

II.5. PAYMENT SYSTEM

- *To accomplish its legal responsibilities on payment systems, the Bank of Albania promotes the smooth functioning of the internal payment system in Albania. During 2015, the Bank of Albania has undertaken concrete steps aiming at achieving the objective, by promoting developments, both as the systems' operator and their overseer and reformer. Besides, the infrastructure of payments, the Bank of Albania already provides an infrastructure on securities. Also, attention was paid to the completion and improvement of the payment system's regulatory framework, promotion of inter-institutional collaboration, expansion of research and increase of transparency.*

To strengthen the oversight of payment systems, the Bank of Albania, during 2015, undertook a set of measures aimed at improving the regulatory framework and procedures on payment systems oversight. One of the key developments in this regard was the approval of the Regulation "On the licensing, regulation and oversight of payment systems and clearing houses". This Regulation seeks to establish an incentive in the payment systems market, to encourage private initiatives on the clearing and settlement of payments. The establishment of infrastructure for the clearing and settlement of payments contributes to promoting the use of electronic payment instruments, hence the reduction of cash in economy.

In compliance with the reformatory role in the field of payment systems, the Bank of Albania has intensified the efforts to promote inter-institutional cooperation and research in the field of payments. The National Payment Systems Committee (NPSC) held its first meeting in October 2015. The scope of the NPSC is to support and contribute to enhancing the security, stability and efficiency of the national payment system in Albania, through the inter-institutional cooperation. In addition, the NPSC serves as a forum to facilitate discussion over issues related to payment systems and instruments, with a view to drafting necessary recommendations to corroborate decision-making for the involved institutions. In the first meeting, NPSC dealt with some important projects in the field of small-value payments, which aim at promoting the use of payment instruments, through the increase of security and effectiveness, while the reduction of costs on their use has a considerable impact.

Also, the Bank of Albania, during 2015, continued to cooperate with the World Bank in the framework of the finalisation of the project on the study of costs for the use of payment instruments, and for the identification of other fields, where both institutions may cooperate to reform the payment services market in Albania.

As the overseer and catalyser of payment systems, the Bank of Albania has adopted the "Methodology on the reporting of electronic payment instruments from the electronic money institutions". The establishment of the methodology was a response to the licensing of two electronic money institutions during 2015. The compilation of this methodology was based on the practices and standards of the Bank for International Settlements and the European Central Bank. The implementation of these standards in the Albanian environment

considerably supports the monitoring process and possibilities to undertake initiatives to encourage money institutions through comparative analyses.

BOX 5 AFISAR AND ITS IMPACT ON AIPS

The Bank of Albania established the central system for the registration and settlement of securities in AFISaR, in the framework of boosting the development of financial markets in Albania, and of minimising risks from the manual process of settlement and registration of government's securities in its transactions. Considering that the issue and exchange of securities bear the movement of funds for the finalisation of a transaction, the interconnection of the AFISaR system with AIPS, may be considered crucial for the smooth functioning of both systems. In this regard, the establishment of AFISaR is assessed to directly affect the activity of AIPS. This box aims to identify the impacts of the interconnection between AIPS and AFISaR, which affect the activity of AIPS, and thus, the results of the analysis.

In more concrete terms, due to the fact that, AFISaR, related to the part of securities settlement, observes the Delivery Versus Payment, a core principle on the securities settlement, the securities' settlement is projected to be conducted in compliance with the models that eliminate the risk.ⁱ In addition, the automation of securities settlement through AFISaR has a direct impact on the number and value of the settled payments, if considering, that previously the settlements was conducted on net basis. The main impact of this development may be identified in "settlements for net clearing systems"ⁱⁱ, where the settlement of securities is reflected. The Bank of Albania, with regard to the functions of AFISaR, holds only the securities' accounts of individual clients, by transferring their cash accounts to commercial banks. This has automatically increased considerably the number of transactions that are processed through AIPS.

Beyond the impact on the number and value of the securities settled in AIPS, the establishment of AFISaR affects also the liquidity need of participants, as a result of the settlement on a gross basis. In this framework, the Intraday Loan Facility (ILF) is being used somewhat more broadlyⁱⁱⁱ.

