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SECO-FUNDED REMITTANCES AND PAYMENTS PROGRAM – ALBANIA

REVIEW OF THE MARKET FOR REMITTANCES IN ALBANIA

Assessment report on the basis of the CPMI – World Bank General Principles for International Remittance Services

Payment Systems Development Group
January 2017

Contents

List of Acronyms and Abbreviations

ACH	Automated Clearing House
AAB	Association of Albanian Banks
AECH	Albanian Electronic Clearing House
AFSA	Albanian Financial Supervisory Authority
AIPS	Albanian Interbank Payments System
AML	Anti Money Laundering
ATM	Automated Teller Machine
BIS	Bank for International Settlements
BoA	Bank of Albania
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CPC	Consumer Protection Commission
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payment and Settlement Systems
EFTPOS	Electronic Funds Transfer at Point of Sale
EU	European Union
FUT	Financial Union Tirana
GDPML	General Directorate for the Prevention of Money Laundering
GDP	Gross Domestic Product
GPs	World Bank - CPMI General Principles for International Remittances Services
KYC	Know Your Customer
IMF	International Monetary Fund
MoEDTE	Ministry of Economic Development, Trade and Entrepreneurship
MoI	Ministry of Interior
MoIPA	Ministry of Innovation and Public Administration
MTO	Money Transfer Operator
NBFI	Non-Bank Financial Institutions
NPSC	National Payment System Committee
NPS	National Payment System
POS	Point of Sale
PAFI	Payment Aspects of Financial Inclusion
PSDG	World Bank Payment Systems Development Group
PSD1	European Commission Directive on Payment Services
PSD2	European Commission Revised Directive on Payment Services
RPP	Remittances and Payment Program
RPW	Remittance Prices Worldwide
RSP	Remittance Service Provider
RTGS	Real Time Gross Settlement
SCA	Savings and Credit Association
SDG	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs of Switzerland
WB	World Bank

EXECUTIVE SUMMARY

i. In January 2007, the World Bank and the Committee on Payment and Settlement Systems (CPSS) – now Committee on Payments and Market Infrastructures (CPMI) – of the Bank for International Settlements (BIS) issued the General Principles for International Remittance Services, hereinafter referred to as the "General Principles". The General Principles provide best practices and guidelines for efficient remittance markets and have been endorsed by various international organizations, including the Financial Stability Forum and the G8 and G20 group of countries. At the Summit in Cannes in 2011, the G20 adopted a quantified target to reduce the global average price of remittances (as measured by the World Bank's Remittance Prices Worldwide Database, "RPW") to five percent by 2014 and a list of measures that G20 countries could implement to support progress towards this target (the Remittance Toolkit). Amongst other initiatives, the Remittances Toolkit recommends countries to assess whether their national remittance market complies with the recommendations of the General Principles.

ii. Under the SECO-funded Remittances and Payments Program (RPP), five specialists from the World Bank Group's Payment Systems Development Group (PSDG) visited Albania from 13 to 16 September 2016 to collect information in order to perform a review of the market for international remittances[1] on the basis of the General Principles (GPs) and to make recommendations for possible improvements. The World Bank team was led by Mr. Carlo Corazza (Senior Payments and Remittances Specialist), and comprised Mr. Nenad Bosiljčić (Consultant, RPP Regional Coordinator), Ms. Elisabetta Cervone (Consultant, Senior Legal Specialist) and Mr. Jose Antonio Garcia (Consultant, Senior Payment Systems Advisor)[2]. In parallel, an assessment based on the CPMI-WB Payment Aspects of Financial Inclusion (PAFI) report 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.

iii. Inward remittances are vitally important to Albania. According to World Bank data, there are 1.3 million Albanian migrants living abroad, equaling 40 percent of the current population living within the Albanian borders[3]. The greatest concentrations are found in Italy, Greece, Germany, and the United States of America. There are also smaller communities in the Former Yugoslav Republic of Macedonia, Austria, Canada, France, Romania, Belgium, Russia, the Scandinavian region, Switzerland, Ukraine, and the United Kingdom. The value of the remittance flows to Albania was estimated at 8.5 percent of the country's gross domestic product (GDP) for 2014, which corresponds to approximately USD 1.1 billion[4].

iv. According to the World Bank Group Baseline Survey on remittance beneficiaries' financial behaviours[5] in Albania, the majority (57 percent) of remittance flows are estimated to reach Albania via money transfer operators (MTOs), while 37 percent of the transfers are based on physical transportation of cash across the borders. The remaining flows are mainly channelled through banks (four percent) and the Postal Office (one percent).

v. Sending the equivalent of USD 200 to Albania costs 9.39 percent, as compared to a global average of 7.40 percent and a regional average of 7.25 percent. The average cost of sending money home to

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[1] Following the General Principles, international remittances are defined as cross-border person-to-person payments of relatively low value, typically recurrent. Remittances are generally sent by migrant workers to their families back to their home country.

[2] The mission was supported remotely by Maria Teresa Chimienti (Senior Payment System Specialist).

[3] World Bank, 2015.

[4] 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.

[5] Baseline Survey on remittance beneficiaries' financial behaviors has been conducted by the World Bank Group in six countries of ECA region: Serbia, Albania, Kosovo, Tajikistan, Kyrgyz Republic and Bosnia and Herzegovina, in 2016.

Albania is the highest from Switzerland (15.34 percent), and the cheapest is from Italy (7.40 percent). Remittances from Germany and the United Kingdom to Albania cost on average 9.23 and 9.66 percent, respectively[6].

vi. Fees and exchange rates are generally displayed at the premises of the remittance service providers (RSPs), and customers are also informed about the conditions of the service before committing to a transaction. The information is usually provided verbally, but also on notices or leaflets, and is printed on the receipts of the transactions. However, there is no specific legislation in the area of transparency and consumer protection for financial services, including payments and remittances. At the moment, the relevant legal framework is based solely on regulations, and there is no designated authority in charge of enforcing the rules.

vii. The legal and regulatory framework for payment system and services is (otherwise) sound, i.e., it includes all the basic concepts that underpin the safe and efficient operations of payment systems. To a certain extent, it also accommodates technological and business model innovation in retail payments. For example, e-money was disciplined in 2011 via amendments to the Banking Law that exclude it from the concept of bank deposit. Agent-based models can be availed by non-bank financial institutions (NBFIs). Yet, e-money issuance is considered as a financial activity, and therefore is allowed only to banks and NBFIs. Also, the regulatory framework for outsourcing/agents is not comprehensive: for instance, there are no provisions for the use of agents by banks.

viii. The payments infrastructure in Albania is modern and reliable though it lacks certain elements, and the coverage of access points is limited. The BoA manages and operates two payment systems[7]: the Albanian Interbank Payments System (AIPS) and the Albanian Electronic Clearing House (AECH). Direct access to BoA systems is allowed to banks only, whereas criteria for indirect access are unclear. An attempt at developing a payment cards processing platform is still incipient. Yet, to a great extent interoperability of point of sales (POS) and automated teller machine (ATM) infrastructure is made possible by the Visa and MasterCard global networks. On the other hand, ATM and POS penetration in Albania are the lowest in the Western Balkan region.

ix. Western Union and Money Gram, the two biggest international MTOs, dominate the provision of remittances services in Albania (including via banks acting as agents of MTOs). These two remittance service providers currently represent a duopoly, and concentrate almost the entire inflow of remittances via MTOs. Other international MTOs have recently started operations in the country, in partnership with banks and other NBFIs, and are rapidly expanding their presence in Albania by leveraging the availability of new technologies and innovative payment instruments. There are instances of exclusivity conditions applied by certain providers to their agents. This practice is generally found to reduce the competiveness of the remittance market, and could be a factor in high remittance costs (and in perpetrating the use of unregulated channels). Unequal access to payments infrastructure – as mentioned above – might also be a factor in limiting the competitive space for certain non-bank providers.

x. Remittances inflows are almost[8] exclusively disbursed in cash. This situation is due to a combination of factors including: (i) banks do not cooperate with MTOs to enable the disbursement of remittances into bank accounts coupled with (ii) lack of access of NBFIs to ACH infrastructure; or (ii) MTOs do not proactively seek opportunities for collaboration because they perceive that customers' demand is

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[6] Q4 2016, RPW.

[7] It also operates the securities settlement system AFISaR.

[8] Exceptions include M-Pesa money transfers which are delivered into mobile money accounts (recipients can cash out at the agent for a fee) and other products offered in the context of MTOs' partnerships with banks (although these services are incipient).

insufficient and profitability is low. Limited trust in the banking sector 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 sustainable cross-selling of other financial products).

xi. The BoA has the appropriate regulatory and supervisory powers to monitor and control risk in the market for payment services and remittances. The Law of the Bank of Albania[9], the Banking Law, and the Law on Payment System detail the responsibilities of the BoA for the regulation and oversight of payment systems, including the issuance and use of payment instruments. Regulatory requirements are in place that provide that NBFIs set up a risk management system based on an assessment of the nature, volume and complexity of their activity, including detailed policies, procedures, rules and structures. In this space, the BoA can count with sound supervisory powers.

xii. To date, banks and MTOs have not collaborated to set up products and mechanisms that could leverage the respective infrastructures, as evidenced by the lack of mechanisms that enable the disbursement of remittances into transaction accounts/electronic instruments. A stronger collaboration among local and foreign banks, and international MTOs – including in infrastructure development and access point interoperability – can result in new opportunities for growth and increased competition on services.

xiii. BoA oversight is properly articulated for the most part. However, while the BoA has clear responsibility for the (regulation and) oversight of payment systems and payment instruments, there is no explicit mention of such powers when it comes to the provision of payment services in general. The legal foundations of BoA oversight powers (i.e., at the statutory level) could be clarified with the aim to cover explicitly payment services (and remittances). The BoA has set up a National Payment System Committee to foster cooperation for payment system development; however, this forum currently does not have participation of non-bank providers of payment services.

[9] 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.

REPORT

Introduction

1. Following a request by the G8 (Sea Island, 2004) and the G7 finance ministers (Boca Raton, 2004) to develop international standards and guidelines for remittance services, the World Bank and the Committee of Payment and Settlement Systems (now Committee on Payments and Market Infrastructures, CPMI) of the Bank for International Settlements (BIS), several Central Banks, as well as other stakeholders developed the General Principles for International Remittance Services ("General Principles").

2. At the July 2009 summit in L'Aquila, Italy, G8 Heads of Government and States endorsed the objective of reducing the cost of remittance services by five percentage points in five years (i.e., the "five-by-five objective" as measured by the World Bank's Remittance Prices Worldwide Database, RPW).

3. The following year, at the G20 Seoul Summit in November 2010, the G20 leaders reiterated the importance of facilitating international remittance flows. The G20 Seoul Multi-Year Action Plan on Development of 2010 states: "We recognize the importance of facilitating international remittance flows and enhancing their efficiency to increase their contribution to growth with resilience and poverty reduction. We ask the World Bank, regional development banks and other relevant organizations, including the Global Remittances Working Group, to work with individual G20 members and non-G20 members in order to progress further the implementation of the General Principles for International Remittance Services and related international initiatives aimed at a quantified reduction of the global average cost of transferring remittances." Then, at Cannes 2011, the G20 also adopted the five-by-five objective, and a list of measures that G20 countries could implement to support progress towards this target (the Remittance Toolkit). Amongst other initiatives, the Remittances Toolkit recommends that countries assess whether their national remittance market follows the recommendations of the General Principles.

