

2.7. PAYMENT SYSTEMS

Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments in lek. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and the overall economic growth.

In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the national Retail Payments Strategy.

2.7.1. PERFORMANCE OF AIPS AND AECH SYSTEMS

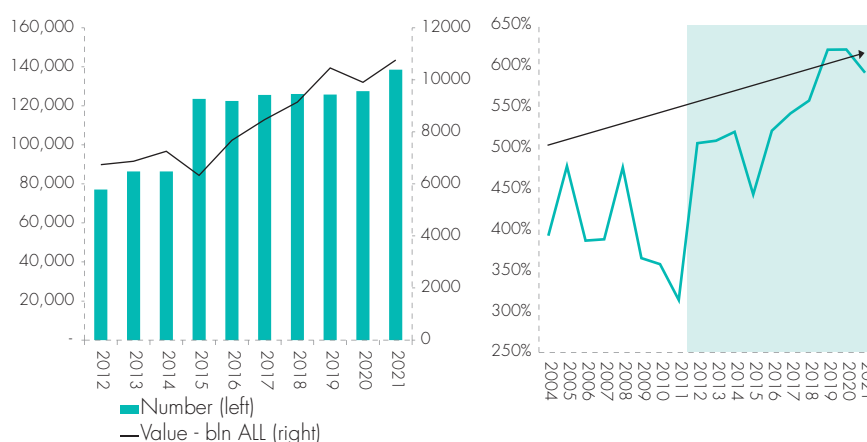
AIPS and AECH systems are managed and operated by the Bank of Albania. Both these systems are considered as the main infrastructure for processing interbank payments in Albania: AIPS system is considered the core infrastructure for the settlement of payments in the national currency, the settlement of transactions of financial markets, as well as the implementation of the monetary policy. On the other hand, the AECH system, which accommodates the clearing of interbank transactions with small value - lower than ALL 1.5 billion - is the only system in the Albanian market that clears payments of banks' clients (households and enterprises). The safety and well-functioning of these systems is of crucial importance for the operation of financial markets and the economy overall. Both systems have run smoothly and in accordance with the rules and schedules provided in the respective regulations, offering maximum availability. In the role of the payment system reformer and in compliance with the National Strategy for Small-Value Payments, the Bank of Albania has worked to put into operation the AIPS-EURO system, which is a system that settles euro payments domestically.

Albanian interbank payment system for large-value payments (AIPS)

A volume of 138,548 transactions was settled during 2021, with a total liquidity circulating in the system of ALL 10,758 billion. Compared to the previous year, the volume and the value of settled transactions reflected an annual increase by 8.67% and 8.61%, respectively. The value of transactions processed in AIPS as a ratio to the GDP is also assessed upwards, indicating an ever increasing use of the system. As regards transaction distribution by typology, the item "Payments for Clients" (with main share of payments in terms of figures, 67.6%) continues to register increasing rates in AIPS system.

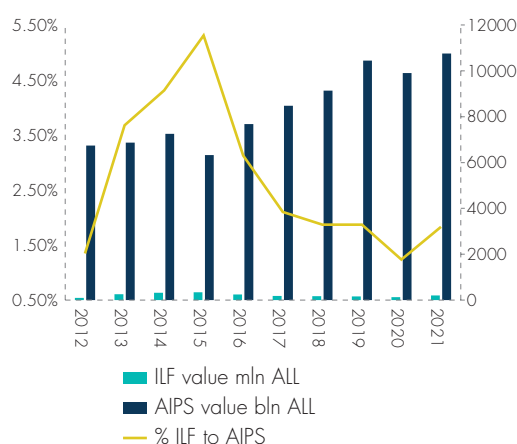


Chart 26 Number and value of transactions processed in AIPS (left) and as a percentage to GDP (right)



Source: Bank of Albania.

Chart 27 Intraday Loan Facility (ILF) ratio to total value settled in AIPS



Source: Bank of Albania.

The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks in order to manage daily liquidity and ensure normal continuation of interbank payments operation. The ILF ratio to total AIPS system activity was 2.04%, reflecting a decline in the share of funding this system's activity with BoA's liquidity and of the exposure of the system to liquidity risk.

Albanian electronic clearing house for retail payments (AECH)

The activity of the AECH continued to increase in 2021. In annual terms, the number and value of AECH payments have increased by 26.4% and 23.6%, respectively.

