

# Lithuania After Euro Adoption: Effect on Financial Services and Payments

Senior associate Daiva Liubomirskienė and associate Artūras Asakavičius at SORAINEN law firm offer some background on the implementation of the euro in Lithuania and the effect it will have on the financial services and payments industries in the country.

## Euro adoption effect on cross-border payments

Lithuania adopted the euro in January 2015. With regard to the retail payments market, this means that the SEPA (Single Euro Payments Area) Regulation requirements will enter into force in Lithuania in January 2016. Consequently, the compliance of about 120m (worth approximately €34m) credit transfers, which is the total number of credit transfers in Lithuanian litas initiated during 2014, will have to be ensured with the SEPA requirements as of that date. Five commercial banks which hold banking licences issued by the Bank of Lithuania, as well as all foreign bank branches operating in the retail payments market and the Bank of Lithuania itself are already providing the services of SEPA credit transfers in Lithuania. However, other payment services need to be aligned with SEPA regulations.

As banks control the biggest share of the Lithuanian payments market (they have provided access to 8m payment accounts, 70 percent of which were managed online), they will be most affected by the euro introduction. In addition, banks may



Daiva  
Liubomirskienė  
SORAINEN

broaden their services by suggesting more diversified payment services and products for euro credit transfers and euro direct debits throughout SEPA.

Meanwhile, payment institutions control around 12 percent of the payments market and they could benefit from the euro introduction by increasing their market share in relation to cross-border payment services. It is also worth noting that consumers will benefit from the euro introduction as cross-border payments coming in and out of Lithuania will be cheaper.

## Benefits for Lithuania

Now that Lithuania is in the eurozone, Lithuanian banks can borrow money at favourable rates from the European Central Bank (ECB). Analysts and political leaders say it should increase commerce, eliminate money exchange costs

and help develop new markets to the west. For Lithuanian business, the euro introduction removes the administrative burden and cost of money exchange (estimated at €40m a year) and eliminates any residual risk of a currency crisis.

Lithuania has been hit arguably harder than any other country by the drop in the Russian ruble and imposed economic sanctions, which have closed the Russian market to Lithuanian food products, which is an important part of the economy. Therefore, the euro should make it easier for Lithuania to develop substitute markets in other EU countries.

## Regulations determining payment systems in Lithuania

Before the euro adoption, the Bank of Lithuania operated two payment systems designed for payments in litas: the real-time gross settlement system, LITAS-RLS, and the retail payment system, LITAS-MMS. Domestic commercial banks, foreign bank branches, the Central Credit Union of Lithuania, the Central Securities Depository of Lithuania

(CSDL) and financial brokerage firms participated in them, along with the Bank of Lithuania. Companies that manage payment card schemes also participated in the LITAS-RLS. These were Visa Europe Services Inc. and MasterCard International Inc. In addition, the TARGET2-LIETUVOS BANKAS payment system for real-time settlements in euros is used in Lithuania. The Bank of Lithuania manages the TARGET2-LIETUVOS BANKAS system, a component system of TARGET2, and provides services and support to its participants. Most domestic commercial banks, the CSDL and the Central Credit Union of Lithuania are participants of this system along with the Bank of Lithuania. The system KUBAS of the Central Credit Union of Lithuania forms an infrastructure for making payments for credit union members and credit unions. It has a small non-cash payment market share. After the euro adoption, the payment system LITAS-RLS has been revoked, while the payment system LITAS-MMS has been adapted to domestic retail payments in euros. The LITAS-MMS executes clearing operations at least once an hour.

The following regulations determine the operation of these payment systems:

1. Regulations on functioning of the retail payment system LITAS-MMS, adopted by the resolution of the board of the Bank of Lithuania No. 03-284 on November 13, 2014.
2. Regulations on functioning of the payment system TARGET2-LIETUVOS BANKAS, adopted by the resolution of the board of the Bank of Lithuania No. 139 on October 18, 2007, as amended on December 2, 2014.

To maintain a high quality of the execution of domestic payments and ensure favourable conditions of settlement for Lithuanian payment service providers (PSPs), the Bank of Lithuania has taken efforts to create a system of retail payments that complies with the requirements of the SEPA Regulation — the SEPA-MMS payment system, also referred to as a clearinghouse. It will be launched on January 1, 2016. Seeking to ensure more beneficial conditions for competition in the payments market for not only banks but also credit unions, payment and e-money institutions have been invited to join the retail payment system to be created by the Bank of Lithuania. The frequency, number and time of clearing cycles and the provision of other services agreed with the system participants will be set for the SEPA-MMS based on the needs of its participants. This system may compete with many other SEPA clearinghouses already operating in the euro area as PSPs are free to choose the system for execution of payments in euros (of their own and of their customers). Some banks, credit unions and payment and e-money institutions operating in Lithuania have already shown interest in the Bank of Lithuania's offering and confirmed their preliminary interest for participation in the system to be created.

