

## 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 PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for the processing of interbank payments and one infrastructure for the settlement of securities. AIPS system is considered the core infrastructure for the settlement of payments in the national currency, the settlement of transactions of financial markets; the AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million of bank clients (households and enterprises); the AIPS EURO system, which began live operation on 24 January 2022, represents the newest infrastructure that settles euro payments domestically. This system enables the gross settlement, in real time, of clients' payment orders of participants in the system for payments in euros, within the territory of the Republic of Albania. Also, since 2015, the BoA operates the central system of settlement and registration of transactions with government securities - AFISaR. During 2022, all systems have operated smoothly and in accordance with the rules and operating schedules laid down in the relevant regulations, providing maximum availability.

#### *AIPS - Albanian Interbank Payment System for large-value payments*

In the AIPS system, a volume of 153,972 transactions was settled during 2022, with a total volume of liquidity circulated in the system of ALL 13,020 billion, reflecting an annual increase of 11.1% in number, and 21.0% in value. Also, the value of transactions processed in AIPS as a ratio to GDP<sup>17</sup>, trended upward, by imposing an increase in the use of the system and the importance of this system to the Albanian economy. From the point of view of the distribution of transactions according to typology in the AIPS system, the item "Payments for customers" (item with the main share of payments in terms of number, of 72.2%) continues to show increasing rates.

<sup>17</sup> BoA's GDP assessment for 2022.

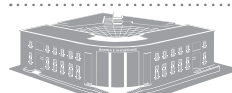
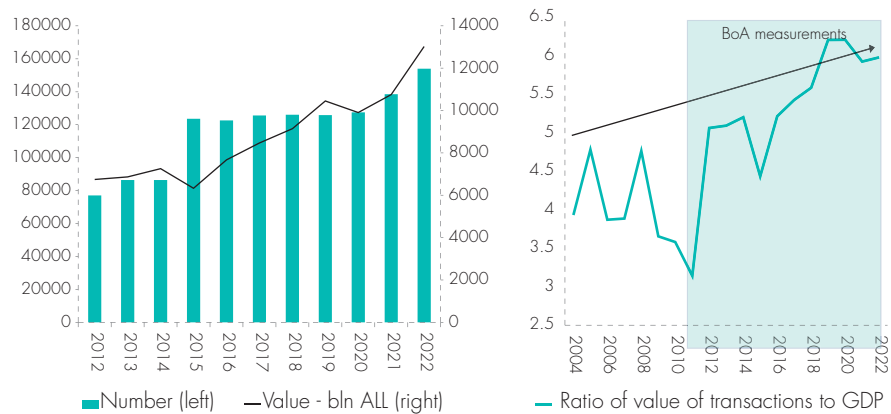


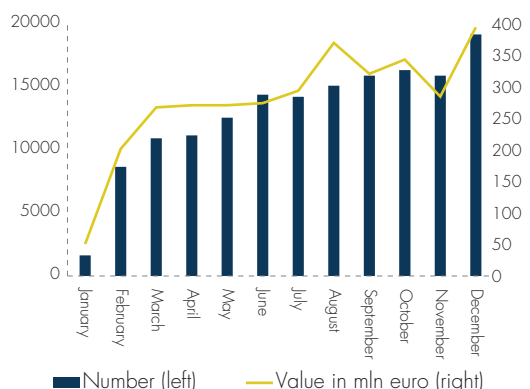
Chart 26 Number and value of transactions processed in AIPS, and their ratio to GDP.



Source: BoA.

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. During 2022, banks received 319 ILF with a value of about ALL 271.4 billion. Compared to the previous year, there is a significant increase in the number and value of ILFs, by about 61.9% and 23.9%, respectively. Despite this, the ratio of the value of ILFs to the total value of the activity of the AIPS system results in 2.1%, being close to the levels during the pre-pandemic years. The low value of this ratio indicates that the system's exposure to liquidity risk is low.

Chart 27 Progress of the number and value of transactions for customers processed in the AIPS EURO system



Source: BoA.

