



The Retail Payment Costs and Savings in Albania

Holti Banka
Financial Sector Specialist
Payment Systems Development Group
The World Bank

Tirana, Albania
June 21, 2018



A Practical Guide for Measuring Retail Payments Costs



- Methodological framework that provides a comparative, standardized, and systematic treatment of demand & supply side retail payment costs, including
 - identification of cost efficient payment instruments;
 - derivation of savings scenarios;
 - incorporation of all the relevant determinants of costs.

Rationale and Background

- Payment system modernization is an increasingly prominent part of the financial sector reform agenda.
- Greater use of electronic payments (vs. cash and paper-based) has been linked to important economic and social benefits, and to broader financial access.
- Expected cost-efficiency gains are often the underlying motivation reform efforts in this area, although actual costs incurred and savings in migrating to electronic payments have been difficult to derive.
- The results from the implementation in Albania would inform the different stakeholders on the status of the retail payments market, the efficient/inefficient retail payment instruments and potential policy interventions.

Policy Messages (1)

- **Access:** since less than 40% of the adult population in Albania has access to a bank account and less than 10% to an e-money account, addressing access to transaction accounts is a first-order priority.
 - Providing a basic transaction account at little or no cost to all individuals and businesses that do not hold an account could be explored.
 - Full digitization of central and local government payments (collection and disbursement) could also help with access.
- **Usage:** the overall use of electronic credit transfers, direct debits, and payment cards have improved substantially but the volume is still low compared with the volume of cash used.
 - Expanding Internet/mobile banking and leveraging electronic instruments for bill payments are critical to phase out costly paper-based instruments and access channels.
 - Financial education programs will be of essence.

- **Time-based costs for consumers associated with cash are significant:** it takes the average Albanian about 42 minutes to get to a pay office, wait in line, and make a cash transaction and about 29 minutes to travel to, wait in line in, and transact in cash at a bank branch.
- **Costs for providers associated with cash are significant:** about 65% of all industry cash costs are linked to processing and branch activities and about 15% to ATM maintenance.
- **Savings:** a shift from cash to electronic payments at point of sale (POS) would be significant (consumer-initiated cash payments at stores amount to 100 million) as it could save businesses up to 600 million lek (\$5.2 million).

Policy Messages (3)

- **Informality:** efforts to combat business informality will be significant in accelerating the shift to electronic payments at the point of sale given that informality and cash have a symbiotic relationship
- **Incentives:** government and industry incentives (for example, fiscal, monetary incentives, but also innovative business models underpinned by technology) may prove useful to boost acceptance of electronic payments at POS.
- **Local Card Processing:** banks face considerable fees for card processing and as such, establishing a local card processing infrastructure could contribute to decreasing some of these costs, which is operationally strategic for banks, and the payments system as a whole.

The Albanian Case

The Retail Payment Costs and Savings in Albania

JUNE 2018



WORLD BANK GROUP



Demand Side Stakeholders

Consumers
897 respondents
Rural and urban

Businesses
462 respondents
Different categories

Government
Central gov.
Public utility companies
Tirana

Supply Side Stakeholders

16 banks
2 e-money issuers
1 MTO
1 bill initiator

Bank of Albania

Access Channels

1. Point of Interaction 	2. Bank Branch 	3. Automated Teller Machine
4. Agent Office 	5. Pay Office 	6. Internet
		7. Telephone/ Mobile network

Payment Instruments

Paper-Based

Electronic

Cash	Paper-Based Credit Transfer	Paper-Based Direct Debit	Cards (debit, credit, prepaid)	Electronic Credit Transfer	Electronic Direct Debit	Online & Mobile Money
------	-----------------------------	--------------------------	--------------------------------	----------------------------	-------------------------	-----------------------

Payment purposes

Compensation for an economic transaction

Payment due to an entitlement or obligation

Personal transfer

Reorganization of the payer's own funds

- Common use cases:
- Purchase of goods
 - Bill payments
 - Purchase of raw materials, etc.
 - Gov't payments

- Common use cases:
- Payment of taxes, fines, fees, etc.
 - Payment of salaries, pensions, social benefits

- Common use cases:
- Personal remittances
 - Payments in the social context

- Common use cases:
- Cash withdrawals & deposits, etc.
 - Transfer of funds between own accounts

