



SECO-FUNDED REMITTANCES AND PAYMENTS PROGRAM – ALBANIA

ALBANIA NATIONAL RETAIL PAYMENTS STRATEGY (2018-2023)

June 2018

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List of Acronyms and Abbreviations

| | | | |
|-------|--|------|--|
| AAB | Albanian Association of Banks | KYC | Know Your Customer |
| ACH | Automated Clearing House | MDR | Merchant Discount Rate |
| AECH | Albanian Electronic Clearing House | MIC | Middle Income Country |
| AIPS | Albanian Interbank Payments System | MTO | Money Transfer Operator |
| ALL | Albanian Lek | NBFI | Non-bank Financial Institution |
| AML | Anti-Money Laundering | NGO | Non-Governmental Organization |
| ATM | Automated Teller Machine | NPS | National Payments System |
| BIS | Bank for International Settlements | NPSC | National Payment System Committee |
| BOA | Bank of Albania | NRPS | National Retail Payments Strategy |
| CDD | Customer Due Diligence | P2B | Person-to-Business |
| CFT | Combating the Financing of Terrorism | P2P | Person-to-Person |
| CPMI | Committee on Payments and Market Infrastructures | PFMI | Principles for Financial Market Infrastructure |
| ECA | Europe and Central Asia | POS | Point of Sale terminal |
| EU | European Union | PSD | Payment Services Directive |
| FMI | Financial Market Infrastructure | PSO | Payment Systems Operator |
| G2B | Government-to-Business | PSP | Payment Service Provider |
| G2P | Government-to-Person | RTGS | Real Time Gross Settlement |
| GDP | Gross Domestic Product | SCA | Savings and Credit Associations |
| ILF | Intraday Liquidity Facility | SSI | Social Security Institute |
| IOSCO | International Organization of Securities Commissions | WBG | World Bank Group |

EXECUTIVE SUMMARY

- i. **The strategic approach to the development of retail payments in Albania is informed by a clear vision:** *to create a modern and inclusive retail payments market in Albania, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable payment service users throughout the country.*
- ii. **The Albania National Retail Payments Strategy (NRPS) 2018-2023 builds on a decade of efforts undertaken by the Bank of Albania (BoA) in coordination with other public sector authorities and the private sector to modernize the Albanian national payments system (NPS).** Among other achievements, safe and efficient central clearing and settlement systems were implemented for interbank payments, a sound and comprehensive legal and regulatory framework was developed, a formal inter-institutional cooperation framework was put in place, under the leadership of the BoA, and payment system research was enhanced. Over the last five years, electronic payments have been growing steadily, and new payment instruments (e.g., e-money) have become available.
- iii. **Notwithstanding this progress, developing a modern and inclusive retail payments market in Albania will be a major national undertaking.** In spite of a growing economy, less than 40% of the adult population in the country have access to a transaction account¹ with a bank or other regulated payment service provider, and the usage of those accounts is low when compared to peer countries. For instance, the total number of cashless payment transactions per inhabitant in Albania was 4.3 in 2016, whereas on average upper-middle income countries report over 40 cashless transactions per inhabitant.² On average, upper-middle income countries have account ownership rates of 70% of the adult population.³ As a consequence, cash usage is deeply rooted in the payment habits of Albanian consumers and businesses. Of all payments initiated by consumers, 96% are in cash, as compared to 90% of payments received. Similarly, businesses in Albania receive 99.2% of all payments in volume terms in cash, while 66% of payment initiated by businesses are in cash. This heavy cash reliance has significant cost implications on users: the aggregate cost of cash for the demand-side alone is about 1 percent and consumers bear the highest share, whereas on a per transaction basis, paper-based credit transfers is the most costly payment instrument.
- iv. **The reasons for the still low usage of non-cash payment instruments in Albania range from a low share of adults holding accounts, to the design of the various payment products available in the country, the scarce access points and acceptance of electronic payments, low financial literacy, and high economic and labor informality.** A higher share of adults having a transaction account is likely to lead to higher usage of non-cash payment instruments, although not necessarily. Accountholders may decide not to use the non-cash payment features of their accounts, a major reason being that these do not satisfy their needs, and cannot be conveniently used at the merchant location. Or, they often lack the necessary awareness and capabilities that enable them to make effective use of their accounts and of electronic payment services. On the other hand, high levels of economic and labor informality will tend to preserve a low share of adults having and using an account regularly, and a strong preference for cash which, in turn, does not help in building the business case for electronic payments acceptance.

¹ Transaction accounts are defined as accounts (including e-money accounts) held with banks or other authorized and/or regulated payment service providers (PSPs), which can be used to make and receive payments and to store value. Transaction accounts can serve as a gateway to other financial services.

² World Bank 2015 data from the Global Payment System Survey.

³ World Bank Global Findex data, 2014.

v. **The Albania NRPS provides high-level strategic guidance on the way forward to establish a modern and inclusive national retail payments market, in line with international standards and best practices, along six guiding principles:**

- **Guiding Principle 1: Transparency, fairness, and protection of users.** Transparency is vital both to enhance competition and to strengthen the protection of users of retail payments. Fairness in the domestic retail payments market ensures that stakeholders share the perception that their individual interests and needs are taken into consideration and are adequately addressed. Consumer protection efforts reduce the imbalances of information, resources, and power that are characteristic of a service relationship between individuals / small businesses on the one hand and banks / payment service providers on the other hand. Finally, financial literacy efforts enhance potential new and existing financial service users' capabilities.
- **Guiding Principle 2: State-of-the-art and interoperable payment infrastructures and access point networks.** State-of-the-art payment infrastructures will be in place to support the fast, efficient and sound processing of all relevant payment instruments and enabling the proliferation of innovative payment services. All payment infrastructures deemed systemically important by the BoA will observe the CPMI-IOSCO "Principles for financial market infrastructures" (PFMIs). Other payment infrastructures will follow best international practices, at a minimum. From time to time, the BoA will assess the degree of systemic importance of infrastructures and indicate the international standards / best practices by which they should abide. Payment infrastructures and access point networks will be interoperable, thus increasing efficiency and enabling the seamless use of payment products throughout the country, at a reasonable cost.
- **Guiding Principle 3: Appropriate legal and regulatory framework.** Non-discriminatory entry rules and participation conditions in the market for the provision of retail payment services will be preserved and enhanced as necessary. Payments regulation will keep abreast of market developments in Albania and best international practice.
- **Guiding Principle 4: Strong competition, complemented with cooperation.** The market for the provision of retail payment services will be protected against anticompetitive behavior and the abuse of dominant position, including through close monitoring. A right balance will be sought between competition and cooperation within the retail payments industry. Private-sector initiatives will be supported to become a self-propelling force in the development of safe and efficient NPS.
- **Guiding Principle 5: Governance and risk responsibilities.** An appropriate risk management framework will ensure that risks and costs in the retail payments market are identified and managed appropriately. The maintenance of a balance between risk reduction and the associated costs will be sought, keeping in mind that new market developments may, from time to time, alter the current equilibrium. A progressive, yet cautious approach will be followed in responding to new technological developments. Sound and effective governance arrangements will underpin the provision and sharing of infrastructural services by public or private sector entities.
- **Guiding Principle 6: Effective oversight.** Through oversight, the BoA will aim at preserving the safety of the retail payments market and the NPS more broadly, and at promoting its efficiency, affordability and inclusiveness. In discharging its oversight responsibility, the BoA will continue to apply best practices in line with the principles and standards developed by the international financial community. As part of its oversight activities, the BoA will ensure continuous policy dialogue with all relevant stakeholders of the retail payments market. As a catalyst for change,

the BoA will adopt and/or promote measures to facilitate a more rapid evolution and development of the retail payments market.

vi. **The NRPS lays out a detailed framework for expanding access to transaction accounts and accelerating the use of electronic payment instruments, comprising eight areas for action:**

1. **Stronger stakeholder commitment**, through a (i) broadened National Payment System Committee (NPSC) under the leadership of the BoA; (ii) a deliberate, coordinated and strategic approach to enhance access to transaction accounts and to advance broader financial inclusion; and, (iii) enhanced capacity and know-how on retail payments matters.
2. **Consolidation of a conducive regulatory environment for retail payments**, by (i) ensuring neutrality and proportionality in the licensing and regulation of payment service providers; (ii) facilitating innovative business models that leverage the use of third parties (e.g. for agent services) and outsourcing; (iii) strengthening the legal basis of BoA oversight of payment services; (iv) articulating the consumer protection framework, including monitoring and enforcement mechanisms, and effective dispute resolution; and, (v) reinforcing the tiered anti-money laundering (AML) / combating the financing of terrorism (CFT) compliance structure.
3. **Improvements to payment and other supporting infrastructures**, including (i) intensification of collaborative efforts to ensure that the payment card switching infrastructure starts operations on a full scale – with most or all card issuers and acquirers as soon as possible, under appropriate governance arrangements; (ii) analyzing the potential implementation of infrastructure to enable the processing of instant payments at the retail level; (iii) implementation of fair and open access policy to payments infrastructure; (iv) effective mitigation of financial risks incurred in payment infrastructures; (v) leveraging fully the existing ID infrastructure and modern identification services for know-your-customer (KYC) processes.
4. **Customer-centric and affordable payment services based on accounts**, which translates in (i) designing mainstream payment products for the unbanked that are affordable, yet maintaining the essential features of a transaction account; (ii) making payment products more convenient in general, by enabling interoperability of all transaction accounts (i.e. between bank current accounts and e-money accounts); (iii) using pricing as an incentive for increased usage of electronic payments; and, (iv) regularly review / disseminate BoA price database of banking services as a tool in the hands of consumers to effectively compare products.
5. **Expansion of access points and networks for payments**, by (i) developing the agent banking model to increase the reachability and convenience of bank current accounts to the population, including by leveraging the infrastructure of entities with a traditionally stronger presence in rural and isolated communities; (ii) achieving interoperability of payment channels and outlets, being exclusivity generally forbidden; (iii) analyzing the feasibility of incentives to merchants (e.g. temporary fiscal subsidies to smaller businesses and/or other types of fiscal benefits) to accept electronic payments; and, (iv) enhancing transparency and data collection of merchant discount fees.
6. **Effective financial literacy efforts**, aimed at (i) increasing the public's awareness of the NRPS and its benefits; (ii) informing and educating current and potential users on accounts and electronic payments, by intensifying and re-focusing existing efforts; (iii) incorporating hands-on training as part of bank/non-bank financial institution (NBFI) consumer onboarding; (iv) building awareness on the benefits of using the e-Albania portal; and (v) measuring the effectiveness of financial education efforts and programs.

7. **Economies of scale in the NPS by leveraging large-volume payment use cases.** Specific actions include (i) migrating all government payments and collections to electronic payments to the largest extent possible, including by leveraging “basic” account products and non-bank models/channels; (ii) building on utility bills and mass transit payments to accelerate migration from cash to electronic payments; and, (iii) facilitating account services for remittances instead of cash, by increasing competition and fostering innovation in the Albanian remittance market. The latter actions will benefit from coordination with the National Strategy and Action Plan for Diaspora and Migration (2018 - 2024).
 8. **Effective BoA oversight of the retail payments market and supervision of payment service providers.** In this area, the BoA will (i) revise its legal and policy frameworks to explicitly include payment services in the scope of BoA’s oversight; (ii) ensure that payment service providers and payment system operators regularly review their cost and pricing structure, and that they avoid any abusive pricing practices; (iii) in collaboration with the Competition Authority, guard against any anti-competitive practices in the retail payments market, including by monitoring any actions from market players aimed at denying, hindering or limiting access to services that involve competitors; (iv) ensure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced; and, (v) maintain a publicly available register of the agents used by banks and other payment service providers.
- vii. **The successful implementation of the strategy will require that specific roles and responsibilities be assigned to various stakeholders, under public accountability rules:**
- a. The NRPS identifies in the BoA a critical actor in supporting cooperation and coordination among stakeholders for the implementation of the strategy, and in prompting collective action from stakeholders whenever necessary. This role is fulfilled by the BoA in its capacity as catalyst of payment system reform, regulator, overseers, payment system operator, and user of payment services.
 - b. In addition, the NRPS assigns responsibilities to the Albanian Association of Banks (AAB), which range from coordinating and representing the interests of its members on any matters relating to the NRPS, to promoting and coordinating initiatives to create privately-owned retail payment infrastructures and integration, design and adoption of common standards, and facilitating interoperability.
 - c. The NPSC, as a consultation body on payment system matters, will be involved mainly in monitoring progress, and will be best positioned to accelerate progress when necessary, and to facilitate communication between public and private sector stakeholders.
 - d. Important roles and responsibilities are likely to be played by government agencies holding regulatory responsibilities in areas that have critical contiguities with the NRPS.
 - e. Payment service providers individually will contribute to NRPS implementation by committing to transparency in carrying out their business vis-à-vis their customers, managing all risks associated to the provision of payment services, and adopting the strategic directions approved by the NPSC.
 - i. Payment system operators will support NRPS objectives by committing to interoperability and to cooperation, abiding by international standards and emulating best practices, and maintaining fair and open access to infrastructure, while adopting the strategic directions approved by the NPSC.

- ii. Finally, industry associations and civil society organizations will engage on specific issues, in accordance with their statutory objectives and responsibilities, and at the request of the NPSC, to support strategy implementation and buy-in.
- viii. **Monitoring progress in the implementation of the NRPS is critical to determine its effectiveness, and as an input into periodic reviews and evaluation.** For this purpose, two measurable overarching objectives have been established at the outset:
 - 1. **Increasing the current number of cashless payments per capita by 130%, to 10 such payments by end-2023. The starting point is 4.3 cashless payments per capita observed as of end-2016.**
 - 2. **Achieving an adult account ownership ratio of 70% by 2022. The starting point is 40% of adult account ownership observed in 2017.**
- ix. A number of “intermediate variables” that convey the progress towards the agreed vision and overarching objectives and encompass several indicators of access and use of transaction accounts will also be measured and monitored. This will help in identifying course correction requirements promptly.
- x. **The NRPS will be discussed and reviewed in various fora as part of the process of obtaining “buy in” acceptance and ownership by the relevant stakeholders.**

I. THE FUTURE OF RETAIL PAYMENT IN ALBANIA: OUR VISION

To create a modern and inclusive retail payments market in Albania, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable payment service users throughout the country.