### Payment settlement system in euro within Albania (AIPS EURO)

In the first year of its operation, 156,044 customer payment transactions were processed in the AIPS EURO system, with a total value of approximately EUR 3,346 million, dictating an average value per transaction (for customers) of EUR 21,445. The chart below shows the progress of the AIPS EURO system throughout 2022, where an ever-increasing use of the system by bank customers is noted, especially in the second half of the year.



### BOX 3: THE AIPS EURO SYSTEM FOR THE SETTLEMENT OF DOMESTIC EURO DENOMINATED TRANSFERS WITHIN ALBANIA

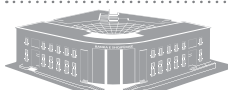
One of the objectives pursued by the Bank of Albania in recent years, has been modernization of payment systems, with the aim of promoting the use of electronic payments and bolstering financial inclusion. In this regard, on 24 January 2022, the AIPS EURO system began to operate, which enables Albanian citizens to make payments in Euro within Albania at much lower costs, as well as within a much shorter time-period than the process carried out previously through correspondent banks.

The project is a result of several years of work, conceived in 2016, in the framework of the recommendations of the National Payment System Committee. A study drafted by the BoA in cooperation with the Albanian Associations of Banks in this regard identified the costs borne by the banking system for carrying out transactions in euros through correspondent banks, which reached a very significant annual value. These costs are channelled as costs for the consumer, Albanian enterprises and the economy as a whole. Based on this analysis and on market studies, aiming to reform and modernize the payment system, the project became part of the action plan of the National Retail Payments Strategy in Albania (2018-2023).

In the medium term, the system is expected to have a significant impact on a wide spectrum of factors in the Albanian market. The AIPS EURO system is estimated to contribute to the maintenance of financial and monetary stability as it has created an additional mechanism for the Bank of Albania for monitoring this segment of the payments market. The operation of the AIPS EURO system also has a positive impact on households, enterprises, and the wider economy, thus reducing the time and costs for processing payments. In concrete terms, the commissions applied in this system do not exceed the amount of 50 Euro in any case, while previously they could vary by up to 200 or 300 Euro per transaction. Also, before the AIPS EURO system existed, in addition to commissions for departure transfers, customers also paid commissions for arrival transfers, both of which are now avoided.

From the point of view of volume, there is a significant increase in interbank transactions compared to those processed in the same period last year through correspondent banks. In this perspective, it can be said that the project has direct and indirect effects on the well-being of the client, the bank and the economy as a whole. It is necessary to note that due to the very fact that payments are carried out within Albania, in addition to the shorter time required for the payment to be processed, benefits are also evident in cases when inaccuracy occurs during the payment process, where the solution to the problem will be much more easily and quickly discovered, compared to the processing of payments through correspondent banks. For these reasons, it is a positive development that payments in euro within Albania will now be regulated in their entirety by the legal and prudential regulatory framework of consumer protection created by the law "On payment services".