Payment Types

		Payee		
		Consumer	Business	Government
Payer	Consumer	P2P	P2B	P2G
	Business	B2P	B2B	B2G
	Government	G2P	G2B	G2G

Access from Demand Side Perspective

38.5% of adults have access to a bank account

33.5% via personal account and 5% via a family member's account

Urban areas: 50% of adults
Rural areas: 23% of adults

92% of businesses have access to a bank account

24% of adults own a debit card

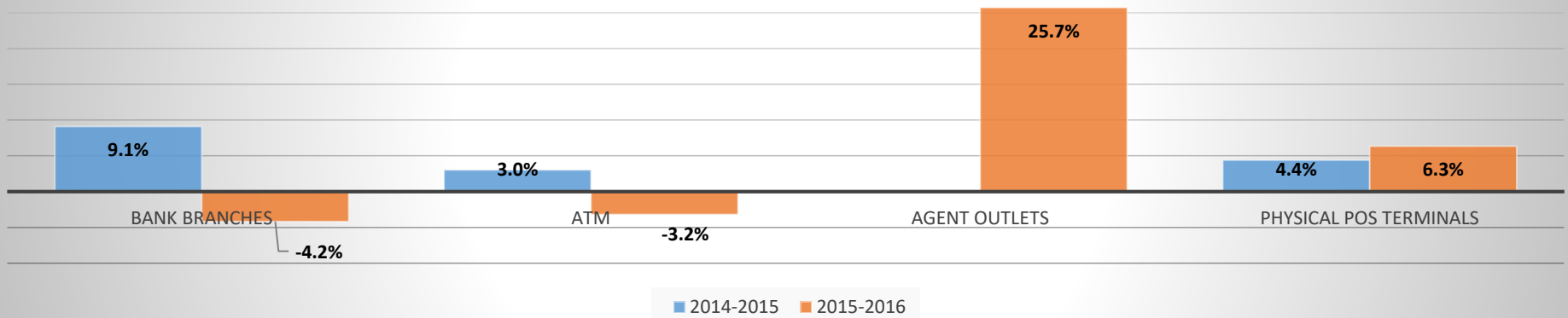
3.5% of adults own a credit card

2% of adults use internet banking regularly (at least once a month)

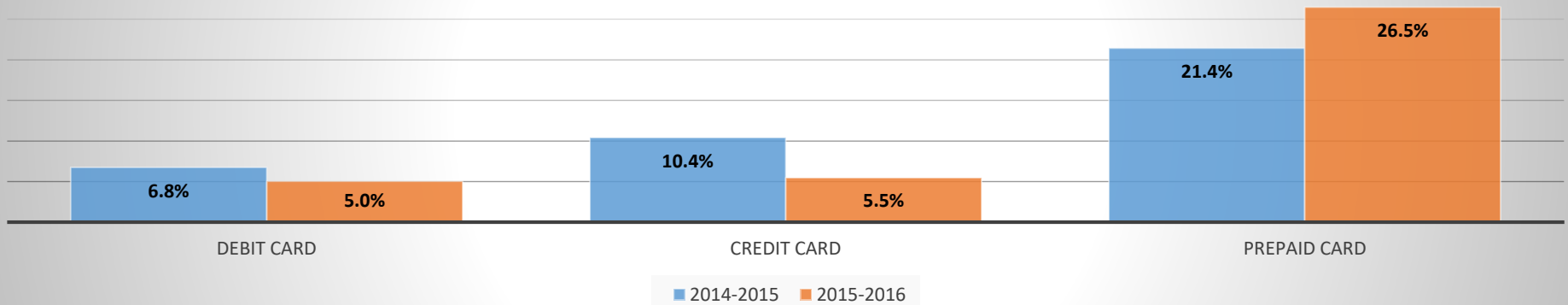
50% of businesses use internet banking regularly (at least once a month)

