The Retail Payment Costs and Savings in Albania

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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.
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

**The Retail Payment Costs and Savings in Albania**

**Demand Side Stakeholders**
- **Consumers**: 897 respondents, Rural and urban
- **Businesses**: 462 respondents, Different categories
- **Government**: Central gov., Public utility companies, Tiranë

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

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

**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
- Payment due to an entitlement or obligation
- Personal transfer
- Reorganization of the payer’s own funds

**Payment Types**
- **Payer**: Consumer, Business, Government
- **Payee**: Consumer, Business, Government

**Common use cases**
- Purchase of goods
- Bill payments
- Purchase of raw materials, etc.
- Gov’t payments
- Payment of taxes, fines, fees, etc.
- Payment of salaries, pensions, social benefits
- Personal remittances
- Payments in the social context
- Cash withdrawals & deposits, etc.
- Transfer of funds between own accounts

**Common use cases**
- Government
- Consumer
- Business
- Government
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

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

3.5% of adults own a credit card

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

- Agent Outlets: 25.7% (2015-2016)

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

- Credit Card: 10.4% (2014-2015), 5.5% (2015-2016)
Of debit card holders, 75% use it exclusively for cash withdrawals.

Average debit card usage (annually per adult):
- 15.2 ATM cash withdrawals
- 2.1 POS purchases
- 0.1 Internet purchases

Average credit card usage (annually per adult):
- 11.3 ATM cash withdrawals
- 6.3 POS purchases
- 8.2 Internet purchases
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.

Consumers Costs

### Annual costs as % of GDP by payment instrument

- CASH: 0.700%
- PAPER-BASED CREDIT TRANSFER: 0.120%
- DEBIT CARD: 0.100%
- ELECTRONIC CREDIT TRANSFER: 0.006%
- CREDIT CARD: 0.002%
- ONLINE MONEY: 0.001%

### 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
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.

![Bar chart showing annual costs as % of GDP by payment instrument](chart.png)
### Annual costs by payment instrument and type of entity

<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>
Annual costs as % of GDP by payment instrument

Average variable cost per transaction processed (in lek)

Total: 1.3% of GDP
<table>
<thead>
<tr>
<th>Service and Infrastructure Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average cost of opening a bank account:</strong> 322 lek ($2.8)</td>
</tr>
<tr>
<td><strong>Average annual cost of maintaining a bank account:</strong> 1,900 lek ($16.3)</td>
</tr>
<tr>
<td><strong>Average cost of producing a debit card:</strong> 900 lek ($7.7)</td>
</tr>
<tr>
<td><strong>Average annual cost of maintaining a POS terminal:</strong> 12,044 lek ($103.6)</td>
</tr>
<tr>
<td><strong>Average cost of opening an e-money account:</strong> 168 lek ($1.4)</td>
</tr>
<tr>
<td><strong>Average annual cost of maintaining an e-money account:</strong> 1,500 lek ($12.9)</td>
</tr>
<tr>
<td><strong>Average cost of producing a credit card:</strong> 1,000 lek ($8.6)</td>
</tr>
<tr>
<td><strong>Average annual cost of maintaining an off-site ATM:</strong> 475,000 lek ($4,085)</td>
</tr>
<tr>
<td><strong>Average annual cost of maintaining an e-money agent:</strong> 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></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumers</td>
<td></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>Businesses</td>
<td></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>Government agencies</td>
<td></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></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSPs/PIPs</td>
<td></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><strong>Total economy costs</strong></td>
<td></td>
<td>33.7 billion lek</td>
<td>18 billion lek</td>
<td>$290 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.5% of GDP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Annual costs by type and stakeholder

### Annual costs (resource) as % of GDP by payment instrument

**CASH** 0.22  
**CREDIT CARD** 0.21  
**DEBIT CARD** 0.20  
**PAPER-BASED CREDIT TRANSFER** 0.06  
**ELECTRONIC CREDIT TRANSFER** 0.04  
**PAPER-BASED DIRECT DEBIT** 0.03  
**ELECTRONIC DIRECT DEBIT** 0.03  
**E-MONEY** 0.03  
**ONLINE MONEY** 0.001
### Projected Savings

#### Indicative use case substitutions and savings

<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 → e-money</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>
Thank You!!

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