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ACHIEVING EFFECTIVE FINANCIAL INCLUSION IN ALBANIA: A PAYMENTS PERSPECTIVE

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ACRONYMS AND ABBREVIATIONS

ACH	Automated clearing house
ADIA	Albanian Deposit Insurance Agency
AECH	Albanian Electronic Clearing House
AIPS	Albanian Interbank Payment System
AKEP	Electronic and Postal Communications Authority of Albania
ALL	Albanian Lek
AML	Anti-money laundering
ATM	Automated teller machine
BIS	Bank for International Settlements
BoA	Bank of Albania
CDD	Customer due diligence
CFT	Combat the financing of terrorism
CPC	Consumer Protection Commission
CPMI	Committee on Payments and Market Infrastructures
DPT	Albania Taxation Office *(Drejtoria e Përgjithshme e Tatimeve*)
ECA	Europe and Central Asia
EFT	Electronic funds transfer
EU	European Union
EUR	Euro
FIAP	Financial Inclusion Action Plan
FSA	Financial Supervisory Authority
GBP	Pound Sterling
GDPML	General Directorate for the Prevention of Money Laundering
GPFI	Global Partnership for Financial Inclusion
ICT	Information and communications technology
INFE	International Network on Financial Education
JA	Junior Achievement
KYC	Know your customer
MIC	Middle income countries
MFI	Microfinance institution

MTO	Money transfer operator
NAIS	National Agency for Information Society
NBFI	Non-bank financial institution
NFIS	National financial inclusion strategy
NID	National identity number
NPR	National Population Register
NPS	National payments system
NPSC	National Payment System Committee
OECD	Organization for Economic Cooperation and Development
OTC	Over-the-counter
PAFI	Payment Aspects of Financial Inclusion
PKI	Public key infrastructure
POS	Point of sale
PSD	Payment Services Directive
PSDG	Payment Systems Development Group (World Bank)
PSP	Payment service provider
P2P	Person-to-Person
RPP	Remittances and Payments Program
RSP	Remittance service provider
RTGS	Real-time gross settlement
SCA	Savings and credit association
SECO	Switzerland's State Secretariat for Economic Affairs
SMEs	Small and medium enterprises
SSBs	Standard setting bodies
SSI	Social Security Institute
UFA	Universal Financial Access
USD	United States Dollar
WBG	World Bank Group

EXECUTIVE SUMMARY

1. **In April 2016, the committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and the World Bank Group issued the "Payments aspects of financial inclusion report" or "PAFI report",** covering demand and supply side factors affecting financial inclusion in the context of payment systems and services. The report calls for all individuals and micro- and small-sized enterprises to be able to have and use at least one transaction account operated by a regulated/authorized payment service provider: (i) to perform most, if not all, of their payment needs; (ii) to safely store some value; and, (iii) to serve as a gateway to other financial services. To this end, the PAFI report proposes a framework to address identified barriers to access to, and usage of, transaction accounts, consisting of three "foundations" – i.e., the critical enablers for payment systems and the provision of payment services in general – and the "catalytic pillars" as the drivers for access and usage. The end objective is to achieve universal access to and frequent usage of transaction accounts.

2. **Under the SECO-funded Remittances and Payments Program (RPP), a World Bank Group mission,[1] visited Albania in September 2016 and January 2017 to** conduct a review of the country's national payments system (NPS) in order to make recommendations for possible improvements with regard to achieving effective financial inclusion from a payments perspective. In parallel, an assessment based on the CPMI-WB General Principles for International Remittance Services was undertaken by the team. To the extent that these assessments were conducted at the same time and address common issues such as the legal framework, the payments infrastructure etc., although from different perspectives, some observations and recommendations overlap.

3. **Less than 40% of adults[2] in Albania have an account at a financial institution.** While there has been some progress from year 2011, the share of adults with an account still compares unfavorably to peer countries in the ECA region, and more even so to upper MICs around the world. The situation is somewhat worse for women, young adults and adults living in rural areas,[3] and significantly worse for adults belonging to the poorest 40%. World Bank data estimate debit card ownership between 21.8% and 24%.[4] Use of non-cash payment instruments in Albania for transactions other than cash withdrawals is low, despite a steady increase since 2011, with paper-based credit transfers being the most heavily used

[1] The fist mission was comprised of Carlo Corazza, Senior Payment Systems and Remittances Specialist, and Nenad Bosiljcic, Elisabetta Cervone and Jose Antonio Garcia, all consultants. The second mission also included Maria Teresa Chimienti, Sr. Payment Systems Specialist, and Massimo Cirasino, Adviser to Senior Director, Global Lead Payments and Market Infrastructures.

[2] Age 15+.

[3] This can be explained to some extent by the fact that the Government of Albania enforced the channeling of employees' salaries through the banking system. As mentioned earlier, unemployment rates for woman, young adults and rural adults are higher. Hence, these groups are less likely to have an account.

[4] Source: Findex 2014 and Retail Payments Cost Study.

non-cash payment instrument. Payment cards in Albania are mostly used for cash withdrawals at automated teller machines (ATMs). Cashless transactions per capita reached 4.3 as of end-2016, far below upper MICs average and from developed economies. Similarly, banking and retail payments infrastructure is relatively less developed in Albania than in neighboring countries and peer upper MICs.

4. **Explicit, strong, and continued commitment towards financial access and inclusion is the first PAFI "foundation" and could be more explicitly articulated in Albania.** Other than a reference in the National Payment System Committee's (NPCS) Mid-Term Strategy, in Albania there is no explicit commitment from public authorities and/or the financial services industry to foster or promote financial inclusion. At the global level, as of the end of 2014 more than 50 countries had made headline financial inclusion commitments, and many of them are developing explicit strategies, often referred to as National Financial Inclusion Strategies (NFIS), to ensure that resources and actions are put in place in a coordinate fashion to achieve those commitments. Albania could benefit from putting in place a NFIS that includes explicit and specific goals and strategies for advancing access to, and usage of, the various financial services that should be broadly available to individuals and businesses, like bank and other transaction accounts, credit, savings and insurance. NFIS must rely on a leadership/coordination structure. In this regard, the NPSC of Albania is an important forum to facilitate a cross-sectoral discussion; however, broader financial inclusion efforts that beyond financial access might require setting up an ad-hoc structure with an explicit mandate.

5. **In Albania, the legal and regulatory framework underpinning financial inclusion is well-developed though incomplete.** At the outset, a general development that bears significant importance to the evolution of legal and regulatory framework is the country having received, on 27 June 2014, "European Union (EU) Candidate" status. As a result, the BoA and other national authorities are working to bring the national legislation in line with the EU acquis in the field of payments (e.g., through the transposition of EU Payment Services Directive 2 – PSD 2). The adoption of the Payment System Law of 2013 has significantly strengthened the legal basis of the NPS, including payment instruments. A robust framework has been established to foster sound risk management practices in the payments industry in Albania, including through the regulation and the supervision/oversight of providers of payment services and operators of payment systems. In parallel with allowing non-bank financial institutions (NBFIs) to provide payment services, the legal framework sets out the risk management provisions that are applicable to them. Protection of deposits and of e-money customer funds is adequately addressed through deposit insurance (covering banks and savings and credit cooperatives, SCAs) and other preventive measures, respectively. Finally, significant progress was made to enhance AML/CFT regulation to bring it in line with international standards by adopting a risk-based approach does not unnecessarily inhibit individuals and businesses from accessing and using well-regulated financial services.

6. **A number of gaps and areas of improvement have been noted that have a bearing on the enabling environment and customer's protection.** The use of third parties as agents for the provision of payment and payment-related services is limited to NBFIs, and outsourcing in general is not coherently disciplined. Although the legal and regulatory framework for the provision of payment services was amended to accommodate new technologies and business models, payment services remain the prerogative of banks and NBFIs, i.e., non-financial institutions wanting to provide payment services and e-money apply for a license under NBFIs licensing regulations. In this regard, the transposition of PSD 2 will contribute to ensure a more consistent outcome in terms of licensing of non-financial institutions, thus further facilitating market entrance. The legal basis and trust on e-evidence in court should be enhanced. As mentioned above, regulatory and oversight powers of BoA are properly articulated, although the BoA lacks explicit powers on payment services (as opposed to systems and instruments). The financial consumer protection framework needs to be further elaborated, including by entrusting an office/Authority with powers and responsibility to monitor and enforce protection of users of payment services. In this regard, it is expected that the transposition of PSD2 will contribute significantly to address transparency and consumer protection for payment services. From an integrity perspective, although a tiered compliance structure is in place that permits a suitable balance between risk and compliance relative to transaction size and volume, this approach should be reinforced by disciplining it through laws and regulations rather than mere guidelines.

7. **Albania has made important progress in establishing a modern and robust payments infrastructure.** To a large extent, the core payment infrastructures operated by the BoA are safe and efficient. Some other important challenges exist, the major one being probably that - despite the availability of modern payment infrastructures - cash remains the dominant means of payment for the vast majority of the country's population – even for those that already have bank accounts. The ongoing initiative in Albania to develop a domestic infrastructure for card payments (i.e. Pay Link) could be a solution to achieve increased or even full interoperability, and could provide additional advantages, such as competition with existing global brands, improved ability to meet local market needs, and local decision-making and governance benefits. However, in order to realize these benefits, a payment cards switch must achieve broad participation from card issuers in the country (and eventually also from issuers of other payment instruments that could also be switched). Hence, its ownership and governance structures should not deter participation, but rather promote it.

8. **Another factor that might be impacting negatively the efficiency and effectiveness of the payments infrastructure in Albania is that, despite some relevant changes in recent years, there is still limited involvement of non-bank players in the electronic payments value chain**. For example, non-banks have no access to the settlement or clearing layers, nor can they issue well-known payment instruments such as payment cards. Partly because of this, the two licensed e-money issuers and the other NBFIs licensed

to provide payment services focus almost exclusively on bill payments (and where applicable also on cross-border remittances, solely on a cash basis). Hence, there is room for the provision of a wider range of front-end, electronic payment services to the general public by non-banks (e.g. including person-to-person payments, etc.) In this regard, an initial action item has to do with the composition of the NPSC, which could be broadened to also include non-bank providers as voting members through a representation. Further, the transposition of the PSD2 represent an opportunity to reconsider access policies to the BoA-operated automated clearinghouse (AECH) – in parallel with credit risk management. Finally, the implementation of direct debit should be expedited.

9. **Reliable identity verification is a cornerstone for expanding the provision of financial services.** A modern and robust electronic ID system ensures that identity (and potentially other relevant citizenship data) can be securely and unambiguously asserted and verified through electronic means for delivery of services. Albania has taken important steps in this direction, including through the modernization of the National Civil Status Registry, the issuance of smart ID cards, and by enabling the provision of electronic and remote verification of identity services through eAleat. Authorities must ensure smart ID card holders can "activate" their cards easily and conveniently with eAleat so that the electronic ID verification service may be provided smoothly. At the same time, in order to maintain a level playing field, all financial service providers and other external parties with a legitimate purpose should be able to use this service in a fair and equitable basis. In fact, while eAleat Identity Services is a private venture, it should be operated largely as a utility.

10. **Regarding credit reporting, while credit reporting systems[5] are only rarely used as a means of facilitating access to accounts for payments, they can be especially useful to open up the path to broader financial services.** Indeed, the PAFI report stresses the role of accounts as a gateway to credit, savings and/or insurance. In this regard, the initiative to build a credit bureau or credit reference center in Albania – which would also capture data from the payment of recurrent obligations such as utilities, mobile phone bills, educational services, etc. – should be supported.

11. **In terms of transaction account product design, there is little diversification of deposit transaction accounts from both a design and pricing standpoint.** No special accounts such as "basic" or "no-frills" current accounts are offered to the unbanked. Nor is there a system of tiered accounts in the banking system whereby accounts of a very basic nature may be opened with simplified requirements. The BoA and the banking industry

[5] Credit reporting systems comprise the institutions, individuals, rules, procedures, standards and technology that enable information flows relevant to making decisions related to credit and loan agreements. At their core, credit reporting systems consist of databases of information on debtors, together with the institutional, technological and legal framework supporting the efficient functioning of such databases. The information stored in these systems can relate to individuals and/or businesses. See World Bank General Principles for Credit Reporting, September 2011.

should reconsider the existing pricing structure and design of deposit transaction accounts. First, regardless of price levels, upfront costs for opening a bank account and mandatory monthly/annual maintenance fees are perceived by customers as key negative elements of having an account, especially as those charges are independent of the actual usage of the account or the relative cost of instruments and channels for the bank. Second, "basic accounts" have been launched in many jurisdictions and are being used as an alternative to advance access to transaction accounts. In Albania, this space has been filled to some extent by the NBFIs licensed as e-money issuers. However, the banking system could also play an important role in this specific area.

12. In any event, to be truly useful all transaction/current accounts should be able to accommodate the key transaction and store-of-value needs and habits of their respective target populations. This naturally includes being able to transfer funds and pay electronically to as many parties as possible, although with a strong focus on those parties with which accountholders transact regularly for routine issues. In this regard, **one aspect that would increase the usefulness of accounts in Albania would be to achieve full interoperability across bank accounts, between bank accounts and e-money issuers, as well as among e-money issuers themselves**.

13. Given the scarce penetration of banking infrastructure in Albania as compared to other regional peers and middle-income countries (MICs), **an agent banking model could prove beneficial to increase the reachability and convenience of bank accounts to the population, especially for those individuals that live/work far from major financial districts.** As it is the case in numerous countries in which this model has been implemented successfully, agents (e.g. small family shops, convenience stores, gas stations, real sector retailer chains, etc.) perform basic transactional operations on behalf of one or more banks, with the latter maintaining full responsibility vis-à-vis customers and authorities. In this regard, the Albanian Post Office and SCAs, among other entities, could play a major role as agents given their experience in serving rural and other isolated communities. In any case, banks should be able to freely select those agents that they believe are most appropriate to their business plan and needs. The reach of access points can also be augmented through interoperability of existing and new channels and outlets.

14. **The BoA, the government and financial sector entities are active in the promotion of financial literacy in Albania and can be leveraged further.** Led by the BoA and the Albanian Association of Banks (AAB), existing financial education initiatives are mostly focused at increasing the level of financial literacy among school students. These are commendable efforts, and should be continued and strengthened. However, these initiatives seem to lack an explicit long-range strategy. Coordination of the various efforts could be improved, and participation by additional stakeholders (from at least the public sector, such as authorities responsible for consumer education, labor and employment, social protection, among others) would be beneficial. A monitoring & evaluation framework for

financial literacy programs should be developed. More importantly, efforts should be steered towards addressing individual's payment and store-of-value needs, and should target those individuals that do not have an account and those that obtained one only recently. Remittances – as a basic service that is often the first to be accessed by the un(der)served population – and remittance recipients should also be covered by awareness and literacy efforts.

15. **Government disbursements and collections as a powerful vehicle of financial access would benefit from a coherent approach that take into account inclusion objectives along with efficiency.** While public sector salaries are channelled through bank accounts, efforts to enable government disbursements to accounts should be broadened beyond public sector employees to include pensioners and the beneficiaries of social programs from both central and local government, which currently rely to a great extent on cash. At the same time, these efforts should ensure that the conditions and incentives are in place to use the transaction account to which funds have been credited instead of cashing out immediately after the payment has been received. This aspect in currently not in focus, and would need to be coordinated in parallel with other policies that address bank/transaction account product design to meet the recipients' needs, and the availability of access points, for instance. For example, ad-hoc transaction account products for the disbursement of social welfare programs could be explored/designed, provided that certain conditions are met (e.g., adequate branding and a robust rollout and customer support strategy, preserving customer choice, and multi-purpose and interoperable features, among others).

16. **Government collections and utility bill payments are to a great extent cash-based, notwithstanding an increasing number of service providers.** The expansion of the range of electronic and online payment services should be encouraged. First, the implementation of direct debit will be instrumental to enhancing the efficiency and convenience of collecting and paying utility bills, respectively. In part, the uptake will depend on the implementation of direct debit, e.g., on the necessary protections being in place for the customers, and the awareness/marketing efforts being conducted in parallel. Similarly, the efforts to integrate more services into the e-government portal should be accompanied by a coordinated approach to awareness raising and education for both consumers and billers. Second, any remaining legal barriers to collections by non-banks should be eliminated. The fees that the Government may incur in enabling collection through non-bank providers would be compensated by the elimination of costly cash logistics, among other benefits. Finally, authorities should determine whether, given the current situation of dominance of cash, more deliberate actions to discourage use of cash and incentivize electronic alternative are warranted. In the same vein, ad hoc incentives may be considered by large billers and transit system operators.

17. **Currently remittances are underutilized as a means to foster financial access in Albania.** Increasing competition and fostering innovation in the remittance market are pre-

conditions to realizing the potential of remittances as a vehicle of financial access and inclusion. Competition can be increased by eliminating exclusivity contracts that bind international money transfer operators (MTO) agents to their sub-agents. Among other implications, exclusivity inhibits the full exploitation of the network of access points throughout the country. Also, liberalizing access criteria to the AECH (i.e., enabling the participation of NBFIs provided that they comply with the participation requirements) would enable them to develop new products and better serve their customers. Cooperation between banks and MTOs is also desirable to enable product innovation through partnership.

18. **In conclusion, Albania is well-placed to make swift progress on financial access provided that timely actions are taken following a strategic approach.** The report highlights a number of strengths on which to build on, including strong leadership, a largely enabling environment for innovation and competition, proportionate risk management, and a sound core clearing infrastructure. Nevertheless, some important challenges remain that might cripple the current efforts being undertaken, the major one being that, despite the progress made so far to promote electronic instruments, cash remains the dominant means of payment for a very significant share of the country's population, even for those that already have transaction accounts. This can in part be explained by limitations in the transaction account and payment product design, as well as the poor distribution of access points, and low levels of financial literacy. As a result, of all recommendations presented in the report the following would deserve priority attention: (i) enhancing the opportunities for non-banks to participate and compete fairly in the NPS; (ii) achieving increased coverage of access points and enhanced interoperability; (iii) diversifying and improving transaction account product design to meet the needs of the unbanked and incentivize usage; and, (iv) curbing cash usage through coordinated cross-sectorial policies and incentives, and by leveraging large-volume payment streams to the greatest extent possible.

PAFI ASSESSMENT REPORT

1 INTRODUCTION

1. The Remittances and Payments Program (RPP) is a technical assistance program in Eastern Europe and Central Asia funded by Switzerland's State Secretariat for Economic Affairs (SECO) and managed by the World Bank Group (WBG) Finance & Markets Global Practice through the Payment Systems Development Group (PSDG). The RPP aims to increase the efficiency of retail payments in selected countries by creating an enabling environment for innovation, with a specific focus on international remittances. It aims to provide technical assistance in support of policy and regulatory reforms and capacity building for government agencies and ministries, regulators, financial institutions, the civil society, and other relevant entities. Albania being one of the countries that fall within the geographical scope of RPP in Eastern Europe, will take part in this initiative under the leadership of the Bank of Albania (BoA).

2. The overall objective of RPP Albania is to increase access to, and usage of, transaction accounts and electronic payment instruments, by improving the efficiency of domestic retail payments and international remittances. A transaction account is an essential financial service that can serve as a gateway to other financial services such as savings, credit and insurance. However, nearly 40% of the world's adult population – about 2 billion people – still have no account with a bank or another regulated and/or authorized non-bank payment service provider.

3. A mission comprised of Carlo Corazza, Senior Payment Systems and Remittances Specialist, Finance & Markets Global Practice, and Nenad Bosiljcic, Elisabetta Cervone and Jose Antonio Garcia, all World Bank Group consultants,[6] visited Albania in September 2016 to conduct a review of the country's National Payments System (NPS) in order to make recommendations for possible improvements with regard to achieving effective financial inclusion from a payments perspective. Numerous meetings and discussions with public and private sector stakeholders were held and the team considers that it has gathered representative opinions from different participants on the current status of the market and on-going reforms. The team wishes to thank the BoA for the excellent coordination of the mission's agenda and inputs.

4. This report presents the results of the analysis, which was based on the recently released report "Payment Aspects of Financial Inclusion" (PAFI) issued jointly by the Committee on Payments and Market Infrastructures (CPMI) and the World Bank Group.[7]

[6] The team was coordinated remotely by Maria Teresa Chimienti, Sr. Payment Systems Specialist.
[7] http://documents.worldbank.org/curated/en/806481470154477031/pdf/107382-PUB-PUBLIC-payment-systems-of-financial-inclusion-PAFI-2016.pdf

This work in Albania has also benefited from previous experiences of the PSDG using this same “PAFI framework” in other countries.

5. The PAFI report, in addition to outlining guiding principles to help countries advance financial inclusion in the form of enhanced access to and usage of transaction accounts, suggests a number of possible key actions for each of these principles.

6. PAFI also stresses that beyond obtaining access to a financial service (e.g. having an account), there is also the key issue of whether a financial service is actually valuable to its users, which is very often reflected in how frequently that service is used. This report for Albanian authorities stresses both the concepts of access to accounts and their usage as the relevant measures for determining the extent to which financial inclusion from a payments perspective is really effective.

7. Finally, the PAFI report also recognizes that financial inclusion efforts are beneficial not only for those who will eventually become financially included, but also for the NPS and, ultimately, the economy.

8. This draft report is organized as follows.

- Section II gives a brief overview of the socio-demographic context, the financial sector, the state of financial inclusion in Albania from a payments perspective (and in comparison to select peer countries), and also includes a short discussion on recent international developments and previous work that led to the creation of the PAFI framework.
- Section III then discusses the basic foundations for effective financial inclusion from a payments perspective, which are: i) commitment and coordination of stakeholders; ii) legal and regulatory framework; and, iii) the payments and other relevant infrastructures.
- Section IV discusses the driver of access to and usage of transaction accounts and associated electronic payment instruments, which are: i) account and payment product design; ii) readily available access points and access channels; iii) awareness and financial literacy; and, iv) large-volume recurrent payments.
- Section V contains the key Conclusions of this report.
- The report concludes with a section with bibliographic references and a number of annexes that provide detailed insights on some of the aspects discuss herein.

