



Bankieri

ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE

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PAYMENT REVOLUTION



ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE

CYBER SECURITY

October

#protect yourself #protect your organization

AAB MEMBERS



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Bankieri

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**Ti ke lindur për
gjëra të mëdha**

Payment revolution in Albania

The "creative destruction" for a new business model in banking

The law provides and promotes numerous opportunities for innovative processes and products, which will take banking and financial services in Albania up, to a pretty much higher level.



Prof. Asoc. Dr. Elvin MEKA¹
Editor-in-Chief

The Revised Payment Service Directive (PSD2), which entered into force in January 2018, caused the Fourth Industrial Revolution to bear its fruits, in the field of payments. This is so true that, within a very short time frame, radical changes are being observed in Europe, in terms of payment systems.

Thankfully, such revolutionary transformation has already knocked on the doors of the Albanian financial system, since quite a few months ago, the Assembly of the Republic of Albania approved the new Law "On payment services". Generally, this law makes a significant alignment

with the revised European Union Payment Services Directive (or PSD2). It is worth mentioning here that, for the first time in Albania, such a strong structural movement and development, at the European level, starts and becomes part of the economic system so quickly. Certainly, it's quite understandable that such a development happens within the Albanian banking system and sector, which remains not only the most serious, well - organized and most capable activity to face and finance change, but also the closest to EU economic structures.

Beyond the well-known fact that the new law will enable better consumer protection, the entry of new players in the market, increased competition and cheaper payment services, it will not stop just at paving the way for a payment service overhaul. From now on, they will never be the same as before, both in form and content, but above all, such law will completely "shake" the model of banking activity in the country. The legislation (the law and respective bylaws) will allow, within the Albanian financial system, the implementation of the "creative destruction", iconized by Joseph Schumpeter, who more than eight decades ago argued that innovation is the fundamental driving force of the

historical evolution of capitalism, being either a *process* or a *product*².

In this context, banks as large institutions and the most innovative ones in the Albanian economy, have all the opportunities to turn into their advantage the possibility of the level playing field, created by this law, for cross-sectoral competition, not only between banks, but also between banks and non-bank financial institutions. But, here it must be grasped that, now they are not just facing a new product, for which a mere adaptation, or incorporation into the current business model, is enough; it is already a *new business model*, where one of its main pillars is the *payment services*!

The new reality, in which banks will have to operate and be not only competitive but also innovative, means that they must necessarily avoid the "KODAK"³ effect, where the innovative institutionalization of the payment service, realized nine centuries ago by Bank of Venice and huge investments made so far in the payment service, should not be considered as sufficient to continue business as usual. This reality calls for a more personalized effort with client and for an all-new approach, in terms of attracting more new clients. The challenge here is now to produce new "needs" and moreover, to create more added value for the customer!

¹ Dean of Faculty of Economy, Business & Development, European University of Tirana, UET.

² Joseph Schumpeter: "Business Cycles: A theoretical, Historical, and Statistical Analysis of the Capitalist Process, Volume I", 1939.

³ Kodak created a digital camera, invested in the technology, and even understood that photos would be shared online. Where they failed was in realizing that online photo sharing was the new business, not just a way to expand the printing business. (Scott D. Anthony: "Kodak's Downfall Wasn't About Technology", HBR, 2016).

The new law on payment services

An important and welcomed development

The innovations of the law "On payment services" may affect the financial and economic system, through its three main effects: - promoting competition and creating innovative financial services, - better consumer protection; and - expansion of the representation of institutions providing payment services, throughout the territory of the Republic of Albania.



Prof. Dr. Luljeta MINXHOZI¹

First Deputy Governor
BANK OF ALBANIA

Financial inclusion of population and the reduction of cash in the economy has become an important priority for the Bank of Albania (BoA) and the National Payment System Committee, to achieve the objective of reducing informality and increasing transparency in the economy. In this context, since 2018, a number of important measures have been taken, in order to modernize the market for small value payments.

The recent adoption of Law 55/2020: "On payment services" is one of measures taken and, at the same time, a very important achievement, in this regard. This law transposes an important

directive of the European Union, PSD2 (Payment Services Directive 2), into our financial legal framework. In an international framework, such Directive is considered as a law with the objective of regulating not only the payment system, but also a law, which through innovation, promotes a simultaneous



Banks, payment and electronic money institutions, should be careful in their decision-making, by taking advantage of European experience, in order to maximize the effects of the law, but also being careful that investments made in new payment institutions to comply with the required standards.



expansion of electronic payments and electronic commerce. The new law "On Payment Services" is expected to contribute at promoting the financial inclusion of population, allowing the creation of new financial services, easily accessible to the general public, and at lower costs.

