



4-th International Conference

Albanian Economy: Performance
and Policy Challenges

Saranda, September 11 - 12, 2003

Payment System

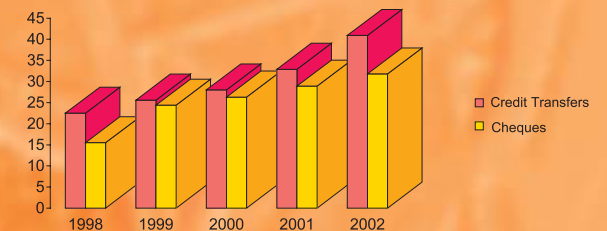
HOW MUCH THE NON-CASH INSTRUMENTS ARE USED IN ALBANIA?

The cheque and the payment order are payment instruments that all the commercial banks offer to their customers. They are the most used non cash instruments. In particular, the payment order is more popular than check, because it contains less risk and could be processed and finalized in less time.

A payment can be processed usually in 3-4 days¹ if there are two different banks involved and in the same day if the payment is an intrabank one.

The other new non-cash instrument such as standing order or direct debit are offered from most of commercial banks, but we can find an evident use of them in Italian Albanian Bank, Fefad Bank, Commercial Bank Of Greece, , etc..

Value of interbank payments (on bill, Lekë).



WHICH ARE THE ALBANIAN BANKS THAT OFFER ELECTRONIC INSTRUMENTS?

You can find credit cards such as Visa or Mastercard/ Eurocard at Tirana Bank, Alpha Bank and First Investment Bank.

Only three banks: Alpha Bank, Italin Albanian Bank and Fefad Bank offer debid cards for use in local ATMs, placed near their agencies.

The American bank of Albania is the only bank in Albania that offer an homebanking service for its customers.

¹ Except the case when some 'remote' branches of Savings Bank are involved.

WHAT IS THE POSITION OF BANK OF ALBANIA IN THE ALBANIAN PAYMENTS SYSTEM?

Bank of Albania is obliged by the law to support and stimulate the payment system in Albania. This implies for The Bank of Albania not only the operational and overseer role, but also the reformer and developer role.

BANK OF ALBANIA OFFERS THE PAYMENT SERVICE FOR COMMERCIAL BANKS.

Bank of Albania is an active intermediary in clearance and settlement of inter-bank payments. It plays this role because all commercial banks in Albania maintain accounts in lek with it. It may settle easily the payment transactions, debiting ordering bank account and crediting the beneficiary bank account. What more, the Bank of Albania has not liquidity problems, or credit problems, so the payment through Bank of Albania account have not settlement or failure risk.

Bank of Albania offers the payment service for commercial banks. In addition of cash services (the provision, delivery, accumulation and selection of coins and notes) it offers non-cash services such as: cheques and interbank payments order clearing, the services of net settlement, the processing of high value payments and their settlement.

Bank of Albania itself is a participant of payment system. It makes through payment system, payments for monetary policy aims. What more, Bank of Albania makes payments in its customer's interest such as the government of Albania which is a very important customer of Bank of Albania.

BANK OF ALBANIA OVERSEES THE ALBANIAN PAYMENT SYSTEM.

The law gives it the right to define the system's regulator framework approving regulations and procedures which are obligatory to be executed from all participant.

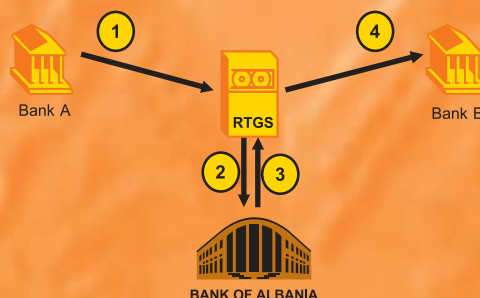
In other hand Bank of Albania is the authority that oversees and licenses the participants of payment system, the second level banks that issue and execute the payment instruments. It not only oversees the activity of payment system participants but also coordinates their activity. Bank of Albania has found a permanent interbank forum "The National Committee of Payments" in order to coordinate the activity of all payment system participants. This committee approves the interbanks agreements aiming the smooth functioning of payment system in Albania.

BANK OF ALBANIA DIRECTS THE REFORMS FOR THE MODERNIZATION OF ALBANIAN PAYMENT SYSTEM.

In order to accomplish its legal obligation, the stimulating of the payment system, Bank of Albania has taken the leader role in modernization of Albanian payment system. Now it is implementing a contemporary system for automation of payments' flow and processing. **RTGS System** (Real Time Gross Settlement).

This system processes the so-called wholesale payments or said differently high value payments. As we say above these payments present the transactions of financial markets between the banks, or governmental and commercial institutions.

RTGS System ensures the clearance and the settlement of payments in real time. This can be explained in the following scheme:



Bank A should pay a determined amount to the bank B. For this it sends in RTGS system a payment order for Bank B (first step). Automatically, the system audits Bank's A account held with Bank of Albania (second step) and only if the balance of this account is sufficient the settlement of payment is made (third step). So automatically, the system debits Bank's A account and credits Bank's B account and in the same time sends an electronic instruction to Bank B (fourth step).

This system, being totally automated, ends the processing and the settlement of payment in a very short time (within a minute). If we remember what we say above about risk, one way for eliminating it is the reduction of time between the clearance and settlement. RTGS system reduces this time in almost 0 minute, and in this way the interbank high value payment system is free of nonsettlement potential risks.

The implementation of this efficient and secure system for transfer of value, brings many important advantages to Albanian financial system, not only in the accomplishment of actual needs but also create facilities toward the integration in European structures.