



WORLD BANK GROUP

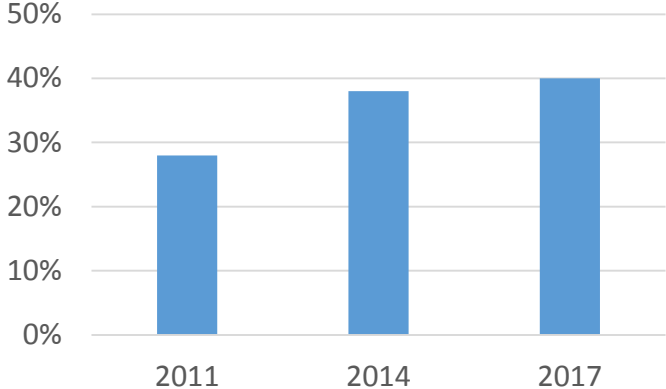
ALBANIA

Remittances and Payments Program (RPP)

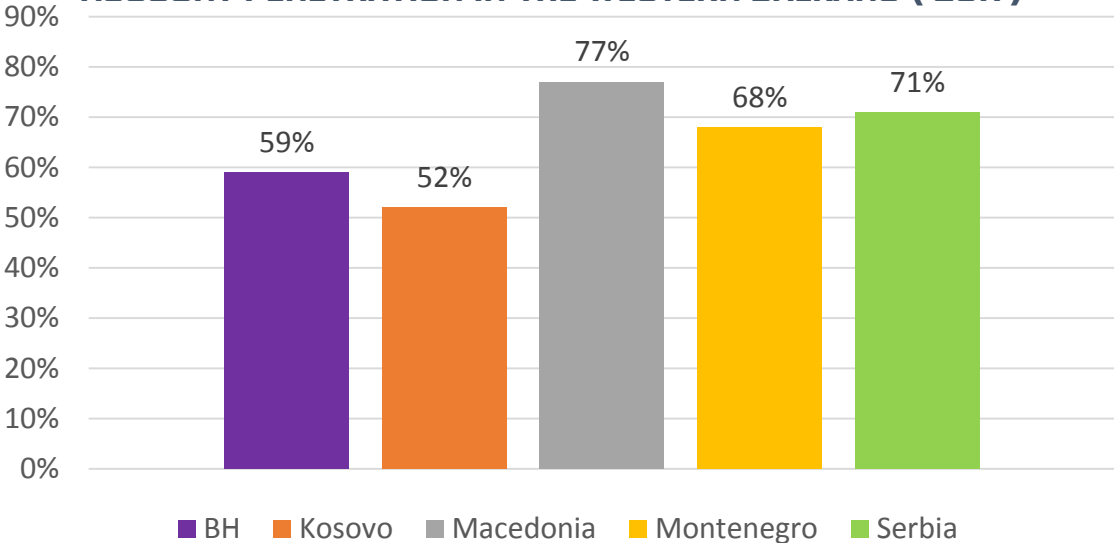
Developments in the Albanian Retail Payments Market

IN ALBANIA, 40% OF THE ADULT POPULATION HAS AN ACCOUNT AT A REGULATED FINANCIAL INSTITUTION (FINDEX 2017), UP FROM 37% IN 2014

ACCOUNT PENETRATION IN ALBANIA (2011, 2014, 2017)

