

CHAPTER VII PAYMENT SYSTEMS AND MONEY ISSUE

To accomplish its legal responsibilities on payment systems, the Bank of Albania promotes normal functioning of payment systems to support monetary policy implementation and maintain financial stability and public confidence in the national currency. In order to reach this objective, the Bank of Albania acts as the operator, supervisor and catalyser of payment systems. Pursuant to the Constitution of the Republic of Albania, the Bank of Albania is the only responsible authority for issuing and circulation of the national currency, the Albanian Lek.

VII.1 PAYMENT SYSTEMS

In 2011, interbank transactions in the national currency were cleared and settled with efficiency and security conform to the rules and procedures of both systems operated and administered by the Bank of Albania: Albanian Interbank Payment System – AIPS for settlement of large-value payments and the Albanian Electronic Clearing House– AECH for clearing small-value payments. Both AIPS and AECH are operated in line with the envisaged schedule for settling and clearing payments, without any significant deviation from it. In the absence of extraordinary situations, the core basic infrastructure of national payments in Lek reflected stability. At end-2011, all banks and branches of foreign banks operating in the Republic of Albania were direct participants in the payment systems.

VI.1.1 AIPS AND AECH SYSTEMS

Statistics from the Albanian Interbank Payment System (AIPS) show decline of the activity in the system in terms of both volume and value. The Albanian Electronic Clearing House (AECH) underwent considerable increase of its activity in terms of both volume and value, throughout 2011.

Measures taken by the Bank of Albania on the functioning of AIPS and AECH payment systems, in March 2011, may have affected the performance of both systems.

BOX 10 AMENDMENTS TO REGULATIONS ON AIPS AND AECH SYSTEMS

In March 2011, the Bank of Albania made a number of amendments to the Regulation On the functioning of the Albanian Interbank Payment System (AIPS) for large-value payments and Regulation On the functioning of the Albanian Electronic Clearing House (AECH) for small-value payments to promote the use of payment services provided by the banking system and reduction of cash in the Albanian economy. These amendments consist in:

- Increasing the limit value for payments processed in the AECH, from ALL 1 million to ALL 1.5 million so as to encourage its use by banks as a result of more favourable fees offered currently by the system.
- Adding clearing sessions in the AECH to enable banks to settle their payments for clients in almost real time for a low fee. Moreover, the decision envisages the application of different fees by session. Differentiation of fees by session encourages the use of the system during the early hours of the day as the fee for the first session is twice cheaper than the one for the last session. This encourages even distribution of payments during the day.
- Changing banks' participation fees in AIPS and AECH vis-à-vis the request to lower the fees they apply on clients for payment services.
- Changing participation agreement in AIPS and AECH so as to define a ceiling price, which banks may apply on their clients for payments/transactions that are processed through these systems. This change is expected to have a direct effect on easing transaction costs for the general public, in order to promote wider use.

ALBANIAN INTERBANK PAYMENT SYSTEM (AIPS) FOR LARGE-VALUE PAYMENTS

In 2011, about 75,269 transactions totalling about ALL 4,085 billion were processed in AIPS. Annual transactions processed in this system fell about 6.33% in volume and about 7.92% in value from 2010.

From a longer-term perspective, despite the year-on-year reduction of the number of transactions settled during 2011, their level is significantly higher compared to 2007-2009. On the other hand, reduction of the value of transactions in AIPS in 2011 appears to have confirmed the trend observed for the third successive year, mainly due to the decline in transactions initiated by the Bank of Albania, which account for the main share in the total transactions value.

Table 1 AIPS system

AIPS system	2007	2008	2009	2010	2011
Number of transactions	45,480	56,717	55,701	80,356	75,269
Value of transactions (ALL billion)	3,745	5,146	4,718	4,437	4,085
Average value per transaction (ALL million)	82	91	85	55	54

Source: Bank of Albania.

