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## LICENSING E-MONEY INSTITUTIONS IN THE EUROPEAN UNION AS A WAY OF TRANSFERRING GLOBAL CAPITAL FLOWS

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**Abstract.** This research consists of a general analysis of the benefits and requirements to obtain the e-money institution license in the European Union countries. The author outlines the main analytical trends and regulatory issues for providing remittances by European payment institutions. An analysis of the digital remittance transactions conducted by the e-money service providers in the EU shows a positive tendency of the value is expected to show an annual growth rate (CAGR 2020—2023) of 13.1% resulting in the total amount of USD 59,774m by 2023. The conclusion clarifies opportunities for investors which may use this way for transferring global capital flows across the EU in other world countries for parking and safeguarding their money for the initial phase of the global financial crisis 2020. Case studies provide market-valuable insights about the value of remittances in the different countries in the EU, compare advantages for the licensing e-money institutions against commercial banks, and present descriptions of the requirements and key stages of the application process to be undertaken for payment institutions in the European financial market.

**Keywords:** open banking, e-money institutions, financial capital, Fintech, B2B payments, regulation, licensing process, license application, compliance.

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## ЛІЦЕНЗУВАННЯ ІНСТИТУТІВ ЕЛЕКТРОННИХ ГРОШЕЙ В ЄВРОПЕЙСЬКОМУ СОЮЗІ ЯК ШЛЯХ ТРАНСФЕРУ ГЛОБАЛЬНИХ ПОТОКІВ КАПІТАЛУ

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**Анотація.** Проведено аналіз переваг і вимог для отримання ліцензії інституту електронних грошей у країнах Європейського Союзу. Окреслено основні аналітичні тенденції та регуляторні питання щодо забезпечення грошових переказів європейськими платіжними установами. Аналіз трансакцій із цифровими переказами, які проводять постачальники послуг електронних грошей в Європейському Союзі, показує позитивну тенденцію, яка очікується, що показник річного темпу зростання (CAGR 2020—2023) становить 13,1 %, а це призведе до загальної суми 59,774 мільйона доларів США до 2023 року. Висновок роз'яснює можливості для інвесторів, які можуть використовувати цей спосіб для трансферу глобальних потоків капіталу через країни ЄС в інші країни світу для паркування і збереження своїх грошей на початковій фазі світової фінансової кризи 2020 року.

На основі отриманих результатів обґрунтовано розуміння вартості грошових переказів у країнах Європейського Союзу, ринкові переваги ліцензування установ електронних грошей порівняно з комерційними банками для інвесторів і споживачів фінансових послуг, а також розкрито регуляторні підходи і ключові етапи процесу ліцензування платіжних інституцій на європейському фінансовому ринку. Перспектива подальших досліджень у сфері розвитку платіжних компаній полягає в обґрунтуванні відмінних особливостей регулювання діяльності ФінТех-компаній у різних країнах світу, включаючи вимоги до капіталізації, комплайенсу та управління фінансовими ризиками, а також процедури KYC (Know Your Customer Identification) при відкритті рахунків клієнтам дистанційно. Подальший розвиток інститутів електронних грошей у сфері FinTech суттєво трансформує бізнес-моделі міжнародних банків і може призвести до заміни класичних форм банківської діяльності.

**Ключові слова:** банкінг, інститути електронних грошей, фінансовий капітал, ФінТех, платежі B2B, регулювання, процес ліцензування, застосування ліцензії, комплайенс.

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# ЛИЦЕНЗИРОВАНИЕ ИНСТИТУТОВ ЭЛЕКТРОННЫХ ДЕНЕГ В ЕВРОПЕЙСКОМ СОЮЗЕ КАК ПУТЬ ТРАНСФЕРА ГЛОБАЛЬНЫХ ПОТОКОВ КАПИТАЛА