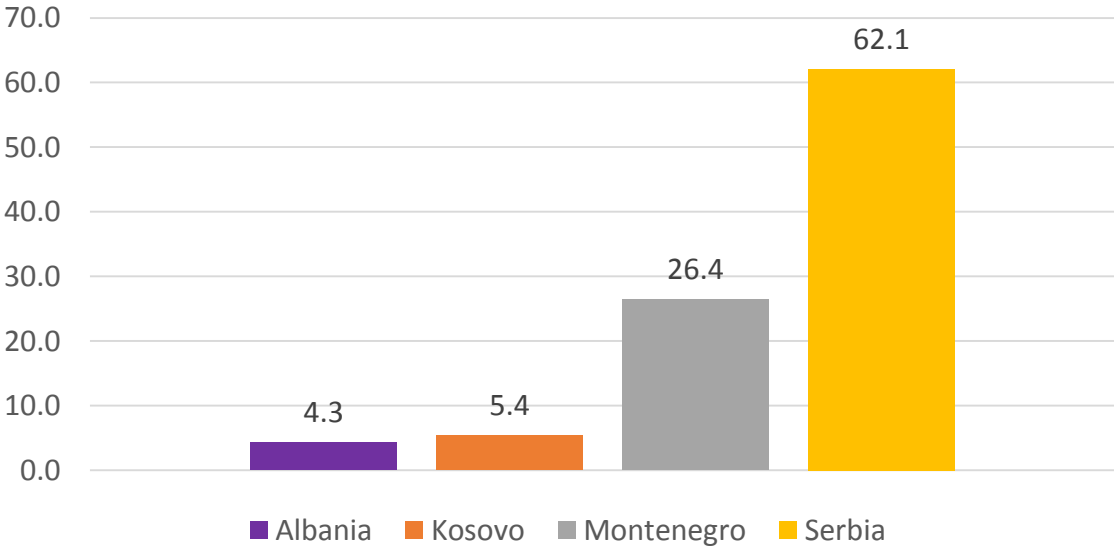


ACCOUNT PENETRATION IN THE WESTERN BALKANS (2017)

