

2.7. PAYMENT SYSTEMS

Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and the overall economic growth.

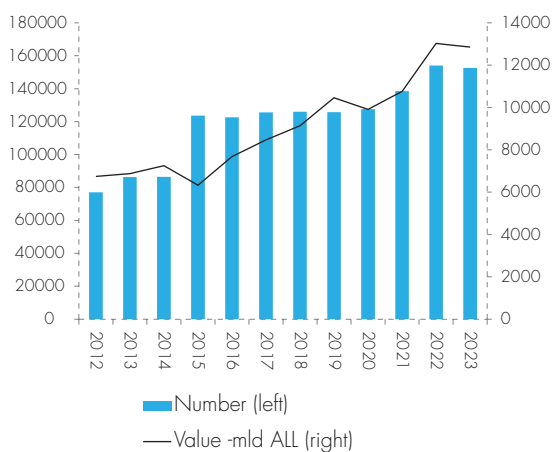
In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the National Retail Payments Strategy.

2.7.1. PERFORMANCE OF PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for the processing of interbank payments and one infrastructure for the settlement of securities. AIPS system is considered the core infrastructure for the settlement in real time of large-value payments in lek. The AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million of bank clients (households and enterprises).

The AIPS EURO system, enables real-time gross settlement of payments in euro within the territory of Albania. Also, since 2015, the BoA operates the central system of settlement and registration of transactions with government securities - AFISaR. All systems have operated smoothly and in accordance with the rules and operating schedules laid down in the relevant regulations, providing maximum availability over 2023.

Chart 39 Number and value of transactions processed in



Source: Bank of Albania.

AIPS - ALBANIAN INTERBANK PAYMENT SYSTEM FOR LARGE-VALUE PAYMENTS

The large-value payment system is crucial in developing the stability of the financial system as it ensures the normal circulation of liquidity in the markets and economy. Every bank operating in Albania, the Bank of Albania and the Ministry of Finance (as an indirect participant) are participants in the AIPS system. The total volume of liquidity circulated in the system was ALL 12,849 billion, or 5 times more than the nominal GDP.

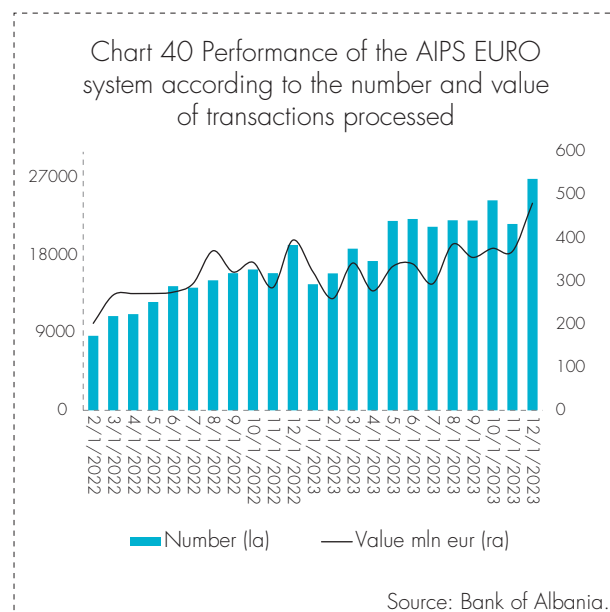
The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks in order to manage daily liquidity and ensure normal continuation of interbank



payments operation. The ratio of the value of ILFs to the total value of the activity of the AIPS system remain low (4%-5%), indicating that the system's exposure to liquidity risk of participants is low.

ALBANIAN INTERBANK PAYMENT SYSTEM FOR DOMESTIC CUSTOMER PAYMENT ORDERS IN EURO CURRENCY, WITHIN THE TERRITORY OF THE REPUBLIC OF ALBANIA (AIPS EURO)

The AIPS EURO system was established to enable the Albanian citizens to make payments in euro within Albania at much lower costs, as well as within a much shorter time-period than the process carried out previously through correspondent banks. This system has enabled households and enterprises to make their payments in euro, within the territory of Albania, for the second consequent year. During the 2023, a volume of payments of 249,018 transactions worth around EUR 4,134 million were processed in AIPS EURO system. Compared to 2022, the number of transactions increased by 60% and their value by 24%. About 1,016 transactions are processed daily in this system with an average daily turnover value of around EUR 17 million.



