

## 2.7 PAYMENT SYSTEMS

*The safe and effective operation of the payment systems, as the basis of the financial markets, is a crucial precondition for the implementation of the monetary policy, the financial stability and the overall economic growth. To achieve the objectives in the field of the payment systems, in 2017, the Bank of Albania has intensified the efforts to: promote their stability; and guarantee the safe and quick money circulation, and at low cost. In this regard, the Bank of Albania has taken measures to regulate and oversee the payment systems and their respective components, as well as take a more proactive role in encouraging initiatives by market actors.*

### PAYMENT SYSTEM OVERSIGHT

In the framework of further consolidation of payment systems oversight, in 2017, the Bank of Albania has implemented the international oversight standards on payment systems, which guarantee the safety of these systems. Also, it promotes their efficiency by supporting their extensive use by the financial markets and the economic agents, thus encouraging the formalisation of the Albanian economy and financial intermediation.

In more concrete terms, in 2017, the Bank of Albania has worked for the implementation of the Bank for International Settlements Principles For Financial Market Infrastructures<sup>32</sup> and the Regulation of the European Central Bank (EU) No. 795/2014 "On oversight requirements for systemically important payment systems<sup>33</sup>" with the support of the experts from the central bank of Italy and the World Bank. The assessment of payment systems based on these principles, and the measures for their implementation, support the safety and effectiveness of these systems in Albania, and promote the reliability of these systems internationally, and establish the necessary preconditions for adherence to the common European market.

In compliance with the mid-term development objectives, the Bank of Albania paid special attention also to the development and regulation of small-value payment systems and the instruments used in them. In 2017, the Bank of Albania worked on the adoption of the legal and regulatory framework with the Payment Services Directive. The establishment and implementation of this legal and regulatory framework will contribute to promoting competition in the

<sup>32</sup> <https://www.bis.org/cpmi/publ/d101a.pdf>

<sup>33</sup> [https://www.ecb.europa.eu/ecb/legal/pdf/oj\\_jol\\_2014\\_217\\_r\\_0006\\_en\\_txt.pdf](https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_217_r_0006_en_txt.pdf)



payment systems' market, boosting transparency for the provided services and consolidating consumer protection. Also, the aligning of the practices on the regulation of payments services market with the European ones is a crucial step regarding the integration and implementation of recommendations in the framework of the free capital movement and the adherence to the Single Euro Payments Area (SEPA). Finally, the establishment of the above-stated regulatory and legal base will promote the development of innovative services, always being developed under safe and effective terms.

In addition to the fulfilment of the above medium-term objectives, in 2017, the Bank of Albania has consulted continuously the banking system and the Albanian Association of Banks with the aim to promote the development of the payment instruments and market through discussions on the latest developments and the needs for regulatory amendments, which enhance the effectiveness of these systems and instruments.

### **THE BANK OF ALBANIA AS A REFORMER IN THE FIELD OF PAYMENT SYSTEMS**

The Bank of Albania, as reformer and catalyst, provides a crucial contribution to the development of the financial and payment markets to enhance the efficiency and credibility of these markets and of the relevant infrastructure. To accomplish this goal, the Bank of Albania uses its expertise in the field of payment systems and shares it with the market actors through regular consultations and coordinated meetings with representatives of the private and public sectors. In this regard, the Bank of Albania has continued to work for consolidating the inter-institutional collaboration through the National Payment Systems Committee (NPSC).

Through the Committee, the Bank of Albania has intensified the research activity at inter-institutional level aiming at increasing transparency and public awareness, as an important tool for promoting market development. In more concrete terms, in its meeting, the NPSC initiated a set of projects to research on priority issues in the relevant market, in collaboration with national and international institutions.

Also, in 2017, the Bank of Albania, in collaboration with the World Bank and the Minister of State for Diaspora, engaged in the field of remittances. In this framework, special attention is paid to the assessment of remittances market, and the efforts to increase the effectiveness of this important resource to the economy of Albania.

Finally, in this period, special attention is given to the interaction with various actors of the market and the parties that are interested to be involved in the Albanian market of payment systems and services.



## NATIONAL PAYMENT SYSTEM COMMITTEE (NPSC)

To promote the development of payment systems and instruments, the NPSC continued the efforts for the materialisation of the targeted objectives throughout 2017. In the meeting held in May 2017 a set of projects were initiated. These projects will contribute in establishing the necessary preconditions to promote the reformation of small-value payments market, and thus the use of electronic payment instruments.