ⁱ "Principal risk" means the risk that a counterparty will lose the full value involved in a transaction, i.e. either the risk that a seller of a financial asset will irrevocably deliver the asset, but not receive payment, or the risk that a buyer of a financial asset will irrevocably pay for, but not receive the asset;

ⁱⁱ This item includes the settlements in AECH and the international schemes of Visa and MasterCard cards.

ⁱⁱⁱ 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 and smooth interbank functioning of payments.

PERFORMANCE OF AIPS AND AECH

AIPS - Albanian Interbank Payment System for large-value payments

In compliance with the objectives of the Bank of Albania, the payment systems showed security and effectiveness during 2015. The volume of transactions processed in AIPS amounted to 123,578 transactions, with the value of circulated liquidity totalling ALL 6,329 billion. The volume of the processed

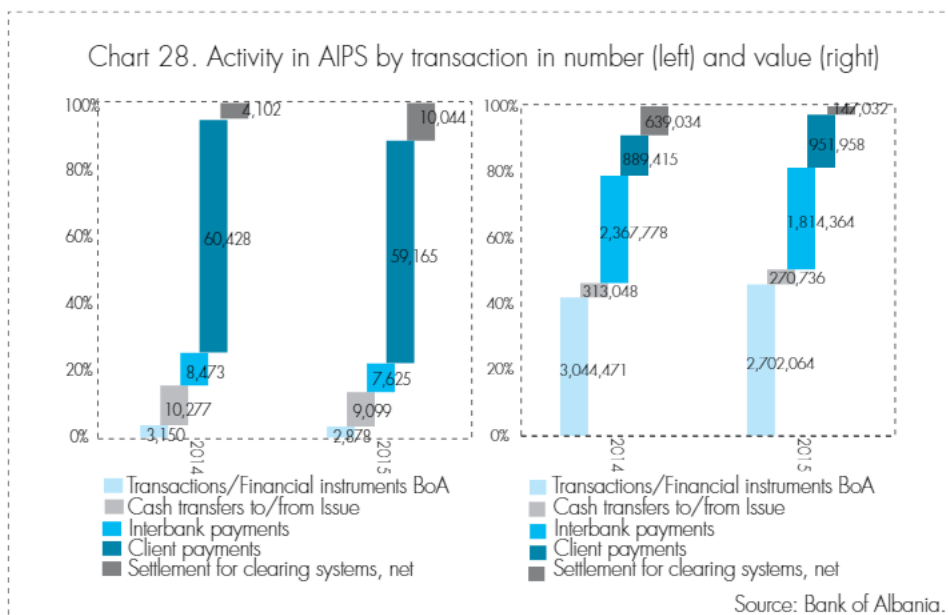
transactions in AIPS increased considerably, compared to the previous year, by about 42.98%, meanwhile the value of the processed transactions fell by 12.74%. The increase in the number of payments processed in AIPS reflects also the processing of securities transactions at gross basis in AFISaR.