Albanian consumers and enterprises are estimated to have saved around EUR 37 million in 2023 from using AIPS Euro system. Expanding its use helps bolstering financial inclusion and promoting electronic payments in the country. Through this system, payments in euro within the country are completely regulated by the legal and prudential regulatory framework for the protection of customer created by the law "On payment services", thus avoiding relations with correspondent banks.

ALBANIAN ELECTRONIC CLEARING HOUSE FOR RETAIL PAYMENTS (AECH)

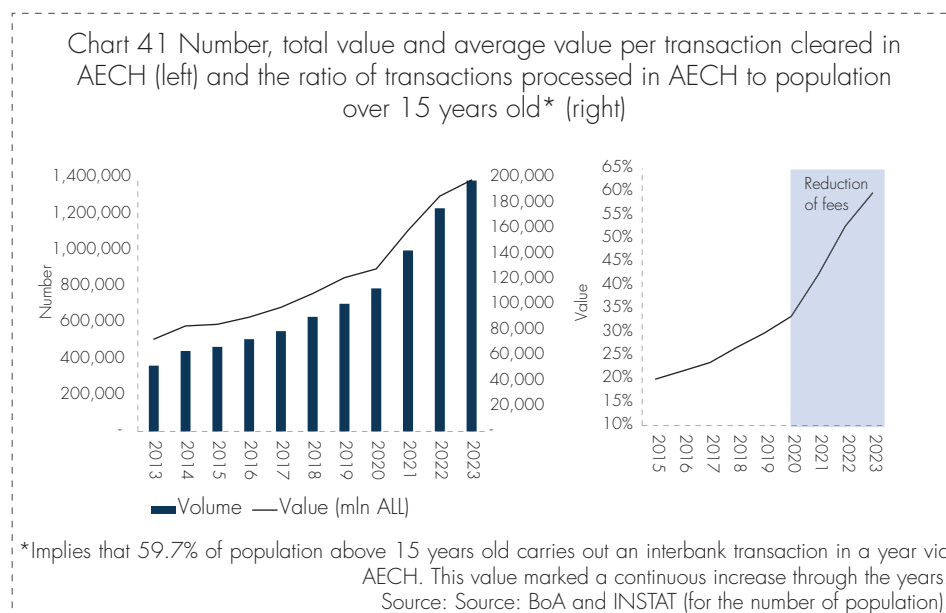
The AECH is an automated clearing system for small value payments. It is fully integrated with AIPS. The use of this system mainly reflects the use of bank transfers by households and enterprises, mainly medium-sized and small ones.¹⁹ The activity in the system has continuously increased and, during 2023, cleared transactions increased by 12.4% and total transactions by 6.8% compared to 2022.

Beyond the steady increase in the number and value of transactions processed in recent years via AECH, the average value per transaction has decreased, in line with the use of carrying out lower value transactions. The ratio of transactions

¹⁹ The analysis of the payment distribution indicator according to the participants is evidence that customer payments initiated by banks continue to hold the main share of transactions processed in the in AECH system, dominating the transactions initiated by other participants (Ministry of Finance and economy, the Bank of Albania).



carried out in AECH to the population continued to increase. This performance has been supported by the measures taken by the Bank of Albania on the differentiation of commissions applied by banks, favouring the retail payments in electronic form²⁰.



ALBANIAN FINANCIAL INSTRUMENT SETTLEMENT AND REGISTRATION SYSTEM (AFISAR)