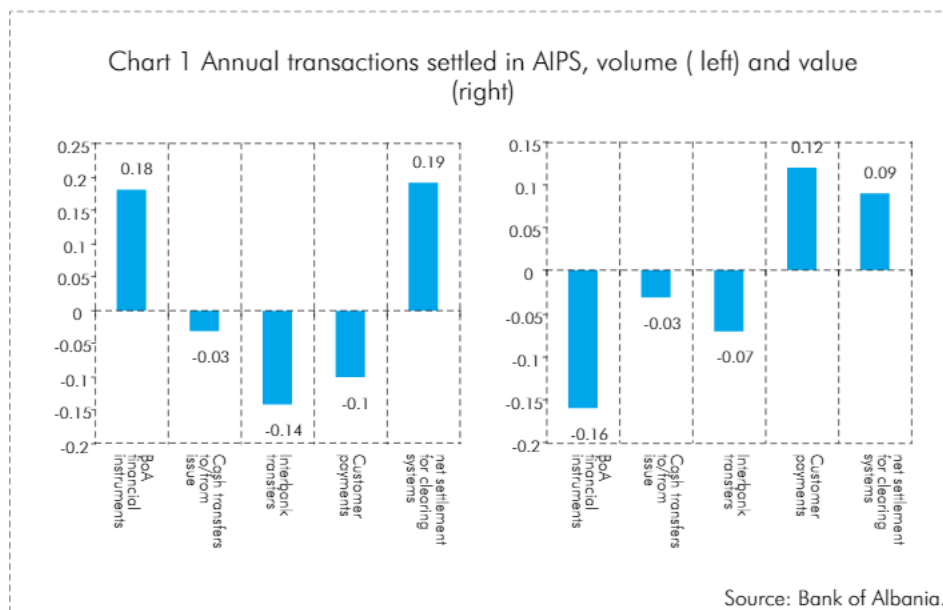
Types of transactions processed and settled in 2011 show that the decline in the number of transactions is generated by the combined, mainly downward effect of interbank payments and customer payments.

Table 2 Types of transactions in AIPS

Transactions	Number		Value (ALL millions)	
	Absolute value	Relative share	Absolute value	Relative share
Bank of Albania financing instruments	3,265.00	4%	1,787,589	44%
Cash transfers to/from the Issue	8,466.00	11%	212,449	5%
Inter-bank payments	6,912.00	9%	775,053	19%
Customer payments	49,140.00	65%	738,017	18%
Net settlement for clearing systems	7,486.00	10%	571,951	14%
Total	75,269.00	100%	4,085,059	100%

Source: Bank of Albania.

The reduced use of financial instruments by the Bank of Albania over this period points to better liquidity situation of banks and lack of additional pressures from liquidity or bank risks. Banking system's good liquidity situation reflects not only higher deposits in the system, but also the performance of the credit demand by the private sector. In addition, slow aggregate consumption affected the performance of the currency outside banks, which dropped 3.1%, from a year earlier. This development is reflected in the reduction of transactions from/to the Issue Department, most of which consist in cash received by the Bank of Albania.



On the other hand, the increase in value of customer transactions, combined with the decrease in number of transactions of this category, reflect the shift of transactions from AIPS to AECH, as a result of increasing the upper limit for transactions cleared in AECH, from ALL 1 million to ALL 1.5 million. During 2011¹, the number of transactions over ALL 1 million cleared in AECH was up by 11,054 transactions. Lastly, net settlement for clearing systems was upward.²

¹ These calculations refer to March-December 2011, as measures taken by the Bank of Albania entered into force in March 2011.

² This item includes transactions for net settlement results for clearing systems such as: clearing of small-value payments in AECH, clearing of ALL bank and personal checks, net settlement for issuance/maturity of government securities and net settlement for results of ALL payments with VISA and MasterCard. For these services, the Bank of Albania is the settling agent.

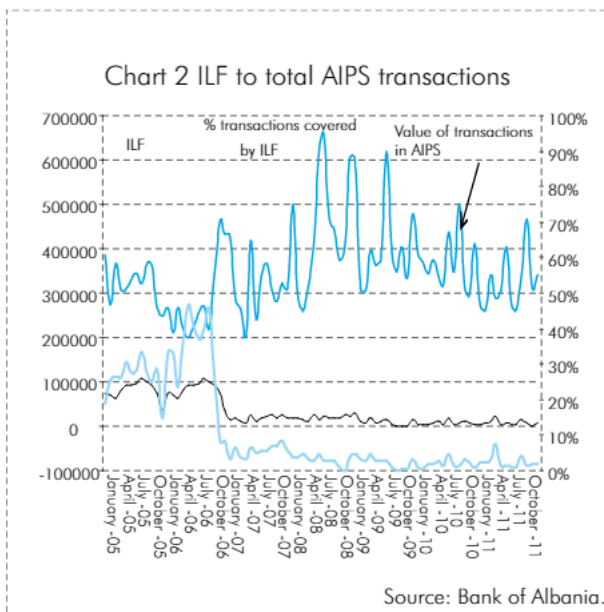
The concentration indicator shows the share of most active banks to total activity in AIPS. Thus, the four most active banks in AIPS account for 23.4% in volume and 38.0% in value, slightly down by 0.1 percentage points in value from 2010.