In concrete terms, the NPSC member institutions were committed to:

- Promoting financial inclusion from the payments point of view. In this framework, the members were committed to the implementation of the recommendations, which aim to address the spaces identified in the report compiled by the World Bank in collaboration with the Bank of Albania for the financial inclusion from the payments point of view. The above Report analyses the market and addresses recommendations based on seven core principles: a) improvement of the applicable legal and regulatory framework; b) development and improvement of financial services infrastructure; c) expansion of payment account holding and of the use of their services; d) expansion of access points of these services; e) increase of financial literacy; f) increase of the volume of transactions processed in the payment systems; and g) the need for inter-institutional engagement from both private and public sectors, that is very important for the implementation of the recommendations.
- Formulating a draft-strategy and implementing it for the reformation of small-value payments market with the support of the World Bank experts. It will serve as medium-term development strategy for the NPSC to promote the development in these systems, through an action-plan for the market actors. The above strategy includes also the monitoring instruments for its implementation and determines the quantitative objectives. Currently the drafting of the strategy is finalised and will be approved in the next meeting of the NPSC.
- Finalising the study on the costs of payment instruments in Albania. The central banks in advanced countries have considered conducting such a study as very efficient, in the framework of the fight against the use of cash in economy, and in identifying the possibilities to reduce costs over the use of payment instruments in the economy. The above-stated study is finalised jointly by the Bank of Albania and the World Bank and will be made public in the early months of 2018.
- Analysing the remittances market in Albania and the implementation of the World Bank Greenback project, in Berat. This project consists in increasing financial inclusion and financial education of emigrants and their families, who receive these funds, and the establishment of rather effective channels in terms of costs for the delivery of these funds.
- Compiling the draft-law on Payment Services. Also, the Bank of Albania considers the payment services and the related instruments as a crucial



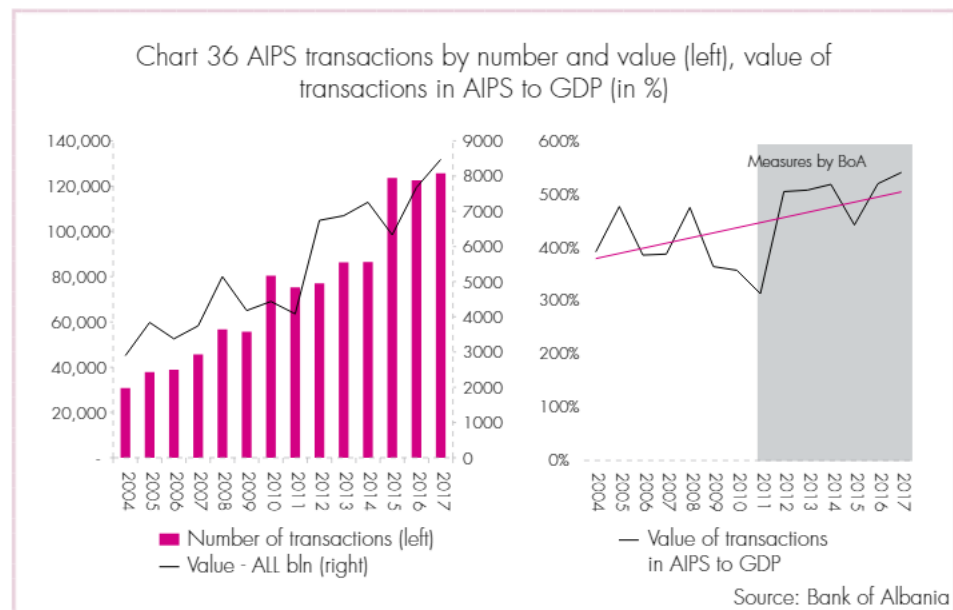
component of payment systems. In this regard, the Bank of Albania has worked for the implementation of the EU Directive 2015/2366 "On payment services in the internal market". The implementation of this directive in practice is assessed to considerably contribute to the improvement of safety and efficiency of payment services through the promotion of competitiveness, increase of transparency and the clear definition of rights and obligations to both payment service providers and users. Also, the directive provides the conditions for properly addressing the risks arising from the implementation of technology novelties (Fin-Tech) in the payment services. Currently, the Bank of Albania is finalising this draft-law. Nevertheless, by considering the broad effect of this draft-law, consultation with the market actors assumes special importance.