4. At the G20 Brisbane Summit in November 2014, the G20 re-committed to the five percent target "to maintain momentum and to translate G20 ambition into practical development outcomes". The G20 also recognized that: "(i) reducing the costs of remittances and increasing their development impact is a long-term goal; (ii) costs are influenced by market settings in both sending and receiving countries; and, (iii) a global goal plays a useful role in encouraging action".

5. The United Nations' Sustainable Development Goals (SDGs) called for a reduction to less than 3 percent of the transaction costs of migrant remittances by 2030, and for the elimination of remittance corridors with costs higher than 5 percent.

6. The WB-executed Remittances and Payments Program (RPP) aims to increase the efficiency of retail payments in selected countries, with a specific focus on international remittances. Funding for the implementation of the RPP in Eastern Europe and Central Asia is provided by the State Secretariat for Economic Affairs of Switzerland (SECO). The Program is based on international standards and best practices, such as those set by the World Bank and the CPMI, such as the General Principles (GPs), and more recently the CPMI-WB Payment Aspects of Financial Inclusion (PAFI) report.

Box 1: List of the General Principles and Related Roles

General Principle 1: Transparency and Consumer Protection The market for remittance services should be transparent and have adequate consumer protection. ***General Principle 2: Payment System Infrastructure*** Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. ***General Principle 3: Legal and Regulatory Environment*** Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions. ***General Principle 4: Market Structure and Competition*** Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry. ***General Principle 5: Governance and Risk Management*** Remittance services should be supported by appropriate governance and risk management practices. ***Roles of Remittance Service Providers and Public Authorities*** ***A. The role of remittance service providers.*** Remittance service providers should participate actively in the implementation of the General Principles. ***B. The role of public authorities.*** Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

7. In this context, members of the World Bank Group's Payment System Development Group (PSDG) visited Albania on September 13-16, 2016, to undertake a review of the remittances market on the basis of the General Principles and to make recommendations for improving its efficiency. The team was led by Mr. Carlo Corazza (Senior Payments and Remittances Specialist) and comprised Mr. Nenad Bosiljčić (Consultant, RPP Regional Coordinator,), Ms. Elisabetta Cervone (Consultant, Senior Legal Specialist) and Mr. Jose Antonio Garcia (Consultant, Senior Payment Systems Advisor)[10]. In parallel, an assessment based on the CPMI-WB Payment Aspects of Financial Inclusion (PAFI) report 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.

8. The team had the opportunity to hold discussions with several public and private sector stakeholders in the remittance market and considers that it has gathered representative opinions from different participants on the current status of the market and on-going reforms. Amongst the institutions met were the Bank of Albania (BoA – various departments in charge of payment system operations and oversight, legal, supervision of non-bank financial institutions, and statistics), the Ministry of Economic Development, Trade and Entrepreneurship (MoEDTE)[11], the Ministry of Innovation and Public Administration (MoIPA)[12] and the Ministry of Interior (MoI). The team met also with several representatives of the private sector including: the Association of Albanian Banks (AAB), six licensed

[10] The mission was supported remotely by Maria Teresa Chimienti (Senior Payment System Specialist).
[11] Currently the Ministry of Finance and Economy
[12] Currently the Deputy Prime Minister

payment service providers (Financial Union Tirana, AK Invest, MPay, MPesa, and EasyPay, the Postal Office), one payment system operator (PayLink), two leading banks (Raiffeisen and Banka Kombëtare Tregtare) and the Credit and Saving Unions federation. The team wishes to express its gratitude to the authorities, and to all the representatives of the institutions visited, for their cooperation during the mission.

9. This Report presents the results of the analysis based on the GPs, and includes observations and recommendations to inform further discussions on the improvement of the market for remittance services in Albania. The Report also intends to identify key actions that, according to the team's experience in other countries, could lead to improving safety and efficiency of remittance transactions to (and from) Albania, and deliver other benefits associated with the implementation of the GPs.

10. This Report is organized as follows. Section II gives an overview of the remittance market in Albania, including the main patterns regarding migration inflows, and the available data on remittance flows and costs. Section III focuses on the assessment of the GPs in Albania and the roles of the private sector and public authorities. The context of each General Principle is presented, followed by the situation in Albania, and recommendations at the end of each segment. Section IV presents a proposed high-level action plan and potential immediate steps for consideration by the authorities. The main actions have been identified around the GPs, as the de facto standards for remittances.

General Overview

11. The Republic of Albania (henceforth, Albania) is one of the countries that fall within the geographical scope of RPP in the Western Balkans. Albania is one of the smallest (28,748 square kilometres) countries in the Western Balkans, located in the Balkan Peninsula, with a population of 2.8 million, almost half of whom live in rural areas. Albania's coastline length is 476 km, and extends along the Adriatic and Ionian Seas. The lowlands of the west face the Adriatic Sea.

Source: CIA Factbook

12. Before the global financial crisis, Albania was one of the fastest-growing economies in Europe, enjoying average annual real growth rates of six percent, accompanied by rapid reductions in poverty. However, after 2008 the average growth halved and macroeconomic imbalances in the public and external sectors emerged. The pace of growth was also mirrored in poverty and unemployment: between 2002 and 2008, poverty in the country fell by half (to about 12.4 percent) but in 2012 it increased again to 14.3 percent. Unemployment increased from 12.5 percent in 2008 to 17.6 percent in 2014, and has since been decreasing to reach 15.9 in2016, while youth unemployment is 29.9 percent[13].

13. Growth is estimated at around 2.6 percent in 2015 and 3.4 percent in 2016. Albania's labour market has undergone some dramatic shifts over the last decade, contributing to productivity growth. Formal non-agricultural employment in the private sector more than doubled between 1999 and 2013, fuelled largely by foreign investment. Emigration and urbanization brought a structural shift away from agriculture and toward industry and service, allowing the economy to begin producing a variety of services – ranging from banking to telecommunications and tourism[14].

14. The financial sector in Albania is concentrated and dominated by foreign banks. Banks represent

[13] Source: www.tradingeconomics.com, INSTAT, 2016.
[14] *Ibid.*

over 90 percent of total financial system assets, equivalent to about 90 percent of GDP. There are 16 banks doing business in Albania (see Table 1).

Table 1: List of banks in Albania

Bank	Ownership
Banka Alpha Albania	Alpha Bank, Greece
Banka NBG Albania	National Bank of Greece
Banka KombetareTregtare	Çalık Holding, Turkey
ProCredit Bank Shqipëri	ProCredit Holding, Germany
Credins Bank	Private individuals, Albania
Raiffeisen Bank	Raiffeisen Bank International AG, Austria
Credit Bank of Albania	Private individuals
Banka SocieteGenerale Albania	Societe Generale S.A., France
American Bank of Investments	USA
Tirana Bank	Piraeus Group, Greece
Fibank	First Investment Bank, Bulgaria
Union Bank	Unioni Financiar Tirane sh.p.k, Albania
International Commercial Bank	ICB Banking Group, Switzerland
United Bank of Albania	Islamic Development Bank, Saudi Arabia
Intesa Sanpaolo Bank	Intesa Sanpaolo, Italy
Veneto Banka	Gruppo Veneto Banca, Italy

Source: Association of Albanian Banks.

15. Banking activity has continued to be fundamentally financed by deposits, which comprise about 82 percent of total assets. Ratio “loans-to-deposits” is around 55 percent. In September 2015, the volume of deposits in domestic currency increased by four percent in annual terms, despite a decrease in the average interest rate. Base of deposits in domestic currency expanded by 2.7 percent, while that of deposits in foreign currency expanded by five percent. Reliability of banking sector on foreign financing sources is very limited. The net position of banking sector to non-residents obviously remains “long” and expanding during the period, although at a slow pace. Borrowing from parent banking groups decreased. Counter-cyclical measures taken by the BoA in May 2013 have contributed to a slower increase of banking sector investments in foreign assets. Their annual increase in September 2015 dropped to 10 percent, from 14 percent in 2014, and 24 percent in 2013. Liabilities to non-residents are mainly in the form of credit lines. The unused part of credit lines decreased by 62 percent compared to December 2014 and by 55 percent annually[15]. Tables 2 and 3 present some basic payment system statistics for Albania.

[15]Source: Albania’s Economic Reform Program 2016-2018.

Table 2: Statistics on payment cards and availability of ATM and POS infrastructure (as of Q3 2016)

Payment cards/terminals	Number
Cards with cash function	990,631
Cards with payment function	950,571
of which: Cards with debit function Cards with credit function	 865,296 85,275
E money cards	40,060
Total number of cards	**990,631**
of which: Cards with combined function	 **990,531**
Automated Teller Machines (ATM) of which: ATM with cash withdrawals function ATM with credit transfer function ATM with deposits function	**807** 798 120 79
Terminals POS (Point of Sale) of which POS Terminals with cash withdrawals function EFTPOS terminals	**7,144** 99 7,045
Virtual POS terminals	29
E-money terminals	685

Source: Bank of Albania

Table 3: Payment instrument transaction data (as of Q3 2016)

Product/item	Volume	Value (in million ALL)
Payment card transactions (debit, credit)	2,260,403	17,668
Electronic credit transfers	1,274,962	242,088.15
Paper-based credit transfers	4,421,975	2,910,748.17
Direct debits	545,053	29,488.71
E-money payments (card-based)	171,337	643.15
Cheques	24,827	61,640.26

Source: Bank of Albania

16. According to the World Bank data, there are 1.3 million Albanian migrants living abroad, equalling 40 percent of the current population living within the Albanian borders[16]. The greatest concentrations are found in Italy, Greece, Germany and the United States. There are also smaller communities in the Former Yugoslav Republic of Macedonia, Austria, Canada, France, Romania, Belgium, Russia, the Scandinavian

[16] World Bank, 2015.

region, Switzerland, Ukraine and the United Kingdom (Table 4).

Table 4: Countries with the largest Albanian diaspora

Countries	Number
Greece	580,000
Italy	450,000
USA	85,000
Germany	40,000
FYR of Macedonia	25,000

Source: Census in Albania, 2011.

17. Albania is a net remittance receiving country. The value of the remittances flows to Albania was estimated at 8.5 percent of the country's GDP for 2014, which corresponds to approximately USD 1.1 billion[17]. It is estimated that 37 percent of the remittances flows are channelled via unregulated services and systems, while 57 percent goes through MTOs and four percent through banks[18] (see Box 2). According to World Bank data for 2015, outbound remittances totalled USD 151 million or 10 percent of inbound remittances.

Box 2: WBG Baseline Survey on remittance beneficiaries' financial behaviors in Albania

In 2016, the World Bank Group in the context of the Remittances and Payments Program, funded by the Swiss State Secretariat for Economic Affairs (SECO), conducted the Baseline Survey on remittance beneficiaries' financial behaviors in six countries of East Europe and Central Asia (ECA), namely Albania, Kosovo, Serbia, Bosnia and Herzegovina, Tajikistan and Kyrgyz Republic. The main objective of the baseline survey was to understand behavior of remittance recipients in selected countries and the level of their satisfaction with existing remittance products and services.

According to the Baseline Survey, 86 percent of interviewed households[19] in Albania has been receiving remittances from one person, age 30-44, who is on a permanent departure, two or three times per year, for more than 10 years. The average amount received in a year is the equivalent of USD 2,350 or USD 499 per transaction, which is the second highest amount in the region after Kosovo. The majority of remittance flows originate from Greece and Italy (more than 60 percent).

