

CHAPTER VII OTHER ACTIVITIES OF THE BANK OF ALBANIA

VII.1. DEVELOPMENTS IN THE PAYMENT SYSTEMS

A primary task of the Bank of Albania is promotion and support for a smooth operation of internal payment systems. To fulfil this task, the Bank of Albania applies at least three different approaches: (i) operational role in providing payment systems; (ii) systems oversight; and (iii) national payment systems catalyst/reformer. These approaches complement and interact with each other.

VII.1.1. STATISTICAL INDICATORS OF THE PAYMENT SYSTEMS DURING 2010

In the Republic of Albania, interbank payments clearing and settlement in Lek is done through two payment systems: the "Interbank Gross Settlement system - AIPS" and the "Automated electronic clearing house for small value payments – AECH". Both systems are managed and operated by the Bank of Albania, in the framework of its operational role to provide the market with infrastructure. At the end of 2010, all banks licensed by the Bank of Albania were direct participants for settlement in AIPS, of which, 15 banks were also direct participants in the AECH¹ system.

- *INTERBANK GROSS SETTLEMENT SYSTEM - AIPS*

During 2010, payment systems reflected security and efficiency. These features are necessary for the systems' smooth operation. A total volume of 80,356 payment transactions was settled through the AIPS system during 2010, with a total transactions value of ALL 4,437 billion. Relative to 2009, the payments volume settled during 2010 increased by 44%, while the settled transactions decreased by 6%.

Reduced transactions of the Bank of Albania in government's lek securities had a significant influence on the transactions value settled in 2010.

AIPS System	2007	2008	2009	2010
Number of transactions	45,480	56,717	55,701	80,356
Value of transactions (billion lek)	3,745	5,146	4,718	4,437
Average transaction value (billion lek)	82	91	85	55

Source: Bank of Albania

Table 1 Transactions through AIPS during 2007-2010

¹ In 2010, the Bank of Albania concluded procedures and testing for Veneto Bank membership in AECH. As of February 2011, procedures for Veneto Bank were completed and all banks operating in Albania are now direct participants in the AECH system.

A detailed overview of types of transactions processed and settled through the AIPS during 2010 and their relative share to the total are presented in the following table. Of total transactions processed and settled through the AIPS during 2010, about 68% of the transactions volume regards settlements between participants on behalf of their clients, with an increase of 85% vis-à-vis the same indicator for 2009. This increase is an output of the Ministry of Finance's automated treasury payments project that accounts for 50% in volume and 31% in value to the total customer payments through the AIPS.

Table 2 Types of transactions through AIPS

Type of transactions through AIPS	Volume		Value (ALL billion)	
	Number of transactions	Relative share	Absolute share	Relative share
Bank of Albania financing transactions / instruments	2,758	3.4 %	2,130	48 %
Cash transfers to/from the issue	8,770	10.9 %	219	4.9 %
Inter-bank payments (MT202)	8,084	10.1 %	833	18.8 %
Customer payments (MT103)	54,454	67.8 %	729	16.5 %
Net settlement for clearing systems	6,290	7.8 %	526	11.8 %
Total	80,356	100 %	4,437	100 %

Source: Bank of Albania

As regards the transactions value settled through the AIPS, transactions initiated by the Bank of Albania to meet its legal targets, account for the highest liquidity circulation, about 48% to the total compared to 57% in 2009. The downward liquidity value circulated through the AIPS, during 2010, for transactions initiated by the Bank of Albania, is mainly due to reduced Bank of Albania's transaction in government securities. The section "net settlements for clearing systems" consists in net settlement transactions resulting from the clearing systems such as clearing of small value payments in AECH system, clearing of banking and personal cheques in ALL, net settlements of government securities, and net settlements of ALL payments via VISA and MasterCard cards, for which the Bank of Albania plays the settlement agent's role.

The concentration indicator is the share of four most active banks in the AIPS to the total activity in this system. As shown by the following table, during 2010, the Bank of Albania (including Treasury payments) initiated about 50% in volume and 54% in value of transactions to the total activity in the AIPS.