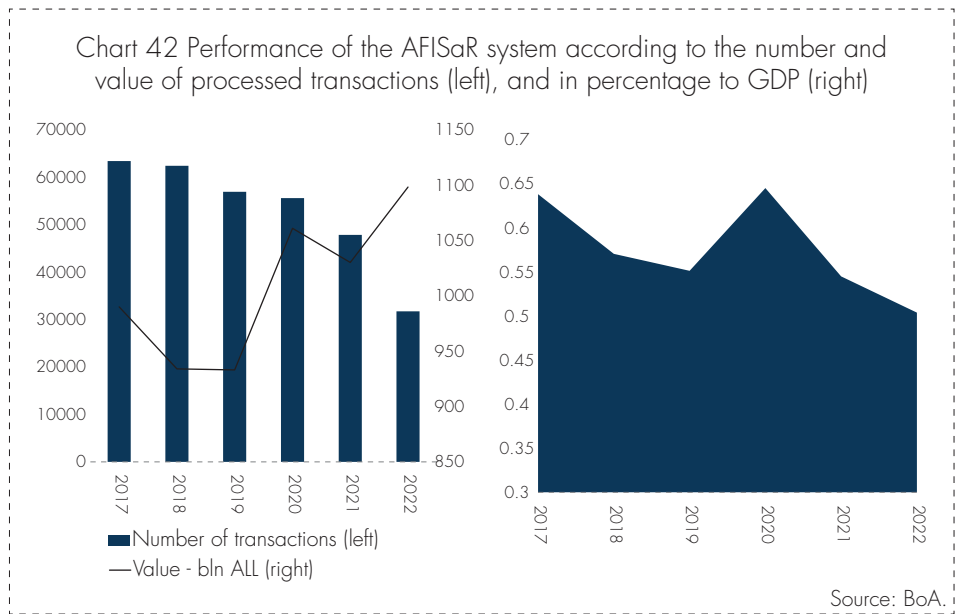
The AFISaR system is the central system for the settlement and registration of transactions with government securities. This system is operated by the BoA in the capacity of fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market both in lek and the euro, as well as the settlement and registration of transactions with these securities in the secondary market - actions where the collateral is the securities of the Albanian State or the reverse repurchase agreements with the subject these securities. The system also provides tax collection services for securities income and interest payment events. It informs account holders in this system about the balance and movements in these accounts.

At the end of 2023, the AFISaR system registered 14 financial institutions as direct participants, including 1 issuer (Ministry of Finance and Economy) and 1 central bank (BoA), 7 indirect participating financial institutions with accounts through the Bank of Albania, and connection with 1 Private Stock Exchange. At the end of 2023, there were 19,490 individual accounts in the AFISaR system opened through the Bank of Albania.

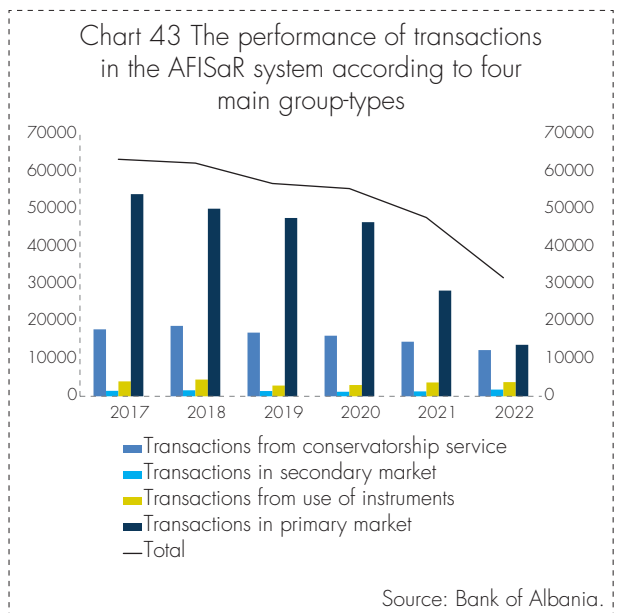
²⁰ The regulatory amendment for the use of the system (2020), provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount ALL 20,000 as well as the differentiation of fees for the other part of payments initiated electronically up to 50% of those initiated in paper form.



At the end of 2023, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 732.26 billion, up by 2.8% from the end of 2022. Issue in the European currency are at EUR 69.13 million, unchanged from the value of the previous year.