The level of AECH transactions as a ratio to the population has also increased. The continuous increase of the use of AECH transactions, mainly payments for bank clients³⁰, indicates the efficiency of the measures taken by the Bank of Albania on commissions applied by banks (in 2011 and also in 2020³¹) on the final user in order to expand the use of this system. These measures have

³⁰ The analysis of the payment distribution indicator according to the participants is evidence that customer payments initiated by banks continue to hold the main share of transactions processed in the AECH system, dominating the transactions initiated by other participants (Ministry of Finance and economy, the Bank of Albania).

³¹ The Regulatory amendments in 2020 provide the elimination of commissions for retail payments initiated electronically through home banking services for up to 20,000 Lekë and the differentiation of commission for the other payment part initiated through home banking for up to 50% of commissions applied for paper format payments.

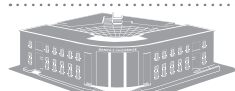
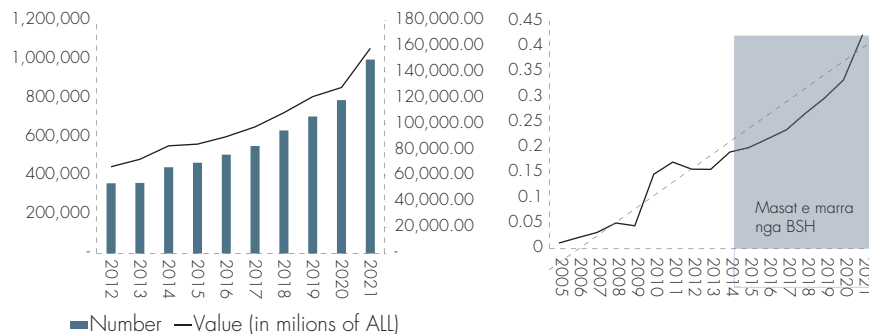


Chart 28 Number of AECH transactions in years (left) and the ratio of transactions processed in AECH in relation to population over 15 years old* (right)

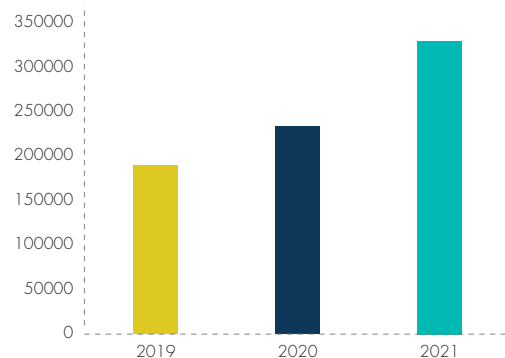


*Implies that 42.28 % of the population over the age of 15 conducts an interbank transaction through the AECH system. This value marked a continuous increase which becomes relevant when taking into consideration the fact that in Albania around 40% of the population (Findex 2014 assessment, World Bank) possesses a bank account for carrying out interbank payments.

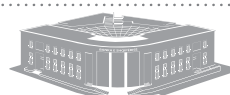
Source: Bank of Albania.

caused payments below ALL 20,000 to increase more rapidly, showing that electronic transfers are being used daily by the wider public.

Chart 29 Increase in transactions number below ALL 20,000 in AECH



Source: Bank of Albania.



BOX 4 THE AIPS EURO SYSTEM FOR THE SETTLEMENT OF THE DOMESTIC EURO DENOMINATED TRANSFERS WITHIN ALBANIA

In the framework of the National Strategy for Small-Value Payments in Albania (2018-2023) and its implementation plan, the Bank of Albania and other important stakeholders such as the Ministry of Finance and Economy and the banking and financial system, through the National Payment System Committee (NPSC), aim to create a modern and comprehensive market of small-value payments in Albania, supported by a secure and efficient infrastructure. In line with this, among the strategic fields and actions is the implementation of the settlement of domestic euro transfers by the Bank of Albania.

This project was conceptualised since 2016, where the possibility and the need to create a national infrastructure for euro settlements was analysed, in the framework of the NPSC recommendations. The study carried out by the Bank of Albania in cooperation with the Albanian Association of Banks, identified a cost of ALL 718 million for the banking system from the current method of conducting transactions. Based on this analysis and market research, this project was included in the Strategy's action plan, in order to reform and modernise payment systems.

