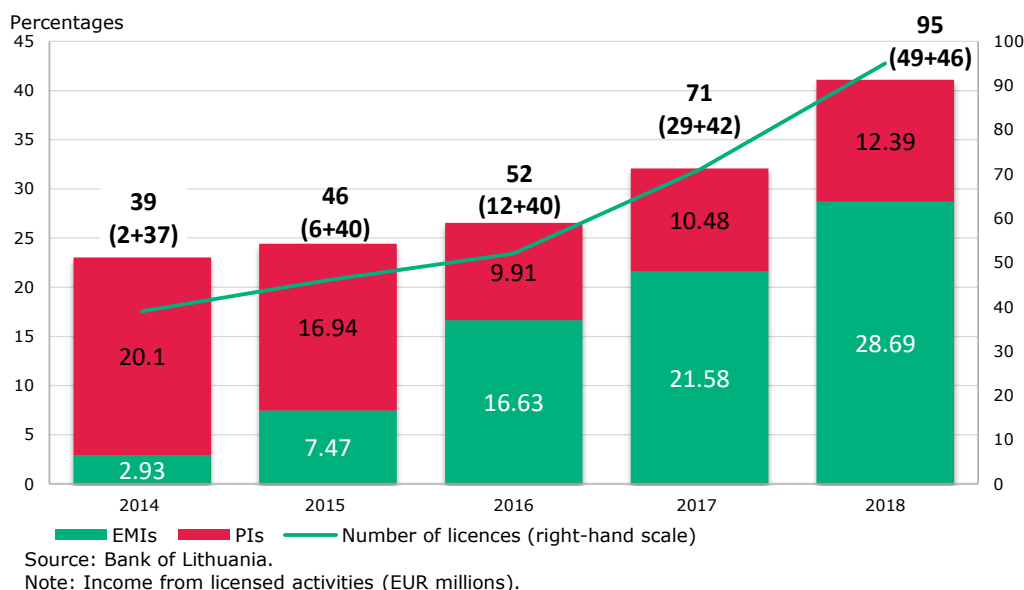
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**Number of electronic money and payment institutions.** On 31 December 2018, the public list of electronic money and payment institutions included 49 electronic money institutions (EMIs) and 16 payment institutions (PIs) (see Chart 1), of which 6 EMIs and 12 PIs held a licence for restricted activity only valid in the Republic of Lithuania (the licence provides that monthly average outstanding electronic money may not exceed €900 thousand and/or the average amount of payment transactions performed over the last 12 months may not exceed €3 million per month). At the end of 2018, 1 PI acquired a licence for providing only the account information service (institutions that have been granted this type of licence are not subject to capital requirements yet they must have professional indemnity insurance or other equivalent liability guarantee). In the course of 2018, the number of EMIs has almost doubled, increasing from 29 to 49, while the number of PIs grew at a less robust pace (from 42 to 46). Seeking to ensure that Lithuania becomes the international hub for payment services, the Bank of Lithuania and other state institutions continued promoting innovation the country's payments market. As a result, FinTech<sup>1</sup> companies showed increasing interest in the opportunities Lithuania has to offer, which has in turn contributed to the rather significant increase in the number of PIs and in particular EMIs: in addition to already licensed institutions, at the end of 2018, 51 institutions applied for a licence. Looking ahead, the number of international financial companies to set foot in Lithuania should be even higher. EMIs and PIs have also showed growing interest in the Bank of Lithuania's payment system CENTROLink, which offers the widest range of SEPA services in the Nordic-Baltic region. Once members of the CENTROLink system, EMIs can provide direct debit services and make instant payments 24/7/365.

Chart 1. EMI and PI performance indicators

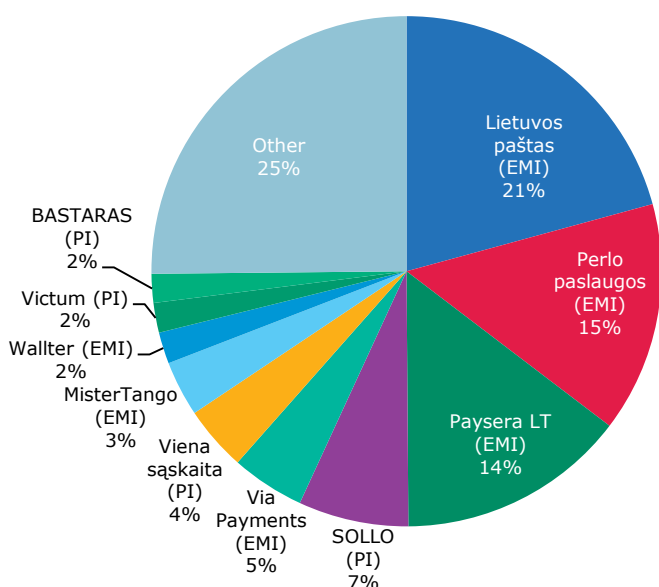


**Operating results.** According to the audited (where audit is obligatory) and annual financial statements approved by the shareholder meeting, in 2018 EMIs and PIs earned €41.08 million from electronic money issuance and provision of payment services. Compared to 2017, their profit increased 1.3 times. Given the rapid increase in the number of EMIs and the transition of AB Lietuvos paštas and UAB Perlo paslaugos from the PI to the EMI sector, EMIs earned 70% of total income from licensed activities, PIs – 30%. In view of the fact that the EMI and PI sector is still evolving and the number of licences issued is increasing each year, some institutions tend not to earn income from licensed activities in their first year of operation. In the