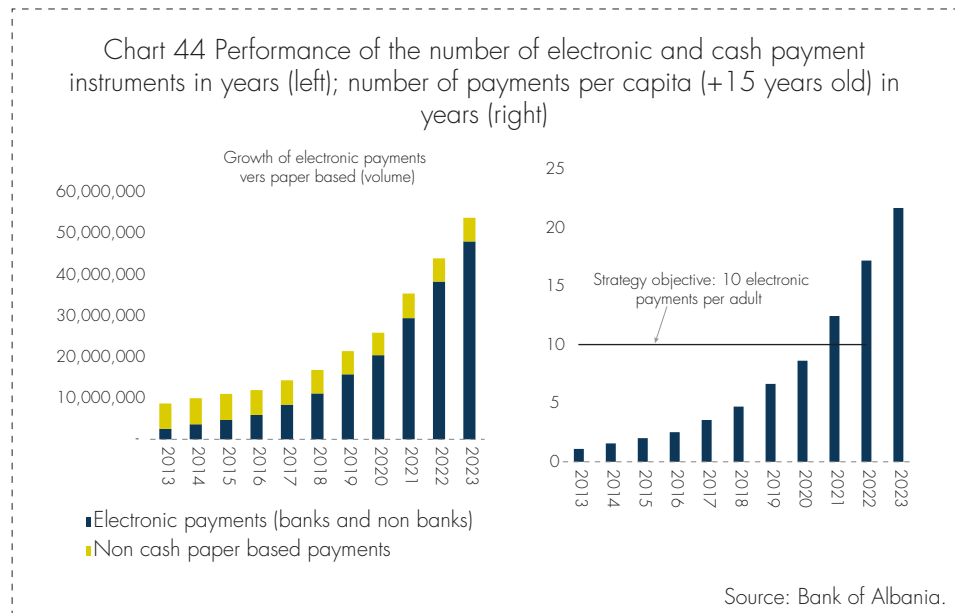
Using the AFISaR system for four general types of transactions, shows that transactions in the primary market and custody transactions (tax collection, coupons payments, etc.) decreased by 16.5% and 45%, respectively. Transactions in the secondary decreased by around 8%. There was a significant increase in transactions from the use of instruments, with 31.7%, where the main role was played by overnight loan (up by 94%) and repo in the interbank market (up by 30%). Albanian securities exchange (ALSE) had no activity in 2023.



2.7.2. PAYMENT INSTRUMENTS

The use of electronic payments instruments has continued trending upward over the course of 2023, whilst payments in paper form remained almost unchanged. Around 89% of the number of payments conducted by both banks and non-banks were carried out in the electronic form. Compared to the previous year, the number of these payments increased by 25.5%, while their value grew by 27.1%.





The progress of electronic payments has contributed to the fulfilment of the quantitative objectives of the National Strategy of Retail Payments (2018-2023), reaching a level of use of electronic payments per capita at 21, in 2023, out of 10 payments which is the objective of the Strategy. Financial inclusion has increased and the objective of 70% of the population owning a payment account has been met²¹.

PAYMENTS PROVIDED BY THE BANKING SYSTEM

Banking institutions are the main provider of payment services. Large-value payments continue to be carried out in the form of paper transfers, mainly from enterprises. They account for a small share in the total number of payments. In terms of value, they account for around 61% of the total value of payments.

The use of other electronic payment instruments carried out through banks has increased. Around 61.9% of the total payments were made via bank cards. Compared to 2022, the number of card payments increased by 22.2%. On the other hand, due to the very nature of payments made via this instrument, their value remains at low levels, accounting for only 3.1% of the entire value of payments. Cards are mostly used by individuals (94.7% of the total number of card payments).

Home-banking payments²² constitute for the second place as a payment instrument to the total number of payments. The rapid trend of increasing use of home banking shows the greater familiarity of the public with this instrument as well as its promotion by the banking system. The number of payments made through the mobile banking service reached 3.1 million transactions and

