

Along the year, based on communications with representatives of banking and financial institutions, work started for identifying changes or improvements needed to enable the Credit Registry to make more qualitative credit risk analyses.

I.3. PAYMENT SYSTEM AND CURRENCY ISSUANCE

I.3.1. PAYMENT SYSTEM

- Reforming and oversight of payment systems is taking more and more space in central bank development strategies, especially after the effects identified in financial market infrastructure during the global financial crisis. Supervisory principles of financial market infrastructure, published by the Bank for International Settlements (BIS) in April 2012, underscore the central bank's need to support the oversight function of payment and settlement systems with a clear legal mandate. Aiming to materialise the above mentioned needs into the Albanian context, the Bank of Albania took necessary steps for drafting and passing by the Albanian Parliament of the law "On Payment System", no. 133, dated 29.04.2013.*

The law "On Payment System" aims to mandate the Bank of Albania through a special legal framework for payment systems' regulation, licensing and oversight, in accordance with the legal objectives of this institution. Law approval implies liberalization of the payment system market, by creating private payment systems. The Law "On Payment System" aims to promote security, stability and efficiency in the Albanian national payment systems, and to define tools, procedures and rules for finality of settlements in the systems and financial collateral arrangements. More specifically, the law aims to minimize the systemic risk, which relates to participation in payment and securities settlement systems, and in particular to risks associated with the insolvency of a participant in the system. In terms of financial collateral, it provides a national legal framework applicable for creation, validation and implementation of certain types of financial collateral arrangements. Also, it aims to minimise potential obstacles for effective use of the financial collateral arrangements. The above objectives have been achieved by implementing the internal legal framework for two very important directives on payments - directives "On payment settlement finality in the payment and securities settlement systems" (Directive 98/26/EEC) and "On financial collateral" (Directive 2002/47/EC).

Approval of the law "On Payment System" provided the necessary room for regulating the national payment systems through specific regulations. In this context, decision No. 42, dated 06.26.2013 by Bank of Albania's Supervisory Council adopted the regulation "On regulating, licensing and overseeing operators of national payment schemes". The purpose of the regulation is to provide the necessary room for promoting private initiatives in creating the infrastructure needed for the domestic card payment market. More specifically, the provisions of the regulation on licensing operators of card payment schemes, entitle legal persons to create national card payment schemes, including the national processor's role. In this context, this regulatory act intends to promote competition in the Albanian card payment market

and then lower the card payment costs in the domestic market. So far, large international companies have dominated this market.

Implementation of the above measures in the Albanian market led to licensing of the first operator of the national card payment scheme in October 2013. In this regard, it is worth noting that the establishment of the regulatory framework and the licensing of the national card payment scheme operator is the first step of the Bank of Albania toward regulating, licensing and overseeing all important elements of the payment systems.

In infrastructure developments, the Bank of Albania has undertaken two major projects that will improve the financial market infrastructure. In 2013, the Bank of Albania focused on upgrading the AIPS and AECH systems operated by the Bank of Albania to make these systems comply with the EU standards. Also, in completing the basic financial market infrastructure, the Bank of Albania is working to create a Central System for Settlements and Security Registration, which will allow for further development of the secondary market and will guarantee settlement of transactions in this market in accordance with the best international standards.

Finally, for promoting the use of electronic payment instruments and curtailing use of cash in the economy, the Bank of Albania has taken concrete steps for implementing electronic money and its institutions in the Albanian market, based on the EU Directive 2009/110/EC. Implementing this directive would not only expand the range of payment instruments in the Albanian market but would also promote competition in this market segment. Also, creating this alternative payment method in line with the international experience would be applied for a wide spectrum of payment needs and would help and promote the financial inclusion of the population.

Functioning of the basic national Lek payment infrastructure has displayed safety and efficiency.

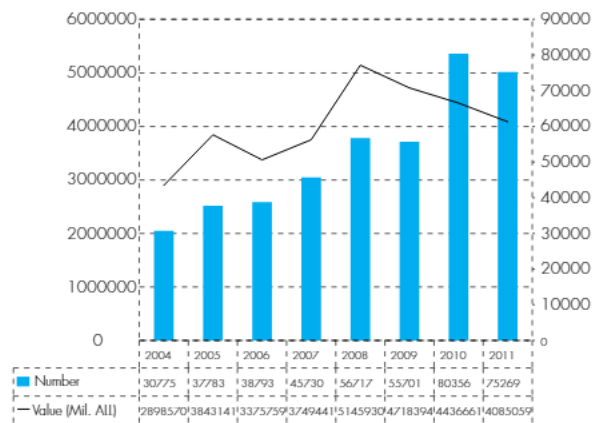
During 2013, the functioning of the basic national Lek payment infrastructure displayed safety and efficiency, which are necessary characteristics for meeting Bank of Albania's objective on payment systems, hence contributing to supporting the efficient implementation of monetary policy, maintaining financial stability and public confidence in the national currency.