2 CONTEXT

2.1 GENERAL ECONOMIC AND SOCIO-DEMOGRAPHIC CONTEXT[8]

1. The economy of Albania grew by 2.8% during 2015. Over the period 2011-2015, economic growth has averaged 1.9%. Inflation has remained at very low levels – less than 2% per year since 2012.[9]

2. According to the latest official data – the 2011 Census, the total number of individuals permanently residing in Albania was 2,821,977. Compared to 2001, the population has declined by nearly 8%. Over this 10-year period, it is estimated that around half-a-million people migrated from Albania, while approximately 140,000 returned. At the same time, the population living in urban areas exceeded the rural population for the first time, evidencing also intense internal migration: the resident population in urban areas was 53.5% while 46.5% of the population lived in rural areas.

3. Population is concentrated in the prefecture of Tirana (27%), followed by the prefectures of Fier (11%), Elbasan (10.5%), Durrës (9.4%), Korçë (7.8%) and Shkoder (7.7%), each of them with 200,000 or more inhabitants.

4. The average age of the population residing in Albania increased from 30.6 years in 2001 to 35.3 in 2011. Meanwhile, the proportion of the population 65 years and older in the total population increased from 8% in 2011 to 11% in 2011. Most of the individuals that have emigrated from Albania are in the age range of 20-45.

5. According to the World Bank, there are 1.3 million Albanian migrants living abroad,[10] which are equivalent to approximately 40% of the current population living within the Albanian borders. The annual amount of remittance flows to Albania is estimated at USD 665.2 million, equivalent to nearly 5.8% of the country's GDP for 2015.[11] Until a few years ago, the majority of Albanian migrants lived in the neighboring countries of Greece and Italy. At present, Albanian migrants are more dispersed across Europe, North America, and Australia, with larger communities in Germany, the United Kingdom and the United States.

6. The general illiteracy rate for the population of 10 years and above is 2.8%. Adults aged 75 years and older constitute about 50% of the total illiterate people in Albania. The percentage of illiterates is higher in women, 3.7%, than in men, 1.7%.

[8] Unless otherwise indicated, the source of the data in this section are INSTAT, "Population and Housing Census 2011, Main Results", Part 1, and INSTAT, "Albania Labour Market Dynamics 2001-2011".
[9] Source: International Monetary Fund, International Financial Statistics.
[10] Bilateral migration matrix 2013, http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data
[11] WB staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and WBG country desks (October 2014).

7. Population in working age (aged 15 to 64) was estimated at 1.9 million individuals as of 2011, split evenly between men and women. According to INSTAT Labor Force Surveys, as of 2011 there were 1.3 million persons in the labor force (i.e. economically active), representing 68.5% of the working age population. This percentage is higher for men than for women (76.4% of men in working age versus 60.8% of women in working age). In turn, the employment rate was estimated at 58.7% of the population in working age. The employment rates for men and women in working age were 65.7% and 51.8%, respectively.

8. The main employers in Albania by broad economic sector are: services (49.7%), agriculture (26.1%), industry (12%), construction (8.4%) and others (3.8%). Although there is no official data on informal employment, this is considered a widespread characteristic of the labor market in Albania. The phenomenon of part-time work is common in the agriculture sector compared to other sectors of the Albanian economy.

9. The Labor Force Survey 2011 showed that the *net* average monthly wage for an employee was ALL 31,431 (USD 260 based on September 2016 exchange rate). The net average monthly wage is about 15% lower for a female employee than for a male employee.

10. According to INSTAT's Household Budget Survey of 2014, which provides relevant data to identify potential use cases for non-cash payment instruments, approximately 48% of household consumption expenditure in Albania went to food and related items (including alcoholic beverages and tobacco), 10.2% to utilities, 6.8% to transportation, 6.3% to recreation (including hotels and restaurants), 5.4% to durables and home maintenance, 5.1% to clothing, 4.8% to health, 4.2% to education, 3.3% to communications, and 6.0% to "others". When it comes to the frequency of spending, the majority of individuals/households in Albania buy food and related items at least on a weekly basis. Transportation is also paid for at least weekly. In the case of utilities, communications and education expenses, the most frequent disbursement for these items occurs on a monthly basis.

2.2 FINANCIAL SECTOR OVERVIEW

11. According to the BoA's 2016 H1 Financial Stability Report, financial intermediation in Albania – estimated as the ratio of the system assets to Gross Domestic Product (GDP) – was 100.7%. The financial sector is dominated by commercial banks accounting for 90.8% of total system assets. Commercial banks are licensed and supervised by the BoA. There are currently 16 licensed banks in the country.

12. BoA also licenses and supervises non-bank financial institutions (NBFIs) and savings and credit associations (SCAs) and their unions. As of October 2016, there were a total of 29 licensed NBFIs. Altogether, the 29 NBFIs plus the SCAs represent nearly 3.4% of total financial system assets. Of the 29 NBFIs, nine are licensed to provide payment

services: (i) five are involved in the provision of domestic payment services (Albania Post, EasyPay, M-Pay, Kastrati shpk and Pay & Go); (ii) two are involved exclusively or almost exclusively in remittance transfers (Financial Union Tirana and AK Invest as local agents of Western Union and Money Gram, respectively); and two have been licensed as e-money institutions (M-Pesa/Vodafone and EasyPay with a separate license for issuing e-money).

13. Other financial institutions are supervised by the Albanian Financial Supervisory Authority. These include insurance companies, pension funds and investment funds. As of end-2015 their respective shares in total financial system assets were approximately 1.9%, 0.1% and 4.6%, respectively.

2.3 STATE OF FINANCIAL INCLUSION IN ALBANIA FROM A PAYMENTS PERSPECTIVE AND COMPARED TO SELECT PEER COUNTRIES

14. This section only provides a high level overview on the current state of financial access and broader financial inclusion with a focus on payments. Further details will be discussed in the following sections.

15. Table 1 shows data on account holding and usage in Albania as of 2014, based on the Global Findex database.[12] The table also includes the equivalent figures for the countries of the Europe and Central Asia (ECA) region as a whole, as well as for upper-middle income countries (MICs).[13] The WBG-BoA study on the cost of retail payments also provide a source of consumers' account ownership and payment patterns (see Box 1), although this section's analysis is based mainly on Findex data for cross-country comparability reasons.

Table 1: Basic data on account holding and usage in Albania

	Albania	**ECA**	**Upper MICs**
Account holding (% of population with age 15+)			
All adults, year 2014	38.0	51.4	70.5
Women	*33.6*	*47.4*	*67.3*
Adults belonging to the poorest 40%	*23.4*	*44.2*	*62.7*
Young adults (% ages 15-24)	*30.0*	*35.6*	*58.1*
Adults living in rural areas	*33.2*	*45.7*	*68.8*
All adults, year 2011	28.3	43.3	57.4
Use of Account in the past year (% of population with age 15+)			

[12] http://www.worldbank.org/en/programs/globalfindex
[13] Albania is classified by the World Bank as an upper-middle income economy.

Used an account to receive wages	10.8	22.5	18.1
Used an account to receive government transfers	3.5	7.3	9.6
Used a financial institution account to pay utility bills	2.6	12.5	12.3
Other electronic payments in the past year (% of population with age 15+)			
Used a debit card to make payments	4.0	22.9	19.9
Used a credit card to make payments	4.0	14.9	14.4
Used the Internet to pay bills or make purchases	3.3	11.9	15.3

Source: World Bank (2015), "The little data book on financial inclusion", Washington.

16. According to data in Table 1, less than 40% of adults[14] in Albania have an account. It should be noted that until recently in Albania there was no such concept as "transaction account" or "payments account", and only banks could issue accounts. This changed as a result of 2011 amendments to the Banking Law (art.4) and 2013 NBFI licensing regulations that included e-money issuance activity. To date, two e-money issuers have been licensed to offer e-money accounts. At present, the total number of such e-money accounts that are active (i.e. at least one transaction per quarter) is around 60,000, which is slightly more than 3% of the total population aged 15 or above in Albania.[15]

17. While there has been some progress from year 2011, the share of adults in Albania that had an account in 2014 still compared unfavorably to peer countries in the ECA region, and more even so to upper MICs around the world. The situation is somewhat worse for women, young adults and adults living in rural areas,[16] in tandem with the relevant figures for other ECA countries, but is significantly worse for adults belonging to the poorest 40%. Less than 1 in 4 adults in the latter group have access to an account in Albania, compared to almost 1 in 2 in other ECA countries and 2 in 3 for other upper MICs.[17]

18. According to 2014 Findex data, 21.8% of adults in Albania have a debit card, whereas the WBG-BoA retail payments cost study found a slightly higher percentage of debit card holders – 24%. It is worth noting that debit card ownership has not changed substantially since 2011 when 21.1% of adults in Albania had a debit card. The corresponding figures for 2014 for ECA countries were 72%, and 65% for upper MICs as a

[14] Age 15+.
[15] This is, assuming that all current holders of mobile money accounts were unbanked individuals, an additional 3% of the population age 15 or above in Albania now have an account to make and receive payments and store some money through the use of e-money accounts.
[16] This can be explained to some extent by the fact that the Government of Albania enforced the channeling of employees' salaries through the banking system. As mentioned earlier, unemployment rates for woman, young adults and rural adults are higher. Hence, these groups are less likely to have an account.
[17] The comparable figure for the Sub-Saharan Africa region is 24.6%.

whole.

19. Use of non-cash payment instruments in Albania for transactions other than cash withdrawals is low, despite a steady increase since 2011. Table 2 shows BoA data on usage of payment instruments. Based on these data, the total number of cashless payment transactions per inhabitant in Albania was almost 4 in 2015, still far from other upper MICs and from developed economies. For example, in 2015 Montenegro and Serbia reported 26 and 62 cashless transactions per capita, respectively, while the average number of cashless payment transactions per inhabitant in CPMI countries was 86.[18] High income countries report over 200 cashless transactions per inhabitant.

20. According to data in Table 2, paper-based credit transfers are the most heavily used non-cash payment instrument, followed by payment cards. Electronic money payments initiated only recently. Usage of cheques and paper-based credit transfers is no longer growing or is declining (especially for cheques). In contrast, electronic channels are increasingly being used for initiating credit transfers. In 2016, electronic credit transfers grew by 28%.

Table 2: Basic data on usage of non-cash payment instruments in Albania

(Transactions initiated by customers, including individuals and businesses)

	2011	2012	2013	2014	2015	2016
1. Paper-based credit transfers	6,175,418	6,376,269	6,086,231	6,265,984	6,241,373	5,980,144
2. Electronic credit transfers	187,431	236,215	322,672	1,249,294	1,404,052	1,791,989
3. Payments with cards	750,397	1,107,425	1,496,640	2,124,304	2,481,524	3,200,215
4. Direct debits (intrabank only)	864,295	975,786	720,350	433,778	457,604	732,210
5. E-money payments					156,283	205,200
6. Cheques	61,715	63,096	49,205	44,372	47,145	32,576
Total non-cash payments	**8,039,256**	**8,758,791**	**8,675,098**	**10,254,805**	**11,003,087**	**11,942,334**
Non-cash payments per capita (population = 2.8 million for all years)	**2.87**	**3.13**	**3.10**	**3.67**	**3.93**	**4.26**

Source: Bank of Albania, information available at https://www.bankofalbania.org/web/Instrumentet_59_2.php .

21. Payment card usage also shows a promising upward trend, growing 230% over the 2011-2015 period. Still, payment cards in Albania are mostly used for cash withdrawals at automated teller machines (ATMs): in 2016, there were 14.3 million cash withdrawals as opposed to 2.3 million point-of-sale (POS) transactions.

[18] Sources: World Bank Global Payment System Survey 2015; Committee on Payments and Market Infrastructures (2015), "Statistics on payment, clearing and settlement systems in the CPMI countries - Figures for 2014", Table 6, Basel.

Box 1: Consumer survey results of the BoA-WBG study on the cost of retail payments in Albania

In 2014, the BoA and the WBG signed a Memorandum of Understanding (MoU) with the objective to undertake a study of the costs of retail payments in Albania on the basis of the WBG methodology outlined in the "Practical Guide to Measure Retail Payment Costs". The results of the study aimed to enable the BoA to ground payment system policies in a comprehensive analysis of the retail payments market, and to identify key actions to accelerate a transition from cash/paper-based to electronic payment instruments.

From the perspective of access to transaction accounts, consumer survey data collected in this context indicated that at the time of the survey, 38.5% of Albanian adults had access to a bank account, with 33.5% having a personal account and 5% accessing an account through a family member.

Bank account and online money account access at the country level

Bank Account Access		Online Money Account Access	
Yes (personal)	33.5%	**Yes (PayPal*)**	0.5%
Yes (through family)	5%	**No (with bank account access)**	37.5%
No	61%	**No (without bank account access)**	61%
NR	0.5%	**NR**	1%
Total	**100%**	**Total**	**100%**

** For Albania, online money constitutes an exception to the cost study methodology in that at the time of the survey there were no authorized e-money institutions. In fact, online money here refers to Paypal services, which in spite of being below of the 5% minimum threshold allowed by the methodology, was considered to be indicative of a growing pattern in e-money products in the near future, and as such, captured in the study.*

Breakdown data showed that in rural areas only 23% of the adult population had access to a bank account while in urban areas, the equivalent portion was 50%. Across age categories, adults of 65 years old and above seemed to display the lowest ratio for bank account access. Specifically, only 20% of adults within this category reported having access to a bank account, while the equivalent percentage is higher for the other categories, ranging from 39% (for those between 18 and 39 years old) to 45% (for those between 40n and 64 years old). The higher the income, the higher the percentage of the population that has access to a bank account: All respondents belonging to the income level of ALL 100,000 and above reported having access to a bank account.

According to the survey findings, 24% of the adult population in Albania owned a debit card, and 3.5% of the adult population owned a credit card. In terms of debit card ownership across different age categories, the highest ownership ratio was observed for the ages between 30 to 39 years old (32%), while the other categories display similar ownership ratios, except for those of 65 years and older, with an ownership ratio of only 7%. The higher the personal income bracket, the larger the share of adults that own a debit card. Indeed, the ownership ratio increases progressively from the lowest income bracket (11%) to the highest income bracket (100%). In terms of internet banking use, only 2% of the population used internet banking at least once a six-month period.

Debit and credit card ownership at the country level

Debit Card Ownership		Credit Card Ownership	
Yes	24%	**Yes**	3.5%
No (without account)	61.5%	**No (without account)**	61.5%

No (with account)	14%	**No (with account)**	34%
NR	0.5%	**NR**	1%
Total	**100%**	**Total**	**100%**

22. Banking and retail payments infrastructure is relatively less developed in Albania than in neighboring countries and peer upper MICs. Section 4.2 provides a detailed analysis of the various account access points available in Albania and some cross-country comparisons.

2.4 THE "PAFI" FRAMEWORK: INTERNATIONAL DEVELOPMENTS AND OTHER WORK THAT LED TO THE CREATION OF THE PAFI TASK FORCE

2.4.1 Developments at the global level

23. In 2010, the G20 endorsed a Financial Inclusion Action Plan (FIAP) and established the Global Partnership for Financial Inclusion (GPFI) to coordinate and implement FIAP. The GPFI is the main implementing mechanism of the FIAP and G20 commitments through various subgroups: Regulation and Standard-Setting Bodies (SSBs), SME Finance, and the Financial Literacy and Consumer Protection (established in 2013). In September 2013, the G20 released the St. Petersburg Development Outlook which announced that G20 countries – in coordination with the GPFI – *"will explore in 2014 options to strengthen financial inclusion work in developing countries and targeted actions to harness emerging mechanisms such as electronic payments and mobile technology that can significantly improve access; and increase uptake by increasing incentives, financial literacy, education and consumer protection for the poor, in particular vulnerable groups such as women, youth and migrants."*

24. In 2014, the GPFI launched the Markets and Payment Systems subgroup, which is tasked to advance this commitment made in 2013 by the G20 Leaders. The overall goal of the sub-group for the next five years is *to advance utilization of payment systems including remittances in the pursuit of increased and sustainable financial inclusion.* In doing so, the sub-group is focused on innovative technologies and business models, with an emphasis on market-based approaches, particularly through engagement with financial services providers. This sub-group believes that making a payment is one of the most basic and most important financial transactions in any economy. It is crucial that access to payments systems is provided in a way that makes these systems beneficial to all stakeholders and leads to sustainable financial inclusion. In this regard, the updated 2014 FIAP, agreed to by the G20 Leaders at the 2014 Brisbane Summit, included as one of its ten action areas to "*expand opportunities for innovative technologies to grow responsible financial*

inclusion".[19]

25. During the annual meetings in autumn 2013, the President of the World Bank Group, Dr Jim Y. Kim, set a goal of achieving universal financial access (UFA) by 2020. The UFA2020 goal envisions that adults worldwide will be able to have access to an account or an electronic instrument to store money, send payments and receive deposits. In April 2015, a broad coalition of partners gathered at the World Bank to galvanize private sector investment and innovation to accelerate UFA. Some concrete UFA efforts include the launch of efforts to foster alliances with large retailers and distributors, and the development of a set of tracking and measurement tools to gauge progress and adjust course when needed.

2.4.2 Previous reports on innovations in retail payments and the role of non-banks

26. In June 2010 the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) set up a working group to investigate developments in retail payments, focusing especially on innovations. The working group launched a fact-finding exercise identifying five types of innovations: (i) innovation in the use of card payments; (ii) internet payments; (iii) mobile payments; (iv) electronic bill presentment and payments; and, (v) improvements in infrastructure and security. Among the trends identified in the associated CPMI report published in 2012,[20] two appear especially relevant for this report for Albania:

- *Financial inclusion has served as an important driving force for innovations in many countries, either under a government mandate or because of the new business opportunities opened up by an untapped market.*
- *The role of non-banks in retail payments has increased significantly, owing in part to the growing use of innovative technology that allows non-banks to compete in areas not yet dominated by banks.*

27. This same CPMI report also identified a number of exogenous and endogenous factors that could serve as drivers for retail payment innovations, or as barriers to them. The key *exogenous* factors are: i) technological developments; ii) user behavior; and, iii) regulation. User demand is probably the most important driver for innovation, since it is the basis for a valid business case. An example of the relevance of the regulatory framework can be observed in that many regulators are seeking to foster competition in the payments market, which tend to be oligopolistic, by easing the requirements for non-traditional payment service providers. On the other hand the main *endogenous* factors are: i)

[19] The full document of the FIAP 2014 is available at the GPFI's website: http://www.gpfi.org/sites/default/files/documents/2014_g20_financial_inclusion_action_plan.pdf
[20] CPSS (2012), "Innovations in Retail Payments", Basel.

cooperation; and, ii) standardization. Common standards may, due to network effects inherent in retail payment markets, help to achieve a necessary critical mass and can create a stable ground for new players coming into the market. Cooperation can help to reduce costs through shared investment or economies of scale and scope. Security aspects also deserve attention, since inadequate security, whether real or perceived, can undermine public confidence in new payment solutions.

28. In parallel, the World Bank consolidated the lessons learned during more than a decade of payment system technical assistance, along with the research findings of other international and national agencies, into a comprehensive package for the development and reform of the national retail payments system: (i) "Developing a comprehensive national retail payments strategy" aiming to provide public authorities and market participants with detailed guidance on how to develop and implement a comprehensive, strategic retail payments reform; (ii) "A practical guide for retail payments stocktaking", which identifies a methodology for undertaking a detailed stock-taking of a country's retail payments landscape; (iii) "From remittances to m-payments: Understanding 'alternative' means of payment within the common framework of retail payments system regulation", which explores the development of a normative framework to underpin an efficient retail payments industry, including the so-called innovative payment mechanisms; and, (iv) "Innovations in retail payments worldwide: A snapshot: Outcomes of the global survey on innovations in retail payments instruments and methods 2010", which presents the results of the first World Bank survey among central banks that collected information on innovative retail payment products and programs.

29. Following up on some of the conclusions of its report on innovations in retail payments, in September 2014 the CPMI published a new report on the role of non-banks in retail payments.[21] In this report non-banks are defined as entities "*involved in the provision of retail payment services whose main business is not related to taking deposits from the public and using these deposits to make loans*". The report categorized non-banks into four types based mainly on the stages of the payment chain in which they engage, the type of payment service provided and also their relationship with banks: (i) front-end providers that provide services directly to end users such as consumers and businesses/corporates; (ii) back-end providers that typically provide services to banks; (iii) operators of retail payment infrastructures; and (iv) end-to-end providers that combine front-end services to end users with clearing and settlement services.

30. This 2014 CPMI report identifies a number of market-driven factors that attract non-banks to the retail payments market, and confirms that the regulatory environment can also influence non-banks' involvement in this field. Furthermore, the report stresses that non-

[21] CPSS (2014), "Non-banks in Retail Payments", Basel.

banks can have a positive effect on improving efficiency of retail payment systems, and help achieve financial inclusion objectives. For example, non-bank providers of front-end services may compete with banks in certain segments, and this competition may: i) potentially lower fees; ii) broaden the set of alternatives open to end users; and, iii) lead to improvements in traditional payment systems, such as faster or round-the-clock retail payment services. Further, in some jurisdictions non-banks are helping meet financial inclusion objectives through, for example, the involvement of agents or through mobile payments. Nevertheless, this report also recognizes that the involvement of non-banks in the payments value chain may have implications for some types of risks arising from retail payment systems.