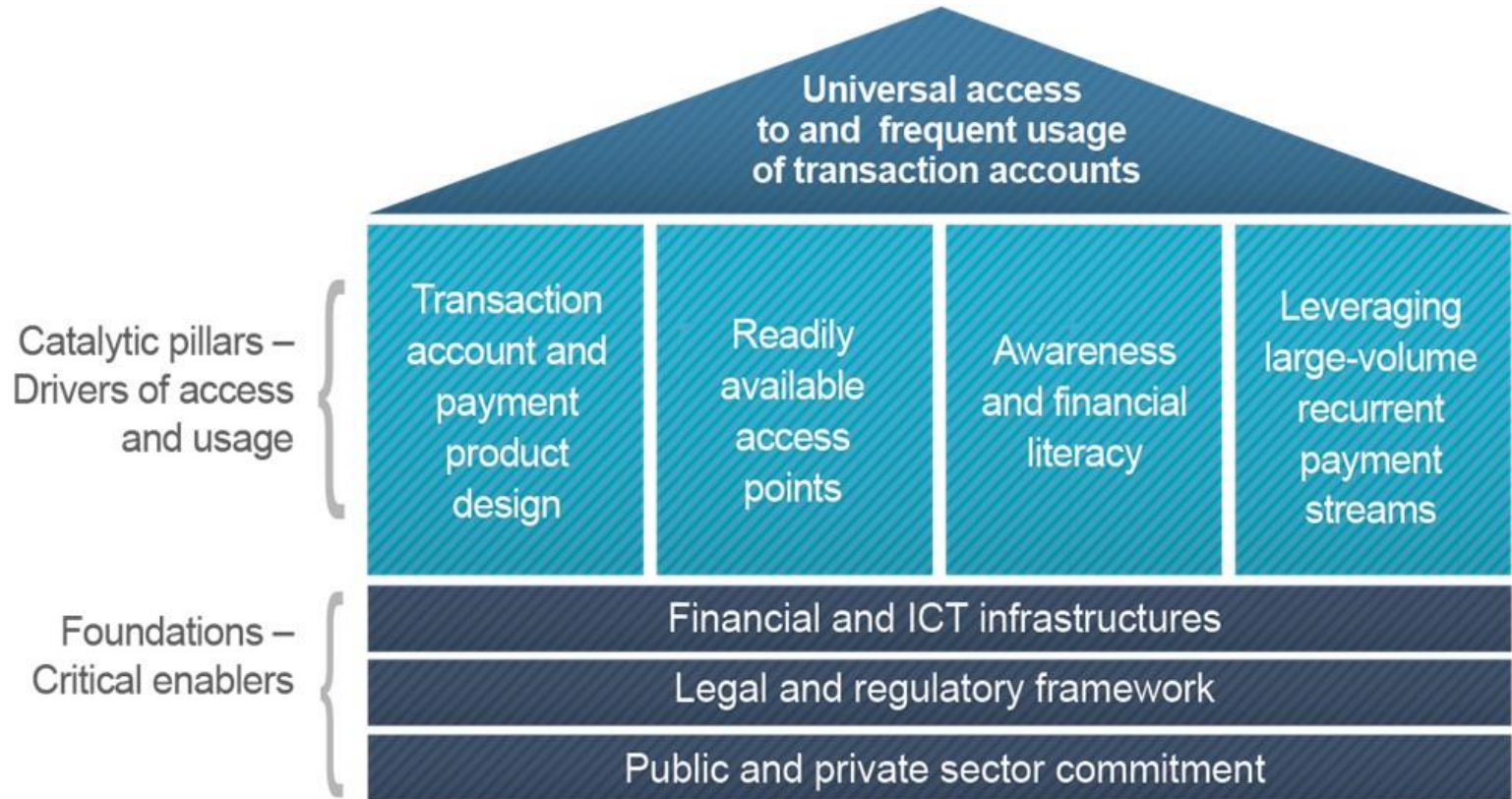


AND... USAGE OF EXISTING ACCOUNTS TO PAY ELECTRONICALLY IS EXTREMELY LOW...

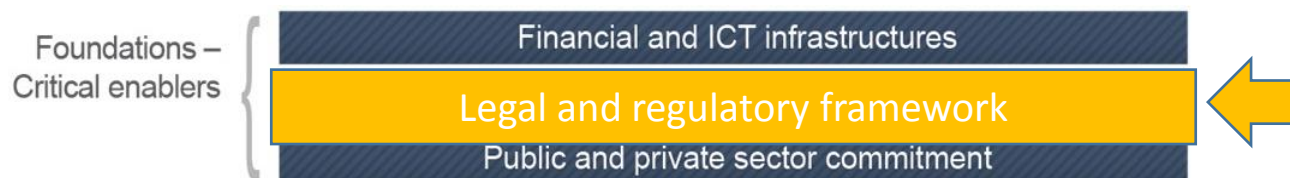
NUMBER OF NON-CASH PAYMENTS PER CAPITA IN THE WESTERN BALKANS (2016) – SELECTED COUNTRIES



Reference framework: The CPMI-World Bank “Payment Aspects of Financial Inclusion” report (2016)



RECOMMENDATIONS ON PAFI FOUNDATIONS



STATUS

- **Legal basis strengthened** with Payment System Law of 2013.
- Banking Law amended to enable provision of **e-money**.
- **NBFIs allowed to provide payment services**, and issue e-money (e-money institutions).
- **Risk-based approach** is used in connection with AML/CFT regulations

MAIN RECOMMENDATIONS

- **Transposition of EU directives** to ensure a more consistent outcome in terms of non-bank provision of payment service, thus enhancing the level-playing field.
- Improve legal basis of **use of third parties as agents** for banks and **no exclusivity**.
- The **financial consumer protection** legal framework needs to be further elaborated (e.g., dispute resolution), together with stronger enforcement.
- Enhance certainty / confidence on use of **e-evidence** in courts.
- Enhance **BoA oversight powers on payment services**.

RECOMMENDATIONS ON PAFI FOUNDATIONS



STATUS

- **Core payment infrastructures** operated by the BoA are generally safe and efficient.
- Albania has taken important steps, e.g., the modernization of the **National Civil Status Registry**, the issuance of **smart ID cards**, and by enabling the provision of electronic and remote verification of identity services, currently through **eAleat**.

