

CHAPTER VI OTHER ACTIVITIES OF THE BANK OF ALBANIA

VI.1. PAYMENT SYSTEM DEVELOPMENTS

Clearing and payments settlement through banks, in the national currency, is carried out through two payment systems in the Republic of Albania: "The real time gross settlement system – AIPS" and "The automated electronic clearing house system – AECH". During 2009, the payment systems reflected security and efficiency, features needed for their smooth functioning, and among Bank of Albania's principal objectives. Currently, all the banks licensed by the Bank of Albania are direct participants in the AIPS system, of which 15 banks are direct participants even in the AECH system.

- *REAL TIME GROSS SETTLEMENT SYSTEM - AIPS*

A total of 55,701 payment transactions were settled in the AIPS system during 2009, with an average value per settled transaction by ALL 85 million. Relative to 2008, the payments volume settled during 2009 decreased by 2%, while the settled transactions decreased by 8%.

AIPS system	2007	2008	2009
Transactions	45,480	56,717	55,701
Transactions value (ALL billion)	3,745	5,146	4,718
Average value per transaction (ALL million)	82	91	85

Source: Bank of Albania

Table 1 Performance of transactions in AIPS for 2007-2009

The greatest number of settled transactions was concentrated in the second quarter of the year, while the largest circulation of liquidity occurred in the third quarter of 2009. On average, 225 transactions per day were processed and settled through the AIPS, with an average daily value of ALL 19 billion. Total value of liquidity settled through the AIPS during 2009 is about 4.3 times higher than the Gross Domestic Product for the year.¹

AIPS system	Quarter				Total 2009
	I	II	III	IV	
Number of transactions	13,303	14,479	14,036	13,883	55,701
Value of transactions (ALL billion)	1,118	1,131	1,255	1,214	4,718
Average value/transaction (ALL mln)	84	78	89	87	85

Source: Bank of Albania

Table 2 Distribution of transactions through the AIPS by quarters of 2009

In more details, the types of transactions processed and settled through the AIPS during 2009 and their relative share to the total are presented in the following table. Of total transactions processed and settled through the AIPS during 2009, it is noted that customer payments the banks settled among

themselves account for about 53% to the total transactions, including here the payments the banks post daily to the government budget account, for the account of their clients.

Table 3 Types of transactions through the AIPS

Type of transaction through AIPS	Number of transactions	Volume	Value (ALL billion)	
		Relative share	Absolute value	Relative share
BoA financing transactions/instruments	3,406	6.1%	2,702.3	57.3%
Cash transfers to/from the issue	9,151	16.4%	249.2	5.3%
Interbank payments (MT202)	7,903	14.2%	768.7	16.3%
Customer payments (MT103)	29,456	52.9%	449.7	9.5%
Net settlement for clearing systems	5,785	10.4%	548.4	11.6%
Total	55,701	100%	4,718	100%

Source: Bank of Albania

Regarding the value of transactions settled through the AIPS, transactions initiated by the Bank of Albania for meeting its legal targets account for the highest circulation of liquidity, above 57% to the total. The section “net settlements for clearing systems” contains net settlement transactions resulting from the clearing systems, such as: clearing of low value payments in AECH system; clearing of banking and personal cheques in ALL; net settlements of government securities; and net settlements of ALL payments via VISA cards, about which the Bank of Albania plays the settlement agent’s role.

The concentration indicator reflects the share occupied by 3 and 5 more active banks in the AIPS system, to the total activity in this system. As shown by the following table, 5 banks (including the Bank of Albania) initiated during 2009 about 61% in number and 86% in value of transactions, to the total activity in the AIPS.