The systems operated and managed by the Bank of Albania - "Albanian Interbank Payment System (AIPS) for large payments" and "Albanian Electronic Clearing House (AECH) for clearing small-value payments" - have operated in line with the relevant rules and procedures, without reflecting any significant deviations from clearing and settlement schedules, and lacking any extraordinary situations. At end-2013, all commercial banks operating in the Republic of Albania turned out to be direct participants in the systems. Since 2011, the Ministry of Finance has also been an indirect participant in these systems, being considered as the main generator of payments in the AECH system, accounting for about 73 % of the total transactions, while in the AIPS, due to the nature of the system, the share of transactions accounted for about 25% of the total payments.

PERFORMANCE OF AIPS AND AECH

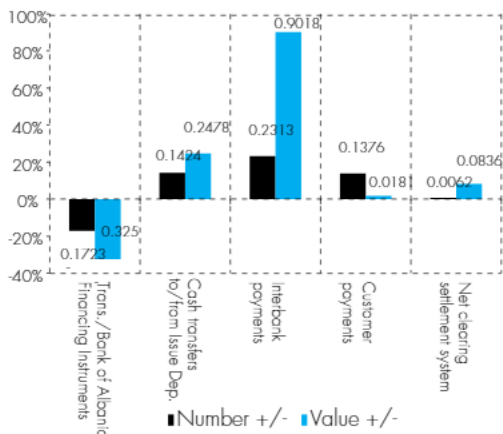
Statistical indicators of the AIPS and AECH showed an upward trend in number and value during 2013. Developments in the activity of both systems were materialised into adequate liquidity conditions in the market.

Chart 27 Value and number of transactions processed in the AIPS



Source: Bank of Albania.

Chart 28 Annual changes (2013-2012) in types of transactions settled through the AIPS, by number and value



Source: Bank of Albania.

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

During 2013, about 86,350 transactions, with an average value of ALL 80 million per transaction were processed in AIPS, showing increase in the number and value of transactions, by 12% and 2%, respectively, compared to the same period a year ago. From a longer-term perspective, the liquidity circulating through the AIPS continued to increase, reaching in 2013, the highest number and value of transactions processed since the creation of the system.

Distribution of transactions by typology in the AIPS dictates a substantial contribution to increasing the value and number of processed transactions of "Interbank payments", and "Customer payments", while "Bank of Albania Financing Instruments" continued to fall during 2013.

From the customer payment perspective, the above developments reflect the implementation of measures* taken by the Bank of Albania to promote the use of AIPS and AECH. The performance of 'Interbank payments' and 'Bank of Albania financing instruments' reflect the interbank market liquidity conditions.

Concentration indicator, which measures the share of the four most active banks in the total activity through the AIPS, was 56.88% in number and 68.68% in value, in 2013. In terms of the number, it increased slightly from 51.38% in 2012, but in terms of the value it dropped from 73.34% in 2012.

The number of Intraday Loan Facility (ILF)** applied in 2013 increased to 264, totalling ALL 252.5 billion. On a year earlier, this performance implies increase to 178% in the value and slight increase by 2% in the number of the ILFs. The needs for intraday liquidity were limited in time and segments, and did not reflect the behaviour of the overall market. Despite the considerable increase in

the absolute value of this instrument, in relative terms, the needs for covering total transactions processed in the AIPS with ILF have reached record lows since the creation of this system, reflecting the decline in the liquidity risk.

* By decision No. 12, dated 23.02.2011, Bank of Albania's Supervisory Council decided on the AECH: increase in value of the limit from 1 million to 1.5 million in the AECH, addition of a third clearing session in the AECH, differentiated tariffs during the sessions and reduction of commissions and tariffs for this system, as well as setting of a maximum value of ALL 500 on bank commissions for ALL payments cleared in the AECH. For the AIPS: reduction of commissions and tariffs for this system, as well as setting of a maximum value of ALL 1500 for bank commissions for ALL payments cleared and settled in the AIPS.

** The intraday loan facility (ILF) is a financing instrument provided by the Bank of Albania to provide intraday liquidity to banks participating in the payment systems operated by the Bank of Albania.