Table 3 Concentration indicators for AIPS

AIPS	Volume of transactions	Value of transactions (ALL billions)
	Share/Total	Share/Total
4 major banks	23 %	39 %
12 other banks	27 %	15 %
Bank of Albania	50 %	54 %
Total (absolute value)	80,356	4,437

Source: Bank of Albania

Use of intraday loan facility (ILF) is an efficient instrument that participating banks in the AIPS may use to manage their liquidity during their operational

activity within a day. Year-on-year, disbursed loans (use of ILF) increased by 34%, while the intra-day liquidity disbursed during this period dropped by 37%, reflecting lower liquidity needs from banks that meet the criteria for guaranteeing additional liquidity. The decline in disbursed intraday loan is attributed primarily to a change in the Bank of Albania's policy to increase the daily use of the lek-required reserve (from 20% to 40%) by banks for intra-day liquidity, in order to ensure smooth operation of the AIPS system.

Intraday Loan Facility (ILF)	2007	2008	2009	2010
Number of transactions	675	579	207	278
Value of transactions (ALL billion)	218	221	121	75
Average transaction value (ALL million)	322	382	582	270

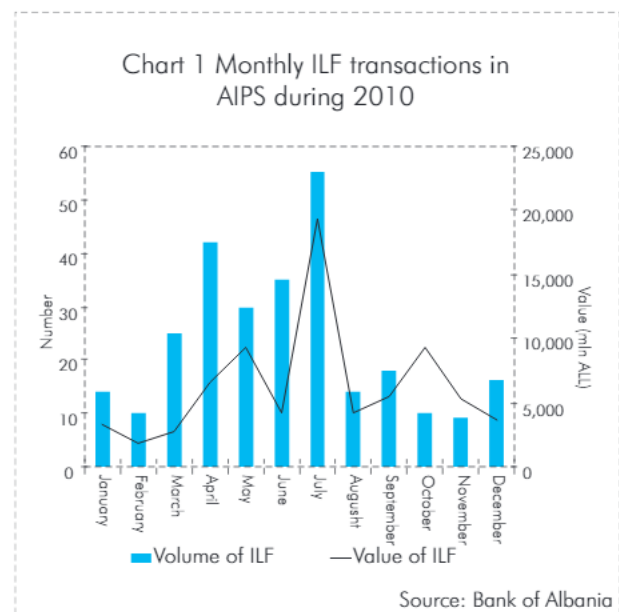
Source: Bank of Albania

Table 4 Intraday Loan Facility for AIPS participating institutions

The following chart shows the distribution of intraday liquidity needs by AIPS participants, during 2010. The highest liquidity demand was in July, when the Bank of Albania disbursed about 26% of the credit value disbursed throughout the entire year.

- *AUTOMATED CLEARING SYSTEM FOR SMALL VALUE PAYMENTS - AECH*

The AECH system processes and clears customer payments of a value smaller than ALL 1 million. In total, 332,777 payment orders were cleared through the AECH in 2010, with an average settled transaction value of ALL 130 thousand. On average, about 1,330 payments were cleared through the AECH system, with an average daily value of ALL 176 million. In comparison with 2009, the volume of cleared payments in 2010 increased about 225%, while the value of cleared transactions was up by 185%.



AECH System	2007	2008	2009	2010
Number of transactions	71,857	113,682	102,304	332,777
Value of transactions (ALL billion)	12.01	17.61	15.46	43.98
Average transaction value (ALL million)	0.17	0.15	0.15	0.13

Source: Bank of Albania

Table 5 Performance of transactions in AECH system in 2007-2010

The table shows a considerable increase in the number of interbank payment orders processed in the AECH system, compared to the activity in previous years. This increase comes as a result of the finalisation of a project (March 2010) for the automatization of payments between the Treasury System AMoFTS at the Albanian Ministry of Finances and AIPS and AECH systems at the Bank of Albania.

During the ten-month life of the systems electronic interface, a large flow of payments was executed, initiated by the Ministry of Finances, in favour of beneficiary clients, to the banks that participate in the system, counting for about 74% of the volume and 71% of the annual payments value in the AECH system.