Finally, the regulatory framework for the organisation and functioning of the NPSC is reviewed, in the light of expanding the participation in the NPSC with representatives from payment and transfer services, electronic money institutions and operators of settlement and clearing systems. This review has taken into account the World Bank recommendations for the implementation of the best international practices.

## PERFORMANCE OF AIPS AND AECH SYSTEMS

### *Albanian Interbank Payment System for large-value payments (AIPS)*

In compliance with the objectives of the Bank of Albania, AIPS, the core structure for the settlement of financial markets, reflected safety and efficiency in 2017, preventing incidents and deviations from operating rules. In AIPS, 125,641 transactions were processed, and the total value of the liquidity circulated in the system was ALL 8,472 billion. Compared with the previous year, the volume and value of processed transactions increased by 3% and 10%, respectively. Also, the value of transactions processed in AIPS as a ratio to GDP trended





upward, showing an increasing use of the system and the importance of this system to the Albanian economy.

“Payments for clients” have the highest share in using AIPS in terms of volume<sup>34</sup> (53.46% payments generated from individuals, enterprises and public institutions) showing the importance of the system in the economic activity intermediation. On the other hand, in terms of value, “Settlements in AFISAR” have the main share (40.35%) for the settlement of securities transactions, thus showing the importance of the system for the settlement of financial markets and the implementation of the monetary policy.

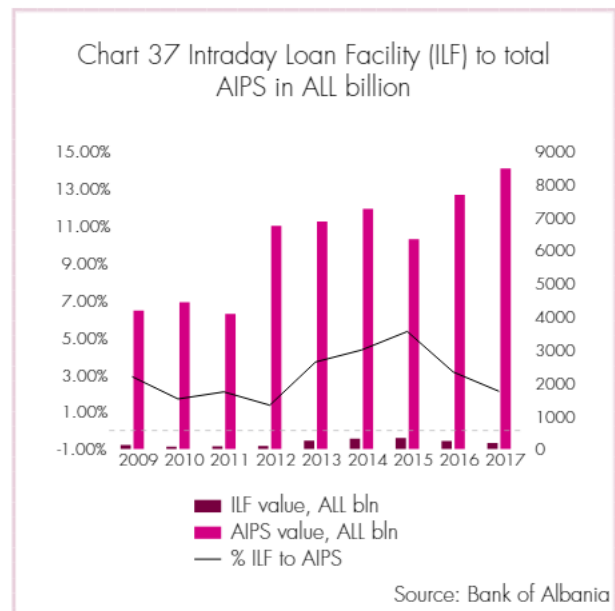
A well-functioning AIPS contributes to the development financial markets, by accommodating the settlement needs of auxiliary structures based on the regulatory spaces for the functioning of the system. In addition, private and public initiatives may employ these spaces to guarantee a rather safe settlement in the books of the Bank of Albania.

Regarding the addressing of risks, the growth of AIPS activity is not accompanied with needs for liquidity support by the Bank of Albania. In more concrete terms, the Intraday Loan Facility (ILF) has decreased in terms of both number and value (by 22% and 26%, respectively), also reflecting a decrease of the average value per transaction. The above-stated development reflects a fall of the exposure of the system to liquidity risk as shown in the Chart 37, where the ILF ratio to the value added in AIPS (ALL billion) fell considerably in 2017.

The downward trend of the need to finance the AIPS activity with ILF, beyond the liquidity conditions in the market, dictates a new way for using this instrument and the collateral management to guarantee it through the AFISAR system.