Table 9. AIPS activity

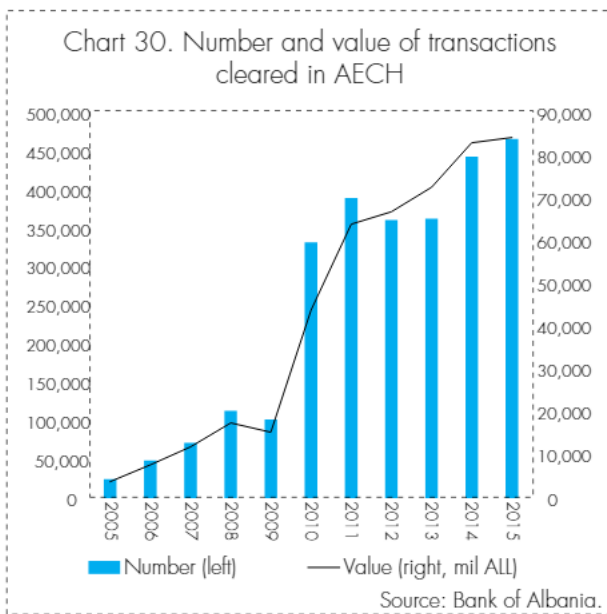
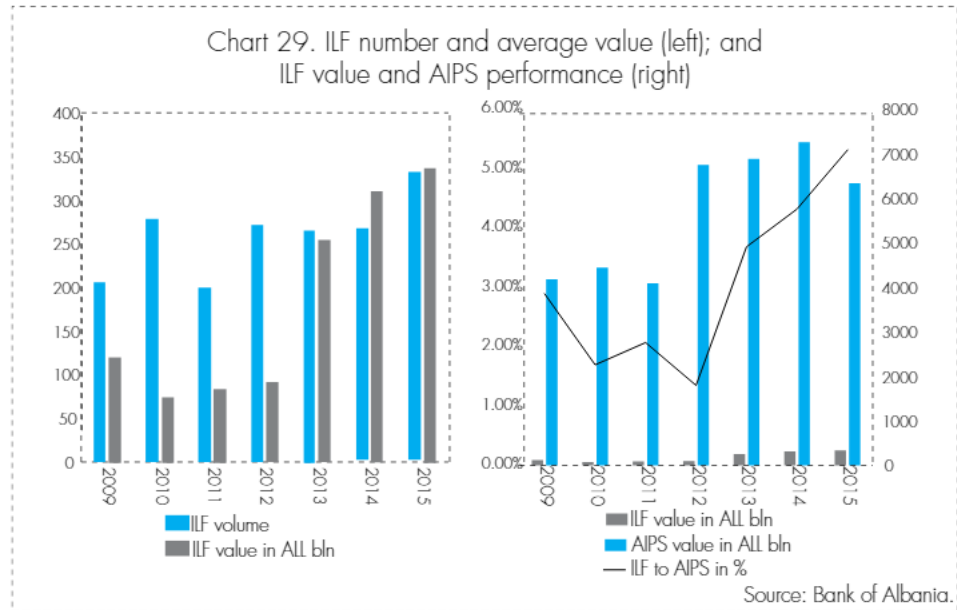
AIPS	2014	2015
Number of transactions	86,430	123,578
Value of transactions (in ALL million)	7,253,748	6,329,598
Average value per transaction (in ALL million)	83.93	51.22

Source: Bank of Albania.

By typology of transactions processed in AIPS, the volume of payments for clients (this item has the main share of 47.88% of payments in terms of number) was upward in terms of value, by 7.03%. In terms of volume, the number of transactions fell 1,263 transactions, compared to the previous year. On the other hand, the main item in terms of value, "transactions/financial instruments of Bank of Albania" (42.69%) fell in terms of absolute value by 11.25%, compared to the previous year, thus dictating a more limited presence of the monetary authority in the market, given the ample liquidity conditions.



The Intraday Loan Facility (ILF) increased, in terms of both number and value (by 23.88% and 7.44% respectively), albeit reflecting a fall of the average value per transaction. The need for more ILF shows an increase of banks' demand for liquidity. This development shows the beginning of AFISaR activity, which, based on the new way of collateral management, affects also the need of participants for liquidity. It should be emphasised that the increase in the use of Intraday Loan Facility does not reflect an increase of the system's exposure to liquidity risk.



AECH- Albanian Electronic Clearing House

During 2015, some 466,708 payments were cleared in AECH, with around ALL 180,000 as an average value per transaction. The activity of AECH was up by 5.12%, compared to the previous year, in terms of the volume of transactions. The value of cleared transactions rose by 1.53%.

Payments by participants show that the use of AECH by banks for payments of their clients continued to increase. In this regard, banking activity increased considerably the number of transactions by 15.66% and their value by 4.99%, compared to 2014. The upward trend of the number of transactions by banks shows the increasing familiarisation of the public with payment instruments (interbank credit transfers), and reflects the measures taken by the Bank of Albania in this regard⁴⁷.

Table 10. Share of participants' activities in AECH, in number and value

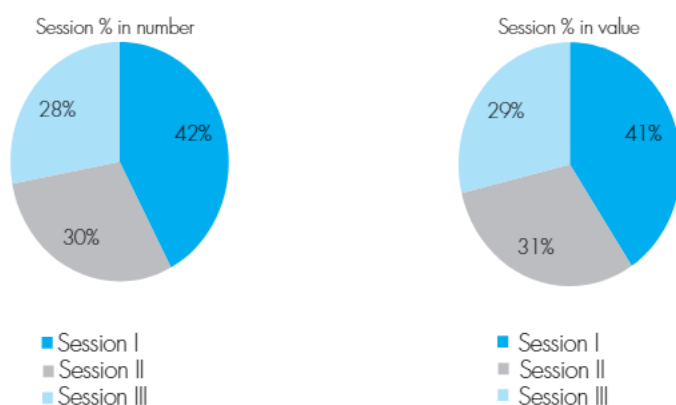
AECH - number	2014	2015
Ministry of Finance and Bank of Albania	56.68%	52.34%
Banks	43.32%	47.66%
Total number	443,977	466,708
AECH - value (in ALL million)	2014	2015
Ministry of Finance and Bank of Albania	50.20%	48.50%
Banks	49.80%	51.50%
Total value	83,133.08	84,404.99

Source: Bank of Albania.