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**Аннотация.** Это исследование состоит из общего анализа преимуществ и требований для получения лицензии учреждения электронных денег в странах Европейского Союза. Выделены основные аналитические тенденции и вопросы регулирования предоставления денежных переводов европейскими платежными организациями. Анализ транзакций с цифровыми денежными переводами, проведенных поставщиками услуг электронных денег в ЕС, показывает, что положительная тенденция к значению, как ожидается, покажет годовой темп роста (CAGR 2020—2023) в размере 13,1 %, в результате чего общая сумма составит 59 774 долларов США. м к 2023 году. В заключении уточняются возможности для инвесторов, которые могут использовать этот способ для перемещения глобальных потоков капитала через ЕС в другие страны мира, для парковки и защиты своих денег для начальной фазы глобального финансового кризиса 2020 года. Тематические исследования дают рыночную ценность понимание стоимости денежных переводов в разных странах ЕС, сравнение преимуществ лицензирования учреждений, занимающихся электронными деньгами, против коммерческих банков, а также описание требований и ключевых этапов процесса подачи заявок для платежных учреждений в европейских финансовых рынках.

**Ключевые слова:** открытый банкинг, учреждения электронных денег, финансовый капитал, ФинТех, платежи B2B, регулирование, процесс лицензирования, виды лицензий, комплаенс.

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**Introduction.** Existing challenges is performed financial satiation globally. The COVID-19 outbreak has prompted banks and other financial institutions to move with lightning speed toward mobile work arrangements — and with that move comes pressing new considerations. Central Banks and Supervisors are adjusting to managing remote workers. IT departments of the banking institutions are feeling the strain of equipping huge numbers of people with secure network access and mobile devices. And security issues must be reassessed in the light of massive workplace changes made in the month of March [1]. But separate from the tragic health implications of COVID-19, financial expert mentioned there's likely going to be a new kind of further global recession [2].

In the long term, however, the stage is set for unprecedented growth, because on the other side of COVID-19 crisis, fundamentals are strong. Technology is laying the foundations for every business to have global opportunities, and governments of the world are pumping money into the economy by the billions. After the 2008 financial crisis, the global financial community saws the birth of dozens and dozens of brand new multi-billion dollar businesses (Instagram, WhatsApp, Uber, Airbnb, Dropbox, Slack, etc.). All of them were started by young people who probably would have gotten jobs at PwC or some established bank if not for the previous recession. The financial experts mentioned about this sort of activity again in the 2020s, because recessions can also lead to reinventions. Companies that try to stay the same get

chewed up and spat out (for example Blockbuster, Toys «R» Us, Phones4U), whereas companies that reinvent themselves do well (for example Netflix, Disney, Apple, Microsoft). Thus, in many cases, small, nimble business become the bright sparks that fly high after a recession [3].

This situation has led to new opportunities and Fintech implementation advantages in the financial industry and investment activity. Investors' behaviour is looking for new ways and prospects for parking money through the investing in new spheres in businesses with Fintech implications in the European Union and Offshore financial jurisdictions. Based on the growing up fast and cheap customers' needs in remittances and electronic transactions licensing of the E-Money Institutions (in the EU) and Money Transfer Operators (in the Offshore jurisdictions) will be the most successful way for the investors to serve the financial needs their companies and satisfy needs on other users of financial services after recession period.

**Literature Review.** Payment industry and role of the Fintech e-money institutions in the current financial market development at the international level are one of the most important and discussed issues in the area of financial innovations and banking among professionals, scientists, lawyers, advisors and other users of analytical publications. Famous bankers and knowledgeable participants from different authorities, especially The World Bank, International Finance Corporation, Basel Committee on Banking Supervision, Central Banks, Financial Authorities, External Audit Companies, and others, play an

important role in the development and implementation of modern practical approaches to the creation of open banking which is impossible without payments' Fintechs. The study of various aspects of payment institutions is the subject of research mostly foreign practitioners analysts and financial advisers to justify the most profitable investment decisions, while research on the functioning of this area of the financial market needs to be intensified under new conditions of redistribution of financial capital at the geopolitical level.

A significant contribution to the development of scientific and methodological approaches to regulating the activities of payment institutions has been made by such foreign scholars as Malte Krueger, Drehmann, Mathias, Charles Goodhart, Godschalk Hugo, Lelieveldt Simon, Mester Loretta J., Pichler Rufus, Ramasastry Anita, Vartanian Thomas P., Van Hove Leo, Vereecken Marc, and others [4]. However, the current conditions for the functioning of the European financial market and trends in its transformation through the redistribution of global capital flows in a transparent environment require new approaches to the study of this topic based on practical aspects. Some points of the e-money institutions' activities in regard to Fintech initiatives in the global banking industry have outlined by author in the previous part of the research [5].

