

2.7. PAYMENT SYSTEMS

The safe and effective operation of payment systems is a crucial precondition for the functioning of the economic system. Operation, oversight and reform payment systems play an essential role in ensuring security, sustainability, and efficiency of financial market infrastructure and enable exchanges between economic actors. Transmission of monetary policy and financial stability is based on the existence of reliable and efficient payment system infrastructure.

In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to further consolidation of the oversight role in the field of securities' settlement systems, as well as to payment systems as an integral part of these systems.

2.7.1. PAYMENT SYSTEM OVERSIGHT

An important step towards payment system oversight is regulation of the activity of the securities' settlement systems by private operators. In this framework, in 2019, the Bank of Albania approved Regulation No. 26/2019, dated 28.03.2019 "On licensing, regulation and oversight of securities' settlement operators", which sets out the terms and conditions of licensing and oversight of securities' settlement systems. Its approval created the necessary preconditions for the Bank of Albania, in November, to license the private operator which will repay and register the securities issued by private companies.

The operation of this system by ALREG sh.a completes the necessary infrastructure for the operation of the stock exchange and capital markets in Albania.

From the point of view of legal and regulatory improvements, during this year the Bank of Albania has intensified its efforts for the approval of the draft law "On payment services", which transposes in the Albanian legislation the European Union directive 2015/2366 "On payment services in the internal market ". These efforts were materialized in the adoption of the draft law by the Council of Ministers in December and its submission to the Albanian Parliament for approval.

The implementation of this draft law in the internal market will reform and modernize payment services by digitalizing them as well as by introducing innovative services in this market. These developments will encourage remote interaction of the various actors involved in the payment cycle. In this context, it is necessary to establish technical rules and standards to guarantee the security of authentication in initiating and processing electronic payments remotely.



BOX 5 NEW SERVICES PROMOTED BY THE DRAFT LAW

The new services that the draft law aims to promote, aim to facilitate the public's access to electronic payment services, both in terms of costs and ease of use, thus promoting e-commerce. These services consist of the following:

Payment initiation services which are provided mainly by Fintech companies and play the role of an intermediary between customers and businesses for the purchase of goods and services remotely. The main novelty of this service lies in the fact that consumers can make purchases remotely even though they do not own a debit or credit card, but they do have a bank account which can be accessed via the internet. On the other hand, these institutions facilitate the necessary investments undertaken by businesses to trade electronically.

Also, account information services provide consumers and businesses with an overview of their financial situation, for example, enabling consumers to consolidate various current accounts they may have with one or more banks and categorize their expenditures according to different typologies (food, energy, rent, leisure, etc.) thus selecting the most efficient services in terms of costs for each category, helping them in budgeting and financial planning. In many cases, these types of services also help identify a less costly alternative for payments.

Payment initiation and account information services will be provided by entities licensed by the Bank of Albania. These institutions will have the right to request information from the consumer bank regarding the balance of the account. This right is guaranteed to the institutions only after obtaining an approval from the consumer, an approval which will be realized by means of remote communication, and as a result requires the development of all technical conditions for guaranteeing security and proof that consent is really given by the consumer-account-holder. It is worth emphasizing that communication between the bank and these institutions will not necessarily be based on a bilateral agreement between the two parties, implying the need for banks to take the necessary measures for an in-depth customer authentication as the bank bears the brunt of responsibility to compensate the client in case of fraud.

The Bank of Albania has started to work on implementation of the technical standards created by the European Banking Authority. The implementation of these standards is necessary to promote the interaction of institutions that provide payment services in the European market.

In 2019, the Bank of Albania worked to improve the regulatory framework related to the operation of the AIPS payment system (for large-value payments) and AECH (for small-value payments). These reviews aim to accommodate the innovations of the draft law "On payment services" by enabling access for non-bank financial institutions in the AECH system and creation of conditions for the promotion of electronic payments.



2.7.2. THE REFORMATORY ROLE OF THE BANK OF ALBANIA IN PAYMENT SYSTEMS

In the framework of promoting reforms in the payments market, the Bank of Albania has played an active role in the implementation of the National Retail Payment Strategy (2018-2023). More specifically, during this period a series of meetings and consultations were organized with various actors in order to implement the action plan of this strategy. Also, in October 2019 the fifth meeting of the National Payment System Committee (NPSC) was organized, in order to further promote the projects. The main results of these measures were related to the following:

- Analysis of payments of public institutions where the main needs and opportunities for intervention were identified in the framework of the use of electronic instruments for these services. In this regard, special attention was paid to the possibility of operating a centralized payroll for public administration, as well as the use of banking services for payments related to social insurance. Also, there was cooperation in the framework of formalizing the economy in relation to the implementation of the law "On invoice and turnover monitoring system", otherwise known as the "Draft Law on Fiscalization".
- Measures have also been taken in the framework of projects related to the development of infrastructures and measures to reduce the commissions of payment services such as the euro settlements' system in the country, the project for national SWITCH and instant payments, and the possibility of analysing and reduce commissions paid by merchants for card payments.
- Last, but not least, attention was paid to financial education through continuation of Project Greenback (2.0)³². Moreover, at the NPSC meeting, the need to develop a national strategy for financial education in support of the undertaken reforms was clearly evidenced.