⁴⁷ Since 2011, the Bank of Albania has increased the limit value for transactions in AECH, added a third clearing session in the AECH, differentiated tariffs during the sessions and reduced the commissions and tariffs applied for this system, as well as set out a maximum value on bank commissions for ALL payments cleared in the AECH.

By session, the chart shows a higher concentration of transactions cleared in the first session in the AECH, avoiding the overload in payments flows in the last clearing session. As a result, the additional risks on the smooth functioning of the payment systems are minimised.

Chart 31. Transactions cleared in AECH, volume (left) and value (right), in 2015



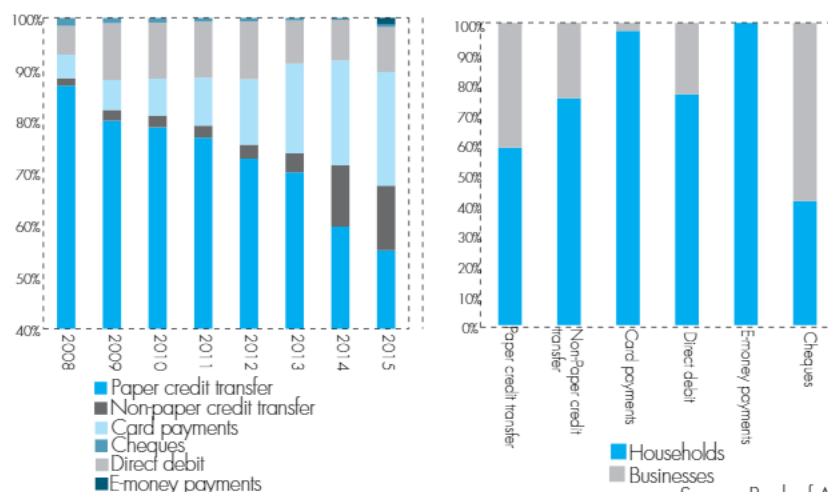
Source: Bank of Albania.

Payment instruments

Banks' reporting on payment instruments show that about 11.3 million payment transactions were made, totalling ALL 4.603 billion, reflecting 7.75% growth in the number and 7.60% in the value of payments during 2015.

From the total number of clients' payments, during this period, a high use of credit transfer took place during this period (at 67.57%), of which, 81.63% were payments instructed in paper form. During the recent years, paper credit transfers contracted, meanwhile non-paper credit transfers (home banking) and card payments increased.

Chart 32. Volume of payment instruments in years-number (left) and use of payment instruments by households and businesses during 2015 (right)



Source: Bank of Albania.

A highlight of electronic payment instruments was the introduction of electronic money payment instrument, from both bank and non-bank financial institutions. The introduction of this instrument in the Albanian market would provide a positive impact on the financial inclusion of the population in financial services.

Home Banking

Recently, home banking has been increasingly expanding in the Albanian market. After their introduction in 2005 by one bank of the system, 13 banks provided home-banking services as at end-2015. The products provide the remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients. Banks reported an increase of 12.39% in the volume of “home banking” payments. Also, the value of transactions increased considerably by 71.89%, from the previous year. The rise of home banking transactions dictates at a considerable degree the developments of the market in this regard.

Table 11. Number and value of reported home banking transactions

	Year 2012	Year 2013	Year 2014	Year 2015
Number of transactions	236,215	323.676	1,249,294	1,404,052
Value of transactions (in ALL million)	117.233	101.067	164.502	282.756

Source: Banks’ reporting according to the “Methodology for reporting payment instruments”.

Chart 33. Share of online accessible accounts against total accounts and online accessible accounts utilisation ratio*



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

The increasingly upward trend of home banking is closely connected to the presence of infrastructure and the expansion of possibilities to internet access even through a smart phone. Banks policies in the framework of promoting these alternative means of payments are assessed to have played a positive role in this regard.