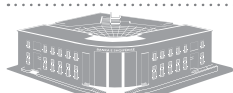
The Bank of Albania toiled at an intensive pace in 2021 to finalise the project on payment of domestic transfers for clients in Euro. This project is realised through developing the necessary infrastructure and creating a regulatory framework for the operation and functioning of AIPS-EURO system. The system is functional since 24 January 2022. The AIPS-EURO system will be used to settle only "transfers for clients" of banks and will allow Albanian citizens to conduct euro payments domestically, at very low costs and for a shorter time period compared with the previous process of corresponding banks.

Also, this project has a wider impact on several economic factors, as the considerable commissions that were held by corresponding banks will be kept in the domestic economy, and financial and monetary stability will be safeguarded, with all the necessary monitoring mechanisms available to this segment of the market.

Indirectly, this project has also an impact on the well-being of clients, banks and overall economy. Since payments are now processed domestically, it would be much easier to resolve issues in case of an error in payment processing. Furthermore, another positive fact is that domestic euro payments are regulated by the prudential legal and regulatory framework on consumer protection, laid down in the Law "On Payment Services".

The project is assessed to have quite positive effects also as regards banks' management of cash in euro, as well as to have a positive impact on the formalisation of the economy, encouraging financial inclusion, and the reduction of cash.

Reducing commissions for banks' clients, beyond the natural reflection of lower costs due to the elimination of time-consuming cycles of processes of corresponding banks, also reflects the BoA's policies on the limits of commissions applied by banks to clients. The main objective of this regulation was to encourage the formalisation of euro payments, as well as promote more efficient payments processes for clients in Euro, but simultaneously giving priority/encouragement to payments in Lek, which continue to be cheaper, based on the ceiling values.



The following table summarizes the commission applied before 24 January and the ones applied once the operation of AIPS-EURO commenced.

	Until 24 January 2022	After 24 January 2022	
	Paper-based payments and non-paper based/ electronic payments	Paper-based payments	Electronic payments
OUTGOING TRANSACTIONS ►			
MIN-Euro per transaction	Max 30 Euro	Max 6 Euro	Max 3 Euro
% above the amount	Max 3%	Max 0.2% Up to 10,000 euro	Max 0.1% Up to 10,000 euro
MAX-Euro per transaction	Max 300 Euro	Max 50 Euro	Max 25 Euro
INCOMING TRANSACTIONS ◀			
MIN-Euro per transaction	20.00	0	0
% above the amount	0.2 %	0	0
MAX-Euro per transaction	200.00	0	0
Swift Commission MAX-Euro per transaction	10.00	0	0

2.7.2. PAYMENT INSTRUMENTS

In 2021, the use of electronic payment instruments increased by 29.51% in annual terms, reaching a total of 28.6 million payments. In terms of value, it increased by 20.62% or ALL 5,291 compared to the previous year. The increase of electronic payments is reflected in a continuous contraction of credit transfers in paper form, which in 2021 accounted for around 20.65% of the total payment volume.

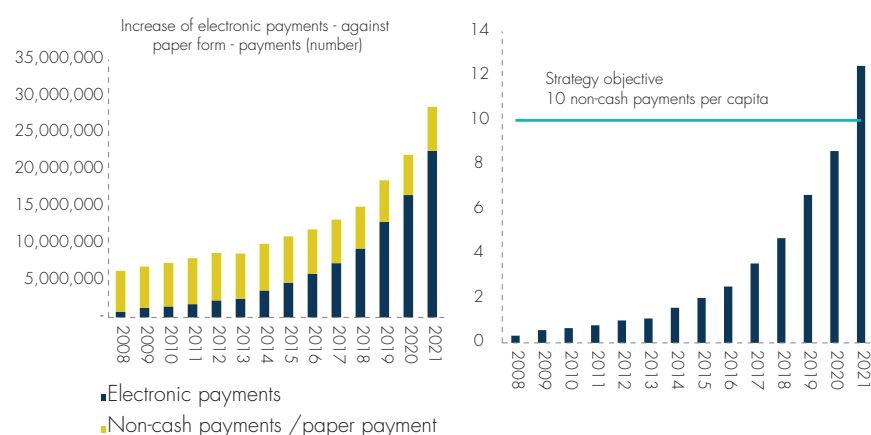
Card payments are the main payment instruments accounting for 55.57% of the volume, surpassing for second consecutive years credit transfers in paper form, the most frequently used payment instruments throughout years.

