

CHAPTER VI OTHER ACTIVITIES OF THE BANK OF ALBANIA

6.1 PAYMENT SYSTEM DEVELOPMENTS

During 2008 Bank of Albania's payment systems reflected security and efficiency, which are indispensable features for a smooth operation of the payment system. Clearing and payments settlement through banks, in the national currency, is carried out through two payment systems: "The real time gross settlement system - AIPS" and "The automated electronic clearing house system - AECH", in accordance with the interbank payment settlement rules. The real time gross settlement system (AIPS) was accessed by participants to 99.88 percent of its operating schedule. In other words, during 246 business days the system was unavailable for only 2 hours and 22 minutes, due to technical and/or communication problems with the SWIFT.

6.1.1 REAL TIME GROSS SETTLEMENT SYSTEM - AIPS

A total of 56,717 transactions were processed and settled in the AIPS system during 2008, with an average value per settled transaction by ALL 91 million. Relative to 2007, the payments volume settled in 2008 increased 25 percent, while the settled transactions value increased 37 percent.

AIPS system	2006	2007	2008
Transactions number	38,793	45,480	56,717
Transactions value (ALL billion)	3,376	3,745	5,146
Average value per transaction (ALL million)	87	82	91

Source: Bank of Albania

Table 1 AIPS Transactions made during 2006-2008

The greatest number of settled transactions was concentrated in the second quarter of the year, while the largest liquidity circulation occurred in the third quarter of 2008.

AIPS system	Quarter				Year 2008
	I	II	III	IV	
Number of transactions	12,845	15,147	14,005	14,720	56,717
Transactions value (ALL billion)	1,047	1,237	1,576	1,286	5,146
Average value/transaction (ALL mln)	82	82	113	90	91

Source: Bank of Albania

Table 2 Distribution of transactions through AIPS by quarters of 2008

About 231 transactions were processed and settled on average per day through AIPS, with an average daily circulation of ALL 21 billion. The total value of liquidity circulated through the AIPS during 2008 is estimated at about 5 times Gross Domestic Product for the year¹. Currently, all the banks operating in Albania are direct participants for settlements through the AIPS.

In a more detailed way, the types of transactions processed and settled through the AIPS during 2008 and their relative share to the total is presented in the following table:

Table 3 Types of transactions through the AIPS

Type of transactions through AIPS	Number of transactions	Volume		Value (ALL billion)	
		Relative weight	Absolute value	Relative weight	
BoA financial transactions/instruments	4,364	8%	3,053.2	59%	
Cash transfers to/from the issue	9,052	16%	249.3	5%	
Inter-bank payments	8,512	15%	833.8	16%	
Customer payments	29,068	51%	484.9	9%	
Settlements for net clearing systems	5,721	10%	524.7	10%	
Total	56,717	100%	5,146	100%	

Source: Bank of Albania

Out of total transactions processed and settled through the AIPS during 2008, we note that customer payments that the banks settled among themselves account for about 51 percent to the total, including here the payments the banks post daily to the government budget account, for the account of their clients. Concerning the transactions value, the highest circulation of liquidity, about 59 percent to the total is occupied by transactions initiated by the Bank of Albania for meeting its operational targets. The section "settlement for net clearing systems" contains net settlement transactions resulting from the clearing system, such as: clearing of low value payments in the AECH; clearing of banking and personal cheques in ALL, net settlements of government securities and net settlements of the results of payments in ALL via VISA cards, about which the Bank of Albania plays the settlement agent's role.

From the viewpoint of surveillance and assessment of payment system stability, the concentration degree of payments at (participating) specific nodes of the network is assessed. The concentration indicators for the AIPS reflect the share of activity of a certain number of banks (3 or 5 banks) to the total activity of this system.

Table 4 Concentration indicators for the AIPS system

AIPS system	Transaction volume	Value (in ALL billion)
	Share/Total	Share/Total
3 banks	51%	70%
5 banks	62%	85%
Total (in absolute value)	56,717	5,146

Source: Bank of Albania

Intraday loan facility (ILF) is also an important instrument in the AIPS, which is a collateralized interest-free credit that the Bank of Albania extends to participant banks for managing their intraday liquidity. The procedure for extending an intraday loan is pretty simple and funds are disbursed within 10.00 A.M. of the business day, upon the bank's request.

Table 5 Number and value of ILFs flowing to AIPS participants

Intraday loan facility	2007	2008
Number of transactions	675	579
Value of transactions (ALL billion)	218	221
Average value of transactions (ALL million)	322	382

Source: Bank of Albania

6.1.2 AUTOMATED ELECTRONIC CLEARING HOUSE SYSTEM - AECH

A total of 113,682 payment transactions were cleared through the AECH system during 2008, with an average value per settled transaction by ALL 150 thousand. Relative to 2007, the cleared payments volume increased 58 percent, while the cleared transactions value increased 47 percent during 2008.