Remittances represent one third of the yearly household budget in Albania. More than 30 percent of interviewed households receive remittances regularly, while 40 percent are getting financial support from their relatives abroad on special occasions. Remittances are mostly used for fast moving consumer goods (FMCG) and health & hygiene (HH) products (elected by 67 percent of interviewed households), health expenses (52 percent), and for education purposes (32 percent).

Albania has the lowest usage of banks or other financial institutions for remittance transfers in the region, mainly due to the complexity of the process (banks' procedures are perceived as complex and

[17] 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.

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

[19] Sample size was 800 remittances beneficiary households at a minimum per country.

confusing) and the high costs of transfers. More than 50 percent of Albanians don't have access to a bank account, while only 35 percent are using a payment card.

18. According to data reported to the BoA, the total value of person-to-person transfers channelled through bank accounts and MTOs in Q2 2016 was EUR 153 million (USD 162.6 million) (see Table 5). Western Union is the dominant actor among the MTOs, with 62.1 percent of the transfers, totalling EUR 94 million (USD 99.9 million), while MoneyGram gets 37.9 percent with EUR 58 million (USD 61.6 million). Main corridors are Italy, UK, Germany, Greece and USA. It is important to stress that some MTOs are operating in the country via partnerships with some local banks and the relevant flows might not be fully reported by the banks.

Table 5: Transfers made through MTOs – main corridors

Sending country	EUR / USD millions	%
Italy	44.3 ./ 47.1	29
UK	36.7 / 39.0	24
Germany	23 / 24.4	15
Greece	13.7 / 14.6	9
USA	1.1 / 1.2	7

Source: Bank of Albania, 2016.

19. The cost of sending remittances to Albania in Q3 2016 was 9.39 percent of the amount sent, which is above the global (7.40) and regional average (7.25). The most expensive service is on the corridor with Switzerland, 24.90%, while the cheapest is the one with Italy, 5.36%. The cost of sending money from Germany and UK to Albania is between 9.50 and 10 percent. [20].

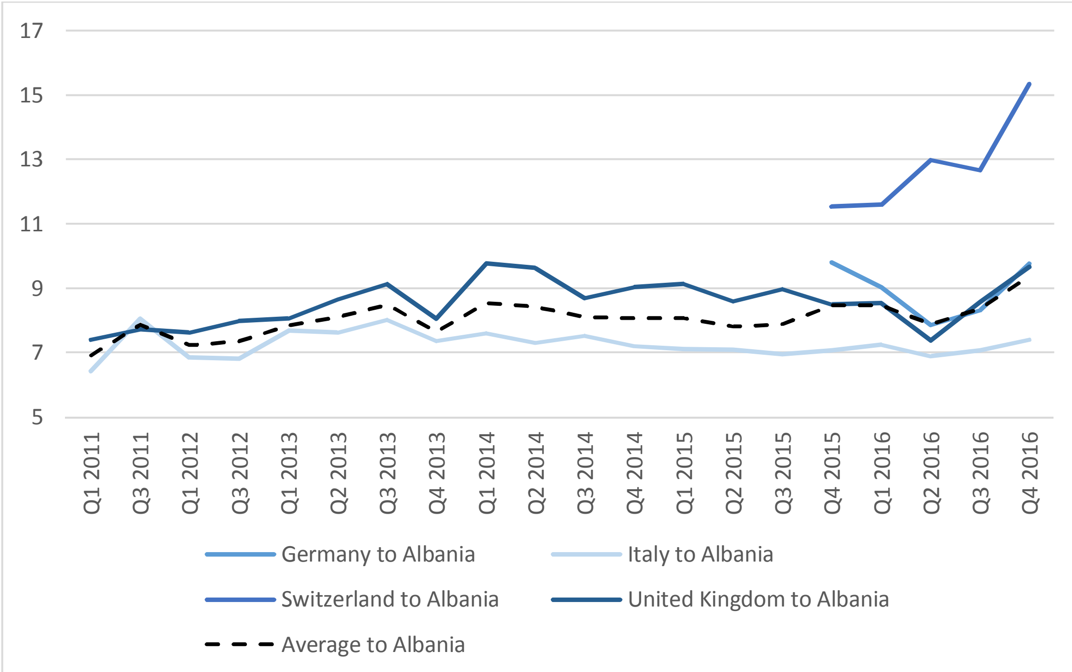
Table 6: Average cost of sending money to Albania

	Switzerland CHF 160		Germany EUR 140		UK GBP 120		Italy EUR 140	
MTO	**Cost CHF**	**Cost as percent**	**Cost EUR**	**Cost as percent**	**Cost GBP**	**Cost as percent**	**Cost EUR**	**Cost as percent**
Western Union	39.85	24.90	20.43	14.60	15.97	13.31	15.53	11.09
MoneyGram	23.68	14.80	13.07	9.33	10.63	8.85	13.20	9.43
Ria	15.28	9.55	10.00	7.14	9.77	8.14	7.50	5.36

Source: Remittance Prices Worldwide, Q4 2016

Figure 1: Total Average Cost to Send 200 USD to Albania

[20] RPW, Q4 2016.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Q3 2014
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Q2 2015
Q3 2015
Q4 2015
Q1 2016
Q2 2016
Q3 2016
Q4 2016
Germany to Albania
Italy to Albania
Switzerland to Albania
United Kingdom to Albania
Average to Albania

CPMI-WORLD BANK GENERAL PRINCIPLES ASSESSMENT

General Principle 1: Transparency and Consumer Protection

General Principle 1: The market for remittance services should be transparent and have adequate consumer protection.

Context

20. Transparency in remittance services, combined with adequate consumer protection, helps to foster a competitive and safe market for remittances. Transparency of prices and service features is crucial for the ability of consumers to make informed choices between different services and the creation of a competitive market. RSPs should therefore be encouraged to provide such information in easily accessible and understandable forms. As far as possible, such information should include the total price (i.e. fees at both ends, foreign exchange rates including the margins applied on them, and other costs to the user), the time it will take the funds to reach the receiver, and the specific locations of the RSP access points in both sending and receiving countries. It should also be clear to the sender if the price or other aspects of the service vary, for example depending on how the recipient is paid (e.g. in cash or by crediting an account) or the ability of the sender to provide information about the receiver (e.g. relevant account number and bank identifier.)

21. Appropriate consumer protection is also important. Senders should have adequate rights as consumers of remittance services, including administrative procedures for error resolution. Although many countries have working mechanisms to resolve domestic consumer disputes, the cross-border nature of remittances and cultural and language barriers can make such procedures complex. Where appropriate, authorities may therefore wish to evaluate the adequacy of existing error dispute resolution procedures and other consumer protection provisions in the context of remittance services.

Status in Albania

22. As Albania is a net receiving country of remittances, the choice of channel is determined primarily outside the country by the senders, though their decision is influenced by the recipient's experience. The common practice of global MTOs is not to apply any charges on the receiving side. This appears to be the case also in Albania. Where the sender is in a country within the European Union (EU), disclosure of charges and information to customers is regulated by the European Commission Directive on Payment Services (PSD1) which leaves the disclosure option to the member state. The European Commission Revised Directive on Payment Services (PSD2), due to come into force in 2018, will provide additional disclosure requirements and will also cover transfers to non-EU countries ("one leg transactions").

23. The Consumer Protection Law No. 9902 of 2008 aims at protecting the interests of Albanian consumers. However, this law does not cover the provision of financial services, thus it does not apply to payment / remittance services either. In this particular area, transparency and consumer protection are addressed via secondary legislation. Regulation No. 59 of 2008 "On Transparency for Banking and Financial Products and Services" (hereinafter the "Transparency Regulation") applies to banks' and non-bank financial institutions' (NBFI) relationships with their customers. This regulation establishes the requirements for the provision of information to the customer on banking and financial products and services. It applies to banks and NBFIs and therefore also to MTOs[21].

24. The Transparency Regulation also requires that financial service providers give customers all the

[21]The MTOs in Albania are licensed as NBFIs. More details are available below in the relevant section on the legal framework.

relevant information on the proper procedures to manage and resolve customer complaints. The internal procedures for the resolution of the complaints must be recorded in an internal document, and the customer must receive a written response. All complaints must be recorded, detailing the origin of the problem, the measures adopted, and other relevant information. The 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.

25. The Consumer Protection Commission (CPC) was established in 2009 and is the body in charge of enforcing consumer protection legislation. The CPC is a decision-making body whose objective is to supervise customer complaints handling and facilitate dispute resolution. However, the CPC's powers are quite limited in the area of financial products and services, and the disputes in this area are reviewed with the assistance of the BoA.

26. MTOs generally display the general fees and exchange rates they offer at their locations. The team could confirm that customers of MTOs are generally informed by the RSPs about the commission, the exchange rate applied and the conditions of the service before committing to a transaction. The information is usually provided verbally, but also on notices or leaflets and is printed on the receipts of the transactions.

Recommendations

27. ***Authorities should introduce a proper legislation in the area of transparency and consumer protection for financial services, including payments and remittances.*** *At the moment, the relevant legal framework is based only on regulations and there is no designated authority in charge of enforcing the rules in the area of financial consumer protection and transparency.*

28. ***The BoA and the other relevant authorities should consider setting common standards for information disclosure in the area of remittances.*** *The cost of transferring remittances is typically composed of different elements, including the commission paid by the sender, the foreign exchange rate applied by the MTOs, the commission to be paid by the receiver, and other components such as taxes, etc. As a consequence, transparency of remittance prices is generally not straightforward and requires an effort by the MTOs to disclose all relevant information, as well as awareness and education of the sender and the receiver on how the different components come together to influence the total cost of each transaction. As an example, In the United States, the Consumer Financial Protection Bureau issued specific requirements for information disclosure and even provided a standard template for receipts. This regulation can be regarded as a good practice and possibly considered as a benchmark by the Albanian authorities*[22]*.*

29. ***Authorities and the private sector should step up efforts on awareness and financial literacy.*** *Education about remittances (e.g. service features, fees, exchange rate) and the choice of channels should be included in such efforts (see Box 3). The risks of transferring / receiving money through unregulated channels should be emphasized, as well as the benefits of regulated alternatives.*

[22] For more information, see http://www.consumerfinance.gov/remittances-transfer-rule-amendment-to-regulation-e/

Box 3: Project Greenback 2.0 – Crash Course

Project Greenback is a World Bank Group initiative engaging migrant communities in selected cities to offer financial education and awareness raising. In Project Greenback 2.0, Remittance Champion Cities are selected. The overall objective is to increase efficiency in the market for remittances through an innovative approach: promote change inspired by the real needs of the ultimate beneficiaries of international money transfers – i.e., the migrants and their families at home. Cooperation between migrants, remittance service providers, and public authorities is key for the achievement of the Project's objective.

Crash Course objectives

Among other activities implemented in the framework of Greenback 2.0, "Crash Course" aims to provide beneficiaries with information and data which will enable them to make more informed choices on how send money home (for the sending side), and on getting access to financial services. The information provided by the Crash Course is objective and does not, in any way, promote a specific product, money transfer operator, or kind of operator.

Why offering a Crash course?

The Crash Course provides information that will stimulate interest and motivate to increase knowledge about financial services. The purpose is to provide some seed information and stimulate the beneficiary to find out more through different channels that may be available.