2.4.3 The PAFI Report: CPMI-World Bank Group guiding principles on financial inclusion from a payments perspective

31. In April 2014, the CPMI and the World Bank Group launched a task force to examine demand and supply side factors affecting financial inclusion in the context of payment systems and services, and to suggest measures that could be taken to address these issues. The final report was released in April 2016. This report, referred to as the "Payments aspects of financial inclusion report" or "PAFI report", states as an objective that all individuals and micro- and small-sized enterprises should be able to have and use at least one transaction account[22] operated by a regulated/authorized payment service provider:

i. to perform most, if not all, of their payment needs

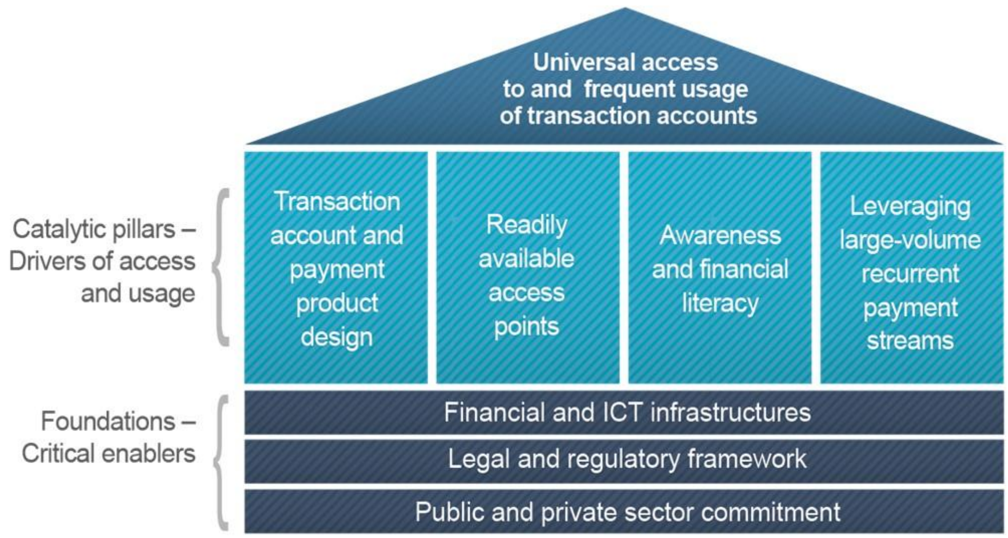
ii. to safely store some value; and,

iii. to serve as a gateway to other financial services

32. The PAFI report identifies a number of barriers to transaction accounts access and usage, and proposes a framework to address these barriers based on evidence from many financial inclusion efforts around the world. **This framework, illustrated in Figure 1, is being used as the basis for organizing the analysis, discussion and recommendations contained in this report for Albanian authorities.**

Figure 1: PAFI framework to address barriers to transaction account access and usage

[22] Transaction accounts are defined as accounts (including e-money accounts) held with banks or other authorized and/or regulated PSPs, which can be used to make and receive payments and to store value.



33. As shown in **Figure** 1, the framework consists initially of a number of "foundations", which are the critical enablers for payment systems and the provision of payment services in general, but specifically also for the access to and usage of transaction accounts. Based on these foundations, there are "catalytic pillars" as the drivers for access and usage. The end objective is achieving universal access to and frequent usage of transaction accounts. The PAFI report then states guiding principles for each of the foundations and catalytic pillars, and proposes a number of key actions for consideration for each of these.

34. One additional relevant aspect of the PAFI report is that it points out that having and making usage of an account, while of utmost importance, *"is just an initial step in becoming fully financially included, which involves having access to the whole range of financial products and services that meet the user's needs. For individuals, for example, credit, insurance, savings and investments are, together with transaction accounts, key elements of the overall package of financial services."* In this regard, the PAFI report also stresses the role of accounts as a gateway to other financial services.

35. Notwithstanding the latter, the PAFI and other reports also recognize that some individuals/microenterprises will *not want* to have an account, even if they can afford it. These "self-excluded" individuals/microenterprises appear to have no incentives or need to operate through accounts. In practice, many of the self-excluded operate under conditions of informality. Labor informality – and economic informality more broadly – not only reduces the demand for accounts but also reduces their overall attractiveness to current and potential

users, while at the same time raising the relative attractiveness of cash.[23] A general conclusion of this discussion is therefore that individuals and microenterprises need also to have the right incentives so that they will *want to be* financially included.

2.4.4 Other recent reports

36. In the summer of 2016, the G20 High Level Principles for Digital Financial Inclusion were published by the GPFI. This document recognizes the need to support innovation while managing risk and encouraging development of digital financial products and services. The principles are based on the rich experience reflected in G20 and international standard-setting bodies' standards and guidance (e.g. the PAFI report).[24]

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[23] Individuals and microenterprises operating under conditions of informality rely exclusively or almost exclusively on cash for receiving and making payments. This limits the overall extent to which non-cash payment instruments can be used as a means of payment, which in turn reduces the value proposition of transaction accounts for all economic agents, including those that already have a transaction account.

[24] The full report may be consulted at http://www.gpfi.org/sites/default/files/documents/G20%20High%20Level%20Principles%20for%20Digital%20Financial%20Inclusion%20-%20Full%20version-.pdf

3 BASIC FOUNDATIONS FOR EFFECTIVE FINANCIAL INCLUSION FROM A PAYMENTS PERSPECTIVE

3.1 COMMITMENT AND COORDINATION OF STAKEHOLDERS FOR FINANCIAL INCLUSION

37. Financial inclusion requires a well-functioning retail payments ecosystem, which is characterized by a complex balance between cooperation and competition, safety and efficiency issues, as well as specific regulations for innovative and inclusive payment schemes. Fostering change in such an environment requires the ability to bring together diverse interests, launch policy research and development, change laws, mobilize funding to modernize financial infrastructures, and other similar requirements. Explicit, strong and sustained commitment from public and private sector organizations to broadening financial inclusion is indispensable if this agenda is to be effectively advanced.

38. Public sector authorities play a key role in creating an adequate enabling environment for financial inclusion in their respective jurisdictions. For example, many central banks are already working to better leverage the various roles they play in the retail payments space for this purpose.

39. Strong commitment from the private sector has also proved valuable in efforts to further the reach of transaction accounts that meet the needs of the unserved or underserved. In several cases the industry has led the effort to provide basic accounts in their respective jurisdictions.

3.1.1 Financial inclusion initiatives in Albania

40. Albania does not have a formal financial inclusion strategy in place, neither from public sector authorities nor from the banking industry (or the wider financial sector industry). Nevertheless, in practice several initiatives have been taken in this area, the leading organizations being the BoA, the Albanian Association of Banks, the Ministry for Innovation and Public Administration, and the Ministry of Education and Sport, among others.

41. In this last regard, in 2015 the National Payment System Committee (NPSC) launched its Mid-Term Strategy for 2015-2020.[25] Objective number 7 of the Mid-Term Strategy is focused on "*promoting the use of payment instruments and systems, and expanding financial inclusion*". The strategy also describes a number of measures for achieving these and other objectives. These measures include: i) Implementation of the European Union Directive "On payment services in the internal market"; ii) Creation of a

[25] The NPSC, its role and structure are discussed in further detail in sub-section 3.3.1 of this report.

strategy for reducing costs of payment instruments based on the BoA study in collaboration with the World Bank "On measurements of costs of payment instruments"; and, iii) Study of needs and opportunities for: expanding the ATM and POS networks – including by installing POS terminals in central and local government institutions; increasing the number of other financial services access points; enabling payments to government entities and for public services to be made through means of telecommunications; and, developing e-commerce.

42. Moreover, the Ministry of Innovation and Public Administration recently launched a Digital Agenda Strategy 2015-2020. The cross-cutting strategy aims towards a more coordinated and efficient direction of investments in the Information and Communications Technologies (ICT) sector, with emphasis on providing quality services for citizens and improving quality of life through innovation. The Strategy supports the objectives of the Government Transformation Strategy in the field of development of electronic and interactive provision of public services for citizens and businesses. While the Digital Agenda Strategy could help materialize important pre-conditions for financial inclusion in Albania (see section 3.3.3), the Strategy itself does not include any specific references to achieving broader adoption of accounts and other financial services by individuals and firms in Albania.

Observations and Recommendations

43. Other than the reference to financial inclusion in Objective 7 of the NPSC's Mid-Term Strategy, in Albania there is no explicit commitment from public authorities and/or the financial services industry to foster or promote financial inclusion. At the global level, as of the end of 2014 more than 50 countries had made headline financial inclusion commitments, and many of them are developing explicit strategies, often referred to as National Financial Inclusion Strategies (NFIS), to ensure that resources and actions are put in place in a coordinate fashion to achieve those commitments.

44. Albania could benefit from putting in place a NFIS that includes explicit and specific goals and strategies for advancing access to and usage of the various financial services that should be broadly available to individuals and businesses, like bank and other transaction accounts, credit, savings and insurance. In this context, it should also be noted that strong commitment from the private sector is always crucial. Actually, in various cases the industry has led the effort to provide bank/other transaction accounts in their respective jurisdiction.

45. NFIS rely on a leadership/coordination structure, sometimes referred to as a "Financial Inclusion Council" or equivalent, to coordinate efforts with all relevant main stakeholders, define responsibilities among them, and state a clear planning of resources (e.g. by prioritizing targets). World Bank experience in the financial inclusion field shows that the most successful coordination structures for financial inclusion are characterized by *having:*

- *A clear and specific mandate, at the highest possible level within a country, for advancing financial inclusion*
- *Adequate funding and human resources, including dedicated staff*
- *Appropriate mechanisms for monitoring and evaluation in order to create a credible work plan and reasonable deliverables.*

46. In this regard, the NPSC of Albania is an important forum to facilitate a cross-sectoral discussion on payment system issues, including the increased adoption and usage of accounts. However, it may not be well-positioned to lead broader financial inclusion efforts beyond financial access in Albania for reasons that include: i) The NPSC does not have an explicit/direct mandate for financial inclusion, which is a broader mandate than payment systems; ii) The NPSC does not have juristic personality, and its decisions are not binding for participating members; iii) The NPSC lacks dedicated human and financial resources.

47. Generally, the leadership/coordination structure could either be: a) a new team or unit within an existing authority (e.g. the BoA, the Ministry of Finance, etc.); or, b) a newly created structure. In either case, to ensure proper buy-in from stakeholders the coordination structure must make the case for why it is best placed to take the lead. A brief overview of financial inclusion coordination structures from select countries is provided in Annex 2.[26]

3.2 Legal and Regulatory Framework

48. As recognized in the PAFI report, the legal and regulatory framework of a country plays a critical role in creating an enabling environment for inclusive payment services. Retail payment services involve a complex mix of infrastructures, networks and services with both public and private sector investment, and benefit from varying degrees of competition and collaboration, as well as standardization and innovation. In addition, adequate risk management, mitigation of fraud and abuse and protection of consumer interests are key supervisory and oversight considerations.

49. The following five key aspects of the legal and regulatory framework are analyzed in detail as key elements for the assessment of financial inclusion: (i) regulatory neutrality and proportionality; (ii) risk management; (iii) protection of deposits and e-money customer funds; (iv) financial customer protection; and (v) financial integrity.

[26] For additional details on coordination structures see Fathallah S., and D. Pearce (2013), "Coordination Structures for Financial Inclusion Strategies and Reforms", The World Bank, Washington DC.

3.2.1 Regulatory neutrality and proportionality

50. A key challenge for regulatory authorities is to encourage innovation without compromising the safety and soundness of the NPS. Non-bank payment service providers (PSPs) and innovative business and technological approaches have contributed to expanding access to payment services. However, management of the risks associated with the new players, innovative approaches, and, for that matter, new customers, is challenging. Adopting a highly cautious stance toward innovative approaches tends to stifle competition and innovation. At the other extreme, a very light approach to innovation, which some refer to as the "test and learn" approach, can fail to address market failures and weaken the predictability of the overall legal and regulatory framework. The challenge is therefore to design a legal and regulatory framework that is fair and balanced for all stakeholders, and which promotes innovation. In essence, this requires that the framework be risk-based, provider- and instrument-neutral, and forward-looking. In other words, the framework must be proportional to the risks that non-bank payment service providers and new products and business models might create.

Situation in Albania

51. In Albania, a general development that bears significant importance to the legal and regulatory framework is the country having received, on 27 June 2014, "European Union (EU) Candidate" status. As a result, the BoA and other national authorities are working intensively to bring the national legislation in line with the EU acquis in the field of payments (as well as in other areas). In particular, the BoA, with support from central banks from the EU, is working, among others, in the following projects: (i) the transposition of the EU Payment Services Directive 2 (PSD 2); (ii) further alignment with Regulation ECB/214/28 (Regulation on oversight requirements for systemically important payment systems); and, (iii) the implementation in Albania of "The recommendations for the security of internet payments".

52. In 2013, Albania adopted the "Law on Payment System".[27] This Law establishes a sound legal basis for safe functioning of payment systems and payment instruments by incorporating fundamental legal concepts, such as: (i) finality and irrevocability of payments; (ii) enforceability of netting schemes; (iii) protection of financial collateral pledged in a payment system in case of insolvency; (iv) enforceability of transactions by electronic payment instruments; (v) conflict of laws in case of insolvency etc. In addition, the Law contains a provision permitting truncation of cheques and allowing the BoA to issue by-laws on the truncation procedure and on its legal consequences. Although the Law on Payment Systems provides only for registration of securities by book-entry (art. 31), full

[27] Law No. 133/2013, dated 29.04.2013 "On Payment System".

dematerialization of securities is established in the Law on Securities No. 9879 of 2008,),

53. The Law on Payment System provides the possibility for non-bank financial institutions to compete in the payments market. In Albania, SCAs and other NBFIs are allowed to provide payment services and to operate a payment system. E-money issuing is a prerogative of NBFIs that are licensed as e-money institutions, and banks. Operating a payment system is also allowed to non-financial institutions. According to the definition provided in the Law on Payment System, a Clearing House is a "legal person", thus entities different from the BoA or the Securities Commission can provide clearing services. Similarly, a settlement agent is defined as a "legal person" that provides system participants with settlement accounts to settle the transfer orders in the system[28], thus -also non-banks can become settlement agents.

54. The Banking Law[29] states that the BoA's has supervisory powers on banks and banking and financial services. The Law disciplines banks' license to provide "banking and financial services",[30] establishing clear and specific licensing criteria. According to the Banking Law, a NBFI is a legal entity licensed by the BoA to carry out one or more of the financial activities listed in the Law (article 54(2)), which include payment services. In this law there is no specific reference to licensing criteria for NBFIs. Instead, the Law envisages the possibility for the BoA to provide details on NBFIs licensing, supervision and functioning through its regulations (article 126). SCAs are also regulated and supervised by BoA. SCAs can provide payment services pursuant to art. 5, point 2 of Regulation No. 104 "On licencing and activity of savings and loans associations and their Unions".

55. Regulation No. 01 of 2013 "On licensing and activity of non-bank financial institutions" sets the criteria for licensing NBFIs to provide payment services. In implementing art. 126 of the Banking Law on "Non-bank financial subjects", this regulation, lays down the conditions, requirements, timeframe, documentation and procedures for microcredit financial institutions and other NBFIs in connection with their licensing to obtain prior approval to perform specific activities, and establishes an obligation to notify the BoA during the execution of such activities in Albania. This Regulation include e-money institutions as entities that, in addition to issuing e-money, are allowed to provide

[28] "…and occasionally may extend credit to those participants for settlement purposes", art.5 (s) of the Law on Payment System.
[29] Law No. 9662/2006 "On banks in the Republic of Albania", as amended (hereinafter the Banking Law).
[30] According to the Banking Law, "banking activity" represents the receipt of monetary deposits or other repayable funds from the public, and their use for granting loans or their placement under its name and for its own account, as well as the issuance of payments in the form of electronic money. Whereas "financial activities" include: all types of loans, factoring and financing of commercial transactions; financial leasing, payments and money transfers; guarantees and commitments; money brokering; trading for a bank's account or for the account of clients and any advisory, intermediation and other auxiliary financial services of all the above activities, including credit reference and analyses, investment and portfolio research and advice; as well as advice on acquisitions and on corporate restructuring and strategy.

payment and money transfer services,[31] after being licensed by the BoA (article 5(1)(c)).

56. One of the most recent developments that facilitated the increased participation of NBFIs and even non-financial institutions in the payments value chain was the issuance in 2015 of Regulation No. 82 "On the licensing, regulation and oversight of operators of payment systems and clearing houses". This Regulation establishes detailed licensing criteria, procedures, and terms for legal entities to operate a payment system or a clearing house. In particular, the Regulation establishes criteria for grant or refusal, revocation, and suspension of a payment system/clearinghouse license, and stipulates the oversight powers of the BoA. This Regulation, in implementing the finality provision of the Law on Payment System, establishes that finality has to be ensured at least by end of value date, or "whenever needed or preferable" on an intraday or real-time basis. Regulation No. 82 also states that access to these payment systems operated by private entities shall be open, fair, non-discriminatory and risk-based.

57. Aspects related to the operation and management of national card payment schemes are addressed in BoA Regulation No. 42 of 2013 "On the licensing, regulation and oversight of national card payment schemes operators". The scope of this Regulation encompasses the licensing, supervision and oversight of national card payment schemes, including the card issuer, acquirer, cardholder and the merchant (international card payment schemes are not subject to this Regulation).

58. The legal foundation for electronic payments has been strengthened by introducing other key statutory provisions. To remove the primary barriers to the use of electronic transactions, laws typically provide that the electronic records and electronic signatures that validate a transaction cannot be denied legal effectiveness solely on the ground that they are in electronic form. In Albania, the Banking Law (article 129) includes provisions on the recognition of electronic transfers as valid means of payments. Then, Law No. 10273/2010 "On the Electronic Document", as amended in 2015, includes provisions on the recognition of the legal status of an electronic document as equivalent to a paper document.[32] Law No. 9880/2008 on Electronic Signature had already recognized the legal status of electronic signature as equivalent to the physical signature (article 4). Finally, "Guidelines for the use of electronic signature" were issued in 2011 by the National Authority for Electronic Certification, which is the institution that supervises the enforcement of the Law and its implementing regulations. The main legal basis for electronic communications is Law No. 9918/2008 on Electronic Communications, which establishes the regulatory authority, the

[31] Together with foreign exchange, as well as advisory, intermediation and other auxiliary services related to the financial activity specified in the license.

[32] According to the Law, "electronic document" is any information created with documentary qualities, sent, received or stored electronically by a computer system or a similar mechanism. It includes all forms of data, reflected in letters, numbers, symbols, voice and image.

Electronic and Postal Communications Authority (AKEP).

59. Law no. 107/2015 “On Electronic Identification and Trust Services” creates the legal framework for electronic identification in Albania. Article 4 states that secure electronic identification is possible by means of an electronic identification issued by qualified service providers. Personal data created through a secure electronic ID shall be taken for granted and true and have the same legal value as the data obtained from the identification of a physical person through the official identification document. To implement this law, the Council of Ministers issued Regulation No. 69 of 2016 “On electronic identification and trust services”.

60. Electronic payments are regulated in Regulation No. 11 of 2008 “On Electronic Payment Instruments”, as amended in 2013. An “electronic payment” is defined as “the payment transaction, carried out through a card containing a magnetic strip, a chip or an identifying code and that is used in an electronic payments terminal, in a POS terminal, etc.; or via a banking application by using electronic means of communication”. In turn, an electronic payment instrument is defined as “the instrument that enables the holder to perform electronic payments […]” and includes “remote access payment instruments” (such as “banking cards” and “other electronic banking services”) as well as “electronic money instruments” (see below).

61. In Albania, e-money can be issued by banks and, following the amendments to the Banking Law in 2011, also by NBFIs. In this regard, e-money issuing is no longer considered a type of banking activity (i.e. reserved to banks), but rather a financial activity, as are “other payment services”. The amended Banking Law explicitly excludes e-money from the concept of deposit. Regulation No. 11 of 2008 on Electronic Payment Instruments as amended in 2013 now applies explicitly to e-money institutions (art. 3), and chapter 4 is dedicated to e-money instruments.

62. Regulation No. 70 of 2009 “On Foreign Exchange Transactions” provides for unrestricted (inbound and outbound) current transfers and abolishes the previous prerogatives of the BoA on the control of capital outflows. This Regulation sets out the rules to carry out “foreign exchange transactions”, which include: a) transactions between residents and non-residents in foreign currency; and, b) unilateral transfers of assets from and into Albania. Transactions recorded in capital and current account, from and to Albania, represent foreign exchange transactions.[33] Remittances – like other payment services - can be provided by entities licensed by the BoA as banks or as NBFIs.

[33] Current transactions include “transfers related to emigrants and employees’ remittances abroad, other transfers for living familiar expenses, pensions, financial aids for inability of work and other social profits, taxes and quotas in respect of intergovernmental membership, collaboration.” (article 7(1)(d)).

63. A comprehensive regulatory framework for agents and sub-agents has not been developed in Albania. There are no provisions for the use of agents by banks. However, agents that carry out activities on behalf of NBFIs providing payment services are regulated by Regulation No. 1 of 2013. According to the definition of "agent", as amended in 2016, agents can be now either a natural or a legal person. To strengthen the role and responsibility of the NBFIs acting as principal, the 2016 amendments assign the principal responsibility for the selection and identification of agents (art. 5(6)), repealing previous provisions on BoA's approval of selected agents (chapter 3). The Regulation does not establish specific requirements for agents, but obliges the principal to collect and provide identification, address and criminal records to the BoA (art. 5(6)). Exclusivity agreements for the use of agents are not explicitly banned. The Regulation provides that for the purposes of carrying out activities through agents, NBFIs should have the necessary by-laws on internal audit, including effective procedures to be used by agents that ensure the fulfillment of the legal and regulatory requirements on the prevention of money laundering and terrorism financing.

Observations and recommendations

64. A functional rather institutional approach to payments regulation should be adopted, and requirements should be set consistently across types of payment service providers. The adoption of the Payment System Law of 2013 has significantly strengthened the legal and regulatory framework that governs the Albanian national payments system, including payment instruments. A legal framework that promotes innovation and competition in the market place is developing. NBFI regulations were amended to accommodate new technologies and business models, and were already availed by e-money institutions. Yet, payment services remain the prerogative of banks and NBFIs, i.e., non-financial institutions wanting to provide payment services and e-money apply for a license under NBFIs licensing regulations. In this regard, the transposition of PSD 2 will contribute to ensure a more consistent outcome in terms of licensing of non-financial institutions, thus further facilitating market entrance.