2.7.3. PERFORMANCE OF AIPS AND AECH SYSTEMS

The main infrastructure for processing interbank payments in Albania consists of two payment systems that are operated by the Bank of Albania: AIPS (considered the core infrastructure for the settlement of payments in the national currency and of financial markets) and AECH (which accommodates the clearing of interbank transactions by banks' clients (households and enterprises)).

³² Project Greenback (2.0) is one of the main components of the SECO-funded Remittances and Payments Program (RPP) in Albania managed by the World Bank Group. The project aims at enhancing financial literacy and improving financial services for both senders and recipients; and increasing the efficiency of remittances in the market to reduce costs of these transfers.

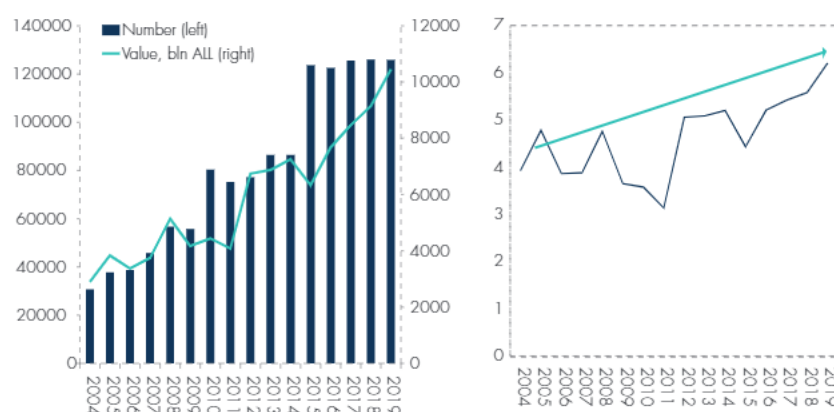


In 2019 these two systems operated safely and efficiently, offering maximum availability for AIPS and AECH, 99.46% and 99.9 % respectively.

Albanian Interbank Payment System for large-value payments (AIPS)

A volume of 125,766 transactions was settled in AIPS, with a total liquidity circulating in the system of ALL 10,453 billion. Compared to the previous year, the volume of settled transactions decreased by about 0.2% while the value of settled transactions reflected an increase of 14%. The value of transactions processed in AIPS in relation to the GDP³³ also shows an upward trend, implying an ever-increasing use of the system and the importance of this system for the Albanian economy.

Chart 27 Performance by number and value of transactions processed in AIPS (left) and AECH (right)



Source: Bank of Albania.

Analysis of the use of this system by different transaction typologies indicates that the item "Payments for Clients" (with share of payments in terms of figures, 59%) continued to register increasing rates³⁴, compared to the previous year. The intraday loan facility (ILF), decreased in both figures and value, by 40% and 44%, respectively). This trend indicates that the exposure of the system to liquidity risk has declined.

Albanian Electronic Clearing House for retail payments (AECH)

The activity of the AECH reflected an increase compared to the previous year, in absolute terms, of the number and value of cleared payments (increased by 11.4% and 11.5%, respectively).

The chart above shows an upward trend of transactions processed in AECH, since the start of its operational activity (2005-2019).

³³ GDP in 2019 is ALL 1,685,604.16 million, source: Bank of Albania and INSTAT

³⁴ In 2018, by 5% in number and 4% in value, respectively.



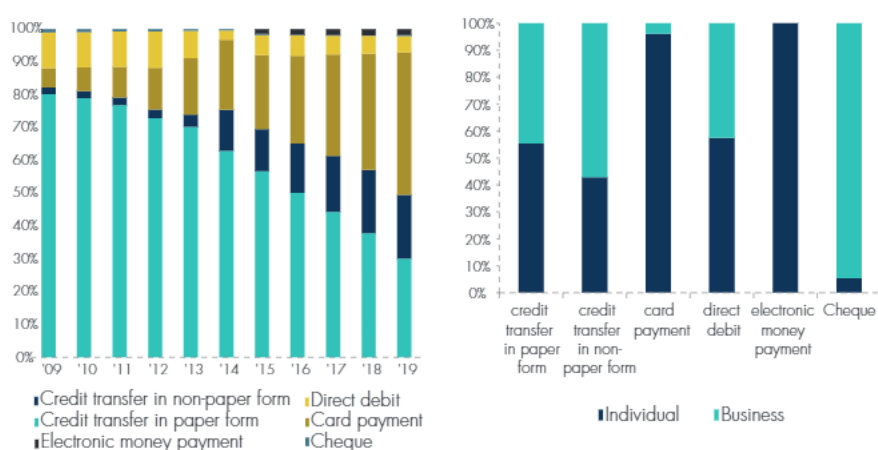
Analysis and distribution of payments according to the participants shows that the main share of transactions processed in AECH consists of payments to customers, initiated by banks. In 2019 there was an increase in the number of transactions processed by commercial banks by 16% and an increase in their value by about 15% compared to 2018, reaching a level of use of the system for this purpose of 64% of the total activity. The growing trend of the number of transactions by banks shows familiarization of the public with payment instruments and their use at the interbank level.