Who is the Crash Course addressed to?

This course is designed for migrants and their families and to be administered when they are waiting for services, e.g. at the post or government offices.

How does it work?

At certain locations (post offices, banks, government offices) where migrants or their families typically have to wait for their turn, the project trainers provide, as quickly as possible (10-15 minutes), potentially interested persons with basic financial information about money transfer services, their characteristics, and elements to consider when choosing the service that best fits their needs, as well as access to transaction accounts and other financial services.

The Crash Course is administered using a tablet and is interactive and engages the migrant with a short game-like quiz. A profile is generated from the information that is collected. The profile includes how informed and prepared the beneficiary is about the services and options available (informed, semi-informed, hasty, uninformed, unprepared). Based on the profile obtained, participants in the Crash Course win a gadget (a pencil, a key ring, a pen for the less informed and a T-shirt or a bag for the most informed). Once the profile is illustrated to the beneficiary, the trainer begins the Crash Course - adapting it from time to time based on weaknesses highlighted during the quiz (insufficient attention paid to the exchange rate or account fees, channel chosen exclusively on the basis of convenience or speed, etc.).

How to implement the Crash Course?

Mapping of potential locations, such as post offices, banks, government offices, other offices/associations. Locations are contacted and introduced to the Project Greenback 2.0 and the Crash Course. If a location is willing to allow the course to be conducted inside their establishment, then timing and approach are agreed.

For the implementation of the Crash Course, trainers go in the selected location on the agreed date equipped with tablets, gadgets, and brochures/flyers about the Project. The initial approach to people should immediately clarify that the intent of the Crash Course is not to sell or promote any commercial product.

The number of people who have participated in the course is recorded. The basic information that should be captured may include: the total number of people who completed the Crash Course, their country of origin, and their profile which resulted from the survey. An email contact may be requested from who would like to be informed about other courses or activities of the Project.

Lessons learned

The Crash Course provides additional information and resources to migrants so that they can ask service providers for further information about financial products. During the presentation of the different remittance services available in a structure/organization/ company, the trainer should identify the available products and services which best fit the needs of the beneficiary.

What to be aware of

The Crash Course is carried out in full respect of the potential beneficiaries taking into consideration the timing, procedures and legal restrictions of the location.

General Principle 2: Payment Systems Infrastructure

General Principle 2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Context

30. Remittance services, except perhaps those that are entirely cash based, depend at some stage on the domestic payment infrastructure for settlement (and sometimes also for the transfer of information). RSPs can often make better use of the payment infrastructure that has been developed through greater standardization of payment instruments, more automation of their processing, and increased interoperability of the associated networks.

31. Improvements to cross-border payment infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. It may also be possible to link directly the relevant domestic retail payment systems of sending and receiving countries, particularly where the domestic payment systems in both countries are well developed and have wide geographical coverage and where remittance volume between the countries is high.

32. The market itself may sometimes undertake such payment infrastructure improvements and initiatives. However, given, first, the diverse nature of the institutions involved and thus the potential for conflicting interests and, second, the uncertainty about the scale of future flows and thus whether investment in the link is justified, in many cases the authorities, and in particular central banks, may want to facilitate the consideration of these possibilities. In general, cross-border or cross-system initiatives require a high level of bilateral (or possibly multilateral) cooperation on technical, regulatory and oversight matters and, accordingly, the extensive involvement of central banks, regulators, payment system operators, banks and bankers' associations and other industry representatives from both jurisdictions. In some cases central banks themselves have established bilateral cross-border links between the payment systems they operate.

Status in Albania

33. The BoA is the key player in the national payment system (NPS), through the operation, regulation and oversight of the relevant infrastructure, participants and services in the high-value and retail environments. As of today the BoA owns and operates two payment systems[23]:

a. The Albanian Interbank Payments System (AIPS). This is a real-time gross settlement (RTGS) system which handles high-value transfers between the participants or on behalf of their customers, and between the participants and the BoA. In 2016, AIPS has processed an average of 500 payment orders per day and the average value of each payment order is approximately ALL 57 million (USD 467,000)[24].The 17 participants include the BoA and all the licensed banks. NBFIs cannot be direct participants in AIPS, as the Law on the Bank of Albania prescribes that only banks can open accounts and hold deposits with the BoA. This limitation applies also to operators of other payment systems and clearinghouses[25], which need to settle the balances resulting from the clearing process through a settlement agent (i.e. one of the commercial banks or the BoA).

[23] In addition, the BoA owns and operates the securities settlement system AFISaR.

[24]It is important to clarify that the various types of payment orders that flow through the AIPS can vary quite considerably in magnitude, as they could be related to interbank operations as well as customer payments.

[25]As of September 2016, only Pay Link has been licensed as a payment system operator by BOA. See below.

b. <u>The Albanian Electronic Clearing House (AECH)</u>. This infrastructure is an automated clearing house (ACH) capable of processing credit transfers and direct debits. However, as of today, only the former have been implemented. The AECH usage has grown quite rapidly between 2009 and 2011, and since then the average yearly growth has stabilized around a rate of five percent. In 2016, the AECH has handled approximately 2,000 payments per day, for an average value of ALL 178,000 or USD 1,460 per payment[26]. Participation in the AECH can be either direct or indirect. At the moment only the commercial banks and the BoA are allowed to be direct participants while the only indirect participant is the Ministry of Finance. The relevant regulation in this area prescribes that indirect participation must be approved by the Supervisory Council of the BoA, but there is no mention about the criteria that the Supervisory Council would apply in taking the decision. The net debit positions of the AECH participants are not collateralized ex-ante, nor are there limits to the size of the debit positions. In case of insufficient funds, the participants in AECH may recur to the intraday liquidity facility of the AIPS, but this presumes that the participant is a bank. In alternative, the participants can obtain intraday credit from the BoA by collateralizing it with government securities.

34. When comparing distribution of access points in Albania with other Western Balkan countries, Albania is on the fifth and the last place for the number of bank branches and ATMs per 100,000 adults, respectively, with 22.2 branches and 35.3 ATMs[27] (see Tables 7 and 8). POS infrastructure is also limited, and compares poorly with other countries in the Western Balkan region (see Table 9).

Table 7: Number of bank branches per 100,000 adults – Western Balkans countries (2015)

Country	Number of branches
Montenegro	43
Serbia	29.6
Bosnia and Herzegovina	27.9
FYR Macedonia	24.7
Albania	**21.9**
Kosovo	20.6

Source: Financial Access Survey, International Monetary Fund, 2015.

Table 8: Number of ATMs per 100.000 adults – Western Balkans countries (2015)

Country	**Number of ATMs**
Montenegro	76.2
FYR Macedonia	60.8
Bosnia and Herzegovina	45.8
Serbia	45.5
Kosovo	40.4
Albania	**35.1**

Source: Financial Access Survey, International Monetary Fund, 2015.

[26] Based on international parameters this is a relatively large amount for a low-value payments system.
[27] Financial Access Survey, International Monetary Fund, 2014.

Table 9: Number of POS terminals per 100,000 adults – Western Balkans countries (2015)

Country	Number of POS terminals
Montenegro	2,250.5
FYR Macedonia	1,948.6
Serbia	921.8
Kosovo	540.0
Bosnia and Herzegovina	501.6
Albania	**284.2**

Source: World Bank Global Payment System Survey, 2015.

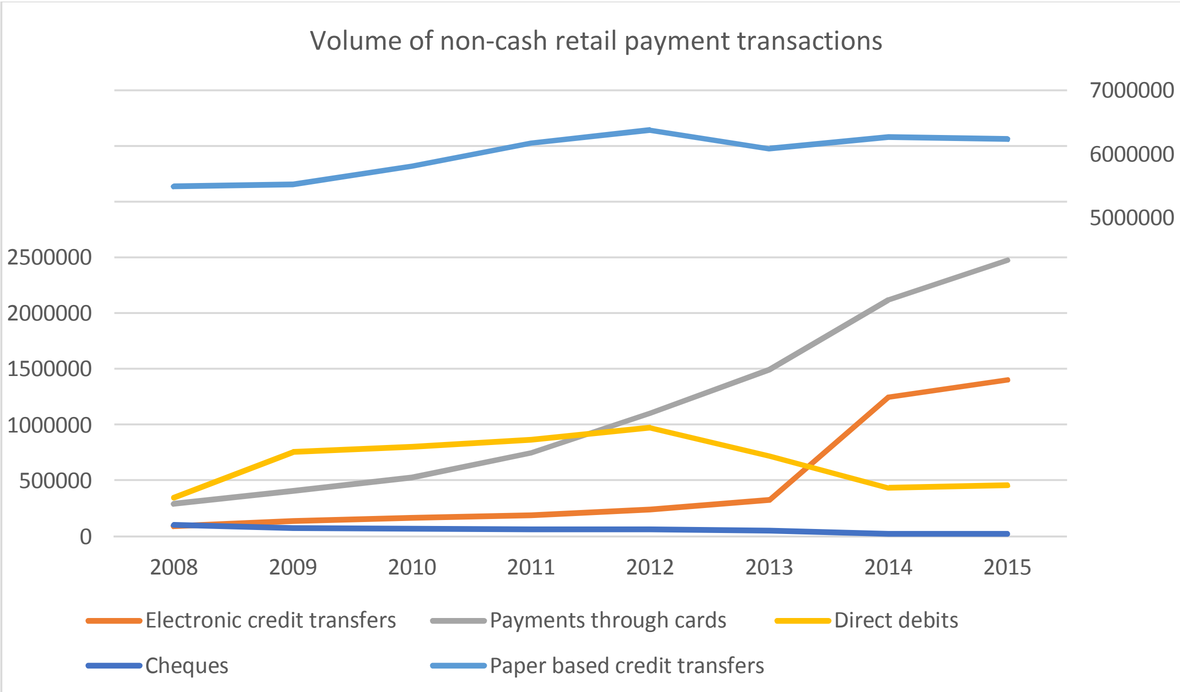
35. In Albania there is no payment card processing platform (or "payments card switch"). However, in most cases local POS and ATM networks are connected via the Visa and MasterCard global processing networks, thus making it possible to withdraw cash/pay with a Visa or MasterCard branded card issued by a local bank at most local banks' ATM/POS terminals.

