

RECOVERY AND RESOLUTION PLANS

At the beginning of 2014, the Supervisory Council of the Bank of Albania approved the document on "Recovery Plans". The document outlines potential recovery measures to ensure the return of banking business to normality, in case various adverse scenarios to it materialise. These measures are conceptualised as solutions for extraordinary situations, which will not apply during the normal business. Recovery Plans aim to reduce the probability of failure of systemically important banks.

II.4. PAYMENT SYSTEMS AND CURRENCY ISSUANCE

II.4.1. PAYMENT SYSTEMS

- *To accomplish its legal responsibilities on payment systems, the Bank of Albania promotes the smooth functioning of the internal payment system in Albania. In order to reach this objective, the Bank of Albania implements three approaches that are complementary and cooperative. The Bank of Albania acts as: (i) system operator, (ii) system overseer, and (iii) system reformer.*

During 2014, Bank of Albania accomplished its functions as operator, overseer and catalyser of the payment system. The Document "Oversight of payment and settlement systems" was reviewed for approximation with the international and European practices in the field of payment systems oversight³⁶. The review provided alignment of the oversight policies of the Bank of Albania with the Law "On Payment System" and approximation of Bank of Albania's functions and policies to those of the European Central Bank. Also, this review provides information to the market on the Principles for financial market infrastructures, published by the Bank for International Settlements in April 2012, implemented in Albania as well.

To accomplish its function as operator and administrator of payment systems, during 2014, the Bank of Albania implemented a set of measures to improve the existing infrastructure (AECH and AIPS), and establish new infrastructures, such as the central Albanian Financial Instrument Settlement and Registration (AFISaR) system. These developments are assessed to contribute considerably in enhancing security and efficiency of the payment systems, and in establishing new premises for the development of the financial markets infrastructure. In this regard, the applicable regulatory framework was updated and improved.

The Regulation "On the organisation and functioning of the National Committee on Payment and Settlement Systems" was compiled with the purpose to promote the Bank of Albania's role as catalyser in the field of payment systems and inter-institutional consolidation of cooperation³⁷. This initiative is based on

³⁶ Decision No. 32, dated 30.04.2014 of the Supervisory Council of the Bank of Albania.

³⁷ Decision No.35, dated 25.06.2014 of the Supervisory Council of the Bank of Albania.

the rights and obligations arising from Article 4 of the Law No. 133/2013, dated 29.04.2013 "On Payment System". The formalisation of interaction among stakeholders will enhance the effectiveness of reforms in the field of payment systems and will accommodate the needs for collaboration beyond the traditional actors in this field. Such a practice is considered indispensable in the light of the international practices, and more concretely those of European Union.

Year 2014 marked improvements related to the quality and range of statistical data for the payment instruments. The Bank of Albania, guided by the best international practices and developments in the services market and payment systems, reviewed the methodology "On Reporting Payment Instruments". The review of the methodology aims at approximating the reporting practices to European Central Bank and Bank for International Settlements standards and provides possibility to extend the analysis and studies at regional and international levels.

Particular attention was paid to research in the field of payments, more concretely to measuring the costs of various payment instruments in the Albanian economy. The Bank of Albania collaborated closely with the World Bank to design the methodology of this research study and collect the necessary data³⁸. This study has been considered as very effective by the central banks of advanced countries in terms of both the fight against using cash in economy, and of identifying the possibilities to cut the costs of using payment instruments in the economy. The study in Albania will support the analysis and understanding of real and social costs of using the payment instruments, the decision-making process in the framework of modernising the payment systems and services, the identification of possibilities for cutting costs depending on the results, and the promotion of the dialogue among market actors based on concrete results.

The basic infrastructure for national payments in lek functioned safely and efficiently.

During 2014, the basic infrastructure for the settlement and clearing of national payments in lek functioned safely and efficiently, hence contributing to supporting the efficient implementation of monetary policy, safeguarding financial stability and upholding 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, preventing thus extraordinary situations.

The regulatory and infrastructural improvements undertaken by the Bank of Albania during 2014 provided added contribution to enhancing the security and efficiency of both systems, AIPS and AECH.