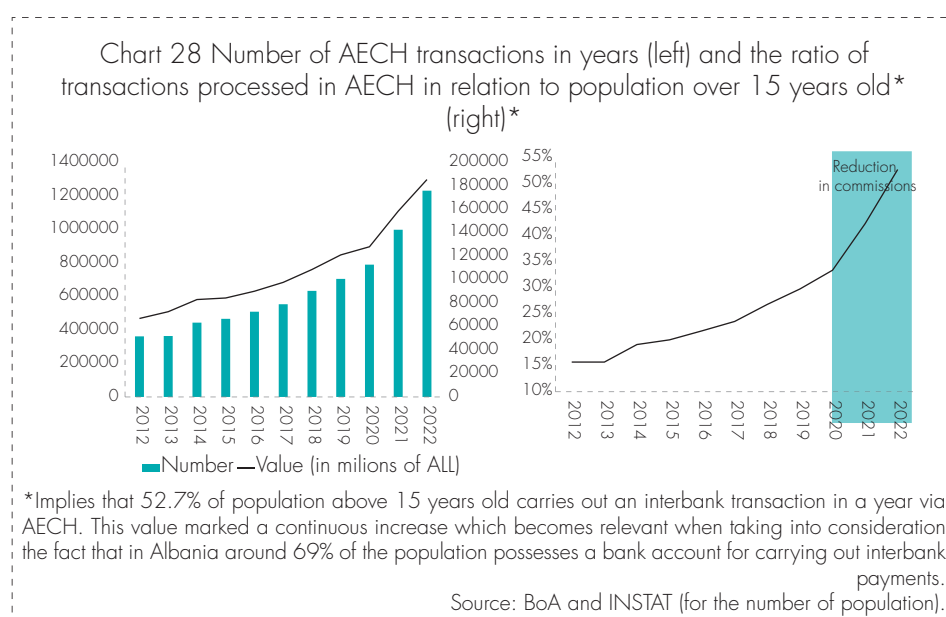
The potential reduction of euro-denominated cash management by banks is an added value of this project, if this system will be widely used. Consequently, the issues and costs incurred by this process will decrease. The AIPS EURO can be considered as an added instrument within the framework of the formalization of the economy, bolstering financial inclusion and reducing cash, hence leading to the promotion of e-payments.



### Albanian electronic clearing house for retail payments (AECH)

The activity of the AECH system has continued to grow in 2022. The number of cleared transactions was 1,231,847, increasing by 23.3% compared to 2021. Their value reached ALL185,475.62 million, up by 17.1%.

The ratio of transactions carried out in AECH in relation to the population continued to increase, indicating a wider use of this system by the public. The continuous increase of transactions processed in the AECH system, mainly for payments to bank customers<sup>18</sup>, reflects the efficiency of the measures taken by the BoA on the commissions applied by banks.



The most recent regulatory amendment for the use of the system is that of 2020, which provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount of ALL 20,000, as well as the differentiation of fees for the other part payments initiated electronically up to 50% of those initiated in paper form, with the aim of expanding the use of this system. These measures have been reflected in a faster growth of payments under ALL 20,000, suggesting that electronic credit transfers are finding use in the daily life of the general public.

### Albanian Financial Instrument Settlement and Registration System (AFISaR)

The AFISaR system, which has been operating since 2015, is the central system for the settlement and registration of transactions with government securities.

<sup>18</sup> The analysis of the indicator of the distribution of payments according to participants shows that payments for customers initiated by banks continue to occupy the main weight of transactions processed in the AECH system, prevailing over transactions initiated by other participants (MFE and BoA).



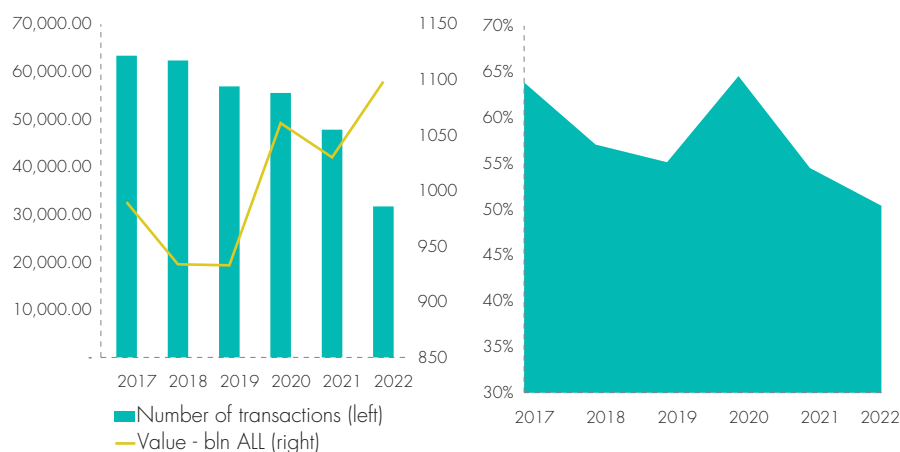
This system is operated by the BoA in the capacity of fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market both in lek and the euro, as well as the settlement and registration of transactions with these securities in the secondary market - actions where the collateral is the securities of the Albanian State or the reverse repurchase agreements with the subject these securities. The system also provides tax collection services for securities income and interest payment events. It informs account holders in this system about the balance and movements in these accounts.