<sup>1</sup> The concept "FinTech" combines state-of-the-art information technologies and a wide range of financial services – from utility payments to lending or financing that are particularly important for small and medium-sized businesses.

reporting period, the number of such institutions stood at 32 (20 EMIs and 12 PIs) out of 95 that held an EMI and/or PI licence on 31 December 2018. Since the EMI sector also includes mobile operators and AB Lietuvos paštas (their main area of activity is other economic and commercial activities), in the reference period, with the number of EMIs engaged mainly in licensed activities growing, the ratio of income generated through electronic money issuance and provision of payment services to total income somewhat increased (0.6 percentage point) and stood at 4.2%. On 31 December 2018, average outstanding electronic money, calculated as the average of the total amount of an EMI's financial liabilities related to electronic money issued at the end of each day during the last six months, amounted to €222.9 million, a year-on-year increase of €109.5 million, or 1.97 times. In terms of PIs, total turnover of payment transactions carried out in the past 12 months amounted to €976.04 million, a year-on-year increase of €203.2 million, or 26.3%. As previously, the increase in average outstanding electronic money and the amount of payment transactions was determined by the rapid growth in the number of EMIs and PIs and the robust expansion of their operations. In terms of income from electronic money issuance and provision of payment services, the EMI and PI market in 2018 was dominated by 3 market participants (49.9%). As regards income from licensed activities, 10 of the largest EMIs and PIs generated 75% of the sector's total income (see Chart 2).

Chart 2. Largest EMIs and PIs in 2018 by income from licensed activities



Source: Bank of Lithuania.

**Compliance with prudential requirements.** On the reference date, EMIs and PIs holding a licence for restricted activity complied with their prudential requirements (the average outstanding electronic money requirement and/or the requirement for the average amount of payment transactions). As at 31 December 2018, EMI and PI own funds amounted to €62.8 million. Respectively, the total own funds requirement (calculated in accordance with Bank of Lithuania-approved methods applicable to EMIs and PIs) stood at €19.5 million. Nonetheless 5 EMIs and 2 PIs had to take measures to ensure that their calculated own funds meet the own funds requirement. 6 of the said institutions increased their authorised and/or reserve capital or covered incurred losses, and, therefore, met their own funds requirement after the reference date. In 2019, the licence of an EMI that was inactive for more than 12 months and failed to comply with the own funds requirements was revoked. Information on the key annual and quarterly performance indicators of [EMIs](#) and [PIs](#) as well as applicable prudential requirements is available on the Bank of Lithuania website.

To protect funds of electronic money holders or payment service users obtained in exchange for electronic money issued or payment services provided, EMIs and PIs followed the funds separation method, i.e. held them in accounts opened with credit institutions as safe, liquid low-risk assets (time deposits, cash). On the

reporting date, 7 EMIs and PIs also concluded warranty (guarantee) contracts with an insurance company or a credit institution to insure funds.

**Regulatory changes.** [Directive \(EU\) 2015/2366 of the European Parliament and of the Council on payment services in the internal market](#) (hereinafter – PSD2) came into force on 13 January 2018. The legal acts implementing PSD2 provisions in the Republic of Lithuania (Republic of Lithuania Law on Payments, Republic of Lithuania Law on Payment Institutions, Republic of Lithuania Law on Electronic Money and Electronic Money Institutions) were adopted on 17 April 2018 and came into effect on 1 August 2018. The Bank of Lithuania also prepared subordinate legislation which regulates the content and reporting periodicity of information to be submitted to the Bank of Lithuania for supervisory purposes: the content of quarterly financial reports for supervisory purposes was changed in Q1 2019; since Q2 2019 EMIs and PIs have been required to provide quarterly reports for supervision of the implementation of money laundering and/or terrorist financing prevention measures (reports on customers with whom business relationships are established, significant payment transactions, payment transactions related to foreign countries, monitoring, foreign customers and their payment transactions, activities of intermediaries); when deemed necessary, EMIs and PIs will also have to submit reports on services, notification templates on major operational or security incidents, suspected fraudulent activities of the payer, on limiting access for an account information service provider or a payment initiation service provider to a payment account, and outsourcing of the operational functions to another entity; the Bank of Lithuania has also started collecting statistics on payment fraud. Information on EMI and PI reports and reporting calendar is available at: <https://www.lb.lt/en/reporting-forms-9> and <https://www.lb.lt/en/reporting-forms-10>.

**In 2018, the Bank of Lithuania prepared several [positions and guidelines](#) with respect to the EMI an PI sector.** The sector is expected to follow, for example, the Guidelines on major incidents reporting under Directive (EU) 2015/2366 (PSD2); Guidelines on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions; Guidelines under Article 25 of Regulation (EU) 2015/847 on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information; Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis; Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee. The Bank of Lithuania also drafted an opinion concerning virtual assets and initial coin offering.