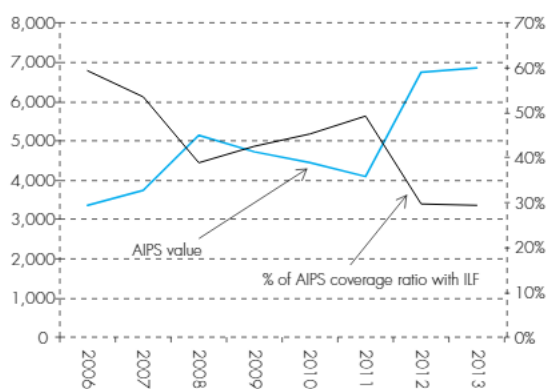
AIPS upgrading innovations, undertaken by the Bank of Albania during 2013, which will become live in early 2014, are expected to bring about value added in minimising the liquidity risk.

AECH – ALBANIAN ELECTRONIC CLEARING HOUSE FOR SMALL VALUE PAYMENTS

The Albanian Electronic Clearing House (AECH) clears payments below ALL 1.5 million. In 2013, about 363,507 payment orders were processed through this system, with an average value of ALL 72,7 billion, up by an annualised 0.54% in terms of volume and 8.62% in terms of value.

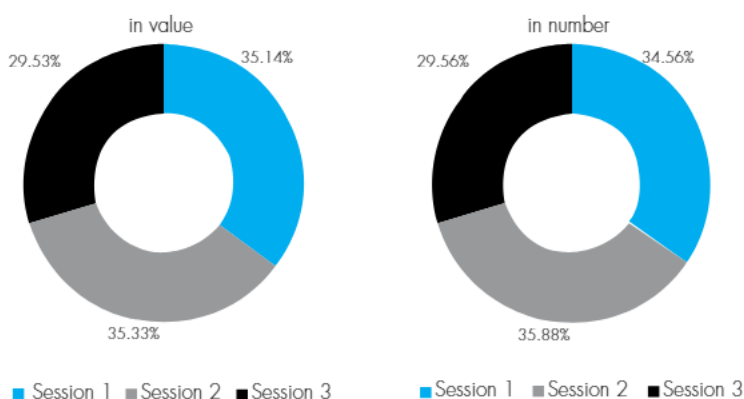
Transactions initiated by commercial banks for the account of their clients and transactions initiated by the Bank of Albania for settlement of liabilities to third parties (including Bank of Albania’s staff) have contributed significantly to increasing the transactions cleared in the AECH. Transactions initiated by commercial banks (accounting for around 23% of the total) and those initiated by the Bank of Albania (accounting for around 3% of the total) increased by 40% and 36%, respectively. Similar to AIPS, increase in the interbank transactions by commercial banks for customer account has reflected the implementation of Bank of Albania’s measures*** to promote the use of interbank transactions. Statements of payments cleared via the AECH during the sessions, show an almost even distribution of transactions in the first and second sessions and a reduction of their flow in the third and last session. The above development reflects Bank of Albania’s measures*** taken on February 2011, which aim to avoid overloading in the flow of payments in the last clearing session, and hence minimising additional risks for a smooth operation of the payment systems.

Chart 29 Value of transactions processed in AIPS and the coverage ratio of these transactions with ILF



Source: Bank of Albania.

Chart 30 Share of AECH transactions (in value and number) by sessions, in 2013



Source: Bank of Albania.

In terms of concentration of activity in the AECH, four most active banks in this system have a share of 60.91% in number and 70.90% in value, showing an increase in this indicator relative to 2012 (59.75% in number and 66.35% in value).

***By decision of Bank of Albania’s Supervisory Council, No. 12, dated 23.02.2013.

Use of payment instruments and their potential have trended up

Banks' statistics show increase in the use of payment instruments and their potential, being reflected in increase in current accounts and percentage of these online-accessible accounts. By end-2013, the number of customer current accounts in lek or in foreign currency increased by 7.1%. It is worth noting that during this year the number of online-accessible customer accounts has doubled.

During 2013, there were made around 8.7 million customer payments totalling ALL 3,624 billion, recording an annual increase by 9% in number and a decline by 5% in value compared to 2012.

Table 10. Share of customer payments by payment instrument in the last three years

Customer payment services	2012		2013	
	Number	Value	Number	Value
I. Customer credit transfers,	75.50%	95%	74%	97%
of which:				
1. Paper-based credit transfer	96.40%	96.69%	95%	97.12%
2. E-banking credit transfer	3.50%	3.32%	5.00%	2.88%
II. Card payments at POS terminals,	12.70%	0.36%	17.25%	0.35%
of which:				
1. Payments through debit cards	59.20%	35.30%	57.78%	45.87%
2. Payments through credit cards	40.70%	64.60%	42.22%	54.13%
III. Direct debit	6.40%	0.10%	7.76%	0.61%
IV. Cheques	0.72%	2.20%	0.57%	2.35%
Total payments (I+II+III+IV), in ALL billion	8,316,444	3,633,448	8,674,708	3,624,336.64