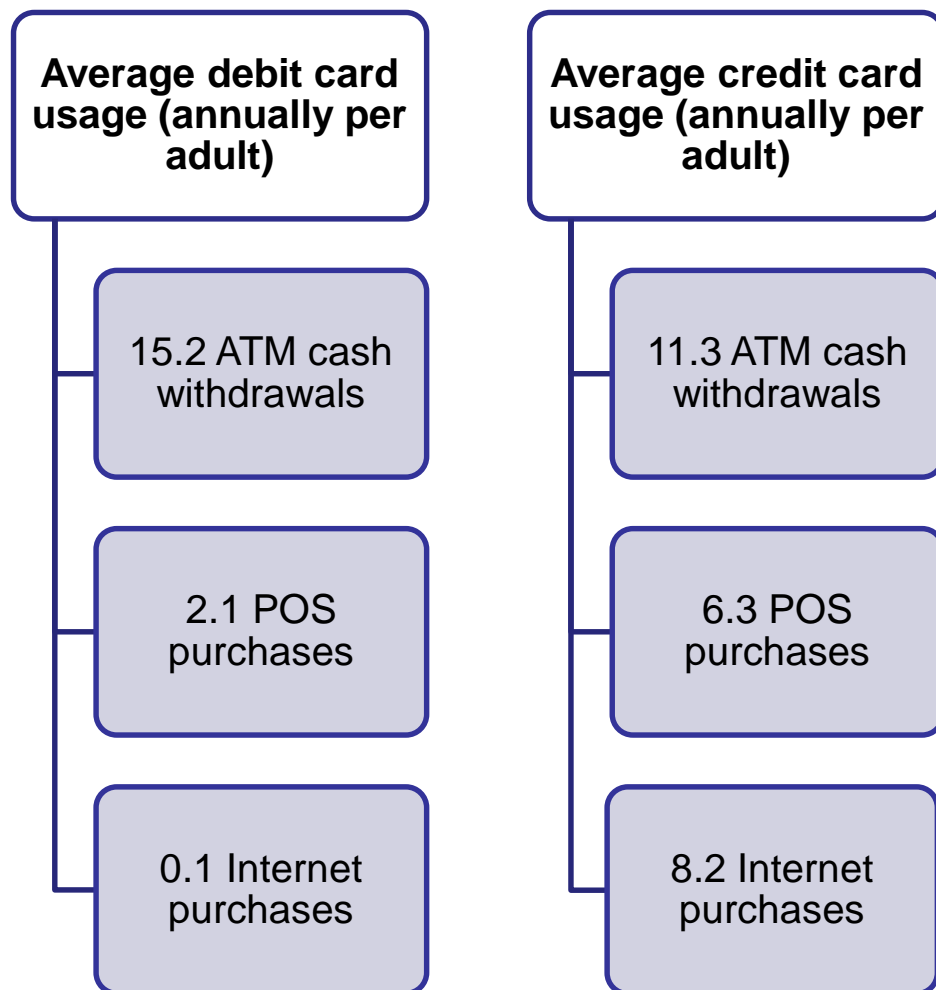
Access from Supply Side Perspective

Net growth rate of access points (per 100,000 adults) over time



Net growth rate of active payment cards in circulation (per 100,000 adults) over time





Of debit card holders, 75% use it exclusively for cash withdrawals

Consumer Flows

Annually Initiated: 127.5 million payments (53 payments/adult)

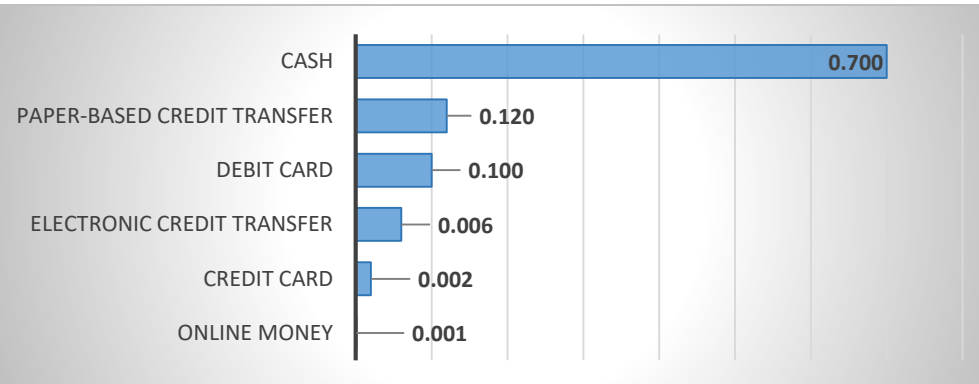
- **Instrument:** 96% cash; 2.2% paper-based credit transfer; 1.2% card; 0.4% electronic credit transfer; 0.2% online money.
- **Access channel:** 78.5% POS; 11.5% branch; 10% agent/pay office/Internet.
- **Use case:** 64.5% groceries; 30% bills; 5.5% other.