Our goal is that the improvements in the retail payments market will give Albanian citizens more choices across more places for conducting their day-to-day transactions in a convenient and cost-effective manner, also supporting the objective of broader financial inclusion.

II. INTRODUCTION AND BACKGROUND

- 1. The Bank of Albania (BoA) in coordination with other public sector authorities and the private sector has been spearheading the reform of Albania’s national payments system already for more than a decade.** Among the main achievements so far, modern systems for the safe and efficient processing of payments across the banking sector have been implemented, together with a sound and comprehensive legal and regulatory framework.
- 2. Stakeholders are now increasing their focus on enhancing retail payments in Albania, and to this end have developed this National Retail Payments Strategy (NRPS).** The Albanian NRPS is the result of a joint effort by stakeholders from the Albanian public sector and the private sector, under the leadership of the BoA.
- 3. Retail payments are mostly low-value payments to and from individuals, and between individuals, businesses and government entities.** The retail payments market is conceptualized here as the set of technical infrastructures, participants, instruments, arrangements for clearing and settlement, and business relationship arrangements (such as bank-customer relationships, rules, procedures, the applicable legal framework, and governance arrangements). Put together, these provide the overall environment within which retail payment services are provided/purchased/used, and within which the underlying payment transactions are posted, authorized, processed, cleared, and settled. Although the retail payments market and the systems through which such payments are processed are only rarely considered to be “systemically important”,⁴ they contribute to both the stability and efficiency of the financial system as a whole and citizens’ confidence in the domestic currency.
- 4. Developing a modern and inclusive retail payments market in Albania will be a major national undertaking.** In spite of a growing economy, only about 40% of the adult population in the country have access to a transaction account⁵ with a bank or other regulated payment service provider, and the usage of those accounts is low when compared to peer countries. In this context, it is important to notice that by having a transaction account individuals and businesses may take advantage not only of the modern payment products and services that are provided through those accounts; access to and extensive usage of transaction accounts is also a stepping-stone for broader financial inclusion, which entails having access to a full range of financial services such as credit, savings and insurance.
- 5. This NRPS provides high-level strategic guidance on the way forward to establish a modern and inclusive national retail payments market, in line with international standards and best practices.** It also lays out a detailed framework for expanding access to transaction accounts and accelerating usage of electronic payment instruments. The document has been prepared by the BoA in consultation with relevant stakeholders and represents the commitment of Albania to mapping out the future of its retail payments market.
- 6. The document has been guided by observations and recommendations around the World Bank Group’s Guidelines for Developing a Comprehensive National Retail Payments Strategy.** These

⁴ Systemically important payment systems are essential to the proper functioning of the financial system; a failure could trigger disruptions or transmit shocks, both at local and at cross-border level. Large-value payment systems that process interbank money market operations, the cash leg of securities trades, and the cash leg of foreign exchange trades are typically qualified as systemically important payment systems. Some customer transactions may also be processed in these large-value payment systems. From time to time, the BoA will assess the degree of systemic importance of payment systems and indicate the standards / best practices by which systems should abide.

⁵ Transaction accounts are defined as accounts (including e-money accounts) held with banks or other authorized and/or regulated payment service providers (PSPs), which can be used to make and receive payments and to store value. Transaction accounts can serve as a gateway to other financial services.

guidelines provide a framework for addressing the main obstacles and constraints that are faced when fostering the development of a modern retail payment market, aiming at achieving a balance between competition and cooperation, access and affordability. The above-mentioned guidelines address the core issues of: i) transparency, efficiency, and consumer protection; ii) infrastructure; iii) legal and regulatory aspects; iv) competition; v) governance and risk management; and, vi) oversight. Weaknesses and imbalances in any of these core areas can slow or distort the evolution to a modern, efficient retail payments market.

7. **After describing the current status of retail payments in Albanian, the document defines the principles that will guide the strategic choices to be made in the near- to medium-term future by the BoA and the community of stakeholders.** The document identifies the strategic objectives to be pursued, and singles out the areas and types of action that will have to be implemented to achieve the identified objectives. The document also illustrates the payment instruments, institutional and infrastructural arrangements, and financial infrastructures that need to be put in place, as well as the strategic approach to be deployed. An implementation plan is laid out at the end with indications of specific actions to be taken, the roles and responsibilities of the various stakeholders and the related prioritization in the execution of the plan.

8. **The contents of this document have been discussed and reviewed in various fora as part of the process of obtaining “buy in” acceptance and ownership by the relevant stakeholders.**

III. OVERVIEW OF RETAIL PAYMENTS IN ALBANIA

Key stakeholders

9. **The key stakeholders in the Albanian retail payments market comprise the Bank of Albania (BoA), which is at the apex as the monetary, supervisory and oversight authority, the commercial banks and other payment service providers and operators, and the community of users of payment services.** Commercial banks are licensed and supervised by the BoA, which also licenses and supervises non-bank financial institutions (NBFIs) and savings and credit associations (SCAs) and their unions. Other financial institutions are supervised by the Albanian Financial Supervisory Authority. These include insurance companies, pension funds and investment funds.

10. **The BoA plays various critical roles in the Albanian national payments system, acting as operator of payment systems, overseer of the national payments system, and catalyst of change.** As an operator of payment systems, the BoA owns and operates the Albanian Interbank Payments System (AIPS), which constitutes the backbone of the country's financial market infrastructures, and the Albanian Electronic Clearing House (AECH) for the clearing of low-value credit transfers. Both systems are described in more detail below.

11. **BoA is legally empowered as the regulator and overseer of the Albanian national payments system.** These powers explicitly cover payment and securities settlement systems, as well as payment instruments. For the purpose of discharging its oversight responsibilities, the BoA has established an Oversight Division within the Payment System, Accounting and Finance Department.

12. **Finally, BoA also contributes to the development and reform of the national payment system in its capacity as catalyst of change.** In this role the BoA initiates, coordinates, researches and consults on payment system design, operation and policy, advises the Government on payment system related issues, and contributes to the drafting of legislative proposals in the field of payment systems.

13. **The National Payment Systems Committee of Albania (NPSC) was established recently.** The purpose of the NPSC is to support and contribute to increasing the security, stability and efficiency of the national payment system in Albania. The NPSC does not have juristic personality, and its decisions are not binding for participating members. It has held three meetings to date, the most recent one in May 2017.

14. **As of October 2016, there were 16 licensed banks in the country and 9 NBFIs licensed to provide payment services.** Commercial banks hold almost 91% of total financial assets in Albania, and are the main providers of payment services. Out of the 9 NBFIs that are licensed to provide payment services, 2 are also allowed to issue e-money; the others participate in the provision of domestic payment services, and a few others in international remittances.

15. **SCAs also intend to increase their involvement in the provision of payment services.** SCAs', due to recent legal changes,⁶ are legally able to provide certain payment services (cash payments, as SCAs cannot issue current accounts), although none of them have yet started to implement any specific project in this area.

⁶ Law 52/2016, dated 30.06.2016 " On saving and credit companies and their unions"

Legal and regulatory framework

17. **The legal foundation for the NPS is derived from the Law on the Bank of Albania of 1997, amended, the Law on Payment System of 2013, and to a lesser extent also the Law on Banks in the Republic of Albania.** The Law on Payment System establishes a sound legal basis for safe functioning of payment systems and payment instruments by incorporating fundamental legal concepts. Moreover, the Law on the Bank of Albania and the Law on payment System clearly empower the BoA as the regulator and overseer of the national payments system. In this context, the BoA issues regulations, decisions, operational rules, standards and procedures governing the payments systems it operates, as well the activities of various other NPS participants (e.g., operators of payment card schemes).

18. **A legal framework that promotes innovation and competition in the market place is developing.** Laws and BoA Regulations have been amended to accommodate new technologies and business models. For example, the Law on Banks provides the possibility for NBFIs to compete in the payments market, including in the issuance and operation of e-money (after being licensed as e-money institutions). Further, the legal foundations for the provision of digital financial services has been established including for electronic payments, electronic signatures, electronic communications and electronic identification of customers.

19. **A comprehensive legal and regulatory framework for anti-money laundering (AML) / combating the financing of terrorism (CFT) risk management measures has been recently introduced.** Albania has made significant progress and implemented the required measures in order to strengthen the effectiveness of its AML/CFT system. This framework preserves the integrity of the financial system, and by adopting a risk-based approach does not unnecessarily inhibit individuals and businesses from accessing and using well-regulated financial services.

20. **Based on existing laws, BoA has developed a set of regulations that cover in detail a wide variety of aspects related to payment systems, instruments and services.** Among others, these include the regulations have been developed for setting the criteria, procedures and terms for licensing NBFIs to provide payment services, and for licensing legal entities to operate a payment system or a clearing house; the regulations for the licensing, operation and management of national card payment schemes; regulations on electronic payments; regulations on risk management in payment activities of banks and NBFIs, including on cross-border payments; and, regulations on AML and CFT.

21. **Key aspects to underpin increased consumer uptake of transactions accounts and modern payment instruments have been developed in various laws and regulations.** Many issues in this area such as the protection of customers' funds held in transactions accounts, transparency in the provisions of payment services or consumer complaint mechanisms are embedded in some of BoA's regulations. Moreover, there is explicit deposit insurance which covers money deposits in banks and in SCAs, while funds in e-money accounts are protected through different provisions.⁷ There is also a Consumer Protection Law in place, although it is of a general nature, i.e. it does not specifically target payment or other financial services.

22. **To address most of the remaining gaps, Albania will leverage on the existing efforts to bring the national legislation in line with that of the European Union (EU).**⁸ Areas of opportunity in the legal and regulatory framework for payments include achieving a more consistent approach in the licensing, regulation and supervision of banks and non-banks that provide payment services; ensuring a coherent regulation of outsourcing, including developing a comprehensive framework for the use of agents and

⁷ The amended Banking Law explicitly excludes e-money from the concept of deposit.

⁸ Albania acquired "EU Candidate" status in June 2014.

sub-agents in the provision of payment services; and, developing a stronger framework for the protection of payment services users. In this context, BoA is already working in a number of projects, including: (i) the transposition of the EU Payment Services Directive 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”.

Financial inclusion in Albania from a payments perspective

23. **Based on the Global Findex database, as of 2014 less than 40% of adults⁹ in Albania had an account with a bank or other regulated payment service provider.** It should be noted that until recently in Albania there was no such concept of “a transaction account” or “payments account”, and only banks could issue accounts. Amendments to the Banking Law in 2011 (art. 4) and in 2013 to the NBFi licensing regulations enabled e-money issuance activity. To date, two non-bank e-money issuers have been licensed and are operating.

24. **As of end-2015 individuals owned 3,094,995 resident bank accounts and 18,347 non-resident bank accounts.¹⁰ However, it is estimated that only about 700,000 different individuals that have a current account with a bank.¹¹** With regard to e-money accounts with non-banks, the total number of such e-money accounts that are active (i.e. at least one transaction per quarter) is around 60,000, which is slightly more than 3% of the total population aged 15 or above in Albania.¹²

25. **While there has been some progress from year 2011, the share of adults in Albania that had an account in 2014 still compared unfavorably to peer countries in the Europe and Central Asia (ECA) region, and more even so to upper middle income countries (MICs) around the world.** Table 1 shows data on account holding and usage in Albania as of 2014, and equivalent figures for the countries of the ECA region as a whole, as well as for MICs.¹³

26. **Table 1 shows that the low percentage of accountholders in Albania is somewhat worse for women, young adults and adults living in rural areas.¹⁴** This is in tandem with the equivalent figures for other ECA countries, but is significantly worse for adults belonging to the poorest 40%. Less than 1 in 4 adults in the latter group have access to an account in Albania, compared to almost 1 in 2 in other ECA countries and 2 in 3 for other upper MICs.¹⁵

⁹ Age 15+.

¹⁰ The corresponding figures for businesses are 192,995 resident bank accounts and 1,326 non-resident bank accounts.

¹¹ Based on Global Findex 2014 and on the results of a consumer survey undertaken as part of the BoA-World Bank study on the costs of retail payments in Albania.

¹² This is, assuming that all current holders of mobile money accounts were unbanked individuals, an additional 3% of the population age 15 or above in Albania now have an account to make and receive payments and store some money through the use of e-money accounts.

¹³ Albania is classified by the World Bank Group as an upper-middle income economy.

¹⁴ This can be explained to some extent by the fact that the Government of Albania enforced the channeling of employees' salaries through the banking system. As mentioned earlier, unemployment rates for woman, young adults and rural adults are higher. Hence, these groups are less likely to have an account.

¹⁵ The comparable figure for the Sub-Saharan Africa region is 24.6%.

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

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

Source: World Bank Global Findex 2014 database.

27. **Albania does not have a formal financial inclusion strategy in place, neither from public sector authorities nor from the banking industry.** The closest form of a formal strategy in this area is the NPSC’s Mid-Term Strategy for 2015-2020, which in Objective number 7 states “promoting the use of payment instruments and systems, and expanding financial inclusion”. This also describes a number of measures for achieving these and other objectives. These measures include: i) Implementation of the European Union Directive “On payment services in the internal market” (i.e. EU PSD 2); ii) Creation of a strategy for reducing costs of payment instruments; and, iii) Carrying out studies of needs and opportunities for expanding the ATM and POS networks.

28. **In practice, however, several initiatives have been taken to advance financial inclusion in the country.** These efforts have been led mainly by the BoA, the Albanian Association of Banks (AAB) and the Ministry of Education and Sport, among others.

29. **Moreover, the Ministry of Innovation and Public Administration launched in 2015 a Digital Agenda Strategy 2015-2020.** While, the Strategy itself does not include any specific references to achieving broader adoption of accounts and other financial services by individuals and firms in Albania, it is crucial for materializing important pre-conditions for financial inclusion in Albania (in connection with digital financial services).

30. **The recently appointed the Minister of State for Diaspora launched a draft National Strategy on Diaspora and Migration 2018-2024 aiming to encourage the participation of diaspora in the economic development of the country.** The broad objectives of this initiative and certain measures present synergies with aspects addressed in this NRPS, particularly with regard to channeling remittances through regulated services / products, reducing costs, and disseminate information / knowledge. The first High-level Meeting on the remittances of the Albanian Diaspora was held in December 2017 at the premises of the BoA.