Bank cards

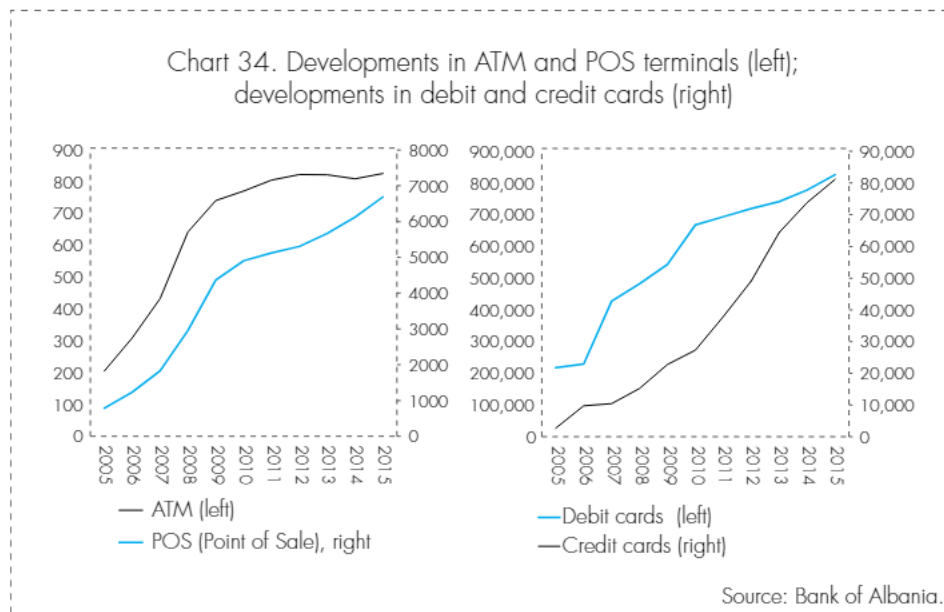
As at end-2015, 14 banks were licensed as card issuers in the Republic of Albania. Eight banks were also cards accepters, unchanged from end-2014.

The infrastructure provided by banks licensed as card issuers and those licensed as cards accepters shows that, as at end-2015, the number of ATMs and POS terminals was slightly up, by 1.9% and 2.3%, respectively, compared to 2014. Notwithstanding

the positive upward trend in the number of POS terminals, their concentration continues to be high in Tirana,⁴⁸ 79.7%. Also, virtual POS terminals showed an increase. The introduction of terminals for electronic money cards⁴⁹ was a novelty in this year.

⁴⁸ Districts are divided according to the branches of the Bank of Albania.

⁴⁹ Electronic money is a payment instrument, different from the remote payment instruments. E-money is an electronic store of monetary value and provides to the holder the possibility to make payments electronically. This instrument may be reloaded at a monetary value whenever necessary, within the limits set out by the bank of Albania. Electronic money may be stored on an electronic device or remotely at a server (for example PAYPAL) and is not conditioned by the need to own a bank account.



During 2015, the issue of debit and credit cards increased by 6.3% and 9.9%, respectively. Also, the presentation of electronic-money cards in the market showed an increasing pace during 2015.

Table 12. Number of issued/active cards, as reported by banks

Number of cards	31 December 2014	31 December 2015
Cash and payment cards	862.019	940.278
1- Debit cards	777.195	826.280
2- Credit cards	73.804	81.125
3- Electronic-money cards	0	32.873

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

The use of bank cards in ATMs and POS terminals shows that cash withdrawals at ATMS have the main share of transactions processed via cards. This indicator reveals that the economy is still highly based on cash. Nevertheless, during 2015, the number and value of payments via cards at physical and virtual POS terminals increased considerably, by 16.8% and 12.4%, respectively, in line with the positive trend of the recent years. In relative terms, the payments through via pre-paid cards stood at 6.30% of payments through debit and credit cards.