Table 4 Concentration indicators for the AIPS system

	Volume of transactions	Value of transactions
AIPS system	Share/Total	Share/total
3 banks	48%	73%
5 banks	61%	86%
Total (absolute value in ALL billion)	55,701	4,718

Source: Bank of Albania

During 2009, intraday loan facility (ILF), which is a collateralized interest-free credit that the Bank of Albania makes to participant banks through the AIPS, decreased markedly in comparison to 2008, respectively by 64% in number and 46% in value. The decline is attributed to changed policy of the Bank of Albania, increasing the daily use of the Lek required reserve from 20% to 40%, for liquidity needs during the day, in order to ensure the smooth operation of the system.

Table 5 Intraday loan facility to AIPS participants

Intraday loan facility (ILF)	2007	2008	2009
Number of transactions	675	579	207
Value of transactions (ALL billion)	218	221	121
Average value of transactions (ALL million)	322	382	582

Source: Bank of Albania

- AUTOMATED ELECTRONIC CLEARING HOUSE SYSTEM - AECH**

A total of 102,304 payment transactions were cleared through the AECH system during 2009, averaging ALL 150 thousand per settled transaction. Relative to 2008, the volume of cleared payments decreased by 10%, while the value of cleared transactions decreased by 12%.

AECH system	2007	2008	2009
Number of transactions	71,857	113,682	102,304
Value of transactions (ALL billion)	12.01	17.61	15.46
Average value per transaction (ALL million)	0.17	0.15	0.15

Source: Bank of Albania

Table 6 Performance of payments in AECH over 2007-2009

The AECH system processes and clears low value customer payments of below ALL 1 million. On average, 413 payments per day were processed in the AECH system, with an average daily value of ALL 62.33 million. The largest volume and value of payments processed in the AECH system is noted during the fourth quarter of 2009.

AECH system	Quarter				Year 2009
	I	II	III	IV	
Number of transactions	22,318	27,478	23,506	29,002	102,304
Value of transactions (ALL billion)	3.50	4.03	3.63	4.30	15.46
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 2009

Payments cleared through the AECH system are processed in two sessions (Session I - 09:00 to 11:00 o'clock; 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, during 2009, the largest volume and value of payments initiated in this system were cleared during the first session.

AECH system	Session		Year 2009
	I	II	
Number of transactions	63,868	38,436	102,304
Value of transactions (ALL billion)	10.06	5.39	15.46
Average value per transaction (ALL million)	0.16	0.14	0.15

Source: Bank of Albania

Table 8 Distribution of payments through the AECH system according to clearing sessions during 2009

The concentration indicators for the AECH system reflect the share occupied by 3 and 5 more active banks in the AECH system, to total activity in the system. As shown by the following table, 5 banks initiated about 61% in number and 67% in value of transactions, to total activity in AECH.

AECH system	Volume of transactions	Value of transactions
	Share/Total	Share/Total
3 banks	43%	46%
5 banks	61%	67%
Total (absolute value in ALL billion)	102,304	15,457

Source: Bank of Albania

Table 9 Concentration indicators for the AECH system

- *PAYMENT INSTRUMENTS*

As at end 2009, there are operating 16 banks in the Republic of Albania, which provide payment services at 530 bank branches/agencies throughout the country, of which 14 banks are licensed even as card issuers, providing the service of cash withdrawal from ATMs. Of card-issuing banks, only eight banks are also licensed as card-accepting ones, providing for the service of accepting payments via cards through POSs situated at stores and shopping centres. During 2009, the number of ATMs and POSs for using cards increased by 15 and 48%, respectively, versus the end of 2008.

Table 10 Number of ATMs and POSs as at 31 December 2009, relative to end-2008

Description	2008	2009
Automated Teller Machines	642	741
Of which:		
1 – ATMs for cash withdrawal	642	741
2 – ATMs for transfer orders	59	66
3 – ATMs for depositing cash	73	74
Point of Sale Terminals	2,953	4,370
Of which:		
1- POS terminals for cash withdrawal	907	1,290
2- EFTPOS payment terminals	2,915	4,320
Terminals for using e-money	-	-

Source: Banks' reporting according to the "Methodology on payment instrument reporting"

Of banks' reporting, it results that at the end of 2009, the total number of customer bank accounts, valid to perform payments in ALL and in foreign currency, increased 33%, compared to the end of 2008. Of the total number of opened payments accounts as at 31 December 2009, about 93% of them are individual accounts and over 99% to the total are residents' accounts.