Financial infrastructures supporting retail payments in Albania

The Albanian Interbank Payments System (AIPS)

31. **From an infrastructure perspective, the backbone of the Albanian settlement system is AIPS.** Owned and operated by the BoA, AIPS constitutes the sole system for settling large value interbank

payments in domestic currency, as well as the final settlement of the obligations stemming from other payment systems and clearinghouses in Albania. AIPS is a modern RTGS system whose software was upgraded in 2013, and it provides the tools that banks need to carry out their payment transactions safely and efficiently.

32. **Currently there are 16 direct participants in AIPS, all of which are licensed banks plus the BoA itself.** Article 14 of the AIPS Regulation defines direct participants as those who “*conduct payments directly from their settlement account*” at the BoA, and limits such direct participation in AIPS to banks and the BoA. However, regardless of this regulation, non-banks are, in practice, prevented from becoming direct participants in AIPS due to the Law on the Bank of Albania, which prescribes that only banks can open accounts and hold deposits with the BoA. This restriction applies also to operators of other payment systems and clearinghouses, which need to settle the balances from those systems and clearinghouses through a settlement agent (i.e. one of the commercial banks or the BoA).

The Albanian Electronic Clearing House (AECH)

33. **The BoA also owns and operates the AECH, which is a modern automated clearing house with a similar overall architecture of that of AIPS.** Although the AECH is in principle able to process credit transfers and direct debits, only the former has been implemented to date. The volume of operations in the AECH grew heavily between 2009 and 2011, and since then it has been growing only at an average rate of 5% per year. The software for the AECH was also upgraded in 2013, aligning with SEPA standards

34. **According to article 16 of the AECH Regulation, participants in this system are categorized into direct and indirect participants. Direct participation is currently reserved for commercial banks and the BoA.** Indirect participants, on the other hand, can send and receive payment files on their behalf, but settle in AIPS through the account of a settlement agent. The only indirect participant at the moment is the Ministry of Finance. To become indirect participants in AECH, a party needs approval from the Supervisory Council of the BoA. The AECH Regulation does not specify the criteria that the Supervisory Council would apply in this case.

35. **While there is no “instant payment” service in Albania, the AECH handles three daily clearing sessions and its regulations state that a beneficiary bank must credit the account of the beneficiary customer within the same value date.** Hence, individuals holding bank accounts in Albania can make low-value, person-to-person, and person-to-business transfers with same-day value (as long as the payment was initiated no later than 2:30 pm).¹⁶ Market participants and BoA are nevertheless considering the feasibility of developing truly “instant payments” for the retail payments market, with 24/7 availability.

36. **AECH only clears payment orders denominated in local currency (ALL).** Euro-denominated payments are relevant in Albania, especially for the corporate sector. Some discussion has been taking place on the need of establishing a clearinghouse for this type of payments to decrease the costs and time associated with the use of correspondent banks abroad.

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

¹⁶ However, all payment orders worth ALL 1.5 million or above must be channeled through AIPS.

Card processing and switching

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

39. **Pay Link is a payment cards processor and manufacturer of payment cards that has been licensed as a payment system operator by BoA.** It has already developed a payment card switch solution which is ready for implementation, with certifications as a third-party processor from Visa and MasterCard. However, other banks have not yet expressed interest on becoming users of this switch solution. One reason seems to be that Pay Link is owned by a bank which is also a card issuer and, hence, a direct competitor.

ID and ICT infrastructures in Albania

Citizen ID system

40. **Starting in 2009, Albania has been issuing "smart" ID cards to its citizens in Albania and abroad that have reached 16 year of age.** The smart ID card is required for various important services provided by both government entities and the private sector (e.g. opening a bank account). Hence, by 2015 smart ID cards had been issued to practically all Albanian citizens.

41. **Government and businesses entities can verify an individual's identity online through a web service provided by Aleat (the actual service is known as "e-Aleat Identity Services").** For example, at the time of application for an account, the applicant needs to present his/her smart ID card. Banks that are using e-Aleat have smart ID card readers in which the ID holder enters his PIN or fingerprints for authentication. This service is still evolving. As of early 2017 only five banks and one non-bank PSP have subscribed to e-Aleat services.

ICT infrastructure

42. **According to World Bank data, by year 2012 100% of the population residing in Albania, including urban and rural, had access to electricity.**

43. **The number of (unique) mobile cellular telephone subscriptions had reached about 3.4 million by the end of 2016 according to the International Telecommunication Union (ITU), and resulting in a penetration rate of 105%...** In the same year, for every 100 inhabitants there were approximately 41 active mobile broadband subscriptions (3G and 4G mobile technologies) as compared to 33 for Bosnia, 44 for Montenegro, and 71 for Serbia . In contrast, fixed (wired)-broadband subscriptions had a penetration rate of 7.6%.

44. **Albania has issued a National Broadband Plan for 2013-2020, with the vision of developing broad band infrastructure and services in the whole country in order to gain access to the electronic services in different fields, such as health, education, commerce, and government services, among others.** According to ITU, as of end-2016, 63% of Albanian individuals were using internet, similarly to other peer countries including Bosnia (65%), Montenegro (65%), and Serbia (64%). On the other hand, with 35% of households having (fixed, mobile combined) access to the internet, Albania ranks below the region's peers.

Retail payment instruments used in Albania

45. **Retail payment instruments are defined as instruments that facilitate the transfer of funds.** Retail payment instruments include cash, cheques, credit and debit cards, credit transfers and direct debits, and innovative payment instruments, like e-money. Retail payments can be initiated in person or remotely. Users of retail payment instruments can be broadly categorized into consumers, businesses, and government agencies. All of them have a dual role, being the payer for certain transactions and the payee for others. Depending on the payer-payee combination, retail payments can be categorized into different types. The possible combinations are shown in Table 2 below.

Table 2: Different types of retail payments, based on the payer-payee combination

| Payer \ Payee | Consumer | Business | Government Entity |
|-------------------|----------|----------|-------------------|
| Consumer | P2P | P2B | P2G |
| Business | B2P | B2B | B2G |
| Government Entity | G2P | G2B | G2G |

P=Person, B=Business, G=Government

Source: World Bank (2015), "A Practical Guide for Measuring the Costs of Retail Payments".

Cash

46. **Cash is by far the dominant means of payment in Albania, especially for retail payments.** A study on the cost of retail payments in Albania shows that 96% of payments initiated by consumers in Albania are in cash. After groceries and necessity goods, Albanian consumers make the most payments for periodic bills and services; of these, 90% are made in cash. Domestic person-to-person (P2P) transfers are also heavily cash-based (95%). International remittances are almost exclusively disbursed in cash. Similarly, businesses perform the majority (66%) of their payments in cash, being micro-business significantly more dependent on cash (93% of all initiated transactions) than their larger counterparts. The government has made some progress to reduce the cash in payments of salaries (G2P), and especially for the payment of suppliers, vendors and contractors (G2B). On the other hand, old-age pensions are mostly channeled through physical service channels and paid out in cash.¹⁷

Non-cash payment instruments

47. **Use of non-cash payment instruments in Albania for transactions other than cash withdrawals is low, despite a steady increase since 2011.** The total number of cashless payment transactions per inhabitant in Albania was 4.3 in 2016, still far from other upper MICs and from developed economies. For example, in 2015 Montenegro and Serbia reported 26 and 62 cashless transactions per capita, respectively. Most high-income countries report over 200 such transactions per capita on an annual basis.

48. **Credit transfers are the most heavily used non-cash payment instrument, followed by payment card usage at the point-of-sale, which grew almost 200% over the 2012-2016 period.** Table 3 shows data

¹⁷ Source: BoA-World Bank Study on the Costs of Retail Payments in Albania (ongoing). Demand-side data is 2014.

on usage of the various payment instruments available in Albania. Payment cards still have plenty of room for further growth considering the fact that only between 22-24% of adults in Albania have a debit card (compared to around 70% for ECA countries and upper MICs as a whole) and that they are still mostly used for cash withdrawals at ATMs.

49. **Usage of cheques and paper-based credit transfers is no longer growing or is declining in Albania.** Apart from payment cards, electronic initiation channels are increasingly being used for credit transfers and direct debits, making them also fully electronic payments.¹⁸ Indeed, in 2016 electronic credit transfers grew by 28%. Online banking services have been made available by most retail banks. However, penetration of this service is still low. As of end-2015 only about 130,000 of all accounts held by individuals were accessible via online banking.

50. **Payments using e-money initiated only in 2015.** After two years, payments based on e-money issued by non-banks show a growing trend and already represent about 2% of total non-cash payments.

Table 3: Basic data on usage of non-cash payment instruments in Albania
(Transactions initiated by customers, including individuals and businesses)

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

Source: Bank of Albania.

51. **The reasons for the still low usage of non-cash payment instruments in Albania range from a low share of adults holding accounts, to the design of the various payment products available in the country, to high levels of economic and labor informality.** A higher share of adults having a transaction account is likely to lead to higher usage of non-cash payment instruments, although not necessarily. Account holders may decide not to use the non-cash payment features of their accounts, a major reason being that these do not satisfy their needs. Box 1 summarizes the “design” factors that influence the adoption by users of the various retail payment instruments (including cash) based on the experience on the World Bank. These factors relate both to the intrinsic design of a payment instrument as well as to the elements or features that a payment service provider decides to include in the payments product through which that payment instrument is used. On the other hand, high levels of economic and labor

¹⁸ Electronic payment instruments use electronic means for initiation, authorization and authentication of a payment transaction. However, even though a transaction might be initiated electronically, in some cases the subsequent processes of clearing and settlement might involve some manual procedures.

informality will tend to preserve a low share of adults having and using an account regularly, and a strong preference for cash.

Box 1: Factors Influencing the Adoption of Specific Retail Payment Instruments

The adoption of any given retail payment instrument by consumers, businesses and governments is influenced by how well-suited that instrument is to the specific payment needs of the payer and the payee, as well as how each of these perceive the instrument in terms of risk, liquidity, cost, acceptance, and convenience. For a payer, the choice of payment instruments is typically influenced by the following factors:

- **Cost:** Usage of payment instruments entails both explicit as well as implicit costs. Explicit costs include the direct charges paid by the payer for using the instrument, such as per-transaction fees. Implicit costs incurred include, for example, the waiting time for processing the payment request or the cost of time spent commuting to a designated place to obtain cash to make payments or to be able to use the non-cash payment instrument.
- **Safety and reliability:** A payer needs to have a high level of trust that a payment instrument will work as expected and discharge the payer's payment obligation to the payee as required. This includes aspects related to system uptime, fraud misuse, correcting processing errors, and so forth.
- **Convenience:** The payment instrument needs to be convenient to use. This includes aspects like what the payer needs to remember or what the payer needs to physically carry or use when making the payment, how much time the transaction takes to complete when using that payment instrument, and other related considerations.
- **Acceptance:** A payer would want the payment instrument to be widely accepted for his payment needs. For example, a payment cardholder might not find his card useful if the card is not accepted at locations like grocery shops and restaurants, or for utility payments and other uses that constitute a significant share of the cardholders routine payment needs.
- **Payment confirmation and reconciliation:** A payer wants a confirmation that his payment has been initiated and will be processed as per a defined timeline. This is to serve as a reconciliation record and also as proof that payment has been made. This would help the payer in managing and monitoring his payment account.

For a payee, the factors influencing his choice of payment instruments are similar to those mentioned above, but have some important differences:

- **Cost:** The payee incurs various explicit and implicit costs when accepting a payment instrument. Cash, for example, has associated handling and safekeeping costs. One major implicit cost is the time taken for receipt of funds into the payee's account. The longer the delay, the higher the cost in terms of unearned interest and/or higher liquidity management costs, among others.
- **Acceptance:** In general, the payee would want to accept those payment instruments that a significant proportion of the payers like to use (i.e., "payer's choice"). Some payment instruments will require the payee to have some type of deposit account with a bank or another payment service provider. In addition, for some instruments the payee will need to deploy certain infrastructure, like POS terminals and the associated telecommunications means.
- **Safety and reliability:** The payer needs to trust that the payment instrument he has accepted will be processed as expected and the payment will be honored. This includes aspects like assured processing timelines, system uptime, non-repudiation of payment, and settlement finality.
- **Payment reconciliation and audit trails:** A payee needs payment reconciliation information to enable proper bookkeeping. Payment audit trails are also crucial, for example when defending repudiation related claims.

Source: World Bank, 2012, "Developing a comprehensive national retail payments strategy".

The Government as user of payment services

52. **Public sector mass disbursements typically include recurrent payments of social benefits or grants, wages, pensions and other social security payments and contributions.** The public sector in Albania employs 164,120 individuals.¹⁹ At the level of Albania's central government, wages and other compensations are generally paid through bank accounts. It is understood that at the municipality level, the same practice is followed.

53. **The Social Security Institute (SSI) of Albania is one of the largest payers in the country in terms of volume.** Of all SSI payments, old-age pensions concentrate the largest volume, and are disbursed almost exclusively in cash at the outlets of Albania Post. In recent years, there have been attempts to channel pensions through electronic means via the banking system, although with limited success. The SSI also administers some social assistance programs, including cash transfers directed to low-income individuals (e.g., Ndihma Ekonomike). These payments are delivered either through accounts or in cash at the bank teller.

54. **Payments to the Central government, custom duties and social security and health insurance contributions are collected via bank channels.** Demand-side data on the use of payment instruments for government collections estimate the annual volume of these payments at about 1.3 million yearly. Of these, about 80% are paid in cash.

55. **The portal e-Albania represents a major effort from the central government to digitalize the provision of public services.** This portal already makes available to the public some 470 different public services, although at present less than a dozen can be paid online. Public services that depend on the municipalities are not integrated to e-Albania. Payments for services provided by municipalities are almost always collected in cash on premise.

Relevant access points and channels in Albania

Bank branches and agents

56. **Banking infrastructure in general is more concentrated in major cities.** As of 2015, the number of bank branches per 100,000 adults was 21.9. This figure is similar to neighboring countries: developing countries in the ECA region average 22.1, while upper MICs in general average 15.9.

57. **The banking agent or banking correspondent model has not been developed in Albania.** Hence, although the number of bank branches per 100,000 adults in Albania appears to be relatively high, banks in many MICs also provide in-person services via third-party owned physical access points (i.e. agents), which allows them to have a much broader reach than what appears to be the case just by looking at the size of their own branch networks. Moreover, most banks in Albania have been closing down branches in recent years.