Annually Received: 38 million payments (16 payments/adult)

- **Instrument:** 90% cash; 8% electronic credit transfer; 2% online money.
- **Access channel:** 31% branch; 29% hand-to-hand; 7% agent; 5% pay office; 28% other.
- **Use case:** 43% P2P; 23% salaries; 20% pensions; 15% remittances; 14% other G2P.

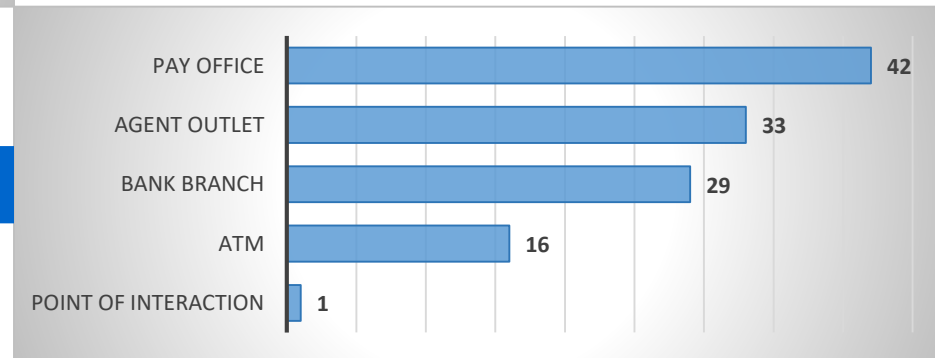
Consumers Costs

Albanian consumers bear annual costs of about **1% of GDP** associated with payments initiated/received by different retail payment instruments.



Annual costs as % of GDP by payment instrument

Time spent for a single trip/transaction by access channel (in minutes)



Businesses Flows

Annually Initiated: 18.2 million payments (792 payments/business)

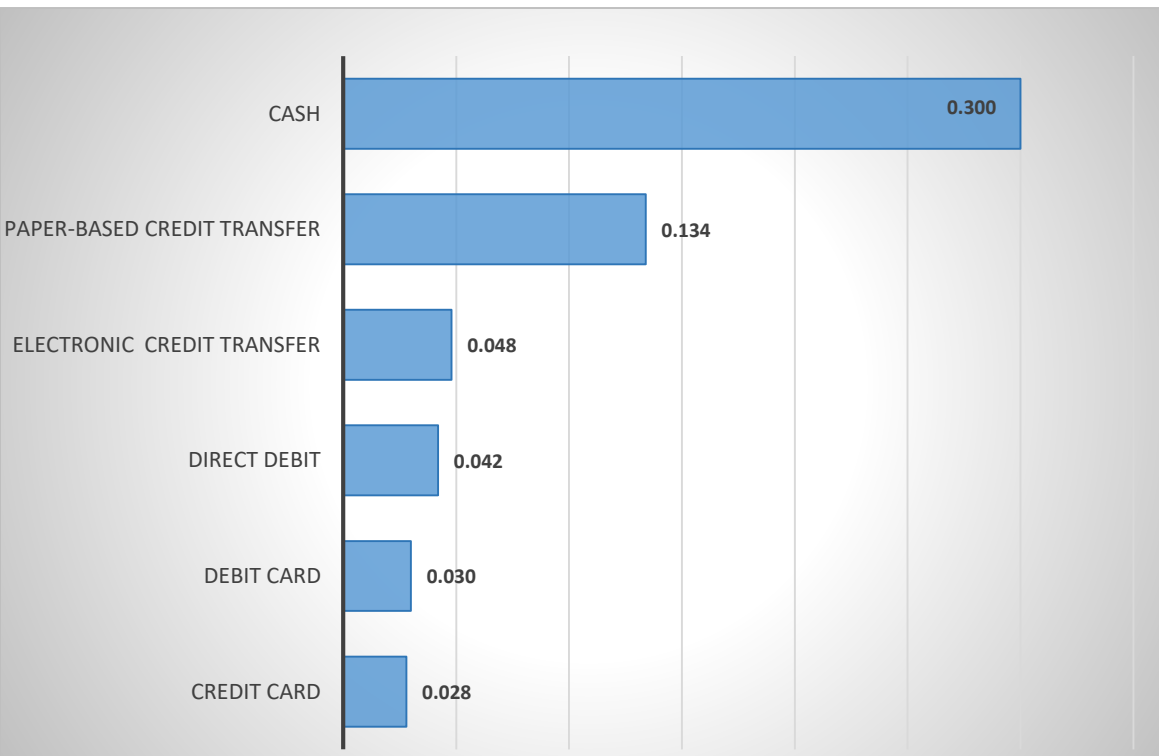
- **Instrument:** 66% cash; 12% electronic credit transfer; 10% paper-based credit transfer; 6.5% electronic direct debit; 5.5% cards;
- **Access channel:** 54% POS; 23% branch; 23% Internet.
- **Use case:** 37% B2B; 23% bills; 20% salaries; 13% services; 6% B2G; 1% other.