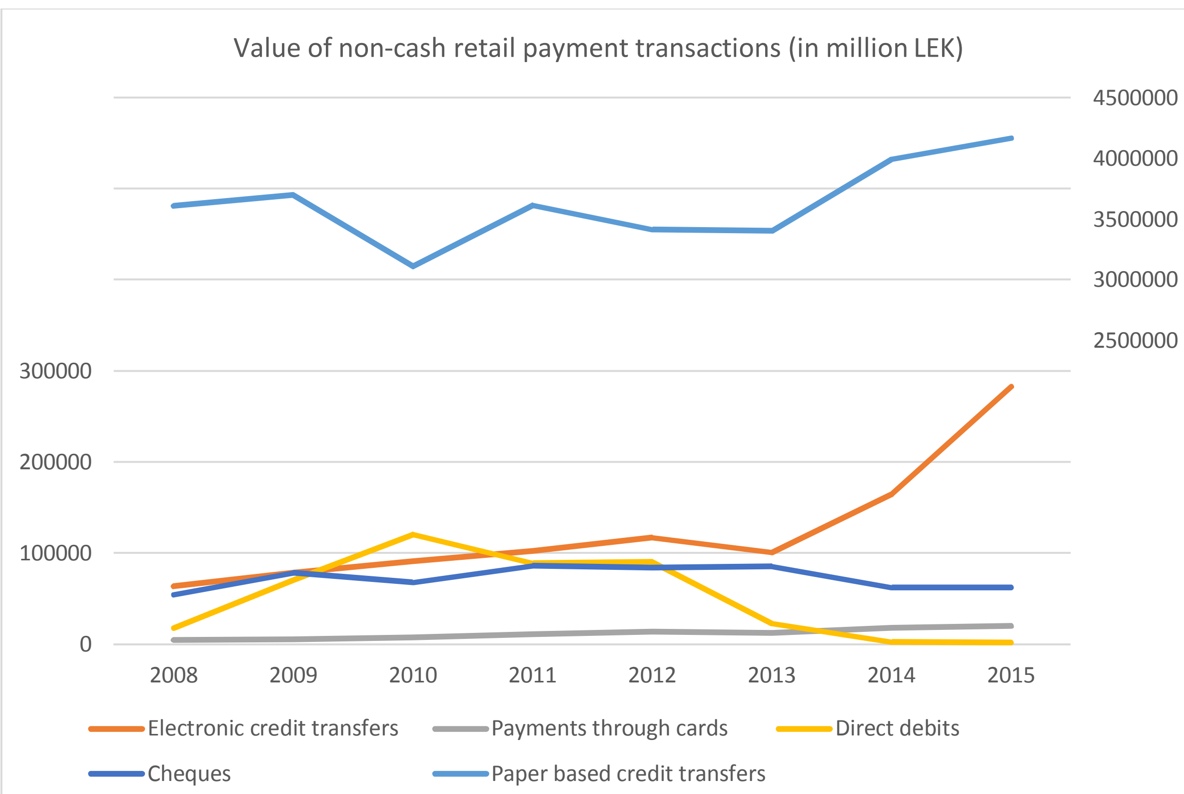
36. The BoA has also licensed Pay Link as a payment cards processor and manufacturer of payment cards. At present, Pay Link provides card processing services only to Union Bank, which holds 80 percent of the company. The company has developed a payment card switch solution fully certified by Visa and Mastercard and is ready for commencing operations. Nevertheless, other banks seem to be unwilling to participate in this switch solution, one possible reason being that Pay Link's majority shareholder is a bank which is also a card issuer, thus perceived as a direct competitor.

37. In general, cash is the dominant means of payment for retail transactions. Demand-side data shows that over 96 percent of payments initiated by consumers are in cash[28]. Nevertheless, the usage of electronic payments in the retail payments market is increasing, with different trends depending on the instrument. Figure 2 below shows the trends in the use of payment instruments based transaction volumes and values from 2008 to 2015. The greatest increase was in the use of cards, which grew by approximately 752 percent and 380 percent in volumes and values, respectively, in the period 2008-2015. Similarly, electronic credit transfers have increased by almost 16 times in volume and more than four times in value in the same reference period. Most Albanian banks offer remote access to a bank account and internet banking services to both companies and individuals. "Internet banking" transfers – defined as electronic credit transfers initiated via the internet – have increased by 67 percent on an annual average basis between 2012 and 2015. It is worth noting that, while the number of cheques has decreased considerably in the observed period, the value of the payments started to decrease only in 2014, and the average value of cheques is almost five times the average value of paper-based credit transfers.

[28] ñThe Retail Payment Costs for Users in Albania – A demand-side Analysis", Bank of Albania, World Bank Group, 2016.

Figure 2: Trends in the use of non-cash payment instruments (volumes and values of transactions, 2008- 2015)





Source: Bank of Albania

38. For the case of remittances, the flows delivered to Albania are still largely channeled via cash-based services. This is in line with the global trend in this sector, and with the general prevalence of cash as a payment means in Albania. Part of the explanation is that typically recipients of remittances have low levels of access to bank accounts and a stronger inclination to receive the remittances in cash. Another part of the explanation is linked to the higher cost of traditional banking services for low-value transfers, as opposed to the faster and cheaper services offered by MTOs. Finally, it is important to stress that a very large part of the remittances is delivered in Albania via unregulated channels, favored by the geographic proximity to many of the major sending countries.

39. In some countries, international correspondent banking relationships have been leveraged to offer remittance services. At present, however, banks in Albania have yet to capitalize on this opportunity on a large scale and they rather partner with international MTOs for the disbursement of the amounts (i.e. banks serve as agents of international MTOs). During the mission, representatives of the banks cited two reasons for not pursuing the first option: a) the high cost of developing adequate cross-border infrastructure; and, b) the limited potential to recoup this investment based on the small market share that banks currently possess in the remittances business. Nevertheless, some banks are envisaging bank accounts with specific features for international transactions involving favorable fees and foreign exchange margins. Such accounts would leverage the in-house infrastructure of the Albanian subsidiaries/affiliates of banks in the sending countries, and provide customers with a more efficient and cheaper way to transfer money. Several banks in the Albanian market already possess the infrastructure that would allow them to potentially offer this type of service, in particular for transfers from Italy, Austria, and Greece. However, apart from the mentioned embryonic projects, the team is not aware of any major commercial bank initiatives aimed at increasing the role and share of banks in the remittances market.

40. In addition to the banks, there are eight NBFIs licensed to provide payment services in Albania. Four of them are mainly focused on domestic payment services (the Postal Office, Easy Pay, M-Pay and Pay & Go), two provide national and international remittance transfers (Financial Union Tirana and AK Invest), and two are e-money institutions (M-Pesa/Vodafone and Easy Pay with a separate license for issuing e-money). Most of these entities are already offering remittances services and are exploring partnerships with banks and other NBFIs to increase the use of their infrastructure for the disbursement of the flows. On the other hand, at present e-money institutions do not offer international remittances, although there are no legal barriers as far as the team could verify. E-money institutions have reported having advanced plans to increase the service offerings. In particular, the mobile money operator M-Pesa plans to launch international remittances in 2017.

Recommendations

41. ***Albania counts with a modern and reliable although incomplete central payment clearing and settlement infrastructure combined with limited coverage of access points.*** *There are opportunities to further leverage this infrastructure to expand the supply of electronic alternatives for the disbursement of remittances. At the same time, to ensure the usefulness of transaction accounts and the sustained growth of electronic transactions, it is imperative that the necessary ecosystem be developed. The following recommendations offer further insights into areas of improvement.*

42. ***Banks in Albania should consider leveraging their own infrastructure and electronic channels to receive and disburse remittances.*** *Today bank-based remittances are almost exclusively channelled through bank accounts, but there are opportunities for providing services that could enable unbanked recipients to obtain funds in a more convenient and low-cost manner. As an example, the card-to-card remittance services offered by the major international payment card networks benefit banks and senders and recipients of remittances alike. These services, if specifically tailored for remittances, have real potential to enhance the efficiency, reduce the cost, and enable straight-through-processing for banks that*

operate in this market. Additionally, banks should explore both the possibility to create partnerships with other banks in the major sending countries and, for banks in the same group, leverage the internal proprietary network. Both these solutions could be based on simple correspondent accounts for the clearing and settlement of the positions and have the potential to create a low-cost service for the migrants and their families. On the sending side of the transaction, most migrants already have bank accounts, while on the receiving side Albanian banks could initially offer pre-paid instruments and progressively expand the level of financial inclusion of the receivers via cross-selling of more sophisticated services.

43. ***Non-banks (both non-bank financial institutions and potentially non-financial institutions) could play a bigger role in the provision of electronic payments and remittances in Albania subject to improving the enabling environment.*** *These entities have generally demonstrated a great potential to reach a segment of the population that is not captured by the banking sector, and/or does not use electronic payment services. However, in Albania NBFIs do not currently have access (direct or indirect) to the AECH, nor would the AECH rules allow direct participation. This limitation may lead to stalling product / service development, and to higher costs resulting from relying on commercial bank services (see also GP4). Non-financial institutions are prevented altogether from engaging in the provision of payment services (see GP3). Also, certain non-bank entities have a consolidated presence in remote, rural, and under-served areas of the country; yet, these cannot be leveraged by banks as agents (see GP3). The current limitations are reflected in the fact that, when NBFIs are active in the remittances market, they operate almost exclusively through cash-based services. The larger involvement of NBFIs and non-bank financial institutions – by removing the relevant barriers – could lead to higher levels of competition and cheaper costs for the migrants and their families, and potentially increase of the flows of remittances received in the country through regulated channels.*

44. ***Facilitating inter-operability across all issuers and acquirers in the payments card market is critical.*** *This should be further supported by evolving a positive business case for all the stakeholders in the value chain. There are several approaches to achieve these objectives. The current initiative in Albania to develop a domestic infrastructure for card payments could be one solution. However, relevant governance aspects would need to be addressed to ensure broad participation in that initiative (for further details please refer to the observations under Section 3.3 of the report "Achieving Effective Financial Inclusion in Albania: a Payments perspective"). At the same time, the authorities should ensure that a domestic infrastructure of this sort does not hinder competition in the payments card market in Albania. For example, card issuers and card acquirers should be able to select the payment card brand(s) they want to issue and accept, respectively, as well as the processing platform(s) that best fits their needs.*

45. ***The BoA should trigger a national initiative to further explore the potential reforms in this area, inviting banks and non-bank financial institutions to present proposals and ideas to increase the delivery of remittances via electronic channels.*** *These activities could use the platform of the National Payment System Committee (NPSC), possibly expanding the participation to the NBFIs.*

General Principle 3: Legal and Regulatory Environment

<u>General Principle 3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.</u>

Context

46. The legal and regulatory framework includes the general legal infrastructure (such as the law relating to contracts, payments, securities, banking, debtor/creditor relationships and insolvency) and any specific statutes, case law, regulations or contracts (for example, payment system rules) relevant to remittances.

47. A sound framework that is well understood helps minimize the risks faced by both RSPs and their customers. A predictable framework is one in which it is clear which laws and regulations are relevant, where they do not change with excessive frequency and where they are enforced by the authorities, including the courts, in a consistent manner. Predictability is a key component in creating a climate that favors private sector investment. This is crucial in order to increase competition in, and to improve the quality of, remittance services.

48. The term "non-discriminatory" refers to the legal and regulatory framework being equally applicable to different types of RSPs insofar as they are providing equivalent services, i.e. independently of the nature of the provider's other lines of business. This helps to promote a level playing field between different RSPs that encourages competition on a fair and equitable basis. Because remittance services are provided by many different types of service providers, a functional rather than institutional framework may be desirable to minimize different treatment of service providers offering similar services. However, often this may be impractical: many countries already have different bodies of law and regulations applying to different types of RSPs and changing this would be difficult. For example, bank RSPs and non-bank RSPs may be governed by different, well-established legal and regulatory frameworks. Where this is the case, the underlying principle can be met instead by ensuring that equivalent rights and obligations exist regardless of which body of law applies to an institution.

49. A remittance involves at least two jurisdictions: the sending and the receiving countries. When the RSP or its agents operate in third countries, other jurisdictions may also be involved. Laws and regulations in relevant jurisdictions need to be well founded for the legal and regulatory framework governing the provision of remittance services to be fully effective. The authorities of a given country can, of course, only have a direct influence on the framework in their own country. Nevertheless, particularly if they are aware of a significant legal issue in another country in an important bilateral corridor, they may want to work with the authorities of the other country to try to resolve the issue.