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

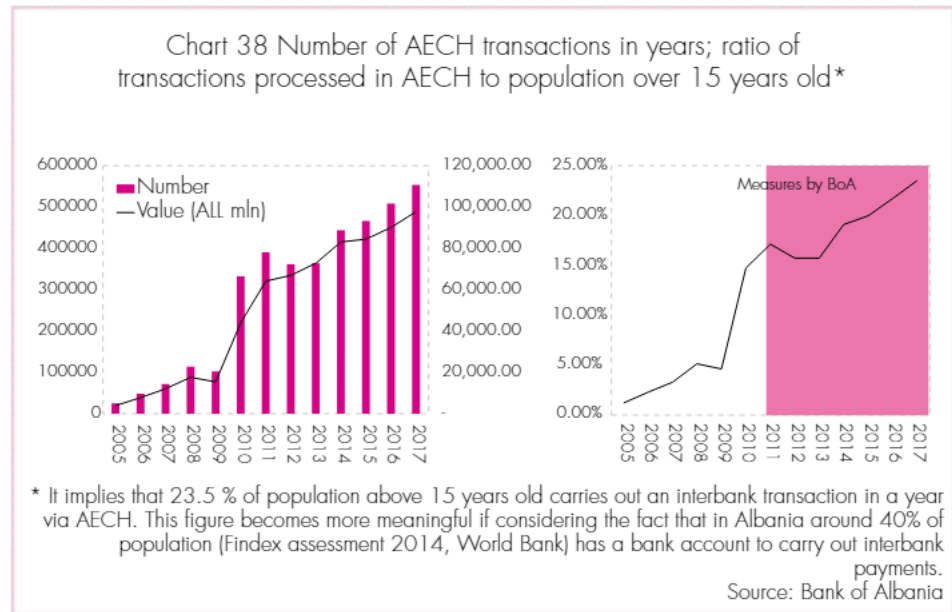
In 2017, the volume of cleared payments in AECH was 553,433 transactions, with an average value per transaction around ALL 180,000. Compared with the previous year, the activity of the AECH system increased in both volume and value of cleared payments, by 9% and 8.5%, respectively.



The allocation of payments by participants shows that the use of AECH by banks, for the payments of their customers, continued to increase. In more concrete terms, regarding the banking activity, both

<sup>34</sup> The encouragement of the economic stakeholders to use AIPS after the measures taken by the Bank of Albania in 2011 regarding the commissions applied on the final user.





the number and value of transactions increased by 16.12% and 13.85%, respectively, compared with 2016, reaching a level of using this system for this purpose at 60% against the total activity (40% transactions for the Ministry of Finance). The upward trend in the number of transactions from banks shows the familiarity of the public with payment instruments and their use at interbank level, as well as the transmission of the measures taken by the Bank of Albania in 2011 regarding the commissions applied by banks on the final users.

The Bank of Albania, by assessing the contribution of AECH system to encouraging the use of payment instruments, has continued the efforts to promote the expansion of the instruments cleared in the system and the actors who clear payments through this system. The approval and in following the implementation of the Draft-Law "On Payment services" is assessed to have provided a considerable support in this regard.

Also, in terms of risks, the distribution of transactions cleared in AECH system by sessions shows a higher concentration in the first clearing session. This development avoids the overload in the payment flows in the last clearing session by minimising the risks from these overloads.

### PAYMENT INSTRUMENTS

The promotion of the use of payment instruments for transactions among economic actors, and mainly in electronic form, which appear more efficient, is rather important to the Albanian economy, when considering the fact that the use of cash in the economy has a cost of around 1.7 % of GDP<sup>35</sup> for the Albanian economy. In this framework, market developments are continuously monitored by the Bank of Albania, with the aim to promote the development

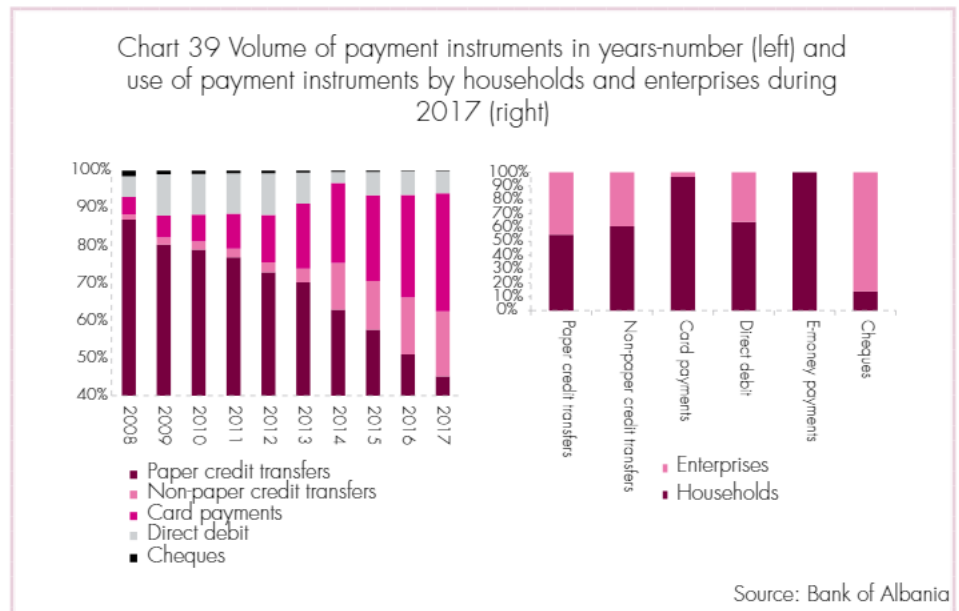
<sup>35</sup> The assessment is concluded in the research of the Bank of Albania in collaboration with the World Bank.



through both the regulatory framework and the infrastructure in compliance with the medium-term objective to ensure a safe and fast circulation of the currency in the economy at minimum costs.