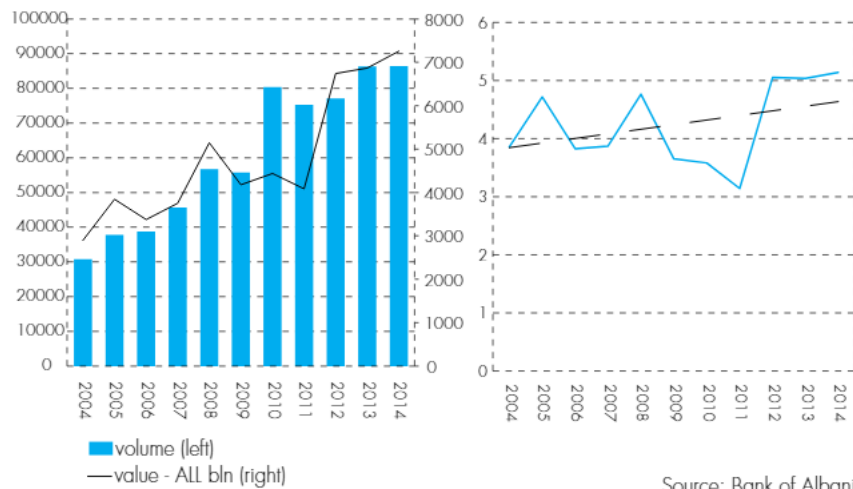
³⁸ Surveys are being conducted for 1000 individuals and 700 businesses and at different public institutions that receive and deliver payments.

BOX 4 AIPS AND AECH SYSTEMS

AIPS - Albanian Interbank Payment System for large-value payments

During 2014, the value of transactions increased slightly, by 5.56% in annual terms, whereas the volume of transactions processed in AIPS was at the same levels with those in 2013. The ratio of the value of transactions processed in AIPS to the Gross Domestic Product increased as well.

Chart 30 Value and volume of transactions processed in AIPS (left); ratio of value of transactions processed in AIPS to GDP (right)

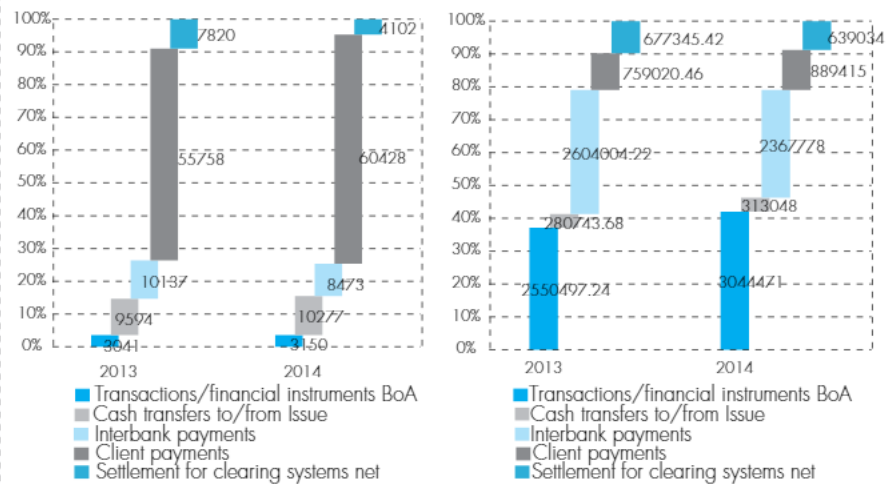


Source: Bank of Albania.

By typology of transactions processed in the AIPS the volume of payments for clients has been increasingly upward. This development is assessed to reflect the transmission of measures taken by the Bank of Albania in March 2011. In terms of value, the presence of the monetary authority in the market increased, while interbank market activity decreased relatively slightly.*

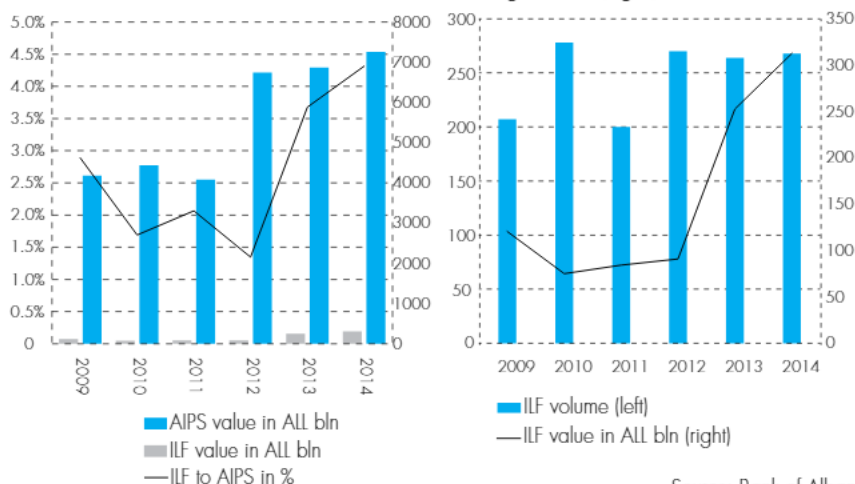
*During 2014, Intraday Loan Facility (ILF)** increased 33.4% annually in terms of value, but remained almost unchanged in terms of number from the previous year.*