Concentration indicators reflect the share of four more active banks in the AECH system (including the Bank of Albania as a participant in the system) to the total activity in this system.

Table 6 Concentration indicators for the AECH system

AECH system	Volume of transactions	Value of transactions (ALL billion)
	Share/Total	Share/Total
4 major banks	14 %	15 %
12 other banks	12 %	14 %
Ministry of Finances (Treasury)	74 %	71 %
Total (absolute value)	332,777	43.98

Source: Bank of Albania

Payments cleared through the AECH system are processed in two sessions (Session I - 09:00 to 11:00; Session II – 12:00 to 14:30) in a business day. At the end of each session, payments are settled for their net result through the AIPS system.

Table 7 Distribution of payments in AECH according to clearing sessions in 2010

AECH system	Session		Year
	I	II	2010
Number of transactions	162,167	170,610	332,777
Value of transactions (ALL billion)	22.17	21.81	43.98
Average transaction value (ALL million)	0.136	0.128	0.13

Source: Bank of Albania

VII.1.1. PAYMENT INSTRUMENTS

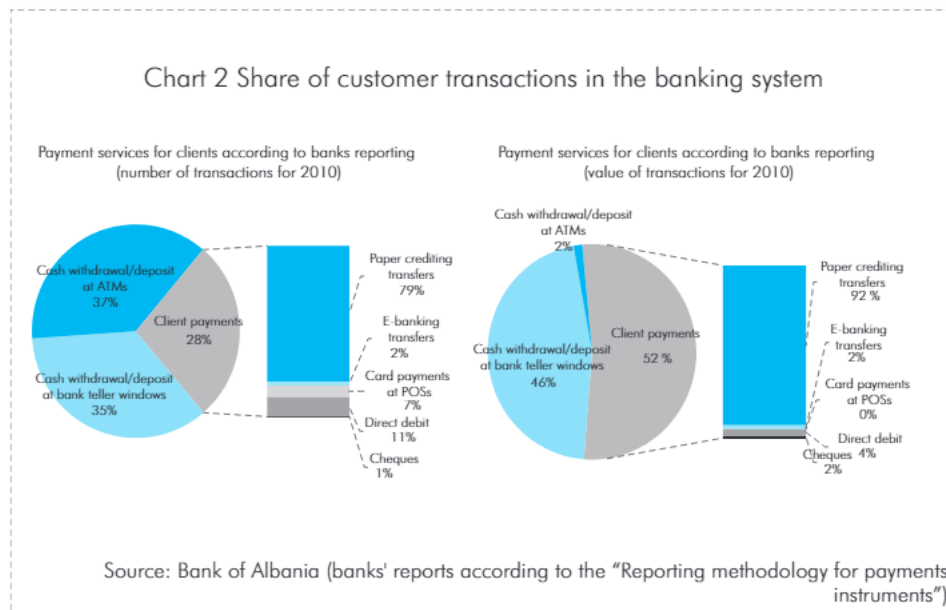
Banks reports reveal that at the end of 2010, the total number of bank customer accounts, valid for payments in lek or a foreign currency, is about 2.5 million, up by 17% compared to the end of 2009. About 91% of the total accounts are individual accounts and over 99% of customer account holders are residents.

Table 8 Number of customer accounts in the banking system as at 31 December 2010

Account description	Total customer accounts			Internet accessible		
	2008	2009	2010	2008	2009	2010
Customer accounts (1+2)	1,573,830	2,086,143	2,446,495	11,108	15,034	27,368
1-resident accounts (a+b) (%)	99%	99%	99%	97%	97%	97%
a – individual (%)	91%	92%	93%	65%	66%	69%
b – company (%)	9%	8%	7%	35%	34%	31%
2-nonresident accounts (c+d) (%)	1%	1%	1%	3%	3%	3%
c – individual (%)	96%	94%	93%	88%	80%	78%
d – company (%)	4%	6%	7%	12%	20%	22%

Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

Of the total customer accounts at the end of 2010, about 27 thousand accounts are accessible online to provide payment services or check the balance statement, up 82% compared to end-2009. Regardless of the significant increase of this indicator in 2010, online accessibility of bank customer accounts remains at very low levels. According to banks' reports in 2010, the following chart shows the share of customer transactions in the banking system per category (cash/non-cash).



