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PSD2: Hope For Latvia's Fledgling Payments Industry

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In a market traditionally dominated by banks, cards and cash, early signs of promise for Latvia's fledgling non-bank payment sector are starting to appear.

Today, non-bank payment firms control only a tiny proportion of Latvia's payments industry and cash is still used for nearly 80 percent of in-store transactions.

However, since June last year, Latvia's Financial and Capital Market Commission (FKTK) has issued its first three licences to non-bank payment service providers (PSPs) Monetizator, SOLLO and Baltic Payment Solutions.

Riga-based Andrejs Lielkalns, a payments regulatory expert and specialist counsel at Cobalt law firm, said there are reasons for optimism, but it is "too early to judge" whether similar firms can expect a boost once the revised Payment Services Directive (PSD2) has been implemented in Latvia.

"At the moment, the payments industry is generally controlled by banks and payment cards," Lielkalns said.

"There are only a small number of payment service providers, with only three fully licensed providers.

"I haven't seen anyone offering mobile payment services; at least one of the registered payment service providers is a mobile provider but I'm not sure if they're offering any mobile payment product yet."

Despite the prevalence of cash, data provided by the Association of Latvian Commercial Banks shows there are currently around 2.3m bank-issued debit and credit cards in circulation in Latvia, an average of more than one per person.

Card payments have gradually increased in volume in recent years, averaging around 70m transactions per quarter with a total value of around €2.5trn.

But for Lielkalns, there are growing indications that PSPs could be in a position to challenge the dominance of the sector by banks and cards, particularly if PSD2 is successful in opening the market to third parties.

"They are fairly small, but actually they're getting more profitable and gaining more business, especially in e-commerce," Lielkalns said.

"There's fairly strong support for PSD2 from a couple of Latvian banks and from the financial technology industry, and there are some start-ups that are still young but are very promising, working on all kinds of payment services."

In addition to the three authorised PSPs, a further 29 are overseen by the FKTK as "registered payment institutions", allowing them to carry out certain low value transactions without a licence.

Three Latvian e-money institutions — Dukascopy Payments, Qiwi Wallet Europe and Transact Pro — have also been fully authorised by the FKTK, and a further 12 are registered with the regulator.

Regulators Optimistic

Guna Dirveika, a senior legal consultant at the FKTK, said that although preliminary discussions with industry participants have taken place in Latvia, most financial institutions are still cagey on whether the directive is an opportunity or a threat.

"There has been some initial exchange of opinion with the banking industry regarding the new third-party payment service providers, as these players have not operated in Latvia before," she told PaymentsCompliance.

"It is not quite clear yet what would be the business niche for such services in Latvia or how would they come about.

"The banking industry is quite sceptical of these services as under the current regulatory framework they would require lower security thresholds."

Tension between banks and third parties, such as payment initiation or account information service providers, is not unique to Latvia.

In the Netherlands, Sweden and elsewhere, banking groups have sought reassurance that the security of customers' financial data will be maintained, despite the involvement of third-party providers in the transaction process.

But Dirveika was confident that a compromise will be reached between banks and third parties, especially once technical standards for security have been finalised by the European Banking Authority.

"The discussion so far has been very constructive," she said.

"We also have not received any particular objections or raised concerns from the industry on any of the other issues regulated in PSD2."

The FKTK has not yet outlined its plans for national implementation of the directive, but Cobalt's Lielkalns said he does not expect a draft bill until the end of this year at the earliest.

He added that based on the implementation of PSD1, the regulator will be careful to take into account a full range of industry perspectives, which could be of industry benefit but might slow that process further.

"I think they will try to be more or less on time, but there will be a process of dialogue between the regulator and the industry, and if there are a lot of comments or objections from the industry it could cause delays to implementation," he said.

"PSD1 was implemented more or less directly to the text, and in addition to that there's no regulation at all.

"They're listening to businesses and trying not to force through regulation that would be objected to by the industry."

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