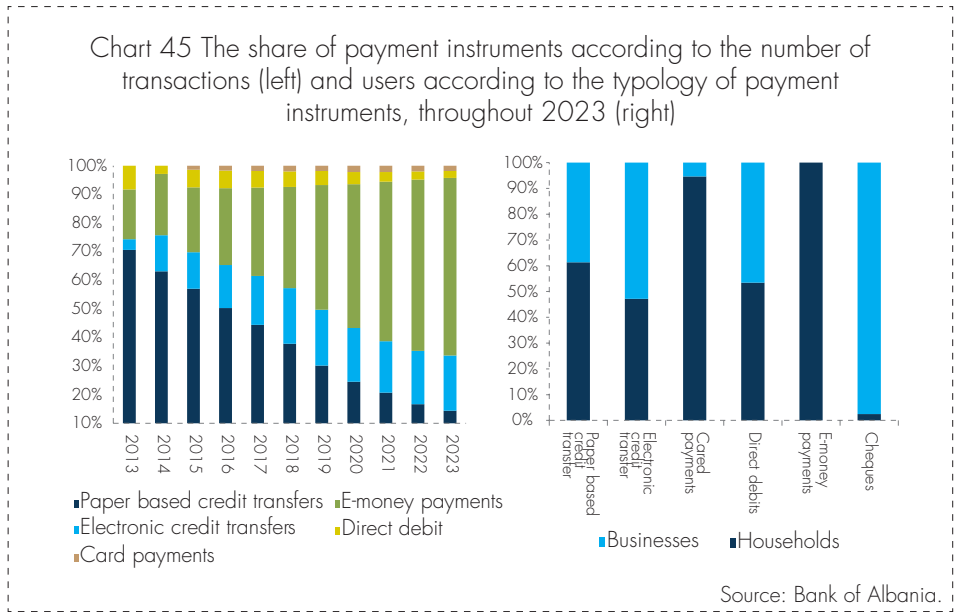
²¹ In 2014, less than 40% of the population owned a payment account.

²² These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.



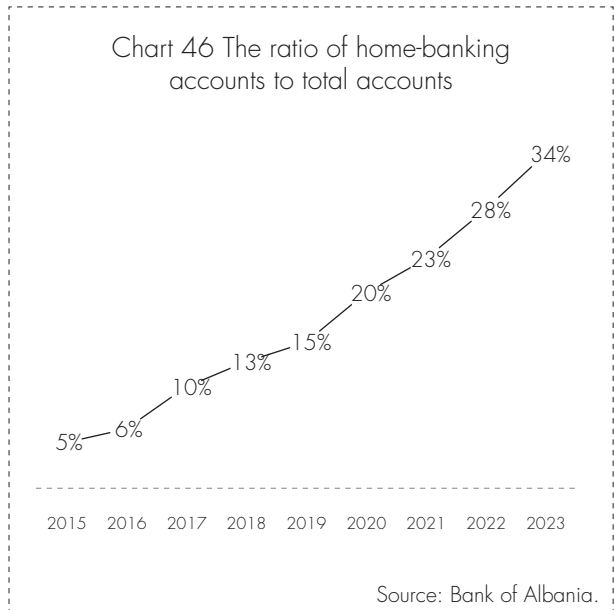
increased by 36.7% compared to 2022. Their value reached ALL 336 billion, up by 25.8% annually.

Electronic money payments in the banking system grew during 2023, but the value of these payments still remains at low levels (only 0.1% of the total of all payments). E-money or prepaid payments are used exclusively by households.

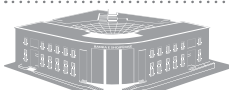


HOME BANKING

“Home banking” services are offered by all banks and are increasingly being used in the Albanian market. They are being used not only for basic account status information services, but also for carrying out on-line payments. In 2023, the number of payments and the value of “home banking” transactions increased by 22.1% and 28.1%, respectively, compared to the previous year. This progress was driven by the measures taken by the Bank of Albania to reduce commissions for this type of transactions²³ the development of the infrastructure, the spread of opportunities to access the Internet, as well as the familiarization of bank customers with the use of this instrument. The number of accounts accessible remotely increased by 24.3% in 2023, accounting for 33.8% of the total of all customers’ accounts in banks.



²³ In regard to the differentiation of commissions between on-line payments and those in-person near bank branches.