65. The use of third parties as agents and sub-agents should be regulated comprehensively. In particular, the use of agents for the provision of payment and payment-related services should not be limited to NBFIs. Among others, the following aspects should be considered:

- *While a certain flexibility should be maintained to licensed institutions to decide for themselves which types of agents will create the best synergies with their business, clarity should be provided by the BoA on the minimum requirements that agents should meet, and it should be clearly stated that principals remain fully liable for any act of their agents.*
- *It is recommended that BoA be mandated by a regulatory provision to maintain a register of selected agents and to make the register publicly available to consumers.*

- *Exclusivity agreements for the use of agents should be explicitly banned. The difficulty with exclusivity agreements is that such provisions may enable certain payment service providers to establish a monopoly position in communities where the supply of potential agents is limited. The problem is exacerbated if the exclusivity condition is applied to agents with large networks (e.g. the post office, telecoms firms or major retail chains).*

66. While the Law on Electronic Document provides now clarity on the use of the e-document as evidence, issues might arise under the Code of Civil Procedure of 1996, amended in 2013. In fact, articles 278 and 279 make unclear whether e-documents can be treated as proofs before the courts. Trust on e-evidence in court could be enhanced through the new e-documents law.

3.2.2 Risk management

67. Transaction accounts and retail payment services, more generally, are subject to a variety of risks, including, for example, operational, liquidity, reputational, business and fraud. Innovation may introduce new dimensions to these risks and new challenges in terms of detecting, managing and mitigating them. A failure to address/manage risks effectively could result in a loss of confidence in electronic payments, and thus slow or reverse their adoption, which would directly impact the achievement of financial inclusion goals. Regulators need to address these challenges by requiring payment service providers and payment system operators to develop and implement a risk management framework that is adequate for their role in the industry. Once again, the challenge resides in right-sizing the regulatory requirements for this framework.

Situation in Albania

68. The legal and regulatory framework provides the BoA with regulatory and oversight powers to manage and control risk in payment systems and in the payments market. The BoA has clear responsibility for the regulation and oversight of payment systems, including the issuance and use of payment instruments as laid out in the Law of the Bank of Albania,[34] in the Banking Law and in the Law on Payment System.

[34] Law No. 8269/1997 "On the Bank of Albania", as amended. Article 3, Law on the Bank, constitutes the source of responsibility of the BoA with regard to the well-functioning of the payment systems in Albania, and simultaneously sets one of its main functions. In this article it is stipulated that: “BoA, in line with its main target and based on the internal banking market, promotes and supports […] the payment system”, and that: “The main tasks of the BoA are as follows: […] dh) to promote the normal functioning of payment system”. Article 21 of the Law “On the Bank of Albania” details further the above legal responsibility into the implementation ground, concerning the organization and functioning of payment and settlement systems as well as on the payment instruments.

69. Regulation No. 2 of 2013 “On risk management in the activity of non-bank financial institutions” sets out the rules for the management of risks incurred in NBFI activities, i.e. it applies to NBFIs, e-money institutions, and micro-credit financial institutions that have been granted a license to carry out financial activity. The Regulation adopts a risk-based approach, establishing that the institutions shall have in place a risk management system which is in line with the nature, volume and complexity of their activity. A risk management system includes the set of policies, procedures, rules and structures of the institution for risk management. General BoA supervisory measures are established, including the obligation of NBFIs to prepare financial statements (which shall be audited by a statutory auditor) and submit them to BoA. Chapter VI is dedicated to risk-management in e-money institutions, which includes provisions on capital adequacy, protection of customer funds, and liquidity risks.

70. For national card schemes, Regulation No. 42 of 2013 sets out the principles that shall regulate the scheme’s activity, such as security, operational effectiveness and business continuity, as well as transparency on rules and procedures (including access procedures and management procedures).

71. There is no coherent regulation on outsourcing. As it concerns providers of payment services, there is only a provision according to which NBFIs may not enter into an agreement with third parties (outsourcing) to transfer the internal audit function and/or exercise financial activities stipulated in Regulation No. 1 of 2013 (article 5(3)). With regard to payment system operators, outsourcing is addressed although limited to payment cards scheme operators. In this case, outsourcing to third parties of the specific activities listed in the regulation is permitted once the risks of outsourcing have been properly addressed in the contracts, which shall also provide for the operator’s responsibility for the activities outsourced.

72. Risks in cross-border payments are addressed in the Regulation No. 70 of 2009 “On Foreign Exchange Transactions”, as amended. According to this Regulation, the BoA may refuse a provider of payment services the authorization to provide cross-border banking and/or financial services abroad – including remittances - if it is deemed that adequate systems have not been established for the continuing management of risk arising from these services.

73. A comprehensive legal and regulatory framework for anti-money laundering (AML) / control the financial of terrorism (CTFI risk management measures has been recently introduced. According to BoA’s Regulation No. 44 of 2009, reporting subjects shall have in place policies, guidelines or internal procedures on the acceptance, identification, recording, monitoring, risk management and reporting of customers' transactions, in compliance with the Law (see also sub-section 3.2.5 of this report).

Observations and recommendations

74. A robust framework has been established to foster sound risk management practices in the payments industry in Albania, including through the regulation and the supervision/oversight of providers of payment services and operators of payment systems (including the operators of clearing houses) by the BoA. In parallel with allowing NBFIs to provide payment services, the legal framework sets out the risk management provisions that are applicable to them (e.g. Regulation 2 of 2013).

75. Current regulatory and oversight powers of BoA are properly articulated for the most part. However, while the BoA has clear responsibility for the regulation and oversight of payment systems and payment instruments (e.g. article 15 of the Law on Payment System), there is no explicit mention of such powers when it comes to the provision of payment services in general. Moreover, the definition of payment system of the Law is quite limited and does not encompass of the elements that comprise the "national payments system: intended as "the whole of the services that are associated with the sending, receiving and processing of orders of payment or transfers of money in domestic or foreign currencies, issuance and management of Payment Instruments, Payment, Clearing and Settlement Systems, including those processing securities, arrangements and procedures associated to those Systems and Services, and Payment Service Providers, including System Operators, Participants, and any third party acting on behalf of them, either as an agent or by way of outsourcing agreements". It is recommended that the legal foundations of BoA oversight powers (i.e., at the statutory level) be reviewed and clarified with the aim to cover explicitly payment services.

76. As mentioned in section 3.2.1, there is a legal and regulatory vacuum with regard to the use of agents. A similar case exists for outsourcing other functions/activities to third parties. In this regard, the legal and regulatory framework should discipline and treat consistently the use of agents and outsourcing across the payments sector, without making any difference between banks and non-banks. At the same time, this framework needs to be proportional to the risks that agents and outsourcing might create.

77. One crucial aspect with regard to outsourcing that merits a special mention is that outsourcing of important operational functions may not be undertaken in such a way as to impair materially the quality of the PSP's or payment system operator's internal controls and the ability of the BoA to monitor their compliance with all obligations laid down in the legal framework. This aspect should be included in a regulation.

3.2.3 Protection of deposits and e-money customer funds

78. Customer funds will normally be reflected in the total balance of a transaction account. However, for electronic payments that are not settled in real time, the funds that

were withdrawn from the account of the payer are not reflected immediately in the account of the payee, originating what is referred to as “float”. In the e-money context, float is typically referred to as the total value of outstanding customer funds. Financial authorities are paying increasing attention to the risk of misuse or loss of these customer funds. E-money funds are subject to some of the same types of risk as traditional sight deposits, including the risk that the PSP, or an employee of the PSP, misuses or absconds with the funds, that the PSP faces bankruptcy, or that the financial institution that holds the underlying funds (but is not the actual PSP operating the e-money accounts) faces bankruptcy. Furthermore, e-money transaction accounts differ fundamentally from deposit transaction accounts in that e-money accounts are not designed to facilitate financial intermediation. In this context, regulators adopt sets of risk mitigation measures that reinforce protection of funds, including providing sufficient clarity on the potential use of funds held in e-money accounts.

Situation in Albania

79. There is explicit deposit insurance in Albania. The definition of deposit includes money deposited in banks and, according to recent amendments, also in SCAs (article 1). The deposit insurance framework is managed by the Albanian Deposit Insurance Agency (ADIA) established on the basis of Law No. 53 of 2014 on Deposit Insurance. The Law establishes the procedure of membership of entities in the scheme, provides for the establishment of a publicly available register which includes all the members of the insurance scheme, and establishes the maximum level of deposit coverage.

80. As mentioned above, e-money may be issued by banks and other NBFIs. In 2011, the Banking Law was amended to exclude the issuing of e-money from the definition of “banking activity” (article 4 Banking Law) and, as such, reserved to banks only. The definition of “banking activity” includes now only “deposits”, and a clear and complete definition of e-money has been included in the Law.[35]

81. Protection of e-money customers’ funds is addressed in Regulation No. 11 of 2008, Regulation No. 1 of 2013 and Regulation No. 2 of 2013. According to Regulation No. 11 of 2008 on electronic payment instruments, the e-money issuer, as the holder of the e-money funds, must, on demand, redeem the electronic value held on the instrument for central bank currency, at par. Regulation No. 1 of 2013 requires, among the documents to be submitted to obtain the license to issue e-money, a business plan which includes an activity scheme and description of the measures for keeping/securing client funds. Regulation No. 2 of 2013 on risk management in the activity of NBFIs dedicates chapter VI to e-money. In particular,

[35] “Electronic money means electronically or magnetically-stored monetary value, which is issued upon receipt of funds to make payment transactions and represents a liability of the electronic money issuer to the receiver, who is a natural or legal person other than the electronic money issuer”.

article 28 provides for customer funds' insurance. The provision establishes that the e-money institution shall ensure that the funds accepted as an exchange for e-money be kept in a special account, separated from the other accounts of the e-money institution. If such funds are invested in illiquid assets (liquid asserts are defined in article 29 of Regulation N. 2 of 2013),[36] the e-money institution shall insure the funds by means of insurance policies or other similar guarantees issued by insurance companies or banks that do not belong to the same banking/financial group as the e-money institution (see article 28).

Observations and recommendations

82. Protection of deposits and of e-money customer funds is adequately addressed under the Albanian legal and regulatory framework. There is explicit deposit insurance, which covers deposits held in banks and now also SCAs. In addition, preventive measures are also in place to protect e-money customer funds.

3.2.4 Financial customer protection and transparency

83. Transparency and customer protection are particularly relevant to advance financial inclusion, as inclusion efforts naturally target first-time customers, who by definition lack experience and often have limited financial literacy. These efforts often also involve the introduction of new products and services, new PSPs and/or new service delivery models.

<u>Situation in Albania</u>

84. The Consumer Protection Law No. 9902 of 2008, as amended, seeks to "protect the interest of the consumers in the market place and to define the rules and to set up the relevant institutions, in order to protect consumer rights" (article 1). However, this Law does not specifically address services provided by banks, nor does it contain specific provisions for financial services provided by non-banks, including payment services.

85. Transparency in the context of payment services is established through secondary legislation (i.e. regulations). The regulatory regime applicable to banks' and NBFIs' relationships with their customers has been consolidated in the Regulation No. 59 of 2008 "On Transparency for Banking and Financial Products and Services" (hereinafter the

[36] Liquid assets are defined as: (a) current accounts and/or deposits with maturity term up to 7 days and/or demand deposits, in a bank or branch of foreign bank; (b) T-bills of the Government of the Republic of Albania denominated in either domestic or foreign currency, recorded in the balance-sheet as for trading or available for sale items; (c) current accounts and/or deposits with maturity term up to 7 days and/or demand deposits in a foreign commercial bank, with rating higher than A+ , according to Standard&Poors or equal with it; (d) debt securities issued or guaranteed by governments, central banks, international institutions or multilateral development banks, whose rating (counter parties) according to Standard&Poors, or equal, is higher than A+, recorded in the balance sheet as for trading or available for sale items.

“Transparency Regulation”). This Regulation establishes the requirements on the manner, form, and process of providing information to the customer on banking and financial products and services. It applies to banks, branches of foreign banks and NBFIs that conduct banking and financial activities. The requirements, inter alia, include: (i) clear disclosure of information on loans, deposits interest rates, and bank commission rates in the bank premises; (ii) timely notification to the customer of any changes in terms and conditions of the contract; (iii) appropriate information and notification to the customer on the applied terms of debit cards, credit cards, including the commission charged, especially in ATMs; (iv) clear explanation of the risks that a customer might incur in using a payment instrument or service.

86. Additionally, the Transparency Regulation requires PSPs to provide customers with all the necessary information regarding their procedures for dealing with customer complaints (article 12). If a customer submits a written complaint, the Transparency Regulation requires that the PSP provide a timely response to the customer in writing. In this context, PSPs are required to draft procedures and internal regulations for addressing those complaints. Moreover, PSPs are required to maintain in a special register the data and other information related to all customers’ complaints, including the entity’s response, information about the solution of these complaints, and other necessary complementary data.

87. Regulation No. 11 of 2008 “On electronic payment instruments” also includes provisions on transparency standards toward consumers in relation to conditions, rules and procedures for electronic payments.

88. The Consumer Protection Commission (CPC) is the responsible body for enforcing consumer protection legislation. Established in 2009 in terms of Section 52 of the Consumer Protection Act, the CPC has the attributes and powers of a decision-making body, in particular it handles customer complaints and develops alternative schemes for dispute resolutions. When it comes to banking and financial products and services, the CPC’s powers are however limited to adjudicating matters related to consumer credit and loans.

Observations and recommendations

89. It is recommended that authorities further articulate the consumer protection framework, including creating an office/Authority with significant powers and responsibility to monitor and enforce protection of users of payment services. A fully-fledged consumer protection regime for payment services (and other banking and financial services) is currently missing in the country. Some aspects, like transparency of terms and conditions are currently only addressed through regulations. It is expected that in the context of the transposition of PSD2 (Directive (EU) 2015/2366) transparency and consumer protection will be addressed from a payments angle. Currently, there is no Authority responsible for *enforcing consumer protection provisions when it comes to payment services.*

90. Among the key topics to be developed, the framework should require PSPs to implement a transparent, user-friendly and effective recourse and dispute resolution mechanism to address consumer claims and complaints, which should include clear, publicly available and easily applicable procedures in cases of fraud and disputes. Remittances in particular deserve special attention: for example, fraud and dispute resolution procedures should recognize that remittance senders and receivers may face particular difficulties in enforcing their rights through the general legal system. These protections should apply to all consumers, regardless of the type of PSP offering the service.

3.2.5 Financial integrity

91. Financial integrity concerns continue to pose challenges to enhancing financial inclusion. National authorities struggle to achieve an appropriate balance in the regulatory regime to protect the financial system from money laundering and *terrorist* financing risks, on one hand; and, on the other hand, to build in sufficient flexibility to address customer identification issues in a less cumbersome way, enable the entry of non-banks, and allow the use of innovative payment instruments and services.

Situation in Albania

92. The anti-money laundering legal / regulatory framework is comprised of Law No. 9917 of 2008 on the Prevention of Money Laundering and Financing of Terrorism (hereinafter the “AML/CFT law”), as amended, and its implementing regulations. Banks, NBFIs, savings and credit companies, Albania Post, and any other entity licensed and supervised by the BoA to undertake financial activity, are subject to the requirements of this Law. Such entities must duly identify and verify the identity of their customers, and compile internal procedures for the identification, registration, monitoring and reporting of customers’ transactions, in compliance with the requirements related to the “Know Your Customer” procedure established in the Law. Customer due diligence (CDD) is required before opening an account, and whenever a funds transfer is initiated that is above a pre-determined threshold, or in other cases involving additional risks (article 4 of the AML/CFT law). Customer identification can be verified “through documents, data or information received from reliable and independent sources” (article 4/1).

93. Pursuant to the amendments in 2011 and 2012 of the AML/CFT law, a comprehensive legal framework has been established with regard to CDD measures, using a risk-based approach (see paragraph 94). Supervised entities shall implement policies and measures to identify and assess AML risks arising from the development of new products, business practices and delivery channels and the use of new technologies (article 6). Enhanced due diligence is required for high risk customers and transactions (see paragraph

95). A person responsible for AML compliance has to be established in each entity. PSPs shall ensure that their agents are involved in their AML programs and that such agents apply the same internal measures for CDD, record keeping and reporting.

94. According to BoA's Regulation No. 44 of 2009 "On Prevention of Money Laundering and Terrorist Financing", as amended in 2013, opening of a banking account, even in case it is used for electronic transactions, shall be conducted only with the physical presence of the customer. However, customers may carry out transactions that do not require their physical presence provided specific risk management measures are implemented. Physical presence of customers/their representatives is however required in cases of enhanced CDD.[37]

95. The application of a risk-based approach with regard to AML/CFT has been implemented through amendments to Regulation No. 44 of 2009. This Regulation, as amended, lays down the procedures and documentation for the identification of customers, regulations for record-keeping, preservation of data and their reporting to the responsible authority. Additional guidance sets a framework for assisting the obligated entities in assessing the levels of risk, stating explicitly that where high-level risk is identified, enhanced CDD has to be applied in all circumstances (see below). There are three categories of risk factors that should guide the obligated entities in the evaluation of the risk: (i) geographical risk, (ii) customer's risk, and (iii) the risk of products, services/transactions and business relationships. For each category examples are provided, without limiting PSP discretion.

96. A comprehensive list of enhanced CDD measures has been established. First, the AML/CFT Law sets enhanced CDD measures with regard to specific categories of customers, which are the ones towards which enhanced CDD shall be applied (such as politically exposed persons, non-profit organizations). Regulation No. 44 of 2009, as amended in 2013, requires that the obligated entities apply enhanced CDD measures also to other categories of customers to be identified on the basis of a risk assessment (using the Guideline "On the risk assessment for money laundering and terrorism financing" attached to the Regulation). Based on section 5 of the Guideline, in case of higher risk identified by an obligated entity with regard to a customer or a transaction, the following mitigating measures may be applied: (i) additional information on customer's profile; (ii) increased frequency of data updating for the customer (iii) additional information on the intended nature of the business relationship; (iv) additional information on the source of funds and/or on the reasons and purpose of the transaction; (v) obtaining approval from high-level managers on the initiation and continuation of business relationships with the customer; and,

[37] The AML/CFT Law states that entities, in applying enhanced CDD measures, shall require the physical presence of customers prior to the customer opening an account *and* prior to executing a transaction.

(vi) enhanced monitoring.

97. The General Directorate for the Prevention of Money Laundering (GDPML) is the Albanian Financial Intelligence Unit. GDPML is empowered by the AML/CFT Law to collect, manage and analyze reports filed by obligated entities in order to prevent and combat money laundering and the financing of terrorism. GDPML may request statistics and data from subjects, supervisory authorities and other competent authorities, and may disseminate information to law enforcement authorities if there are grounds to suspect that money laundering or financing of terrorism offences have been or are currently being committed. GDPML also has a supervisory role overseeing obligors' compliance with the provisions of the AML/CFT Law and, in that regard, cooperates with supervisory authorities, in particular with the BoA and the FSA. In 2014, the BoA and the GDPML signed a cooperation agreement to facilitate information exchange and to strengthen the risk-based supervisory approach.

Observations and recommendations

98. Albania has made significant progress and implemented the required measures in order to strengthen the effectiveness of its AML/CFT system and bring its legal and regulatory framework in line with international standards. This framework preserves the integrity of the financial system, and by adopting a risk-based approach does not unnecessarily inhibit individuals and businesses from accessing and using well-regulated financial services.

99. The creation of a tiered compliance structure permits a suitable balance between risk and compliance relative to the transaction size and volume needs of the typical entry-level customer. This approach is currently supported in the Guideline "On the risk assessment for money laundering and terrorism financing", which is an attachment to Regulation 44/2009 "On Prevention of Money Laundering and Terrorist Financing". It is recommended that the tiered compliance structure be strengthened by reinforcing the risk-based approach, disciplining it through laws and regulations issued by BoA rather than through guidelines.[38]

100. It is worth noting that, at the time of assessment, to maximum balance limits for e-money accounts did not correspond simplified customer due diligence measures. It was recommended that this situation be rectified in a way that customer due diligence requirements are proportional to the residual risks after applying balance and/or transaction limits, and reflect considerations on the cost of undertaking CDD vis-à-vis the

[38] As stated by BoA in the text of this Guideline within Regulation 44/2009, "The guideline does not replace the legal obligations of entities, but aims at assisting them to understand and manage risks that may during the conduction of their activity".

use of the e-money products. As of March 2017, these limits are no longer in place (i.e. limits were eliminated through amendments to art. 27 of Regulation No. 11 of 2008).

3.3 Infrastructures supporting payment services and broader financial inclusion in Albania

101. Reliable financial, communications, and other types of infrastructure are widely recognized as critical to the provision of efficient and cost-effective payment services, and in this sense are a fundamental foundation for financial access and inclusion. Section 3 of this report focuses on the core payments and other basic financial, ID and ICT infrastructures that provide this foundation. Service point and access channel networks (e.g. branches, third-party agents and ATMs) are discussed separately in section 4.2.

3.3.1 The Albanian National Payments System and its core payment infrastructures[39]

102. Bank of Albania is at the apex of the banking industry and the payments system. The BoA is the key player in both the clearing and settlement layers of the NPS through the operation, regulation and oversight of a real time gross settlement (RTGS) system and an automated clearing house currently processing credit transfers only.[40]

103. Other relevant participants in the NPS include banks, nine NBFIs licensed to provide payment services, and some other providers focusing on back-end payment functions. As discussed in Section 2, of the nine NBFIs that are licensed provide payment services, five are involved in the provision of domestic payment services (Albania Post, EasyPay, M-Pay, Kastrati shpk and Pay & Go), two provide remittance transfers including international remittances (Financial Union Tirana and AK Invest), and two are e-money issuers (M-Pesa/Vodafone and EasyPay with a separate license for issuing e-money).

