

DEPARTMENT



OF SUPERVISION

BANK OF ALBANIA

Many financial intermediaries, amongst which the banks, operate in the economy of a country. The banks facilitate the efficient use of the free funds, as they are the specialised institutions to conduct this kind of activity. They also have the necessary capacities to that effect. This fact attributes a special role to the banks in a country's economy. On account of their key position in the economy, it is generally recognised that, under the conditions of a free market economy, too, the banks need to be supervised and regulated. Supervision of a bank helps:

- ensure the stability of the banking system, and protect the interests of depositors and general public;
- ensure a sound banking system whose activity is transparent and orientated towards the market economy;
- enhance the investors and depositors' confidence through support for the development of the banking industry and its effectiveness.

The function of the supervision of the banks has been entrusted to the Supervisory Department of the Bank of Albania, which was set up in August 1992.

Being the supervisory authority of the banking system the Bank of Albania carries out the supervision of the banks right away as the process of issuing licenses for the banks starts. On the basis of the regulations and requirements it has established, the Bank of Albania only allows the subjects promising to conduct sound and stable activities to enter the bank market. The supervisory function is performed in complementary ways occurring simultaneously: supervision from outside and inspection on the spot.

The supervision from outside helps obtain an idea on the situation in a bank on the basis of its financial reports. To facilitate the external supervision all the banks are obliged to report accurate data on their situation to the mandated authority. Then an analysis of this plethora of data is made. The process of the analysis implies the interpretation of the data so as to find out if a bank has a sound financial situation, and identify are the problems it is facing.

Inspection on the spot is the responsibility of the "inspectors' teams". The inspectors' groups usually visit a bank, inspect its activity, highlight the problems or issues that need to be considered or to be taken into account, discuss them with managers, and at the end, on all these issues, they write a document called the "examination report", which encompasses all the redressing measures and the proposals to improve the situation. Depending on the issues to be examined, inspection is broken down into comprehensive inspection and partial inspection. Comprehensive inspection implies an examination of the entire activity of a bank. As a matter of routine, a bank is subjected to comprehensive inspection once in twelve months. Partial inspection implies that only part of the activity of bank is examined, for instance, the lending or investing activity or the hard currency operations. Partial inspections are prompted from the need to supervise the banks more frequently, especially the areas of high dangerousness.

The regulatory process of a bank is another important aspect. The "regulatory process of the bank" implies the process of drafting and enacting special regulations and guidelines for the purpose of limiting the risk a bank takes in the course of its activity. This relates to the fact that in their activities the banks make use of third parties' money. These regulations and guidelines are based on legislation. These regulations are elaborated so as to ensure compliance with international standards, and in Albania they have proved to be always in conformity with these standards.

The following are some of the most important achievements the Supervisory Department has attained during the past decade:

1. re-licensing of the existing banks with a view to ensuring that all the banks are put on an equal footing with one another, except for the banks that have been licensed on the basis of Law no. 8075, dated 22 February 1996, "For the Banking System in the Republic of Albania";
2. unification of all the tables and forms reported by the Bank of Albania on a monthly basis;
3. implementation of a unique accounting plan;
4. drafting of the *Handbook of Bank Examination*; and
5. signing up of the agreements of cooperation with the supervisory authorities of the other countries.

The following future goals have been identified:

1. Improvement in and completion of regulations, aiming at their approximation to the international standards of bank supervision, the fostering of free competition, and the modernisation of the regulatory structure governing bank supervision;
2. Establishment of a "peer group" on the basis of several features of banks (depending also on the progress of the banking system);
3. Reviewing of the indices of the early warning system;
4. Setting up a scientific unit in cooperation with the Department of Monetary Research and Policies;
5. Stability and further training of the staff; and
6. Employment of contemporary technologies concerning a basic type of data for the saving, processing and use of information on bank supervision.