The World Bank Approach

A Practical Guide for Measuring Retail Payments Costs

- Methodological framework that provides a comparative, standardized, and systematic treatment of demand & supply side retail payment costs, including
  - identification of cost efficient payment instruments;
  - derivation of savings scenarios;
  - incorporation of all the relevant determinants of costs.
Rationale and Background

- Payment system modernization is an increasingly prominent part of the financial sector reform agenda.

- Greater use of electronic payments (vs. cash and paper-based) has been linked to important economic and social benefits, and to broader financial access.

- Expected cost-efficiency gains are often the underlying motivation reform efforts in this area, although actual costs incurred and savings in migrating to electronic payments have been difficult to derive.

- The results from the implementation in Albania would inform the different stakeholders on the status of the retail payments market, the efficient/inefficient retail payment instruments and potential policy interventions.
• **Access:** since less than 40% of the adult population in Albania has access to a bank account and less than 10% to an e-money account, addressing access to transaction accounts is a first-order priority.
  • Providing a basic transaction account at little or no cost to all individuals and businesses that do not hold an account could be explored.
  • Full digitization of central and local government payments (collection and disbursement) could also help with access.

• **Usage:** the overall use of electronic credit transfers, direct debits, and payment cards have improved substantially but the volume is still low compared with the volume of cash used.
  • Expanding Internet/mobile banking and leveraging electronic instruments for bill payments are critical to phase out costly paper-based instruments and access channels.
  • Financial education programs will be of essence.
• **Time-based costs for consumers associated with cash are significant:** it takes the average Albanian about 42 minutes to get to a pay office, wait in line, and make a cash transaction and about 29 minutes to travel to, wait in line in, and transact in cash at a bank branch.

• **Costs for providers associated with cash are significant:** about 65% of all industry cash costs are linked to processing and branch activities and about 15% to ATM maintenance.

• **Savings:** a shift from cash to electronic payments at point of sale (POS) would be significant (consumer-initiated cash payments at stores amount to 100 million) as it could save businesses up to 600 million lek ($5.2 million).
Policy Messages (3)

- **Informality**: efforts to combat business informality will be significant in accelerating the shift to electronic payments at the point of sale given that informality and cash have a symbiotic relationship.
- **Incentives**: government and industry incentives (for example, fiscal, monetary incentives, but also innovative business models underpinned by technology) may prove useful to boost acceptance of electronic payments at POS.
- **Local Card Processing**: banks face considerable fees for card processing and as such, establishing a local card processing infrastructure could contribute to decreasing some of these costs, which is operationally strategic for banks, and the payments system as a whole.
The Albanian Case

Payment Instruments

Paper-Based
- Cash
- Paper-Based Credit Transfer
- Paper-Based Direct Debit

Electronic
- Cards (debit, credit, prepaid)
- Electronic Credit Transfer
- Electronic Direct Debit
- Online & Mobile Money

Payment purposes
- Compensation for an economic transaction
- Personal transfer
- Payment due to an entitlement or obligation
- Reorganization of the payer’s own funds

Payment Types

Payer
- Consumer
- Business
- Government

Payee
- Consumer
- Business
- Government

Access Channels
1. Point of Interaction
2. Bank Branch
3. Automated Teller Machine
4. Agent Office
5. Pay Office
6. Internet
7. Telephonal/Mobile network

Demand Side Stakeholders
- Consumers
  - 897 respondents
  - Rural and urban
- Businesses
  - 462 respondents
  - Different categories
- Government
  - Centralgov.
  - Public utility companies
  - Tirana

Supply Side Stakeholders
- 16 banks
- 2 e-money issuers
- 1 MTO
- 1 bill initiator
- Bank of Albania

The Retail Payment Costs and Savings in Albania
June 2018
38.5% of adults have access to a bank account

92% of businesses have access to a bank account

33.5% via personal account and 5% via a family member’s account

Urban areas: 50% of adults
Rural areas: 23% of adults

24% of adults own a debit card

3.5% of adults own a credit card

2% of adults use internet banking regularly (at least once a month)

50% of businesses use internet banking regularly (at least once a month)
Access from Supply Side Perspective

**Net growth rate of access points (per 100,000 adults) over time**

- **BANK BRANCHES**: 9.1% (2014-2015), -4.2% (2015-2016)
- **ATM**: 3.0% (2014-2015), -3.2% (2015-2016)
- **AGENT OUTLET**: 25.7% (2014-2015), 4.4% (2015-2016)
- **PHYSICAL POS TERMINALS**: 6.3% (2014-2015), 3.2% (2015-2016)