Table 11 Number of banking customer accounts for making payments

Account description	Total customer accounts		Receivable from Internet	
	December 2008	December 2009	2008	2009
Customer accounts (1+2)	1,573,830	2,086,143	11,108	15,034
1- resident account (a+b)	1,564,084	2,074,715	10,751	14,622
a - individuals	1,429,294	1,918,907	6,958	9,598
b - company	134,790	155,808	3,793	5,024
2- non-resident account (a+b)	9,746	11,428	357	412
a - individuals	9,311	10,799	314	328
b - company	435	629	43	84

Source: Banks' reporting according to the "Methodology on payment instrument reporting"

Of the total customer accounts, only 15 thousand payment accounts are accessible from the Internet (home banking), to provide online payment service or to check account balance, of which about 66% belong to individual accounts. Referring to the same period, only 27% of total customer accounts may be accessed from the distance, by using a debit or credit card. Provision of the service of payments or cash withdrawal from other accounts, necessarily requires the physical presence of the customer at bank counters.

Cards are payment instruments that are used in Albania, though at lower level than in other countries of the region. It is noted that as at 31 December

2009, the number of cards in circulation increased by 11%, compared to that of end-2008. The increased share of credit cards issued over the year, by 50% compared to end-2008, contributed to this growth.

Number of cards by function	31 December 2008	31 December 2009
Cards with the cash function	512,232	566,985
Cards with the payment function	498,003	566,985
Of which:		
1- debit cards	482,072	543,141
2- credit cards	15,931	23,844
Cards with the e-money function	-	-
Total number of cards in circulation	512,232	566,985
Of which:		
- cards with more than one function	498,003	566,985

Table 12 Number of banking cards in circulation as at 31 December 2009 compared to end-2008

Source: Banks' reporting according to "Methodology on payment instrument reporting"

The following table reflects the kinds of transactions conducted via bank cards (debit/credit), in volume and value, compared with the previous year. During 2009, a total of over nine million card transactions were processed, with a total annual circulation of ALL 102 billion. Of total transactions, cash withdrawals from ATMs account for about 96%, an indicator of an economy with a large use of cash.

Transactions through cards by transaction type	Volume		Value (ALL million)	
	2008	2009	2008	2009
1- ATMs for cash withdrawal	7,910,609	8,717,982	89,067.43	96,117.27
2- ATMs for depositing	133	91	2.10	2.97
3- Transfer orders through ATMs	271	366	9.37	10.02
4- Cash withdrawals at POS terminals	2,999	2,647	451.51	453.86
5- Card payments at POS terminals	291,131	403,214	4,196.19	5,321.72
Of which:				
- payments through debit cards	187,720	252,780	2,013.71	2,565.67
- payments through credit cards	103,411	150,434	2,182.39	2,756.05
Total card transactions	8,205,143	9,124,300	93,726.60	101,905.3

Table 13 Transactions made through banking cards during 2009, compared to 2008

Source: Banks' reporting according to "Methodology on payment instrument reporting"

During 2009, 10 banks provided home banking service, compared to 6 banks at the end of 2008. E-banking service implies the provision of necessary infrastructure to the customer, enabling access of the bank account from home, through an internet line, telephone or software the bank makes available to the customer.