**Methods.** The methodological basis of the study is a comparative analysis of the modern trends in the payment institutions industry within Fintech initiatives. The author applies statistical analyses and logical interpretation to estimate analytical trends related to the volumes and factors of digital remittances in the EU. Based on the research of the EU regulatory requirements and key indicators to obtain e-money institutions license the key stages of the license granting is outlined and EU countries comparison is created for this purpose.

**The purpose of the research.** The purpose of this article is to outline the main trends, requirements, and benefits of licensing e-money institutions in the European Union as a way of transferring global capital flows. Case studies aim to provide market-valuable insights about the value of remittances in the different countries in the EU, compare advantages for the licensing e-money institutions against commercial banks, and present descriptions of the requirements and key stages of the application process to be undertaken for payment institutions in the European financial market.

**Results.** According to the EU regulation Payment institution under PSD2 Directive offers services of execution of payment transactions, including credit transfers and direct debits, issuing or acquiring payment instruments, money remittances, foreign exchange services, and similar services. Payment Institution license is suitable for credit card processors, payment account operators, remittance businesses, foreign exchange businesses, payment initiation companies, and so forth. Minimum capital requirement to set-up this company is EUR 125 000 [6]. E-money institution (EMI) can issue electronic money (the digital equivalent of cash stored on an electronic device). EMI can

do all the things the Payment Institution can do and is also allowed to provide IBAN accounts, payment cards and e-wallets. The minimum initial capital to obtain this kind of licence is more higher than for Payment Institution — EUR 350 000 [6].

The European Central Bank in regulatory statements outlines that electronic money (e-money) is broadly defined as an electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. The device acts as a prepaid bearer instrument which does not necessarily involve bank accounts in transactions [7]. E-money products can be hardware-based or software-based, depending on the technology used to store the monetary value. In the case of hardware-based products, the purchasing power resides in a personal physical device, such as a chip card, with hardware-based security features. Software-based products employ specialised software that functions on common personal devices such as personal computers or tablets. To enable the transfer of monetary values, the personal device typically needs to establish an online connection with a remote server that controls the use of the purchasing power. Schemes mixing both hardware and software-based features also exist [7].

Basically, an electronic money institution, as a type of payment institutions, is permitted to provide the following financial services within the European Union once the license has been granted:

- opening of multi-currency electronic money accounts and safekeeping of electronic money;
- issuance and redemption of electronic money and provision of payment services related to it payments within the company's electronic money accounts (internal Payments); incoming and outgoing local payments in Euros in SEPA area; incoming and outgoing cross-border payments in various currencies via SWIFT;
- foreign currency exchange within electronic money accounts for the following currencies, including the following currencies: EUR (Euro), USD (United States Dollar), GBP (Pound sterling), wherever possible, and others currencies which depend on the investors' privilege and potential customer base;
- provision of payment services not related to electronic money (with currency exchange);
- local payments via local partners: commercial banks/electronic money institutions / payment institutions;
- issuance of Visa / MasterCard prepaid or debit cards related to the electronic money accounts.

Experts' analyses show that e-money institution is a favourable and cost-saving legal form for creating Fintechs' companies not only in the European Union but across the globe and in offshore countries as well because the financial sector is the largest user of digital technologies and represents a major driver in the digital transformation of the economies and societies.



FinTech industry and e-money institution regulatory framework is a priority sphere at the international level, for example for the G20 countries. The European Commission contributes to policy discussions at the Financial Stability Board and in other international fora. An increasing number of jurisdictions have developed regulatory and supervisory frameworks to address specific forms of FinTech innovation. Outside Europe, regulators have mainly focused on payment instruments and services and alternative forms of financing, such as crowdfunding and peer-to-peer lending. For more interaction with FinTech developers, a number of supervisors (for example, Australia, Canada, the United States, Hong Kong, Singapore, and Japan) have set up special FinTech hubs and developed experimentation frameworks for innovative companies called 'regulatory sandboxes' [8]. As a result, The European Commission and European supervisory bodies (European Central Bank, European Banking Authority) pays significant attention to the payment institutions' industry regulation and creates a favourable regulatory environment for the increased numbers of such kind of financial firms. The Europe's regulatory and supervisory frameworks should allow firms operating in the EU Single Market to benefit from financial innovation and provide their customers with the most suitable and accessible products. Such frameworks should also ensure a high level of protection for consumers and investors and ensure the resilience and integrity of the financial system.

