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Activities of financial market participants

Review of the Activities of Electronic Money and Payment Institutions

2020

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The review was prepared by
Financial Market Supervision Service
Financial Services and Market Supervision Department
Payment Market Supervision Division

Contact persons:
info@lb.lt

Toll-free information phone line: +370 800 50 500

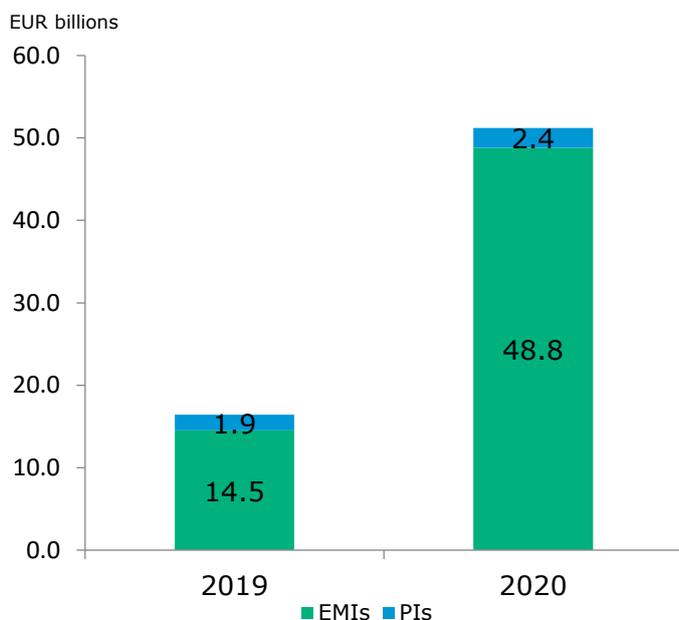
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Income of electronic money institutions (EMI) and payment institutions (PI) from licensed activities (according to audited data) increased 2.2 times over the year, and the amount of EMI and PI payment transactions went up 3.1 times.

According to the audited (where audit is obligatory) and annual financial statements approved by the general meeting of shareholders, the amount of payment transactions performed by EMIs and PIs grew more than three times and constituted €51.2 billion (see Chart 1). The largest impact on the increase in the amount of payment transactions was made both by a rise in significance of electronic payments as a result of the pandemic and by new participants: part of the companies of the United Kingdom relocated their activities to Lithuania due to Brexit at the end of 2020. In 2020, EMIs and PIs earned €142.4 million from electronic money issuance and provision of payment services. Compared to 2019, their profit increased more than twofold. Given the rapidly increasing number of new market participants, EMIs earned 80% of the sector's total income from licensed activities (PIs – 20%). Income of EMIs constituted €113.5 million and grew more than twofold over the year (2.6 times), while the growth of PIs' income was more moderate: it went up by €6.1 million over the year – up to €28.9 million (see Chart 2).