Table 3 Concentration indicators for AIPS

AIPS	Number of transactions	Value of transactions (in ALL billion)
Four banks ¹	17,613.00	1,551.00
Share to total (%)	23.40	38.00
Total	75,269.00	4,085.00

Source: Bank of Albania.

¹ Excluding the Bank of Albania.



In 2011, the need of AIPS participants for intraday liquidity was lower than a year earlier. Banks were granted 200 Intraday Loan Facilities (ILFs)³ totalling ALL 84.39 billion, showing downward volume and value of ILFs, 28% and 12%, respectively.

In addition, the ILFs, throughout the period, were downtrend, which implies increasingly significant reduction of funding AIPS transactions with ILFs. Lower ILF/total AIPS transactions shows increasingly significant weakening of the liquidity risk in the system after 2007. This trend reduced even further after 2009, mainly as a result of the Bank of Albania's decision to raise the limit (from 20% to 40%) for banks to use the required reserve in Albanian Lek for intraday liquidity needs.

- **ALBANIAN ELECTRONIC CLEARING HOUSE (AECH) FOR CLEARING SMALL-VALUE PAYMENTS**

The Albanian Electronic Clearing House (AECH) processes and clears customer payments below ALL 1.5 million. Following the membership of Veneto Bank as a direct participant in AECH, at the beginning of 2011, all the banks and branches of foreign banks operating in the Republic of Albania are direct participants in this system.

In 2011, in AECH, 388,208 payment orders were cleared in total, amounting to ALL 64 billion. On average, about 1,534 payments⁴ with an average daily value of ALL 253.35 million were processed every day in the AECH. Year-on-year, the volume and value of payments cleared in 2011 in the AECH were up by 16.66% and 45.76%, respectively.

³ ILF is a financing instrument provided by the Bank of Albania to assist with intraday liquidity the banks that participate in the payment systems operated by the Bank of Albania.

⁴ AECH and AIPS systems were operated for 253 days in total during 2011.



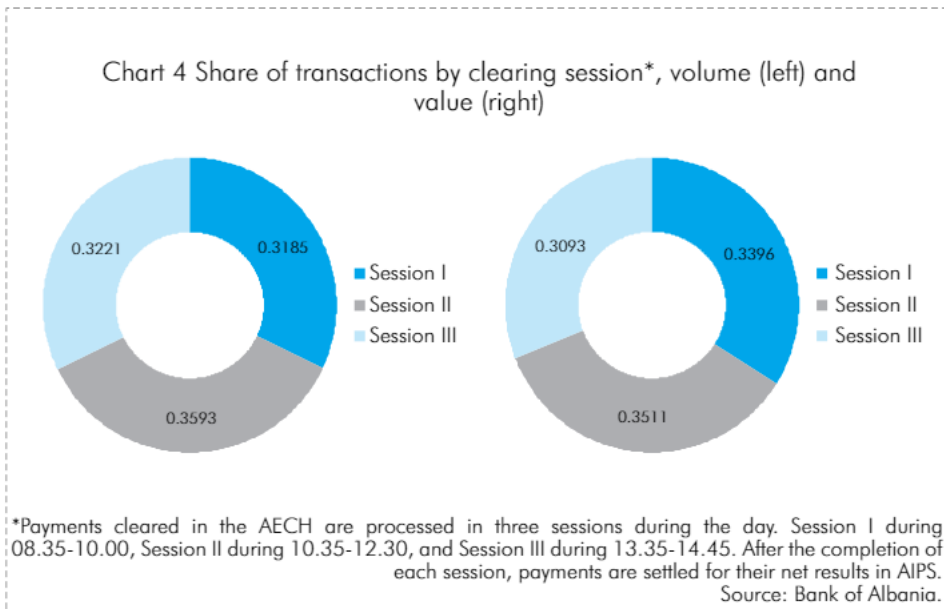
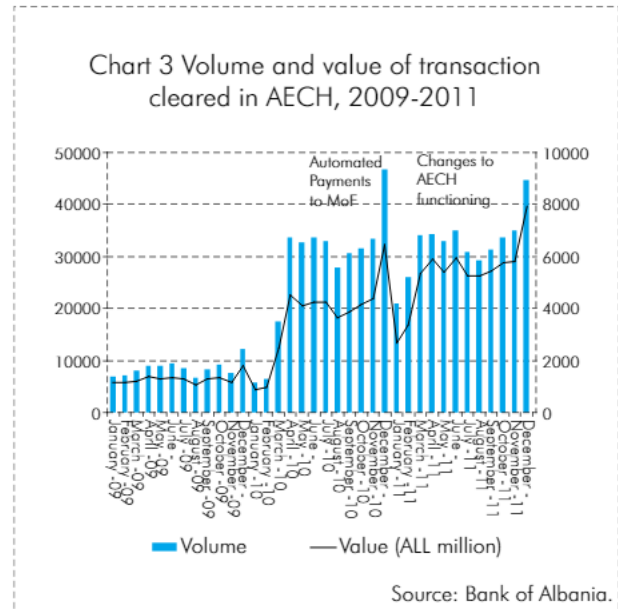
AECH	January – December 2010	January-December 2011
Number of transactions	332,777	388,208
Value of transactions (ALL million)	43,976.43	64,097.88
Average transaction value (ALL million)	0.13	0.17