MAIN RECOMMENDATIONS

- A **domestic infrastructure for card payments** could be useful to the country to reduce processing costs. **To realize its potential benefits, governance and sustainability are key.**
- **Provide fair & open access** to core payments infrastructure according to risk-based participation criteria
- **Broaden composition of NPSC membership**
- **While eAleat Identity Services is a private venture, it should be operated largely as a utility (e.g. ensuring broad access, pricing).**

RECOMMENDATIONS ON THE PAFI CATALYTIC PILLARS



- DIVERSIFY deposit transaction accounts from both a design and pricing standpoint (e.g., “basic” or “no-frills” accounts, and tiered structure) to MEET THE NEEDS of the unbanked and underserved.
- ACCELERATE expansion of account access points and improve their distribution, including through INCREASED INTEROPERABILITY and AGENT-BASED models.
- LEVERAGE existing financial literacy efforts by expanding target populations to unbanked / first time users / remittance recipients, and STRENGTHEN them through strategic approach and M&E.
- BROADEN efforts to channel government payments (including those of local governments) to accounts beyond public sector employees and vendors to include pensioners and the beneficiaries of social programs.
- Introduce INCENTIVES for acceptance and usage of electronic payments.
- INNOVATE remittance services to increase share of remittances to accounts.



To promote the intensive use of modern (i.e. fully electronic) retail payment instruments across the whole country, with the goal of achieving 10 cashless payments per capita by year 2023.

Supporting objectives of the NRPS

Albania will aim at achieving an adult account ownership ratio of 70% by 2023, similar to the level already achieved by middle-income countries as a whole.

Implementing the NRPS aims not only at increasing levels of ownership and usage of accounts, but also at improving the quality of payment services to customers.

Thank You!



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Detailed Annex

ASSESSMENT OF PAFI CATALYTIC PILLARS

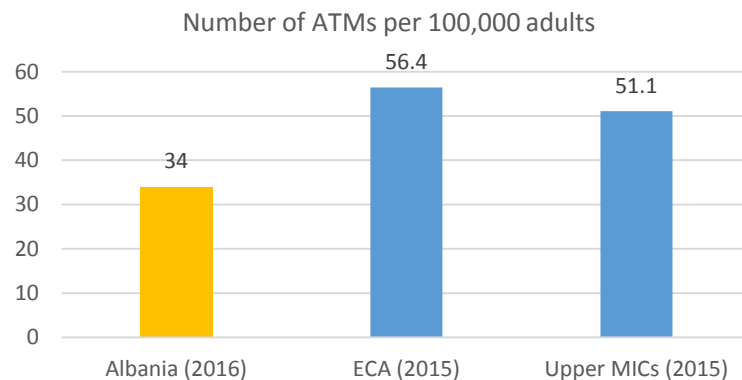


- There is little diversification of deposit transaction accounts from both a design and pricing standpoint
- The banking system does not offer “basic” or “no-frills” current accounts. This space has been filled partially by NBFIs, but banks should also play a role.
- Nor is there a system of tiered accounts in the banking system whereby accounts of a very basic nature may be opened with simplified requirements
- BoA together and the banking industry should revamp the existing pricing structure of current accounts.
- Bank and other transaction accounts should accommodate the key transaction and store-of-value needs and habits of the target populations. Accountholders should be able to transfer funds and pay electronically to as many parties as possible, especially those with which they transact regularly for routine issues.
- In this regard, one aspect that would increase the usefulness of accounts in Albania would be to achieve full interoperability across bank accounts, between bank accounts and e-money issuers, as well as among e-money issuers themselves.

ASSESSMENT OF PAFI CATALITIC PILLARS



- There is scarce penetration of banking infrastructure in Albania as compared to regional peers and other middle-income countries



Country	Number of POS terminals / 100,000 adults
Montenegro	2,250.5
FYR Macedonia	1,948.6
Serbia	921.8
Kosovo	540.0
Bosnia and Herzegovina	501.6
Albania	284.2

ASSESSMENT OF PAFI CATALITIC PILLARS: READILY AVAILABE ACCESS POINTS



MAIN OBSERVATIONS AND RECOMMENDATIONS (cont.)