Chart 1. Amount of payment transactions of EMIs and PIs

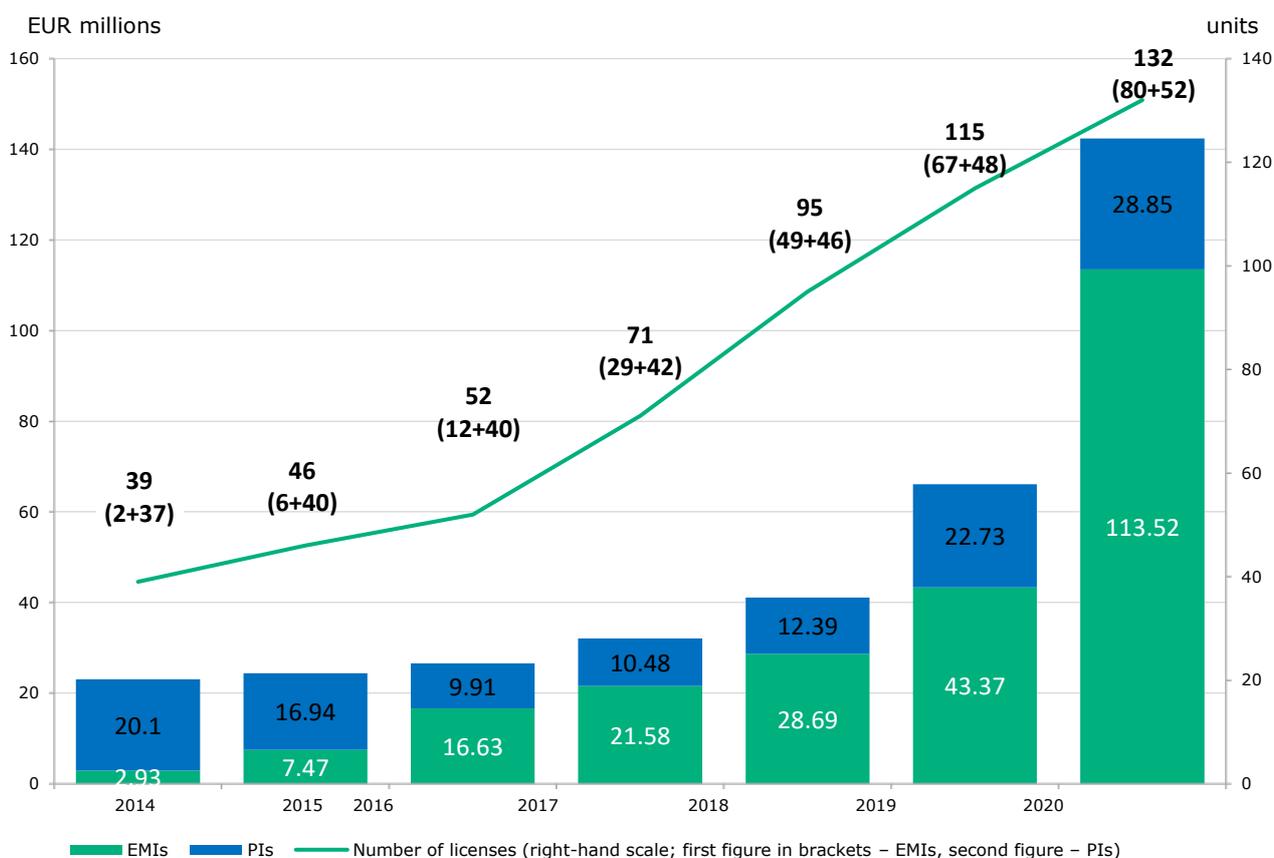


Source: Bank of Lithuania.

Dynamics of the number of EMIs and PIs. At the end of 2020, Lithuania had 132 operating EMIs and PIs – their number upped by 15% over the year. As at 31 December 2020, the public list of electronic money and payment institutions included 80 EMIs and 52 PIs, of which 6 EMIs and 10 PIs held a licence for restricted activity only valid in the Republic of Lithuania. Under this licence, average outstanding electronic money must not exceed €900 thousand over the month and/or the average amount of payment transactions performed over the last 12 months must not exceed €3 million per month. Three PIs held a licence for the provision of account information services only. Institutions holding this type of licence are not subject to capital requirements, although they must hold professional indemnity insurance or a comparable guarantee. In 2020, compared to 2019, the largest change was observed in the number of EMIs, which increased from 67 to 80; the number of PIs grew more moderately – it went up by four institutions over the year.

It should be noted that in 2020 market participants continued to show unabated interest in the possibility of obtaining an EMI or PI licence issued by the Bank of Lithuania. Within the framework of the Newcomer Programme, 108 potential market participants interested in licensing opportunities in Lithuania addressed the Bank of Lithuania in 2020. The majority (76.7%) of programme participants expressed their interest in EMI and PI licences. The number of EMI or PI licensing applications examined by the Bank of Lithuania at a time is generally 40 to 50, a specific number of applications constantly varies. Lithuania takes the leading position in continental Europe in terms of the number of licensed EMIs and PIs. At the end of 2020, Lithuania had 23 operating EMIs and PIs where the origin of the capital is associated with the United Kingdom.

Chart 2. Income of EMIs and PIs from licensed activities and the number of licences



Source: Bank of Lithuania.

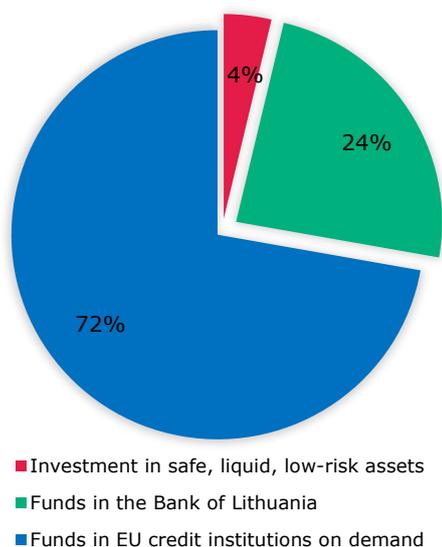
Company income from licensed activities (according to audited data) increased 2.2 times over the year, while the amount of EMI and PI payment transactions went up 3.1 times. According to the audited (where audit is obligatory) and annual financial statements approved by the shareholder meeting, in 2020, EMIs and PIs earned the profit of €142.4 million from electronic money issuance and provision of payment services. Compared to 2019, their profit increased more than twofold. Given the rapidly increasing number of new market participants, EMIs earned 80% of the sector’s total income from licensed activities (PIs – 20%). Income of EMIs constituted €113.5 million and grew more than twofold over the year (2.6 times), however, the growth of PIs’ income was less robust: it went up by €6.1 million over the year, to €28.9 million. The amount of payment transactions performed by EMIs and PIs grew more than three times and constituted €51.2 billion (see Chart 2). The largest impact on the increase in the amount of payment transactions was made both by a rise in significance of electronic payments as a result of the pandemic and by new participants: part of the companies of the United Kingdom relocated their activities to Lithuania due to Brexit at the end of 2020.