ATMs and POS terminals

58. **Overall, banking and retail payments infrastructure is less developed in Albania than in neighboring countries and peer upper MICs.** As of 2016, there were 34 ATMs per 100,000 adults in Albania, as compared to 56.4 for developing countries in the ECA region (2015). Upper MICs average 51.1

¹⁹ Salary payments – including from public sector and private sector – represent 23% (by volume) of total annual payments received by Albanian adults.

ATMs per 100,000 adults. POS terminals increased to 302 per 100,000 adults in 2015, as compared to 726 in Kosovo, 1,101 in Serbia, and over 2,000 in Montenegro.

59. **Over the 2010-2016 period, the number of ATMs expanded at a rate of less than 1% per year on average.**²⁰ In turn, the expansion in the number of POS terminals averaged more than 7% per year. ATMs are used almost exclusively for cash withdrawals, as only about 15% of the total number of ATMs offer funds transfer functionalities. POS terminals are used almost exclusively for card payments to merchants, though recently some banks introduced cashback services. Table 4 shows some basic data on ATMs and POS terminals in Albania.

Table 4: ATMs and POS terminals in Albania (2016)

| | |
|---|-------|
| Automated Teller Machines (ATM), <i>of which</i> | 800 |
| ATM with cash withdrawals function | 776 |
| ATM with credit transfer function | 120 |
| ATM with deposits function | 94 |
| Terminals POS (Point of Sale), <i>of which</i> | 7,111 |
| POS Terminals with cash withdrawals function | 97 |
| EFTPOS terminals | 7,014 |
| Virtual POS terminals | 28 |
| E-money terminals | 680 |

Source: Bank of Albania.

60. **Geographical coverage of ATMs and POS terminals is still limited.** In fact, as of 2015 about 57% of the ATMs and 80% of POS terminals were concentrated in Tirana region. Coverage is further limited by the fact that there is limited interoperability of these access channels.

Other channels of payment service provision

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

62. **Different from banks, e-money issuers in Albania have developed agent networks in addition to own locations/branches.** Each of the two e-money issuers has developed a network of approximately 300 access points. One of these e-money issuers has exclusivity in nearly half of its access points (those access points only provide payment-related services to that e-money issuer), while the other e-money issuer has exclusivity in all of its access points.

63. **Other relevant networks are those of the two NBFis that are the major remittance service providers in Albania.** Between the two, they have developed a network of nearly 600 outlets (after deducting those outlets that are actually branches of Albania Post). One of these remittance service providers requires exclusivity to all its agents, except to Albania Post.

²⁰ It is worth noting that the slowdown in the expansion of access points in Albania coincides with the second-round effects of the international financial crisis in the Albanian economy and banking system.

64. **Savings and Credit Associations (SCAs) also have a relevant branch network.** The largest of them has 82 branches, many in rural areas in the south and center of the country.

IV. THE VISION AND STRATEGY FOR DEVELOPING THE RETAIL PAYMENTS SYSTEM IN ALBANIA

Our Vision

To create a modern and inclusive retail payments market in Albania, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable payment service users throughout the country.

Our goal is that the improvements in the retail payments market will give citizens more choices across more places for conducting their day-to-day transactions in a convenient and cost-effective manner, also supporting the objective of broader financial inclusion.

65. **The overarching objective of the NRPS will be to promote the intensive use of modern (i.e. fully electronic) retail payment instruments across the whole country, with the goal of achieving 10 cashless payments per capita by end-2022.**²¹ This objective would entail duplicating over the next five-year period the rate at which cashless payments per capita grew during 2012-2016. Nevertheless, this new level would still be significantly below the existing corresponding figure for MICs, in the western Balkans and elsewhere. Hence, the overarching objective of achieving 10 cashless payments per capita by end-2022 is deemed ambitious, yet reasonable.

66. **Broadening access to transaction accounts is a necessary condition to achieve the overarching objective. In this regard, Albania will aim at achieving an adult account ownership ratio of 70% by 2022, similar to the level currently achieved by MICs as a whole.** In this regard, BoA and other relevant stakeholders will strive to implement the recommendations related to increasing account ownership included in the report “Achieving Effective Financial Inclusion in Albania – A Payments Perspective”, prepared by the World Bank Group.²²

²¹ From a baseline indicator of 4.3 cashless payments per capita as of end-2016.

²² This report is based in turn on the report “Payment Aspects of Financial Inclusion” published by the Committee on Payments and Market Infrastructures and The World Bank Group in April 2016.

67. **Implementing the NRPS not only aims at increasing the levels of ownership and usage of accounts, but also at improving the quality of payment services to customers.** The successful implementation of the NRPS will benefit existing and new customers by:

- (i) Increasing the speed with which retail payments are initiated, cleared and settled;
- (ii) Enhancing the reliability of payments made through the domestic infrastructures and through the distribution and payment acceptance channels that support retail payments;
- (iii) Increasing convenience to users by expanding the possibilities to pay electronically remotely or onsite;
- (iv) Making payment services increasingly affordable to individuals, businesses and the government by promoting enhancements to infrastructure (financial and other), and by fostering increased competition and innovation in the provision of payment services.

IV.1 Guiding Principles

68. **The NRPS will have to be implemented rigorously.** Once approved, the NRPS will be implemented according to a strict timetable. Depending on implementation progress, the credibility of all the institutions involved in the strategy will be at stake vis-à-vis the Albanian public. Progress will be monitored on the basis of a number of indicators discussed in Section 5 of this NRPS. Transparent accountability mechanisms will make sure that each player will be called on to respond of its performance on implementation progress.

69. **The implementation of the NRPS will be based on six guiding principles.** These principles will support the actions of the BoA, government agencies, banks and non-bank payment service providers and all other relevant stakeholders in discharging their responsibilities toward the NRPS. The guiding principles essentially follow the World Bank Group's Guidelines for Developing a Comprehensive National Retail Payments Strategy, and are as follows:

Guiding Principle 1: Transparency, fairness, and protection of users

70. **Transparency is vital both to enhance competition and to strengthen the protection of users of retail payments.** Making the retail payments market operates transparently will reduce the incentives for misconduct and abusive behaviors from individual payment service providers and operators. One key aspect of transparency relates to the disclosure of prices for the various payment services/products offered under a methodology that permits effective comparisons, together with other relevant terms and conditions.

71. **Fairness in the domestic retail payments market will be promoted to ensure that stakeholders share the perception that their individual interests and needs are taken into consideration and are adequately addressed by regulators, overseers and operators of payment systems and of access point networks.** Fairness relates to the equal treatment of banks and authorized non-bank payment service providers (e.g. NBFIs), including applying risk-based, non-discriminatory criteria for participation in interbank payment systems and other retail payment networks. It also refers to the use of just and effective sanctions to penalize market misconduct and abusive behavior. Instrumental to firming this perception will be an ongoing policy dialogue by the BoA with market players and other stakeholders, and the BoA's capacity to exert its authority competently, consistently and transparently. A first step in this regard is taking place through the involvement of market players in the discussion and elaboration of this NRPS.

72. **Information for education purposes will be targeted to potential new users, as well as to enhance financial literacy of existing users – including recipients of remittances.** Educational and transparency efforts help to promote effective competition and to strengthen market discipline by making more relevant information accessible to existing and new users. Awareness on the features of modern payment instruments and how these can help individuals and businesses fulfill their payment needs will be raised among existing and new users, although with a special focus on the latter considering their limited exposure to modern financial services.

73. **Consumer protection efforts will reduce the imbalances of information, resources, and power that are characteristic of a service relationship between individuals (or small businesses) and banks or other payment service providers.** Together with the provision of information for better decision-making mentioned earlier, these efforts will include prohibiting banks and other payment service providers from engaging in unfair or deceptive practices, and making sure that adequate mechanisms for the resolution of customer disputes are in place.

Guiding Principle 2: State-of-the-art and interoperable payment infrastructures and access point networks

74. **State-of-the-art payment infrastructures will be in place to support the processing of all relevant payment instruments.** The BoA has implemented two of the key payment infrastructures that allow the clearing of retail credit transfers and their final settlement in central bank money, respectively. The BoA will promote the implementation of other needed infrastructures (e.g. for payment card transaction processing, and for enabling instant payments at the retail level).

75. **All payment infrastructures deemed systemically important by the BoA will observe the CPMI-IOSCO “Principles for financial market infrastructures” (PFMIs).** Other payment infrastructures will follow best international practices, and may be required to also observe a sub-set of the CPMI-IOSCO PFMIs. From time to time, the BoA will assess the degree of systemic importance of infrastructures and indicate the international standards / best practices by which they should abide (see also Guiding Principle 6).

76. **Payment infrastructures and access point networks will be interoperable.** This will ensure fair and equitable access and will support efficiency while minimizing financial, operational and other risks. Interoperable access point networks will enable the seamless use of payment products at multiple locations throughout the country, at a reasonable cost.

Guiding Principle 3: Appropriate legal and regulatory framework

77. **Non-discriminatory entry rules and participation conditions in the market for the provision of retail payment services will be preserved and enhanced as necessary.** These rules play a critical role in ensuring the contestability of, and facilitating broad participation, in the retail payments market, in fostering innovation, and more generally in establishing and maintaining the level playing field among authorized payment service providers irrespective of their nature or size.

78. **Payments regulation will keep abreast of market developments and best international practice.** On the regulatory front, the actions of the BoA will be aimed at ensuring the smooth functioning of retail payments and of the NPS more broadly, by preserving its safety, promoting its efficiency and affordability, and at making sure that it develops over time in a way that matches the payment needs of the growing Albanian economy.

Guiding Principle 4: Strong competition, complemented with cooperation

79. **The market for the provision of retail payment services will be well protected against anticompetitive behavior from individual payment service providers or payment systems operators.** Market players being able to achieve and exploit monopolistic positions would put at risk the capacity to innovate, the quality of services, and the provision of payment services to customers at competitive prices. As overseer of the NPS, the BoA is in a privileged position to monitor market developments and to intervene, or collaborate with the competent authorities, in the event monopolistic practices are identified.

80. **Protection against anti-competitive behavior will not rule out the possibility for individual entities becoming leading providers of critical infrastructural services, transferring to customers the benefits of economies of scale and scope.** Yet, the protection of market competition and contestability, and the strict application of rules against market abusing practices will make sure that no individual payment system operator or group of operators exploits payment service providers or act in ways that impede new market entries (see below).

81. **A right balance will be sought for between competition and cooperation within the retail payments industry.** While competition ensures the efficient provision of innovative and cost-effective retail payment services, cooperation among market players, as well as between them and the BoA, is necessary to build shared infrastructures, define and adopt common standards for services, and undertake needed collective action. Therefore, the BoA will continue to induce the required level of industry cooperation through appropriate incentives and rules, dialogue, and moral suasion. Moreover, the BoA will take a leading role in catalyzing private-sector initiatives, whenever necessary. Yet it will do so with a view to assisting the private sector to become a self-propelling force in the development of safe and efficient NRPS.

Guiding Principle 5: Governance and risk responsibilities

82. **An appropriate risk management framework will ensure that risks and costs in the retail payments market are identified and managed appropriately.** Market players should have sufficient regard to risks and costs in the design and operation of their facilities. The maintenance of a balance between risk reduction and the associated cost will be sought, keeping in mind that new market developments may from time to time alter the current equilibrium. While the BoA will continue to oversee the NPS as a whole and supervise payment service providers / payment system operators, the latter two hold the ultimate responsibility for managing the risks they introduce into the retail payments market and the NPS more broadly.

83. **A progressive, yet cautious approach will be followed in responding to new technological developments. It is imperative that the risks involved in opening the NPS to new actors and instruments be fully understood and appreciated.** The general approach of the BoA will aim at accepting and facilitating innovation, while making sure that the identified or potential risks are appropriately understood, appreciated and (eventually) managed, and that related responsibilities are adequately shared.

84. **Sound and effective governance arrangements will underpin the provision and sharing of infrastructural services by public or private sector entities.** In order to ensure that infrastructural services operate smoothly and ensure interoperability, their governance will need to reflect the needs and interests of all participating institutions, of regulators and of the economy as a whole, maintaining a balance between private interests and public goals.

85. **Payment systems operators and payment service providers should at all times refrain from any actions that might put at risk public confidence on the NPS or the broader financial system.** Public confidence in payment systems, especially on those of a retail nature, is of the utmost importance. In this regard, the BoA will cooperate with other relevant authorities as necessary to guard against all forms of criminal abuse of the payment system, such as fraud, breaching of data integrity, money laundering, or financing of terrorist activities.

Guiding Principle 6: Effective oversight

86. **Through oversight, the BoA's will aim at preserving the safety of the retail payments market and the NPS more broadly, and at promoting its efficiency, affordability and inclusiveness.** The BoA will continue to strengthen its internal capacity necessary to oversee the growingly complex retail payments market effectively. The BoA will expand its oversight policy framework to cover retail payment services and will apply this framework consistently across the retail payments market.

87. **In discharging its oversight responsibility, the BoA will continue to apply best practices in line with the principles and standards developed by the international financial community.** For the oversight of specific retail payment instruments, services and schemes, the BoA will adopt international guidelines,²³ and will take into consideration experiences and practices developed by other central banks when aiming at mitigating risks in retail payment services and instruments.²⁴ To the extent that any retail payments system is designated as systemically important, the BoA will ensure compliance of these systems with the CPMI-IOSCO PFMI.

88. **As part of its oversight activities, the BoA will ensure continuous policy dialogue with all relevant stakeholders of the retail payments market.** Such a dialogue will be necessary to secure fair representation of all public and private interests in the decision-making processes concerning the retail payments market. It will help to create consensus on policy choices and to improve the quality of policy design, and will offer a channel for the BoA to provide stakeholders with indications on its policy orientation and for stakeholders to give feedback. Where necessary, the BoA will use policy dialogue channels as conduits to exert moral suasion on market layers, as ways to disseminate knowledge of best practices across the industry, and as means to prompt voluntary arrangements for collective action at the industry level (for example, on decisions involving infrastructural investments and risk mitigation measures).

89. **As a catalyst for change, the BoA will adopt and/or promote measures to facilitate a more rapid evolution and development of the retail payments market.** For example, the BoA will facilitate the adoption, by payment service providers, of common standards for individual types of retail payment instruments. Likewise, it will ensure, with regulations if necessary, that operators of retail payment systems and access point networks develop rules and procedures for the efficient, reliable and safe settlement of retail payment transactions.

