

4 REGULATORY AMENDMENTS AND THE LICENSING PROCESS

4.1 REGULATORY FRAMEWORK

During 2016, the process of drafting and reviewing the regulatory supervision framework aimed at complementing and improving it consistently by the supervisory authority, in order to ensure compliance with the requirements of the law on banks and alignment with directives and regulations of the European Union (EU), the standards of the Basel Committee for effective banking supervision, the best practices in this area, while taking into consideration the developments and problems of the banking system.

The drafting and review of supervisory regulations continued to be realized through working groups, with representatives of the Supervision Department in cooperation with other departments of the Bank of Albania. Part of the process of drafting and reviewing the bylaws were also the banks and other financial entities licensed and supervised by the Bank of Albania, which contributed with ideas and opinions about the regulatory amendments.

In 2016, various new regulatory acts were finalized, very important for banking supervision and the entities subject to these acts. Also, existing regulations were amended as follows:

- An amendment to the Regulation "On licensing and the exercise of activity of banks and branches of foreign banks in the Republic of Albania", (approved by Decision No. 15, dated 03.02.2016 of the Supervisory Council of the Bank of Albania).

The purpose of this amendment is to ensure compliance and consistency with the concepts used for assessing the bank's financial standing and other applicable documents such as the "Supervision Policy" and the "Risk Assessment Manual".

- Amendments to the Regulation "On granting the license to non-bank financial institutions" (approved by Decision No. 47, dated 30.03.2016 of the Supervisory Council of the Bank of Albania).
- Amendments to Regulation "On licensing, organisation, activity and supervision of foreign exchange bureaus" (approved by Decision No. 48, dated 30.03.2016 of the Supervisory Council of the Bank of Albania).



The Regulation "On licensing and exercise of activity by non-bank financial institutions" and the regulation "On licensing, organization, activity and supervision of foreign exchange bureaus" were simultaneously revised to address some issues identified by licensing practices, related to the treatment of agents of non-bank financial entities for payment services. The purpose of these regulatory amendments was to provide a more effective supervision approach to non-bank financial entities and electronic money institutions by increasing the role and responsibility of these entities in ensuring compliance with qualifying criteria for their agents, in accordance with the requirements of the EU directives in the field of payments, thereby abolishing the process of approval of agents by the supervision authority for the aforementioned entities. At the same time, in the framework of the implementation of the plan for measures for the reduction of non-performing loans, in the Regulation "On licensing and the exercise of activity by non-bank financial entities", easing requirements were set out for minimum required capital for the entities that buy non-performing loans.

- Amendments to the Regulation "On capital adequacy ratio" (approved by Decision No. 49, dated 30.03.2016 of the Supervisory Council of the Bank of Albania).
- Amendments to the Regulation "On credit risk management by banks and branches of foreign banks" (approved by Decision No. 50, dated 30.03.2016 of the Supervisory Council of the Bank of Albania).

The aforementioned regulations were simultaneously revised in the framework of fulfilling the commitments undertaken by the Bank of Albania in the inter-institutional plan of measures "On reducing non-performing loans in the banking system". The amendments aimed to address the concern over the accumulation in banks' balance sheets in the past years, the surplus of assets obtained by loan repayments. The changes consisted in the clarification of the process of writing off loans from banks' balance sheets recording and keeping them off the balance sheet; the full provisioning of fixed assets obtained from the execution processes for a maximum period of up to seven years and the application of a higher risk weight for these assets.

- Approval of new Regulation: "On minimum security requirements regarding premises where banking and financial activities are conducted and transportation of monetary values" (approved by Decision No. 67, dated 01.06.2016 of the Supervisory Council of the Bank of Albania).

The aim of this regulation is to set out the minimum security requirements in the premises where banking and/or financial activities and the transportation of monetary values are conducted, with the purpose of the normal and safe exercise of these activities.



The comprehensive review of the existing regulation in cooperation with the Department of Security and Defence took into consideration and aimed at providing solutions to the various issues encountered by the inspections carried out in the branches and agencies of banks, non-bank financial institutions and foreign exchange bureaus.

- Approval of the new Regulation "On licensing of savings and loan associations and their unions" (approved by Decision No. 104, dated 05.10.2016 of the Supervisory Council of the Bank of Albania).

The existing Regulation was comprehensively revised as a requirement for compliance with the new Law No. 52/2016, dated 19.05.2016 "On savings and loan associations and their Unions" and the completion of the legal framework with the relevant bylaws.