The smooth preparations of the Lithuanian payment market to operate in SEPA is related to the timely harmonisation of Lithuanian legislation and the requirements of the payment schemes in line with the requirements of the SEPA Regulation. It is expected that Lithuanian legislation regulating payment instruments that are incompatible with SEPA requirements will be changed as soon as possible

for the country to fully enter SEPA. Amendments are also expected to be made to the Law on Settlements for Agricultural Production, as well as amendments to the regulation of funds write-down. According to executive documents, the funds write-down has to be performed and installed in a new funds limitation information system (PLAIS).

### Stability and preparation for reforms

We believe that the current financial system is stable to handle payment reforms. An assessment of the securities settlement system operated by the CSDL (in 2014) and the former LITAS-RLS payment system (in 2013), in accordance with the CPSS-IOSCO's Principles for Financial Market Infrastructures, showed that the systems are compliant. This signals the credibility of their operations.

To encourage the stable and efficient operation of financial market infrastructures, the Bank of Lithuania performs the oversight of payment and securities settlement systems. Since January 1, 2015 the Bank of Lithuania follows these documents approved by the euros system: the Regulation on Oversight Requirements for Systemically Important Payment and the Oversight Framework for Retail Payment Systems approved and issued by the ECB, as well as the Description of the Procedures of the Payment and Securities Settlement Systems Oversight, harmonised with both documents. The following systems oversight measures apply in Lithuania: system registration, system monitoring and system assessment pursuant to international principles, standards and recommendations. As mentioned above, the assessment of

the systems was carried out in line with the CPSS-IOSCO's Principles for Financial Market Infrastructures.

The European Commission's legislative proposals for the Payment Accounts Directive, the revised Payment Services Directive (PSD2) and Regulation on Interchange Fees will have a significant impact on the Lithuanian payments market, although some elements of regulation are already in place in Lithuania.

Some elements of the Payment Accounts Directive have already been implemented in Lithuania. These include the website operated by the Bank of Lithuania, which offers the comparison of and changes in fees applied to payment services by different Lithuanian PSPs. In Lithuania, it is also possible to switch a bank account to another bank, when after opening an account the new bank has finalised all the formalities regarding the shifting of payment services (direct debit, regular credit transfers) from the previous bank. However, it is a rather complicated and time-consuming process with many formalities involved.

The PSD2, among other things, contains a proposal to prohibit a surcharge being applied by payees for payments made using debit and credit cards as interchange fees are going to be regulated under the Regulation on Interchange Fees. To encourage the use of efficient payment instruments, Lithuania, as in many other EU member states, prohibits application of a surcharge for payers making payments using a payment card. Therefore, after implementation of the PSD2, Lithuanian residents could benefit by shopping on websites registered in member states that do not currently apply a prohibition to take a surcharge.

The implementation of the Regulation on Interchange Fees in Lithuania would create the grounds for reducing fees paid by merchants for accepting and processing cards. This may prompt merchants to expand the point of sale (POS) terminal network. However, the concentration of the card market may limit the impact of the interchange fee regulation as the interchange fee is not applied when payment is acquired by the bank, which is also the card issuer.

### Development of alternative payments in Lithuania

The e-money market in Lithuania is still in development. As of January 1, 2014, only two electronic money institutions have an electronic money institution licence: ANTIGRAVITY PAYMENT SYSTEMS, UAB (due to licence specifics, operates only in Lithuania) and EVP International, UAB (Paysera). The latter also exercises the right to issue electronic money and provide payment services without establishing a branch in other EU member states.

The income of electronic money institutions related to e-money issuance and the provision of payment services amounted to LTL7m for nine months in 2014 (LTL2.6m during the third quarter). Average outstanding electronic money, calculated as the average of the total amount of financial liabilities related to the electronic money issued at the end of each day during the previous six months, as of October 1, 2014 amounted to LTL26.6m. It increased by 2.27 times in comparison with the same period the previous year (this is due to the rapid growth of one e-money institution). PayPal works on a

cross-border basis without a branch in Lithuania and provides payment services through its subsidiary Braintree. PayPal is generally used by Lithuanians when it is necessary to settle with foreign merchants through their webpages.

Lithuanian business is constantly adopting and providing easier and more convenient ways to execute payments. After the euro introduction, we believe that foreign e-money institutions will become more popular and it will be easier to settle in e-money, not only in Lithuania but also in the EU. In addition, more business could become international and provide goods or services through the internet; therefore, foreigners could settle with Lithuanian merchants in e-money as well.

Currently, only one company, MOKIPAY EUROPE, UAB, provides mobile money services in Lithuania. Although the market is small, MOKIPAY EUROPE, UAB is changing people's habits and more and more people have started using mobile money. However, official figures on the market size of mobile money have not been provided.

Lithuanian legislation will have to be adjusted in accordance with the abovementioned EU regulations (directives) and initiatives, as well as SEPA regulations, within time limits as described above. Meanwhile, no official announcements about changes in e-money regulation are expected in the near future.

Find out more about the authors in Biographies and Profiles, from Page 71.

This article was originally published at [www.paymentscompliance.com](http://www.paymentscompliance.com) on February 16, 2015.