The benefits of technological innovation were already at the heart of the revisions to the Payment Services Directive and to the Directive and Regulation on Markets in financial instruments.

Analyses show the following trends of digital remittances provided by EMI's and payment institutions in Europe [9]:

- total transaction value in the Digital Payments segment amounts to USD 802,882m in 2020;
- total transaction value is expected to show an annual growth rate (CAGR 2020—2023) of 7.6% resulting in the total amount of USD 999,205m by 2023;
- the market's largest segment is Digital Commerce with a total transaction value of USD 754,754 m in 2020;
- from a global comparison perspective it is shown that the highest cumulated transaction value is reached in China (USD 1,928,753 m in 2020);
- the higher number of payments value in this segment at the end of 2018 year is fixed in Luxembourg — USD 2993,8 m, Italy — USD 739 m; Portugal — USD 72,3 m; France — USD 61,5 m; Germany — USD 33,5 m; Greece — USD 36,1 m; Belgium — USD 48,7 m; Austria — USD 4,4 m; Croatia — USD 5,5, m; Sweden — USD 4,4 m.

This statistic presents the volume of e-money payments in Europe as of 2018, broken down by country. The highest use of e-money was recorded in Luxembourg, where approximately 2.9 billion transactions were carried out with e-money.

According to the FATF organization, the number of digital transactions is growing by almost 13% a year. By 2022, an estimated 60% of global GDP will be digitized. Currently, there are no comprehensive, internationally-agreed standards for developing digital ID [10]. That is a clear reason for the huge investment in Fintech companies during the last three years. However, for the licensing process, all regulatory authorities require Digital approach for KYC (Know Your Customer Identification) before account opening for corporates and individuals' customers [11].

As e-money institutions allow remittances and issuing e-money their digital ID systems shall meet high technology, organizational and governance standards hold great promise for improving the trustworthiness, security, privacy, and convenience of identifying natural persons. In relation to the FATF Standards, appropriately reliable, independent digital ID systems could: facilitate customer identification and verification at onboarding; support ongoing due diligence and scrutiny of transactions throughout the course of the business relationship, facilitate other customers due diligence measures, and aid transaction monitoring for the purposes of detecting and reporting suspicious transactions, as well as, general risk management and anti-fraud efforts [10].

This list of ID system requirements is essential for the companies which are going to obtain an e-money license in the EU because usually Central Banks in all EU countries require operational risks procedures, cybersecurity risk assessment measures, and Know Your Customer identification policies in a licensing application package before granting a license. However, small payment companies have a great partnership with IT companies, they a flexible and usually well-capitalized to conduct this kind of business based on new digital innovations.

One of the most important benefits of the carrying e-money business is transacted money in different currencies across the globe for fewer costs compared to banks.

Currently, commercial banks have strong customer bases, while alternative e-money institutions offer more appealing pricing. However, the aforementioned market inefficiencies have also created unmet market needs for efficient and innovative financial services. Due to the poor choice of existing financial solutions, an increasing number of clients are looking for alternative financial service providers. This situation is attractive for new market entrants offering innovative and technologically advanced solutions, thereby increasing the bargaining power of clients, who can choose an alternative financial service provider over commercial banks.

Commercial banks pose the following disadvantages to corporate clients, such as:

- long payment processing times;
- obligatory physical presence to open an account;
- long and costly due diligence procedures for onboarding clients;
- significant foreign exchange fees 2—5%;



- requirements for non-EU companies to have a subsidiary in that country, which may involve costly legal, accounting, auditing, and bookkeeping services;
- the obligation to maintain a minimum deposit for non-EU residents and/or non-EU companies;
- high administrative and/or operational costs, and lengthy administrative procedures (initial fund request, legal, language and etc.) are among the top restrictive factors for SMEs to open a bank account in the EU.