Table 13. Number and value of transactions through payment cards as reported by banks

	Volume			Value (ALL millions)		
	2013	2014	2015	2013	2014	2015
1- ATM cash withdrawals	11,729,920	12,205,989	13,105,771	117,195	125,048	136,627
2- ATM depositing	21	6	816	0.09	0.01	116.45
3- ATM transfer orders	61	40	63	0.75	0.65	0.58
4- Cash withdrawal at POS terminals	3	881	580	460.17	113.73	14.06
5- Card payments at POS terminals	1,496,640	2,124,304	2,481,524	12,511	17,921	20,141
- through debit cards	864,730	1,212,278	1,490,416	5.74	7,915	9,059.31
- through credit cards	631,910	912,026	991,108	6.77	10,006.15	11,082.19
6- E-money payments (POS)	0.00	0.00	155,873	0.00	0.00	618.04
Total card transactions	13,226,645	14,331,220	15,744,627	130,167	143,084	157,518

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

Cash transactions

Cash transactions of clients at banks' counters rose in number and fell in value for 2015, compared to the previous year. In 2015, the number of transactions at bank cash desks increased by 5.4% in terms of number, and fell by 4.4% in terms of value, compared to the previous year.

Table 14. Number and value of cash transactions at banks' counters

	2014		2015	
	Number	Value (ALL million)	Number	Value (ALL million)
Cash transactions at bank desks	10,853,254	2,440,046	11,434,237	2,332,974
I. Cash deposits at bank desks	6,753,568	1,351,998	7,637,418	1,378,922
II. Cash withdrawals at bank desks	4,099,686	1,088,048	3,796,819	954.052

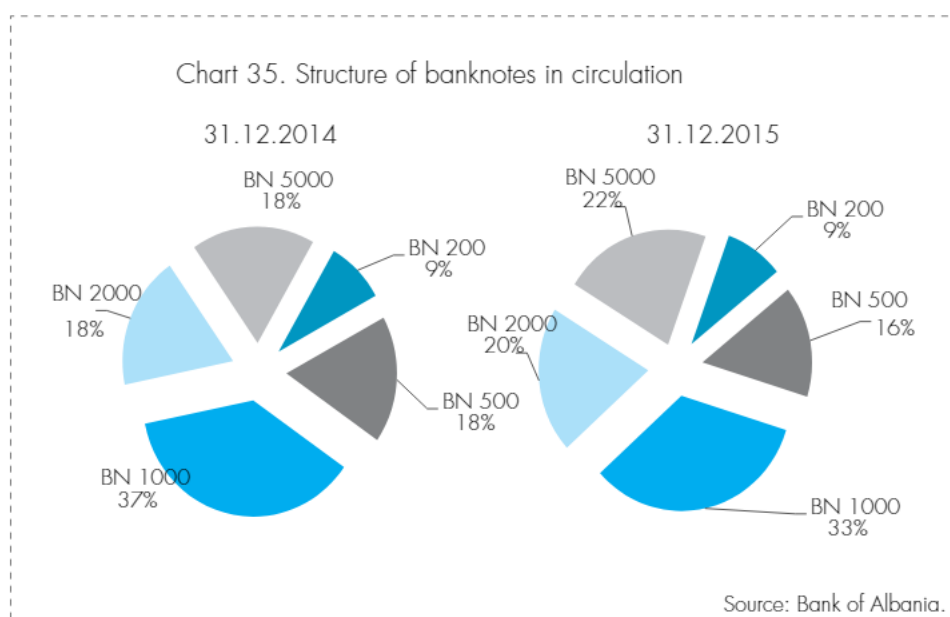
Source: Reports submitted by banks according to the "Methodology for reporting payment instruments".

II.6. MONEY ISSUE

The Bank of Albania has the exclusive right for the issue and circulation of the national currency – the Albanian lek. It determines the form, dimensions, weight, model, and other features of Albanian banknotes and coins of legal tender in Albania, as well as coins and banknotes for numismatic purposes.

BANKNOTES IN CIRCULATION⁵⁰

As at end-2015, there were 125,314,626 banknotes in circulation, worth ALL 235.393 billion. Compared to 2014, the number decreased by 5.4 million banknotes, while their value increased by 5.6%. The change in this indicators is attributable to the change in the structure in favour of 5000 Lek and 2000 Lek banknotes. Also, the volume of payment requests from commercial banks increased by 6.4%. The average value of a banknote in circulation was ALL 1,878 at end-2015, from ALL 1,706 at end-2014.



⁵⁰ It is the number and value of banknotes put in circulation by the Bank of Albania.