Table 4 AECH activity, 2010-2011

Source: Bank of Albania.

The uptrend of the volume and value cleared through the AECH, beyond the statistical effect of the low comparative base of the first two months of 2010 – prior to the automation of Ministry of Finance’s Treasury payments in March 2010 – reflects to a considerable extent the increase of the upper limit for transactions cleared in AECH from ALL 1 million to ALL 1.5 million, as well as relevant measures for cost reduction.

Another important factor for the activity of the AECH is the addition of a clearing session and differentiated fees/costs by session. The combined effect of these two measures appears to have achieved the goal for more even distribution of transactions between sessions with the ultimate goal to reduce transactions cleared during the last session and avoid any additional risks on the well functioning of the payment systems.



The concentration indicator shows the share of most active banks in the system to total activity of the AECH. The four most active banks account for 12% in volume and 16% in value, slightly up by 0.1 percentage points in value, from 2010.

Table 5 Concentration indicator for AECH

AECH	Number of transactions	Value of transactions (ALL billion)
Four banks ²	48,693	9,9970
Share to total (%)	12	16
Total	338,208	64,097

Source: Bank of Albania.

² Excluding the Bank of Albania.

VII.1.2 PAYMENT INSTRUMENTS

Statistics from banks' reporting reveal that as at end-2011, customer accounts, available for payments in the national or foreign currencies, were up by 7.7%, which is more moderate than the increase by 17.2% in 2010. The customer account structure by customer characteristics shows that, in 2011 as well, resident customer accounts prevailed with 99%. Furthermore, by account description, the trend was towards households' accounts, whose share rose to 94% at end-2011 from 92% at end-2010.