Although 65 EMIs and PIs incurred a loss during the reporting period (54 in 2019), the profit of €6 million was earned (growing 1.7 times) by EMIs and PIs whose main activities consisted of the provision of licensed services, whereas the income tax amounted to €3.6 million (increasing 1.3 times).

It should be noted that the EMI/PI market is still in its early development stage, and the break-even point is usually reached in the third year of operation. The average number of staff employed by EMIs and PIs which are obliged to submit the annual statements and which mainly engage in the provision of licensed services increased by 267 employees and stood at 872, of which 739 jobs, on average, were created in Lithuania.

In 2020, the major part of EMI and PI customer funds (€2.7 billion) was represented by the amount held with the Lithuanian and European Union (EU) credit institutions, funds held with the Bank of Lithuania ranked second, and a small part of customer funds was invested in safe, liquid and low-risk assets (see Chart 3). Average outstanding electronic money¹ exceeded €1 billion and grew 3.2 times in 2020, to €1.2 billion.

Chart 3. EMI and PI customer funds



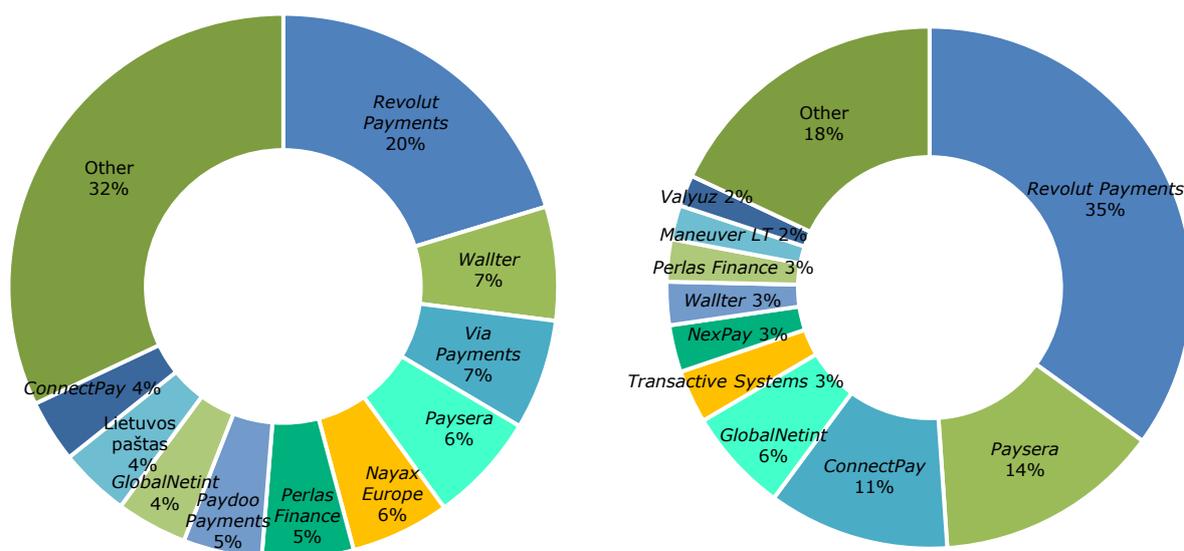
Source: Bank of Lithuania.

¹ Average outstanding electronic money is 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.

In terms of income generated through electronic money issuance and provision of payment services, the positions of the major market participants shifted due to the increasing number of market participants on the EMI and PI market and as a result of new market participants joining.

During the period under review, Revolut Payments, UAB held the leading position on the market in terms of both income from licensed activities and amount of payment transactions; its market share comprised 20% of the entire sector by income from licensed activities. Compared to the previous year, income of 10 major EMIs and PIs from licensed activities grew from 61 to 68% of sectoral income, and the amount of payment transactions remained basically unchanged, i.e. it went up by 1 percentage point (see Chart 4).