Chart 31 Payments processed in AIPS, number (left) and value (right)



Source: Bank of Albania.

Chart 32 Performance of ILF and AIPS and their ratio (left); number of ILFs and the average value (right)



Source: Bank of Albania.

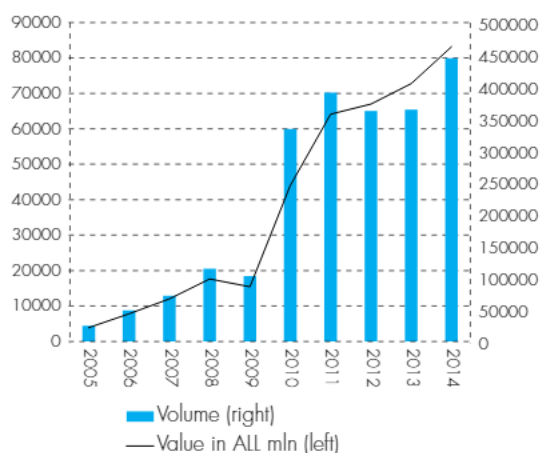
Notwithstanding the increase in terms of value, the ratio of financing the transactions processed in AIPS through this instrument remains considerably low (0.4%), implying a limited exposure of the system against liquidity risk. Also, liquidity needs were concentrated in limited time and segments, thus not reflecting the overall market behaviour.

AECH- Albanian Electronic Clearing House

During 2014, AECH increased in terms of both the volume and value. The volume of cleared transactions rose by 22.13% and their value 14.24%

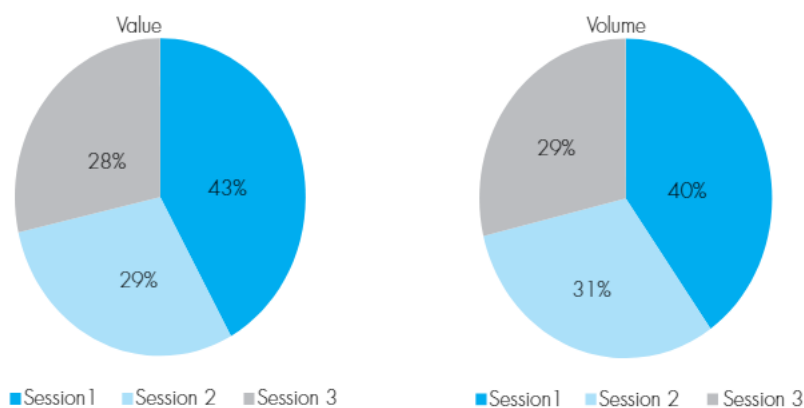
The increase of payments cleared in AECH was due to the combined effect of the increased payments by the Ministry of Finance (the participant with the main share in the system, 54% in terms of volume and 49% in terms

Chart 33 Volume and value of transactions cleared in AECH



Source: Bank of Albania.

Chart 34 Share of AECH transactions by sessions, in 2014



Source: Bank of Albania.

of value) and of payments cleared by banks for the account of their clients. The increase of payments cleared by banks for the third successive year is assessed to reflect the measures taken by the Bank of Albania in March 2011***.

The payments cleared in AECH during the sessions, reveal higher concentration in the first session****, compared to the other two clearing sessions. Prevention of the overload in payment flows during the last clearing session minimises the additional risks in the framework of a smooth operation of the payment systems

* By decision No. 12, dated 23.02.2011, Bank of Albania's Supervisory Council decided on the AIPS the 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.