²³ Such as, the CPMI-World Bank Group “*General principles for international remittance services*” (2007) and the guiding principles in the “*Payment Aspects of Financial Inclusion*” report (2016).

²⁴ For instance, there are several relevant reports from the European Central Bank: *Harmonized oversight approach and oversight standards for payment instruments* (2009); *Recommendations for the security of internet payments* (2013); *Assessment guide for the security of internet payments* (2014); *Guide for the assessment of credit transfer schemes against the oversight standards* (2014); and, the *Guide for the assessment of card payment schemes against the oversight standards* (2015).

IV.2 Strategic areas and actions

90. The actions foreseen by the BoA in order to implement the NRPS in Albania are aligned with the Guiding Principles laid out earlier, and can be categorized into eight broad strategic areas: (i) stakeholder commitment to the NRPS; (ii) legal and regulatory framework; (iii) improved payment and supporting infrastructures; (iv) customer-centric and affordable payment services based on transaction accounts; (v) access point networks; (vi) financial literacy, (vii) leveraging of large volume payment programs to achieve scale; and, (viii) effective oversight.

i) Stronger stakeholder commitment

Facilitating the reform of the retail payments market as a joint public-private effort

91. **The NPSC of Albania will broaden its membership and will reinvigorate its activities to facilitate the implementation of the NRPS.** Under the leadership of the BoA, the NPSC of Albania has been an important forum to facilitate a cross-sectoral discussion on payment system issues. For facilitating the reform of the retail payments market, the NPSC will broaden its composition to include non-bank providers of payment services as voting members. Moreover, the NPSC will have a more active and visible role in the context of the NRPS. Therefore, it will create a retail payments working-level task force that will meet on a quarterly basis to monitor and report progress of the NRPS, inform on the obstacles being identified, and suggest involvement from the NPSC as necessary.

92. **The BoA and NPSC will promote the greatest possible involvement of the private sector in decisions of common interest and public relevance concerning the national retail payments market.** These areas may include aspects such as the choices concerning operational standards, infrastructure adoption and design, ways to achieve interoperability of payment instruments and across bank and e-money accounts, risk management, and ways to address public confidence issues.

Advancing access to transaction accounts

93. **Albania will adopt a deliberate, coordinated and strategic approach that involves and commits both the public and private sectors to enhance access to transaction accounts and to advancing broader financial inclusion.** A coordination group will be created to ensure that resources and actions are put in place in a coordinated fashion to advance financial inclusion.²⁵ In a first stage (2018-2020), the coordination group will focus on advancing access to and usage of transaction accounts, and will be guided in its efforts by the recommendations included in the report “Achieving Effective Financial Inclusion in Albania – A Payments Perspective”. In a second stage, other financial services that should be broadly available to individuals and businesses, like credit, savings and insurance will be included in this effort.

Building capacity across the payments industry

94. **The BoA, in cooperation with other stakeholders, will seek to develop adequate capacity and know-how on retail payments matters. Active industry participation, cooperation and investment will be necessary.** Cooperative efforts will aim to address industry human resource needs via seminars, workshops and technical assistance. To this end, capacity-building initiatives will be organized, if necessary with external support from international organizations and partner institutions.

95. **The BoA will seek to catalyze resources for technical assistance from external experts, specialized agencies or peers in other countries.** International organizations will be extremely useful sources of technical assistance, while dialogue and exchanges with other central banks and national authorities will provide unique perspectives and exchanges of applied knowledge. These know-how

²⁵ Including that the specific goals and strategies related to financial inclusion are consistent with this NRPS.

resources will be necessary to address NRPS challenges, including legal and regulatory innovations, oversight of payment services, pricing policies for payment products and services, achieving interoperability, among others.

ii) Consolidation of a conducive regulatory environment for retail payments

Ensuring neutrality and proportionality

96. **BoA will finalize the transposition of the relevant EU directives, which will help ensure a more consistent approach to the regulation of the various types of payment service providers.** Through this means, a functional approach to payments regulation will be ensured, setting regulatory requirements consistently across the various types of payment service providers, thus further facilitating market entrance, a level playing field for competition, and innovation.

97. **The BoA, jointly with the Albanian Association of Banks (AAB) and representatives of non-bank payment service providers and payment system operators will continuously review the legal and regulatory framework of the Albanian retail payments market.** This review is important in light of the rapid pace of technological advancement, the fast change in business practices, and the quickly evolving typologies of risk (including various types of crimes, like cybercrime), which characterize modern retail payments markets. A comprehensive joint review will be carried out at least once a year, or more frequently if deemed necessary.

Facilitating innovative business models

98. **The use of third parties as agents and sub-agents for the provision of payment and payment-related services will be regulated comprehensively by the BoA.** The use of these agents and sub-agents will be permitted to all types of payment service providers. BoA will provide clarity on the minimum requirements that agents should meet, and it should be clearly stated that principals (i.e. banks, NBFIs, etc.) remain fully liable for any act of their agents. Exclusivity agreements in the use of agents will be explicitly banned.

99. **The BoA will regulate in a consistent manner the use of outsourcing across the payments sector, with a special focus on the use of technical service providers.** The underlying regulation will ensure that outsourcing of important operational functions does not materially impair the quality of the payment service providers' or payment system operator's internal controls and the ability of the BoA to oversee them effectively. The BoA will also reserve the right to extend its oversight and set requirements over technical service providers.

Strengthening the oversight of payment services

100. **The BoA will initiate a review of the legal foundations of its regulatory and oversight powers (i.e., at the statutory level) in order to explicitly extend the scope of those powers to payment services.** The Law on Payment System grants the BoA clear responsibility for the regulation and oversight of payment systems and payment instruments, but there is no explicit mention of such powers when it comes to the provision of payment services in general. This review will likely entail a revision of the definitions in the law to further ensure clarity, and benefit from the transposition of relevant EU directives (see above).

Protecting user rights, transparency and promoting the public good

101. **The Government of Albania will further articulate the consumer protection framework by creating an office/agency with powers and responsibility to monitor and enforce protection of users of payment and other financial services.** In the payments arena, the efforts of this new agency will be

consistent with existing provisions on transparency and consumer protection of the BoA and with those that emerge from the transposition of EU PSD2.

102. **From its own trench, the BoA will also continue to work on ensuring that the rights of users of payment services are protected. In particular, by means of a regulation BoA will require payment service providers to implement a recourse and dispute resolution mechanism to address consumer claims and complaints.** Through this means, users will have an easily accessible and affordable out-of-court mechanism for the resolution of conflicts. Among other features, the regulation will require that this mechanism include clear, publicly available and easily applicable procedures in cases of fraud and disputes, and that it be available to all consumers, regardless of the type of PSP offering the service. The operation of this mechanism will be monitored in an ongoing basis through BoA's oversight and supervision.

Preventing criminal use of the retail payments market (and the NPS more broadly)

103. **The competent authorities will reinforce the tiered compliance structure in Albania by issuing a regulation that supports this approach to compliance.** A tiered compliance structure permits a suitable balance between risk and compliance relative to the transaction size and volume needs. In Albania, this approach is currently supported solely in a guideline issued by BoA. The BoA is aware that a guideline like this does not replace the legal obligations of entities, and that more certainty in order for entities to be willing to implement in practice the risk-based approach.

iii) Improvements to payment and other supporting infrastructures

All key payments infrastructures and instruments need to be in place

104. **The BoA and private operators licensed by BoA, and with support from the AAB, will work together so that a domestic card switch becomes operational for all card issuers and is widely used by them.** This should materialize as soon as possible, but no later than 2022. A card switch is an indispensable infrastructure in a modern payments market. Through interoperability agreements, transactions made with any payment card at any payment acceptance device may be processed through it. Card payments in Albania are currently not routed for approval, exchanged, cleared or settled through an infrastructure of this kind.

105.

106. **A national card switch will make it possible for all the different cards issued in Albania to be routed, cleared and settled through this infrastructure.** Efficiency of card payment processing will be enhanced by providing card issuing entities with one single point of entry from which they are able to reach the whole market. Eventually, the national switch should be capable of switching also other payment streams, like mobile money payments. Moreover, in the event another card switch enters the market in the future, the BoA will strive to achieve interoperability between switches.

107. **BoA together with AAB and other market's actor will analyze, and based on the findings, draft a feasibility study on developing an "Instant payments" project in Albania.** This decision is based on the Cost Study on payment instrument used in Albania²⁶ which shows that electronic credit transfers are the most efficient electronic payment instruments in the Albanian economy, and also on recent development in the international arena. The national card switch and the initiative on "Instant payments" will be developed as a joint project from the feasibility perspective.

²⁶ <http://documents.worldbank.org/curated/en/318231529480715381/The-retail-payment-costs-and-savings-in-Albania>.

108.

109. **The BoA and AECH participants will implement interbank direct debits in the AECH no later than 2019.** Any biller will be able to debit any bank or e-money account in the financial system from a single point/account, which will result in efficiency gains. Furthermore, interbank direct debits will further level the playing field for smaller banks and non-bank payment service providers that do not have a large physical network to be able to attract billers and accountholders that need to pay the services received from those billers.

110. **The BoA and the AAB will come to a conclusion as soon as possible on the creation of a clearinghouse for euro-denominated transfers, including key decisions like who the operator and who the settlement agent will be.** If implemented, this new infrastructure will be designed in such a way that compliance with the CPMI-IOSCO PFMI is ensured *ex ante*, and that it will become a complement – rather than a substitute – to making payments in ALL.

[There should be fair access to payment infrastructures](#)

111. **The BoA will ensure that the regulations and other rules of ALL the payment system infrastructures in the country guarantee fair and open access, while preserving safeguards against financial, operational and other risks. Where necessary, legal reforms will be pursued.** The BoA will adhere strictly to Principle 18 of the CPMI-IOSCO Principles for Financial Market Infrastructures (“A financial market infrastructure should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access”). The BoA will take advantage of its current work on transposing the EU PSD-2 to introduce legal changes to this end (for the cases it is necessary, i.e. the payment systems that it itself operates).

112. **In the case of the AECH, in the immediate term (2018) the BoA will operationalize the category of “indirect participant”.** This participating category described in the AECH Regulation could prove useful to some NBFIs that provide payment services and/or issue e-money. The BoA will develop and include in the AECH regulation the set of objective, risk-based and transparent criteria that must be fulfilled to obtain this kind of access to the AECH.

[Minimizing financial risks](#)

113. **Management of credit and liquidity risks in the AECH will be improved by the BoA in its role as operator and overseer of this payments system. Net debit positions incurred by participants will be collateralized “ex ante”.** Along with reducing credit and liquidity risks, this measure will also facilitate non-bank payment service providers becoming direct participants in the AECH (as they would not need to access the BoA’s intraday liquidity facility as a settlement assurance tool for AECH positions). The BoA will also analyze setting limits to net debit positions of AECH participants.

114. **AIPS and AECH will also be assessed in detail versus the CPMI-IOSCO Principles for Financial Market Infrastructures.** The BoA will complete a self-assessment of these two payment systems, and will also ask the World Bank Group to perform a detailed external assessment. The self-assessment will serve as an input to the latter.

115. **The BoA will make sure that any payment systems operated by the private sector also implement robust risk management measures in their clearing and settlement arrangements.**²⁷

²⁷ See actions on effective payments oversight by the BoA.

Leveraging ID infrastructure and identification services

116. **The Ministry of Internal Affairs, the Ministry of Innovation and Public Administration and Aleat²⁸ will make sure that the renovation of smart ID cards issued in 2009 is completed smoothly during 2019.** This will allow the on-line identity verification services to operate smoothly and effectively.

117. **The Ministry of Internal Affairs will ensure that all financial service providers and other parties with a legitimate purpose can use the current (and any future) on-line identity verification service in a fair and equitable basis.** While eAleat Identity Services is a private venture, it will be operated largely as a utility²⁹ to maintain a level playing field. Even more so because its source of golden data is the National Civil Status Registry (a public database).

iv) Customer-centric and affordable payment services based on accounts

Designing mainstream payment products for the unbanked

118. **The banking system, with support from the AAB and the BoA, will design and offer a “basic” account product for currently unbanked customers.** In Albania, this space has been filled to some extent by the NBFIs licensed as e-money issuers. Banks will also start offering basic accounts, also to facilitate that the target new users eventually are also in a position to gain access to a broader set of financial services like credit, savings and investments.

119. **The design of the “basic” bank accounts will ensure their affordability, yet keeping the essential features of a transaction account. At a minimum, basic accounts will make it possible for the target population to store value safely and to send and receive payments electronically at little or no cost.** In determining the pricing structure and other features of the basic account, banks will bear in mind that their key target population are poor individuals for which a minimum balance requirement is not likely to be a viable option. In any event, these basic accounts will make it possible for the respective target populations to transfer (receive) funds and pay electronically to/from as many parties as possible, but in particular to/from those parties with which these individuals transact regularly for routine issues.

120. **To further enhance financial inclusion and consumer protection, in the medium term BoA will draft and seek approval of a Law on transposing Directive 2014/92/EU “On the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features”.**

Making payment products more convenient in general

121. **The banks, NBFIs licensed as e-money issuers and the BoA will aim to achieve interoperability between all bank current accounts and e-money accounts, as well as among e-money accounts themselves, as soon as possible.** The final objective is that an individual or business that has a transaction account of any kind will be able to use it seamlessly with any other payer or payee throughout Albania. Pre-requirements for this objective include achieving agreements for interoperability at the level of payment infrastructures and channels, and all payment service providers being able to participate in those infrastructures and channels (once they have fulfilled the associated access criteria).

²⁸ In its current role as the concessionary for issuing smart ID cards in Albania until at least 2023.

²⁹ Generally speaking, a utility is an organization that maintains the infrastructure for a “public service”, often also providing a service using that infrastructure. Typically, there is only one or a very limited number of organizations that provide each specific “public service”. As a result of these features, most utilities are regulated by governments to ensure that they provide a reasonable level of service at a fair price to all the parties that require that service.

Using pricing as an incentive for increased usage of electronic payments

122. **The banking industry will re-design the existing pricing structure for current accounts.** To the extent possible, upfront costs for opening a bank account and mandatory monthly/annual maintenance fees will be avoided. This is because these types of costs and fees are perceived by customers as key negative elements of having an account, especially as those charges are independent from the actual usage of the account, or regardless of whether a customer is using the instruments and channels that are less costly for the bank.