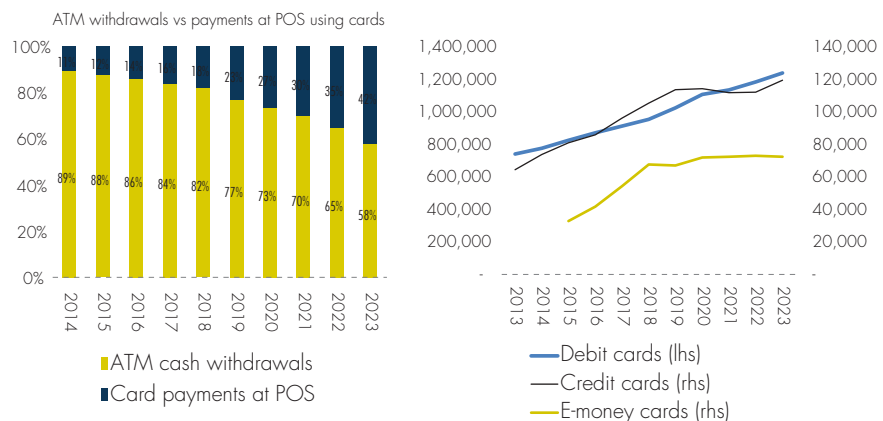


BANK CARDS AND THE INFRASTRUCTURE FOR THEIR USAGE

All the 11 banks that operate in the Republic of Albania are licensed as card issuers, of which 8²⁴ are licensed also as card accepters. The number of ATMs and POS terminals per 100,000²⁵ adults in Albania, due to the increase of the familiarity of the enterprises and the public, higher use of cards at the points of sale and the expansion of the financial inclusion of the population.

The number of cards increased by 4.6% compared to the previous year. Debit cards predominate in this group, with 86.5% of the total number of cards in circulation. The average number of card payments per capita (population over 18 years old) has increased to about 11 payments during 2023 compared to 9 in the previous year. The number of POS increased by 18.2% compared to 2022. Despite the expansion of the distribution of the POS network in all regions, the highest concentration is in Tirana,²⁶ where 80% of them are installed. The use of cards at POS increased by 34.9% compared to 2022.

Chart 47 Use of cards for carrying out payments vs cash withdrawals at ATMs (left), number of cards in circulation (right)



Source: Bank of Albania.

The number of ATMs increased by 8.2% compared to 2022. Despite the fact that ATMs are mainly used for cash withdrawals, the number of ATMs that enable cash deposits has increased. Their use for this function is still limited.

²⁴ The First Investment Bank has started to offer the service of accepting cards during 2023.

²⁵ The adult population (over 18 years old).

²⁶ Regions are divided according to the branches of the Bank of Albania.

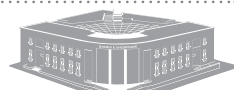
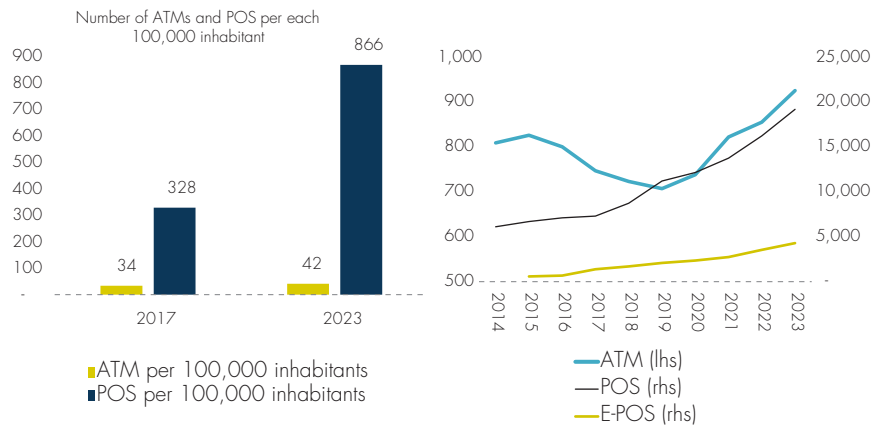


Chart 48 Number of ATMs and POS terminals for 100.000 adults (left) and number of ATMs and POS terminals (right)