At the end of 2022, the AFISaR system registered 15 financial institutions as direct participants, including 1 issuer (Ministry of Finance and Economy) and 1 central bank (BoA), 7 indirect participating financial institutions with accounts through the Bank of Albania, and connection with 1 Private Stock Exchange. At the end of 2022, there were 18,934 individual accounts in the AFISaR system opened through the Bank of Albania.

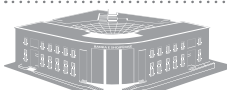
At the end of 2022, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 712.21 billion, up by 5.4% from the end of 2021. Issue in the European currency decreased by 31% compared to the previous year, at EUR 69 million.

In terms of transactions, the volume processed during 2022 was 31,705 transactions. Although down by 34% from a year ago, the value of transactions recorded during the past year increased by 6.7% at ALL 1,071 billion. The decrease in the number of transactions continued from 2021 and is related to the Supervisory Council's decision to close the mediation activity of households' requests in government T-bills auctions. The number of these transactions is high but their value is relatively low. Trading in the primary and secondary market,

Chart 29 Performance of the AFISaR system according to the number and value of processed transactions (left), and in percentage to GDP (right)

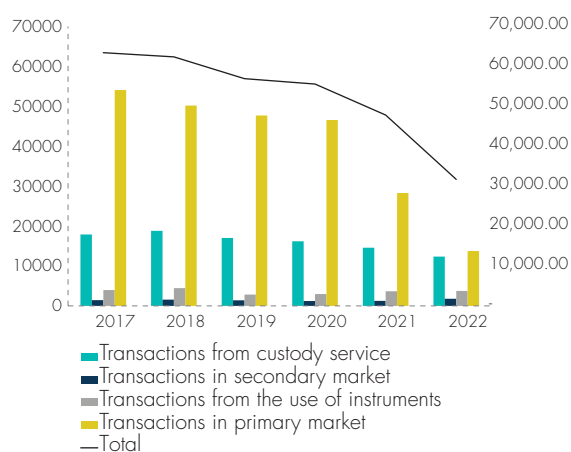


Source: BoA.



as well as the use of instruments by commercial banks dominated in value, thus, in absolute terms, making the increase of traded value positive. In relative terms, the value of transactions in relation to GDP decreased for the second consecutive year.

Chart 30 The performance of transactions in the AFISaR system according to four main group-types



Source: BoA.

When analysing the use of the AFISaR system for four general types of transactions, for the above-mentioned reasons that led to the decrease in the total number of transactions, the latter, in the primary market and custody transactions (Tax collection, coupons payments, etc.) decreased by 50% and 15%, respectively. Transactions in the secondary market increased by 41%, and transactions using collateralized instruments increased by 2%. Meanwhile, although up from the previous year, the transactions concluded in the stock exchange and settled in AFISaR, remained at a minimum level of 10 transactions during 2022.

## 2.7.2. PAYMENT INSTRUMENTS

The year 2022 was characterized by an upward trend in the use of electronic payment instruments. Banks' reports on payment instruments show a continuous increase in card payments, electronic money payments, and home banking payments.

The number of payments in total increased by 18.1% in 2022, reaching 33.7 million payments. The total value of payments was ALL 5,767 billion, up by 9.0% compared to the previous year.