It is encouraging to see the fast upward trend in the use of the electronic payment instruments of home banking, singling out the number of payments conducted through mobile banking, which reached 1.7 million transactions, up by 46.78% compared to the previous year. The value of these transactions reached ALL 219 billion, with an annual growth of 47.36%. Also, an upward trend is noted in the use of E-money, an instrument offered by banks and electronic money institutions.



Developments in electronic payments throughout 2021 have contributed in meeting the quantitative objectives of the National Strategy for Small-Value Payments (2018-2023). The use of electronic payments reached 12.5 per capita, from the 10 payments objective outlined in this strategy. Furthermore, positive developments were also recorded in the framework of expanding the share of the population that owns a payment account. Thus, in 2021, around 69%³² of adult population owns a payment account, considerably approaching the 70% objective outlined in the strategy.

Chart 30 Volume of electronic and paper payment instruments in years (left) and the volume of payments per person (+15 years-old) in years (right)



Source: Bank of Albania.

Home Banking

The initiation of credit transfers in electronic form is realised through "home banking"³³ services, which are provided by 11 banks and are increasingly widespread in the Albanian market. In 2021, there is a noticeable increase in the volume of payments and transaction value of "home banking", by 24.5% and 15.45%, respectively, compared to the previous year. Contributions to the upward trend of "home banking" transactions were assessed to be: the measures undertaken by the Bank of Albania in 2020 (outlined above); the expansion of possibilities to access internet; and, familiarisation of banks' clients with this instrument. Also, the policies of banks for promoting these alternative payment means, were assessed to have played a positive role, being reflected in an increase in remote accessible accounts by 20.98%, compared with the same period in 2020. Online accessible accounts to total accounts of clients account for 23.25% in 2021.

³² Based on the Credit Registry National of Accounts data.

³³ These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.

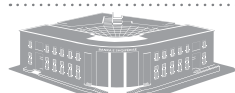
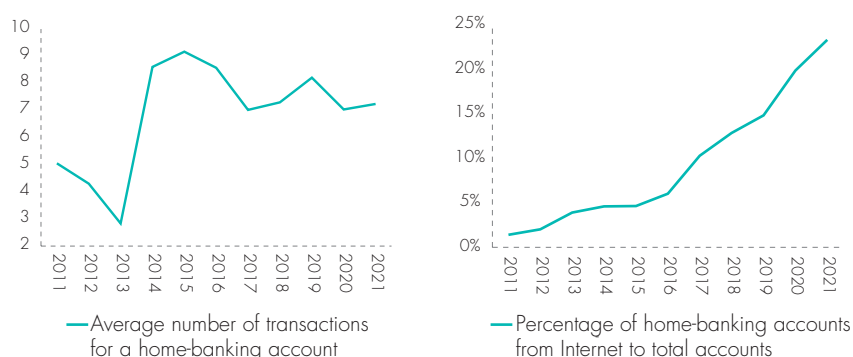


Chart 31 Volume of home banking transactions to total accounts and online accessible account*



*The utilisation ratio shows how much on average an account is used on-line to carry out transactions.

Source: Bank of Albania.

Bank cards

At the end of 2021, all the banks that operate in the Republic of Albania were licensed as card issuers, of which seven were licensed also as card accepters. The infrastructure provided by these banks has trended upward in terms of the number of POS terminals (increasing significantly by 13.12% compared with 2020). A positive development can be considered the increase of the gradual distribution of POS terminals in other regions in the territory of the Republic of Albania, beyond the District of Tirana, which has had and continues to have a dominant position (at 82.77%)