50. This principle does not call for the establishment of a specific legal regime for remittances. A country's existing laws and regulations may already address the requirements of the principles or may be capable of being modified to do so. In particular, the provision of remittance services is likely to be helped by a well-founded legal framework governing domestic payments.

Status in Albania

51. The BoA is the authority that regulates and oversees the national payments system, as laid out in

the Law of the Bank of Albania[29], in the Banking Law[30], and in the Law on Payment System[31].It licenses and supervises the different providers of banking and financial services: banks, Savings and Credit Associations (SCA) and other NBFIs. The definition of "banking and financial services"[32] is provided in the Banking Law, together with the relative licensing criteria. The same Banking Law clarifies the definition of the NBFI and lists the financial activities they can provide (article 54(2)), among which there are the payment services. At the same time, the Banking law prescribes that the NBFIs' licensing, supervision and functioning should be organized via regulation. Article 34.4 of Law No. 52 of 2016 "On saving-loan companies and their unions" allows SCAs to provide payment services.

52. Regulation No. 01 of 2013 "On licensing and activity of non-bank financial institutions" details the conditions, requirements, time frame, documentation, and procedures for NBFIs to be allowed to undertake specific activities, and prescribes the obligation to notify the BoA during the execution of such activities in the country. This regulation contemplates e-money institutions as entities that, in addition to issuing e-money, are allowed to provide payment and money transfer services, after being licensed by the BoA (article 5(1)(c)).

53. The adoption in 2013 of the "Law on Payment System" provided the proper legal basis for the functioning of payment systems and payment instruments. The law covers the most important concepts in this area that need to be covered at statutory level, including finality and irrevocability of payments, enforceability of netting schemes, protection of financial collateral pledged in a payment system in case of insolvency, enforceability of transactions by electronic payment instruments, conflict of laws in case of insolvency, and truncation of cheques. The Law opens the competition in the market through the participation of NBFIs, which are allowed to provide payment services.

54. Albania attained the "EU Candidate" status on 27 June 2014. As a consequence, the BoA and other regulators are working to align the local legislation to the EU acquis. In the area of payments this involves the efforts of the BoA to achieve the following specific objectives: (i) the transposition of the Revised Payment Services Directive (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".

55. The provision of remittance services is regulated by Regulation No. 70 of 2009 "On Foreign Exchange Transactions". This regulation removes the old powers of the BoA on the control of capital outflows and allows unrestricted (inbound and outbound) current transfers. The text of the norm describes the rules to execute "foreign exchange transactions", including both transactions between residents and non-residents in foreign currency and as unilateral transfers of assets from and into Albania. Foreign exchange transactions are comprised of transactions recorded in capital and current account, from and to Albania. Remittances are considered current transactions[33]. Remittance services can be provided

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[29]Law No. 8269/1997 "On the Bank of Albania", as amended.

[30]Law No. 9662/2006 "On banks in the Republic of Albania", as amended).

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

[32]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.

[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)).

by banks or NBFIs, subject to issuance of the appropriate license by the BoA.

56. To a certain extent, the legal and regulatory framework accommodates technological and business model innovation in retail payments. In particular, banks, SCAs and other NBFIs are now allowed to issue e-money. The Banking Law was amended to exclude e-money from the legal concept of deposit. However, e-money issuance is still considered as a financial activity (as "other payment services"), therefore it is allowed only to financial institutions. Albania does not have a comprehensive regulatory framework for agents and sub-agents. While Regulation No. 1 of 2013 allows NBFIs providing payment services to contract agents to undertake activities on their behalf, there are no provisions for the use of agents by banks. According to the amended definition, agents can be now either a natural or a legal person. The 2016 amendments to the regulation also assign the principal responsibility for the selection and identification of agents to the NBFIs acting as principal (art. 5(6)). This modifies the previous provisions requiring BoA's approval of selected agents (chapter 3). The regulation does not establish specific requirements for agents, but obliges the principal to provide identification, address and criminal records of the agents to the BoA (art. 5(6)). Exclusivity agreements for the use of agents are not explicitly banned.

57. In the financial integrity area, the Law No. 9917 of 2008 on the Prevention of Money Laundering and Financing of Terrorism (hereinafter the "AML/CFT law") provides the framework for the prevention and fight against money laundering. The AML/CFT Law has been amended since and integrated with the relevant implementing regulations and it is applicable to financial sector entities as well as any other entity licensed and supervised by the BoA – among others. The legislation contains the relevant norms in this area, among which the obligations in terms of identification and verification of the customers and the compilation of the internal procedures for the identification, registration, monitoring and reporting of customers' transactions. The following circumstances all require Customer Due Diligence (CDD), as per the article 4 of the law: (i) the opening of a bank account; (ii) transactions above a certain thresholds; (iii) when there are doubts about the veracity of the previously obtained identification data; and, (iv) all cases when, regardless of the reporting thresholds stipulated in the article, there are doubts about money laundering or financing of terrorism. Customer identification can be effected "through documents, data or information received from reliable and independent sources" (article 4/1).

58. The AML/CFT legal framework has been further enhanced in the last few years via a series of amendments based on a risk-based approach to CDD measures. In the area of remittances, this is quite relevant for all those service providers which are planning to develop new products, business practices and additional delivery channels. In these cases, the supervised companies will have to perform an assessment to identify and evaluate the risks related to the new activities. An enhanced due diligence shall be pursued for high risks customers and transactions and each company will have to appoint a person in charge of compliance with the AML/CFT legislation. MTOs, as any other payment provider, will have to guarantee that their agents are included in their AML/CFT programs and that such agents apply the same internal measures for CDD, record keeping and reporting.

59. The amendments to the Regulation No. 44 of 2009 have introduced clear indications on the application of a risk-based approach with regard to AML/CFT. Such amendments prescribe the procedures and documentation in the area of Know Your Customer (KYC), regulations for record-keeping, preservation of data and their reporting to the responsible authority. The Regulation No. 44 of 2009 also includes an attached set of Guidelines which provide assistance to the obligated entities in assessing the levels of risk. The Guidelines explicitly indicate that in case of high-level risk situations companies have to apply an enhanced level of CDD. The entities should always consider three categories of risk factors in their evaluation of the risk: (i) geographical risk, (ii) customer's risk, and (iii) the risk of products, services/transactions and business relationships. The Guidelines provide a set of examples in each category, adding detailed guidance to the obliged entities without limiting their discretion.

60. The General Directorate for the Prevention of Money Laundering (GDML) is the Albanian Financial Intelligence Unit. GDPML has the relevant powers to collect, manage and analyze the reports delivered by the stakeholders in order to prevent and combat money laundering and the financing of terrorism. GDPML has the power to demand statistics and data to any entity and supervisory authority and may disseminate information to law enforcement authorities if there are suspects about potential money laundering or financing of terrorism offences. GDPML also has a supervisory role in companies' compliance with the provisions of the AML/CFT Law and cooperates with other supervisory authorities, in particular with the BoA and the Albanian Financial Supervisory Authority (AFSA)[34]. In 2014, the BoA and the GDPML signed a cooperation agreement to facilitate information exchange and to strengthen the risk-based supervisory approach.

Recommendations

61. ***A more straightforward, functional approach to payment service regulation should be considered.*** *The legal framework covering payment systems, services, and instruments in Albania is comprehensive and gives the BoA sufficient powers to regulate, supervise and oversee the national payments system including providers of payment services. The adoption of the Payment System Law of 2013 has extensively enhanced the most important legal underpinnings of payment systems and services; still, there is room for further development of aspects related to innovation and competition. Going forward, the BoA should consider adopting a functional approach to payment service regulation, aiming at regulating services and instruments rather than the entities that provide them, thus fostering the level-playing field.*

62. ***Non-financial institutions should be allowed to provide payment services provided that they meet risk-based requirements.*** *At present payment and e-money services can be provided by banks and NBFIs, whereas non-financial institutions as such are not allowed in this space. The existing licensing approach may discourage the participation of new entrants in the market, thus possibly limiting competition and innovation – in spite of the fact that NBFI regulations did accommodate new technologies and business models to some extent (e.g., M-Pesa availed the NBFI licensing regime for e-money institutions). It would be appropriate that payment services be permitted also to non-financial institutions, provided that they can meet the relevant requirements to provide sound and efficient services and to safeguard customer funds, and are supervised by the BoA. The upcoming transposition of the PSD2 should contribute to ensure this outcome.*

63. ***The BoA should work to further regulate the use of third parties as agents and sub-agents.*** *In particular, use of agents for the provision of payment and remittances services should not be limited to NBFIs, e.g., banks would benefit of this model as well to expand coverage of certain basic banking services. Among others, the following aspects should be considered:*

- *Licensed institutions should have the freedom to establish which kind of agents will provide the best solution for their activities and business. At the same time, the BoA would have to clearly prescribe the minimum requirements that agents should meet and should explicitly state that MTOs will remain fully liable for any act of their agents.*
- *The BoA should create a publicly available register of agents.*
- *The BoA should ban or limit as much as possible the application of exclusivity agreements and conditions for the use of agents. The presence of such agreements/conditions could allow the creation of a monopoly position for some MTOs in communities where the supply of potential*

[34] The jurisdiction of the AFSA encompasses insurance companies, investment funds and investment companies, pension funds, the Tirana Stock Exchange and securities intermediaries, securities registry and depository institutions, among others.

agents is limited. The problem is even more relevant if the exclusivity conditions are applied to agents with large networks (e.g. the Post Office, telecoms firms or major retail chains), as they might be the only point of access in some remote and rural areas (see also GP4).

64. ***The Albanian AML/CFT framework has been improved quite considerably and the overall system seems to be in line with the international standards.*** *The integrity of the financial system is well protected which, combined with a risk-based approach, achieve the outcome of ensuring adequate access to well-regulated financial services. Nevertheless, authorities should constantly monitor that the compliance requirements do not represent an overly complex prerequisite for remittances, in light of the low-value nature of these transfers which do not pose relevant risks to the integrity of the system.*

65. ***The AML/CFT risk-based approach should be reinforced.*** *The Guideline "On the risk assessment for money laundering and terrorism financing" attached to Regulation 44/2009 "On Prevention of Money Laundering and Terrorist Financing" supports the tiered compliance approach by providing guidance to obligated entities in determining risk levels and in applying enhanced customer-due –diligence (CDD). These aspects should be disciplined through laws and regulations issued by BoA, rather than through mere guidelines*[35]*.*

66. ***On the other hand, to maximum balance limits for e-money accounts must correspond simplified customer due diligence measures.*** *It is understood that eventually the BoA eliminated such balance limits. Alternatively, customer due diligence requirements should be 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 use of the e-money products.*

[35] 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".

General Principle 4: Market Structure and Competition

<u>General Principle 4. Competitive Market Conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.</u>

Context

67. The efficiency of remittance services depends on a competitive business environment. Competitive markets can help limit monopolistic practices and lead to lower prices and improved service levels. In some places, or for certain remittance corridors, the demand for remittance services may be insufficient to support multiple RSPs but even here, provided the market is contestable - without barriers to entry - the benefits of competition should be felt. Discouraging RSPs from imposing exclusivity conditions on agents can assist competition. This is particularly important if a local market such as a small village has only one potential agent (e.g. the local shop) so that there is only one remittance service available if an exclusivity condition is imposed.