**Net growth rate of active payment cards in circulation (per 100,000 adults) over time**

- **DEBIT CARD**: 6.8% (2014-2015), 5.0% (2015-2016)
- **CREDIT CARD**: 10.4% (2014-2015), 5.5% (2015-2016)
- **PREPAID CARD**: 21.4% (2014-2015), 26.5% (2015-2016)
Of debit card holders, 75% use it exclusively for cash withdrawals.
Consumer Flows

Annually Initiated: 127.5 million payments (53 payments/adult)

- **Instrument:** 96% cash; 2.2% paper-based credit transfer; 1.2% card; 0.4% electronic credit transfer; 0.2% online money.
- **Access channel:** 78.5% POS; 11.5% branch; 10% agent/pay office/Internet.
- **Use case:** 64.5% groceries; 30% bills; 5.5% other.

Annually Received: 38 million payments (16 payments/adult)

- **Instrument:** 90% cash; 8% electronic credit transfer; 2% online money.
- **Access channel:** 31% branch; 29% hand-to-hand; 7% agent; 5% pay office; 28% other.
- **Use case:** 43% P2P; 23% salaries; 20% pensions; 15% remittances; 14% other G2P.
Albanian consumers bear annual costs of about 1% of GDP associated with payments initiated/received by different retail payment instruments.

Time spent for a single trip/transaction by access channel (in minutes):

- Pay Office: 42 minutes
- Agent Outlet: 33 minutes
- Bank Branch: 29 minutes
- ATM: 16 minutes
- Point of Interaction: 1 minute

Annual costs as % of GDP by payment instrument:
Businesses Flows

Annually Initiated: 18.2 million payments (792 payments/business)

- **Instrument:** 66% cash; 12% electronic credit transfer; 10% paper-based credit transfer; 6.5% electronic direct debit; 5.5% cards;
- **Access channel:** 54% POS; 23% branch; 23% Internet.
- **Use case:** 37% B2B; 23% bills; 20% salaries; 13% services; 6% B2G; 1% other.

Annually Received: 274 million payments (2,543 payments/business)

- **Instrument:** 99% cash; 0.5% cards; 0.3% electronic credit transfer; 0.2% electronic direct debit.
- **Access channel:** 99.6% POS; 0.4% Internet.
- **Use case:** 60% P2B; 37% B2B; 3% other.
Albanian businesses bear annual costs of about **0.6% of GDP** associated with payments initiated/received by different retail payment instruments.

Annual costs as % of GDP by payment instrument:
### Government Cash Paper-based credit transfer Electronic credit transfer

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Paper-based credit transfer</th>
<th>Electronic credit transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>---</td>
<td>52 million lek ($416,000)</td>
<td>66 million lek ($528,000)</td>
</tr>
<tr>
<td>Local government</td>
<td>200 million lek ($1.6 million)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Public utilities</td>
<td>85 million lek ($680,000)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Total</td>
<td>285 million lek ($2.5 million)</td>
<td>52 million lek ($416,000)</td>
<td>66 million lek ($528,000)</td>
</tr>
<tr>
<td>Total as % of GDP</td>
<td>0.0160</td>
<td>0.0030</td>
<td>0.0035</td>
</tr>
</tbody>
</table>

**Annually Initiated: 17.5 million payments**

**Annually Received: 1.8 million payments**

Annual costs by payment instrument and type of entity

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**Total**

- **Central government**
  - Cash: 52 million lek ($416,000)
  - Paper-based credit transfer: 66 million lek ($528,000)
- **Local government**
  - 200 million lek ($1.6 million)
- **Public utilities**
  - 85 million lek ($680,000)
- **Total**
  - 285 million lek ($2.5 million)

**Total as % of GDP**

- 0.0160
- 0.0030
- 0.0035
Annual costs as % of GDP by payment instrument

Payment Provider Costs

Total: 1.3% of GDP

Average variable cost per transaction processed (in lek)
## Service and Infrastructure Costs

<table>
<thead>
<tr>
<th>Service/Infrastructure</th>
<th>Average Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening a bank account</td>
<td>322 lek ($2.8)</td>
</tr>
<tr>
<td>Maintaining a bank account</td>
<td>1,900 lek ($16.3)</td>
</tr>
<tr>
<td>Producing a debit card</td>
<td>900 lek ($7.7)</td>
</tr>
<tr>
<td>Maintaining a POS terminal</td>
<td>12,044 lek ($103.6)</td>
</tr>
<tr>
<td>Opening an e-money account</td>
<td>168 lek ($1.4)</td>
</tr>
<tr>
<td>Maintaining an e-money account</td>
<td>1,500 lek ($12.9)</td>
</tr>
<tr>
<td>Producing a credit card</td>
<td>1,000 lek ($8.6)</td>
</tr>
<tr>
<td>Maintaining an off-site ATM</td>
<td>475,000 lek ($4,085)</td>
</tr>
<tr>
<td>Maintaining an e-money agent</td>
<td>126,000 lek ($1,084)</td>
</tr>
</tbody>
</table>
### Total Economy Costs