AECH system	2006	2007	2008
Number of transactions	48,889	71,857	113,682
Value of transactions (ALL billion)	7.77	12.01	17.61
Average value per transaction (ALL million)	0.16	0.17	0.15

Source: Bank of Albania

Table 6 Performance of payments in AECH over 2006-2008

The AECH system processes customer payments of below 1 million leks and calculates the net multi-lateral positions for net settlement in the AIPS. Of 16 banks operating in Albania, 14 banks are currently direct participants in the AECH system, processing their customer payments daily in the system. The AECH system processes on average about 462 payments a day, with an average daily value of ALL 71.6 million. The largest volume and value of payments processed in the AECH system is noted during the fourth quarter of 2008.

AECH system	Quarter				Year 2008
	I	II	III	IV	
Number of transaction	24,317	29,179	27,872	32,314	113,682
Value of transactions (ALL billion)	3.88	4.45	4.29	5.00	17.61
Average value/transaction (ALL million)	0.16	0.15	0.15	0.15	0.15

Source: Bank of Albania

Table 7 Distribution of payments in the AECH by quarters of 2008

The payments cleared through the AECH system are processed in two sessions (session I - 09.00 to 11.00; and session II - 12.00 to 14.30) during the business day and they are settled for the net result through the AIPS at the end of each session. It is noted that for a one-year period, the largest volume and value of customer payments are cleared in the first session.

AECH system	Section		Year 2008
	I	II	
Number of transactions	63,266	50,416	113,682
Value of transactions (ALL billion)	10.69	6.92	17.61
Average value per transaction (ALL million)	0.17	0.14	0.15

Source: Bank of Albania

Table 8 Distribution of payments through the AECH system according to clearing sessions during 2008

The concentration indicators for the AECH system reflect the share occupied by the activity of a certain number of participant banks in the system, against the total activity in this system. The concentration indicator shows that 5 banks own about 63 percent of total low-value payments in the banking system.

Table 9 Concentration indicators for the AECH system

AECH system	Volume of transactions	Value of transactions (ALL billion)
	Share/Total	Share/Total
3 banks	45%	49%
5 banks	63%	64%
Total (absolute value)	113,682	17,612

Source: Bank of Albania

6.1.3 ELECTRONIC PAYMENTS INSTRUMENTS

In view of the publication of statistical indicators on payment instruments in Albania, during 2008 the methodology "On reporting of payment instruments" was reviewed, based on the data the banks report about the payment instruments. The new methodology aims at:

- Collecting and processing the periodical data and establishing a database on the usage of payment instruments in Albania. This is aimed to analyse the tendencies and help the public get acquainted with developments of the payment system in Albania.
- Monitoring the payment system developments, to assess the degree of risks they carry over and ensure transparency in the agreements that have to do with payment instruments and services.
- Complying with the statistics reported by the European Central Bank and the BIS Basle, aiming at providing data on Albania in the Blue Book and Red Book (ECB's publications on payments) in the future.

It results out of banks' reporting that as at end 2008, the total number of bank customer accounts valid for making payments in lek or in foreign currency was 1,573,830, of which about 91 percent are individual accounts. Less than 1 percent of the total number of accounts is accessible through home banking for making payments or for checking the account statement.

Table 10 Total number of bank customer accounts as at December 31, 2008

Account description	Total of accounts	Accessible from home-banking
Customer accounts (1+2)	1,573,830	11,108
1- resident accounts (a+b)	1,564,084	10,751
a - individual	1,429,294	6,958
b - corporate	134,790	3,793
2- non-resident accounts (a+b)	9,746	357
a - individual	9,311	314
b - corporate	435	43

Source: Bank of Albania (Banks' reporting according to the "Methodology on payment instrument reporting").

As at end 2008 there are operating 16 banks in the Republic of Albania, which provide payment services in 438 branches/bank agencies throughout the country. The number of ATMs and POS terminals has risen for card use, respectively by 45 and 61 percent compared to their number at end 2007.

Description	Total
Automated Teller Machines	642
Of which:	
1 - ATMs for cash withdrawal	642
2 – ATMs for transfer orders	59
3 – ATMs for depositing cash	73
Point of Sale terminals	2,953
Of which:	
1- POS terminals for cash withdrawal	907
2- EFTPOS payment terminals	2,915
Terminals for using e-money	-

Source: Bank of Albania (Banks' reporting according to the "Methodology on payment instrument reporting").

Table 11 Number of total ATMs and POSs as at December 31, 2008

A very widespread form of making payments is also the use of electronic payment instruments, which are being used more frequently even in Albania. It is noted that the number of cards circulating increased by 17 percent as at December 31, 2008, compared to 2007. Hence, credit cards issued during this year had a considerable weight. Their number rose by 53 percent relative to 2007.

Number of cards by functions	December 31, 2008
Cards with the cash function	512,232
Cards with the payment function	498,003
Of which:	
1- debit cards	482,072
2- credit cards	15,931
Cards with the e-money function	-
Total number of cards in circulation	512,232
Of which:	
- cards with more than one function	498,003

Source: Bank of Albania (Banks' reporting according to the "Methodology on payment instrument reporting").