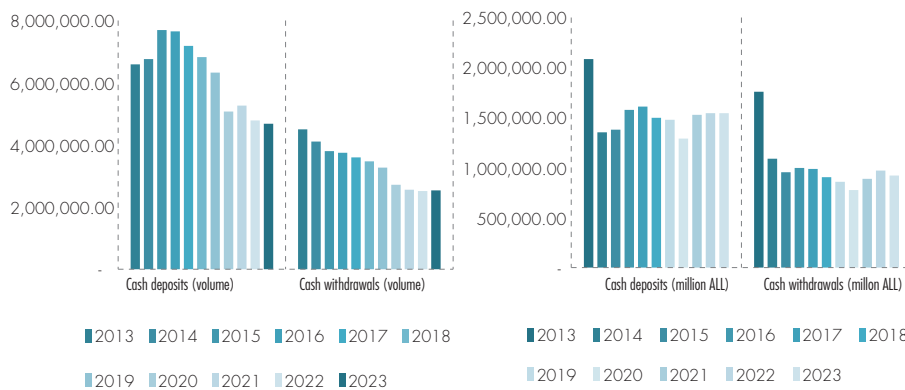


Source: Bank of Albania.

CASH TRANSACTIONS

The increase in infrastructure for the use of electronic payment instruments has been reflected in the decline in the use of cash for transfers. In 2023, cash transactions carried out by customers at the banks' cash desks have decreased by 2.1% in number and 0.2% in value compared to 2022. However, the use of cash in the Albanian economy remains a dominant phenomenon, which carries high costs for the economy. The ratio of currency outside banks against liquid money (M1) is 51% from 52.7% in the previous year. Coordination of efforts with all relevant actors, as well as increasing financial education to encourage the use of the most efficient and low-cost instruments constitutes one of the priorities of the Bank of Albania.

Chart 49 Number and value of cash transactions at bank's cash desks (households and businesses)



Source: Reports submitted by banks according to the "Methodology for reporting payment instruments".



2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products are offered by non-bank financial institutions licensed as electronic money institutions. Their number increased at 10 as a result of the adoption of the law “On payment services” The newest electronic money institution was licensed by the Bank of Albania at the end of 2023. These institutions together performed a volume of approximately 14 million electronic money payments, with a value of ALL 91.6 billion marking an increase of 37.6% in number and 102% in value compared to 2022²⁷.

The use of electronic money enables convenience mainly to that part of the Albanian population that does not own a bank account. The advantages for this part of the population consist in the increased flexibility for carrying out payments, considering the wide scope of these institutions in the country, but also at a lower cost for the payments made, especially for the payment of fines, monthly utility bills, etc. Although the number of electronic money payment transactions from money institutions has reached 41% of the total electronic payments, their value remains low, at around 4% of the value of electronic payments.

2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

Beyond the operation of the payment systems, the Bank of Albania pays attention to the consolidation of the payment system oversight role and of the use of payment instruments as an integral part of them. In this regard, it continues to improve and strengthen the regulatory framework and payment infrastructure, in compliance with the European standards.

The regulatory framework for the implementation of the Law on “Payment Services” is now complete. This law transposes the EU Directive on Payment Services and opens the payment market for a variety of services and institutions, in favour of increasing competition, reducing costs and increasing transparency for the consumer. During 2023, work was done on the approval of the regulations necessary for the full implementation of the Law (for the approved regulations, see 2.4.2 Review of the legal and methodology framework).

The finalization and approval of the Law on the “Payment account with basic features”²⁸ is an important element in order to promote financial inclusion (for more detailed information, see Box 5). It is expected to positively affect the use of the payment service and the expansion of citizens that owns and uses a payment account.

During 2023, the work toward **Albania’s membership in the Single Euro Payments Market (SEPA)**, a very important project of the Bank of Albania,

²⁷ The data is up to November 2023. Please allow the data to be updated until the report is published.

²⁸ Approved on 14.12.2023, published in the Official Journal No. 1, dated 03.01.2024.



started. The process started in 2021 when Albania became part of the World Bank's regional project "For the modernization of payment systems in the Western Balkans". As an integral part of the agenda of the Berlin process, in addition to the World Bank, it is also supported by the European Commission, CEFTA and RCC. The accelerated membership of Albania in SEPA is one of the objectives that must be met to achieve the New Growth Plan 2024-2027 approved by the European Commission in November 2023 (New Growth Plan for the Western Balkans). Allowing the membership of the Western Balkan countries in SEPA is an opportunity to integrate our payment platforms and therefore e-commerce with the European market and, for this reason, the project has been given priority in the development strategy of the Bank of Albania (for more details on criteria, procedures and benefits, see Box 6).

