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Banking - Estonia

Improved regulation for payment services

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While the Estonian economy may be considered as cashless - approximately 3.2% of payments are made in cash and the total amount of cash in monetary circulation equals 4.7% of the gross domestic product (compared to an average of 6% in the European Union)(1) - people need alternative ways to reimburse a colleague for buying them lunch or to pay an invoice received from an internet service provider. On January 22 2010 the Paying and Electronic Money Institutions Act entered into force, stipulating a new code of conduct for payment and e-money institutions.

The act's main objective is to establish a coherent and neutral legal framework for payment services to ensure a level playing field for all payment systems, and at the same time to maintain consumer choice, which should mean a considerable step forward in terms of consumer cost, safety and efficiency. It is hoped that greater competition in the payment services market will encourage services to be more efficient and innovative.

The new act establishes new rules for banks and other payment services institutions on their activities and liabilities with respect to providing payment services. Before the act entered into force, paying agencies (or merchant acquirers) were not subject to financial supervision by the Financial Supervision Authority. In addition, a number of the amendments pertain to the Law of Obligations Act and specify requirements for payment services from the perspective of consumer protection. For instance, customers must receive information about fees and contract termination. The amendments also state how and in which form customers can give orders for payments or, if necessary, how to stop such payments.

The new act is a result of the EU Payment Services Directive (2007/64/EC). From a customer perspective, Europe lags behind East Asia, where people commonly use mobile payment systems to buy items at train stations and convenience stores with the swipe of a mobile phone. Furthermore, the payment services markets of EU member states are organized separately along national lines and the legal framework for payment services is fragmented into 27 national legal systems. This can result in intra-member state money transfers taking many days to be settled.

At a time when much attention is focused on post-crisis soul searching, ongoing balance-sheet restructurings and new regulations for financial institutions, intra-member state money transfers are now expected to take place within one banking day by the beginning of 2012, which is the deadline for national implementation of the EU Payment Services Directive. In terms of the Single Euro Payments Area, there is good cause to be optimistic.

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Endnotes

(1) www.eestipank.info/pub/et/dokumendid/statistika/tabelid/.

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