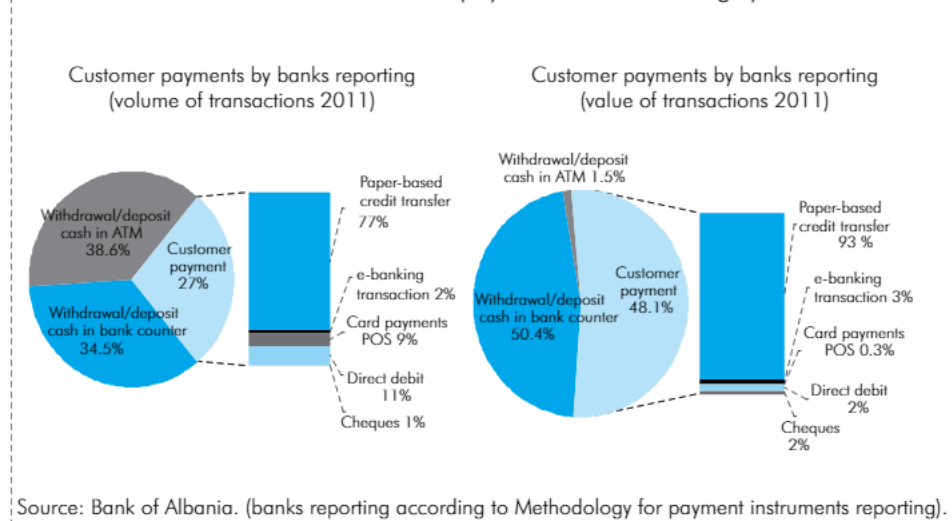
Table 6 AECH activity 2009-2011

Account description	Total customer accounts			Accessible online		
	2009	2010	2011	2009	2010	2011
Customer accounts (1+2)	2,086,143	2,446,495	2,634,971	15,034	27,368	37,138
1-resident accounts (a+b)	99%	99%	99%	97%	97%	98%
a - households (%)	91%	92%	94%	65%	66%	75%
b - businesses (%)	9%	8%	6%	35%	34%	25.3%
2-non-resident accounts (c+d)	1%	1%	1.2%	3%	3%	1.95%
c - households (%)	96%	94%	87%	88%	80%	78%
d - businesses (%)	4%	6%	12.2%	12.0%	20.0%	21.6%

Source: Bank of Albania. (banks reporting according to Methodology for payment instruments reporting).

Customer payments were also up in 2011, both in volume and in value. Specifically, during January – December 2011, about 8 million customer payments were made totalling ALL 3,899 billion and rose, year-on-year, in volume and value by 8.97% and 14.75%, respectively.

Chart 5 Share of customer payments in the banking system



The overview of customer payments reveals the prevalence of cash withdrawal and deposit at both bank counters and ATMs, whereas customer payments through payment instruments account for only 1/3 of the total.

Customer payments by instrument and currency show that payments in the national currency account for 84%⁵ in volume and 50% in value of total customer payments. Moreover, ALL crediting transfers continue to dominate customers' preferences (about 79.69%), of which 97.54% are paper based. Electronic payments retained low levels over this period as well, accounting for about 2.46% to the total share.

Table 7 Share of customer payments in the banking system by payment instruments

Customer payment services	Payments in Lek		Payments in foreign currency		Total payments	
	Volume	Value (ALL billion)	Volume	Value (ALL billion)	Volume	Value (ALL billion)
I. Customer crediting transfers	79.69%	94.88%	76.36%	95.59%	79.15%	95.23%
of which:						
1. Paper-based crediting transfer	97.54%	97.77%	94.45%	96.72%	97.05%	97.25%
2. E-banking crediting transfer	2.46%	2.23%	5.55%	3.28%	2.95%	2.75%
II. Card payments at POS terminals	7.79%	0.20%	17.31%	0.36%	9.33%	0.28%
of which:						
1. Payments through debit cards	64.55%	49.73%	53.02%	39.45%	61.09%	43.23%
2. Payments through credit cards	35.57%	50.27%	46.98%	60.55%	38.91%	56.77%
III. Direct debit	12.00%	2.13%	4.28%	2.45%	10.75%	2.29%
IV. Cheques	0.52%	0.82%	2.05%	1.59%	0.77%	2.20%
Total Payments (I+II+III+IV)	6,739,920	1,984,008	1,298,661	1,915,432	8,038,656	3,899,439

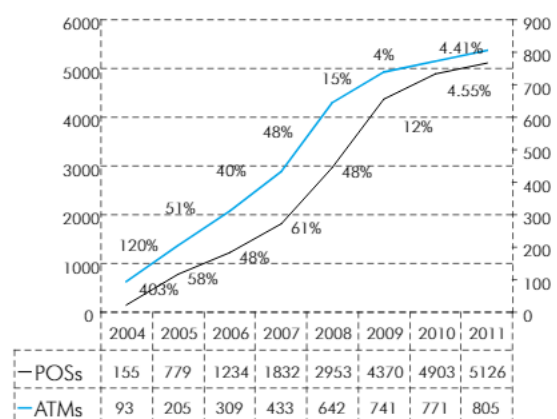
Source: Bank of Albania. (banks reporting according to Methodology for payment instruments reporting).

The number of banks licensed as card issuers⁶ in the Republic of Albania, as at end-2011 was 14, unchanged from end-2010. Of banks licensed as card issuers, only 7 banks are also licensed as card acceptors.⁷

As regards infrastructure, the number of ATM and POS terminals at end-2011 was up 4.4% and 4.5%, respectively, from end-2010.