68. To provide remittance services, RSPs usually need to be able to make use of the domestic payment infrastructure. Access to this infrastructure can be either direct or indirect. Both forms of access are capable of providing RSPs with suitable payment services and their advantages and disadvantages vary according to specific circumstances. Whichever form access takes, it is important that it is available to RSPs on a fair and competitive basis, not least because RSPs are in competition with each other and access may be a factor in their ability to compete. RSPs without direct access to core payments infrastructures should be able to use the payment services provided by institutions having direct access. Institutions with direct access to such infrastructures should provide all relevant payment services, including foreign exchange services, on an equitable basis to RSPs.

Status in Albania

69. According to WBG demand-side data, a large portion (37 percent) of the remittances inflows are channeled via unregulated services and systems. MTOs on the other hand capture 57 percent, and banks four percent.

70. Western Union and Money Gram, the two biggest international MTOs, dominate the provision of remittances services in Albania. These two currently represent a duopoly, and concentrate almost the entire inflow of remittances via regulated channels.

- Western Union can currently count on a disbursing network of approximately 300 locations, via the partnership established with the local company Financial Union Tirana (FUT) and its Union Bank. FUT is the exclusive agent of Western Union in the country and acts on behalf of the MTO in the development of the business and in the creation of additional partnerships and services. Among the different activities being developed, it is worth mentioning the ongoing discussions with other NBFIs to create disbursing channels via e-wallets and pre-paid solutions.
- Money Gram has a similar agreement with AK Invest, which represents the MTO and curates the business development. In addition to the above partnership, Money Gram has also exclusive agreements with five banks and the Postal Office, with a total availability of more than 600 disbursing points throughout the country.

71. Other international MTOs have recently started operations in the country, in partnership with banks and other NBFIs. Among them Ria (currently in a partnership with two banks and two NBFIs), Coinstar, Universal Payment Transfer, Skrill and World Remit. These entities are rapidly expanding their presence in Albania, by leveraging the availability of new technologies and innovative payment

instruments. The team gathered information about the quick growth of remittances delivered via mobile-based solutions and noted the Albanian NBFIs' competitive search for new services and customers among In some instances the newly established NBFIs have reported advanced plans to offer remittances via pre-paid cards or by crediting bank accounts and other transaction accounts, always within the possibilities offered by the existing legislation.

72. Some of the companies operating in Albania actively apply exclusive contracts to their agents. The Postal Office serves as the agent of one leading MTO, although non-exclusively and through a fraction of its network. Exclusivity is an aspect that generally reduces the competiveness of the remittance market in many countries around the world. 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. In certain circumstances, exclusive contracts result in de facto locking out new market entrants, and could be a factor in high remittance costs.

73. As explained in paragraphs 40 and 43 above, some of the Albanian NBFIs are interested in gaining access to the retail payments infrastructure, namely the BoA-operated ACH system. At the moment, system rules do not allow direct access of NBFIs, nor are the criteria to become indirect participant clearly stated. When it comes to NBFIs that provide remittance services, lack of access to the central clearing infrastructure exacerbates the difficulties and costs incurred by the latter to modernize their product offering. In a global de-risking environment – in which banks tend to deny services to non-banks on account of regulatory (AML) compliance, and which may in part be reflected in Albania and/or affect Albanian non-bank providers of remittance services – coupled with lack of access to ACH, MTO agents in Albania that operate independently from banks face limitations in offering remittance transfers to accounts and payment cards. Based on the information gathered, it is difficult to determine whether and to what extent these dynamics result in anti-competitive practices.

74. The Western Union-Money Gram duopoly could also be a factor in preventing a reduction in the use of unregulated channels to send remittances. This situation of the market for international remittances in Albania does not leave much space for the surfacing of new players and does not encourage innovation. On the other hand, cheaper, more convenient services could attract part of the unregulated flows in the regulated space and progressively reduce the average cost of sending remittances to the country.

Recommendations

75. ***Authorities should consider the adoption of measures to increase the level of competition in the country and expand the number of players in the market, also to increase the percentage of remittances flows that are received via regulated instruments.*** *The following paragraphs offer some suggestions in this regard.*

76. ***It is strongly recommended that exclusive contracts be banned.*** *This type of agreement can considerably hamper competition, increase the cost of services, and prevent full exploitation of the potential network of access points. Ensuring that RSPs do not impose exclusivity to their partners and agents is regarded as a best practice. 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. Government-owned providers that have a general service obligation in particular should be strongly encouraged to renounce exclusive contracts (as in the case of the Postal Office in Albania) and enter into multiple partnerships with a variety of RSPs, given their institutional role and presence on the national territory.*

77. ***BoA should change the access rules of the automated clearinghouse it operates to allow the participation of NBFIs.*** *To the extent that they comply with the corresponding access requirements, allowing NBFIs to directly access the national payment system infrastructure would fully enable them to*

develop new products and better serve customers (see also "Observations and recommendations on the NPS and its core payment infrastructures" in the report on "Achieving Effective Financial Inclusion in Albania: a Payments Perspective, and also GP2)[36].

78. ***The space for competition should be expanded even beyond NBFIs (i.e., non-financial institutions).*** *Allowing also non-financial institutions to provide remittances and payment services and issue e-money would open the market to an even larger number of competitors (see GP3).*

[36] In addition to fair and open access to payments infrastructure, the report on "Achieving Effective Financial Inclusion in Albania: a Payments Perspective" addresses the issues of accessing the service for electronic verification of identity, currently provided by the private venture "eAleat Identity Services". The report acknowledges that gaining access to this service can reduce costs in the electronic payments market, particularly CDD costs when opening an account and/or when applying for additional services. The report recommends that, 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 this 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.

General Principle 5: Governance and Risk Management

<u>General Principle 5: Remittance services should be supported by appropriate governance and risk management practices.</u>

Context

79. Appropriate governance and risk management practices by RSPs can improve the safety and soundness of remittance services and help protect consumers. Governance structures can help RSPs meet their fiduciary responsibilities to their customers. A governance structure that may be appropriate for a small provider of remittance services is likely to be quite different from one that may be appropriate for large multinational financial institutions. Nevertheless, in either case RSPs should strive to adopt standards for good governance according to their country's legal requirements and to follow best practices that may have been developed for the provision of retail financial services.

80. As is the case for the payments industry generally, the international remittance industry faces legal, financial, operational, fraud, and reputational risks. In establishing risk control measures to protect themselves from these risks, RSPs should conduct risk level assessments to ensure that proposed risk control measures are appropriate to the level of the risks and the size of the business generally. In doing so, they should as far as possible take appropriate steps to protect themselves and their customers against risks arising from their operations in different jurisdictions, in particular in those with shortcomings in their legal and regulatory framework.

Status in Albania

81. The RSPs interviewed over the course of the mission reported having systems and procedures aimed at addressing the governance, compliance, and management of different types of risks – operational, legal, financial, and ML/TF-related to the provision of remittance services. RSPs reported on staff training programs to address various risks, including proper customer due diligence, with designated officers charged with compliance with legal requirements, systems for transaction monitoring and the reporting of suspicious transactions in line with legal requirements.

82. The BoA has the appropriate regulatory and oversight powers to monitor and control risk in the market for payment systems and remittances. The Law of the Bank of Albania[37], the Banking Law, and the Law on Payment System detail the responsibilities of the BoA for the regulation and oversight of payment systems, including the issuance and use of payment instruments.

83. Regulation No.2 of 2013 "On risk management in the activity of non-bank financial institutions" defines the parameters for the management of risk of NBFIs, e-money institutions, and micro-credit financial institutions licensed to perform financial activity. The Regulation requires that the different institutions set up a risk management system based on an assessment of the nature, volume and complexity of their activity. Such risk management system should contain the set of policies, procedures, rules and structures of the institution for risk management. The Regulations also provides the BoA with a set of broad supervisory measures, among which there is the possibility to request financial statements

[37] 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.

from the NBFI (operating as a RSP). A specific section of the Regulation is reserved to risk-management for e-money institutions, which includes measures on capital adequacy, protection of customer's funds, and on liquidity risks.

84. Additionally, in the area of cross-border payments, the Regulation No. 70 of 2009 "On Foreign Exchange Transactions" prescribes that the BoA can reject the request of authorization from a company to provide cross-border banking and/or financial services abroad – including remittances – if the BoA establishes that the company does not have appropriate systems for the management of the risk connected to the specific provision of the services.

85. In some cases, the RSPs interviewed during the mission reported incurring some liquidity and credit risks for their remittance payout services, dispersing funds to end beneficiaries up to two days before receiving the funds from the paying institution. However, RSPs did not report any substantial issues in the past with credit and liquidity risks.

Recommendations

86. ***High standards for the management of governance and other types of risks in the provision of remittance services must be maintained.*** *If not already covered by current initiatives, the BoA should envisage consulting with RSPs and other relevant stakeholders in the development of governance standards and risk management guidelines specifically aimed at protecting the integrity of the remittances market. While the mission did not detect exposure to risks significant enough to raise concern, but it should be kept in mind that possible cases of fraud, bankruptcy, or other misconduct involving remittance services could undermine trust in regulated remittance channels. As regards exposure to credit and liquidity risk described above, at present this brief cash flow exposure to leading international MTOs does not seem to be of concern, but it should be monitored carefully, in particular when other players enter the market.*

87. ***Authorities should also engage in consultations with the industry on the possibility to streamline the enforcement of the AML/CFT compliances.*** *Consultations should aim at removing the doubts and the uncertainties of the industry, and reducing the complexity of the procedures for some players. New solutions to balance the need to ensure the proper enforcement of the legislation without driving large amounts of transactions away from the regulated channels could be identified. In this regard, authorities could consider introducing thresholds for lower compliance requirements, based on the risk analysis of some channels and services (i.e. services based on electronic transactions).*

The Role of Remittance Service Providers

<u>Role A: Remittance Services Providers should participate actively in the implementation of the General Principles.</u>

Context

88. Remittance service providers should endeavor to follow the General Principles. They should strive to offer competitive services that meet their customers' needs. However, while competing on services, RSPs should try, where this can be done in a way that is not anti-competitive, to cooperate on core infrastructure to take advantage of economies of scale and network effects and thus reduce processing costs.

89. As payment service providers, they have a particular responsibility to ensure that both they, and any capturing or disbursing agents they use, comply with applicable laws and regulations, including AML/CFT requirements. They should also implement appropriate governance and risk management processes to help improve the safety and soundness of their services and to meet their fiduciary responsibilities to their customers.

Status in Albania

90. Banks and MTOs have not collaborated systematically to set up products and mechanisms that could leverage the existing payment systems infrastructure. As a result, remittances are very rarely credited in the existing bank accounts of the recipients or disbursed via payment cards or other electronic mechanisms (e-wallets or mobile based accounts). This prevents the efficient disbursement of the flows via the existing electronic instruments. The reasons for this situation are twofold: (i) on the one hand, banks deny services to MTO agents in Albania that would enable disbursement of flows to accounts – the possible drivers and implications of these practices in terms of access to infrastructure and competition have been highlighted in GP2 and GP4; (ii) on the one hand, MTOs cite insufficient customers' demand and unclear profitability of the target segment for not actively seeking collaboration with banks and continuing with cash-based services. Limited trust in the banking sector 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 sustainable cross-selling of other financial products).

