Marius Jurgilas: Who are non-banks and why are they important for us?

Opening remarks by Mr Marius Jurgilas, Member of the Board of the Bank of Lithuania, at the conference "Non-banks in Payment Market: Challenges and Opportunities", organised by the Bank of Lithuania and the Sveriges Riksbank, Vilnius, 8 October 2015.

*   *   *

It is a great pleasure for me to open the conference on non-banks in payment market. In 2007 Federal Reserve Bank of Kansas City hosted a similarly titled conference. It was the time when Europe was still debating the modalities of the upcoming PSD and Steve Jobs just introduced the first iPhone to the world. Now we have iPhone 6 and PSD2 and because of the another innovation by Apple over that time – ApplePay the link between the two is relevant more than ever.

Let me briefly elaborate on two points: who non-banks are and why they are important for us.

In general non-banks in the payment market mainly refer to the financial institutions that facilitate payment transactions for end-users. Sometimes the definition goes even further and includes those entities that provide technology for the banks to facilitate for those payments. Both groups are relevant as they deal with different problems. Overall these institutions do not engage in financial intermediation or credit risk taking, like shadow banks, which do.

We could start the list of non-banks in payments with traditional post offices that have been more or less active in payment market for ages. Many have turned into banks or quasi banks by now. Then we have electronic money institutions and payment institutions that joined the club not long ago. Some of them tried to mimic banks' payments model and failed. A new wave of non-banks emerged in the age of smart phone. Equipped with the latest technology and out-of-box thinking they made a bald step – implemented new business models, in sectors where banks were slow to act. Nevertheless, many early initiatives are struggling for a number of reasons. Regulators as well as the industry need to understand what is still missing. Payment initiation services as defined in the PSD2 are a good bet.

But the outlook is not all dark shades. Last year the Economist featured an article on the future of payments titled "Payments: the end of monopoly". The title speaks for itself – banks are losing the grip on payments market. But according to McKinsey 34% of global profits banking industry is making from payments. Therefore the question, raised by the Economist -why banking industry appears to be taking a back seat and just observing the new entrants come in droves? Is this just a clever distraction?

I have been told once by a CEO of a major bank, half joking, that once *they* grow, we will buy them. There is some truth to this statement. A great number of non-bank payment initiatives ended up being provided either in collaboration with banks, via banks directly, or outright owned by banks. Therefore when we talk about increased competition that non-banks can bring into the field of payments we have to ask ourselves if that is just a wishful thinking or these new institutions really have a chance? I hope we will go deeper into this topic during the conference.

Introduction of these disruptive technologies, like internet, smartphones, etc. are bound to lead to major innovations in payments. But technology is not the only ingredient for successful payment business. Network and trust are also of key importance. Moreover, often the main breakthroughs are made when market participants join forces together leading to standardization. Be it the promotion of a new and efficient payment scheme or setting up an underlying infrastructure. At the same time competition authorities become very uneasy, once they see market participants sitting around the table discussing future market arrangements. This is the reason why we need to find a healthy and comfortable format for these discussions to take place.

Progress in technology is a powerful wind of change. But regulation can also lead to positive change if it is implemented with good timing and with an appropriate scope. I strongly believe that the right regulatory framework, that provides incentives and embraces new technology could modernize payment services and change the status-quo.

I will stop here by saying that here at the central bank we have high expectations built on non-banks both for channeling innovations and for refreshing competition. Currently Lietuvos Bankas is working on a comprehensive National Payments Transformation Strategy and non-banks, I expect, will be one of the key players there. The main objective of this conference from our side is to hear the views of a wider audience and to learn what the near future is about to bring.

I would like to thank Sveriges Riksbank for organising this event jointly with Lietuvos Bankas and for close cooperation during preparations and would like to invite Ms Cecilia Skingsley, Deputy Governor of Sveriges Riksbank, for the introductory presentation.