Bank reports on distribution of ATM and POS terminals in 2011 show their concentration in most developed regions and industrialised areas of the country. Tirana has the largest share, that is 55% to total ATM and 78% to total POS terminals.

Chart 6 Number of ATM and POS terminals and their trend during 2004-2011



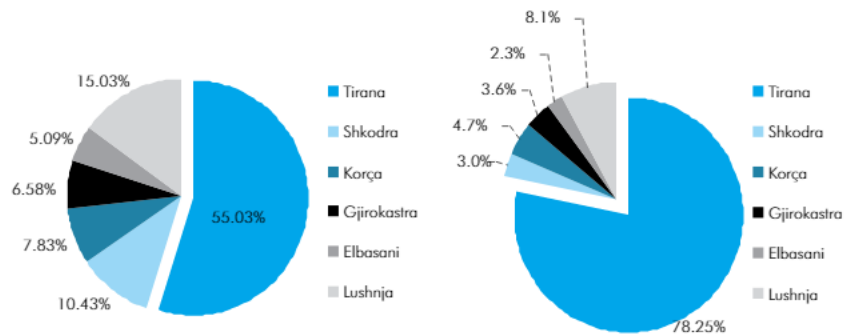
Source: Bank of Albania.

⁵ Payments in foreign currencies accounted for 14% to total customer payments at end-2011.

⁶ These banks provide cash withdrawal from ATMs.

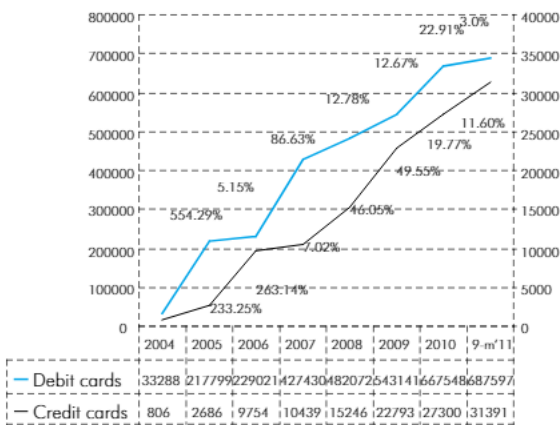
⁷ These banks provide card payment acceptance through POS terminals installed in stores, restaurants, hotels or shopping centres.

Chart 7 Distribution of ATM and POS terminals by Region* in 2011



*Banks reporting refers to territorial division of the country according to branches of the Bank of Albania. Source: Bank of Albania. (banks reporting according to Methodology for payment instruments reporting).

Chart 8 Number of cards by function and their annual uptrend

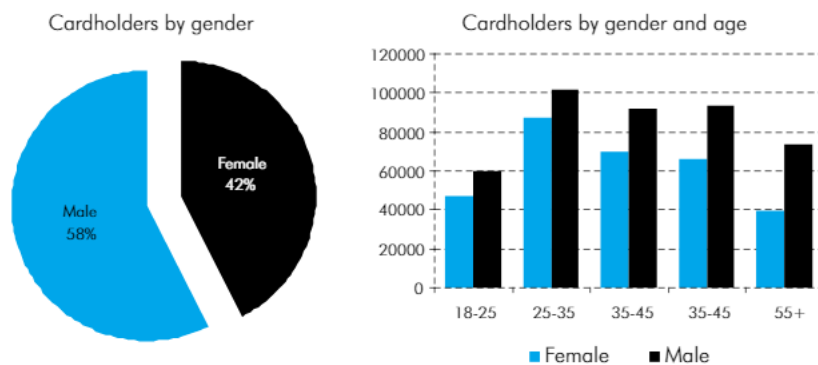


Source: Bank of Albania. (banks reporting according to Methodology for payment instruments reporting).

Cards are a payment instrument whose use is relatively widespread in Albania. Their use, however, is considered to be lower than in other countries of the region and Albania's potential, taking into account that the share of customer accounts remotely accessible, through a debit or credit card, is 28% to total customer accounts.

As at end-2011, the number of cards in circulation rose 5.3% from the corresponding period of a year earlier. By function, credit cards increased 39%, against the 4% of debit cards. According to banks' reporting, debit cards accounted for 95% to total cards in circulation at end-2011, from 96% at end-2010.