Most banks do not have flexible capabilities to develop the market infrastructure which would enable executing contactless and instant payments to SMEs; to support the involvement of payment service users and their influence in deciding on payment services offered in the market; to increase payment service users' trust in electronic payments and foster their usage habits; to improve innovations in the financial payment industry quickly and efficiently.

Currently, the potential financial return of entering the market outweighs the costs. However, the competition is likely to increase in the near future and subsequent market entrants will not only face a strong competitive environment but also legal barriers, solid capital requirements, demanding financial policies, adequate know-how of the industry requirements, and regulations. This might discourage their establishment due to the relatively high risk and high sunk costs.

Thus, the licensing of electronic money companies in The European Union has become a very popular business process during the last years. While there are some alternative options, such as Monzo, Paypal, and Revolut, who charge from 2–5% for a transaction and from 0.25–2% for currency conversion, their business models are mostly intra-European and focused on individuals rather than businesses.

The above-mentioned reasons are essential to implement a globally prevalent practice is increasingly applied in The EU's payments market-trading or service provision businesses establish their payment or electronic

money institutions rather than using bank services. The key drivers of FinTech e-commerce are the availability of mobile internet and smart phones, loss of public trust in banks, and dissatisfaction with banking services. But each kind of e-money institution is looking for arrangements with large and reputable banks after granting a license by Central Bank because has an account opening purpose and shall satisfy safeguarding regulatory requirements.

It should be noted, that e-money institutions issue electronic money, which is issued at par value in return for a fiat currency deposit. This means that e-money issuance does not have an impact on money creation in the economy. E-money can be used for payment within a closed network or several networks as long as the latter are rendered interoperable. Under dedicated regulatory frameworks, such as the EU Electronic Money Directive to be redeemed at par value on demand. Although e-money is not directly backstopped by the government, there are strict regulatory requirements that govern the safekeeping of the deposits against which it has been issued. E-money issuers generally keep these funds in bank deposits and are thus exposed to counterparty risk. In this sense, commercial bank money within the limits of the applicable deposit guarantee scheme is safer than e-money [12, p. 35].

That is why e-money institutions shall open accounts in large and reputable banks for the carrying payment transaction services.

Analyses of practical aspects of the financial business show, that banks require the comprehensive list of documents for the on-boarding non-banking financial Institutions (payment service providers and e-money institutions) for the account opening purposes. This list of documents could be classified for the main groups, which include corporate documents, regulatory and tax statements, shareholders' and key management documents, account signatories, financial reports, clients' structure, and a package of the compliance documents (Table 1). It is recognized internationally and accepted in every European bank before an account opening for the e-money institution.

Table 1

List of documents required for the on-boarding of non-bank financial Institutions (PSPs and EMIs)

Type of Documents	List of documents
<b>Initial Documents</b>	
Corporate	Company Group Structure Chart
	Organisation Chart
	Certificate of Incorporation
	Business Registration Certificate
	Board Resolution — bank account opening
	Directors' appointments
	Memorandum & Articles of Association
	Latest Annual Report
	Business plan and / or Marketing plan (This documents will help us and the correspondent bank understand the bank's setup and ambitions)
Regulatory documents	Copy of the Financial Licence
	Copy of any additional licences, which regulates the activity of the Bank
	Financial Licence Application (for new entities, less than 24 months old)



Table 1 (continued)

