Retail Payments Market in Kosovo

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Department for Payment Systems
Contents

- Background of Kosovo Retail Payments Market
- Overview of Kosovo Payments Statistics
- Ongoing Reforms and Recent Developments for Promoting Electronic Payments and Strengthening the Financial Infrastructure
General Information on Retail Payments Market

**Payment Institutions in Kosovo**

- **Banks**
  - 10
- **Non-Bank Financial Institutions (NBFIs) for payment services**
  - 8
- **3 Branches of foreign banks**
  - card issuing only
- **6 Banks**
  - card issuing and acquiring
- **8 NBFI for Payment Services**
  - Which are also authorized for Money Transfering (Western Union, MoneyGram, RIA);
  - Only Cash in Cash out services;

- Each bank operates its own ATM and POS terminals;
- All banks provide e-banking service – focused in digitalization in banking services through so called 24/7 branches;
- 2 Banks provide e-commerce for a limited number of business, which is at infant stage;
- There are no Electronic Money Institutions – (No adequate legal framework for licensing e-money institutions yet);
- Population ≈ 1,800,000
- Financial Inclusions World Bank Findex data of 2017 ≈ 52% account holders, and about 37% have a debit card;
- No interoperability for POS/ATMs;
- High Interchange Fees and Off-us transaction fees;
- A fast increasing usage of cards but more then 55% of card transactions for ATM cash withdrawal;
- Concentration of ATM and POS terminals in the capital city Prishtina, around 40%;
- NBFIs for payments are not participants of the Interbank Payment System (work through banks, an unregulated relationship);
- NBFIs mostly focused on collection of taxes, public services and public utilities payments, money transfers/remittances (on cash basis);
- Practically a cash based economy, with an estimated informal economy of around 30%.
Payments Statistics

Number of Debit and Credit Cards

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Kredit</th>
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<tbody>
<tr>
<td>TM1 2017</td>
<td>893.8</td>
<td>158.7</td>
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<tr>
<td>TM2</td>
<td>856.7</td>
<td>157.3</td>
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<tr>
<td>TM3</td>
<td>886</td>
<td>160.3</td>
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<tr>
<td>TM4</td>
<td>926.2</td>
<td>164.7</td>
</tr>
<tr>
<td>TM1 2018</td>
<td>939.6</td>
<td>165.8</td>
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</table>

Total Number of Cards

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Kredit</th>
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</thead>
<tbody>
<tr>
<td>TM1 2017</td>
<td>1,042.50</td>
<td>1,091.30</td>
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<td>TM2</td>
<td>1,014.30</td>
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<td>TM3</td>
<td>1,046.60</td>
<td>1,046.60</td>
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<td>TM4</td>
<td>1,107.77</td>
<td>1,107.77</td>
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<tr>
<td>TM1 2018</td>
<td>1,107.77</td>
<td>1,107.77</td>
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</tbody>
</table>
Payments Statistics

Number of ATM Transactions 2012 - 2017

- 2012: 8,849,677
- 2013: 9,251,512
- 2014: 9,926,136
- 2015: 10,422,617
- 2016: 12,286,558
- 2017: 13,792,690

Number of POS Transactions 2012 - 2017

- 2012: 3,383,762
- 2013: 3,741,976
- 2014: 4,696,836
- 2015: 5,471,659
- 2016: 6,811,339
- 2017: 7,610,989
Payments Statistics

Number and value of different types of card transactions

- ATM Withdrawals: 6.2% Number, 29.9% Value
- Card Payments through POS: 37.4% Number, 10.3% Value
- Credit Transfers through ATM: 55.2% Number, 59.5% Value
- Cash Withdrawals through POS: 0% Number, 0% Value
- ATM Deposits: 0% Number, 0% Value
Payments Statistics