Chart 4. Largest EMIs and PIs by income from licensed activities and amount of payment transactions



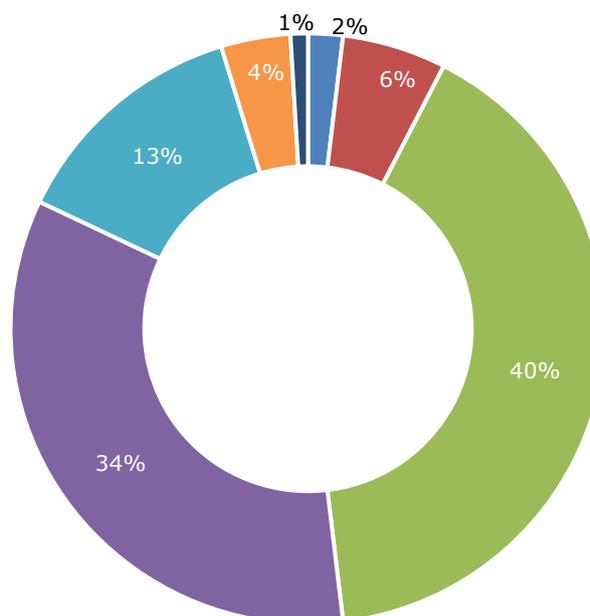
Source: Bank of Lithuania.

In terms of the total amount of payment transactions performed over the last 12 months, more than one third of the market was held by Revolut Payments, UAB. It was followed by Paysera LT, UAB and ConnectPay, UAB. The total amount of payment transactions performed by these three EMIs accounted for 60% of the total amount of payment transactions.

The activities of institutions were focused on payment account services as well as issuance of payment instruments (e.g. payment cards) and processing of incoming payments. As at 31 December 2020, the major share – 40% (42% on 31 December 2019) of payment services consisted of direct debits, payment transactions through a payment card or a similar instrument and credit transfers, as shown by reports on services that have been submitted by EMIs and PIs to the Bank of Lithuania. Issuance of payment instruments and processing of incoming payments also accounted for a sizeable share – 34% (34% on 31 December 2019) (see Chart 5). The latter services as well as services enabling cash to be placed on or withdrawn from a payment account were predominant among EMIs. PIs were mostly engaged in money remittance and payment processing services. Payment initiation and account information services were launched only in 2019 following the entry into force of [Directive \(EU\) 2015/2366 of the European Parliament and of the Council on payment services in the internal market](#) (PSD2). Although the number of institutions providing the said services was quite low at the end of last year, the growing trend in the scope of the said services have been observed.

Chart 5. Breakdown of payment services

- Cash deposit services
- Cash withdrawal services
- Direct debits, payment transactions through a payment card or a similar instrument, credit transfers
- Issuance of payment instruments and/or processing of incoming payments
- Money remittance
- Payment initiation services
- Account information services



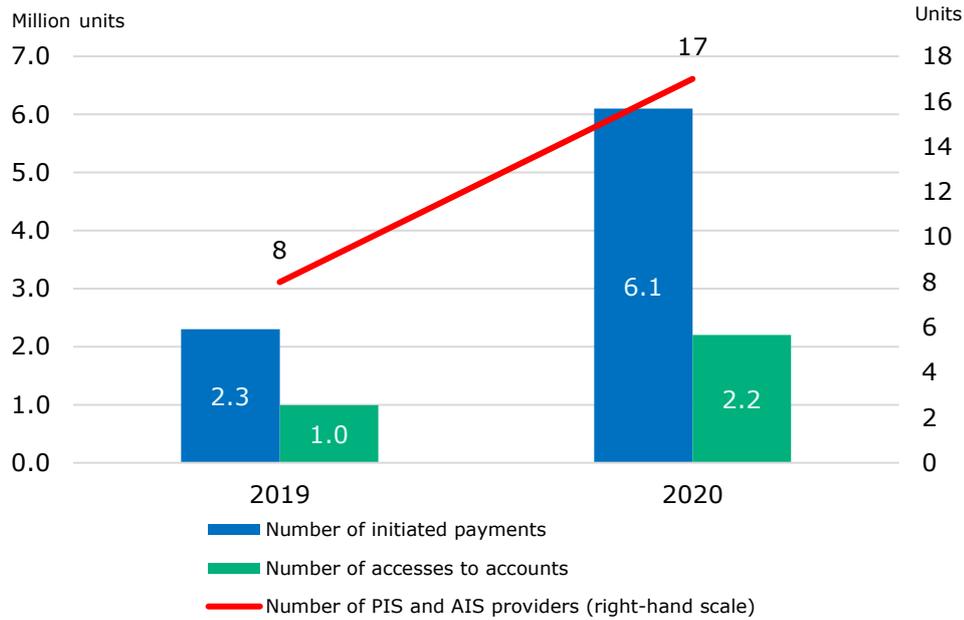
Source: Bank of Lithuania.