Type of Documents	List of documents
Tax Documents	W-8BEN-E (Certificate of status of BO for US Tax Withholding and Reporting)
	Authorised signatory(s) personal TIN code
Shareholders' Documents	Shareholder Structure Chart
	List / Register of Shareholders
	Copy of passport (either certified or apostiled or notarised)
	Proof of address
	Bank Reference, Bank Statement and Wealth Declaration (will depend on the history of the bank and requirements of the Correspondent Bank)
	Shareholders structure
Key Management	List of Board Members
	List of Directors
	Copy of passport (either certified or apostiled or notarised)
	Proof of address
	CV for each Director
	CV for key personnel (Compliance Officer / MLRO)
Account Signatories	List of Authorised signatories / Directors Declaration / Certificate of Incumbency
	Certified copies of ID / passports for each account signer
	Information about all signatories (Proof of Address, CV)
	Bank reference with three months bank statement
Financial Documents	Last available audited Financial Statement
	Balance Sheet
Client's Structure	Number of clients
	Type of clients
	Size of clients
	Client industry
	Domicile of clients
Compliance documents	Risk profile of clients
	Policies and procedures consistent with applicable AML, CTF & Sanctions regulations and requirements to reasonably prevent, detect and report, e.g.:
	AML / CTF Compliance policy
	Sanctions Policy
	Customer Identification Programme
	Customer Acceptance Policy
	Risk Based Approach / Risk Assessment Policy
	Policy covering relationships with PEPs, their family and close associates
	Latest External Audit Report on Compliance
	Wolfsberg Questionnaire (only collect)
	Last independent compliance audit (only collect)
	Information about AML officer (Name, title, email, phone, address)
	Firm's clients KYC on-boarding forms
Internal risk classification criteria (if not stated in Compliance Program)	

Source: Created by author based on the BFI's Internal processes for the KYC Audit.

The most sensitive question for central banks and regulatory authorities before starting application process is identification beneficial owners of the applicants company. By the end of 2014 the European Union had approved a beneficial ownership register, leaving the decision on whether to make that register public to individual Member States [8].

At the end of 2017 the EU agreed to the fifth anti-money laundering directive which contains a set of new anti-money laundering rules and will increase transparency in the ultimate beneficial ownership of companies. Every European country is applying these rules to be sure about safeguarding clients' funds and protect money-laundering issues. However, some European countries become more

popular for the investor's attractiveness and create business-friendly regulatory atmosphere for financial institutions.

Comparative analyses of the key requirements for the licensing e-money institution show some differences in the application process and substance criteria, such as (Table 2). Country research shows, that Lithuania has quite literally put its economic heart and regulatory soul into attracting fintech firms that appear in fourth place globally. A country with a population of about a third the size of London is now arguably Europe's second fintech center. The significant number of international business companies have Lithuanian owners or are founded by international entrepreneurs who have chosen Vilnius as their European base.



Table 2

## Comparison of the key criteria of licencing payment institutions in the European countries

EU Countries	Regulatory Authority	Application in English	Minimum Number of Directors	Resident Director	Language requirements*	Official rules in English
Austria	Australian Financial Market Authority	Yes	2	No	Yes	Yes
Belgium	National Bank of Belgium	Yes	2	Yes	No	Yes
Bulgaria	Bulgarian National Bank	No	2	Yes	Yes	No
Croatia	Croatian National Bank	Yes	2	Yes	No	Yes
Cyprus	Central Bank of Cyprus	Yes	2	Yes	No	Yes
Czech Republic	Czech National Bank	Yes	2	Yes	No	Yes
Denmark	Danish Financial Supervisory Authority	Yes	2	Yes	No	Yes
Estonia	Bank of Estonia	Yes	2	Yes	No	Yes
Finland	Financial Supervisory Authority	Yes	2	n/a	No	Yes
France	Banque De France	No	2	Yes	No	Yes
Germany	BaFin	No	2	Yes	No	Yes
Greece	Bank of Greece	Yes	2	Yes	No	Yes
Hungary	Central Bank of Hungary	No	2	n/a	Yes	Yes
Ireland	Central Bank of Ireland	Yes	2	Yes	No	Yes
Italy	Bank of Italy	Yes	2	Yes	No	Yes
Latvia	Financial and capital Market Commission	Yes	2	Yes	No	Yes
Lithuania	Bank of Lithuania	Yes	2	Yes	No	Yes
Luxemburg	Commission de Surveillance du Secteur Financier (CSSF)	Yes	2	n/a	No	Yes
Malta	Central Bank & Malta Financial Services Authority	Yes	3	Yes	No	Yes
Netherlands	The Netherlands Bank / Authority for the Financial Markets	Yes	2	Yes	No	Yes
Poland	Polish Financial Supervision Authority	No	2	Yes	Yes	Yes
Portugal	Bank of Portugal	No	2	n/a	No	Yes
Romania	National Bank of Romania	No	2	n/a	Yes	Yes
Slovakia	Narodna Banka Slovenska	Yes	2	n/a	No	Yes
Slovenia	Bank of Slovenia	No	2	n/a	Yes	No
Spain	Bank of Spain	No	2	Yes	Yes	No
Sweden	Finansinspektionen	Yes	2	Yes	No	Yes

\*At least one director has a command of the German / French / Spanish or other language.