104. The National Payment Systems Committee of Albania (NPSC) was established recently and has had two meetings to date. The purpose of the NPSC is to support and contribute to increasing the security, stability and efficiency of the national payment system in Albania. The NPSC does not have juristic personality, and its decisions are not binding for participating members. The NPSC is chaired by the First Deputy Governor of the BoA, while the Head of the Payment Systems, Accounting and Finance Department of the BoA is the Vice Chair. Members include: a representative from the Governor's Office of the BoA; the Head of the Supervision Department of the BoA; one executive representative from each

[39] This sub-section analyzes the organization of the NPS and its core payments infrastructures. Section 4.1 discusses the current offering of payment services in Albania from a product design perspective. As mentioned earlier, Section 4.2 discusses service point and access channel networks.
[40] These two systems are described in further detail below.

of the following ministries: Ministry of Finance, Ministry of Economic Development, Trade and Entrepreneurship, Ministry of Innovation and Public Administration, and Ministry of Internal Affairs; an executive representing the Financial Stability Authority; the Chairperson of the Albanian Association of Banks; and, the Chairperson of the Payments Committee of the Albanian Association of Banks. Other non-voting participants include the Secretariat of the Committee (consisting of at least one employee of the Payment Systems, Accounting and Finance Department and of the Legal Department at the BoA), and the Secretary General of the Albanian Association of Banks.

105. The legal foundation for the NPS is derived from the Law on the Bank of Albania from 1997, the Law on Payment System from 2013, and to a lesser extent also the Law on Banks in the Republic of Albania, as already discussed in Section 3.2.

106. The first two laws clearly empower the BoA as the regulator and overseer of the NPS including payment instruments and systems (which according to the definition in the Law on Payment System include payment systems, securities settlement systems and clearing houses). In this context, the BoA issues regulations, decisions, operational rules, standards and procedures governing the payments systems it operates, as well the activities of various other NPS participants (e.g. operators of payment card schemes). Scope, policies and objectives of BoA's oversight are set out in the "Oversight Policy Document for Payment and Settlement Systems", approved in 2014 by Decision No. 32/2014.[41]

107. The Law on the Bank of Albania (article 14) states that only licensed banks may open accounts and hold deposits at the BoA. In the same vein, article 15 prescribes that BoA can only provide credit (and similar) to licensed banks. In practice, these provisions limit the ability of licensed NBFIs and other financial institutions to become direct participants of the payment systems operated by the BoA (see below).

108. From an infrastructure perspective, the backbone of the Albanian settlement system is the Albanian Interbank Payments System (AIPS). AIPS, owned and operated by the BoA, is an RTGS system, constitutes the sole system for settling large value interbank payments in ALL, as well as the final settlement of ALL-denominated obligations stemming from other payment systems and clearinghouses. AIPS uses Montran Corporation's RTGS solution as the central software application, and uses SWIFT messages for value messages (i.e. FIN Y-Copy, using a Close Users' Group) and a VPN for other on-line consultations to the system. The Montran software was upgraded in AIPS in 2013.

109. On the basis of its legal and regulatory framework, the statistics available and the

[41] Among many other topics, this policy document clarifies the BoA's competence on licensing and oversight of securities settlement systems, central counterparties, central securities depositories and trade repositories, in cooperation with the FSA.

discussions held with the BoA's payment systems operations staff, AIPS appears to be a robust and modern financial market infrastructure, which provides the tools that the participants in the system need to carry out their payment transactions safely and efficiently. During 2016, the system has been handling an average of 450-500 payment orders per day. The average value of a payment order is approximately ALL 57 million (i.e. USD 467,000).[42]

110. Currently there are 17 direct participants in AIPS, all of which are licensed banks plus the BoA itself. Article 14 of the AIPS Regulation defines direct participants as those who "conduct payments directly from their settlement account" at the BoA, and limits such direct participation in AIPS to banks and the BoA. However, regardless of this regulation, non-banks are, in practice, prevented from becoming direct participants in AIPS due to the Law on the Bank of Albania, which as mentioned earlier prescribes that only banks can open accounts and hold deposits with the BoA. This restriction applies also to operators of other payment systems and clearinghouses, which need to settle the balances from those systems and clearinghouses through a settlement agent (i.e. one of the commercial banks or the BoA).

111. The BoA also operates the Albanian Electronic Clearing House (AECH), which is a modern automated clearing house with a similar overall architecture of that of AIPS, in the sense that it uses Montran Corporation's ACH solution as the central software application, and SWIFT messages for the exchange of payment order files (i.e. SWIFTNet FileAct, also via a Close Users' Group) and a VPN for other on-line consultations to the system. The Montran software for the EACH was also upgraded in 2013.

112. According to article 16 of the AECH Regulation, participants in this system are categorized into direct and indirect participants. The former send and receive payment files on their behalf and settle through their settlement account in AIPS. This category is currently reserved for commercial banks and the BoA. Indirect participants, on the other hand, can send and receive payment files on their behalf, but settle in AIPS through the account of a settlement agent. To become indirect participants in AECH, entities other than the Ministry of Finance need approval from the Supervisory Council of the BoA. The AECH Regulation is silent on the criteria that the Supervisory Council would apply in this case. The only indirect participant at the moment is the Ministry of Finance.

113. Although the AECH is in principle able to process credit transfers and direct debits, only the former have been implemented to date. The volume of operations in the AECH grew heavily between 2009 and 2011, and since then it has been growing only at an average

[42] However, as in many other RTGS systems throughout the world in Albania there are significant differences in size between the various types of payment orders that flow through these systems, for example, payments related to interbank markets versus customer payments.

rate of 5% per year. During 2016, the AECH has been processing an average of slightly less than 2000 payments per day, with an average value of ALL 178,000 or USD 1,460 (which is a relatively large amount for a low-value payments system based on international parameters).

114. While the AECH does not currently provide an "instant payment" service, it does handle three daily clearing sessions, and the AECH regulations state that a beneficiary bank must credit the valid account of the beneficiary customer within the same value date.[43] Hence, individuals holding bank accounts in Albania can make low-value, person-to-person, and person-to-business transfers with same-day value (as long as the payment was initiated no later than approximately 2:30 pm). While this could also be done directly through the AIPS, the cost of doing so via the AECH is significantly smaller, at least for what regards the fees that the BoA charges to the users of this infrastructure.[44]

115. While AECH in general incorporates best practices in its regulation, net debit positions are not collateralized *ex ante*, nor are there limits to the size of debit positions. A participant that does not have sufficient funds in its AIPS account for the settlement of its net debit position in AECH may recur to the intraday liquidity facility of the AIPS. Any intraday credit form the BoA must be collateralized with government securities.

116. At present there is no infrastructure in place in Albania for the exchange of payment card transactions of a bank's cardholders with another bank's merchant POS terminal, ATM or another card acceptance device for the purposes of transaction authentication and authorization.[45] Still, in Albania in most cases it is possible to withdraw cash/pay with a Visa or MasterCard branded card issued by a local bank at the ATM/POS terminal of another local bank as most of these card acceptance devices in the country are "interconnected" via the Visa and MasterCard global processing networks.

117. Pay Link is a payment cards processor and manufacturer of payment cards. It has been licensed as a payment system operator by BoA.[46] At present, Pay Link provides card processing services only to Union Bank, which is also its majority shareholder with an 80% stake. Pay Link informed the team that it has already developed a payment card switch solution which is ready for implementation, including having obtained certifications as a third-party processor from Visa and MasterCard. However, other banks have not yet expressed interest on becoming users of this switch solution. One reason cited during the interviews held by the team was that Pay Link is owned by a bank which is also a card

[43] Otherwise, the beneficiary bank may be subject to penalties and eventually other sanctions.
[44] However, all payment orders worth ALL 1.5 million or above must be channeled through AIPS.
[45] This infrastructure is often referred to as a "payment card processing platform" or simply a "payments card switch".
[46] This type of infrastructure is regulated in Albania under Regulation No. 42 of 2013 "On the licensing, regulation and over sight card payment schemes operators".

issuer and, hence, a direct competitor.

118. At present, there are some discussions on the timeliness of establishing clearinghouses for euro-denominated transfers to decrease the costs and time associated with the use of correspondent banks abroad. As the focus on this report is on enhancing access to and usage of accounts, this issue is not being analyzed here given the fact that non-cash euro-denominated transactions are relevant almost exclusively for some medium and large businesses and for population segments that already have and use bank accounts.

Observations and recommendations on the NPS and its core payment infrastructures

119. Albania has made important progress in establishing a modern and robust NPS. To a large extent, the core payment infrastructures operated by the BoA are safe and efficient.[47] *However, a payment card processing platform or "payment cards switch", which is another key payment infrastructure to facilitate the interoperability of the various providers of payment services in the country and the efficient processing of card transactions, is still missing in Albania. Hence, the role of the Albanian NPS in providing a robust foundation to the generalized adoption and usage of accounts can still be improved.*

120. Some other important challenges exist, the major one being probably that despite the availability of modern payment infrastructures cash remains the dominant means of payment for the vast majority of the country's population – even for those that already have bank accounts. Observations below deal specifically with the role that the current organization of the NPS and of the core payment infrastructures may be playing in this regard.[48]

121. One of the roles of a payment cards switch is to increase the effective size of the access channel network by interconnecting the ATMs and POS terminals (and any other transaction acceptance devices) of different banks. In Albania, this interconnection is currently achieved to a limited extent through the international processing networks of Visa and MasterCard. The ongoing initiative in Albania to develop a domestic infrastructure for card payments (i.e. Pay Link) could be a solution to achieve increased or even full interoperability. Moreover, a domestic payments card switch can provide a number of additional advantages:

- *In addition to the domestic processing of existing global brands, a local switch can be leveraged for developing one or more domestic card brands, which could spur competition with existing global brands. This could help reduce costs throughout the*

[47] See below on the issue of financial risks management in the AECH.
[48] Account and payment product design aspects will be discussed in Section 4.

local payment cards market, including for cardholders and merchants[49]

- *Improved ability to meet local market needs. For example, at some point the domestic switch can also be used for switching other payment streams, like mobile payments*
- *Local decision-making and governance benefits.*

122. Given the current ownership structure of Pay Link, relevant governance aspects will need to be addressed, however. In order to become successful, a payment cards switch must achieve broad participation from card issuers in the country[50] *(and eventually also from issuers of other payment instruments that could also be switched). Hence, its ownership and governance structures should not deter participation, but rather promote it. In particular, all participants should be able to influence decision-making, and the organization should be able to strike and maintain a healthy balance between cooperative and competitive aspects. Successful models in this regard include the payments switch being organized (essentially) as a cooperative in which the users have representation in both the ownership and governance structure, or the payments card switch ownership and governance structures being totally (or at least largely) independent from its users/participants.*

123. In many countries it has been observed that some non-bank PSPs are able to cater to the specific needs of population segments that still do not use electronic payment services (e.g. many low-income individuals and/or people living in small towns or isolated communities), and at the same time can exert competitive pressures on traditional players for the latter to improve their service offering. In this regard, a general consideration in the case of Albania is that the current organization of the NPS still limits the involvement of non-bank players in the electronic payments value chain. For example, non-banks have no access to the settlement or clearing layers of the NPS, nor can they issue well-known payment instruments such as payment cards. Partly because of this, the two licensed e-money issuers and the other NBFIs licensed to provide payment services focus almost exclusively on bill payments (and where applicable also on cross-border remittances, solely on a cash basis). Hence, there is room for the provision of a wider range of front-end, electronic payment services to the general public by non-banks (e.g. including person-to-person payments, etc.).

124. In this regard, an initial action item has to do with the composition of the NPSC, which could be broadened to also include non-bank providers of payment services as voting members. Currently, according to the NPSC Regulation NBFIs that operate in the field of payments or money transfers may participate as observers in some committee meetings, depending on the agenda items. The World Bank PSDG team believes that non-bank

[49] In any case, card issuers should still be able to select the payment card brand(s) they want to issue.
[50] Nevertheless, card issuers must still be able to choose the processing platform(s) that best fits their needs.

providers of payment services should also have a direct bearing in the high-level discussions regarding the future direction of the NPS in Albania. Similar to the voting representation currently given to banks, non-bank providers could be represented through 1-2 voting members elected/designated by these entities.

125. As regards access to AIPS and the AECH, the BoA should adhere strictly to Principle 18 of the CPSS-IOSCO Principles for Financial Market Infrastructures (i.e. A financial market infrastructure should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access). [51] *At present there are legal restrictions that do not allow participation of non-banks, including operators of other payment systems and clearinghouses, in the payment systems operated by the BoA. The BoA has mentioned that it is currently working on the transposition of the EU's PSD 2. This effort could be used as an opportunity to introduce legal changes to this end, provided that interested non-banks are able to manage settlement risks adequately (see also recommendation 128 and footnote 43).*

126. In the immediate term, the category of "indirect access" as described in article 16 of the AECH Regulation (i.e. "being able to send and receive payment files on their behalf, but settle in AIPS through the account of a settlement agent") could prove useful to some NBFIs licensed to provide payment services and/or issue e-money. To this end, the BoA should develop and include in the AECH regulation objective, risk-based and transparent criteria for obtaining this kind of access to the AECH.

127. In any case, it should be noted that settling in AIPS through a commercial bank acting as settlement agent poses some challenges, as banks are also competitors in the payments business. This may lead to undue market behavior from the latter or even confidentiality concerns (e.g. non-banks that cannot send and receive payment files in the AECH may need to expose the details of their settlement files to their settlement agent). Hence, as the overseer of the NPS, the BoA should ensure that non-bank providers of payment services that are not able to become direct participants of AIPS and/or AECH and as a result need to use a commercial bank for accessing these infrastructures, are still able to obtain the payment services they need on a non-discriminatory basis and under reasonable terms and conditions.

128. Risk management in the AECH could be improved, specifically with regard to credit and liquidity risks. Net debit positions are not collateralized, nor are there limits to the size of these positions. In case of a liquidity shortage that does not allow a participant to settle its corresponding net obligation in AIPS, it may resort to the intraday liquidity facility (ILF) offered by the BoA. However, this does not guarantee the availability of the necessary funds

[51] While the AECH is a retail payments system, it is also regarded as a financial market infrastructure by BoA. Hence, the Principles for Financial Market Infrastructures become applicable to this system.

as the ILF must be collateralized with government securities and the participant may not have the required amount of securities available. Hence, it is recommended that net debit positions be collateralized "ex ante". Limits to those positions could also be established.[52]

129. Even if banks are already offering direct debit services within their respective networks (i.e. at the intrabank level), the BoA and AECH participants should strive to implement interbank direct debits in the AECH. It is widely recognized that for all types of billers there can be relevant efficiency gains in being able to debit any account in the financial system from a single point/account. Furthermore, interbank direct debits increase the ability of smaller banks that do not have a large physical network to attract billers and final customers. Enabling direct debits at the interbank level can therefore also assist in having a more level playing field in the payments market (in which the participants compete in the provision of better services, while they largely cooperate when it comes to infrastructure).

3.3.2 Other relevant infrastructures that support financial inclusion

130. As mentioned earlier, there are other infrastructures that, while not being part of the NPS, are also of major relevance for financial inclusion as they provide critical information to payment service providers and other financial service providers. These include national ID systems and credit reporting and other data-sharing platforms.[53]

<u>ID system in Albania</u>

131. In Albania, the Ministry of Internal Affairs operates the National Civil Status Registry, which is a centralized database where vital life events of the population are recorded (e.g. births, deaths, etc.) and through which identity number are assigned to each citizen. The national identity number (NID) is al alphanumerical 10-digit algorithm that guarantees a unique number. This Registry is connected online with the National Agency for Information Society (NAIS) in order to provide authentication for citizens using e-government services.

132. Starting in 2009, Albania has been issuing smart ID cards to its citizens in Albania and abroad that have reached 16 year of age The chip in the smart ID card contains the data shown in the card (including the NID), biometric data (in particular fingerprints) and an electronic certificate based on Public Key Infrastructure (PKI) which also requires usage of

[52] It should also be noted that the collateralization of net debit positions is a measure that, depending on its specific design, could in principle be fulfilled by both banks and non-banks in the event the latter were allowed to settle their positions from the AECH directly in AIPS. In other words, access to the ILF as a settlement assurance tool for AECH positions would not necessarily be needed by non-banks (or by banks).
[53] For details on how these infrastructures support access to financial services, see CPMI and World Bank (2016), "Payment Aspects of Financial Inclusion", pp 31-34.

a PIN. Through the usage of electronic certificates and the usage of public and private keys, Albanian citizens can submit applications, register and sign electronically when using e-government services and/or when performing certain transactions with private sector entities. Implementation of this feature of the smart ID card is still not widespread at present.

133. In order to obtain the smart ID card, citizen need first to go one of the 350+ offices of the National Civil Status Registry to have their personal data verified. All these offices have an online connection to the database of the Registry. After this step, and once an issuance fee of ALL 1,500 (USD 12) has been paid, the applicant can apply for the smart ID card at any Municipality/Administrative Unit or Commune which has an application office where the citizen is registered. The smart ID card issuance service is provided by a private company, Aleat, which also has an online connection with the National Civil Status Registry for this purpose. Fingerprint verification is performed for the retrieval of a new smart ID card, i.e. only the applicant can retrieve his/her new smart ID card.

134. The smart ID card is required for various important services provided by both government entities and the private sector (e.g. opening a bank account). Hence, despite there is a cost to obtain this card, by 2015 smart ID cards had been issued to practically all Albanian citizens residing in the country and abroad that are 16 years old and above. At the same time, issuance of the smart ID cards provided the government with an important opportunity to "clean up" the database of the National Civil Status Registry.

135. Government and businesses entities can verify an individual's identity online through a web service provided by Aleat (the actual service is known as "eAleat Identity Services"). For example, at the time of application for an account, the applicant needs to present his/her smart ID card. Banks that are using eAleat have smart ID card readers in which the ID holder enters his PIN or fingerprints for authentication. The information then travels via the web service to Aleat, which verifies the data stored in the chip with its own database (which holds all necessary identification information as Aleat is the issuer of the smart ID cards). However, according to users of this service, in order for it to be actually usable online it is necessary that smart ID cards be previously "activated" in Aleat's database, for which the ID holder needs to physically present his/her ID at one of Aleat's outlets (a one-time event).

Credit reporting in Albania

136. In Albania, at present there is only one credit reporting service provider, the Credit Registry operated by BoA since 2008. The main purpose of the Credit Registry is to support banking supervisory responsibilities from BoA, although it also provides a feedback loop to the entities that report data to the registry (i.e. to assist the latter in assessing the creditworthiness of loan applicants). Currently there are 38 reporting entities, including all 16 commercial banks and the NBIFs that are involved in lending and leasing. As at end-June

2016 the Credit Registry held credit data and other related information on 625,658 individuals and 18,851 firms. Individuals are identified via their NID, while for firms the number assigned by the National Registration Center is used.

137. Information reported to the Credit Registry refers to lending, leasing and related products only (including off-balance sheet items) and covers only licensed financial institutions. Reported items include personal information and positive and negative credit data, with no minimum reporting threshold. Data updating is event-based (i.e. whenever there is a change in any of the loan attributes that need to be reported), and also the whole portfolio information is updated on a monthly basis.

138. At present, there is an initiative within the private sector (with support from the EBRD) for the creation of a credit reference center/credit bureau that could eventually cover the reporting of credit obligations from non-financial institutions (e.g. commercial shops) and fulfillment of payment obligations with utilities companies, mobile phone companies, etc.

3.3.3 ICT infrastructure

139. According to World Bank data, by 2012, 100% of the population residing in Albania, including urban and rural, had access to electricity.[54]

140. There are four market players that provide mobile telephony and network services in Albania. The number of active mobile users by the end of 2015 reached about 3.4 million, 94% of which is prepaid. The penetration rate by the end of 2015 was 120% according to active users and 167% according to the number of connections/SIM cards. Table 3 shows comparable data for some of the countries in the Balkans. Penetration of mobile telephony on the basis of the number of connections/SIM cards is highest in Albania. On this same basis, availability of mobile broadband (including G3 and G4 mobile technologies, as per GSMA's definition) is in contrast the lowest, together with Kosovo. However, when access to mobile broad band is measured *on the basis of active users* and also including access via USB/modem cards, in Albania this percentage reached 46% by the end of 2015.

Table 3: Selected data on the mobile industry throughout the Balkans

(All data based on the number of connections/SIM cards, rather than on "active users")

	Albania	**Bosnia and Herzegovina**	**Kosovo**	**Macedonia**	**Montenegro**	**Serbia**
Penetration of mobile telephony	167%	87%	51%	110%	159%	110%

[54] A 100% coverage is rather common throughout the Balkans. However, as at 2012 the global average was 85% according to World Bank data.

% prepaid mobile phone service	94%	80%	95%	56%	63%	50%
% mobile broadband	25%	36%	26%	40%	43%	45%

Source: GSMA Intelligence, 2016.

141. Regarding fixed broad band access to the Internet, as of end-2015 there were 242,870 service contracts, which represents a penetration rate of 33.6% in terms of families and 8.6% in terms of individuals. The International Telecommunications Union (ITU) estimates that, altogether, access to the Internet in Albania is over 60%.[55]

142. Albania has issued a National Broadband Plan covering 2013-2020. The vision in this plan is the development of broad band infrastructure and services in the whole country in order to gain access to the electronic services in different fields, such as health, education, commerce, and government services, among others.

Observations and recommendations on other relevant infrastructures

143. Reliable identity verification is a cornerstone for expanding the provision of financial services. A modern and robust electronic ID system ensures that identity (and potentially other relevant citizenship data) can be securely and unambiguously asserted and verified through electronic means for delivery of services. Albania has taken important steps in this direction, including through the modernization of the National Civil Status Registry, the issuance of smart ID cards (having achieved universal coverage for citizens that are 16 and older), and by enabling the provision of electronic and remote verification of identity services.

