



LIETUVOS BANKAS
EUROSISTEMA

One size fits none

Payments market: Regulator perspective

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Mobey Forum

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Lithuania: payments market profile

Technology driven, but cash oriented society

- 72 % of individuals use **Internet**
- 70 % of individuals own a **smart phone**
- 41 % of individuals interact with public authorities **online**

But...

- Overall 80 % of transactions are made in **cash**
- In retail 60 % (by value) of purchases in **cash**
- New trend: increasing number of individuals **not using any PSP**



Lithuania: payments market profile

Concentrated financial services market

- **Three** major players: **SEB**, **Swedbank**, **DNB**, (**Danske**)
- **Wild wild west** in terms of payments regulation for past 2 decades
- Some **achievements** - internet banking, financial inclusion.

But...

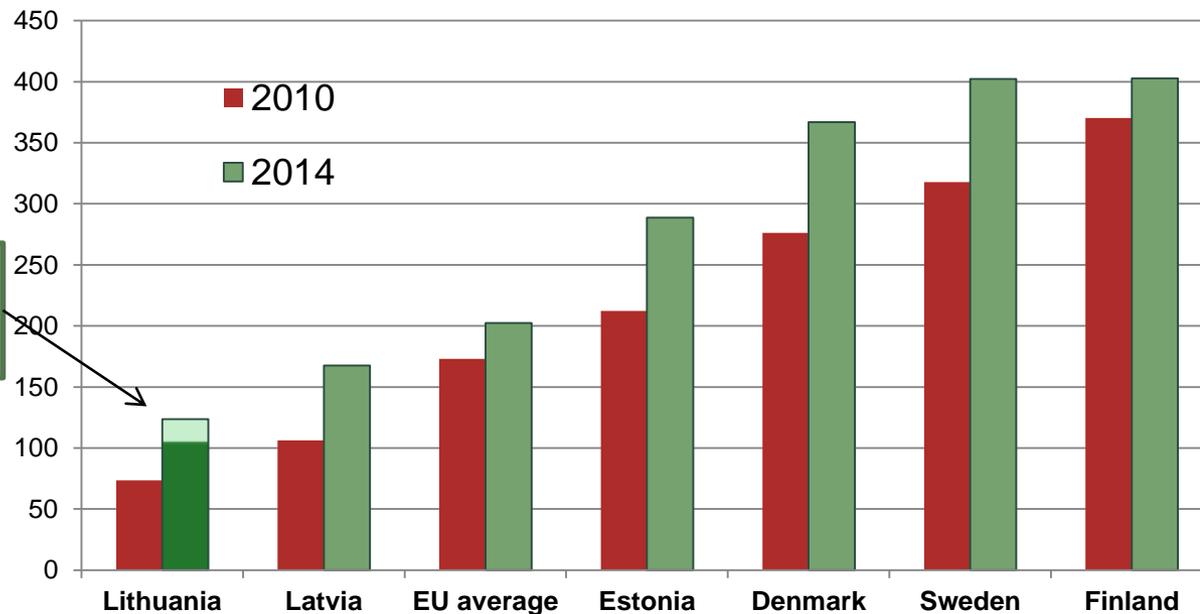
- **Underinvestment** in common infrastructure
- **Detachment** from end users
- **Short-termism**
- Following “**group policy**”