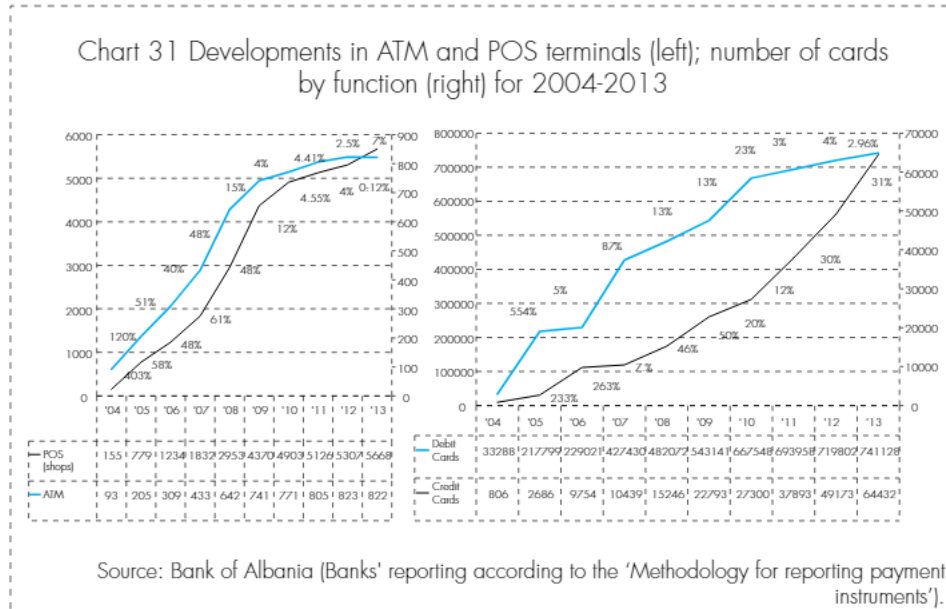
Source: Bank of Albania (Banks' reporting according to the 'Methodology for reporting payment instruments').

Home banking services are increasingly expanding in the Albanian market. After their introduction in 2005 by one bank of the system, at end-2013, 11 banks provided home-banking services. The increasing number of online-accessible customer current accounts is followed by an increasing number of home-banking transactions, up by 37% from 2012.

In 2013, the number of cards in circulation increased by 5% from 2012. By function, credit cards increased faster than debit ones, though the latter have the largest share (92%) in total cards in circulation.

The increasing number of debit and credit cards has been associated with increase in card transactions, mostly for cash withdrawal. In 2013, about 13.2 million (ATM and POS) card transactions were processed, equal to ALL 130 billion. Of total transactions, about 88.7% were cash withdrawals from ATMs and only 11.3% were customer payments through cards at POS terminals. Card payments at POS terminals point to domination of debit card transactions by about 57.8%. However, in terms of value, credit card transactions are significantly higher than debit card ones.

Analysis of the infrastructure of banks licensed as card issuers³⁴ in 2013 shows a slightly lower number of ATMs, down by 0.12% in annual terms. On the other hand, the number of POS terminals offered by banks licensed as card acceptors³⁵ increased by 7%.



Source: Bank of Albania (Banks' reporting according to the 'Methodology for reporting payment instruments').

Developments in the banking system infrastructure for supporting electronic trading in Albania have led to creating, for the first time, virtual POS terminals³⁶ in the Albanian market. Their creation would promote the use of card payments, and hence curtailing use of cash. The banks reported that three virtual POS terminals operated in the Albanian market as of end-2013.

1.3.2. MONEY ISSUANCE

BANKNOTES AND COINS IN CIRCULATION³⁷

As of end-2013, there were 130,503,210 banknotes in circulation, worth ALL 204.372 billion. Compared to 2012, the number of banknotes fell by 5.3%, while their value increased by 3.3%. The change in this indicator was due to change in the structure in the favour of banknotes with a nominal value of 5000 Lek and 2000 Lek. Also, the volume of payment requests from commercial banks increased slightly.

³⁴ Number of banks licensed as card issuers in the Republic of Albania as of end-2013 was 14. These banks provide the service of cash withdrawals from ATMs.

³⁵ Of banks licensed as card issuers, only seven banks are also licensed as card acceptors as of end-2013. These banks provide the service of card payment acceptors via POS terminals at shops, restaurants, hotels and trading centres.

³⁶ The equipment is similar to a regular POS terminal, but it makes transactions via internet or by phone, through online accessible bank cards.

³⁷ It is the number and value of banknotes and coins put in circulation by the Bank of Albania..