144. The service for electronic verification of identity deployed in Albania (currently provided by the private venture "eAleat Identity Services") can reduce costs in the electronic payments market, in particular customer due diligence costs when opening an account and/or when applying for additional services. It must be ensured that holders of smart ID cards can "activate" their cards in this database easily and conveniently so that the service of electronic verification of identify service may be provided smoothly.

145. At the same time, in order to maintain a level playing field, authorities in Albania should ensure that all financial service providers and other external parties with a legitimate purpose are able to use the electronic verification of identify service in a fair and equitable basis. While eAleat Identity Services is a private venture, it should be operated largely as a utility, even more so considering that its source of golden data is the National Civil Status Registry, which is a public database.

[55] Source: Ministry of Innovation and Public Administration's document "Digital Agenda of Albania 2015-2020", page 14.

146. Regarding credit reporting, while credit reporting systems are only rarely used as a means of facilitating access to accounts for payments, they can be especially useful to open up the path to broader financial services. Indeed, the PAFI report stresses the role of accounts as a gateway to credit, savings and/or insurance. Such access to broader financial services often becomes possible when one or both of the following scenarios materialize:

- *An individual that has an account uses the electronic payment features of that account, leaving a trace of the payments received and made. This information can then be used by the bank holding the account (or another lender if the account is not a bank account) as a proxy of that individual's cash flow and loan re-payment capacity.*
- *Large billers report payment records to one or more credit reporting service providers. The latter then add value by making this data more accessible and useful to lenders (for example, credit reporting service providers transform the raw data received from various sources into one or more products/tools that facilitate the identification of payment history patterns by lenders).*

147. *In this last regard, the World Bank PSDG team supports the initiative to build a credit bureau or credit reference center in Albania which would also capture data from the payment of recurrent obligations such as utilities, mobile phone bills, educational services, etc. It should be noted that for many individuals currently excluded from credit, this is the only form of collateral (often referred to as "reputational collateral") they can offer.*[56]

[56] Also, it should be noted that including data from loans and other forms of credit granted by non-financial sector entities in a credit bureau can eventually open the door to obtaining larger loans from banks (e.g. a mortgage). For additional information see the latest consultative report of the International Committee on Credit Reporting and the World Bank "How Credit Reporting Contributes to Financial Inclusion", available at https://consultations.worldbank.org/consultation/how-credit-reporting-contributes-financial-inclusion.

4 CATALYTIC PILLARS: DRIVERS OF ACCESS TO AND USAGE OF ACCOUNTS AND ASSOCIATED ELECTRONIC PAYMENT INSTRUMENTS

4.1 Account and payment product design

148. PAFI (2016) defines a transaction account as an account held with banks or other authorized and/or regulated service providers (including non-banks), which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts. All individuals and businesses should ideally have access to and use at least one transaction account offered by an authorized and/or regulated service providers regulated payment service provider, (i) to perform most, if not all, of their payment needs; (ii) to safely store some value; and (iii) to serve as a gateway to other financial services.

149. Transaction accounts typically are offered with a set of non-cash, increasingly electronic, payment instruments. Electronic payment instruments can be classified in three broad categories (PAFI, 2016):

a. Electronic Funds Transfer (EFT)-based instruments: These are direct (i.e. account-to-account) credit transfers and direct debit transfers.

b. Payment card-based instruments: These include credit cards, charge cards, debit cards, and typically still involve a physical plastic card.

c. Electronic money (e-money)-based instruments: In general terms, these instruments involve the payer maintaining a pre-funded transaction account with a PSP, often a non-bank. Specific products include online money when the payment instruction is initiated via the internet, mobile money when initiated via mobile phones, and prepaid cards.

150. Only if the transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, end customers will be willing to open a transaction account and adopt payment instruments at first hand and consequently make use of the transaction account and associated payment instruments on an ongoing basis. In order to effectively design transaction account and payment products, the supply side needs to identify end customer needs and provide a mix of product features that offer the potential to meet those needs at a reasonable cost for end customers. These product-specific features, in combination with broader market practices (e.g. consumer protection), affect the attractiveness of the respective product for customers. Product-specific features also impact the cost for PSPs of providing the payment service (PAFI, 2016).

4.1.1 Relevance of transaction accounts in Albania (bank accounts and e-money accounts)

151. According to BoA data, as of end-2015 individuals owned 3,094,995 resident bank accounts and 18,347 non-resident bank accounts.[57] Most accounts are denominated in ALL, although accounts can also be opened in Euro, and to a lesser extent in US Dollars (USD) or Pound Sterling (GBP).

152. The data discussed in the previous paragraph does not specify whether the total number of customer accounts with banks includes only current accounts or also savings accounts/time deposits. In any case, data from Findex 2014 and the results of a consumer survey undertaken as part of the Retail Payments Cost Study suggest that as of end-2014 approximately 38% of adults in Albania had an account.[58] This means that in Albania there are approximately 700,000 *different* individuals that have an account with a bank.[59]

153. Vodafone M-Pesa and EasyPay started offering e-money accounts relatively recently. During the interviews held with the World Bank team, Vodafone M-Pesa informed that it has nearly 50,000 active accounts (defined as having at least one transaction per quarter). EasyPay indicated that it has issued 9,000 accounts, the vast majority of which are active.

4.1.2 Types of bank accounts and e-money accounts

154. The main types of bank current accounts are salary accounts and "regular" accounts. Accounts that target students and pensioners exist but are much less common. All these accounts offer essentially the same services (see 4.1.3), the main difference between them being the type and amount of the fees that the banks charge to accountholders. In general, for example, for salary accounts and student accounts the banks typically offer a package of services at a lower cost vis-à-vis "regular" current accounts (for additional details see 4.1.4).

155. Banks in Albania do not offer special types of accounts such as "basic" or "no-frills" current accounts to adults that currently do not have access to this service.[60] Nor is there a system of tiered accounts in the banking system by which some accounts – typically of a very basic nature, e.g. characterized by a restricted number/value of transactions – may be opened with simplified requirements. Physical presence of the prospective accountholder at the bank branch is always required for opening an account,[61] presenting the national ID

[57] This section focuses on accounts owned by individuals. The corresponding figures for firms are 192,995 resident bank accounts and 1,326 non-resident bank accounts.
[58] This data has already been discussed in detail in section 2.3 of this report.
[59] As of 2014, the number of e-money accounts was very small, and hence little representative in the total.
[60] Student and pensioner accounts are a partial exception to this.
[61] Banks in Albania do not operate with non-bank agents or correspondents.

card.

156. In the case of e-money accounts, these may be opened by the agents of the e-money issuers. While at present no differentiation of e-money accounts is mandated by regulation, at least one of the providers has in place a tiered system whereby first-time accountholders can only have access to so-called “Level 1” accounts, which offer a more limited range of services, including lower transactional amounts (i.e. ALL 1,000 per month sending or receiving). Customers that perform satisfactorily may graduate to Level 2 accounts after the first month. Level 2 accounts allow accountholders to mobilize up to ALL 350,000 (EUR 2,500) in a year.

4.1.3 Service offer (including payment instruments)

157. Most current accounts with banks are offered with a debit card. According to the data discussed in Section 2.3 of this report, approximately 22-24% of adults in Albania have a debit card. Table 4 shows statistic on the number of payment cards in the Albanian market, including for credit cards. At present, debit and credit cards are issued under either the Visa or MasterCard brands. These cards may be used for both on-us and off-us cash withdrawals at ATMs and for payments at POS terminals, although interoperability of ATMs and POS terminals is still limited. A few banks are starting to issue prepaid cards, e.g. for e-commerce.

Table 4: Statistics on payment cards in Albania (2016)

Payment cards/terminals	**Number**
Cards with cash function	999,313
Cards with payment function	957,548
of which: Cards with debit function Cards with credit function	 871,611 85,937
E money (prepaid) cards	41,765
Total number of cards	**999,313**

Source: Bank of Albania.

158. Current accounts with banks may also be accessed directly at the bank branch (banks in Albania do not operate via non-bank agents or correspondents). Additional options include online/Internet banking or, in a few cases, mobile banking. Cheques are only rarely used by individuals. Direct debits are available only at the intrabank level.

159. Online banking services have been made available by most retail banks in Albania. However, penetration of this service is still low. According to BoA data, as of end-2015 only about 130,000 of the total number of accounts held by individuals were accessible via

online banking. Online banking services in Albania generally allow the accountholders to check account balances, initiate P2P transfers (intrabank and in some cases also interbank[62]), payment of utilities and of several other services. In order to make a funds transfers, the payer needs to know the full account number of the beneficiary.[63]

160. With regard to mobile banking, a few banks have developed their proprietary mobile banking service, while others (i.e. Raiffeisen Bank and Societé Generale) are using the platform of a third-party, M-Pay, which can be used by any mobile telephony customer of Vodafone Albania, Telekom Albania and Eagle Mobile. Payment services available through M-Pay include balance inquiries, bill payments, and airtime top-up. M-Pay informed that they have more than 100,000 registered users for this service.

161. In the case of e-money accounts, those issued by Vodafone M-Pesa are accessed and are operated via an e-wallet, while in the case of EasyPay the accounts may be accessed and operated on-line (i.e. computer-based) and via mobile through an app, "MobilePay Albania".

162. Payment services available through e-money accounts include payment of utilities and of other services and subscriptions, account top-ups and cash-outs, and also airtime purchases. E-money accountholders can only make deposits in cash to their own account (for which they need to show their national ID card). Vodafone M-Pesa also offers person-to-person (P2P) transfers, for which customers only need to know the mobile phone number of the beneficiary. EasyPay does not offer P2P transfers as of yet. Moreover, customers of Vodafone M-Pesa cannot transfers funds electronically to customers of EasyPay, or vice versa.

163. In addition to there being no interoperability between e-money issuers, there is no interoperability between bank accounts and e-money accounts. In other words, funds may not be transferred electronically from a bank account to an e-money account or vice versa.

4.1.4 Transaction account charges

164. Banks in Albania price their account products based on their own internal policies. On the basis on the interviews held with five banks and the Albanian Association of Banks, and having analyzed the BoA's microsite that hosts information on banks' "commissions to individuals", a number of trends were identified. In the context of this report, the trends that are especially worth noticing for ordinary/regular current accounts are:

[62] Interbank funds transfers are generally only available in ALL, as there is no domestic interbank systems for processing payments in Euro or other foreign currencies.
[63] Account numbers are standardized in Albania on the basis of IBAN.

- Some of the banks interviewed charge new accountholders upfront for the issuance of the debit card that constitutes the primary means for accessing their account remotely. The typical fee is ALL 500, equivalent to approximately USD 4. Most of the banks that do not charge the debit card issuance fee apply an annual debit card maintenance fee that ranges between ALL 500-1500. Moreover, almost all of the banks also charge a fee for providing a new PIN to debit card holders.
- With only one exception, all of the banks charge a monthly account maintenance fee (which is separate from the debit card maintenance fee). The typical fee is ALL 150, and is levied regardless of the balance that an accountholder maintains in the account.
- In most cases access to online/Internet banking is charged separately. A few banks charge a registration fee, while others charge a monthly fee for the use of this service, and one bank charges on a per transaction basis.
- There is no differentiated pricing for funds transfers initiated at the branch or online (at least one bank applies fees to those initiated online). For interbank transactions via the AIPS or AECH, banks typically charge a maximum fee of ALL 1,500 or ALL 500, respectively. Transfers of smaller amounts may be subject to lower fees.[64]
- Regarding bill payments, in general terms there is also no differentiated pricing for paying electronically or in cash at the bank branch.

165. As noted earlier, however, payroll accounts and student accounts are generally subject to lower fees, although they follow the same overall pricing structure as ordinary/regular accounts described in the previous paragraph.

166. According to Vodafone M-Pesa and EasyPay, none of their e-money accounts are subject to account opening fees, or monthly or annual account maintenance fees. There are also no charges for account top-ups or for the majority of bill payments that can be made via the account. In contrast, cash-outs and a few bill payments (e.g. water) are subject to fees.

4.1.5 End-customer behavior

167. For the various payment instruments that are available with bank accounts, payment cards are the most widely used instrument, although cash withdrawals using a payment card at the ATM are six times bigger than POS transactions. When it comes to actual payments made, credit transfers initiated at the bank branch are still the most important instrument, although payments with cards at POS terminals with merchants have experienced a threefold increase in volume over the last 5 years. Electronic credit transfers have also increased significantly (for the detailed data see Table 2 in Section 2.3).

[64] During one of the meetings with the banks it was mentioned that banks will generally not charge a fee for interbank funds transfers for an amount up to ALL 1 million.

168. It is worth noting that payments with cards at POS terminals are initiated almost exclusively by individuals, while in the case of credit transfers businesses have an important share, between 30-40% of the total. This means that the significant increase that has been observed in card usage for payments at POS terminals has been driven by individuals. It is not possible to establish a trend in behavior for other payment instruments as BoA data only shows a break-up between individuals and businesses starting from 2014. According to BoA data, payments with e-money accounts reached 205,200 transactions in 2015 – a 31% increase over the previous year.[65]

169. In total, as of end-2016 the total number of cashless payments per capita in Albania was almost approximately 4.3. This figure is still far from other upper MICs and from developed economies.

170. These numbers clearly indicate that a large share of individuals in Albania still prefer to pay cash for their daily, periodical/recurrent and one-time purchases. Some of the key reasons for this appear to be the higher cost (real or perceived) of having and using bank accounts in Albania: the still low penetration of payment cards and POS terminals in the country and especially outside the largest cities; the fact that e-money accounts were introduced only relatively recently (hence there is still limited awareness of this option); and, the expansion of walk-in bill payment services facilitated by some of the licensed NBFIs that provide payment services.

171. In this last regard, EasyPay, Financial Union Tirana and AK Invest have been able to develop networks of physical agents that receive payments in cash from walk-in customers, and have therefore become a convenient one-stop for many individuals that wish to pay for utilities and other periodical services (e.g. pay TV, mobile telephony, etc.). Albania Post also provides a similar service through its own branch network. EasyPay provides these cash payment services in addition to its e-money services,[66] while the other NBFIs accept bill payments in cash only. In terms of the *direct* costs to the end-customer,[67] paying bills and other services in cash is not more expensive in Albania than paying through accounts. Additional details on these and other access points are provided in section 4.2 of this report.

Observations and recommendations

172. The BoA and the banking industry should reconsider the existing pricing structure for current accounts. This is because, regardless of price <u>levels</u>, upfront costs for opening a

[65] All figures in this paragraph exclude account top-ups or cash-outs.
[66] However, the vast majority of EasyPay's payments business actually comes from walk-in customers that pay in cash: as mentioned earlier, it has issued approximately 9,000 accounts, while it has some 450,000 walk-in customers that make their bill payments in cash.
[67] Excluding transportation costs, time spent and other variables.

bank account and mandatory monthly/annual maintenance fees are perceived by customers as key negative elements of having an account, especially as those charges are independent of the actual usage of the account or regardless of whether a customer is using those instruments and channels that are less costly for the bank.

173. In designing a new pricing structure, some of the premises to be considered are:

- *Fully electronic payment alternatives should be less costly for accountholders than those made in cash, or those that involve cash at some point in the transaction cycle*
- *To the extent possible, accountholders should be charged on the basis of the intensity with which they use their account and the payment instruments and channels chosen*
- *It is desirable that accountholders maintain funds in their accounts in order to reduce cash in circulation and increase the total amount funds that may be transferred electronically throughout the Albanian banking system. Accountholders should have a clear incentive to do this, or be "rewarded" for it. One way in which this could be implemented is by banks exempting accountholders from the account maintenance fee whenever they keep a certain minimum average balance.*[68]

174. The banking system should consider designing and offering a special current account product for currently unbanked customers. Such a product, often known as a "basic account", has been launched in many jurisdictions and is being used as an alternative to advance access to current/transaction accounts.[69] *In Albania, this space has been filled to some extent by the NBFIs licensed as e-money issuers. However, the banking system could also play an important role given its capacity to facilitate that accountholders also gain access to a broader set of financial services such as credit, savings or investments.*

175. At a minimum, these "basic" bank accounts should make it possible for the target population to store value safely and to send and receive payments electronically at little or no cost. In this last regard, a PAFI survey (see annex 4) showed that in some countries basic accounts are offered without any associated fees, but often have a requirement for a minimum balance. In other countries, basic accounts do involve fees, although such fees tend to be very low. It should be noted that in the case of poor individuals, requiring a minimum balance may not be viable; these individuals very often prefer a "pay-as-you-go" pricing model by which they are charged for the individual transactions they perform, as they perform them.

[68] It should be noted that banks could still benefit from this situation as they would have a larger amount of relatively stable funds available for on-lending. At the same time, the minimum average balance required should not be too high so as to make it practically impossible to achieve for a majority of accountholders.
[69] For additional information see annex 4, which reproduces Box 3 "Key outcomes from a PAFI survey of basic accounts in selected countries" of the PAFI report.

176. In any event, to be truly useful all transaction/current accounts should be able to accommodate the key transaction and store-of-value needs and habits of their respective target populations. This naturally includes being able to transfer funds and pay electronically to as many parties as possible, although with a strong focus on those parties with which accountholders transact regularly for routine issues. In this regard, one aspect that would increase the usefulness of accounts in Albania would be to achieve interoperability between the banking system and e-money issuers, as well as among e-money issuers themselves.

4.2 Readily available access points and access channels

177. As stated in the CPMI-WBG PAFI report, the success of retail payment services depends critically on the availability (including physical proximity), quality and reliability of customer service and access points. Customer payment behavior is especially sensitive to the density of access points in close proximity to their home or work place. Limited access to physical access points may reduce the probability that a transaction account or a payment instrument are adopted.

178. From a customer perspective, it is important to differentiate between those access points to be visited for the initial opening of a transaction account and/or the acquiring of specific payment instruments, and those access points utilized for the regular use of the transaction account and/or a specific payment instrument. Both topics are discussed below.

4.2.1 Bank branches, ATMs and POS devices/terminals

179. Table 5 shows some basic data on ATMs and POS terminals in Albania. ATMs are used almost exclusively for cash withdrawals, as only about 15% of the total number of ATMs offer funds transfers functionalities. Over the 2010-2016 period, the number of ATMs expanded at a rate of less than 1% per year on average. In turn, the expansion in the number of POS terminals averaged more than 7% per year. POS terminals are used almost exclusively for card payments to merchants, though recently some banks introduced cashback services.[70]

Table 5: ATMs and POS terminals in Albania (2016)

Automated Teller Machines (ATM)	**800**
of which:	
ATM with cash withdrawals function	776
ATM with credit transfer function	120

[70] According to BoA data, the number of POS terminals with cash back/ cash withdrawal functions was actually much higher in 2008 and 2009, and fell abruptly from 2010 onwards.

ATM with deposits function	94
Terminals POS (Point of Sale), of which	7,111
of which:	
POS Terminals with cash withdrawals function	97
EFTPOS terminals	7,014
Virtual POS terminals	28
E-money terminals	680

Source: Bank of Albania.

180. Overall, banking and retail payments infrastructure is less developed in Albania than in neighboring countries and peer upper MICs. As of 2016, there were 34 ATMs per 100,000 adults in Albania, as compared to 56.4 for developing countries in the ECA region (2015). Upper MICs average 51.1 ATMs per 100,000 adults. Point-of-sale (POS) terminals increased to 302 per 100,000 adults in 2015, as compared to 726 in Kosovo, 1,101 in Serbia, and over 2,000 in Montenegro. [71]

181. Geographical coverage of ATMs and POS terminals is limited. In fact, according to BoA data, as of 2015 about 57% of the ATMs and 80% of POS terminals in Albania were concentrated in the Tirana region. Coverage is further limited by the fact that there is limited interoperability of these access channels (see section 3.3).

182. Banking infrastructure in general is more concentrated in major cities. As of 2015, the number of bank branches per 100,000 adults was 21.9. This figure is similar to neighboring countries: developing countries in the ECA region average 22.1, while upper MICs in general average 15.9. It should be noted, however, that in addition to branches, banks many MICs also provide in-person services via agents, which is a business model that has not been developed in Albania for the banking sector. Moreover, most of the banks interviewed informed that they have been closing down branches in recent years, and they expect this trend to continue.

4.2.2 Post Office, non-bank PSPs and other financial institutions

183. Different from banks, e-money issuers in Albania have developed a network of third-party owned physical access points (i.e. agents) in addition to own locations/branches. Vodafone M-Pesa has a network of 307 access points, of which 147 are so-called "Vodafone shops" (they distribute Vodafone products, but only 3 of these shops are actually owned by Vodafone). E-money accounts may be opened at any of the locations. Vodafone shops provide payment-related services exclusively to Vodafone M-Pesa, but other access points are free to provide services to other e-money issuers or to other payment service

[71] Source: World Bank Global Payment Systems Survey (2015), IMF Financial Access Survey (2015).

providers.

184. EasyPay has a network of nearly 300 agents, which are exclusive. An e-money account may be opened at any of these agents. All services available for walk-in customers (essentially bill payments in cash) are also available for e-money accounts via online services. However, at present only 64 of these agents offer top-ups of e-money accounts.

185. Albania Post is also licensed by the BoA as a NBFI providing payment services. It has 537 branches through which, in addition to postal services, government payments[72] and pensions are distributed and paid in cash. In fact, pension payments represent nearly 75% of the total volume of payments handled by Albania Post. On the side of collections, taxes and some utilities may be paid at the branches of this entity. Plans are underway between one of the banks and Albania Post to equip the latter with POS terminals to provide cash back/cash withdrawals to those bank's accountholders.