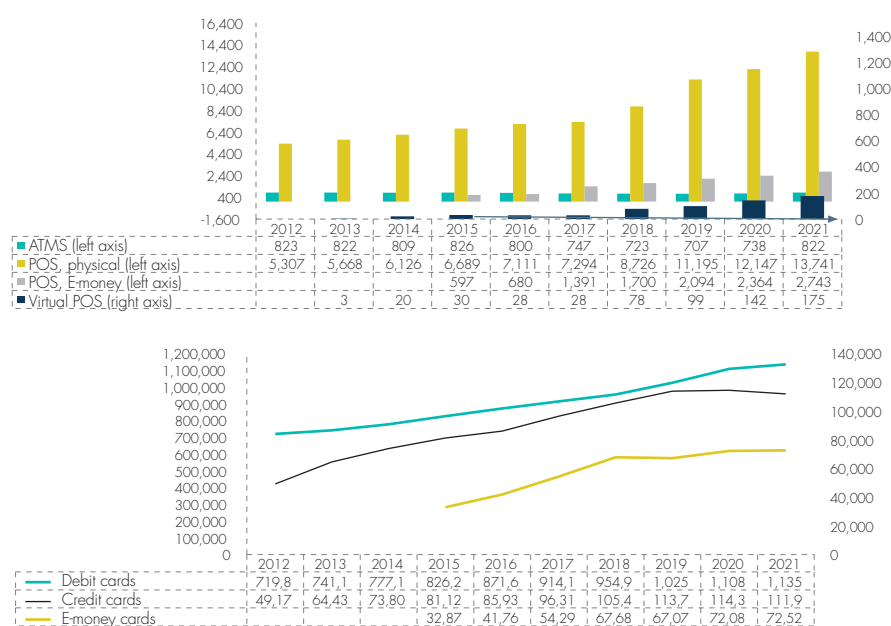
Meanwhile, the number of ATMs has significantly increased by 11.38%, compared with 2020. Despite the fact that ATMs are mainly used for cash withdrawals, during 2021 we have an expansion of the function of ATMs that enable deposits, a function which is used at higher levels than in 2020 (both in number and in value).

Terminals for the use of electronic money cards also recorded positive developments. They showed an upward pace at 16.03% compared with end-2020. The promotion of the use of the electronic money instruments is assessed to have effected the financial inclusion of the population, by providing access to bank services (opening of an electronic money account and the owning of a pre-paid card) to categories of population who may not access other services, i.e they do not receive a wage.

Debit card issuance increased slightly by 2.4%, while credit card issuance decreased by 2.12%. The end of 2021 marked an increase of 0.61% of cards functioning as electronic money, compared to the previous year. Developments in terms of infrastructure and cards in circulation are reflected in an increase in



Chart 32 Developments related to ATMs and POS (left), as well as related to debit, credit and pre-paid cards (right)



Source: Bank of Albania.

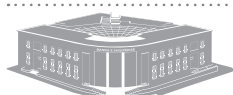
the number and value of card payments in 2021, respectively by 43.63% and 49.87%, compared to 2020.

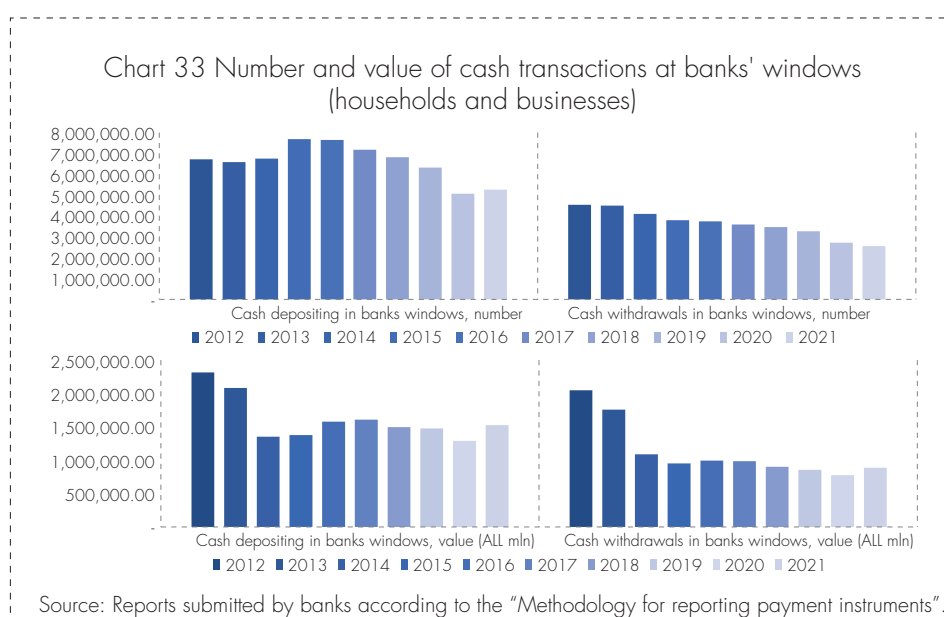
Despite the positive developments, the use of bank cards in ATM and POS terminals shows that the main share of card transactions is carried out by cash withdrawals from ATMs. In 2021, the number and value of card payments in physical and virtual POSs increased by 35.8% and 36.93%, respectively. In relative terms, the payments through via pre-paid cards point at 5.75% of payments through debit and credit cards.