Figura 92. Numri i terminaleve ATM

Figura 93. Numri i terminaleve POS

Burimi: BQK (2018)
Payments Statistics

Distribution of ATM terminals across main cities

Distribution of POS terminals across main cities
Payments Statistics

Number of e-banking Accounts – Yearly Increasing Trend
Payments Statistics

Yearly Number of Payments Initiated through e-Banking 2013-2017

- 2013: 1,056,655
- 2014: 1,579,838
- 2015: 2,311,564
- 2016: 2,915,082
- 2017: 3,407,660
# Kosovo vs Albania Card Payments and Terminals Factsheet

<table>
<thead>
<tr>
<th></th>
<th>Cards</th>
<th>ATM</th>
<th>POS</th>
<th>Withdrawals</th>
<th>Payments</th>
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<tbody>
<tr>
<td>Credit (per capita)</td>
<td>0.09</td>
<td>0.29</td>
<td>6.45</td>
<td>1,068.49</td>
<td>146.18</td>
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<td>Debit (per capita)</td>
<td>0.52</td>
<td>47.03</td>
<td>1,056.39</td>
<td>7.73</td>
<td>4.27</td>
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<tr>
<td>Volume (#)</td>
<td></td>
<td></td>
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<tr>
<td>Value (€*)</td>
<td></td>
<td></td>
<td></td>
<td>470.67</td>
<td>48.02</td>
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<tr>
<td>Volume (#)</td>
<td></td>
<td></td>
<td></td>
<td>5.39</td>
<td>1.03</td>
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### Kosovo vs Albania vs Macedonia Card Payments and Terminals Factsheet

<table>
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<tr>
<th></th>
<th>Kosovo</th>
<th>Albania</th>
<th>Macedonia</th>
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<tr>
<td><strong>Cards</strong> (2017)</td>
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<tr>
<td>Credit (per capita)</td>
<td>0.09</td>
<td>0.03</td>
<td>0.18</td>
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<tr>
<td>Debit (per capita)</td>
<td>0.52</td>
<td>0.32</td>
<td>0.69</td>
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<tr>
<td>ATM (2017)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per 1000 capita</td>
<td>0.29</td>
<td>0.26</td>
<td>0.49</td>
</tr>
<tr>
<td>Per 1000 km²</td>
<td>47.03</td>
<td>25.98</td>
<td>40.09</td>
</tr>
<tr>
<td>POS (2017)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per 1000 capita</td>
<td>6.45</td>
<td>2.54</td>
<td>15.36</td>
</tr>
<tr>
<td>Per 1000 km²</td>
<td>1,056.39</td>
<td>253.72</td>
<td>1,244.31</td>
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<tr>
<td>Withdrawals (2017)</td>
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<td></td>
</tr>
<tr>
<td>Value (€*) (per capita)</td>
<td>1,068.49</td>
<td>470.67</td>
<td>1,071.19</td>
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<tr>
<td>Volume (#)</td>
<td>7.73</td>
<td>5.39</td>
<td>12.93</td>
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<tr>
<td>Payments (2017)</td>
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<tr>
<td>Value (€*)</td>
<td>146.18</td>
<td>48.02</td>
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<tr>
<td>Volume (#)</td>
<td>4.27</td>
<td>1.03</td>
<td>27.59</td>
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</table>

Source: CBK, BSH, Instat, ASK, NBRM
Legal Framework - Reforms

Law Nr.04/L-155 on Payment Systems, in force since April 2013 (partial adoption of PSD).

Ongoing regulatory reforms:

• **Regulation on Reporting Payment Instruments Statistics, amended in August 2017** (Harmonized regular payment instruments statistics with ECB requirements);

• **Regulation on Electronic Payment Instruments, approved in August 2017** (determines the requirements and obligations for issuers and holders of electronic payments instruments in partial harmonization with PSD requirements.)
Legal Framework - Reforms

Ongoing Reforms (Supported through Technical Assistance from World Bank), on following areas:

• Drafting the Regulation on Oversight of Systemically Important Payment Systems and the Methodology for Assessment of Payment Systems (In line with Committee on Payment Settlement Systems - CPSS PFMI-s and ECB regulation);