186. Other relevant networks are those of the two NBFIs that are the major remittance service providers in Albania, Financial Union Tirana and AK Invest. At present, both networks provide payment services in cash only (remittances and utilities payments) and do not act as agents for banks. Financial Union Tirana has a network of approximately 500 outlets combining own and third-party owned. AK Invest has 180 outlets, of which 80 are actually branches of Albania Post. AK Invest requires exclusivity to its agents, with the exception of the Albania Post.

187. Savings and Credit Associations (SCAs) also have a relevant branch network, the largest being Fed Invest with 82 branches, many of them in rural areas in the south and center of the country. SCAs' are legally able to provide certain payment services (cash payments, as SCAs cannot issue current accounts), although none of them have yet started to implement any specific project in this area.

4.2.3 Other payment networks led by distributors

188. In Albania there are currently no payment networks others than the ones already described in 4.2.1 and 4.2.2.

Observations and recommendations

189. Developing the agent banking business model in Albania could prove highly beneficial to increase the reachability and convenience of bank current/transaction accounts to the population, especially for those individuals that live/work far from major financial districts. As it is the case in numerous countries in which this model has been

[72] This includes some social grants/benefit programs that are disbursed directly by municipalities.

implemented successfully,[73] *agents (e.g. small family shops, convenience stores, gas stations, real sector retailer chains, etc.) perform basic transactional operations on behalf of one or more banks, although the banks always maintain full responsibility vis-à-vis customers and authorities for those operations. The operations typically performed by agents include cash withdrawals from/deposits to bank accounts (often up to a certain limit), payment of utilities and payment of loan installments via the bank account or in cash, etc.*[74]

190. Should the agent banking model be implemented in Albania, Albania Post and SCAs, among other entities, could play a major role as agents given their experience in serving rural and other isolated communities. In any case, banks should be able to freely select those agents that they believe are most appropriate to their business plan and needs.

191. It should also be noted that the effective reach of access points can also be augmented by achieving higher levels of interoperability of the existing channels and outlets (and of any new ones that may be added in the future).[75]

192. In this same vein, for existing agent networks – as well as for any new ones that may be developed in the future including any agent banking ones – authorities should, as a general rule, forbid exclusivity agreements. A short period of exclusivity could be justified in certain cases by the need to invest in training and equipment, but such justification does not hold for open-ended exclusivity.

4.3 Financial literacy

193. Obtaining access to a transaction account is a necessary but not sufficient condition for the effective use of the electronic payment instruments associated with such accounts. Educational and outreach efforts are often needed to enable new and even existing accountholders to effectively make use of retail payment services.

194. The process of transferring knowledge on the management of financial resources and on the usage of financial products and services is referred to as financial literacy, financial education or other similar terms. In the payments context, some of the key efforts in this regard include demonstration of the advantages of using the electronic payment services – i.e. the safety, protections, recourse mechanisms, speed and

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[73] Box 15 of the PAFI report describes successful examples of agent banking throughout the world.
[74] In some countries agents perform a wider range of operations. For example, they also receive loan applications that are forwarded to the bank for analysis and decision.
[75] This observation is different from the one in section 4.1 which discusses the interoperability of e-money accounts and interoperability between bank accounts and e-money accounts. In an ideal scenario, the whole banking and e-money ecosystems (i.e. products, channels and service points, processing infrastructures, etc.) would be interoperable.

convenience –, learning how to use specific payment instruments, such as a debit card or an electronic funds transfer, as well as building the trust and comfort of the clients with a transaction account and its use. Factual information on the reliability of the available services, including information on the operational performance of ATMs and POS devices, can also help address potential customer concerns regarding the accessibility of their funds. For the purposes of this report, this kind of efforts are referred to generally as "financial literacy" efforts.

195. Another relevant aspect in this context is the level to which end-users are aware, or could become aware, of the financial product and service options available to them. End-users, even some of the most knowledgeable ones, may not have easy access to, or be familiar with, certain tools that can assist them in accessing useful, trustable and updated information on such options. Sub-optimal choices are frequent under such circumstances.

4.3.1 Awareness and financial literacy efforts in Albania

196. For a number of years, the BoA has been engaged in promoting financial literacy and awareness. In the Medium-term Development Strategy of the Bank of Albania (2016-2018), promoting financial literacy is one of the key objectives. The aim is to establish a genuine financial literacy in the Albanian society by helping consumers, businesses and investors in making financial decisions more wisely.

197. At the more general level, starting from 2006 the BoA has been very active in the publication and distribution of educational materials and delivering educational activities. These publications inform the public in a simple language about the functions, objectives and the activity of the BoA. Among these materials, the BoA has published brochures on payment services and products, including consumer rights and responsibilities, which are distributed also through the commercial bank network. Further dissemination of information is supported by the BoA's Training and Research Centre in Berat (South of Albania). This Centre was established with the purpose to organize and host activities related primarily to issues on central banking as well as macro economy, commercial banking, financial system, banking supervision and financial literacy. The Centre serves as a rendezvous for workshops, training sessions, and roundtables for enhancing scientific knowledge on central banking.

198. Financial literacy is partially integrated into the national pre-university curriculum at both primary/elementary and secondary/high school levels, named "Personal finance in your hands". Both these courses are not mandatory. In contrast, there is a dedicated and mandatory course for high school students, in economic education. The BoA trains the teachers that will teach these courses to students. The courses include an introduction of

payment systems and services. There are also other awareness campaigns for primary and secondary school students led by the BoA in partnership with the AAB and the Ministry of Education and Sport. Topics include information on Bank of Albania role in the economy, the Albanian money, functions of money, main financial products and services, payment instruments, personal budget administration, saving and investing, etc. These campaigns are further intensified during the Global Money Week, where a number of promotional events and competitions are performed all over the country, including some discussion sessions that are aired in TV. BoA is a regular member of the OECD's International Network on Financial Education (INFE) since 2011, and has been part of the Financial Literacy first and second measurements (http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm).

199. The AAB signed a Memorandum of Cooperation with the BoA on joint activities and initiatives of financial education in 2014, and is also active on its own in the financial literacy space. Main activities include publications, workshops and lectures in high schools and universities, as well as through a larger visibility in the social networks, with free accessible materials and videos. Since 2012, the AAB is an affiliate member of the OECD's International Network on Financial Education (INFE). .

200. Another association committed to financial literacy and education is "Junior Achievement" (JA), through its program applied in 150 secondary schools in Albania, where students are "challenged" on their knowledge about financial terminology, cost-benefit analysis, raising the initial capital investment through shareholders, setting financial goals, preparing simple financial statements (inflows-outflows), etc. In cooperation with the BoA and the AAB, JA is also performing various programs/events through the country, such as: open lessons from BoA's and commercial banks representatives with students of finance at the universities of Tirana, Elbasan, Durres and Korçe; visits of students to commercial banks branches; Competition "Acting like bankers" at the University of Integrated Studies, Durres, etc.

201. The role of individual banks is essentially limited to onboarding of new customers.

Observations and recommendations

202. The BoA, the government and financial sector entities are active in the promotion of financial literacy in Albania. Led by the BoA and the AAB, existing financial education initiatives are mostly focused at increasing the level of financial literacy among school students. These are commendable efforts, and should be continued and strengthened.

203. In particular, initiatives to advance financial literacy still seem to a certain extent limited and with no explicit long-range strategy. Coordination of the various efforts could *be further improved. Participation in these efforts by additional stakeholders from at least the public sector is also recommended (e.g. authorities responsible for consumer education, labor and employment, social protection, among others).*

204. The BoA should measure as objectively as possible the effectiveness of the financial education efforts and programs it has undertaken so far (e.g. in terms of how many more people are now aware of existing payment and other financial products, how many have changed their behavior as a result of the information that was made available to them, etc.). This is crucial in order for the BoA to make informed decisions on whether it should continue to pursue its current path, or if it is necessary to make changes and/or adjustments to aspects such as the training materials themselves, the form in which these are delivered and/or distributed, the target group(s), etc.

205. It is highly important that financial literacy efforts specifically address how bank and e-money accounts can effectively help meet an individual's payment and store-of-value needs, and should target those individuals that do not have an account and those that obtained one only recently. Remittances – as a basic service that is often the first to be accessed by the un(der)served population – should also be well covered by awareness and literacy efforts and the users of remittance services should be targeted by dedicated initiatives.

206. Payment service providers should continue providing hands-on training where needed as part of a product roll-out. Special emphasis should be placed on new users with limited first-hand exposure to electronic payment services. Moreover, PSPs should make sure that their customers can easily and smoothly obtain clear and accurate information on the risks embedded in the usage of accounts, the basic security measures associated with them, and the overall obligations and rights of both the PSPs and accountholders.

4.4 Leveraging large volume recurrent payments

207. Large-volume recurrent payment streams can be leveraged to advance financial inclusion objectives through various channels. The most obvious one is by directly providing transaction accounts to unserved and underserved end-users, mainly individuals. In addition, these payment streams can be leveraged to drive investment in core retail payments infrastructure as well as in distribution channels and in the development of new payment products and services.[76]

[76] However, as mentioned in the PAFI report, leveraging these payment streams for financial inclusion purposes is unlikely to be pursued if technical and business considerations are not supportive of the primary objectives of the driving party (e.g. to cut costs, improve targeting of beneficiaries, reduce leakage, etc.).

4.4.1 Government disbursements and collections

208. Public sector mass disbursements typically include recurrent payments of social benefits or grants, wages, pensions and other social security payments and contributions.

209. Salary payments – regardless of whether the employer is the public sector or a private enterprise – represent 23% (by volume) of total annual payments received by Albanian adults. The public sector alone in Albania employs 164,120 individuals.[77] At the level of Albania's central government, wages and other compensations are generally paid through bank accounts. It is understood that at the municipality level, the same practice is followed, thus wages are generally paid through accounts. Demand-side data seems to substantiate these conclusions in that it estimates that 80% of all public employees own a debit card. On the other hand, these data also suggest that of all debit card holders, 78% use the card exclusively for cash withdrawals, i.e. even though salaries are channeled through bank accounts, the beneficiary often withdraws the entire balance in cash from the bank branch or ATM on pay-day.[78]

210. Payments of the Social Security Institute (SSI) include sickness cash benefits, maternity/paternity cash benefits, unemployment insurance payments, compensations for work-related injuries/illness, and pensions – old-age, invalidity, survivor's. The SSI also administers some social assistance programs, including cash transfers directed to low-income individuals (e.g., *Ndihma Ekonomike*). These payments are delivered either through accounts or in cash at the bank teller, although the exact breakdown is not available and may vary from bank to bank. Of all SSI payments, old-age pensions concentrate the largest volume, and are disbursed almost exclusively in cash at the locations of the Albania Post. Of all Albanian Post's cash disbursements, old-age pensions represent about 75% in volume terms. In recent years, there have been attempts to channel pensions through electronic means via the banking system, although with limited success. A survey of consumers including recipients of social benefits and pensioners revealed that the great majority of these payments (98% and 95% respectively, by volume) are disbursed in cash / withdrawn in their totality right away.

211. On the collections side, at the level of the national government, the Albania Taxation Office (*Drejtoria e Përgjithshme e Tatimeve*, DPT) is responsible for the collection of tax revenue, including income and corporate tax, value added tax, and property tax. Social security and health insurance contributions are collected by the Ministry of Finance also through the DPT. Tax collection takes place via bank channels,

[77] Source: Instat, 2015.

[78] Even though salaries are channeled through the beneficiary's bank account, the beneficiary in many cases withdraws the entire salary in cash from the bank branch or ATM during pay-day. Another indicative statistic of this is that 78% of adults that own a debit card use it exclusively for cash withdrawals.

predominantly at the bank branch: taxpayers present a printed copy of the payment order generated in the DPT website which is then read through a barcode. All of the banks in Albania collect taxes on behalf of the Government. A breakdown by instrument type used at the bank teller to pay tax obligations is not available, nor are there specific requirements or incentives for taxpayers to pay through their bank accounts. Custom duties are collected by the Albanian Customs Administration. Demand-side data on the use of payment instruments for government collections estimate the annual volume of these payments at about 1.3 million yearly. Of these, about 80% is paid in cash.

212. As regards e-government, the e-Albania online portal makes available to the public around 270 different public services, of which at least 80 are level 3 and 4, i.e. they allow printing of the payment order (level 3) or also paying online (level 4), with the vast majority of services being level 3. A payments gateway facilitates the connection of the banks and the payment service providers to the platform, subject to an agreement being signed between each intermediary and the government agency/biller on whose behalf it collects payments. All of the banks are connected to e-Albania, and some non-bank providers. Efforts to integrate more services to the platform are ongoing. Two main factors contribute to the limited use of online payment services: first, the lack of awareness and a concerted effort to promote the use of the e-Albania portal for payments; second, the inadequacy of authentication mechanisms for individuals (whereas business use digital certificates) thus leading to security issues.

213. It is worth noting that the public services that depend on the municipalities are not integrated to the e-Albania portal. For the most part, these payments are collected in cash on premise.

4.4.2 Utility and other bill payments

214. According to INSTAT (2015), 10.3% of overall household consumption expenditure went to housing, water, electricity, and other fuels, which makes this the second largest household expenditure group after food and non-alcoholic beverages, and offers potential for increased use of transaction accounts and electronic payment services. According to demand-side data, every year Albanian adults make almost 20 million payments for periodic bills, or 15.5% of total payments initiated by consumers.

215. As in the case of government payments, most utility payments are made via bank branches and the billers’ pay offices in cash. It is estimated that about 75% of all periodic bill payments are effected in cash. Interbank debit is not yet available, and the intra-bank volumes are quite low, representing about 6% of total retail payments volumes. Depending on the biller, online payment options might also be available (payment cards,

online banking), although volumes through these means are estimated by some billers at below 1% of total collections.

216. Besides banks and pay offices, NBFIs have engaged in bill collection – electricity (OSSHE), water (e.g., UKT), fixed and mobile telephony, internet & TV – including through more "niche" market products. For example, State Police and Tirana's Municipality Police fines can be paid at Pay-and-Go terminals/kiosks or through EasyPay. The latter also facilitates the payment of kindergarten fees due to the Municipality of Tirana. Both e-money institutions (M-Pesa and EasyPay) offer over-the-counter (OTC) bill payment services to non-customers. However, the availability of these services is limited to Tirana and a few other major cities: typically, smaller/more remote municipalities have obsolete internal systems which cannot interface with the service provider. Finally, to the extent that electronic records are not accepted/trusted as a proof of payment of the utility bill, and physical stamps are still required, Albanians tend to shy away from electronic instruments and online channels.

4.4.3 Transit payments

217. Public transit systems serve an important share of a country's population, very often including economically disadvantaged individuals who tend to be financially excluded. In Albania, with a 6.8% share, transport forms the third largest household expenditure group (INSTAT, 2015). For public transportation, Albanians rely on local bus and minibus. Transit fees are paid in cash to the driver.

218. There are in total 8 bus companies operating in Tirana, (Tirana public transport system is under a reorganisation process and the number of operators correspond to the existing situation, also is to be noted that the data below represent values taken from 2016 or only 7 operators in place during this time of operation) which serve approximately 72 524 432 users or passengers/year, for a total 15 522 247 USD in fees collected every year. The municipality of Tirana is planning to introduce stored-value cards for the bus transit system.

219. In Tirana, parking fees have been recently automated (February 2017), and can be reserved and paid via mobile phone.

4.4.4 Remittances[79]

220. Remittances, both cross-border and domestic, are another type of large-volume and recurrent payment stream that can be leveraged to advance financial inclusion. For example, receivers of remittances very seldom have a transaction account, despite having a reasonably constant inflow of cash to help them manage their daily financial affairs.

221. Albania is a net remittance receiving country. The value of the international remittances flows to Albania was estimated at 9.1% of the country's GDP for 2015, which corresponds to approximately USD 1,047 million.[80] It is estimated that 37% of the remittances flows are channeled via unregulated services and systems, while 57% goes through money transfer operators (MTOs) and 4% through banks.[81] The most important sending countries are Italy, the United Kingdom, Germany, Greece and the United States.

222. With regard to domestic remittances, Findex (2014) estimated that 27.1% of Albanian adults received domestic remittances, of which 13.9% through a financial institution, and 12.1% through a MTO. Only 1.4% of recipients used a mobile phone for receiving their remittances, although since 2014 one mobile money issuer (Vodafone M-Pesa) was licensed which could result in an increase of domestic remittances channeled through mobile phones. M-Pesa currently has over 240,000 accounts, top-ups and domestic person-to-person being the main/most used services.

223. The RPP Baseline Survey on international remittance beneficiaries' financial behaviors across Eastern Europe and Central Asia found that in Albania more than 30% of interviewed households receive remittances regularly, while another 40% are getting financial support from their relatives abroad on special occasions. According to the Survey remittances represent one third of the yearly household budget in Albania. International remittances are mostly used for fast moving consumer goods and health & hygiene products (elected by 67% of interviewed households), health expenses (52%), and for education purposes (32%).[82] Albanian adults are most likely to not use banks or other financial institutions for remittance transfers than in any other neighboring counties, mainly due to the (self-reported) complexity of the process (banks' procedures are perceived as complex and confusing) and the high costs of transfers.

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[79] The specific challenges associated with international remittances are discussed in a separate World Bank PSDG report "Review of the market for remittances in Albania on the basis of the CPSS-World Bank General Principles for International Remittances".

[80] WB staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and WBG country desks, October 2014.

[81] Data collected by the WBG Baseline Survey on remittance beneficiaries' financial behaviors in Albania, 2016.

[82] Multiple responses allowed.

224. Cost might be one of the factors that prevent a greater volume of remittances from being channeled through regulated services. Sending the equivalent of USD 200 to Albania costs 9.39%, as compared to a global average of 7.40% and a regional average of 7.25%. The average cost of sending money home to Albania is the highest from Switzerland (15.34%), and the cheapest is from Italy (7.40%). Remittances from Germany and the United Kingdom to Albania cost on average 9.23 and 9.66%, respectively. When only cash-to-cash services are considered, total costs are often above corridors' averages (e.g., the two MTOs with high disbursing network coverage on the Germany-Albania corridors are 1.2 to 10.2 percentage points more expensive than the corridor's average).

225. The limited use of transaction accounts for remittances could be also explained by low levels of "bancarization" and limited awareness. In addition, the two leading MTOs which together account for over 90% of the market disburse remittances almost exclusively in cash. This situation is due to a combination of factors including: (i) banks who compete with MTOs do not cooperate with the latter to enable the disbursement of remittances into bank accounts coupled with (ii) lack of access of NBFIs to ACH infrastructure (relevant to remittances disbursed in local currency); or (iii) MTOs do not proactively seek opportunities for collaboration because they perceive that customers' demand is insufficient and profitability is low. Limited awareness and low levels of financial literacy may also be a factor in inhibiting remittance recipients' "bancarization". This represents a lost opportunity to promote financial access and inclusion more broadly (through responsible cross-selling of other financial products). On the other hand, e-money institutions such as EasyPay and M-Pesa have recently partnered with Ria, and Scrill and WorldRemit, respectively, thus enabling disbursement directly into the beneficiary's account. Cash-out from the e-money account would have an additional cost.

Observations and recommendations

226. Government disbursements and collections would benefit from a coherent approach that takes into account financial access objectives along with efficiency. Efforts to enable disbursements to accounts should be broadened beyond public sector employees to include the beneficiaries of social programs from both central and local government. On the other hand, efforts that explicitly aim to facilitate financial access and broader financial inclusion through government payments should ensure that the conditions and incentives are in place to use the transaction account to which funds have been credited instead of cashing out immediately after the payment has been received. This aspect is currently not in focus with the Albanian authorities, and would need to be coordinated in parallel with other policies that address bank/transaction account product design to meet the recipients' needs, and the availability of access points, for instance.

227. A number of factors can be cited that make transitioning to delivery to bank / transaction accounts more complex than other government payment programs / large-volume payment streams, including the beneficiaries' low account ownership (estimated at 14% for bank accounts) and generally lower levels of financial and digital literacy. It is evident that, whatever the solution, (i) the underlying transaction account should be provided at little or no cost to the beneficiary; (ii) distribution has to rely on a mix of ubiquitous channels – both virtual and physical – that allow bypassing access point limitations; (ii) there should be a clear value added in terms of safety and convenience – among other features.

228. Ad-hoc transaction account products for the disbursement of social welfare programs could be explored/designed including adequate branding and a robust rollout and customer support strategy for benefit recipients. It is highly desirable that such an account be at the bank/PSP of the beneficiary's choice (as it seems to be the case of government employees but less so of private sector employees). In addition, such products should be designed as multi-purpose and interoperable with other bank and e-money products and with the various access channels/points. Finally, transaction accounts / payment mechanisms for the disbursement of grants / welfare programs should not inhibit the free use of funds by the beneficiaries for their families' benefit.

229. Expanding the range of electronic payment services for government collections and bill payments is important and should be encouraged. First, the implementation of direct debit will be instrumental to enhancing the efficiency and convenience of collecting and paying utility bills, respectively, and should be prioritized. In part, the uptake will depend on how banks implement direct debit, e.g., on the necessary safeguards and protections being in place for the customers, and the awareness/marketing efforts being conducted in parallel. Second, any remaining legal barriers to collections by non-banks should be eliminated. Collections could benefit from innovative business models and electronic and online channels that eliminate the need to visit the bank branch or the premise of the government agency. At the same time, collections may enhance the liquidity management of non-bank providers, whose range of services is often limited by scarce liquidity. The fees that the Government may incur in enabling collections through non-bank providers would be compensated by the elimination of costly cash logistics, among other benefits.

230. Efforts to integrate a growing number of payment services to the e-Albania platform and to diversify the range of providers should be continued. However, if not accompanied by a coordinated approach to awareness raising and education, these efforts might not achieve the expected results. This is a task that if left to the individual providers is unlikely to be as effective as a strategic, centrally-driven initiative. Finally, awareness should be directed to both payers and billers; in particular, the latter should *be educated about the benefits of electronic collections and the legal validity of electronic records and signatures.*

231. Authorities should determine whether, given the current situation of dominance of cash including for government and utility bill collections, more deliberate actions to discourage use of cash and incentivize electronic alternatives are warranted. For example, large-volume payment use cases can be prioritized for a gradual migration to electronic means, in parallel with restrictions to the use of cash. At the same time, VAT rebates on purchases by electronic means have been used in some countries (e.g., Uruguay in the aftermath of the promulgation of the Financial Inclusion Law of 2014[83]) to incentivize electronic payments at the point of sale.