Cash transactions

Regarding cash transactions conducted by customers at banks' cash windows, in 2021, we observe an increase in number and value compared with the previous year. This year cash deposit transactions increased both in number and value, respectively by 3.86% and 18.31%, compared with the previous year.

The use of cash in the Albanian economy still remains a prevailing phenomenon, which carries high costs for various stakeholders and the economy in general. In this framework the coordination of efforts at market level to encourage the use of efficient instruments at low costs is of special importance and one of the priorities of the Bank of Albania.





2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products are also offered by non-bank financial institutions, licensed as electronic money institutions. During 2021, 7 electronic money institutions operated in the Albanian market, from which only 3 managed to still operate at by end of 2020. The increase in the number of electronic money institutions is a result of the adoption of the law "On payment services" in 2020. In total, the number of electronic money payments has significantly increase in both, number and value during 2021, respectively by 79.04% and 44.8%. Although the volume of electronic money payment transactions has reached almost 24% of the total of all payments passing through the banking system, in value they cover less than 0.5% of the total value of payments made by electronic money institutions and banks that emit electronic money. During 2021, these institutions together have carried out a volume of around 6.8 million electronic money payments, with a value of ALL 15.63 milliard.

The increase in number of electronic money institutions has led to the increase of terminals in the territory of the Republic of Albania, providing facilities in the form of increased flexibility for carrying out payments, as well as a lower cost for payments such as fines, monthly utility bills, etc.

2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

In the role of the catalyst / reformer of payment systems, the BoA has continued its efforts to implement the action plan of the National Retail Payments Strategy (2018-2023), in order to modernize this market and expand the financial inclusion of population and use of the electronic payments in the Albanian



market. In this regard, during 2021 a series of legal and regulatory measures have been taken, as well as infrastructural developments. From the point of view of legal and regulatory improvements, during this year a series of legal acts have been drafted to supplement the regulatory framework in implementation of the requirements of law 55/2020 "On payment services".³⁴

From the infrastructural developments point of view, we can mention the operationalization of the payment service provider scheme for "Direct Debit". This scheme enables utility companies to use only one payment account to collect the liabilities of their customers throughout the market, in order to more efficiently manage liquidity. From the clients' point of view, this scheme creates flexibility, thus enabling the use of the instrument, regardless of whether the bank / non-bank financial institution has an agreement with the utility company in which the client wants to make payments. Also, the Direct Debit Regulation and the Law on Payment Services create a prudent framework for consumer protection. The regulation and operationalization of this scheme marks another step towards integration with the Single Euro Payment Area.

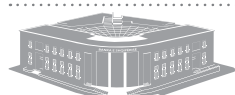
Another important development is the operationalization of the AIPS EURO system for the settlement of payments in euro in the country for bank customers, analyzed in Information Box 4, above.

For the purposes of continuing the project for fast payments, during this year, a report was finalized regarding "Fast Payments in Albania". This report aims to identify the needs that the project will address, the areas that require intervention, and the preliminary measures to create a solution for fast payments, as well as the various options for the implementation of this project. The study identifies the most feasible option for the Albanian market. This report has been prepared with the technical assistance of the World Bank in Albania and will serve as a guide for the implementation of the project in the Albanian market.

The BoA has taken an important step in promoting financial inclusion. During 2021, was worked on compiling drafts-acts which transpose Directive 2014/92 / EU of the European Parliament and of the Council, dated 3 July 2014, "on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features". In this regard, the draft regulation "On transparency of fees related to the payment account and on payment account switching" , has been drafted. This draft regulation has been adapted to our regulatory framework. Its purpose is to determine the requirements for transparency and comparability of fees charged to customers for their payment accounts, as well as to determine the requirements for the transfer of payment accounts between payment service providers.

During this year, the draft law "On the account of payments with basic services" was drafted. The object of this draft law is to determine the rules and

³⁴ The list of approved acts is mentioned in the sub-chapter "Banking supervision".



conditions for opening and using the account of payments with basic services for households in the Republic of Albania, including especially consumers and households not covered by banking services, regardless of income level, employment status and solvency history.

In the framework of fulfilling its catalyst role, the Bank of Albania has supported and organized a series of meetings and consultations with various actors, in order to implement the action plan of the National Strategy for Low Value Payments (2018-2023). Also, BoA organized the VII meeting of the National Payment Systems Committee in December 2021, in order to further promote the ongoing projects.