Banks' reporting on payment instruments show that around 13.3 million payment transactions by households and enterprises were made in 2017, totalling ALL 4,665 billion. This development shows an increase in the value and number of payment transactions through the payment instruments, 11.18% and 3.41%, respectively, compared with 2016.

From the total number of clients' payments, during this period, a high use of credit transfer is employed (at 61.33%), of which 72.2% are payments in paper form. However, in the last years, we have noted an upward trend in the use of electronic payments, such as non-paper credit transfers (home banking) and card payments.



## HOME BANKING

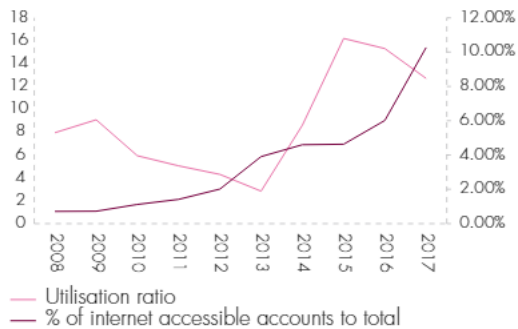
"Home banking<sup>36</sup>" services have been increasingly used in the Albanian market. The promotion to use this instrument in the Albanian market, as one of the highest efficient instruments in terms of effective productivity and the costs borne from the use, based on the studies of the Bank of Albania on the payment instruments costs, is quite important.

At the end of 2017, of the 16 banks of the system, 14 were offering different home banking products. The establishment of adequate conditions by the supply side (banks) is reflected in an upward trend in the use of these services. In more concrete terms, in 2017, we observed that the volume of home banking

<sup>36</sup> These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.



Chart 40 Trend of remotely accessible accounts against total accounts and trend of remotely accessible accounts utilisation ratio\*



\*The utilisation ratio shows how much on average an account is used on-line to carry out transactions. Source: Bank of Albania

payments increased significantly a by 26.32% of and of the value of the transactions by 60.11%, compared with the previous year.

The increasingly upward trend of home banking is closely connected to the presence of infrastructure and the expansion of possibilities to access internet through a smartphone. Also, the policies of banks, in the framework of promoting these payment alternatives, was assessed to have provided a positive role, reflected in the increase of the remotely accessible accounts, from 1% in 2008, to around 11% in 2017 to the total accounts.

Nevertheless, the expansion of the accounts' number is not followed by an increase in the transactions per account. This development shows the need of customers to become familiar with the service, implying the spaces for intervention in the framework of public financial education and the awareness-raising campaigns in this regard.

### BANK CARDS

As at the end of 2017, fourteen banks were licenced as card issuers in the Republic of Albania, of which nine were also licenced as card accepters.