The number of EMIs and PIs providing payment initiation services (PIS)² and/or account information services (AIS)³ was also increasing. Compared to 2019, the number of EMIs and PIs entitled to provide PIS and/or AIS doubled; the number of such institutions stood at 17 at the end of 2020. The number of initiated payments went up 2.7 times over the year –to 6.1 million payments, whereas the number of accounts with access to AIS providers amounted to 2.2 million during the reporting period (see Chart 6). PIS allows ensuring for the recipient of funds (merchant) that the payment has been initiated to prompt it to dispatch the goods or provide a service immediately. These services can be used as an alternative to the Bank link service by the merchants and consumers. Moreover, consumers can shop online even if they do not have payment cards. AIS providers gather information and provide the customer with information collected from customer’s other accounts with different credit institutions, EMIs and PIs in a form convenient to the customer (on the phone, internet account, etc.), thus enabling the service user to track the balance, see history of expenses and information on payment transactions performed. New business models are introduced where, with the customer’s consent, the account information service is used to provide the customer with other financial services, for example, consumer credit or a certain insurance product, in order to assess the customer’s creditworthiness prior to granting a loan, etc.

² PIS means a service of initiation of a payment order at the request of the payment service user with respect to a payment account held at another payment service provider. By providing PIS only, a payment initiation service provider does not acquire customer funds at any stage of the payment chain.

³ AIS means a payment service whereby aggregated online information is provided on one or more payment accounts held by the payment service user with one or more other payment service providers.

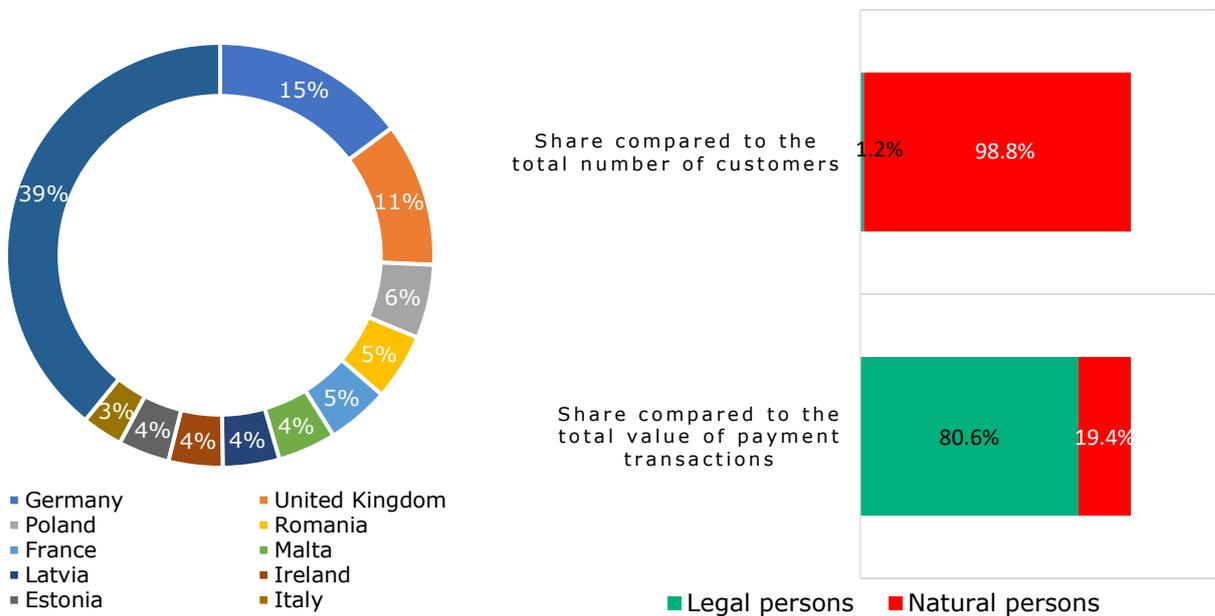
Chart 6. PIS and AIS providers' performance indicators



Source: Bank of Lithuania.

EMIs and PIs had 5.6 million active customers in 2020. The highest payment transaction turnover was generated by payments made by legal persons, with payments from/to the EU being most prevalent in terms of the value of payment transactions (see Chart 7).

Chart 7. Value of payment transactions by countries and types of customers



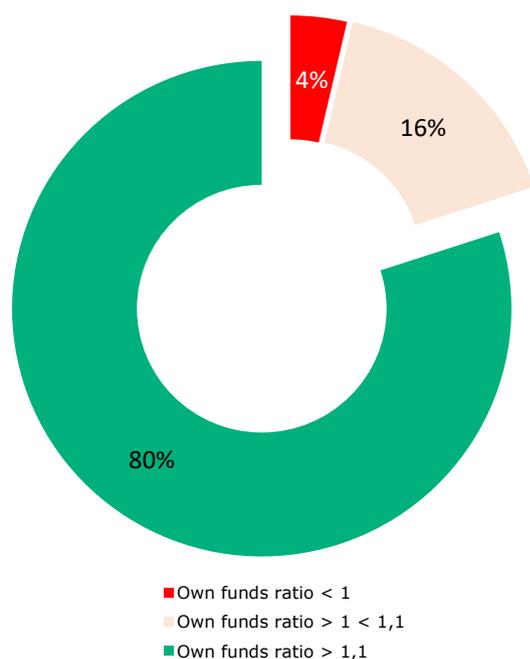
Source: Bank of Lithuania.