123. **The new pricing structure of current accounts in the banking system will aim at inducing more individuals and small businesses to have accounts and to use the electronic payment features of those accounts more intensively (instead of cash).** In designing a new pricing structure, the following guiding elements will be considered are: i) Fully electronic payment alternatives (end-to-end) will be less costly for accountholders than those based on cash, or that involve cash at some point in the transaction cycle; ii) To the extent possible, accountholders will be charged on the basis of the intensity with which they use their account, and the payment instruments and channels they have chosen; iii) Accountholders will have clear incentives to maintain funds in their accounts in order to reduce cash in circulation and increase the total amount funds that may be transferred electronically throughout the Albanian banking system. Exempting accountholders from the account maintenance fee if they keep a certain minimum average balance will be considered as one of the top incentives in this regard.

124. **The BoA will regularly review its price database of banking services to make sure it is meaningful for making comparisons across banks, and will further disseminate it among existing and potential new users.** The contents of this price database will be reviewed at least every year to ensure that it includes all the relevant data items and other elements (i.e. comparability) that are necessary for bank customers to make informed choices. Moreover, the visibility of this database at the BoA's website will be significantly enhanced.

v) Expansion of access points and networks for payments

Developing the agent banking model

125. **Agent banking will be developed to increase the reachability and convenience of bank current accounts to the population.** Usefulness of transaction accounts will be augmented by achieving greater coverage of the banking system, especially for those individuals that live/work far from major financial districts. In addition to preparing the necessary regulatory changes, the BoA will facilitate the roll-out of agent banking in liaison with banks and the entities that are interested in establishing agent relationships, and by monitoring its development throughout Albania.

126. **The BoA will prompt Albania Post and SCAs to act as bank agents.** Given their experience in serving rural and other isolated communities, these two entities, among others, can be extremely helpful in expanding the reach of bank current accounts outside main urban centers in Albania. Banks will be nevertheless able to freely select those agents that they believe are most appropriate to their business plan and needs.

127. **The reach of access points will be effectively augmented by achieving interoperability of the various channels and outlets, including by forbidding exclusivity agreements in agent relationships.** While a short period of exclusivity may be justified in certain cases by the need to invest in training and equipment, such justification does not hold for open-ended exclusivity. Hence, exclusivity agreements will be forbidden as a general rule by the BoA.

Inducing higher acceptance of electronic payments through pricing and incentives

128. **The Ministry of Finance will analyze the feasibility of providing a set of incentives to merchants to accept electronic payments.** Incentives may include: providing a temporary subsidy to smaller businesses for the rental of POS terminals or other transaction-acceptance devices; providing a temporary fiscal benefit for purchases in which the business accepted cards or other electronic payment instrument as a means of payment; among others.

129. **The BoA will require banks that are payment card acquirers to be transparent on the fees they charge to merchants, including by making this information available in a standardized form to the latter. The BoA will also collect data systematically on these fees.** The cost of accepting payment cards is one of the key determining factors for businesses to accept them. These costs include monthly rental fees for acceptance devices, the per transaction merchant discount rate (MDR), and other monthly or per transaction charges. The BoA will apply transparency requirements in the merchant acquisition space (vis-à-vis merchants that accept or are considering accepting payment cards) similar to those that are already applied in relation to account holders. The BoA will also incorporate data related to merchant acquisition services to its banking services price database and will make this information available in its website.

vi) Effective financial literacy efforts

Increasing the public's awareness of the NRPS and its benefits

130. **The BoA, the AAB and the NPSC will develop compelling messages explaining what benefits the implementation of the NRPS will bring to Albania.** The strategic objectives will have to be known to the business community and the general public, through public information and educational campaigns.

Informing and educating current and potential users on accounts and electronic payments

131. **The BoA, other public sector entities, and payment service providers will intensify their efforts to educate Albanian citizens on the usage of transaction accounts and electronic payments through increased and targeted information provision.** Financial literacy efforts will target the main aspects that inhibit individuals and businesses to change their payment habits. Hence, these efforts will specifically address how accounts can effectively help meet an individual's payment and store-of-value needs, and will also target specific "fear" factors, such as: i) perception of lack of sound proof of payment if paper is not used; (ii) fear that the new modalities may be vulnerable to fraud; (iii) fear of dealing with unresponsive, complicated systems prone to operational error; and, (iv) perception of loss of privacy.

132. **Banks and NBFIs that provide payment services will make sure that sufficient hands-on training is provided as part of consumer onboarding.** This refers to consumers understanding how a payments product or service works in practice, including its potential weaknesses. Special emphasis will be placed on new users with limited first-hand exposure to electronic payment services. Hands-on training will also be provided to existing or new customers as part of the roll out of new or complementary payment products or services.

133. **The Ministry of Innovation and Public Administration,³⁰ through the Agency for the Provision of Integrated Public Services (*Agjencia e Ofrimit të Sherbimeve Publike të Integruara*, ADISA) and in collaboration with other relevant agencies (e.g., the National Information Society Agency - *Agjencia Kombëtare e Shoqërisë së Informacionit*, AKSHI), will make additional efforts to raise awareness on the benefits of using the e-Albania portal.** This Ministry will also focus on educating the public on how to use it as effectively and widely as possible (i.e. including to make on-line payments, where available).

³⁰ Currently the Deputy Prime Minister.

134. **The BoA will measure as objectively as possible the effectiveness of the financial education efforts and programs it has been undertaking.** This is crucial to make informed decisions on whether changes and/or adjustments are necessary to aspects such as the training materials themselves, the form in which these are delivered and/or distributed, the target group(s), etc. Some of the aspects to be measured will likely include how many more people are now aware of modern payment and other financial products and how many have changed their behavior as a result of the information that was made available to them.

vii) Economies of scale in the NPS by leveraging large-volume payment use cases

Migrating government payments and collections to electronic payments to the largest extent possible

135. **Disbursement of government payments directly to accounts will be broadened beyond salary payments to public sector employees to include pensioners and the beneficiaries of social welfare programs from both the central and local governments.**

136. **“Basic” bank accounts will be used for the disbursement of pensions and social welfare programs in the short-term. E-money accounts will also be used in the medium-term once they become interoperable with bank accounts.** Transitioning the delivery of these programs via accounts is more complex than other government payments (e.g. payroll), because of the beneficiaries’ low income, low account ownership and lower general levels of financial and digital literacy. Hence, at a minimum: i) the underlying transaction account will be provided at little or no cost to the beneficiaries; ii) these accounts will be accessible/usable at a mix of ubiquitous channels – both virtual and physical; iii) moreover, these accounts will be mainstream products (i.e. multi-purpose and interoperable with other bank products and with the various access channels/points); iv) the beneficiary will be able to select his/her bank of choice.

137. **Any remaining legal or regulatory barriers to collection of payments to the government by non-banks will be eliminated.** The Ministry of Finance and the BoA recognize that collections could benefit from innovative business models and electronic and online channels that eliminate the need to visit the bank branch or the premise of the government agency.

138. **The number and variety of public services and other P2G and B2G payments that can be paid on-line via e-Albania will be expanded.** Moreover, on-line payment acceptance at e-Albania will be broadened beyond payment cards to also include electronic fund transfers made via bank accounts as well as e-money accounts. The Ministry of Innovation and Public Administration will cooperate with other public sector entities, the BoA and payment service providers for this purpose.

Leveraging the role of large billers and transit payments

139. **Given the current situation of dominance of cash for utility bill collections and transit payments, more deliberate actions to discourage use of cash and incentivize electronic alternatives will be taken.** The Ministry of Finance will analyze the feasibility of introducing VAT rebates on purchases made with electronic means, including bill payments. Large billers and transit system operators will also collaborate in inducing a greater usage of electronic payment instruments, which in turn could reduce their own collections costs. Billers will analyze offering rebates and/or other incentives if bills are paid via direct debit. They will also carry out educational campaigns with their customers, their own employees and local authorities to clarify that bills paid with electronic means of payment are legally valid, and therefore paper proof is not required. Likewise, once they are able to accept electronic payments, transit system operators will consider offering rebates to users when they pay electronically on a regular basis.

140. **Electronic payment mechanisms planned for usage in mass transit systems will have a clear trajectory in terms of interoperability across those transit systems, and also that the underlying payment instrument can be used in a number of other services.** Worldwide, most payment mechanisms

used for transit systems are of a prepaid nature. Interoperability of these mechanisms across transit systems is important for efficiency reasons, but is critically important for low-income individuals who very often cannot afford holding idle balances in two or more prepaid payment devices.

Facilitating account services for remittances

141. **The BoA will increase competition and foster innovation in the Albanian remittance market to help realize the potential of remittances as a vehicle of financial access and inclusion.** Competition will be increased by eliminating exclusivity contracts or agreements, as these inhibit the full exploitation of the network of access points throughout the country. Allowing NBFIs that provide payment services to become direct participants in the AECH will enable them to develop new products with delivery of funds to accounts. Cooperation between banks and money transfer operators (MTOs) will also be promoted to enable product innovation. These actions will be coordinated with other measures contemplated in the National Strategy and Action Plan for Diaspora and Migration (2018 - 2024).

viii) Effective BoA oversight of the retail payments market

142. **The BoA will revise its oversight policy framework and oversight manuals to also include payment services (in addition to payment systems and instruments).** Legal changes will be undertaken to explicitly include payment services in the scope of BoA's oversight. In the meantime, the BoA will start overseeing payment services using a "soft" approach, consisting mainly on the collection of statistics and follow-up of market developments. Once the legal changes become effective, payment services will be overseen at a full scale.

143. **The BoA will make sure that payment service providers and payment system operators regularly review their cost and pricing structure, and that they avoid any abusive pricing practices.** BoA will maintain close and continuous contact with the market in order to monitor pricing policies and watch against unfair practices. The BoA will not allow distortive pricing practices in the provision of infrastructure services (i.e. including interchange fees in the payment cards market). To promote more transparent pricing, it will also persuade payment service providers and payment system operators to avoid cross-subsiding their payments business.

144. **The BoA and the Competition Authority will guard against any anti-competitive practices in the retail payments market.** In particular, they will monitor any actions from market players aimed at denying, hindering or limiting access to services that involve competitors (e.g. actions that inhibit customers from initiating payments to clients of other banks, or that prevent them from using the ATM or POS network of other banks by charging prohibitive fees). The BoA will take directly all actions that are consistent with its legal mandate and policy responsibility to protect competition in retail payments. When necessary, competition issues will be addressed in collaboration with the Competition Authority of Albania.

145. **The BoA will make sure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced.** These includes aspects like how transactions are authorized and executed, maximum execution time and value dating of payments, revoking payment orders, liabilities in case of unauthorized use of payment instruments, and refunds on payments.

146. **The BoA will maintain a register of the agents used by banks and other payment service providers, and will make this register publicly available to consumers.**

V. IMPLEMENTATION OF THE NATIONAL RETAIL PAYMENTS STRATEGY: ROLES, RESPONSIBILITIES AND PROGRESS MONITORING

V.1 Roles and Responsibilities

147. **The successful implementation of the strategy will require that specific roles and responsibilities be assigned to various stakeholders, under public accountability rules.**

Bank of Albania

148. The BoA is a critical actor in the implementation of the NRPS. The BoA will play a very proactive role in promoting the NRPS by supporting cooperation and coordination among stakeholders, and by prompting collective action from stakeholders whenever necessary. In its multifaceted payments capacity as a central bank, the BoA will:

- i. Catalyze retail payments reforms and development measures, largely by prompting cooperative actions and decisions by the private sector as well as from relevant public sector entities;
- ii. Draft laws and regulations (or changes thereof), as well as strategic documents;
- iii. Oversee the retail payments market and the broader NPS to ensure their smooth functioning;
- iv. Provide clearing, settlement and infrastructure facilities through the operation of AIPS and the AECH, including ensuring finality and irrevocability in the payment and settlement of transactions, thus increasing confidence in the payment system; and
- v. Use the modern payments infrastructure and instruments and services for its own payment activities and that on behalf of its client institutions and customers; and

Albanian Association of Banks

149. The AAB will be responsible for:

- i. Coordinating and representing the interests of its members on any matters relating to the NRPS, including but not limited to the design and launch of new payment products across the banking industry, financial literacy and product/service pricing issues;
- ii. Promoting and coordinating initiatives to create privately-owned retail payment infrastructures, and promoting their integration with other infrastructures (e.g. AIPS);
- iii. Designing and adopting standards across the banking industry (and with other payment service providers) to ensure uniformity and efficiency in operations; and,
- iv. Promoting and facilitating the interoperability of all bank accounts and between bank accounts and e-money accounts.

National Payment System Committee

150. Regarding NRPS implementation, the NPSC will be involved mainly in monitoring progress. In this context, the Committee will also:

- i. Report publicly on the progress in the implementation of the NRPS and the actions taken by its members; and,
- ii. Where necessary to accelerate progress, take an active role in the decision-making regarding payment system strategic and policy issues.
- iii. Facilitate communication between public and private sector stakeholders;

Other Government Agencies and Institutions

151. Important roles and responsibilities are likely to be played by government agencies holding regulatory responsibilities in areas that have critical contiguities with the NRPS. These include regulatory agencies for telecommunications, competition, consumer protection, labor and social security, among others.

152. Other government entities that have important roles in the context of the NRPS are the Ministry of Finance, the Ministry of Innovation and Public Administration,³¹ the Ministry of Education and the Ministry of Internal Affairs.

Payment Service Providers (banks and NBFIs that provide payment services)

153. The individual payment service providers will:

- i. Commit to transparency in carrying out their payments business vis-à-vis their customers (individuals, businesses and government entities that hold accounts with them, as well as merchants in their acquiring business);
- ii. Manage in a robust manner the risks associated with the payment services they provide to the public as well as their payment operations more generally; and,
- iii. Adopt the strategic directions for the retail payments market approved by the NPSC.
- iv. Participate actively in the design and testing phases of new interbank payment systems that are implemented in the country, as well as in their launch.

Payment System Operators

154. The individual payment system operators will:

- iii. Commit to practices that foster interoperability and to cooperation leading to common standards, shared infrastructures/services, and collective action when needed;
- iv. Abide by international standards in risk management and emulate best practices that raise the bar of efficiency and effectiveness in serving market needs;
- v. Maintain and enhance an open, fair, and risk-based access policy; and,
- vi. Adopt the strategic directions for the retail payments market approved by the NPSC.