Annually Received: 274 million payments (2,543 payments/business)

- **Instrument:** 99% cash; 0.5% cards; 0.3% electronic credit transfer; 0.2% electronic direct debit.
- **Access channel:** 99.6% POS; 0.4% Internet.
- **Use case:** 60% P2B; 37% B2B; 3% other.

Businesses Costs

Albanian businesses bear annual costs of about **0.6% of GDP** associated with payments initiated/received by different retail payment instruments.

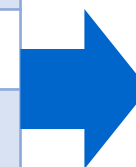


Annual costs as % of GDP by payment instrument

Annually Initiated: 17.5 million payments

Annually Received: 1.8 million payments

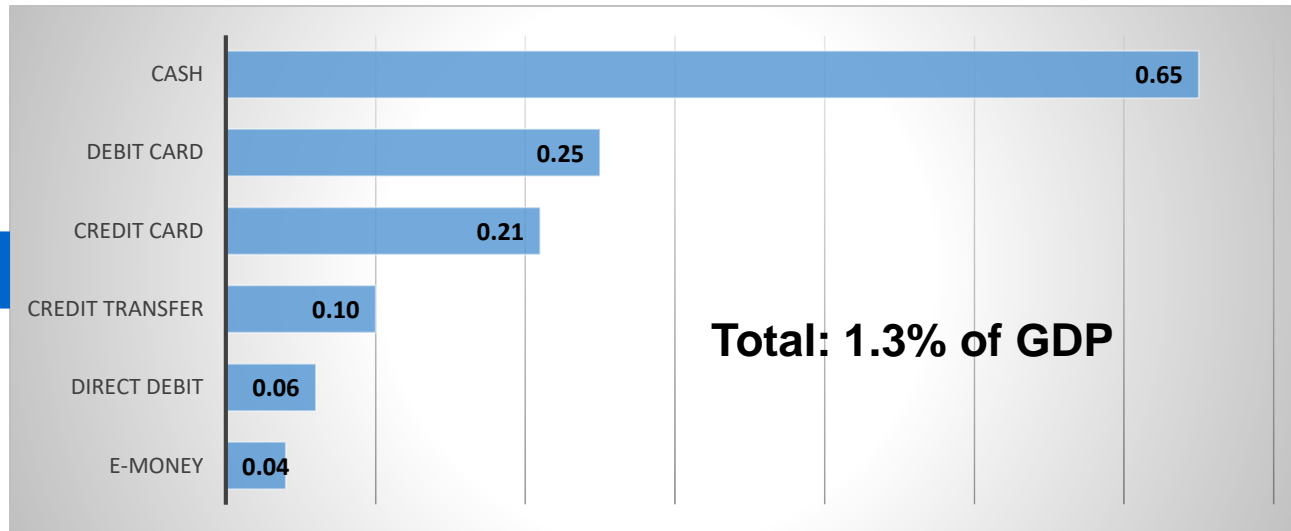
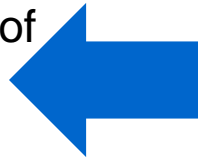
	Cash	Paper-based credit transfer	Electronic credit transfer
Central government	---	52 million lek (\$416,000)	66 million lek (\$528,000)
Local government	200 million lek (\$1.6 million)	---	---
Public utilities	85 million lek (\$680,000)	---	---
Total	285 million lek (\$2.5 million)	52 million lek (\$416,000)	66 million lek (\$528,000)
Total as % of GDP	0.0160	0.0030	0.0035