Reports for the supervision of the implementation of anti-money laundering and/or counter terrorist financing (AML/CTF) measures submitted by EMIs and PIs by 31 December 2020 show that, in terms of the value of payment transactions, the majority of payment transactions were carried out between EU Member States,

with Germany ranking first (15% of payment transactions). In the EMI/PI sector, the highest payment transaction turnover (80.6%) was generated by payment transactions made by customers (legal persons), although their share, compared to the total number of customers, comprised just slightly more than 1%.

Compliance with prudential requirements. On the reference date, most EMIs and/or PIs holding a licence for restricted activity complied with their prudential requirement (the average outstanding electronic money requirement and/or the requirement for the average amount of payment transactions), while one EMI, having exceeded said indicators, approached the Bank of Lithuania with a request to issue a licence of an EMI for unrestricted activities. This request was upheld in Q2 2021, having assessed the documents submitted by the institution during the licensing process. On 31 December 2020, 80% of licensed EMIs and PIs exceeded the own capital ratio, which is calculated as the ratio of own funds to the calculated own funds requirement and must be at least 1, – it was over 1.1 (see Chart 8). However, four EMIs had to take measures to ensure that their calculated own funds meet the own funds requirement. Therefore, these institutions met their own funds requirement after the reference date, i.e. either having increased their authorised and/or reserve capital or covered losses. It should be noted that information on the key annual and quarterly performance indicators of each [EMI](#) and [PI](#) as well as on their compliance with prudential requirements is available on the Bank of Lithuania website.

Chart 8. EMI and PI capital ratio



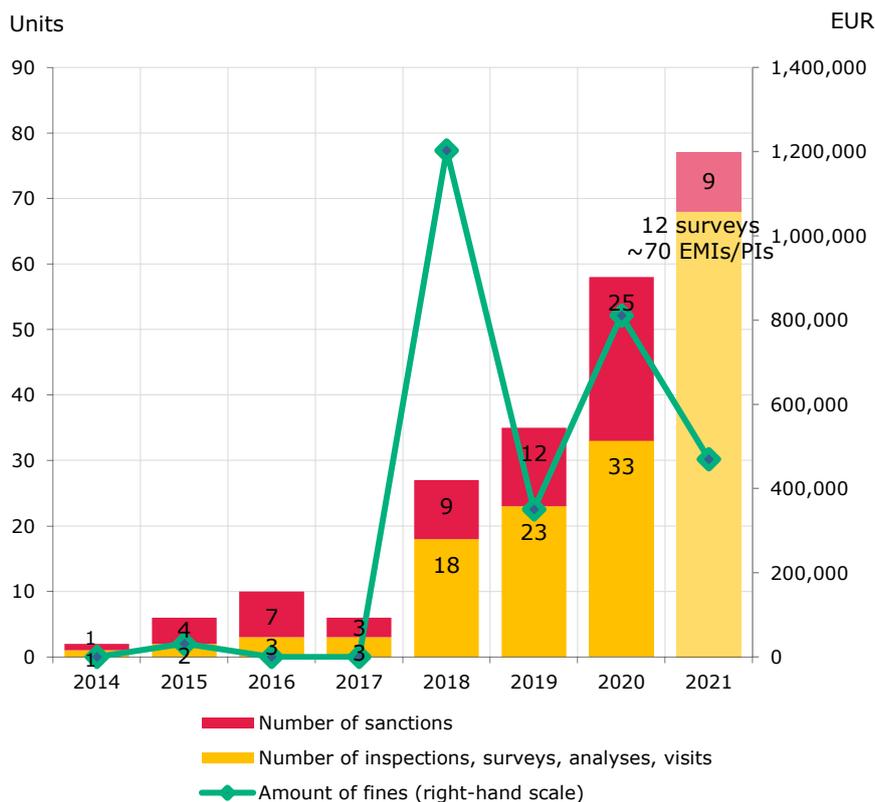
Source: Bank of Lithuania.