The review consisted more specifically in determining the activities permissible to the savings and loan associations (SLAs)³, as well as the corresponding capital requirements according to the type of financial activities that they would perform; requirements and documentation necessary for the licensing of SLAs and their Unions; criteria to be met by the members of the steering bodies of these entities; necessary documentation for the additional activities or appointments of members of the steering bodies that require approval by the Bank of Albania; requirements and documentation necessary for the realization of procedures for the legal reorganization of savings and loan associations in forms of merger with absorption, merging with creation, separation by absorption and separation with creation, which were not previously foreseen in the respective regulatory framework; qualifying and disqualifying conditions for the liquidator; some requests for cases of termination of the SLA membership in the Union; etc.

- Approval of the new Regulation "On risk management in the activity of savings and loan associations and their Unions" (approved by Decision No. 105, dated 05.10.2016 of the Supervisory Council of the Bank of Albania).

The comprehensive review of the existing Regulation "On risk management in the activity of savings and loan associations and their Unions" provides for new requirements for risk management in the activities of these entities by introducing core principles and rules for responsible and effective management (corporate governance), new risk management standards, transparency rules for SLAs with members on the products and services they provide, as well as reporting requirements and more stringent supervision measures.

³ In addition to basic deposit acceptance and lending activities for members, the SLAs are also allowed to exercise the financial activities of payment services and the transfer of money, foreign exchange and financial leasing.



More concretely, the review consisted in the definition of: core principles and rules for responsible and effective governance, including some requirements for steering bodies and overall management culture, risk management system, internal control unit and remuneration policies in SLAs and their Unions; various risk management indicators, including permissible capital adequacy ratios, maximum permissible large exposure limits, permissible rates for open foreign exchange positions; rules on credit risk management, credit classification by five classes (from four classes in the previous regulation) and the determination of the respective reserve rates to cover losses by class, definition of loans restructuring criteria and writing off of lost loans from the balance sheet; the rules for financial leasing risk management as a new activity that is now allowed to SLAs, according to the new regulatory provisions of the Bank of Albania, while also defining the classification of financial leasing contracts by classes and the definition of the relevant reserve fund rates; rules on the management of other risks such as: liquidity risk through the definition of the relevant limits, operational risk, information and communication technology issues, money laundering prevention; the general requirements on the transparency of the SLA to its members in terms of the products and services it provides, specifying the requirements related to the elements of the credit contract, the elements of the deposit contract, the manner in which the borrower's claims will be treated, and rights and obligations in the case of repayment of the loan before maturity, etc.

- Approval of the Regulation "The reporting system of Savings and Loan Associations and their Unions" (approved by Decision No. 106, dated 05.10.2016 of the Supervisory Council of the Bank of Albania).

The purpose of the comprehensive review of the reporting system for savings and loan associations and their Unions is to formulate a complete package with new forms, summarizing the Union data reporting forms, the aggregated data of all SLAs member in the Union, as well as the data of each individual SLA. The new reporting system forms are designed to adapt the new legal and regulatory requirements, provide more information for the external supervision, but also and more statistical data. The new forms were also accompanied by a guide for their completion by SLAs and the Unions.



BOX 2 THE LEGAL FRAMEWORK FOR LICENSING, SUPERVISION, RISK MANAGEMENT AND REPORTING OF SAVINGS AND LOAN ASSOCIATIONS (SLA) AND THEIR UNIONS

During 2016 the Bank of Albania, in cooperation with stakeholders, drafted the Law "On savings and loan associations and their Unions", approved by the Parliament of the Republic of Albania in May 2016.

The drafting of this Law was driven by the development dynamics and issues identified during the implementation of the previous Law. The Law aims the consolidation of the market of saving and loan associations and strengthening the supervision of this sector as these entities now have the obligation to enter the scheme of deposit insurance. The Law aims to define the conditions and rules for the creation, licensing, organisation, managing, conservatorship and liquidation of the SLAs and their Unions, as well as their supervision in the Republic of Albania.

When this Law entered into force it brought significant changes also in the number and size, as well as in the restructuring of the organisation of the activity of these entities.

In view of the implementation of the Law "On savings and loan associations and their Unions", the Bank of Albania reviewed completely the regulatory framework in place for supervision of these entities and more specifically the Regulation on their licensing, risk management and reporting system.