The table shows that payments in the national currency have a share of 86% in volume and 54% in value to the total customer payments. In addition, paper customer payments continue to dominate (about 80%), compared to a moderate increase of electronic payments (about 9%).

Table 9 Share of customer payments in the banking system according to payment instruments

Payment services	Payments in Lek		Payments in foreign currency		Total payments	
	Number	Value (ALL billion)	Number	Value (ALL billion)	Number	Value (ALL billion)
1 January - 31 December 2010						
I. Client crediting transfers	81.6%	95.1%	78.2%	93.3%	81%	94%
of which:						
1. Paper crediting transfer	97.8%	97.4%	94.3%	96.8%	97%	97%
2. "E-banking" crediting transfer	2.2%	2.6%	5.7%	3.2%	3%	3%
II. Card payments at POS terminals	5.8%	0.2%	15.5%	0.3%	7%	0%
Of which:						
1. Payments via debit cards	63.5%	48.8%	55.6%	37.1%	61%	42%
2. Payments via credit cards	36.5%	51.2%	44.4%	62.9%	39%	58%
III. Direct debit	12.0%	2.3%	4%	5.0%	11%	4%
IV. Cheques	0.7%	2.4%	2.3%	1.5%	1%	2%
Total Payments (I+II+III+IV)	6,327,342	1,825	1,049,697	1,573	7,377,039	3,398

Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

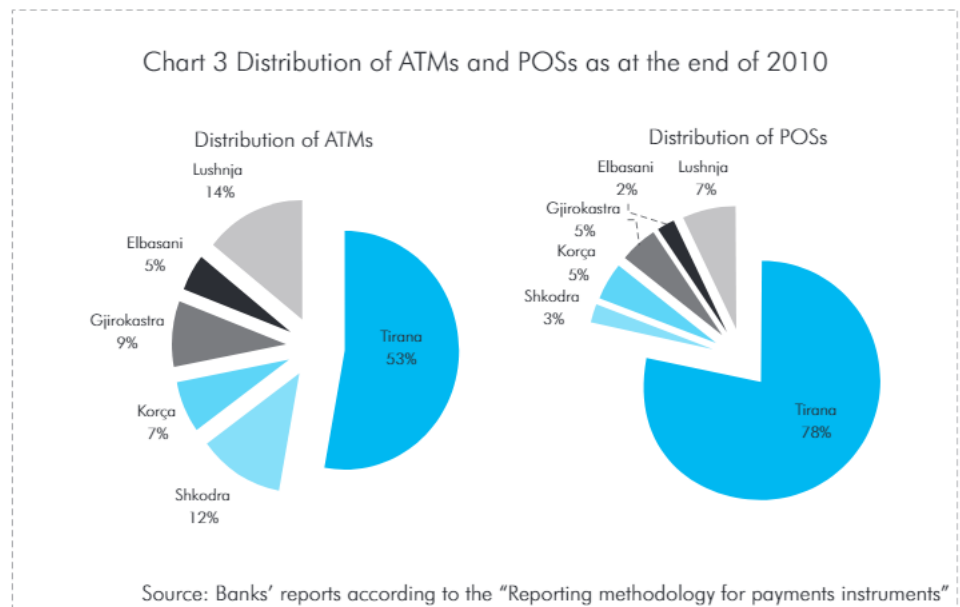
At the end of 2010, 16 banks were operating in the Republic of Albania, offering payment services through 529 branches/agencies across the country. At present, there are 14 banks licensed to issue cards that offer cash withdrawal from ATMs. Of card-issuing banks, only seven of them are also licensed as card acceptors, making card payments at POS installed in shops, restaurants, hotels, or shopping centres.