Lagging e-payments

Non-cash payments: large market potential

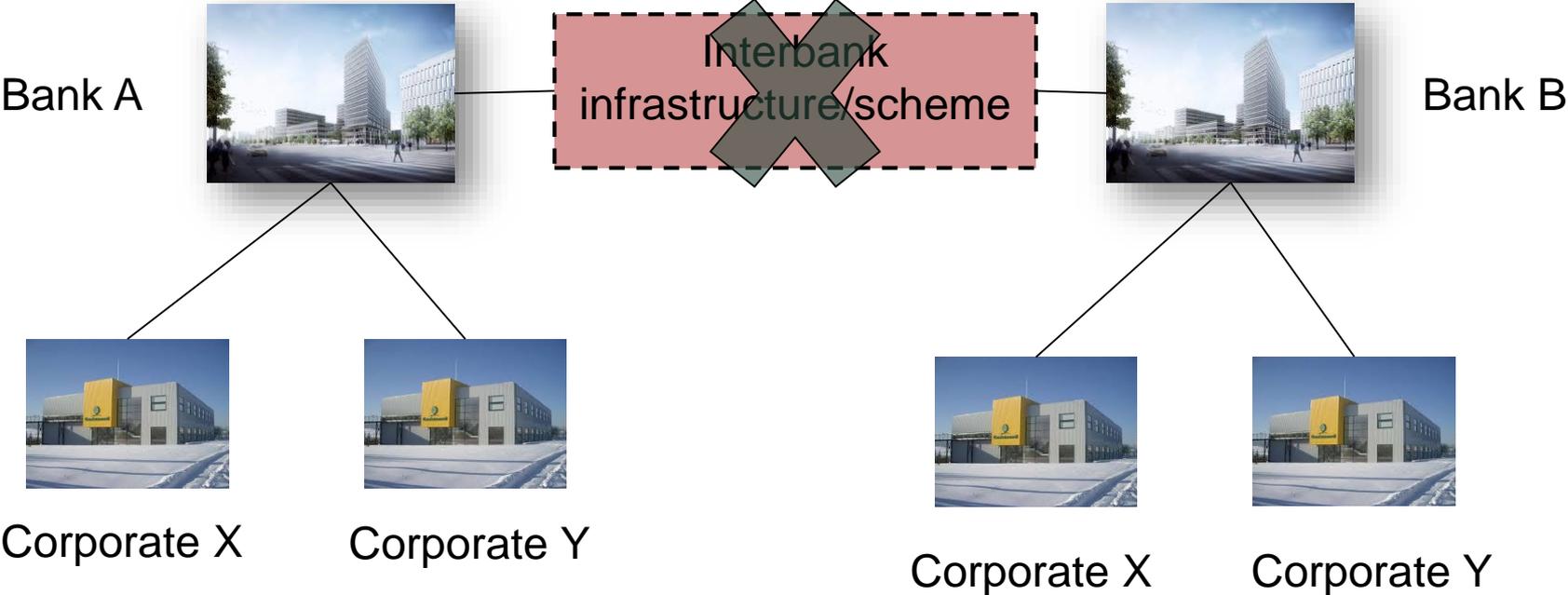
Cashless transactions per capita



Share of non-banks



Underdeveloped 4-corner network



Direct debits, e-commerce payments, utility payments, salary payments – all follow the same closed loop pattern



Case study: SEPA

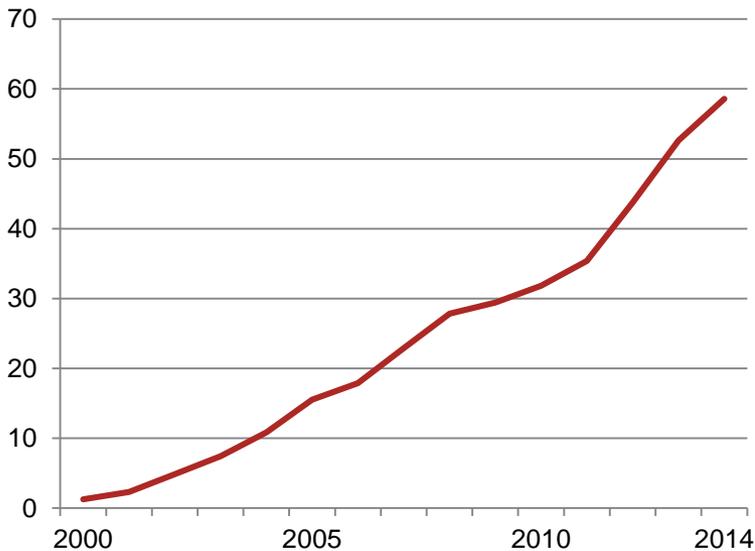
- **Fast track** implementation
- **No consultation** with end users
- **No SDD** in Lithuania
- **Import** e-invoice solution instead
- **Major clash** between the regulator and the industry:
 - Preserve status quo (de facto closed loop system)
 - Discriminatory pricing schemes
 - Resistance to changes



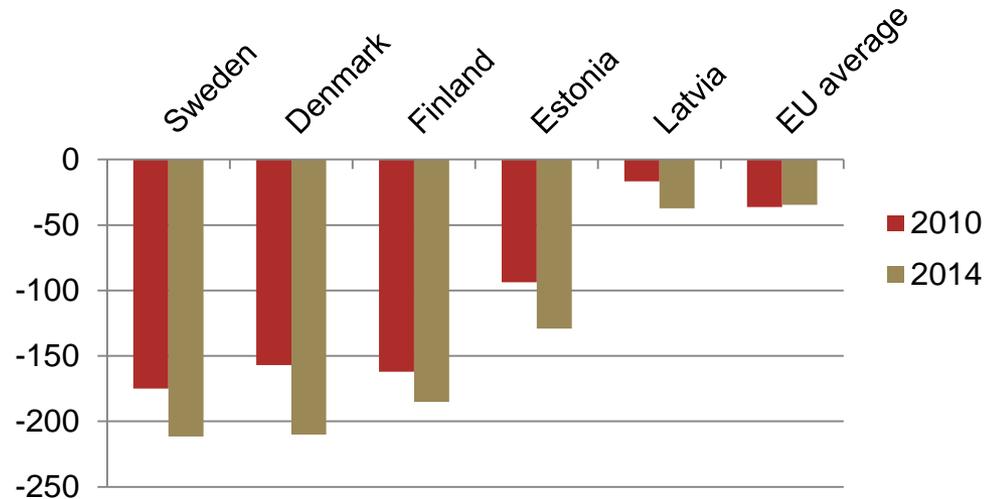
Cards: catching up? Not really

Card payments: “too little, for to long”