Home Banking	2007	2008	2009
Number of transactions	42,447	88,261	136,482
Value of transactions (ALL billion)	48.49	63.42	78.16

Table 14 Performance of home banking transactions for 2007 – 2009

Source: Banks' reporting according to the "Methodology on payment instrument reporting"

• BANK OF ALBANIA'S ROLE AS OVERSEER AND REFORMER OF THE NATIONAL PAYMENTS SYSTEM

The Bank's role in reforming and overseeing payment systems is assuming an ever greater importance against the setting of international financial market

crisis. In light of this, the Bank of Albania is working to set up a national safe and efficient payments system, to support financial market development in the country, and also aiming at avoiding risks that development brings about. During 2009, the focus is on:

(i) Strengthening the legal framework in view of the overseeing role on payment system

The draft-law "On the Payment Systems in the Republic of Albania" is at its final stage. It aims at establishing a sound and efficient legal framework for the national payment systems, the role and tasks of the Bank of Albania regarding the development and oversight of payment and settlement systems in the Republic of Albania. The draft-law is based on two important directives of the European Community:

- Directive 98/26/EEC on settlement finality in payment and securities settlement systems; and
- Directive 2002/47/EC on financial collateral arrangements.

Important issues regulated by this draft-law are:

- Regulation and oversight of systems, aiming at clearly defining the overseeing role of the Bank of Albania on payment and securities settlement systems, regardless of whether the systems are operated within the Bank of Albania, or outside the Bank by private operators, the licensing of subjects operating payment and settlement systems in the Republic of Albania and the inspecting and decision-making powers of the Bank of Albania in terms of its commitment to this role, etc.;
- Protection of systems, aiming at regulating issues related to protection of systems from participants' insolvency, and the final character and irrevocability of orders entering the system, determining the moment of opening the procedures for insolvency of a participant in the system, etc.;
- Protection of financial collateral arrangements, regulating such concepts as validity and enforcement of financial collateral arrangements in payment and settlement systems, financial collateral settlement pledged and other legal concepts, whose regulation is necessary for the smooth functioning of payment and settlement systems, through reduction of risk in these systems, but in more general terms, contribute to the stability of the system and of the financial markets in the country.

(ii) Improving and promoting changes in national payment system in view of the reforming role of payment systems

The project for implementing IBAN in Albania, pursuant to the Regulation adopted by the Supervisory Council of the Bank of Albania with decision No. 42, dated 16.07.2008 "On the Structure and Use of the International Bank Account Number (IBAN)" for standardising account numbers used for making

payments in the Republic of Albania, was carried out in two stages: (a) all the banks have completed the standardization of customer account numbers in the IBAN format, as well as notification of customers, within 1 June 2009; (b) starting from January 5, 2010, all the banks use and check the accuracy of the IBAN numbers for national and cross-border payments.

Further to the project for automatic transfer of Treasury transactions from the Ministry of Finance to payment systems, efforts were made in 2009 to provide the necessary technical and regulatory infrastructure for the project implementation. The agreement "On electronic communication between the Treasury system and the AECH and AIPS payments systems" was signed between the Bank of Albania and the Ministry of Finance in early 2010, enabling the automation of Treasury payments and the live starting of the project as of 1 March 2010.

The Bank of Albania has constantly contributed to curtailing cash payments in the economy, lately through participation in the "SPI Project on Reducing Cash Transactions. The project, initiated by the SPI Albania, concluded with a detailed analysis of the financial effects on the banking system, by reducing cash payments in the economy. The conclusions and analysis of the working group, led by Raiffeisen Bank and the Bank of Albania, after approved by the Committee (SPI Committee), in November 2009 they were presented in the form of a package of recommendations for approval and implementation by the banking system and public administration institutions.

VI.2. MONEY ISSUE

- *CURRENCY IN CIRCULATION*

Currency in circulation amounted to ALL 216,739,238 thousand at the end of 2009, compared to ALL 203,713,429 thousand at the end of 2008. The largest growth was noted in the fourth quarter.

- *STRUCTURE OF CURRENCY IN CIRCULATION*

Banknote

The structure of banknote in circulation was characterized by a rise in the share of high denominations (1000, 2000 and 5000 Lek), mainly dictated by the demand of second tier banks, for facing the flow of upward payments and filling of ATMs with the above-mentioned denominations. During 2009, there was noted a significant increase in the circulation of the 2000 lek note.