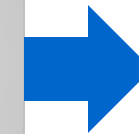
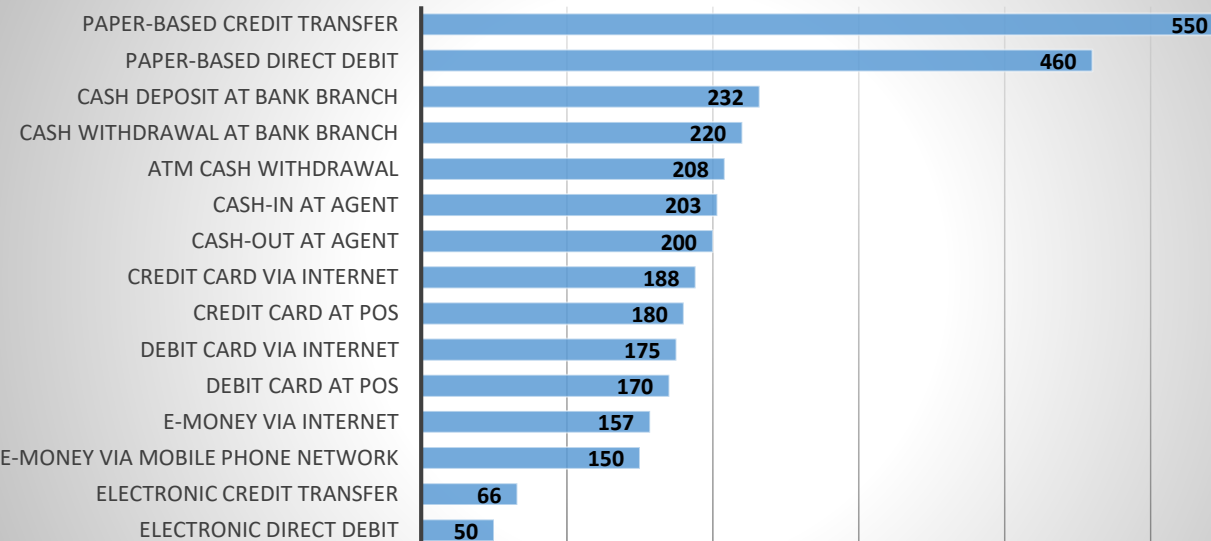
Annual costs by payment instrument and type of entity

Payment Provider Costs

Annual costs as % of GDP by payment instrument



Total: 1.3% of GDP



Average variable cost per transaction processed (in lek)

Service and Infrastructure Costs

Average cost of opening a bank account:
322 lek (\$2.8)

Average annual cost of maintaining a
bank account: 1,900 lek (\$16.3)

Average cost of producing a debit card:
900 lek (\$7.7)

Average annual cost of maintaining a
POS terminal: 12,044 lek (\$103.6)

Average cost of opening an e-money
account: 168 lek (\$1.4)

Average annual cost of maintaining an
e-money account: 1,500 lek (\$12.9)

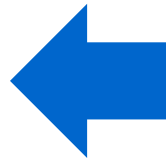
Average cost of producing a credit card:
1,000 lek (\$8.6)

Average annual cost of maintaining an
off-site ATM: 475,000 lek (\$4,085)