Industry Associations and Civil Society Organizations

155. Industry associations and civil society organizations will engage on specific issues, in accordance with their statutory objectives and responsibilities, and at the request of the NPSC, to support strategy implementation and buy-in.

³¹ Currently the Deputy Prime Minister.

V.2 Progress Monitoring

156. **A framework for monitoring and evaluating progress in the implementation of the NRPS will be developed up front and become an integral part of the overall plan.** Progress in the implementation of the NRPS will be assessed periodically against the vision and the measurable overarching objectives established at the outset of the NRPS (see paragraphs 63 and 64). A number of “Intermediate variables” that convey the progress towards the agreed vision and overarching objectives will also be measured/calculated and monitored. This will help in identifying course correction requirements promptly.

157. In this regard, the measurable overarching objectives of the NRPS are:

- i. Increasing the current number of cashless payments per capita by 130%, to 10 such payments by 2023. The starting point is 4.3 cashless payments per capita observed as of end-2016.
- ii. Achieving an adult account ownership ratio of 70% by 2022. The starting point is 40% of adult account ownership observed in 2017.

158. **The BoA and the NPSC will measure these overarching variables once a year, and will communicate progress achieved to the general public.**

159. **On the other hand, the BoA will select those intermediate variables that it will calculate at least every six months in an attempt to identify trends as early as possible.** These calculations will be reported also monthly to the NPSC.

160. **In these reports, the BoA will identify the original baseline figure for each intermediate variable, the expected direction of the variable (i.e. whether it should have a growing or decreasing trend in order to be compatible with the overarching objectives), the actual figure for the month and how it compares with the original baseline (changes in absolute value and growth rates).**

161. **Some potential candidates for these intermediate variables are shown in Table 5.**

Table 5: Possible Intermediate Variables to Assess Progress in NRPS Implementation³²

| Intermediate Variable | Explanation |
|---------------------------------------|--|
| Access points | This would include metrics like ATMs and POS terminals per 1000 inhabitants and number of branches per 1000 adults. To get a more accurate assessment, a metric for specific geographic areas (region, urban <i>versus</i> rural, etc.) may also be developed. |
| Other access metrics | These set of metrics help in assessing the penetration of payment instruments and alternative access channels. This would include metrics like number of credit and debit cards per capita; share of accountholders subscribed to Internet banking and/or mobile banking; share of accountholders that use Internet banking and/or mobile banking at least once every month, etc. |
| Transactions per ATM and POS terminal | This is the number of transactions per ATM, POS or acceptance infrastructure over a period of time. This serves to measure the level of interoperability and usage of infrastructure. |

³² This is not a comprehensive list of potential intermediate variables.

| Intermediate Variable | Explanation |
|--|--|
| Transactions at POS/ Transactions at ATMs | This number reflects the evolution in the usage of payment cards as an electronic payment instrument with merchants <i>versus</i> its usage as a cash distribution mechanism (i.e. at ATMs) |
| Total expenditure using payment cards/total consumer expenditure | This variable aims at reflecting the evolution of consumer expenses made with payment cards (debit and credit) as a percentage of total consumer expenditure. |
| Percentage of payment instructions received by PSPs purely through electronic means | This is the share of payment instructions received by payment service providers through electronic means in the total number of payment instructions (including electronic plus paper-based and face-to-face channels). |
| Percentage of payment instructions received and processed purely electronically by PSPs | Same as above, although this variable also includes whether payment instructions were processed electronically once they were received in electronic form (i.e. to identify evolution in straight-through processing) |
| Percentage of government payments made directly to beneficiary accounts | <p>This is the share of government payments (in volume) that were disbursed directly from the account of the government in the BoA to the account of the beneficiary (via AIPS or AECH).</p> <p>Separate indicators may be calculated for payroll, vendors and suppliers, beneficiaries of social assistance programs, government-to-government transfers, etc.</p> |
| Evolution of the cost for a domestic funds transfer between parties with accounts at different payment service providers | <p>This is the <u>total</u> cost (for the originator and for the final beneficiary) of making a domestic funds transfer between parties maintaining accounts at two different institutions.</p> <p>To make it comparable, this should be for a representative amount and shown as a percentage of such amount, and for different institutions and different modes.</p> |
| Evolution of the cost of domestic funds transfers versus domestic remittances in cash | <p>This variable would compare the evolution of the previous variable versus the evolution of the cost of making the same transaction (i.e. transferring money) but using only cash.</p> <p>This variable is especially relevant for transfers from one city or town to another.</p> |
| Evolution of the fixed monthly cost to maintain a transaction account | <p>This is the cost for the consumer to maintain specific payment product accounts like a bank account for debit cards, prepaid card account for prepaid cards, a mobile money account for mobile payments, etc.</p> <p>Calculations to be done by type of payment service provider (banks vs. NBFIs), and by type of product (for example, basic and regular products in one category, and premium products in a separate category)</p> |
| Evolution of the cost to accountholders of <i>per transaction charges</i> | <p>This variable aims at measuring the evolution of the cost to accountholders of the various services that are charged solely on the basis of usage.</p> <p>This would include fees for “off-us” ATM withdrawals, fees for intrabank and interbank transfers (separating by channel), etc.</p> <p>A representative indicator will need to be calculated (e.g. weighted average or similar) to convey the outcomes more easily</p> |

| Intermediate Variable | Explanation |
|--|--|
| Evolution of the merchant discount rate | <p>This variable aims at measuring the evolution of the merchant discount rate in the payment cards acceptance business.</p> <p>A representative indicator will need to be calculated (e.g. weighted average or similar) to convey the outcomes more easily.</p> |
| Volume and value of frauds and operational errors. | <p>This is the count and value of frauds represented in percentage terms for specific categories of frauds and operational errors like late processing of a funds transfer, debit of a wrong amount, counterfeit fraud, repudiation related fraud, etc.</p> |

Source: Adapted from World Bank (2012), "Developing a comprehensive national retail payments strategy".

V.3 Implementation Plan

Table 6: Implementation Plan for the Albania NRPS

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|--------------------------------------|--|---|---|
| Strengthening Stakeholder Commitment | Broaden the membership of the NPSC to also include as voting members NBFIs licensed that provide payment services. | BoA to coordinate | Agreed in 2017. To be operationalized in 2018. |
| | A more active and visible role for the NPSC in the context of the NRPS: <ul style="list-style-type: none"> Create a retail payments task force within the NPSC to monitor and report progress of the NRPS Ongoing involvement of the NPSC throughout the reform | NPSC members, with support from the BoA (as the Secretariat) | Creation in first half of 2018, ongoing work thereafter Ongoing |
| | Promote the greatest possible involvement of the private sector in decisions of common interest and public relevance concerning the national retail payments market | BoA and NPSC members | Start 2018 and ongoing thereafter |
| | Put together a Coordination Group to ensure that resources for advancing financial inclusion efforts are effectively coordinated: <ul style="list-style-type: none"> In a first stage (2019-2020), this Group will focus on advancing access to and usage of transaction accounts. In a second stage credit, savings and insurance will be included. | BoA, NPSC, Ministry of Finance, Ministry of Innovation and Public Administration, ³³ Ministry of Internal Affairs, Ministry of Education | Group created by end-2018 Implement first stage during 2019-2020 Implement second stage from 2020 onwards |
| | Develop adequate capacity and know-how on retail payments matters. This includes catalyzing resources for technical assistance from external experts, specialized agencies or peers in other countries. | BoA and AAB BoA | Start 2018 and ongoing thereafter |
| | Finalize the transposition of the EU PSD-2 | BoA | By end 2018 |

³³ Currently the Deputy Prime Minister.

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|---|--|--|---|
| Consolidation of a Conducive Regulatory Environment for Retail Payments | Continuous review of the legal and regulatory framework of the Albanian retail payments market. | BoA, AAB and representatives of NBFIs and payment system operators | Ongoing |
| | Comprehensive regulation of agents and sub-agents for the provision of payment and payment-related services | BoA | 2019 |
| | Regulate in a consistent manner the use of outsourcing across the payments sector, with a special focus on the use of technical service providers. | BoA | 2019 |
| | Review the legal foundations of the BoA's regulatory and oversight powers (i.e., at the statutory level) to explicitly extend the scope of those powers to <i>payment services</i> | BoA | 2018-2019 (Could be done in parallel to transposition of EU PSD 2) |
| | Create an office/agency with powers and responsibility to monitor and enforce protection of users of payment and other financial services. | Government of Albania ³⁴ | 2019-2020 |
| | Require payment service providers by Regulation to implement a recourse and dispute resolution mechanism to address consumer claims and complaints. | BoA | 2019 |
| | Issue a Regulation that reinforces the tiered KYC compliance structure in Albania | MoF/GDPML, BoA | 2018 |
| Improvements to payment and other infrastructure | Prepare a feasibility study for the creation of national platforms for enhancing electronic payments in Albania (like card payments and electronic credit transfers) | BoA, private operators, AAB | 2019 |
| | A card switch/"instant payments" platform will become operational in Albania for all issuers and will be widely used by them. | BoA, private operators, AAB | 2020-2022 |
| | Implementation of the interbank direct debit scheme | BoA | 2019 |

³⁴ Existing Consumer Protection Office is at the Ministry of Economic Development, Tourism, Trade and Entrepreneurship. However, a Financial Ombudsman is often under the umbrella of the Ministry of Finance.

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|--|--|--|---|
| | Decision taken on the creation of a clearinghouse for euro-denominated transfers, including who the operator and who the settlement agent will be. | BoA and AAB | 2019 |
| | Regulations and other rules of all the payment system infrastructures in the country will guarantee fair and open access. Where necessary, legal reforms will be pursued. | BoA | 2019 |
| | Operationalize the category of “indirect participant” in the AECH. | BoA | 2018 |
| | Net debit positions incurred by participants of the AECH will be collateralized “ex ante”. Analyze also setting limits to net debit positions of AECH participants. | BoA | 2018 |
| | Detailed assessment of AIPS and AECH on the basis of the CPMI-IOSCO PFMI: <ul style="list-style-type: none"> • Prepare detailed self-assessment • Conduct an external assessment | BoA External party with BoA support & review | Conclude by third quarter of 2018 Conclude by end-2018 |
| | Payment systems operated by the private sector implement robust risk management measures. | Payment system operators, BoA | 2019 |
| | Ensure the smooth completion of the renovation of smart ID cards issued in 2009. | Ministry of Internal Affairs, Ministry of Innovation and Public Administration and Aleat | 2020 |
| | Fair and equitable access to eAleat on-line identity verification services by any entity with a legitimate purpose | Ministry of Internal Affairs | 2018 and ongoing |
| Provision of Customer-Centric and Affordable Payment Instruments | Design and offer a “basic” account product for currently unbanked customers. Ensure affordability of these accounts through an appropriate pricing structure Basic accounts will allow users to pay (be paid) electronically to/from as many parties as possible | Banks, with support from AAB and BoA | 2018-2019 |

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|--|---|--|-----------------------|
| | Transposition of DIRECTIVE 2014/92/EU “on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features” | BoA | 2020 |
| | Achieve interoperability between all bank current accounts and e-money accounts, as well as among e-money accounts themselves, as soon as possible. | Banks, NBFIs that issue e-money, and BoA | 2020 |
| | Re-design the existing pricing structure for current accounts to induce more individuals and small businesses to have accounts and to use the electronic payment features of those accounts more intensively (instead of cash). To the extent possible, upfront costs for opening an account and mandatory monthly or annual maintenance fees will be avoided. | Banks | 2019-2020 |
| | Upgrade the BoA price database of banking services, further disseminate it among existing and potential new users | BoA (Supervision Department) | 2019 |
| Expansion of access Points and Networks for Payments | Develop agent banking. In addition to preparing regulatory changes, prompt Albania Post and SCAs to become agent for banks | BoA | 2019-2020 |
| | Achieve interoperability of the various channels and outlets. This includes forbidding exclusivity agreements in agent relationships. | BoA | 2019 |
| | Analyze the feasibility of providing a set of economic and/or fiscal incentives to merchants to accept electronic payments. Implement this measure (if feasible) | Ministry of Finance | 2019 2019-2020 |
| | Banks that are payment card acquirers to be required by Regulation to be transparent on the fees they charge to merchants. | BoA | 2019 |
| | Collect data systematically on fees charged by payment card acquirers to merchants and incorporate this data to the BoA database on banking services. | BoA (Payments Department in collaboration with Supervision Department) | 2019-2020 |
| | | | |

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|---|--|---|--------------------|
| Improve the Effectiveness of Financial Literacy Efforts | Develop compelling messages explaining what benefits the implementation of the NRPS will bring to Albania. | BoA, BAA and NPSC | 2018-2019 |
| | Intensify efforts to educate Albanian citizens on the usage of transaction accounts and electronic payments through increased and targeted information provision. | BoA, other public sector entities, and PSPs | 2018 and ongoing |
| | Sufficient hands-on training to be provided as part of consumer onboarding. | Banks and NBFIs providing payment service | 2018 and ongoing |
| | Additional efforts to raise awareness on the benefits of using the e-Albania portal, and how to use it as effectively and widely as possible (i.e. including paying on-line). | The Ministry of Innovation and Public Administration ³⁵ | 2018 and ongoing |
| | Measure as objectively as possible the effectiveness of the financial education efforts and programs undertaken by BoA | BoA (different department from the one implementing these programs) | 2019 and ongoing |
| Achieve Scale by Leveraging Large Volume Payment Programs | Disbursement of pensions and of all social welfare program that provide cash benefits directly to the accounts of final beneficiaries. “Basic” bank accounts will be used for this in the short-term, will be provided at little or no cost to the beneficiaries, and the latter will be able to select his bank of choice E-money accounts will also be used once they become interoperable with bank accounts. | SSI of Albania and entities that manage social welfare programs in local government | 2019 |
| | Any legal or regulatory barriers to collection of payments to the government by non-banks should be eliminated. | Ministry of Finance and BoA | |
| | Increase the number and variety of public services and other P2G and B2G payments that can be paid on-line at e-Albania. Also, expand the accepted payment instruments at e-Albania to electronic funds transfers via bank or e-money accounts. | Ministry of Innovation and Public Administration | Ongoing |
| | Analyze the feasibility of introducing VAT rebates on purchases made with electronic means, including bill payments | Ministry of Finance | 2019 |

³⁵ Currently the Deputy Prime Minister.