In reference to the provisions of the Law on SLAs and in accordance with the transitional provisions provided for in the relevant regulatory framework, SLAs and the Unions licensed by the Bank of Albania, which exercise their activity before the entry into force of these new regulatory acts, have been allowed the necessary time to, respectively:

- a) take measures for the organisation of the activity and internal structure by 30 June 2017;
- b) take measures to adapt the new format of the reporting system, by 30 June 2017;
- c) complete the minimal capital and Capital Adequacy Ratio requirements, by 30 June 2018;
- d) take measures to adapt the internal systems for accounting the interest, in compliance with the calculation model, by 30 June 2021.

To adapt to the developments in SLA entities as a result of the approval of the new Law was revised the entire regulatory framework regulating the activity of these entities; among them, we may mention the Regulation "On licensing and performing the activity by savings and loan associations and their Unions", the Regulation "On risk management in the savings and loan associations and their Unions" and the Regulation "On the reporting systems for Savings and Loan Associations and their Unions".



- Amendments in the Regulation: "On minimum security requirements in the premises of banking, financial activities and transportation of monetary values conduction" (approved by Decision No. 107, dated 05.10.2016 of the Supervisory Council of the Bank of Albania).

This review came in compliance with the requirements set out in the Regulation "On licensing and performing the activity of savings and loan associations and their Unions", for carrying out additional financial operations, including SLAs and Unions, as entities that have to complete the requirements of this Regulation regarding the technical and security conditions, when these activities are carried out through desks.

- Amendments to the Regulation "On licensing and exercise of the activity by non-bank financial institutions" (approved by Decision No 121, dated 09.11.2016 of the Supervisory Council of the Bank of Albania).
- Amendments to the Regulation "On electronic payment instruments" (approved by Decision No. 122, dated 09.11.2016 of the Supervisory Council of the Bank of Albania).

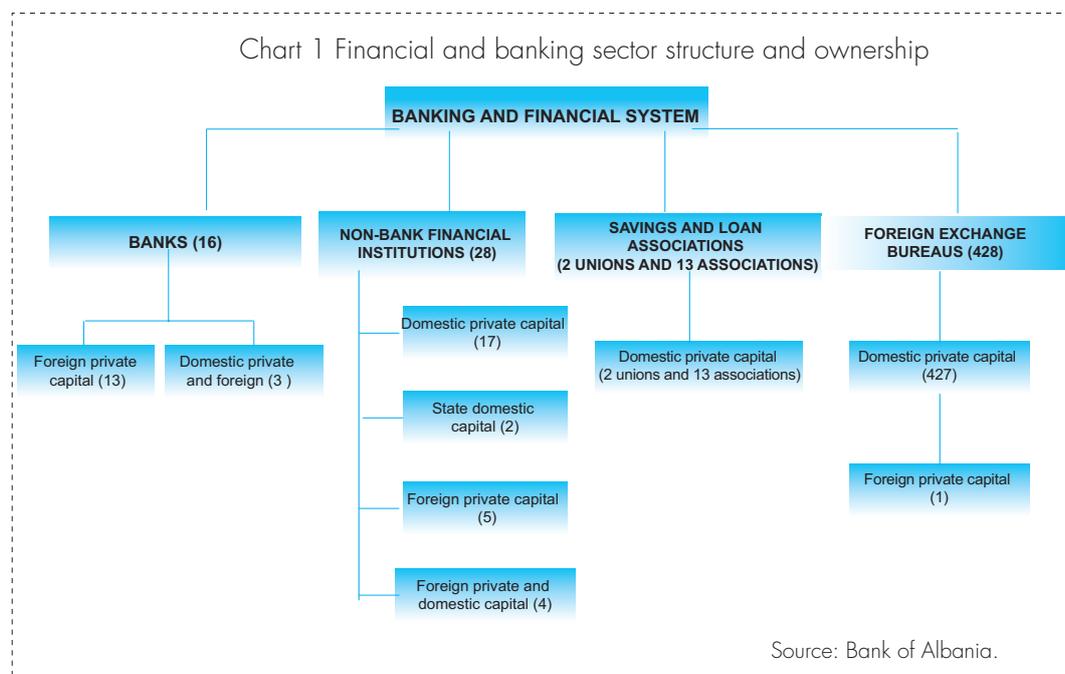
These two regulations were simultaneously revised in the framework of the approximation and in accordance with the provisions of the EU directives on payment services in the domestic market and for electronic money institutions, as well as taking into account the continuous development and consolidation of these institutions in the Albanian financial market, at a time when market demands are increasing for obtaining broader range and variety of financial products and services.