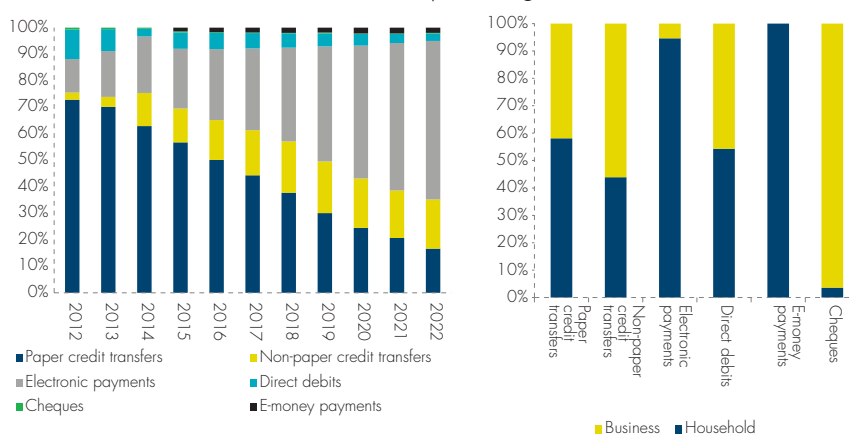
Card payments were the main payment instrument in terms of the number of payments, surpassing for the third year in a row, credit transfers in paper form, which has been the most used payment instrument over the years. The number and value of card payments increased by 26.9% and 36.6%, respectively, compared to 2021. However, the value of these payments had a share of 3.0% in relation to the entire value of payments made.

Home-banking payments exceeded the number of cash transfers for the first time, coming in second place among the most used payment instruments (18.6%, as the number of payments to the total of all payments). The rapid trend of increasing use of home banking shows the greater familiarity of the public with this instrument as well as its promotion by the banking system. In particular, the number of payments made through the mobile banking service, which reached 2.3 million transactions, represents an increase of 29.3% compared to the previous year. They reached ALL 267 billion, with an annual growth of 21.7%.



Likewise, electronic money payments in the banking system grew during 2022, but the value of these payments still remains at low levels (0.1% of the total of all payments for 2022). E-money or prepaid payments are used exclusively by households and not by enterprises, while the same trend is also observed in card payments, which continue to be used more by households than by enterprises (94.7% households and 5.3% enterprises). On the other hand, enterprises continue to use more traditional forms of banking (credit transfer in non-paper form, checks, etc.) compared to households, who have embraced the innovations offered by the banking market.

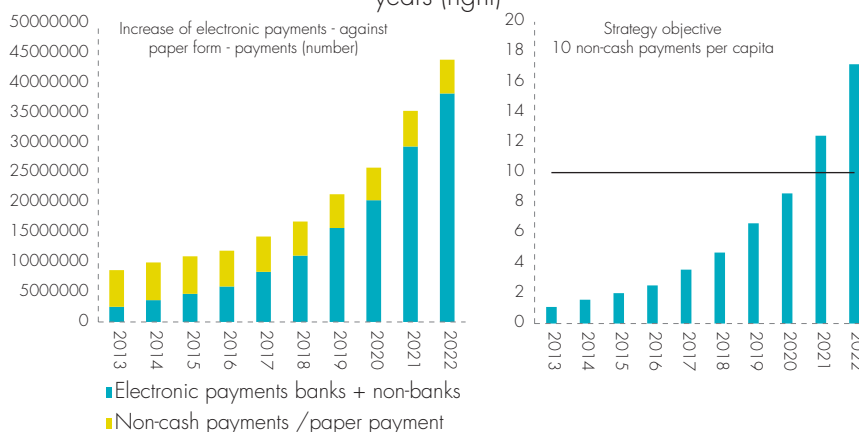
Chart 31 Performance of the number of payment instruments over the years (left) and the number of payment instruments used during 2022 by households and enterprises (right)



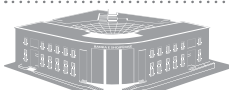
Source: BoA.

The progress of electronic payments throughout 2022 has contributed to the fulfilment of the quantitative objectives of the National Strategy of Retail Payments (2018-2023), reaching a level of use of electronic payments per capita at 17.19 out of 10 payments which is the objective of the Strategy. Also, positive developments have been noted in the expansion of the percentage of the population that owns a payment account.