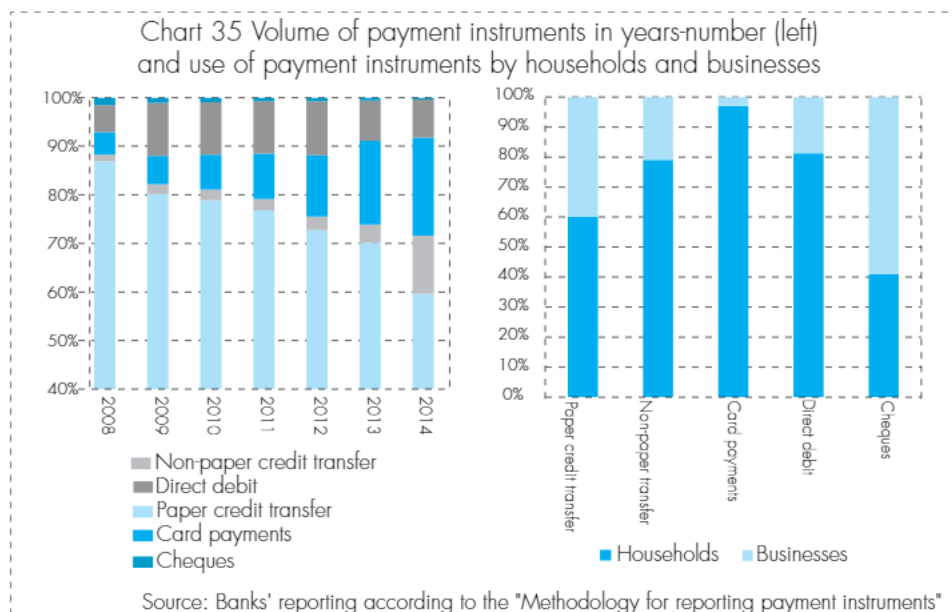
**An important instrument in AIPS is the Intraday Loan Facility (ILF) provided by the Bank of Albania to participating banks for the intraday management of liquidity and to guarantee the continuing smooth interbank functioning of payments.

***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.

****To be highlighted the fact that, tariffs applied on payments settled during the first session are considerably lower than those applied in the third session.

Use of payment instruments, especially of electronic ones, trended up

During 2014, banks' statistics show that about 10.5 million customer payments were made, totalling ALL 4,289 billion, reflecting the 21% annual growth in volume and 18% in value. In 2014, the use of electronic payments instruments, particularly "Home banking" and bank cards services, increased faster.

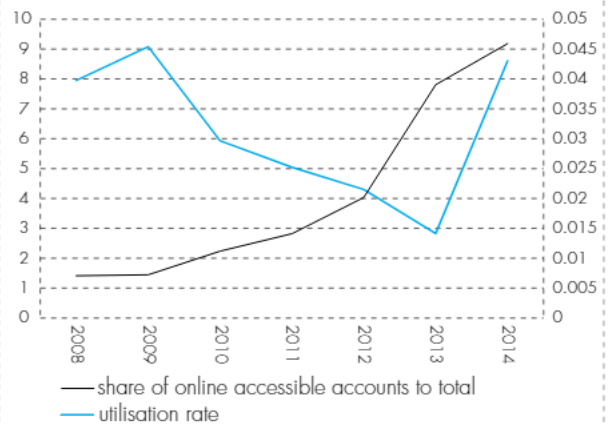


"Home banking services are increasingly expanding in the Albanian market. After their introduction in 2005 by one bank of the system, as at end-2014, 11 banks provided home-banking services.

The increasing number of online accessible customer current accounts, by 27% compared to 2013 (after doubling in 2013), is followed by a quadrupling of home-banking transactions volume during 2014. In addition to the increased market agent's understanding and the broader access³⁹ of the public to this service, it reflects to some extent the more regular reporting by banks, due to the change of the reporting methodology.

Use of online accessible accounts was up. In 2014, averagely 9 transactions were conducted per account, compared to 3 in 2013. This service continues to be more used by businesses (11 transactions per account), compared to households (7 transactions per account).