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Type of costs</th>
<th>Resource costs</th>
<th>Transfer costs</th>
<th>Total costs per stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand Side</strong></td>
<td>Consumers</td>
<td>12.2 billion lek</td>
<td>6.4 billion lek</td>
<td>18.6 billion lek</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$105 million</td>
<td>$55 million</td>
<td>$160 million</td>
</tr>
<tr>
<td></td>
<td>Businesses</td>
<td>7.8 billion lek</td>
<td>2.8 billion lek</td>
<td>10.6 billion lek</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$67 million</td>
<td>$24 million</td>
<td>$91 million</td>
</tr>
<tr>
<td></td>
<td>Government agencies</td>
<td>328.3 million lek</td>
<td>87.8 million lek</td>
<td>416.1 million lek</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2.8 million</td>
<td>$0.8 million</td>
<td>$3.6 million</td>
</tr>
<tr>
<td><strong>Supply Side</strong></td>
<td>PSPs/PIPs</td>
<td>13.4 billion lek</td>
<td>4.6 billion lek</td>
<td>18 billion lek</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$115.2 million</td>
<td>$39.6 million</td>
<td>$154.8 million</td>
</tr>
<tr>
<td></td>
<td><strong>Total economy costs</strong></td>
<td>33.7 billion lek</td>
<td></td>
<td>$290 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.5% of GDP</td>
</tr>
</tbody>
</table>

#### Annual costs by type and stakeholder

#### Annual costs (resource) as % of GDP by payment instrument
### Projected Savings at different conversion rates

<table>
<thead>
<tr>
<th>Substitution scenario/savings domain</th>
<th>Savings: 35% conversion rate</th>
<th>Savings: 70% conversion rate</th>
<th>Savings: 100% conversion rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lek</td>
<td>US$</td>
<td>% of 2016 GDP</td>
</tr>
<tr>
<td>Cash→debit card</td>
<td>1.9 billion</td>
<td>16.3 million</td>
<td>0.136</td>
</tr>
<tr>
<td>Cash→credit card</td>
<td>1.7 billion</td>
<td>14.6 million</td>
<td>0.122</td>
</tr>
<tr>
<td>Paper-based credit transfer→electronic credit transfer</td>
<td>2.2 billion</td>
<td>18.9 million</td>
<td>0.160</td>
</tr>
<tr>
<td>Paper-based credit transfer→e-money</td>
<td>312 million</td>
<td>2.7 million</td>
<td>0.022</td>
</tr>
</tbody>
</table>

### Use case: Payments for utility bills (P2B)
Substitution scenario: Cash→electronic direct debit
Conversion: 50 percent

<table>
<thead>
<tr>
<th>Savings for consumers</th>
<th>Savings for businesses</th>
<th>Savings for PSP/PIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>750 million lek</td>
<td>1 billion lek</td>
<td>1.8 billion lek</td>
</tr>
<tr>
<td>$6.5 million</td>
<td>$8.2 million</td>
<td>$15.5 million</td>
</tr>
</tbody>
</table>

### Use case: Pensions (G2P)
Substitution scenario: Cash→electronic credit transfer
Conversion: 50 percent

<table>
<thead>
<tr>
<th>Savings for consumers</th>
<th>Savings for government agencies</th>
<th>Savings for PSP/PIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>385 million lek</td>
<td>350 million lek</td>
<td>500 million lek</td>
</tr>
<tr>
<td>$3.3 million</td>
<td>$3 million</td>
<td>$4.3 million</td>
</tr>
</tbody>
</table>

### Use case: Remittances (P2P)
Substitution scenario: Cash→electronic credit transfer
Conversion: 50 percent

<table>
<thead>
<tr>
<th>Savings for consumers</th>
<th>Savings for PSP/PIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>300 million lek</td>
<td>800 million lek</td>
</tr>
<tr>
<td>$2.6 million</td>
<td>$6.7 million</td>
</tr>
</tbody>
</table>

**Indicative use case substitutions and savings**
Thank You!!!

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