Chart 32 Performance of the number of electronic and cash payment instruments in years (left); number of payments per capita (+15 years old) in years (right)



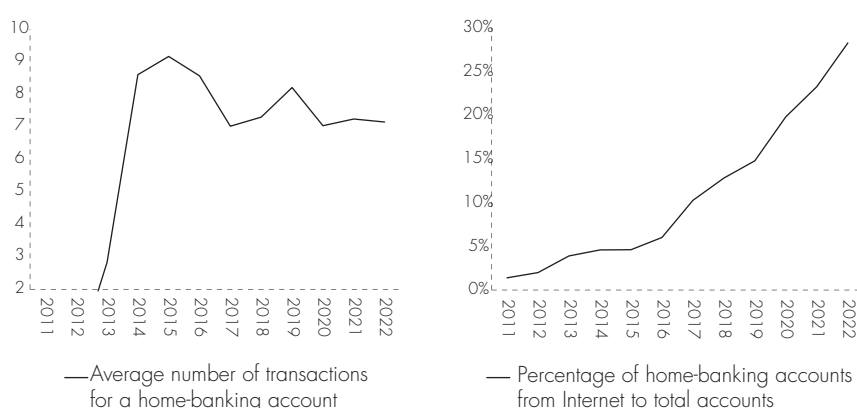
Source: BoA.



## Home Banking

The initiation of credit transfers in electronic form is carried out through “home banking” services<sup>19</sup>, offered by 11 banks,<sup>20</sup> and is increasingly being used in the Albanian market. It is being used not only for basic account status information services, but also for carrying out on-line payments. In 2022, a significant increase in the volume of payments and the value of “home banking” transactions is observed, in concrete terms at 22.4% and 29.7%, compared to the previous year. What contributed to the use of home banking are the measures taken by the Bank of Albania to reduce commissions, but also the development of the infrastructure, the spread of opportunities to access the Internet, as well as the familiarization of bank customers with the use of this instrument. Also, it is estimated that bank policies have played a positive role in the promotion of these alternative payment methods, which is reflected in the increase of accounts accessible remotely by about 24.0% and an increase in accounts accessible from the Internet to the total of all customer accounts by 28.3% during 2022.

Chart 33 Volume of home banking transactions to total accounts and online accessible account\*



Source: BoA.

## Bank cards

At the end of 2022, all the 11 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 18.1% compared with 2021. In addition to the positive trend of increasing the number

<sup>19</sup> These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its customers.

<sup>20</sup> At the end of 2022, the banking system in Albania had a total of 11 banks, compared to 2021 where there were 12 in total.