Table 12 Total number of banking cards in circulation as at December 31, 2008

The card transactions processed during 2008 is 8,205,143, with a total annual circulation of ALL 93.7 billion. Of total transactions, about 96 percent are cash transactions from ATMs, an indicator of an economy with a large use of cards. In other words, in proportion with the population² in Albania, on average one out of six persons is a card holder. Every card holder performs not more than 16 transactions a year, of which 15 transactions are cash withdrawals from banks. Compared to statistics of the region countries, the Albanian banking system is still in the first steps of using the e-payment instruments.

Transactions through cards by transaction type	Volume	Value (ALL mln)
1- ATMs for cash withdrawal	7,910,609	89,067.43
2- ATMs for depositing	133	2.10
3- Transfer orders through ATMs	271	9.37
4- Cash withdrawals at POS terminals	2,999	451.51
5- Card payments at POS terminals	291,131	4,196.19
Of which:		
- payments through debit cards	187,720	2,013.81
- payments through credit cards	103,411	2,182.38
Total card transactions	8,205,143	93,726.60

Source: Bank of Albania (Banks' reporting according to the "Methodology on payment instrument reporting").

Table 13 Number of total transactions made through banking cards during 2008

As at end 2008 six banks provide home banking service, in the form of products enabling access of the bank account from home, through an internet line or software the bank makes available to the customer.

The use of this service is closely related to the existence of infrastructure and the customer's ability to use internet and up-to-date terminology. Relative to 2007, a higher number and value of home banking transactions were noted in 2008, by 108 and 116 percent respectively.

Table 14 Total number of home banking transactions during 2008

Home Banking	2006	2007	2008
Number of transactions	19,096	42,447	88,261
Value of transactions (ALL billion)	16.83	48.49	104.88

Source: Bank of Albania (Banks' reporting according to the "Methodology on payment instrument reporting")

6.1.4 BANK OF ALBANIA'S ROLE AS SUPERVISOR OF THE PAYMENT SYSTEM

During 2008 it was worked for approaching the existing regulatory framework of the payment system to the *Acquis Communautaire*, and to best international standards of the payment system. In this framework, there were reviewed some regulations and some new regulations were adopted, aiming at their direct adjustment to the EU directives.

i. Regulation "On electronic payment instruments"

The reviewing of this regulation was aimed at improving the regulatory framework for issuing and using the electronic payment instruments, carrying out the Bank of Albania's function for promoting and supervising the smooth functioning of the payment system in the Republic of Albania. The scope of this Regulation is defining the standards of transparency to clients, about conditions, rules and procedures for making payments through electronic payment instruments in the Republic of Albania, determining the type of electronic payment instruments and the way for keeping and reporting information while using them.

ii. Regulation "On the structure and use of international bank account number (IBAN)"

The Regulation "On structure and use of international bank account number (IBAN)", aims at standardising the account numbers used for making payments, with the purpose to promote and improve the payment system in the Republic of Albania. The scope of the Regulation is defining the structure of the international bank account number for use in the Republic of Albania (Albanian IBAN) and specifying the procedures for its creating, checking, validity and use by banks and/or branches of foreign banks licensed by the Bank of Albania.

The project for implementing IBAN in Albania will be carried out in two stages:

- (1) Creating and informing the clients on their account number in the IBAN format. The banks may define on their own only the accurate date of the complete transfer in the IBAN format, as well as the transfer process duration, provided the transfer is completed within June 1, 2009.
- (2) The compulsory use and checking of the IBAN for all the sent/received payments to/from banks. Starting from January 1, 2010, banks are obliged to check the validity of IBAN of the sender/beneficiary's account included in the payment instruction, incoming and outgoing money transfers, irrespective of the information received on the IBAN via e-mail or a letter. Starting from that date, the Albanian payment systems will check the validity of accounts included in the payment instructions and will reject oral payment orders, in case of inaccuracy.

iii. Document "Policy of supervising payment and settlement systems"

The document "Policy of supervising payment and settlement systems" aims to clarify the supervision targets on payment and settlement systems, the Bank of Albania's role, the area where supervision is applied, the way the supervision process is carried out, principles and standards where this process is based on, as well as the cooperation with other supervisory authorities. The document specifies essential responsibilities of the central bank in supervising the payment system and in carrying out these responsibilities, the objectives and activities of supervision based on international principles and standards. It also underlines the need for cooperating with other central banks and supervisory institutions.

To further fulfil the legal framework of a modern payment system, it is assessed as urgent the need for drafting an Albanian law "On the payment system", whose compilation has already started. The commitment of the state institutions and the cooperation with commercial banks will help the Bank of Albania to accomplish this goal, as a necessary condition for the operation of the national payment system and compliance with the EU directives.

6.2 MONEY ISSUE

Currency in circulation at the end of 2008 amounted to ALL 203,713,429 thousand, compared to ALL 161,161,883 thousand at end 2007. The largest growth was noted in the fourth quarter, a period corresponding to the unexpected developments in the international financial market and their resonance even in the domestic market.