Number of card transactions per capita



Gap between Lithuania and selected countries in terms of card payments per capita





Cards: catching up? Not really

Ecosystem too costly and too complicated

- Not a sustainable alternative for cash if break-even is feasible only for one or two PSPs
- Some niche segments (e.g. schools) not served at all



Bank of Lithuania

Single financial market regulator

- **Super-regulator** since 2012
- **Competent authority** in all payments related issues
- Explicit **focus on payments** market development
- **Strategic goal**: increase the use of **efficient** payment methods



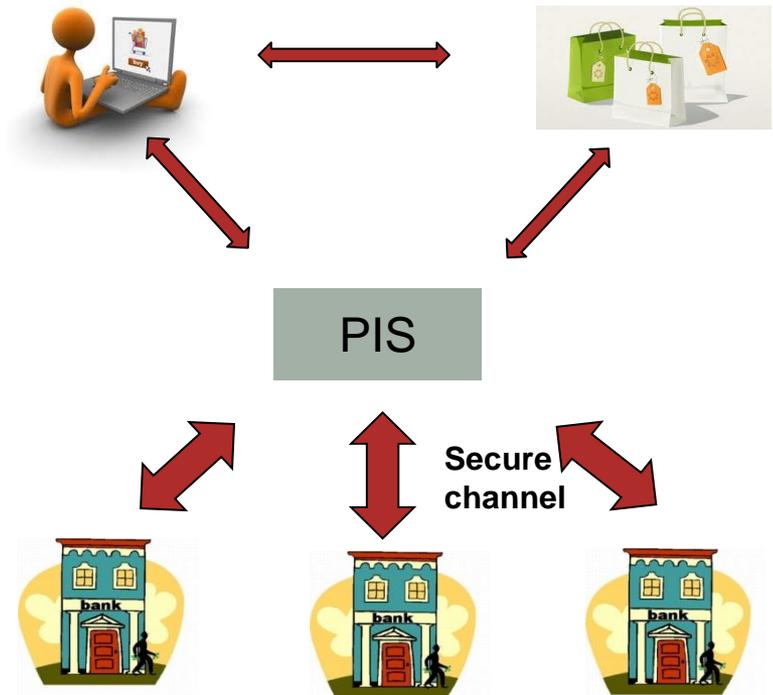
Regulatory response

- **MIFR:**
 - High relevance
- **PAD:**
 - Basic account
 - Price ceiling
- **Payments market transformation strategy**
- **E-invoice:**
 - Open, interbank scheme
 - SDD reachability
- **Non-banks:**
 - Access to settlement platform
 - Enable instant/mobile payments



PIS – a game changer

- BoL welcomes payment initiation services to open e-commerce market (closed loop at the moment)
- Interim period (until PSD2 is implemented) is a challenge
- A dialog with market participants is taking place to ensure legal certainty and security in the interim period.





Bank of Lithuania future steps

- New generation **retail payment system** to foster cashless payments and improve competition
- Broad coalition for **National Retail Payments Transformation Strategy**
 - Setting up **Payments Council**
 - Filling **infrastructure gaps** (e.g. for instant payments)
 - Targeting **schools** and other underserved sectors
 - Promoting **standardization** and “four-corner” models
 - Building **public trust** in e-payments



Launching new retail payment system

- SEPA compliant supporting SCT and SDD Core schemes
- Real-time processing of transactions
- Direct *technical* access for non-banks
- Possibility to connect via leased line (no SWIFT required)
- Simple fee structure – pay per transaction
- Extended operating hours



Eurosystem: “Vision 2020”

Work together with the market to identify where European market infrastructure should be heading.

- **Consolidation** of T2 and T2S technical infrastructure components
- **Integration** in the collateral management domain
- **new business** needs (e.g. instant payments)



Instant payments

Major step towards replacement of cash and challenging duopoly of card schemes

- EPC is working on Instant Credit Transfer scheme under ERPB guidance, to be published for consultations by the summer of 2016
- Pending issues:
 - Speed trade-off with AML requirements
 - Payment limit
 - Availability and appeal to end-users