Supervision of the EMI/PI sector. In terms of supervision of the EMI/PI market, the Bank of Lithuania uses a risk-based supervision model. Therefore, taking into account the risks posed by certain EMIs and PIs, some of them may attract closer supervisory attention than others. The Bank of Lithuania is currently applying and further improving the model for assessing the risk level of EMIs and PIs, which enables assigning EMIs and PIs to four risk groups according to various aspects, including AML/CTF, financial (protection of customer funds, solvency, sustainability) and other indicators. Moreover, in order to reduce the administrative burden on EMIs and PIs involved in the reporting for supervisory purposes, the Bank of Lithuania is looking for an

innovative solution that would allow obtaining the necessary data from EMIs and PIs and automatically generating respective reports. To this end, the Bank of Lithuania joined the GovTech⁴ Lab in 2019. As part of the GovTech Lab, the Bank of Lithuania proposed to develop a smart regulatory technology (RegTech) solution, which would streamline reporting procedures, thus allowing financial market participants to submit reports to the Bank of Lithuania in a more efficient manner; it was further developed in 2020, and it is currently undertaken through the implementation of the DAMMAMA project. In addition, innovative solutions are being sought by conducting analyses of protection of customer funds, for example, on 28 May 2021, the Bank of Lithuania published the [feasibility study](#) on the use of the account information service in optimising the provision of EMI and PI data for supervisory purposes. It aimed at analysing an opportunity to use AIS in optimising data management for supervisory purposes by observing how EMIs and PIs comply with the requirements for protection of customer funds.

In 2020, within its supervisory mandate, the Bank of Lithuania mainly focused on compliance with AML, own funds and customer funds protection requirements, as well as examined whether EMIs and PIs provide services only within the scope of their licences. In 2021, several or dozens of EMIs and PIs were included in one survey (thematic analysis) to focus on the governance and internal control of EMIs and PIs through consistent strengthening of the FinTech sector maturity; at least 12 inspections, surveys or analyses which will cover around 70 EMIs and PIs are planned in 2021 (see Chart 9).

Chart 9. Supervisory actions in respect of EMIs and PIs



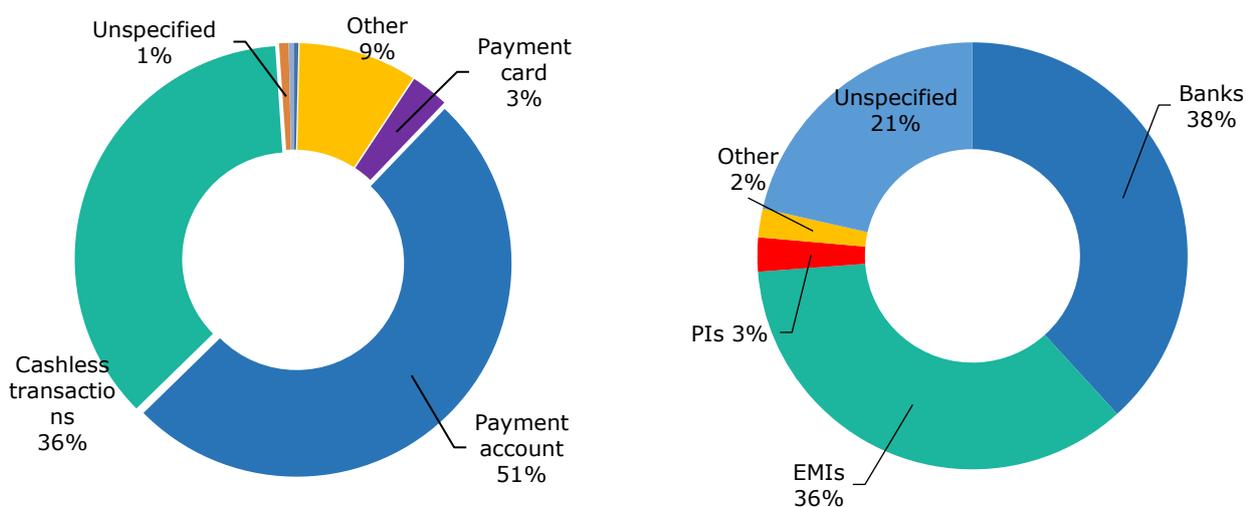
Source: Bank of Lithuania.

⁴ GovTech is the entirety of innovative IT tools for seeking solutions on how to strengthen the public sector and improve public services.

The Bank of Lithuania carried out over 50 EMI and PI inspections, surveys, analyses or visits between the beginning of 2019 and the end of 2020. The licences of two institutions were revoked due to infringements of the management of money laundering and terrorist financing risks, one more licence was revoked in 2021, five institutions were fined and certain payment transactions were restricted for one of them. Activities of one institution were restricted due to a failure to timely submit supervisory reports. Due to inadequate safeguarding of customer funds, fines were imposed on ten institutions, a fine was also imposed on the manager of one institution who failed to ensure the adequate compliance with the requirements for safeguarding of customer funds as well as other infringements of legal acts. One institution was imposed a fine for the infringements of the Republic of Lithuania Law on Payments. One licence was revoked due to a failure to comply with own funds requirements, one institution was imposed a fine, eleven public notifications on violations were applied and two warnings were issued. One public notification and one warning were issued for the provision of incorrect information and other violations. The analysis of the activities of EMIs and PIs which did not commence the provision of licensed services within 12 months was carried out, as is the case every year.