Table 10 Number of ATMs and POSs as at 31 December 2010, compared to 2009 and 2008

Description	2008	2009	2010
Automated Teller Machines (ATMs)	642	741	771
Of which:			
1 - ATMs for cash withdrawal	642	741	771
2 - ATMs for transfer orders	59	66	62
3 - ATMs for cash depositing	73	74	84
Points of sale terminals	2,953	4,370	4,903
Of which:			
1 - POS terminal for cash withdrawal	907	1,290	111
2- EFTPOS payment terminal	2,915	4,320	4,846
Terminals for using e-money	-	-	-

Source: Banks' reports according to the "Reporting methodology for payments instruments".

During 2010, the number of ATMs increased by 4% and POSs network expanded by 12% compared to 2009. According to banks' reports, ATMs and POSs are established in most developed and industrial areas. The chart shows that about 53% of the ATMs and 78% of the POS terminals are in Tirana (banks' reports refer to the territory division according to the branches of the Bank of Albania).



Cards are payment instruments used in Albania, though still at low levels compared to other countries in the region. During 2010, the number of cards in circulation increased by 23% compared to that of end-2009.

Number of cards by function	2008	2009	2010
Cards for cash and payments	512,232	566,985	694,848
Of which:			
1- Debit cards	482,072	543,141	667,548
2- Credit cards	15,931	23,844	27,300
Cards with e-money function	-	-	-
Total cards in circulation	498,003	566,985	694,848

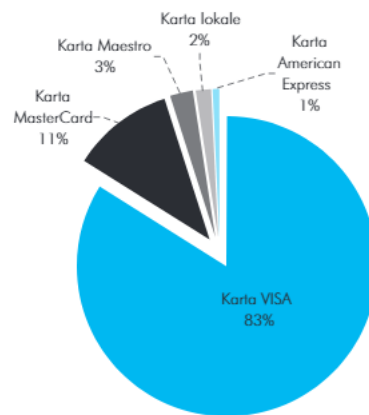
Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

Table 11 Number of cards in circulation as at 31 December 2010, compared to 2009 and 2008

According to banks reporting, debit cards share is 96% to total number of cards in circulation. As regards the card brand and card processing operators, VISA cards have the highest share of about 83% to the total, followed by MasterCard. Maestro and American Express cards have a smaller share. Only two banks issue local cards, which account for about 2% of the total cards in circulation.

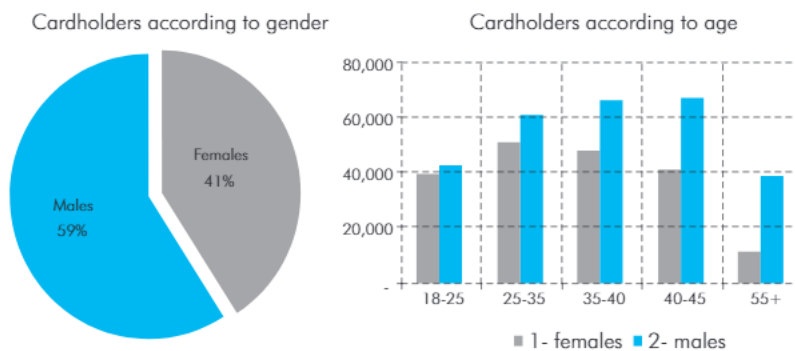
Of the total customer accounts reported by banks, about 29% of the accounts are remotely accessible through a credit or debit card. Payments or cash withdrawal from other accounts requires necessarily the physical presence of the customer at bank counters. Distribution of cards according to the cardholder's gender and age is presented graphically in the following chart.

Chart 4 Share of payment cards according to their type, until end-2010



Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

Chart 5 Cardholders according to gender and age, at the end of 2010



Source: Banks' reports according to the "Reporting methodology for payments instruments"

The following table presents types of transactions by bank cards (debit/credit), per volume and value, compared with previous year's data.

Table 12 Transactions through cards during 2010 compared to 2009

Transactions through cards by transaction type	Volume		Value (ALL million)	
	2009	2010	2009	2010
1- ATMs for cash withdrawal	8,717,982	9,877,583	96,117.27	100,057.91
2- ATMs for depositing	91	47	2.97	0.23
3- Transfer orders through ATMs	366	260	10.02	6,31
4- Cash withdrawal at POS terminals	2,647	1,654	453.86	358.22
5- Card payments at POS terminals	403,214	527,411	5,321.72	7,438.30
Of which:				
- payments through debit cards	252,780	322,230	2,565.67	3,151.13
- payments through credit cards	150,434	205,181	2,756.05	4,287.17
Total card transactions	9,124,300	10,406,955	101,905.3	107,860.96

Source: Banks reports according to the "Reporting methodology for payments instruments".