Chart 9 Cardholders by gender and age, as at end-2011



Source: Bank of Albania. (banks reporting according to Methodology for payment instruments reporting).

As regards cards operators, VISA has the biggest share, about 82 % to the total, followed by MasterCard. Maestro and American Express have the smallest share. Only two banks issue local cards, which account for 1% to total cards in circulation.

By cardholders' gender and age, 25-35 year-old males dominate the group.

Card transactions by category	Volume		Value (in ALL million)	
	2010	2011	2010	2011
1- ATM cash withdrawal	9,877,583	10,778,879	100,058	106,660
2- ATM depositing	47.00	11.00	0.23	0.10
3- ATM transfer orders	260.00	277.00	6,31	5.72
4- Cash withdrawal at POS terminals	1,654	2,088	358	404
5- Card payments at POS terminals	527,411	750,397	7,438	10,914
of which:				
- payments through debit cards	322,230	458,067	3,151	4,719
- payments through credit cards	205,181	292,330	4,287	6,195
Total card transactions	10,406,955	11,531,652	107,861	117,980

Table 8 Share of card transactions by terminal

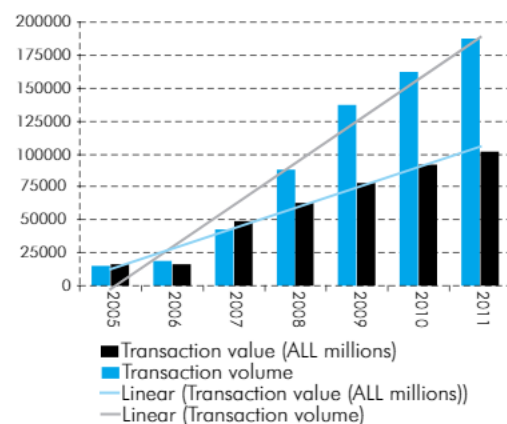
Source: Banks reporting according to Methodology for payment instruments reporting.

The increased number of (debit and credit) cards appears to have been followed by increased card transactions, mostly for cash withdrawal. In 2011, about 11.5 million card (ATM and POS) transactions, equal to ALL 118 billion, were processed in total. Of total transactions, about 93.5% were cash withdrawal from ATMs and only 6.5% were customer payments through cards at POS terminals. Card payments at POS terminals point to predominantly debit card transactions. However, in terms of value, credit card transactions are significantly higher than debit card ones.

Recently, home banking services⁸ are increasingly expanding. After the introduction of this product in 2005 by a bank in the system, as at end-December 2011, home-banking services were provided by 11 banks. Expansion of these services is reflected also in the annual growth (35.6%) of remotely-accessible accounts. The upward number of these accounts is followed by upward home-banking transactions in terms of both volume and value at end-2011, by 15.4% and 11.8%, respectively. During 2005-2011, home-banking transactions expanded more in volume than in value.

The above-mentioned development may factorise an extension of the use of this instrument to a wider range of users. More specifically, while this instrument was initially provided by only one bank

Chart 10 Volume and value of home-banking transactions, 2005-2011



Source: Banks reporting according to Methodology for payment instruments reporting

⁸ Home banking allows remote access of the bank account via internet or telephone connection or a software that the bank provides to its customers.

and was destined for large companies, boosted competition in this market segment and the subsequent decrease of costs as well as familiarisation of the public with this alternative payment instrument led to its use by other user categories.

VII.1.3 BANK OF ALBANIA AS A SUPERVISOR AND REFORMER OF THE NATIONAL PAYMENT SYSTEMS

The Bank of Albania has paid particular attention to the accomplishment of its medium- term objectives in the regulatory and operational framework of the payment systems. It has intensified its efforts to strengthen payment systems oversight, improve the necessary technology infrastructure and contribute to the development of new payment products/instruments in Albania.

Since 2010, the Bank of Albania has been involved in a twinning project, under IPA 2008⁹, with the Bank of Italy in cooperation with the Bank of France. The main objectives of this project are supervision capacity building and payment systems development.

In line with completing the draft law “On Payment Systems”, which aims at promoting active and prudent payment systems oversight throughout its components, the Bank of Albania, with the support of foreign expertise, is working to draft the relevant bylaws pursuant to provisions of this draft law. These bylaws aim at regulating the licensing and supervision of all payment and settlement systems, as well as accomplishing obligations of the central bank conform to fundamental principles on payment systems based on best international practices.