• Amendment of the Law on Micro-finance Institutions and Non-bank Financial Institutions (to prepare the proper legal basis for Electronic Money Institutions);

• Drafting the Secondary Legislation for Determining the Requirements for Electronic Money Institutions and the Regulation of Agents (in line with EMD Directive);

• Revising the National Payment Council Arrangements (Drafting a Regulation on National Payment Council - currently under process).
Legal Framework - Reforms

Ongoing Reforms (Supported through Technical Assistance from World Bank), for:

• Conducting a Feasibility Study for building a National Card Switch (in process);

• Gap Analysis of the Kosovo Legal Framework in comparison with PSD 2;

Planned process for PSD 2 adoption

• Beginning with drafting from Sep/Oct 18 with the deadline for its implementation during 2020;

• Preparation of necessary secondary legislation for licensing operators and other types of payments institutions (payment initiation service providers/account information providers).
Current status of Cards Infrastructure and some key factors impacting the limited level of card penetration

- High interchange fees for merchants (up to 4%);
- No interoperability, each bank operates its own ATM and POS terminals;
- Relatively high Off-us transaction fees;
- Confusing for customers, many POS terminals of different banks at the same merchant. Higher number of POS than merchant locations which causes an inefficient use of POS terminals;
- Businesses (mostly micro and small in Kosovo) not interested to use POS/ hesitation to pay full taxes on sales;
- No initiatives from the banking sector for a common solution or concrete cooperation so far – mostly based on infrastructure within their international group;
- High maintenance costs paid individually by banks for their POS and ATM networks;
Current **CBK Strategic Plan 2015 – 2019 / Strategic Goal No.4** on Fostering a Sound Development of the Financial System, under **Point 3** on the Support of further modernization of payment services and promotion of the cooperation between stakeholders of the national payment system, the CBK has foreseen:

“**Acting with an inducing role in the implementation of a National Interbank Card Switch (ICS), in order to provide interoperability and functionality between payment card issuers**”.

With the objective to further improve the payment system infrastructure and increase the efficiency of cards payments, the CBK has requested support from the World Bank to evaluate the options and feasibility for implementing an interoperable national payments switch.
Ongoing Feasibility Study for Building a National Card Switch – World Bank and CBK

• Together with the World Bank Team we collected data from the banking sector and held meeting with banks in order to discuss in detail for the current situation with regard to cards transactions;

• The draft report on financial feasibility study is issued by the World Bank Team, which is under discussion and further valuation by the CBK and the banking sector;

• In term of financial feasibility of building a central Switch the volume of transactions plays a significant role, which is relatively limited in smaller countries like Kosovo;

• High implementation costs, for the required availability 24/7 with no single point of failure “Software”, “Hardware”;

• Almost double the IT and Payments Staff, for a relatively small institutions like the Central Bank of Kosovo, the additional processes, standards and required cards technology knowledge;
Ongoing Feasibility Study for Building a National Card Switch – World Bank and CBK

- Financially feasible, only in long run, to cover the costs after the sixth year, and only if mandatory participation of all the banks from the start is required;
- Most of the banks have obligatory arrangements from their parent companies to use their groups arrangements and infrastructure;
- Concerns raised by banks that it will only add up on their current costs, and will not result with reduction of costs for end users;
- If there will be no local scheme (local card), most of the existing costs for ICS like Master and VISA will remain;
- Local card schemes have their limited usage within the country, unless co-badged with international schemes.
Ongoing Feasibility Study for Building a National Card Switch – World Bank and CBK

Main questions to be answered:

• Will there be more benefits than costs, considering the high implementation and maintenance costs involved and a limited volume of transactions?

• The interoperability of POS and ATM would be facilitated with a SWITCH but not resolved. It still needs common agreements between banks for the supply and maintenance of terminals. How will this be achieved?

• Banking sector has not shown positive feedback yet, and there are further analysis required before a decision to participate or not from their side could be taken. Not clear yet if the local switch will be able to reduce their current costs?
Thank you!

Q&A