232. In the same vein, ad hoc incentives may be considered by large billers and transit system operators to induce greater usage of electronic payment instruments, which in turn could reduce their own costs associated with collections. For example, large billers, probably in partnership with banks, could offer some benefits if bills are paid via direct debit (even if at the intrabank level), like rebates, a lower minimum monthly balance to avoid account maintenance fees and/or other commercial incentives. Transit system operators may also consider offering rebates when paying with electronic payment instruments (once enabled) on a regular basis.

233. As payment options are broadened and enhanced, the BoA should keep a close watch on interoperability. Greater integration and interoperability of the Albania payments system can lead to improved customer experience and greater usage of transaction accounts (e.g. due to increased convenience), and at the same time can lead to further extension of the payment system due to economies of scale and scope and drive down per-transaction costs. Conversely, these developments could result in a series of parallel and disconnected services whose value added for receiving government payments or paying government obligations is not entirely clear. In particular, in light of future development of electronic transit payments, it is recommended that electronic payment mechanisms developed for this purpose have a clear trajectory in terms of interoperability, and also that the underlying payment instrument can be used across a number of other services making full use of the existing payment infrastructure in as far

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[83] The Financial Inclusion Law of Uruguay (Law 19.210 of May 2014) aimed to: (i) achieve universal access to payment / financial services in the country; (ii) improve competition in the provision of financial services; (iii) improve the efficiency of payment services, including through e-money; and, (iv) reduce VAT on transactions effected using electronic payment instruments. The Law provisions do not only concern salaries, pensions, and government disbursements, but also affect day-to-day economic transactions and tax payments. In particular, the law established restrictions on use of cash for sales of goods and services over a certain amount and lease / sublease, real estate sale, and purchase of vehicles, and determined a threshold for cash payment of taxes and social security contribution. Furthermore, in the aftermath of the promulgation of the law, purchases made by debit / e-money cards and credit cards at the point of sale were subjected to a VAT rebate of up to 4 percentage points and 2 percentage points, respectively (reductions were designed to decrease over time)

as it is feasible. This is especially important for low-income individuals, who cannot afford holding idle balances in two or more prepaid payment devices.

234. Currently remittances are underutilized as a means to increase financial access in Albania to the extent that transaction accounts are rarely used to receive remittances. To help address this issue, efforts should be twofold: first, to discourage unregulated channels, there should be a wide range of competitive services that are cost-effective; second, regulated services should increasingly cater to non-cash delivery models that leverage transaction accounts and electronic payment products. Therefore, increasing competition and fostering innovation in the Albanian remittance market are pre-conditions to realizing the potential of remittances as a vehicle of financial access and inclusion. Competition can be increased by eliminating exclusivity contracts that bind MTO agents to their sub-agents. Among other implications, exclusivity inhibits the full exploitation of the network of access points throughout the country. Where exclusive contracts have been banned in other countries (such as Nigeria, Ghana, and Morocco) there has been an immediate increase in competition and significant drop in the cost of sending money to those countries. Also, liberalizing access criteria to the BoA-operated ACH (i.e., enabling the participation of NBFIs provided that they comply with the participation requirements) would enable them to develop new products and better serve their customers. Cooperation between banks and MTOs is also desirable to enable product innovation through partnership.

5 CONCLUSIONS

235. This report focuses on one specific aspect of financial inclusion in Albania, which is the adoption and usage of transaction accounts (i.e. currently bank accounts and e-money accounts). Albania is well-placed to make swift progress in this area due to a number of factors. First, BoA leadership of the payments agenda, and coordination through the NPSC. Second, the enabling environment for innovation and competition is largely in place with some gaps, as well as sound and proportionate risk management. The process of transposition of PSD2 is an opportunity to bring the legal and regulatory framework fully in line with international standards. Likewise, the Albanian payments infrastructure provides a good foundation thanks to the reliability of central clearing mechanisms.

236. Nevertheless, some important challenges remain that might cripple the current efforts, the major one being probably that despite the progress made so far to promote electronic instruments, cash remains the dominant means of payment for a very significant share of the country's population, even for those that already have transaction accounts. In other words, low account ownership rates are associated with, and aggravated by, the lack of regular use of those accounts. This can partly be explained by limitations in the transaction account and payment product design (e.g. lack of diversification of features and pricing) as well as the poor distribution (and limited interoperability) of access points, and low levels of financial literacy. In addition, the potential of large-volume payment streams such as government payments and remittances as a vehicle of financial access has not been fully realized.

237. This report therefore proposes a number of actions to further promote and/or induce usage of existing transaction accounts, and also to make transaction accounts available to those that still do not have one.

238. It should be noted that in a number of the areas covered by the recommendations in this report, Albanian authorities are already taking relevant actions. For example, direct debit is expected to be implemented by the second half of 2017. Likewise, both the BoA and the banks/PSPs are already active in the implementation of financial literacy efforts, and have undertaken an effort to measure the costs of retail payments. As mentioned above, the BoA is currently working to transpose EU directives related to payments. Through the NPCS, a strategic and collaborative view to NPS development has been adopted.

239. While all areas and recommendations covered in the report are important, the following ones deserve special attention by Albanian authorities: (i) defining a strategic approach to financial access and inclusion that rely on a formal coordination structure, building on the NPSC; (ii) achieving increased coverage of access points and enhanced

interoperability; (iii) diversifying and improving transaction account product design to meet the needs of the unbanked and incentivize usage; and, (iv) curbing cash usage through coordinated cross-sectoral policies and incentives, and by leveraging large-volume payment streams to the greatest extent possible. It should be noted that some of these actions will require legal and regulatory changes, while others imply complex coordination.

240. The World Bank Group stands ready to support Albanian authorities in the implementation of recommended actions and other initiatives those authorities may deem relevant to further advance financial inclusion in the country.

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Annex 1. Payment Aspects of Financial Inclusion: Guiding principles and recommended key actions for consideration (PAFI, 2016)

Guiding principle 1: Public and private sector commitment
Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.

Key actions for consideration:

- All relevant public and private sector stakeholders support the objective that all eligible individuals – regardless of culture, gender or religion – and businesses should be able to have and use at least one transaction account, and develop an explicit strategy with measurable milestones to that end.
- All relevant public and private sector stakeholders allocate the appropriate human and financial resources to support financial inclusion efforts.
- Central banks, financial supervisors, regulators and policymakers effectively coordinate their efforts with regard to financial inclusion.
- Private sector stakeholders engage with relevant public sector counterparts on initiatives that promote the adoption and usage of transaction accounts, and financial inclusion more broadly.
- Private sector stakeholders cooperate constructively and meaningfully with each other to discuss and find solutions to issues that are best addressed by the industry as a whole.
- Central banks, in line with their roles, responsibilities and interests in fostering the safety and efficiency of the payments system, leverage their catalyst, oversight, supervisory and other powers as relevant and appropriate to promote financial inclusion.

Guiding principle 2: Legal and regulatory framework
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

Key actions for consideration:

- A robust framework is established to foster sound risk management practices in the payments industry, including through the supervision/oversight of PSPs and PSOs by regulatory authorities.
- The framework requires PSPs and PSOs to develop and implement risk management measures that correspond to the nature of their activities and their risk profile.
- The framework aims to promote the use of transaction accounts in which customer funds are adequately protected through appropriate design and risk management measures, such as deposit insurance or functionally equivalent mechanisms as well as through preventive measures (e.g. supervision, placement of customer funds held by non-deposit-taking PSPs in high-quality and liquid assets, and, depending on the legal regime, specially protected accounts at banks and possibly trust accounts).
- The framework requires PSPs to clearly disclose, using comparable methodologies, all of the various fees they charge as part of their service, along with the applicable terms and conditions, including liability and use of customer data.
- The framework requires PSPs to implement a transparent, user-friendly and effective recourse and dispute resolution mechanism to address consumer claims and complaints.
- The framework preserves the integrity of the financial system, while not unnecessarily inhibiting access of eligible individuals and businesses to well regulated financial services.

- The framework promotes competition in the marketplace by providing clarity on the criteria that must be met to offer specific types of service, and by setting functional requirements that are applied consistently to all PSPs.
- The framework promotes innovation and competition by not hindering the entry of new types of PSP, new instruments and products, new business models or channels – as long as these are sufficiently safe and robust.

Guiding principle 3: Financial and ICT infrastructures
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.

Key actions for consideration:
- Key payments infrastructures are built, upgraded or leveraged as needed to facilitate the effective usage of transaction accounts.
- Additional infrastructures are appropriately designed and operate effectively to support financial inclusion efforts by providing critical information to financial service providers, including an effective and efficient identification infrastructure, a credit reporting system and other data-sharing platforms.
- The geographical coverage of ICT infrastructures and the overall quality of the service provided by those infrastructures are enhanced as necessary by their owners/operators so as to not constitute a barrier for the provision of transaction account services in remote locations.
- Increased interoperability of and access to infrastructures supporting the switching, processing, clearing and settlement of payment instruments of the same kind are promoted, where this could lead to material reductions in cost and to broader availability consistent with the local regulatory regime, in order to leverage the positive network externalities of transaction accounts.
- Payment infrastructures, including those operated by central banks, have objective, risk-based participation requirements that permit fair and open access to their services.
- Financial and ICT infrastructures leverage the broad usage of open/non-proprietary technical standards, harmonized procedures and business rules to enhance their efficiency and therefore their ability to support transaction accounts at low costs.
- The safety and reliability of financial and ICT infrastructures, including their resilience against fraud, are tested on an ongoing basis and are enhanced as necessary to keep up with all emerging threats for holders of transaction accounts, PSPs and PSOs.

Guiding principle 4: Transaction account and payment product design
The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

Key actions for consideration:
- Where reasonable and appropriate, PSPs provide a basic transaction account at little or no cost to all individuals and businesses that do not hold such an account and that wish to open such an account.
- PSPs offer transaction accounts with functionalities that, at a minimum, make it possible to electronically send and receive payments at little or no cost, and to store value safely.
- PSPs leverage efficient and creative approaches and effective management practices in their efforts to offer transaction accounts and functionalities in a commercially viable and sustainable way.

- The payment services industry, operators of large-volume payment programs and other stakeholders recognize that the payment habits and needs of currently unserved and underserved customers are likely to differ, and therefore engage in market research and/or other similar efforts to identify and address those payment habits and needs.
- PSPs work to ensure that the payment needs of the private and public sector entities with whom holders of transaction accounts regularly conduct payments are met as well.
- PSPs work to ensure that the products that target unserved or underserved population segments are easy to use.
- PSP efforts to continuously improve their transaction account offering include both traditional and innovative payment products and instruments.

Guiding principle 5: Readily available access points

The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

Key actions for consideration:

- PSPs provide convenient access to transaction accounts and services by offering an effective combination of own and third-party-owned physical access points (eg branches, ATMs, POS terminal networks and PSP agent locations) and of remote/electronic access channels (mobile phones, internet banking, etc).
- PSPs work to provide service levels at various access points and channels that are reliable and of high quality (PSP agents have the necessary liquidity and are equipped with effective tools to service transaction account users reliably and in an efficient manner, ATMs are highly reliable, etc) and to ensure that opening hours are broadly aligned with customers' transacting needs.
- The payments industry works on ensuring that access points and channels are appropriately interoperable, further contributing to expanding the reach of available service access points and the overall convenience to holders of transaction accounts.
- PSPs adequately train their own front office staff and their agents to understand and appropriately address cultural, gender and religious diversity when servicing holders of transaction accounts.
- The payments industry and authorities monitor access channels and access points and their usage to obtain an accurate picture of the availability and proximity of service points to the different population segments.

Guiding principle 6: Awareness and financial literacy

Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

Key actions for consideration:

- All relevant public and private sector stakeholders engage in ongoing and effective educational and outreach to support awareness and financial literacy with an appropriate degree of coordination.
- Awareness and financial literacy efforts specifically address how payment and store-of-value needs can be met through the usage of transaction accounts. In this context, individuals that do not have a transaction account and those that obtained one only recently are a primary target of these financial literacy efforts.

- Awareness and financial literacy efforts make it possible to easily obtain clear and accurate information on the various types of account that are available in the market, on the general account opening requirements, and on the types of account and service fee that may be encountered.
- Awareness, financial literacy and financial transparency programs make it possible for transaction account users to easily obtain clear and accurate information on the risks embedded in the usage of these accounts, how the costs in using the associated services can be minimized, how the potential benefits can be maximized, the basic security measures associated with these accounts, and the overall obligations and rights of PSPs and users.
- PSPs provide hands-on training where needed as part of a product rollout, particularly for users with limited first-hand exposure to electronic payment services and the associated technologies (eg PSPs show customers how transaction accounts and the associated payment products work in practice).

Guiding principle 7: Large-volume, recurrent payment streams

Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Key actions for consideration:

- Ad hoc incentives are considered, where appropriate, to foster adoption and usage of transaction accounts for large-volume and recurrent payments, including not only government payment programs but also government collections and utility bill payments, transit fare payments, employer payrolls and, where relevant, remittances.
- PSOs and PSPs take into consideration the needs and requirements of the key counterparties involved in large-volume payment streams, such as employers, large-volume billers, the national treasury and others in the design and provision of the related payment services.
- The government considers making its G2P and G2B payments through a choice of competitively offered transaction accounts that meet the payment and store-of-value needs of the recipients so that these accounts are useful to them.
- The government enables and encourages individuals and businesses to make their P2G and B2G payments through electronic means in order to, among other objectives, increase the overall usefulness of transaction accounts.
- Medium-sized and large firms, along with government entities, consider disbursing salaries and other payments to employees via transaction accounts at the PSP of the employees' choice.
- The payments industry proactively seeks new ways to make transaction accounts a competitive and convenient option for usage in connection with all large-volume payment streams.

Annex 2. Coordination Structures for Financial Inclusion in Selected Countries[84]

Belarus
The National Bank of the Republic of Belarus spearheaded the financial inclusion agenda since 2010 by drafting a state strategy on microfinance for 2011-15. In 2013, it also drafted a National Financial Inclusion Strategy and developed a national financial literacy program.

Brazil
In 2009, the Financial Inclusion Project (FIP) at the Central Bank was created with the objective of integrating various stakeholders to develop effective policies for financial inclusion. In November 2011, the National Partnership for Financial Inclusion was launched, as a network of public and private actors engaged in financial inclusion. The network is coordinated by the FIP.

Chile
The Ministry of Planning created a Financial Inclusion Unit on April 2011, which is leading the financial inclusion agenda in liaison with government agencies (Ministry of Finance, Superintendence of Banks and Financial Institutions, Central Bank) and private sector actors.

India
In October 2012, the Reserve Bank of India constituted a Financial Inclusion Advisory Committee (FIAC) to spearhead financial inclusion efforts. The FIAC membership includes a few Directors from the Central Board of RBI and experts from the NGO and civil society sector.

Kenya
In 2005, the Central Bank of Kenya partnered with the Financial Sector Deepening Kenya and other financial sector players under the Financial Access Partnership, to monitor and measure levels of access to financial services.

Korea
The Financial Supervisory Commission is Korea's lead agency for financial inclusion policy. It works closely with other agencies such as the Small and Medium Business Administration.

Mexico
To facilitate coordination among different stakeholders, the National Council on Financial Inclusion was created in 2011 to coordinate proposals for financial inclusion policies and their implementation, as well as formulate guidelines for a National Policy on Financial Inclusion.

Namibia
Bank of Namibia created a dedicated Division to coordinate financial inclusion activities, a fund to support these activities, an internal Financial Inclusion Forum, an inter-ministerial Financial Inclusion Council & Advisory Body, and other consultative workshops and meetings.

Nigeria

[84] Source: Fathallah S., and D. Pearce (2013), "Coordination Structures for Financial Inclusion Strategies and Reforms", The World Bank, Washington DC.

The Central Bank of Nigeria (CBN) is leading the promotion of financial inclusion in Nigeria, particularly through its Development Finance Department. It is under this department that CBN is deploying a team to the Financial Inclusion Secretariat to take on all coordination activities.

Pakistan
The State Bank of Pakistan established a Financial Inclusion Programme coordination office, housed within its Microfinance Department.

Philippines
The Bangko Sentral ng Pilipinas created a Microfinance Unit 2002 which was transformed into the Inclusive Finance Advocacy Staff in 2007. It has also established an Inclusive Finance Committee chaired by the Governor.

Russia
The Ministry of Economic Development is responsible for the promotion of financial inclusion, but the strategy is developed closely with the Central Bank, the Ministry of Finance, as well as other non-governmental stakeholders (Russian Microfinance Center, banking associations, etc.).

Rwanda
The National Bank of Rwanda has established a Financial Inclusion Taskforce aimed at coordinating all initiatives regarding financial inclusion.

Solomon Islands
The Central Bank of the Solomon Islands set up national coordinating committee and secretariat to implement financial inclusion actions.

Thailand
In 2013, the Ministry of Finance finalized a National Financial Inclusion Strategy and submitted it for cabinet approval.

Turkey
The Undersecretariat of Treasury leads the overarching financial inclusion strategy in Turkey.

United Kingdom
The Financial Inclusion Taskforce was an independent and volunteer-based body that advised HM Treasury on financial inclusion. The Taskforce concluded its work in March 2011 with final recommendations to the government and the private sector.

Annex 3: Potential Composition of a Financial Inclusion Forum

This annex describes the example of South Africa's Financial Inclusion Forum, and is intended *for illustrative purposes only.*

"In order to optimally co-ordinate and maximize cross-departmental and cross-sectorial acceptance of financial inclusion policies and initiatives, it is proposed that:

- The South African Financial Inclusion Forum is established, preferably as part of the Financial Regulations legal regime and with the Minister of Finance as the executive head.
- The Forum should have, as permanent members
    - National Treasury (as the policymaker and secretariat)
    - The Prudential Authority, the Financial Services Conduct Authority, the National Credit Regulator and the Co-operative Banks Development Agency as regulators.
    - The Small Enterprise Development Department, the Economic Development Department, the data and the Department of Social Development.
    - Financial service industry representative (BASA, SAIA, ASISA and others)
    - Payments Association of South Africa (as there is substantial reliance on the national payments network to sustainably advance financial inclusion).
    - Agencies representing civil society and other relevant interests
    - Independent financial inclusion experts
- Consumer representative organisations, small enterprise representative organisations, state owned enterprises involved in the provision of financial services (Post Office/Postbank, SEFA and others) and payment service providers could either be part of FIP or co-opted as required. A direct link with the FSC will have to be part of the structure of the FIP.

The responsibilities of the Forum will primarily be:

- Overall co-ordination of the financial inclusion strategy in South Africa
- Ensuring implementation of the strategy and monitoring of results and the effect on economic development
- Ensuring responsible and sustainable management of the linkages between inclusion, stability, integrity and market protection
- Ensuring supportive approaches between the all regulators and other stakeholders in respect of financial inclusion
- Coordinating interactions with other state agencies, regional bodies and international bodies engaged in the promotion of financial inclusion.
- The measurement and monitoring of all aspects of financial inclusion, including the assessment of the socio-economic impact of financial inclusion.
- Since the co-ordination of development efforts in the small enterprise world is crucial to maximize impact, the Forum should ensure that adequate structures are in place to achieve such impact."

Annex 4: Key outcomes from a PAFI survey of basic accounts in selected countries

As part of its analytical work, the PAFI Task Force obtained information among its members on basic accounts in their jurisdictions (some members also provided information from other jurisdictions in their region).[85] This annex reproduces Box 3 of the PAFI report, which summarizes the key observations from the information collection.[86]

In general terms, the various countries recognize the importance of basic accounts as part of their overall financial inclusion strategy: almost all countries that provided information indicated that a form of a basic account was offered in their jurisdiction. For a majority of respondents, basic accounts were being offered via deposit-taking institutions (including banks), although in some cases authorized agents, post offices and selected retailers were also involved in the provision of basic accounts.

Basic accounts that are offered without any associated fees often have a requirement for a minimum balance. In other countries, basic accounts do involve a fee, although that fee is invariably very low. In the latter case, these basic accounts do not tend to require the maintenance of a minimum balance.

The provision of basic accounts is reported to be a market-led initiative in the majority of countries. The countries in which providers were obliged by legal/regulatory requirements to offer basic accounts were the exception.

A number of regulatory and economic factors seem to potentially hinder further availability and use of basic accounts in some jurisdictions. These include:

(i) the relatively high regulatory burden for account providers related to the requirements in connection with know-your-customer (KYC) and anti-money laundering (AML) policies;
(ii) thin profit margins for basic account providers. Some respondents noted that there is little economic incentive for private sector parties to provide these accounts; and
(iii) limited scope for product cross-selling. Some respondents highlighted that, given the low balances in basic accounts and thin profit margins, there was not a lot of scope for offering (higher-profit-margin) additional products to these groups.

In terms of improving access to and usage of basic accounts, there was relatively broad agreement on the efficacy of enhancing public awareness about the benefits of basic accounts (and of being financially included more generally). Respondents also pointed to the potential benefits of imposing maximum balances on basic accounts to assuage AML concerns, and augmenting the shared use of infrastructures and access points to reduce costs for basic account providers.

[85] The term "basic account" is used functionally in this box. In some of the responding countries, this term is not used as such, although there is a product in the marketplace with essentially the same characteristics.
[86] Countries surveyed were Brazil, China, El Salvador, Germany, Hong Kong SAR, India, Italy, Korea, Mauritius, Mexico, Mozambique, Namibia, Russia, the Seychelles, South Africa, Turkey, the United States, Uruguay and Zimbabwe.