Source: created by author based on official's web-sites research.

Many European Fintech companies headquartered in London, Stockholm, Amsterdam, and other European capitals have chosen to expand their operations by setting up in Lithuania. Compared to the few offshore jurisdictions which might be more suitable and favourable for the quicker licence application Belize, Saint Lucia, Saint Vincent, and Dominica, the EU countries have a similar timeline and capital requirements to obtain this kind of licence.

Research shows that all payment institutions implement digital banking and carry business as Fintech companies. The majority of Fintech companies operating in Lithuania are also headquartered here. These companies either have Lithuanian owners, or are founded by international entrepreneurs who have chosen Vilnius as their European base. 2019 saw Lithuania gain further international recognition as a Fintech hub, resulting in a 50% growth in the number of foreign companies establishing an office here. As part of a strategic initiative to attract foreign institutions, Lithuania has developed a friendly business environment and licence application process for financial entities, with a focus on foreign electronic money institutions (EMI). An EMI

licence from the Bank of Lithuania opens up business opportunities to provide payment services in all other European Economic Area (EEA)/European Union (EU) states.

Lithuania stands out from other EU member states with official policy being to infrastructure, fast internet and a quality talent pool, Lithuania, and primarily its well as large international financial institutions. Benefits include the next points:

- access to the European financial market at potentially lower incorporation and operational costs than in other jurisdictions;
- fast turnaround of licensing applications with a decision reached within 3 months of all final information and documents being submitted;
- FinTech companies can apply for a licence before having a fully functioning IT solution in place;
- indeed, a license application can be submitted before the company is established. Incorporation of a company may take place after the license has been granted a video or photo in real time identification is sufficient, removing the need for a client to visit Lithuania;



- documents can be submitted in English, without the need for translation which benefits international applications;
- non-banks have direct access to Single Euro Payments Area (SEPA) through the CENTROlink payment system managed by the Bank of Lithuania. Whereas, in other jurisdictions only banks can access SEPA directly;

Lithuania does not have the questionable image associated with some other countries that suffer from a high number of gaming or gambling industry participants or non-resident deposits.

The next preferred country for the investors is The Netherlands — un-official offshore jurisdiction in Europe. The Netherlands is strategically located on the European continent. The international trade powerhouse borders Germany to the east, Belgium to the south and is in close proximity to the United Kingdom via the North Sea and the English Channel. The Netherlands is one of the big risers in the 2018 Financial Secrecy Index, hitting 14th position — up from 41st in the 2015 index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services [13]. The Netherlands is home to 12,000 'special financial institutions' (SFI's) used by foreign multinational companies to route EUR 4,000 billion through the Netherlands every year — roughly ten times the Netherlands' gross national product [14].

According to the Dutch National Bank (DNB) public register there are 583 payment service providers carry business in the Netherlands. Analyses show that, more than 80% of these payment institutions (482 PSPs) are offering payment services in the Netherlands on the basis of the so-termed single European licence. These undertakings are primarily supervised in the country of origin. The significant part of the EEA-based service providers (64%) is domiciled and licensed in the United Kingdom. Other represent Germany 4%), Belgium (3%), France (3%), Spain (2,8%), Malta (2,6%), Lithuania (2,2%), Poland (2,2%), Luxembourg (2%) and Sweden (1,8%). Payment service providers from other EEA countries often provide services in the Netherlands on the basis of the so-termed single European licence through payment services agents established in the Netherlands [15]. Instead, 46 payment institutions (or 8% of the total PSPs) are authorised to carry out the business of a providers of payment services in the Netherlands. A payment institutions with registered office in the Netherlands and holding an authorisation issued by DNB may operate in any other Member State of the European Economic Area (EEA) without having to apply for authorisation by local authorities. Existing PSPs in the Netherlands are facing increasingly stringent monitoring requirements, as one of the consequences of reporting obligations contained in new European legislation. The regulation of the payment system becomes more strict, particularly in the European Union. The main

objectives are to encourage innovation, to open up the payment market to new parties, and to ensure security and consumer protection.