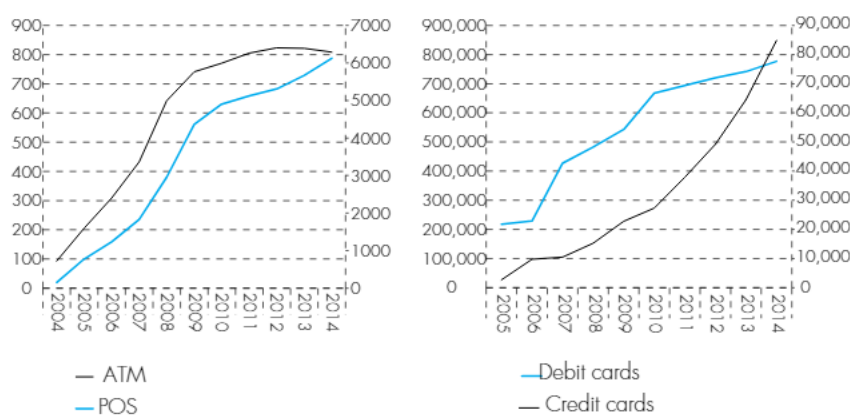
Chart 36 Share of online accessible accounts against total accounts and online accessible accounts utilisation ratio



*Utilisation rate shows the average use of an online accessible account for transactions. Source: Bank of Albania.

Analysis of the infrastructure of banks licensed as card issuers⁴⁰ in 2014 indicates a slightly lower number of ATMs, down by 2% in annual terms. The fall in ATMs number reflects the decisions of banks to close some of their branches. On the other hand, the number of POS terminals offered by banks licensed as card acceptors⁴¹ increased considerably, at 8% in annual terms.

Chart 37 Number of ATMs and POS terminals 2004-2014 (left); and number of debit and credit cards 2004-2014 (right)



Source: Banks' reporting according to the "Methodology for reporting payment instruments"

³⁹ In 2005 this service was introduced as a service mainly tailored for businesses; currently this service is increasingly provided to households as well.

⁴⁰ The number of banks licensed as card issuers in the Republic of Albania, as at end-2014, was 14. These banks provide cash withdrawal services from ATMs.

⁴¹ As at end-2014, 7 banks were also cards acceptors. These banks accept payments via cards through POS terminals in shops, restaurants, hotels or shopping centres.

Notwithstanding the increased POS terminals, their concentration continues to be high in Tirana,⁴² 78%. Out of the total of companies which potentially⁴³ may own a POS terminal, only 12% of them currently own terminals. This figure may be lower when considering that, in some cases, companies own more than one POS.

In 2014, the number of cards in circulation was up by 7% from the previous year. By function, credit cards increased faster, by 32%, compared to debit cards, by 5% in annual terms. Referring to banks reports, as at end-2014, debit cards' share to total cards in circulation decreased slightly, down to 90%, compared to 92% as at end-2013. Notwithstanding the positive growth paces of debit and credit cards, the percentage of accounts accessible through a debit or credit card is relatively low (25%).

Table 9 Share of card transactions by terminal

	Volume			Value (ALL millions)		
	2012	2013	2014	2012	2013	2014
1- ATM cash withdrawals	11,300,261	11,729,920	12,205,989	109,609	117,195	125,048
2- ATM depositing	5	21	6	0.03	0.09	0.01
3- ATM transfer orders	80	61	40	0.68	0.75	0.65
4- Cash withdrawal at POS terminals	3,450	3	881	475	460	113
5- Card payments at POS terminals	1,107,425	1,496,640	2,124,304	13,396	12,511	17,921
of which:						
- payments through debit cards	656,000	864,730	1,212,278	4,739	5,738	7,914
- payments through credit cards	451,425	631,910	912,026	8,657	6,772	10,006
Total card transactions	12,411,221	13,226,645	14,331,220	123,481	130,167	143,084

Source: Reports submitted by banks according to the "Methodology for reporting payment instruments"

The increasing number of debit and credit cards was associated with the increase in card transactions, mostly for cash withdrawal in 2013, about 14.3 million (ATM and POS) card transactions were processed, equal to ALL 143 billion. Of total transactions, about 85% in number and 87% in value were transactions from ATMs.

Notwithstanding the dominance of cards use for basic services, even during 2014, payments with cards at both physical and virtual POS terminals increased⁴⁴. The allocation of payments at physical or virtual POS terminals shows domination at 70% of payments with cards at physical POS terminals. This development dictates an increasing familiarisation of the Albanian market with the use of banking cards in their daily transactions. On the other hand, it highlights the fact that the development of e-commerce in Albania is a potential factor for increasing card payments, by raising the chances for buying online.

⁴² District division according to the branches of the Bank of Albania.

⁴³ Companies operating in retail trade and hotels and restaurants.

⁴⁴ It functions similarly to a regular POS terminal but makes transactions via internet or by phone, through online accessible bank cards.