The amendments defined some exemptions from licensing requirements for entities or persons providing payment services via mobile telephony or other electronic devices, only for the purchase of electronic tickets, as well as the increase of the minimum initial capital required for electronic money institutions. At the same time, for electronic payment instruments, the removal of the maximum limits of electronic money issue was also reflected in the relevant regulation, both for non-recharge and recharge instruments, leaving at the will of the parties the determination of the minimum and maximum limit in the contract between them, but accompanied by additional requirements for raising the minimum initial capital levels required for electronic money institutions, from ALL 20 million to ALL 50 million.



4.2 LICENSING

As at end-2016, the structure of the banking and financial system in Albania consisted in 16 banks, 28 non-bank financial institutions (NBFIs), 428 foreign exchange bureaus, 13 savings and loan associations and 2 unions of savings and loan associations.



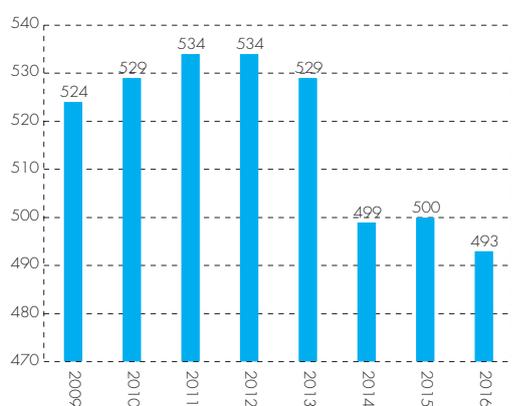
Pursuant to the Law on banks in the Republic of Albania, the Bank of Albania is vested with the power to licence and supervise banks, non-bank financial institutions, savings and loans associations and their unions, foreign exchange bureaus and representative offices. During 2016, within the scope of the licensing function, the Bank of Albania has taken some decisions on:

- Licensing four non-bank financial institutions to conduct the financial activity of crediting, factoring and leasing ("Albanian Financial Institution sh.p.k."); the activity of crediting ("Micro Credit Albania sh.a."); and the activity of payment services and money transfer ("Kastrati sh.p.k.", "Pay and Go sh.p.k.");
- Revoking the license of three non-bank financial institutions, respectively "Tirana Leasing sh.a.", because of its voluntary liquidation, "Credins Leasing sh.a.", as a result of the reorganization of "Credins Bank sh.a." for the merger by absorption with the non-bank financial institution, "Micro Credit Albania sh.a.", because of its transformation from a micro-credit financial institution into a non-bank financial institution;



- Preliminary approval for conducting additional financial activities by banks and non-bank financial institutions. Thus, the Bank of Albania granted the approval for additional financial activities in the annex of licenses of the National Commercial Bank sh.a., Societe Generale Bank Albania sh.a, American Bank of Investments sh.a., the non-bank financial institution Tranzit sh.p.k., the non-bank financial institution NOA sh.a., and the non-bank financial institution Albanian Financial Institution sh.p.k. The additional activities consist in the financial activities of guarantees and commitments, trading of transferable securities, insurance intermediation, factoring, intermediation of monetary transactions for the management of assets, conservatorship, depositing and trust services, financial leasing, etc, as laid down in the applicable legal framework. During 2016, Raiffeisen Bank provided a new communication channel for e-banking services, through Digital Banking platform. Credins Bank as a card issuer, added the electronic cards "Master Card" in the list of electronic payment instruments;
- Preliminary approval for the issuance of subordinated debt by one bank, and approved the changes in the statutes of four banks of the system;
- Preliminary approval for the transfer of the qualifying holding in the shareholder capital of Veneto Banka sh.a., prior approval for the transfer of capital quota (control) of the non-bank financial institutions Platinum Investment sh.p.k. and Agro & Social Fund sh.p.k. (Former VisionFund Albanian sh.p.k.);
- Approval of 48 administrators of banks and non-bank financial institutions, of which 13 members of steering councils, 7 members of the audit committees, and 28 general managers and executives; and
- Preliminary approval for the expansion of the banking network.