2.7.4. PAYMENT INSTRUMENTS

An increase in the use of payment instruments in the Albanian economy continued throughout 2019. This trend was reflected in an annual increase in the number of payments of 23.8%, reaching about 18.6 million payments in total, as well as a slight increase of their value by 3.15%.

In terms of instruments used, the payment analysis indicates a continuous expansion of electronic payments such as, bank cards, credit transfers in electronic form (home banking), as well electronic money (pre-paid cards). The increase of the share of electronic payments is reflected in a continuous contraction of credit transfers in paper form, which in 2019 accounted for around 30% of the total volume of payments.

Chart 28 Volume of payment instruments in years (left) and the use volume of payment instruments by household and enterprises (right), during 2019



Source: Bank of Albania.

Home Banking

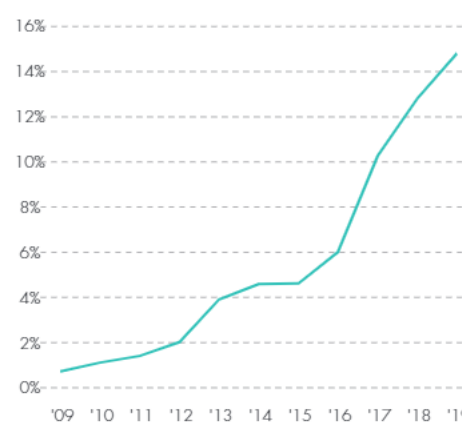
The initiation of credit transfers in electronic form is realised through "home banking"³⁵ services, which are provided by 11 of the 12 banks that operate

³⁵ These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.



in Albania. These services are both increasingly widespread in the Albanian market, and used to carry out payments, not only for basic information services for the account, but also for on-line payments. More concretely, in 2019, there was a significant increase in the volume of home banking payments, by 24.45%, and of the value of these transactions by 8.39%, compared to the previous year. Contributions to the upward trend of home banking were assessed to be the development of infrastructure and expansion of possibilities to access internet through smartphones. Also, the policies of banks, in the framework of promoting these alternative payment means, were assessed to have played a positive role, being reflected in an increase in remote accessible accounts, by 10.64% compared with the same period in 2018 and in an increase, against the total account, of 14.79% compared to the same period of the previous year.

Chart 29 Online accessible account to total accounts (right)



Source: Bank of Albania.

Bank Cards

At the end of 2019, all the banks³⁶ 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 significantly upward in terms of the number of POS terminals, increasing by 28.29% compared with 2018. Despite the positive trend of the increase of the number of POS terminals, reflected in the POS report per 1.000.000 citizens (3.911 in 2019), their concentration continues to remain high in the region of Tirana³⁷, at 84.40%.

Positive developments were shown for ATMs, the use of which increased, to 23.18%, compared to the end of 2018. Encouraging the use of electronic money instruments is estimated to have an impact on the financial inclusion of the population by enabling access to banking services (having an electronic money account and owning a prepaid card) from categories of the population that are not able access other services, such as those who do not own a bank account.

In 2019, the issue of debit and credit cards increased significantly by 7.4% and 7.9% respectively. Also, the functioning of electronic-money cards in the market remained at the same pace as in the previous year. A significant increase in the number and value of card payments in physical and virtual POS continues in 2019, by 37.6% and 23.3%, respectively. In relative terms, the number of payments carried out with prepaid cards has totalled 7.1% of the payments with debit and credit card.

³⁶ At end-2019 there were overall 12 banks in the banking system (from 14 at end-2018).

³⁷ Regions are divided according to the branches of the Bank of Albania.



Electronic money products, based on the legal and regulatory framework of the Bank of Albania, are also provided by non-bank financial institutions licensed as Electronic Money Institutions. Currently, in the Albanian market, two electronic money institutions are operating. In 2019, these institutions together have conducted a volume of around 2.78 million electronic money payments, with a value of ALL 7.734 million. In spite of the upward trend that Electronic money shows, it still remains low, creating an added value for those who do not own a bank account.