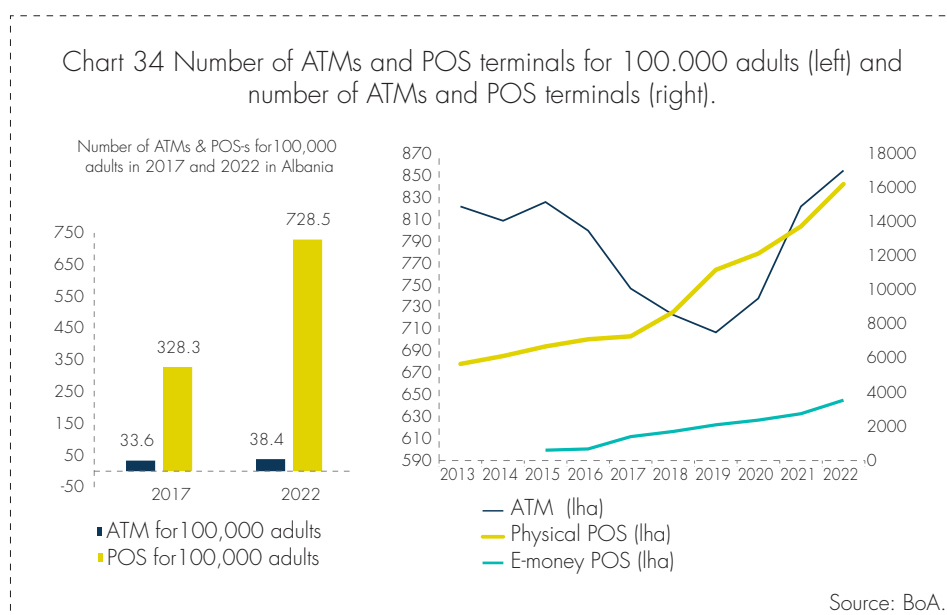




of POS terminals, their concentration continues to be quite high in the district of Tirana<sup>21</sup> (83.3%), where the largest number of entrepreneurs and population is also concentrated. On the other hand, there has been an increase in the distribution of the POS terminals in other regions in the territory of the Republic of Albania during 2022 (except in Elbasan). Also, the use of cards at POS terminals increased by 35.5% compared to the transactions carried out at these terminals during the previous year.

The number of ATMs increased by 4.0% compared to 2021. Despite the fact that ATMs are mainly used for cash withdrawals, throughout 2022 we have an expansion of the function of ATMs that enable deposits to be made, a function which was used at higher levels than in 2021.

The number of ATMs and POS terminals per 100,000<sup>22</sup> adults in Albania increased over the last 5 years, which shows a familiarity of the public with this service, as well as the higher use of cards at the points of sale where this service is offered. The growth of this indicator helps to increase the financial inclusion of the population and the formalization of the economy.

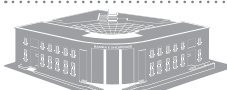


### Cash transactions

Cash transactions carried out by customers at bank's windows decreased in number (by 9.2%) and a slightly increased in value (by 1.3%), in 2022 compared to the previous year. The use of cash in the Albanian economy still remains a dominant phenomenon, which carries high costs for various actors and the economy in general. In this context, the coordination of efforts at the market level to encourage the use of the most efficient and low-cost instruments

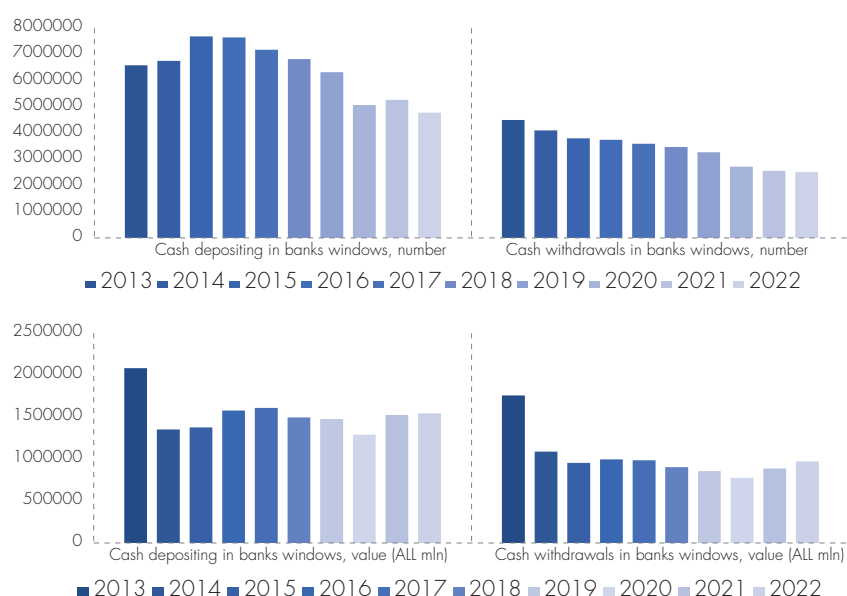
<sup>21</sup> Regions are divided according to the branches of the Bank of Albania.

<sup>22</sup> The adult population (over 18 years old) in 2022 is 2,227,586 (Source: INSTAT).



is of particular importance and constitutes one of the priorities of the Bank of Albania<sup>23</sup>.

Chart 35 Number and value of cash transactions at bank's windows (households and businesses)



Source: Reports submitted by banks according to the "Methodology for reporting payment instruments".