91. Most banks partner with only one global MTO, not taking into consideration the possibility to expand their portfolio to other companies. This is due to the possibility for the global MTOs to apply exclusivity contracts and therefore restrict competition. The above scenario contributes to maintaining high fees for remittance services, which in turn perpetrates the use of illegal and unregulated channels.

92. Currently there is no trade association for MTOs or NBFIs in Albania (nor are these members of the NPSC). This has a number of consequences. For example, authorities have fewer chances of listening to the collective voice of the industry and of consulting on changes. To obtain information on AML/CFT issues, for instance, MTOs seek the authorities' advice on a bilateral basis, inevitably taking up scarce official resources and possibly resulting in inconsistent interpretation. Where they exist, trade association can demand high standards (of risk management, customer protection, etc.) from their members and could sponsor a customer charter.

Recommendations

93. ***Commercial banks should be more proactive in offering their own services for remittances transactions, possibly creating low-cost products and aiming to achieve a higher level of financial***

inclusion for the part of the (excluded) population receiving remittances. *A stronger collaboration with foreign banks and international MTOs can also result in new potential customers and opportunities for cross-selling of other financial services. It is worth noting though that these opportunities can be fully availed only if the current gaps in financial consumer protection are addressed by the relevant authorities as to avoid exploitative practices and ensure "responsible" financial inclusion. Also, in parallel, banks should be closely associated with efforts to raise awareness of electronic payments*[38].

94. ***Retail payments infrastructure development in Albania would benefit from a cooperative approach to central clearing infrastructure and network sharing.*** *By investing more heavily in an interoperable card infrastructure and in expanding acceptance of electronic payment instruments such as cards and e-money, the industry could also increase the efficiency of the remittances disbursements, reducing several of the costs connected to this business (for example, cash management, settlement of the respective positions, etc.). Such effort would allow the RSPs to better compete on services, as payments are a network industry with important externalities.*

95. ***Banks and other relevant disbursing networks should consider the opportunity to expand their partnerships with more than one MTO, opposing the acceptance of exclusivity conditions.*** *This would increase the availability of disbursing options in the market, providing the receivers of remittances with more competitive alternatives.*

[38] For more details and recommendations see the report on "Achieving Effective Financial Inclusion in Albania: a Payments Perspective.

The Role of Public Authorities

<u>Role B: Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the general principles.</u>

Context

96. Where public policymakers decide to take action with respect to remittances by applying the General Principles, the relevant authorities should have appropriate powers and resources. There are multiple tools that can be used by public authorities, depending on the level of involvement authorities decide to undertake. These tools include monitoring, dialogue with the private sector and the provision of information to the public. Public authorities could resort to regulation to address market failures but before doing so they should weigh the perceived benefits of such regulation against the costs of compliance and possible market distortions.

97. Where implementation of the principles involves multiple domestic authorities, public policymakers should ensure that domestic policies are coordinated and that the authorities cooperate on a policy and implementation level. Cooperation at an international level – whether bilateral corridor cooperation, regional cooperation or global cooperation – may also be useful.

98. In cases where the remittance industry has developed self-regulation, the industry may be well positioned to self-regulate service standards. It remains the responsibility of the public authorities, however, to ensure that the self-regulation meets the standards required for a desirable environment.

Status in Albania

99. The BoA is the entity that has the general responsibility for the regulation and oversight of the national payments system. In fact, the current framework gives the BoA a clear responsibility for the regulation and oversight of payment systems and payment instruments (see art. 15 of the Law on Payment System). However, there are no provisions related to the regulation of payment (and remittances) *services* in particular, combined with a limited definition of payment system that does not reflect the current complexities. At the same time, as remittances are cross-border payments and a financial activity, other government authorities have a role in the development of the market for remittances and among them certainly the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Innovation and Public Administration, the GDML, and the CPC.

100. The BoA recently established the National Payment Systems Committee of Albania (NPSC), whose purpose is to support the safety, stability and efficiency of the national payments system in Albania. The NPSC does not have juristic personality, and its decisions are not binding. The BoA chairs the NPSC and the Members include different representatives of the BoA and the Albanian government, and 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. There are no representatives of the NBFIs or the MTOs in the NPSC, even though they can participate as observers in some of the meetings related to the discussions in the areas relevant to their business.

Recommendations

101. ***The BoA should broaden the scope of its oversight powers to explicitly cover payment (and remittances) services.*** *Services can be covered under the oversight of the "national payments system" as a whole defined 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".

102. ***As a BoA initiative to foster cooperation in the NPS, the NPSC should include all stakeholders on an equal footing – including in the remittances space which is an integral component of the NPS.*** *The BoA should consider expanding the participation in the NPSC as voting member to NBFIs and other entities in the remittances market, as well as representatives of users. Given the vital importance of inward remittances to the Albanian economy, the NPSC could be used for a forum of cooperation between national authorities and a channel of communication and consultation with the private sector. In the context of the NPSC, the following issues could be discussed:*

- *Expansion of the network for the disbursement of remittances;*
- *Establishment of a working group for the review of retail payment instruments for the electronic delivery of the remittance flows;*
- *Ongoing discussions and improvements of AML/CFT compliance;*
- *Protection of customers via an industry-based code of conduct;*
- *Dialogue with the authorities on remittance issues and regulation.*

103. ***The NPSC can also be used to develop and implement including committed actions, responsibilities and timelines.*** *It might be appropriate for the NPSC to delegate responsibility for remittances to a sub-committee of interested parties, for whom the recommendations of this report could provide the agenda for their first meeting. To the extent appropriate, such efforts should be aligned with existing initiatives / platforms, such as the Digital Agenda Strategy 2015-2020 launched by the Ministry of Innovation and Public Administration.*

104. ***Authorities should set up a formal coordination framework for remittances involving all relevant ministries and government agencies.*** *This could take the form of an inter-agency working group that holds regular meetings quarterly or even twice-a-year. The working group should be aimed at promoting cooperation among public authorities on a policy and implementation level to ensure that an appropriate, coherent, and coordinated policy framework is in place with regard to remittance services.*

105. ***Albanian authorities could seek forms of cooperation with their equivalent counterparts in sending countries to address issues relating to international remittances.***

I. PROPOSED ACTION PLAN AND NEXT STEPS

Table 10. Main recommended actions to implement the General Principles

TERM	PRIORITY	GENERAL PRINCIPLE	PROPOSED ACTION	EXPECTED OUTCOME	RESPONSIBLE ENTITY
Short/Medium/Long	High/Medium/Low				
Medium	High	General Principle 1: Transparency and Consumer Protection	Introduce proper legislation in the area of transparency and consumer protection for financial services, including payments and remittances	Enhanced protection of customers of financial service providers, including providers of payment and remittance services; increased trust.	Ministry of Finance, BoA.
Short	Medium	General Principle 1: Transparency and Consumer Protection	Set common standards for information disclosure in the area of remittances.	Enhanced transparency and consistent disclosure leading to better-informed choices and increased awareness.	BoA, other relevant authorities.
Medium	Medium	General Principle 1: Transparency and Consumer Protection	Step up efforts on awareness and financial literacy, including education about remittances.	Better understanding of the benefits of using electronic payments.	BoA, other relevant authorities.
Medium	Medium	General Principle 2: Payment Systems Infrastructure	Consider leveraging own infrastructure (e.g. for banks in the same group, internal proprietary network) / partnerships and electronic instruments (e.g. prepaid) to receive and	Lower-cost, more convenient bank products for sending/receiving remittances; less reliance on cash; financial inclusion gains.	Banks.

			disburse remittances.		
Short-Medium	High	General Principle 2: Payment Systems Infrastructure	Remove the relevant barriers to a greater role of non-banks in the provision of payment services and remittances (see also GP3 and GP4)	Higher levels of competition and cheaper costs for the migrants and their families, and potentially increase of the flows of remittances received in the country.	BoA.
Medium	Medium	General Principle 2: Payment Systems Infrastructure	Facilitate inter-operability across all issuers and acquirers in the payments card market.	Greater interoperability; increased competition; more efficient processing of cards transactions.	BoA.
Medium	Medium	General Principle 3: Legal and Regulatory Environment	Adopt functional approach to regulation of payment services and instruments	Services and instruments are regulated on according to risk-based considerations rather than on the basis of the entities that provide them.	BoA.
Medium	High	General Principle 3: Legal and Regulatory Environment	Permit that payment services be provided by non-financial institutions, provided that they can meet the relevant requirements.	Increase competition as a result of new players; new products and services.	BoA.
Short	High	General Principle 3: Legal and Regulatory Environment	Further regulate the use of third parties as agents and sub-agents, in particular: (i) expand use of agents to banks; (ii)	Banks can benefit of agent-based models to expand coverage of certain basic banking services; increased customer protection and trust.	BoA.

			prescribe minimum requirements and liability of principal/MTO ;		
Medium	Medium	General Principle 3: Legal and Regulatory Environment	Reinforce AML/CFT risk-based approach, i.e., risk-level determination and enhanced CDD should be disciplined through laws and regulations rather than guidelines.	Enforceability, higher compliance.	BoA.
Short	High	General Principle 4: Market Structure and Competition	Ban exclusive contracts; ensure that RSPs do not impose exclusivity to their partners and agents	Increased competition possibly leading to lower prices; Expanded coverage of points of service.	BoA.
Short	High	General Principle 4: Market Structure and Competition	Change the access rules of the automated clearinghouse (AECH) to allow access of NBFIs to the extent that they comply with participation requirements.	NBFIs can compete on an equal footing without incurring in additional costs, thus serving better their customers.	BoA.
Medium	Medium	General Principle 5: Governance and Risk Management	Activate consultations to streamline the enforcement of AML/CFT requirements, including by introducing thresholds for lower	More clarity, less complexity, lower compliance costs.	BoA, General Directorate for the Prevention of Money Laundering RSPs.

			compliance requirements.		
Medium	Medium	General Principle 5: Governance and Risk Managemen t	Develop governance standards and risk management guidelines specifically aimed at protecting the integrity of the remittances market.	Higher standards for the management of governance and other types of risk specific to the provision of remittance services.	BoA in consultation with RSPs.
Medium	High	Role of Remittance Service Providers	Proactively offer own services for remittances transactions by creating low-cost products and through stronger collaboration with foreign banks and international MTOs.	Higher level of financial inclusion for the part of the (excluded) population receiving remittances; increased competition; less reliance on cash disbursement.	Banks.
Short	High	Role of Remittance Service Providers	Expand partnerships with more than one MTO, and oppose exclusivity conditions.	Expanded coverage of points of service; increased competition possibly leading to lower prices.	Banks, MTO agents / disbursing networks.
Medium	Medium	Role of Public Authorities	Review and modify its oversight powers to explicitly cover payment (and remittances) services	Stronger, broader legal basis for oversight of payment services	BoA.
Short	High	Role of Public Authorities	Include representative s of non-bank providers of payment and remittance services in the	Representation of all stakeholders on an equal footing in the most important instance of	BoA.

			National Payment System Committee.	public-private collaboration on payment system matters.	
Medium	Medium	Role of Public Authorities	Set up a formal coordination framework for remittances involving all relevant ministries and government agencies.	More efficient cooperation among public authorities on a policy and implementation level; more coherent, coordinated policy framework for remittance services.	BoA, Ministry of Foreign Affairs, the Ministry of Finance, Ministry of Innovation and Public Administration [39], GDML, and CPC. Other relevant authorities as appropriate.

[39] Currently the Deputy Prime Minister

II. COMMENTS FROM THE AUTHORITIES