A comparison of licensing requirements in different European countries has shown some differences in the geopolitical and regulatory environment of these countries, but the sequence of the licensing process and the basic capital requirements are similar. The approach taken by central banks to the application process is relatively open and normally begins well before an application is submitted, involving a series of interactions, many of which occur at the pre-application stage. The description of these stages is outlined below.

**Preparation stage** (unofficial). Besides starting to prepare all documents required by the regulator for the application, an applicant has to prepare a presentation for the Central Bank about the company, including: who the owners and investors will be, their country of origins, any affiliations, the funding model and financial resources, the team responsible for running the business, anticipated staffing levels, details of the products/services, target markets, delivery channels, pricing policy, key outsourcing arrangements and the regulated activities that will be applied for. Ultimately, regulatory authorities want to know how advanced or developed the applicant's proposal is and whether it is too early to arrange a meeting.

On the next pre-application stage (official) several meetings can be held, depending on the applicant's experience and knowledge. However, usually a minimum of two pre-application meetings are organised to become acquainted with the applicant, to answer questions arising from the earlier preparation stage and review the list of documents to be submitted.

Application stage will come after meetings with regulatory authority. On submission of the licence application, the Supervision Service will review whether all necessary documents are present and, where no formal deficiencies are identified, accept the application for consideration within five business days. The Central Bank then performs an assessment of the application in accordance with its requirements and makes a decision whether to approve or reject it. Where the documents submitted have no deficiencies, the licence is issued within the shortest possible 3-month timeframe.

At the last licence granting stage based on the completing the assessment of documents, the Supervision Service submits a summary to the Board of the Central Bank who takes the ultimate decision whether to grant or reject the licence application. Compliance is a very critical business function for a payment service provider. Whilst building internal capability and capacity for a start-up takes time, the financial regulators expect best business practices from day one. As part of ongoing compliance support a lot of consulting companies offer the following types of services and drafted products: review of client forms (opening, complaints, on-boarding, etc); design of all client forms



and templates to meet regulatory requirements; client onboarding; AML and KYC checks; liaising with regulators during regulatory inspections, investigations and post inspection remediation; conducting ad hoc compliance advice; regular compliance reviews; personalised one-to-one training; handling of all correspondence and statutory filings with regulators.

Research of the regulatory requirements to obtain a payment institutions licence in the EU shows that applicant company shall to complete and to implement in the activity the following internal policies and procedures:

- compliance program — a set of policies that the company maintains to detect, prevent and address money laundering;
- accounting policy to cover all accounting operations within the company and to ensure maximum regulatory and legislative compliance is performed;
- safeguarding policy to protect clients. In the event of the insolvency of the company, the funds within the safeguarding accounts can be allocated to the relevant clients so that the liquidator can distribute them accordingly;
- business and continuity management plan to establish, manage and develop business continuity, disaster recovery and crisis management programmes;
- conflict of interests policy — managing conflicts of interest effectively is essential to protect the company and its clients and to support the

corporate's vision of becoming a most trusted financial partner;

- internal control procedures — to describe, perform, implement and monitor the internal control activities within the company;
- network security management procedure designed to protect the usability and integrity of the company's network and data. It includes both hardware and software technologies;
- risk management procedure — to set out the principles for the company's management of its financial and functional risks;
- operational risk assessment and reporting procedure — to protect cyber security and IT risks, and to organised reporting internally and externally to the regulator.

**Conclusion.** The complexity of document drafting and effectiveness of the communicating process has a huge impact on the quality of the application work and real timeline for granting license by the regulatory authority in each European country. The key point for investors is cost-setting requirements to set-up a company in a country and to obtain a payment institution license for starting a money transferring activity. Comparison advantages for the licensing e-money institutions against commercial banks, and presenting descriptions of the requirements and key stages of the application process will be helpful for the investor's decision-making process and might have an impact on the further infrastructure of the European financial market.

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