### 2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products, based on the legal and regulatory framework of the Bank of Albania, are also offered by non-bank financial institutions licensed as electronic money institutions. Throughout 2022, 9 electronic money institutions have operated in the Albanian market, from which only 7 managed to stay in operation to the end of 2021. The increase in the number of electronic money institutions also came as a result of the adoption of the law "On payment services". In 2022, these institutions together performed a volume of approximately 10.2 million electronic money payments, with a value of ALL 45.35 billion.

The number of payments with electronic money has significantly increased in both number and value in 2022, specifically at 50.2% and 190.2%. Although the number of electronic money payment transactions has reached 30.3% of the total of all payments passing through the banking system, in value, the payments made through this instrument by electronic money institutions remain at quite low levels, or less than 0.8% of the total value of payments made.

<sup>23</sup> The Bank of Albania is cooperating with the World Bank as the main international partner for the drafting of the National Strategy for Education and Financial Inclusion (2022-2027).



The increase of the number of electronic money institutions has also brought a wider range of terminals that they provide for their customers (both physical and virtual), specifically with a significant increase of 123.3% compared to the end of 2021. The use of electronic money provides convenience mainly to that part of the Albanian population that does not own a bank account. The advantages for this part of the population consist in increased flexibility for carrying out payments, considering the increase in the number of these institutions in the country, but also in a lower cost for the payments made, especially for the payment of fines, monthly utility bills, etc.

#### **2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE**

In 2022, the Bank of Albania continued the work to achieve the objectives of the National Strategy of Small Value Payments (2018-2023), fulfilling to a significant degree the action plan of this strategy. In this direction, a series of legal and regulatory measures, as well as infrastructural developments, have been undertaken.

##### *Improving the legal and regulatory framework*

The Bank of Albania has continued the work to complete the regulatory framework in implementation of the law "On payment services", a very necessary step for the implementation of the law in practice and the promotion of the intended results (for the approved regulations, please see section 2.4.3 Review of the legal and regulatory framework, above).

Meanwhile, in 2022, the draft regulation "On the exercise of activity and supervision of payment institutions" was drawn up, which is in the process of consultation with the relevant entities. The object of this regulation is to determine the rules for exercising the activity of payment institutions and for the administration of the risks related to this activity, as well as for their supervision.

Another important step, within the framework of the National Strategy of Retail Payments (2018-2023), is the drafting of the draft law "On the account of payments with basic services", which is in the process of consultation with the involved parties. This draft-law is considered an important element in promoting financial inclusion. Specifically, its object is to determine the terms and conditions for opening and using a payment account with basic services for consumers and households, including in particular those who are not covered by banking services, regardless of income level, employment status or history of solvency within the Republic of Albania.

At the end of 2022, the regulation "On the comparability of fees related to payment accounts and for the service of transfer of payment accounts" was adopted, and it enters into force on 1 March 2023. The object of this regulation is to determine the requirements on the transparency and comparability of the



fees charged to consumers for their payment accounts, as well as to determine the requirements for the transfer of payment accounts between payment service providers.

### *Infrastructural developments and the reformatory role of the BoA*

One of the main achievements of the Bank of Albania in 2022 was the creation and operation of the AIPS-EURO system for interbank payments in euro within Albania, analysed more in Box 3.

Another project of great interest, within the framework of the implementation of the Albanian National Retail Payments Strategy, is that of instant payments. This innovation in the field of payments aims to expand services and payment instruments, promote competition between different instruments in order to reduce costs, as well as cover market segments that do not use electronic instruments.

In fulfilling its role as a catalyst, the BoA has supported and organized several meetings and consultations with various actors or third parties involved in the payment market. In November, the National Payment Systems Committee (NPSC) held its eighth meeting, where the main legal, regulatory and infrastructural developments in the payment market were discussed. A special space was devoted to the role of financial education in promoting financial inclusion. In this framework, the discussions were focused on the work carried out for the creation and implementation of the National Strategy for Education and Financial Inclusion.