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|---|--|---|--------------------|
| | Implement this measure (if feasible). | Ministry of Finance, banks and NBFIs that provide payment services | 2019-2020 |
| | Analyze offering rebates and/or other incentives if bills are paid via direct debit. | Large billers (Utilities, Telcos, Cable TV, etc.) | 2019 |
| | Likewise, once they are able to accept electronic payments, transit system operators will consider offering rebates to users when they pay electronically on a regular basis. | Municipal and any private transit system operators | 2019-2020 |
| | Large billers to carryout educational campaigns to ascertain the validity of bills paid using electronic payment instruments. | Large billers | 2019 and ongoing |
| | Electronic payment mechanisms for usage in mass transit systems will be interoperable across transit systems, and also that the underlying payment instrument can be used in a number of other services. | Municipal and any private transit system operators, PSPs, BoA | 2019-2020 |
| | Increase competition and foster innovation in the remittance market. This includes prohibiting exclusivity contracts for remittance agents and sub-agents. | BoA | 2019 |
| Effective BoA Oversight of the Retail Payments Market | Revise BoA oversight policy framework and oversight manuals to also include payment services. Start overseeing payment services using a “soft” approach. | BoA | 2019 |
| | Ensure that payment service providers and payment system operators regularly review their cost and pricing structure. | BoA | 2019 |
| | Ensure that payment service providers and payment system operators avoid any unfair or non-transparent pricing practices. | BoA | 2019 |
| | The BoA and the Competition Authority will guard against any anti-competitive practices in the retail payments market. | BoA directly for those cases covered by its legal mandate and policy responsibility | 2019 |

| Strategic Area | Actions | Main Implementing Entity/Unit | Timing (2018-2023) |
|--|--|--|--------------------|
| | | In other cases, BoA in collaboration with Competition Authority of Albania | |
| | Make sure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced. | BoA | 2019 |
| | Keep a register of the agents used by banks and other payment service providers Make this register publicly available to consumers. | BoA | 2019 |
| | | | |
| OTHER ACTIONS: IMPLEMENTATION PROGRESS MONITORING | | | |
| Progress Monitoring | Measure the overarching objectives/variables of the NRPS (i.e. cashless payments per capita and share of adult account ownership) Communicate progress achieved on these variables to the general public. | BoA and NPSC | Once a year |
| | Select and measure “Intermediate variables” that convey the progress towards the agreed vision and overarching objectives. Report the outcomes to the NPSC. | BoA | Every six months |

Annex 1. Glossary of select terms

| | |
|---------------------------------------|---|
| Access (or entry) Criteria | Criteria for participating as a direct participant in a certain payment system, usually laid down in that system's rules |
| Access Point | A point that is necessary to initiate a payment. Access points can include branch offices, ATMs, terminals at the POS, or a personal device of the user (for access via the internet or other telecommunication networks) |
| Agent Banking | Business arrangements of banks and non-bank payment service providers using local entities (i.e. agents) such as small shops to provide basic payment and transaction account-related services on their behalf. IN some cases this arrangement is also referred to as banking through business correspondents. |
| Agent | An entity that provides payment services on behalf of a payment service provider. The type of service provided by the agent could vary from direct processing of transactions like disbursing cash or receiving deposits to accounts, to ancillary non-transaction-related services like collection of documents, opening a mobile money account, or addressing customer service queries, among others. |
| Automated Teller Machine (ATM) | An electromechanical device that permits authorized users, typically using machine-readable payment cards, to withdraw cash from their accounts and/or access other services such as balance inquiries, transfer of funds, or acceptance of deposits. ATMs may be operated either online with real-time access to an authorization database or offline. ATMs might be located at PSP branches or at other locations. |
| Branch | The physical outlet of a PSP that permits PSUs , to withdraw cash from their accounts and/or access other services such as balance inquiries, transfer of funds, or acceptance of deposits. These activities might be conducted via the teller or in the self-service area of a PSP. |
| Cash | Banknotes and coins issued by a central bank or government, which is recognized as legal tender in the country it has been issued. |
| Clearing | The exchange of payment instructions between the payer's bank and the payee's bank (or their agent.) which results in the calculation of payment obligations between system participants |
| Clearinghouse | A central location or central processing mechanism through which financial institutions agree to exchange payment instructions or other financial obligations (e.g. securities). The institutions settle for items exchanged at a designated time based on the rules and procedures of the clearinghouse. In some cases, the clearinghouse may assume significant counterparty, financial, or risk management responsibilities for the clearing system. |
| Credit Card | A type of payment card, indicating that the holder has been granted a line of credit. It enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest is charged on the amount of any extended credit and the holder can be charged an annual fee. A special type of credit card is a charge card. A charge card is a type of payment card indicating that the holder has been granted a line of credit. It enables him to make purchases but does not offer extended credit, the full amount of the debt incurred must be settled at the end of a specified period. The holder is usually charged an annual fee. Examples of these include the travel and entertainment cards. |

| | |
|---------------------------------|---|
| Debit Card | Payment card where the funds are debited in full for every transaction. It enables the holder to make purchases and/or withdraw cash. Some issuers of debit cards provide an overdraft feature, allowing the payer to use the card even without sufficient balance in the underlying account. |
| Direct Debit Transfer | A payment order or possibly a sequence of payment orders made for the purpose of collecting funds from the payer and placing at the disposal of the payee. The payment instructions typically move from the payment service provider (PSP) of the payee/originator to the PSP of the payer, possibly via several other PSPs as intermediaries and/or more than one direct debit transfer system. If both, the payer and the payee are customers of the same PSP, the direct debit transfer can be processed without the involvement of other PSPs and/or direct debit transfer systems. Direct debit transfers are typically categorized as electronic-fund transfer payment instruments, the authorization (or mandate) founding the contractual basis for the (series of) direct debit transfer(s) is however often still paper-based. |
| Direct Credit Transfer | A payment order or possibly a sequence of payment orders made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein typically move from the PSP of the payer/originator to the PSP of the beneficiary, possibly via several other PSPs as intermediaries and/or more than one direct credit transfer system. If both, the payer and the payee are customers of the same PSP, the direct credit transfer can be processed without the involvement of other PSPs and/or direct credit transfer systems. While direct credit transfers are typically categorized as electronic-fund transfer payment instruments, they can be a “hybrid payment instrument”, if they are initiated on paper forms. As part of the clearing process these paper forms are replaced with exchange of their images or more commonly digital substitutes. |
| Fully Electronic Payment | A payment instructions that is initiated electronically (e.g. entered into a payments system or a core banking system via the Internet or other telecommunications network) and processed electronically in all remaining steps up to where the account of the beneficiary is credited with finality (and the account of the payer is debited) . The device used to initiate the payment could be a computer, mobile phone, POS device, or any others. The payment instrument used is often a payment card product, electronic credit/debit transfers, an e-money product or other innovative payment products. |
| Instant Payments | Payments in which the transmission of the payment message and the availability of final funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24x7) basis as possible. Also known as “fast payments”. |
| Interoperability | A situation in which payment instruments belonging to a given scheme may be used in platforms developed by other schemes, including in different countries. Interoperability requires technical compatibility between systems, but can only take effect where commercial agreements have been concluded between the schemes concerned. |
| Liquidity Risk | The risk that a bank will not have sufficient liquidity to meet its settlement obligations (temporary need for fund) |
| Mobile Banking | The access of an account held with a bank, MFI, or other PSP via a mobile phone to obtain account information and/or initiate transactions. |
| Mobile Money | E-money product where the record of funds is stored on the mobile phone or a central computer system, and which can be drawn down through specific payment |

| | |
|---------------------------------------|--|
| | instructions to be issued from the bearers' mobile phone. It is also known as M-Money. |
| National Payments System (NPS) | Encompasses all payment-related activities, processes, mechanisms, infrastructure, institutions and users in a country or a broader region (e.g. a common economic area). |
| Online Money | E-money product where the record of funds is stored on a central computer system, and which can be drawn down through accessing this central computer system via Internet connection via a variety of devices (e.g. desktop PC, laptop, tablet, smart-phone). |
| Oversight³⁶ | <p>Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change.</p> <p>Payment systems oversight aims at a given payments system, rather than individual participants. In recent years, many central banks have expanded oversight activities to payment instruments and payment services.</p> |
| Paying office | The physical outlet of a payee (e.g. in case of utility companies) or payer (e.g. in case of government agencies) that permits PSUs to transfer and receive funds. These activities might be conducted at the teller or in the self-service area of the paying office. |
| Payment Card Switch | A mechanism that connects various institutions allowing interchange of payment cards transactions of participating institution cardholders at other participating institution merchants, ATMs and other card acceptance devices. A payment card switch is typically used for routing authorization and authentication-related messages between participating institutions, and can also generate and distribute clearing and settlement files. In some settings, the individual institutions could themselves have payment card switches to connect their own ATMs and POS terminals to their own internal card processing systems, and these payment card switches are then connected to a central inter-institution payment card switch. This term is often used interchangeably with payment card network but there are important differences: A switch in general refers to the technical infrastructure whereas a payment card network encompasses operational arrangements, payment products, rules, procedures, acceptance brands, etc. |
| Payment instruction | An order or message instructing the transfer of funds to the order of the payee. |
| Payment Service Provider | An entity that provides payment services, including remittances. Payment service providers include banks and other deposit-taking institutions, as well as specialized entities such as money transfers operators and e-money issuers. |
| Payments System | Consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money |
| Point-of-Sale (POS) Terminal | This term refers to the use of payment cards at a retail location (point of sale). The payment information is captured either by paper vouchers or by electronic terminals, which in some cases are designed also to transmit the information. Where this is so, the arrangement may be referred to as "electronic funds transfer at the point of sale" (EFTPOS). In the latter case, the terminal reads the account information from a payment card's magnetic stripe and/or embedded IC chip and in |

³⁶ The first paragraph in this definition is the original definition from CPSS (2005) "Central Bank Oversight of Payment and Settlement Systems". The second part is added from various WBG documents.

| | |
|---------------------------------------|--|
| | some cases also accept cardholders PIN entry; prepares a transaction authorization request based on transaction; transmits the authorization request to the acquiring institution; receives the authorization response; displays transaction completion status; and prints a transaction record. |
| Prepaid Card | E-money product for general purpose use where the record of funds is stored on the payment card (on magnetic stripe or the embedded integrated circuit chip) or a central computer system, and which can be drawn down through specific payment instructions to be issued from the bearer’s payment card. |
| Remote payments | The physical location of the payer and the payee do not coincide. The retail payment can be initiated in the course of the (economic) transaction between the payer and the payee (e.g. Mail-Order/Telephone-Order or E-Commerce) or it can be separated from the underlying (economic) transaction (e.g. bill payment). Examples for remote payments are payments initiated via regular mail, the internet/designated lines and via telephone/mobile phone network. |
| Settlement risk | The risk that a settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk |
| Switching | An electronic system employed to transfer payment instructions, initiated by customers, between participating banks within a retail payments market |
| Systemic risk | The risk that the failure of one participant to meet its contractual obligations could deprive other participants of funds owed to them, resulting in a chain reaction whereby a large number or all of the participants in a settlement system are unable to meet their respective obligations |
| Telephone/mobile phone network | Voice or text communication network that allows users of payment services to access services such as balance inquiries or transfer of funds, via desktop or mobile phones. |
| Transaction account | Broadly defined as an account held with a bank or other authorized and/or regulated service provider (including a non-bank) which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts. |

Annex 2. The World Bank's Guidelines for Developing a Comprehensive Strategy for Reforming Retail Payments

The World Bank Payment Systems Development Group (PSDG) has developed a strategy for reforming retail payments systems, which contains a number of recommendations for the modernization of the NRPS.

The framework has been designed by capitalizing on the past studies carried out by the World Bank itself, the Committee on Payment and Settlement Systems, and other international and national bodies involved in payment system issues, as well as on the worldwide experience accumulated by the PSDG in supporting payment systems reforms in over 100 countries.

The framework builds on the following set of public policy objectives:

- Ensure the overall safety and efficiency of the national payment system
- Promote affordability and ease of access to payment services;
- Promote development of efficient infrastructure to support development of payment instruments and mechanisms to meet retail payment needs; and,
- Promote socially optimal usage of payment instruments.

To achieve these public policy objectives, the World Bank has formulated the following guidelines:

Guideline I: The market for retail payments should be transparent, have adequate protection of payers and payees interests, and be cost-effective.

Guideline II: Retail payments require reliable underlying financial, communications, and other types of infrastructure; these infrastructures should be put in place to increase the efficiency of retail payments. These infrastructures include an inter-bank electronic funds transfer system, an inter-bank card payment platform, credit reporting platforms, data sharing platforms, large value inter-bank gross settlement systems, availability of robust communications infrastructure, and also a national identification infrastructure.

Guideline III: Retail payments should be supported by a sound, predictable, non-discriminatory, and proportionate legal and regulatory framework.

Guideline IV: Competitive market conditions should be fostered in the retail payments industry, with an appropriate balance between co-operation and competition to foster, among other things, the proper level of interoperability in the retail payment infrastructure.

Guideline V: Retail payments should be supported by appropriate governance and risk management practices.

Guideline VI: Public authorities should exercise effective oversight over the retail payments market and consider proactive interventions where appropriate.

Annex 3: CPMI – World Bank “Payment Aspects of Financial Inclusion”

Financial inclusion undertaken from a payments angle should aim to achieve a number of objectives. Ideally, all individuals and businesses should be able to have and use at least one transaction account operated by a regulated payment service provider:

- To perform most, if not all, of their payment needs
- To safely store some value; and
- To serve as a gateway to other financial services

In this context, the following Guiding Principles were identified. Each of these also include a set of possible actions (not presented in this annex).

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

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

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

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

Guiding principle 5: Readily available access points: The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

Guiding principle 6: Awareness and financial literacy: Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

Guiding principle 7: Large-volume, recurrent payment streams: Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Annex 4: CPSS – World Bank “General Principles for International Remittance Services” and Related Roles

GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES

The general principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Transparency and consumer protection

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

Payment system infrastructure

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

Legal and regulatory environment

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

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. 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.