



# Review of the Activities of Payment Institutions

## 2014

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### ACTIVITIES PERFORMED

The licensing of payment institutions process continued into 2014, with 5 licences for the provision of payment services issued. 1 licence of a payment institution was granted in Q4 2014 — for *UAB PAYPAY.LT*. This payment institution is going to provide a service specified in Article 5(6) of the Republic of Lithuania Law on Payments — money remittance. This service will be provided for small and medium-sized e-shops operating in Lithuania, i.e. a payment institution administering the remittances of an e-shop's payer will be the payment intermediary between the e-shop and the buyer.

As of 1 January 2015, 37 payment institutions were registered in the Public List of Payment Institutions. Out of all payment institutions, 25 held licences entitling to provide payment services in the Republic of Lithuania and other European Union Member States (3 payment institutions: *UAB Worapay*, *UAB Alternative Payments* and *TT Express*, *UAB*, have exercised this right); 12 institutions held licences of a payment institution for restricted activity (waivers) only valid in the Republic of Lithuania and providing that the average amount of payment transactions performed by a payment institution over the last 12 months is not above EUR 3 million per month. It should be noted that 30 out of all payment institutions holding licences of a payment institution held the licences entitling to provide the only payment service — money remittance, 3 — the payment service provided by a mobile communication network operator, 4 — various payment services.

Most payment institutions, as in previous periods, were engaged in economic and commercial activities, while providing payment services as additional services only; hence, both the share of income from the provision of payment services and the share of debt for payment services provided on the reporting date, as on the previous reporting dates, was small and accounted for 4 per cent and 1.5 per cent of total liabilities respectively. This was due to the model of activities carried out by most payment institutions, notably mobile communication network operators, when most income is derived from economic and commercial activities and payment services are only an additional activity.

According to shareholder-approved (audited, where audit is obligatory) financial statements, payment institutions' income from the provision of payment services amounted to LTL 69.3 million (EUR 20 million). The income from payment services boosted by LTL 2.3 million (EUR 0.68 million), or 3.5 per cent from 2013. The boost in the payment institutions' income from payment services in 2014 was driven by an increase in the income of 13 payment institutions from this activity.

The total turnover of payment transactions carried out by payment institutions over 2014 amounted to LTL 6.81 billion (EUR 1.9 billion), a decrease of LTL 90 million (EUR 26 million) year on year. The greatest contribution to that stemmed from a decline in the turnover of payment transactions of the 2 largest payment institutions in 2014. Moreover, 4 in 5 payment institutions that did not operate last year were not yet engaged in their activities in Q4 2014. In 2014, as in the previous reporting periods, the system of payment institutions was dominated by a few payment institutions — the share of 3 payment institutions accounted for the largest share of income and of the total turnover of payment transactions (70% and 72% respectively).

*AB Lietuvos paštas* in 2014, as in the previous year, held a significant position in the entire system of payment institutions by volume of payment services provided. This company's income from the provision of payment services in 2014 accounted for 39 per cent of the total income of payment institutions from payment services. The payment transactions of *AB Lietuvos paštas* in 2014, as in 2013, accounted for 43 per cent of the turnover of the payment transactions of all payment institutions.

### COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

All payment institutions complied with the safeguarding requirement for the received funds of payment service users, set forth in the Law on Payment Institutions, separated these funds from the funds of other natural or legal persons, and held them in accounts with credit institutions. On the reporting date, 8 payment institutions also applied another safeguarding method for the funds of the users of payment services — they had concluded warranty (guarantee) contracts with an insurance undertaking or credit institution on the insurance of these funds.

As of 1 January 2015, all payment institutions complied with the requirements for the initial capital and own funds established in the Law. According to the data as of 1 January 2015, the own funds of all payment institutions amounted to LTL 145 million (EUR 42 million). In 2014, 2 payment institutions increased their authorized capital to enhance their own funds base. Total own funds requirement (calculated by applying one of the Bank of Lithuania-approved methods chosen by a payment institution) on the above-named date amounted to LTL 10 million, or EUR 3 million (for 4 payment institutions this amount increased due to an increase in their activity volumes).

Due to rather low volumes of payment transactions and other financial data, used in calculating the amount of own funds requirement, the own funds requirement of 11 payment institutions did not exceed the amount set forth in the Law (EUR 20 thousand). It should be noted that 20 out of 25 payment institutions which must comply with the own funds requirement, in calculating their own funds requirement, applied method B, which is based on the average amount of payment transactions in the course of 12 months, 2 — method C, which is based on payment services income and expenses, and 3 — method A, which is based on the fixed expenses of a payment institution.