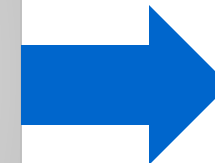
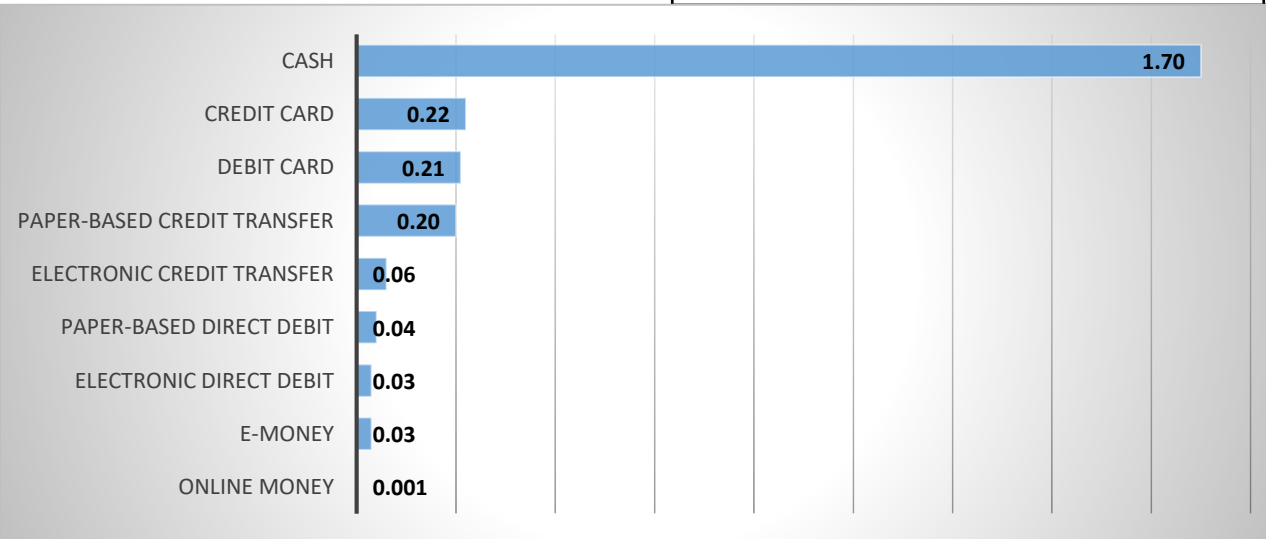
Average annual cost of maintaining an
e-money agent: 126,000 lek (\$1,084)

Total Economy Costs

Stakeholders		Type of costs	Resource costs	Transfer costs	Total costs per stakeholder
		Demand Side	Consumers		12.2 billion lek
			\$105 million	\$55 million	\$160 million
Businesses			7.8 billion lek	2.8 billion lek	10.6 billion lek
Supply side			\$67 million	\$24 million	\$91 million
	Government agencies		328.3 million lek	87.8 million lek	416.1 million lek
	PSPs/PIPs		13.4 billion lek	4.6 billion lek	18 billion lek
			\$115.2 million	\$39.6 million	\$154.8 million
Total economy costs			33.7 billion lek		
			\$290 million		
			2.5% of GDP		



Annual costs by type and stakeholder



Annual costs (resource) as % of GDP by payment instrument

Projected Savings

Projected savings at different conversion rates



Substitution scenario/savings domain	Savings: 35% conversion rate			Savings: 70% conversion rate			Savings: 100% conversion rate		
	Lek	US\$	% of 2016 GDP	Lek	US\$	% of 2016 GDP	Lek	US\$	% of 2016 GDP
Cash→debit card	1.9 billion	16.3 million	0.136	3.9 billion	33.5 million	0.280	7.9 billion	68 million	0.570
Cash→credit card	1.7 billion	14.6 million	0.122	3.5 billion	30.1 million	0.252	7.6 billion	65.4 million	0.548
Paper-based credit transfer→electronic credit transfer	2.2 billion	18.9 million	0.160	4.3 billion	37 million	0.310	8.2 billion	70.5 million	0.600
Paper-based credit transfer→e-money	312 million	2.7 million	0.022	760 million	6.5 million	0.055	1.1 billion	9.5 million	0.080

Use case: Payments for utility bills (P2B)
Substitution scenario: Cash→electronic direct debit
Conversion: 50 percent

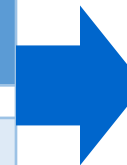
Savings for consumers	Savings for businesses	Savings for PSP/PIP
750 million lek \$6.5 million	1 billion lek \$8.2 million	1.8 billion lek \$15.5 million

Use case: Pensions (G2P)
Substitution scenario: Cash→electronic credit transfer
Conversion: 50 percent

Savings for consumers	Savings for government agencies	Savings for PSP/PIP
385 million lek \$3.3 million	350 million lek \$3 million	500 million lek \$4.3 million

Use case: Remittances (P2P)
Substitution scenario: Cash→electronic credit transfer
Conversion: 50 percent

Savings for consumers	Savings for PSP/PIP
300 million lek \$2.6 million	800 million lek \$6.7 million



Indicative use case substitutions and savings

Thank You!!!

Holti Banka

hbanka@worldbank.org