- An agent banking model could prove beneficial for Albania to increase the reachability and convenience of bank accounts to the population, especially for those individuals that live or work far from major financial districts.
- In successful models, agents perform basic (e.g. small family shops, convenience stores, gas stations, etc.) transactions on behalf of one or more banks, but banks remain fully responsible with customers and authorities.
- The Albanian Post and Savings and Credit Associations (SCAs), among others, could play a major role as agents given their experience in serving rural and other isolated communities.
- In any case, banks should be able to freely select those agents that they believe are most appropriate to their business plan and needs.
- The reach of access points can also be augmented through interoperability of (and prohibiting exclusivity at) existing and new channels and outlets.

ASSESSMENT OF PAFI CATALITIC PILLARS: AWARENESS AND FINANCIAL LITERACY



- **Guiding Principle 6: Financial literacy**
Individuals gain knowledge, through financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

MAIN OBSERVATIONS AND RECOMMENDATIONS

- The BoA, AAB, the government and various financial entities are active in the financial literacy space; their efforts could be leveraged further.
- Activities are mostly focused on increasing the level of financial literacy among school students.
- The role of individual banks is essentially limited to onboarding of new customers.

ASSESSMENT OF PAFI CATALYTIC PILLARS: AWARENESS AND FINANCIAL LITERACY



MAIN OBSERVATIONS AND RECOMMENDATIONS (cont.)

- Current initiatives seem to lack longer-term strategy
 - BoA to develop a M&E framework for its financial literacy programs to measure effectiveness and make informed decisions on the need for changes or adjustments
 - Coordination of the various efforts could be improved, and participation by additional stakeholders (e.g., authorities responsible for consumer education, labor and employment, social protection) would be beneficial.
- Financial literacy efforts should specifically address how bank and e-money accounts can help meet an individual's payment and store-of-value needs
 - Target individuals that do not have an account and those that obtained one only recently.
 - Target users of remittance services—often the entry point
- Banks and NBFIs should continue providing hands-on training to customers, with a focus on those that have limited exposure to electronic payments

ASSESSMENT OF PAFI CATALITIC PILLARS: LARGE-VOLUME RECURRENT PAYMENT STREAMS



MAIN OBSERVATIONS AND RECOMMENDATIONS

- Government payments and other large-volume use cases are scarcely leveraged to promote electronic payments overall
- Where delivered to bank accounts, government payments (e.g. gov. employee salaries) are likely to be cashed out immediately.
- Of all SSI payments, old-age pensions concentrate the largest volume, and are disbursed almost exclusively in cash at the locations of the Albania Post.
- E-Albania integrate few payment (level 4) services
- Electronic bill payment services are still limited in coverage and usage
- Remittances are for the most part paid in cash

ASSESSMENT OF PAFI CATALYTIC PILLARS: LARGE-VOLUME RECURRENT PAYMENT STREAMS



MAIN OBSERVATIONS AND RECOMMENDATIONS (cont.)

- Government payments are a powerful vehicle of financial access. Along with efficiency and transparency, they could be executed with financial inclusion objectives in mind
 - Broaden efforts to channel government payments to accounts beyond public sector employees and vendors to include pensioners and the beneficiaries of social programs
 - To the extent possible also involve local governments
 - Ensure that conditions and incentives are in place so that accountholders use the accounts to which funds have been credited, instead of cashing out immediately.
- Consider introducing specific incentives for usage of electronic payments
 - For example, VAT rebates on purchases by electronic means have been used to incentivize electronic payments at the point of sale
 - Similar incentives may also be considered by large billers and transit system operators. For example, in partnership with banks, they could offer some benefits if bills are paid via direct debit, like rebates, or a lower minimum monthly balance