Protection of consumer rights. In 2020, most complaints (more than one third, or 35.6%, of all complaints) received by the Bank of Lithuania concerned payment services provided by credit institutions and other payment service providers. 39% of all complaints were related to services provided by EMIs and PIs (see Chart 10). In most cases (51% of all complaints regarding payment services), payment service users complained about payment accounts opened on their behalf with EMIs and PIs which are used for the execution of payment transactions. These complaints were mainly related to the application of AML/CTF requirements (blocked payment accounts, requests to provide certain KYC information, restricted access to funds in the payment account, non-communication with the customer, unilateral termination of contracts with legal persons holding payment accounts or refusal to open a payment account). A series of complaints concerned cashless payment transactions. The Bank of Lithuania noted that EMIs and PIs were to improve the practice regarding the handling of customer complaints. In 2021, the analysis of the activities of one of the major EMIs is planned in the field of payment services. During the period under review, 28 disputes were resolved in relation to the EMI and PI activities and three decisions on the merits were adopted (in 2019, there were no decisions of this type); the customers' claims were dismissed in all cases.

Chart 10. Complaints by type of payment service provider and payment service



Source: Bank of Lithuania.

Regulatory changes. In 2020, the Bank of Lithuania prepared [draft amendments](#) to legal acts of the Bank of Lithuania and submitted them for EMIs' and PIs' consideration: regulations for the calculation of initial capital and own funds, the procedure detailing the preparation of supervisory reports and the provision of information to the Bank of Lithuania, as well as requirements on internal control, risk management and customer funds protection. Amendments to these resolutions were adopted in 2020. Information on EMI and PI reports and the reporting calendar are available at: <https://www.lb.lt/en/reporting-forms-9> and <https://www.lb.lt/en/reporting-forms-10>.

On 10 November 2020, the Bank of Lithuania adopted Resolution No [03-166](#) on the approval of the rules on the outsourcing of operational functions of financial market participants. Pursuant to this Resolution, EMIs and PIs shall ensure that the **current outsourcing contracts** concluded prior to the entry into force of this Resolution **comply with** the new **requirements** by 1 January 2022 at the latest.

On 26 November 2020, the Bank of Lithuania adopted new Resolution No [03-174](#) on the approval of the description of requirements for information and communication technology and security risk management; pursuant to this Resolution, new **requirements for information and communication technology and security risk management** entered into force **as of 1 January 2021** (application of three effective lines of defence model, annual testing of critical security measures of ICT systems, deployment of information assets register, data quality management, etc.).

During the period under review, the Bank of Lithuania issued several [positions and guidelines](#) relevant to the EMI/PI sector. On 25 May 2020, the Bank of Lithuania prepared its position on the right of electronic money institutions and payment institutions to access bank accounts opened with credit institutions. The Bank of Lithuania carefully assesses how the banks follow the said position which aims at ensuring the opportunities for EMIs and PIs to open bank accounts for holding customer funds and use them in such a way and to such an extent that enables EMIs and PIs to provide payment services in an unhindered and efficient manner. Already since the beginning of 2019, the banks must notify the Bank of Lithuania if they refuse to open, restrict or close an account for an EMI or a PI and specify the reasons for that decision. By the end of 2020, 39 notifications were received in total, of which 3 were received in Q4. The reasons for refusing, restricting or closing the account were generally related to the fact that EMIs and PIs exceeded the risk that the banks wish to assume, the correspondent banks required to do so, deficiencies of AML and/or CTF controls applied by EMIs and PIs were established, the source of beneficiaries' funds was unclear or unjustified, etc. The Bank of Lithuania regularly analyses these notifications and provides assessments to banks concerning the justification of respective actions as well recommendations on the improvement of practice.

On 15 February 2021, the [Guidelines](#) on the provision of payment services were adopted which aim at increasing the transparency and clarity of payment services, ensuring adequate implementation of the Republic of Lithuania Law on Payments and other legal acts regulating the provision of payment services as well as raising awareness of payment service users on payment services, terms and conditions of the provision thereof, including the rights and obligations of the users and providers of these services.

On 21 May 2021, the Bank of Lithuania also approached the managers of EMIs and PIs and expressed its expectations regarding the strengthening of governance, internal control and compliance culture (for more information, see <https://www.lb.lt/lt/naujienos/lietuvos-bankas-fintech-imonems-isdeste-savo-lukescius>) and it will monitor how the managers of EMIs and PIs implement the said expectations.

The Bank of Lithuania has provided for multiple training courses and consultations on these [topics](#) to draw the attention of EMIs and PI's to the quality of governance and internal control. Regular quarterly compliance meetings with EMI and PI representatives responsible for the implementation of AML requirements are held to discuss money laundering risks identified by the Bank of Lithuania.