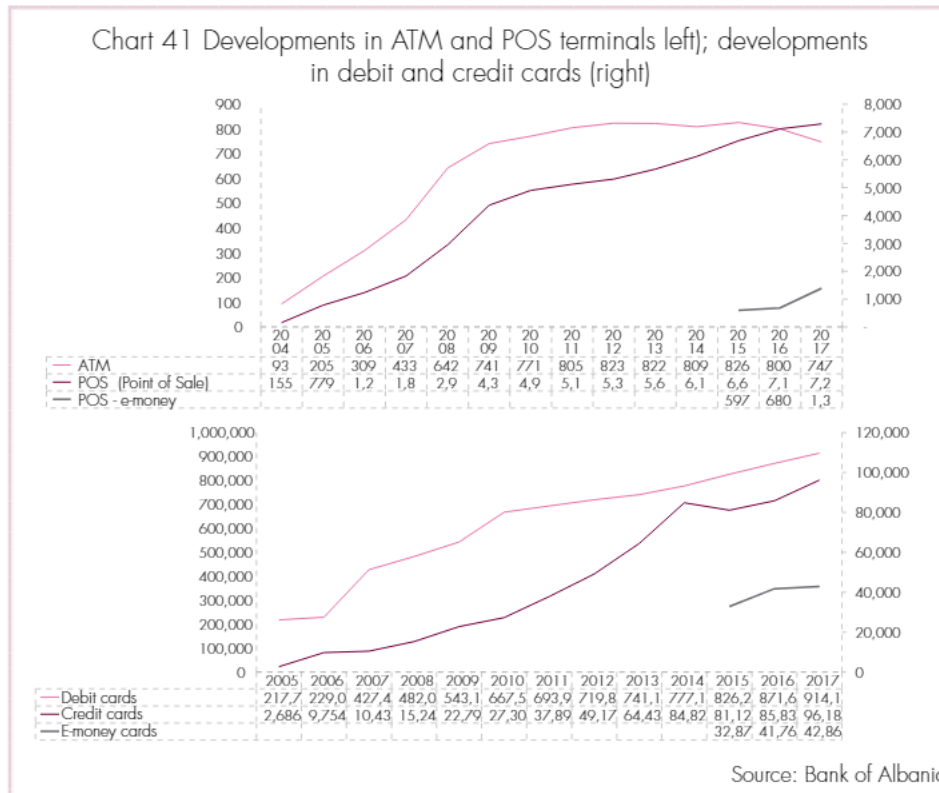
In terms of infrastructure provided by banks licenced as card issuers and those licensed as card accepters, at the end of 2017, the number of POS terminals increased by 2.57%, while the number of ATMs decreased by 6.63% compared with 2016. Notwithstanding the positive upward trend in the number of POS terminals, their concentration continues to be high in the region of Tirana,<sup>37</sup> 85.95%. Also, the number of POS terminals per 1.000.000 citizens was 2,541, the lowest level compared with the regional countries, followed by Kosovo, 5,982 POS terminals per 1.000.000 citizens.

Terminals for the use of electronic money cards recorded very positive developments. They showed an upward pace at 104.56% compared with the end of 2016. Nevertheless, it should be highlighted that the above-stated growth reflects also the statistical effect of the low comparative base. The encouragement to use of the electronic money instruments is assessed to have affected the financial inclusion of the population, by providing access to bank services (opening an electronic money account and owning a pre-paid card) by categories of population who may not access other services, for example they do not take a wage.

<sup>37</sup> Regions are divided according to the branches of the Bank of Albania.







In 2017, the issue of debit and credit cards increased by 4.9% and 12.1%, respectively. Also, the functioning in the market of e-money cards showed a fast increasing pace.

The use of bank cards in ATM and POS terminals shows that cash withdrawals from ATM terminals have the main share in transactions with cards, an indicator of a largely cash-based economy. In 2017, the number and value of card payments in physical and virtual POSs decreased by 7.8 % and 24.9%, respectively. In relative terms, payments carried out with prepaid cards reached up to 8.37% of the payments with debit and credit cards, up 18.47% from the previous year.

The low use of cards as a payment instrument shows the familiarity level of the public, the low level of financial education, and the limited infrastructure of POS terminals offered from enterprises.

#### Cash transactions

Regarding cash transactions conducted by customers at banks' cash desks, in 2017, their number decreased compared with the previous year. This year has registered a slight decrease of cash desk transactions by 5.48% in terms of number and a slight increase by 0.82% in terms of value, compared with the previous year.



Table 6. Number and value of cash transactions at banks' cash desks

Description	Year 2016		Year 2017		Annual change	
	Number	Value (in ALL mln)	Number	Value (in ALL mln)	Number	Value
Transactions at cash desks	11,388,857	2,572,650	10,765,198	2,593,771	-5,48%	0,82%
1. Deposits at cash desks	7,645,500	1,577,539	7,175,011	1,608,616	-6,15%	1,97%
2. Withdrawals at cash desks	3,743,357	995,111	3,590,187	985,155	-4,09%	-1,00%

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

Notwithstanding the decrease in using cash, from the perspective of withdrawals and deposits at banks' cash desks, the use of cash in the Albanian economy in 2017 is dominant<sup>38</sup> and has high costs for the various actors and the overall economy. Hence, the coordination of efforts at market level to promote the use of efficient instruments at lower costs is of special importance and one of the priorities of the Bank of Albania.

<sup>38</sup> A joint study of the Bank of Albania and the World Bank shows that 99.2% of all payments are accepted in cash by the interviewed enterprises, while they have carried out 66% of payments also in cash. Also, Albanian consumers show a high use of cash (96% of the conducted payments are in cash, meanwhile the payments taken from third parties, 90% are in cash).