BOX 7:

ALBANIA'S PARTICIPATION IN SEPA

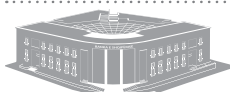
The criteria for expanding the geographic scope of the Single Euro Payments Area (SEPA) are defined by the European Payments Council (EPC), and the assessment of compliance with the criteria for participation in SEPA is undertaken by the same entity. The criteria for participation in SEPA have been developed to allow the financial community in countries outside the European Union to be able participate in SEPA schemes. More specifically, a central bank or similar entity may act on behalf of the national financial community to submit a request for participation in which the country's legal compliance with the SEPA participation criteria is also analysed. In the case of Albania, the application document will be submitted by the Bank of Albania.

The criteria in regard to ensuring equal conditions between the applicant and other participants of the SEPA scheme focus on compliance with EU legislation on payments. This compliance must be demonstrated either through effectively represented legal provisions or through equally binding market practices. These criteria do not require a strict application of relevant EU legislation, but the relevant provisions in domestic legislation must be considered substantially or functionally equivalent to the EU legislation.

The World Bank is assisting the Bank of Albania throughout this process, and has already performed a preliminary assessment of the need for legal amendments that will meet the criteria of compliance with the EU legislation. This assessment has shown that Albania is significantly advanced as in regard to the alignment the legislation. A very important development in this regard has been the Albania's delist from the gray list, an essential criterion for participation in SEPA. Through the National Committee of the Payment System, the banking system has also been informed on this initiative. The commitment of the banking system is very important for the success of this project since following the application by the Bank of Albania and the possible acceptance by the EPC and the European Commission, banks and non-banks will have to join the SEPA schemes individually.

Benefits from Albania's participation in SEPA

Albania is a country with a considerable high economic interaction with the European Union countries such as:



- Import-export trade exchanges
- Revenues from labour and remittances
- Tourism, mainly from European Union countries
- Expansion of European companies in the Albanian market and vice versa

For the development of these interactions as efficiently as possible, it is necessary to establish channels for the transfer of funds as proficiently as possible, both in terms of costs and time. One development that could support this objective is the accelerated membership in the Single Euro Payments Area (SEPA). This membership brings a number of real benefits to various economic actors and to the economy as a whole.

SEPA makes cross-border payments between member countries as simple and cheap as domestic payments. Participation in SEPA enables the implementation of the principle of equal fees for both national and cross-border payments processed electronically in euro.

Currently, transfers and payments with European Union countries and vice versa are carried out through correspondent banks, a costly and inefficient channel in terms of transaction execution time, monitoring of its finalization, transparency of working conditions and consumer protection. For consumers and businesses- simplicity, convenience and efficiency are three of the main benefits of SEPA membership, as Albanian citizens and businesses would make payments and transfers within one (1) market, avoiding intermediary banks.

In regard to the development of tourism, membership in SEPA facilitates European tourists to pay quickly and at low costs, as if they were in Europe or in their country of origin. For investments, the movement of funds and payments between Albania and the countries of the European Union for investment purposes becomes easier and less expensive. Finally, the creation of such a facility will increase the sending of remittances through formal channels from the countries of the European Union.

The Bank of Albania has worked intensively for infrastructural developments through the "Upgrade of AIPS, AIPS Euro and AECH systems" project. This project aims to implement international processing standards (SEPA/ISO 20022), which increase the security of transactions and ensure uniformity in data exchange at the global level. The project implies improvements in the technical infrastructure to increase the security and efficiency of the systems operated by the Bank of Albania.

The Bank of Albania has taken important steps to implement the infrastructure for instant payments. "Instant payments" are credit transfers of retail payments available at any time and with near-instantaneous interbank settlement of the transaction.

In the role of reformer of payment markets and related infrastructures, the Bank of Albania has led the implementation of the action plan of the Albania National Retail Payments Strategy (2018-2023). The year 2023 was the last year of implementation in terms of regulatory improvements and new infrastructures. The measurable (quantitative) objectives of the Strategy have been met or exceeded.