During January - December 2010, about 10.5 million transactions through cards (ATM and POS) were processed, with a total circulation of ALL 108 billion. Of the total transactions, about 95% is cash withdrawal from ATMs and only 5% refers to customer payments through cards in POSs, an indicator of a highly cash-based economy.

Home-banking is increasing, enabling clients to have remote access to their bank accounts, through internet connection, telephone, or software that the banks provide to their clients. For the first time, this service was provided by the American Bank of Albania in 2005, while in 2010 this service was provided by 11 banks in Albania. During 2010, about 163 thousand "home-banking" e-transactions were reported for the entire banking system, totalling ALL 92 billion, about 2% in volume and value to total customer payments.

Table 13 Performance of home-banking transactions over the years

Home banking transactions	Number of banks	Number of transactions	Value of transactions (ALL million)
2005	1	15,706	15,908
2006	1	19,096	16,834
2007	3	42,447	48,492
2008	6	88,261	63,240
2009	10	136,482	78,156
2010	11	162,385	91,274

Source: Banks reports according to the "Reporting methodology for payments instruments".

VII.1.2. BANK OF ALBANIA AS A SUPERVISOR AND REFORMER OF THE NATIONAL PAYMENT SYSTEMS

The Bank of Albania (BoA) is assuming an increasingly important role in reforming and overseeing payment systems. In light of this, BoA is working to set up safe and efficient national payment systems to support recent financial market developments based on best practices of other central banks.

The BoA has started a twinning project with the Bank of Italy, where development of payment system oversight has a significant place. The project scope is, inter alia, to strengthen capacities and approximate the regulatory and operational framework of payment systems in Albania with those of EU countries.

In 2010, the draft law "On payment systems" and an explanatory commentary were finalised as important documents, which explain concepts on the national payment systems as well as a more detailed definition of the role and duties of the Bank of Albania in relation to developing and supervising the payment systems in Albania. This draft law is a very important step forward in the process of continuous approximation of Albania's legislation with the EU legislation in banking and finance area, provided also under Articles 70 and 89 of the Stabilisation and Association Agreement (SAA) between Albania and the European Communities.

In international terms, central banks should have a special jurisdiction on the settlement of financial instruments infrastructure ("post-trading"), as part of their overall mandate to supervise the payment systems. For this reason, this draft law aims to regulate and oversee the overall payment systems, including institutions such as securities clearing houses, their settlement systems and others such as CSD and CCP. The Bank of Albania and the Albanian Financial Supervisory Authority shall cooperate to define roles and duties for the supervision of securities clearing and settlement systems.

In December 2010, the draft law "On payments systems", an explanatory report and a Table on compliance with the *acquis communautaire* were sent to the Ministry of Finance for their review.

After a long cooperation between the Bank of Albania, the Ministry of Finances and the banking system, on 01 March 2010, live communication was established through an electronic interface between the Treasury System at the Ministry of Finances and the AIPS and AECH payment systems at the Bank of Albania. In the framework of implementing the new scheme of automated Treasury payments, the Ministry of Finances was provided with the possibility to monitor, in real time, the activity in its accounts in the AIPS system at the Bank of Albania, contributing to more efficient administration of funds. The project consists in automated processing of Lek payments, initiated by Treasury branches, to individuals or other beneficiary institutions of public funds. The part of inflows for the Treasury (by the public) is actually done through the banks; at the end of the day, each bank transfers the total cash funds to the main government account at the Bank of Albania.

Furthermore, during this year, the focus was on improving and expanding the required infrastructure for the settlement of electronic payment instruments (bank cards). In July 2010, the project for Lek payments settlement via MasterCard and Maestro cards through the AIPS was finalised, a service offered to the MasterCard company following an experience of some years with the Visa card company.