With regard to approximation of Albania’s legislation with the *acquis communautaire*, the Bank of Albania, with the assistance of foreign expertise, is taking measures to transpose some of the most important EU payment directives, such as Directive 2007/64/EC On payment services in the internal market and Directive 2009/110/EC On the taking up, pursuit and prudential supervision of the business of electronic money institutions and/or best international practices. The above-listed measures aim to enhance transparency on payment systems and electronic money; establish a comprehensive set of rules on rights and obligations of the users and providers of these services with a view to enhance the security and efficiency, as well as strengthen the role of the supervisory authority in these areas.

Particular attention in this project is dedicated to payment systems development. Intensification of efforts to improve procedures on collateral and settling of securities according to the Delivery Versus Payment (DVP) methodology, conform to EU /ESCB standards is an important step forward in this regard. The focus of the Bank of Albania has been on the promotion of payments instruments and improvement of interbank payment procedures.

⁹ IPA 2008 “Strengthening the institutional capacity of the Albanian Central Bank”.



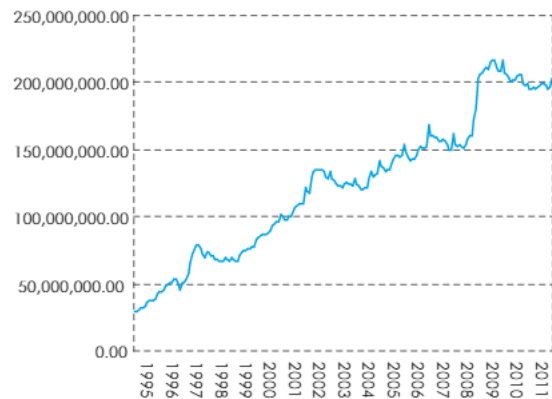
To promote cooperation between providers and users of the payment systems, including all stakeholders, the Bank of Albania is working to enhance the structure and role of the National Payment Committee¹⁰ to adopt rules and procedures in accordance with the current market needs. The re-activation of this Committee is expected to contribute significantly to achieving many objectives and initiatives on payment system development and objectives of the central bank to be a promoter of financial infrastructure development in Albania.

VII.2 MONEY ISSUE

- BANKNOTES IN CIRCULATION¹¹**

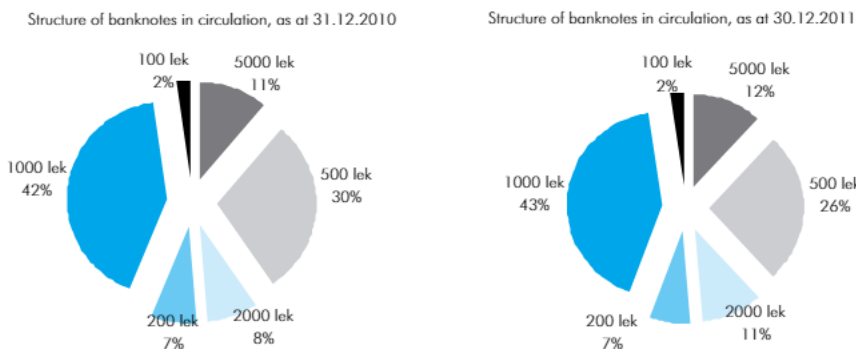
At end-2011, there were 145,211,383 banknotes in circulation, worth about ALL 199.85 billion. Compared to 2010, their number was down 5%, but their value was up 0.1%. This phenomenon is explained by the slight change in the structure of banknotes in circulation. The number of 2000-Lek banknotes in circulation was significantly up by 22%, in 2011. The circulation of the 500-Lek banknote followed the opposite trend and fell 15.8%.

Chart 11 Currency in circulation 1995 – 2011 (in 000 Lek)



Source: Bank of Albania.

Chart 12 Structure of banknotes in circulation, 2010-2011



Source: Bank of Albania.

¹⁰ The Committee was established in 1996, following recommendations by IMF technical assistance missions. It intensified its work during 1999-2002 to achieve some inter-bank agreements and undertook huge reforms on automating and improving the payment system, providing the banking system with two modern systems for clearing and settling ALL payments, (AIPS/RTGS and AECH/Clearing House).

¹¹ Volume and value of banknotes put in circulation by the Bank of Albania.