Chart 2 Number of bank branches/agencies, over years



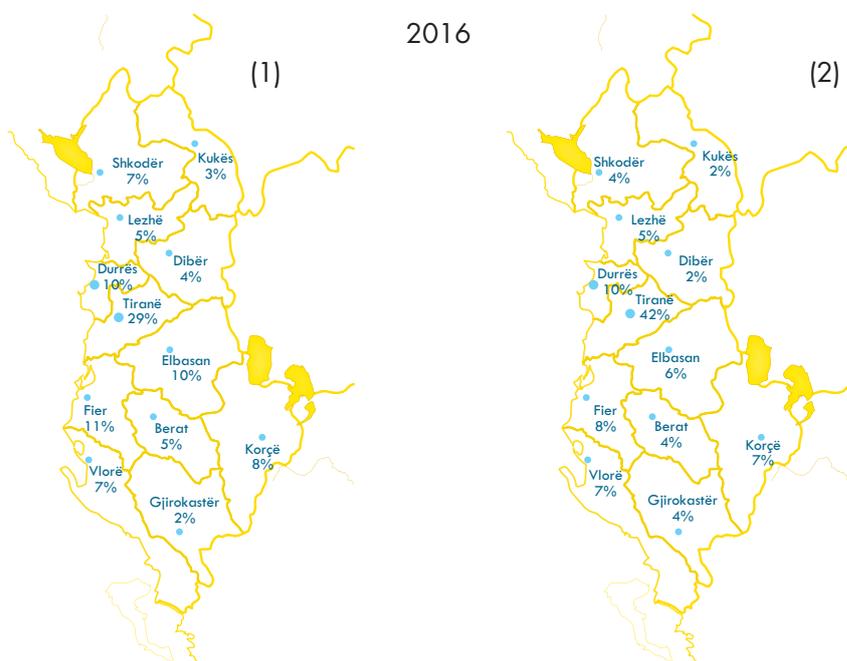
Source: Bank of Albania.

At the end of 2016, banks operate through 493 branches / agencies across the country, while only one bank continues to have a branch outside the territory of the Republic of Albania.

The geographical distribution of bank branches/ agencies include almost the entire territory of Albania, while a great concentration of branches and agencies is evidenced in Tirana (42%), where the population concentration is greater (29%). The distribution of bank branches/agencies by prefectures is also in proportion with the population.



Chart 3 Geographical distribution of resident population (1) and of bank branches/agencies' network (2), by prefecture in 2016



Source: Bank of Albania and INSTAT.

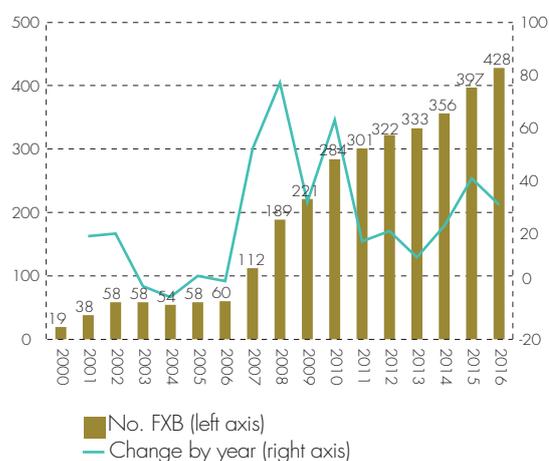
Year 2016 showed a positive pace in the increase of applications by entities to conduct the financial activity of foreign exchange. At the end of 2016, the number of foreign exchange bureaus rose to 428, or 31 bureaus more than in the previous year. During this year, 39 new licenses were granted and 8 licences were revoked upon own request.

Approvals were also granted for applications by already licensed foreign exchange bureaus to expand their activity by opening new offices and employing new cambists.

Foreign exchange bureaus operate in 14 main cities, but were mostly concentrated in Tirana. Tirana continues to dominate with 41% of total growth, and Fier with 10% growth in the number of the foreign exchange bureaus.

In compliance with the requirements laid down in the legal framework in force, the non-bank financial institutions and electronic money institutions may conduct the activity of payment and money transfer services and/or funds allocation and repayment, in case of e-money institutions even through agents. As at end-2016, the number of these entities' agents was 1,169.

Chart 4 Foreign exchange bureaus, over years



Source: Bank of Albania.



Table 2 Number of money transfer agents as at end-2016

	AK-INVEST	Financial Union Tirana	VODAFONE M-PESA	EASYPAY	Total
Agents conducting the activity of money transfer on behalf of the non-bank financial institution	326	273			599
Agents of electronic money institution			342	228	570
Total	326	273	342	228	1.169

Source: Bank of Albania.

In the category of savings and loan associations, no new licenses were granted in 2016, while the reorganisation process of 98 existing savings and loan associations was completed, through the merger by absorption. At the end of 2016, there were 13 savings and loan associations and two Unions of savings and loan associations.

During 2016, structural changes in the ownership of banks and non-bank financial institutions consisted in changes in the non-qualifying holding in the shares/quota of their capital; meanwhile, the share capital of these entities increased, as well.