I would like to emphasize that the innovations of the law "On payment services" may affect the financial and economic system, through its three main effects: - promoting competition and creating innovative financial services, - better consumer protection; and - expansion of the representation of institutions providing payment services, throughout the territory of the Republic of Albania.

Promoting Competition through innovation

The new law strengthens the BoA's supervisory legal basis for payment services, by ensuring impartiality and proportionality in licensing and regulating the payment service providers. This means that competition between Payment Service institutions will increase, through:

- balancing the space for providing payment services between banks and non-bank financial institutions, allowing the latter to open payment accounts and issue electronic payment instruments,
- creating conditions for promoting innovation, in the field of small value payment services, creating opportunities to reduce costs of these services and

¹ The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy, or position of Bank of Albania.

- increase the number of their users,
- creation of new business models, with the concept of open banking and home banking, that will facilitate the use of innovation in the payment service for third parties, such as: payment initiation services and institutions for account information service. These innovations will require banks to share customer account information with other payment service institutions, licensed by BoA,
 - Facilitation space for the operation of small value payment systems by Banks, Payment Institutions and those of Electronic Money, in order to meet different needs for these services, from the market itself. The law stipulates that for payment systems, which are not of systemic importance and do not have such activities, for which the protection regime created by law no. 133 dated 09.04.2013 "On the Payment system" applies, the provider may operate payment systems without the need of additional license, but simply being supervised by the Bank of Albania.

In a strategic perspective, by promoting competition it will encourage the creation of new actors and new services in the financial markets, in mid - long term, by contributing to an increase of banks' activity. Through this law, the banking system can include, in its activities, segments of the economy and the population, which under current market conditions, seem completely

impossible to reach by financial services, citing as an example: coffee payment, public transport, etc.

On the other hand, the establishment of payment initiation services is estimated to have a direct impact on promoting the electronic commerce and the use of home banking services, for effecting these payments. These services, depending on the policies of market players, may be developed by the institutions themselves, that may assess incorporating the opportunities created by law, to expand the basis of payment services they could provide. These services may be provided by payment institutions, which cooperate with banks, or by payment institutions, which do not have any contractual agreement with banks, but which enjoy the right to access the bank customer's account, through relevant license, obtained by the Bank of Albania and the client's consent.

Strengthening institutions for Consumer Protection

Considering the fact that customers' trust in financial institutions is an important factor in the success of their activity, the Law "On Payment Service" has prescribed a special attention to this regulatory aspect. The main benefits of consumer protection, which are included in the concept of consumer as an option proposed by the European Directive, are certainly addressed to consumers and micro-enterprises. Because these groups of payment system users have limited negotiating skills, and usually a lower financial literacy, the law undertakes the development of a framework for consumer protection, with

monitoring and enforcement mechanisms. But, on the other hand, it is estimated that the consolidation of consumer protection brings added value to the banking and financial system, itself. Thus, the new law aims to:

- resolve disputes effectively, through a detailed definition of parties' rights and duties,
- establish units within institutions, to address the protection of payment services' users (similar to consumer loan), as well as a special unit within the Bank of Albania, for alternative dispute resolution.

Given the strong link that consumer protection has with customer awareness about rights and duties they have, their financial education will significantly contribute to promoting the financial education of the population.

Financial education is an important objective for all payment institutions, both regulatory authorities and financial institutions. For this reason, it has been identified as an important priority in by National Payment System Committee.

Presence of payment service providers throughout entire territory of the Republic of Albania

The increase in the number of financially involved population is closely related to the presence expansion of institutions that provide payment services, throughout the territory (including rural areas). The opportunity to ensure such wide range of payment institutions in the future, is regulated, in the law, by the model under which "banks may provide payment services through agents."

Currently, banks in Albania operate through a branch network, a practice that following the effects of global financial crisis turned out to be costly and banks, in various ways and measures, responded by reducing branch network and physical presence, mainly in rural areas. The innovation presented through the law is assessed in:

- allowing banks to expand their presence, by cooperating mainly with non-bank financial institutions, which currently have a consolidated network of agents, in a less costly way for them,
- digitalization of services, which means shortening the geographical dimensions of payments, thus allowing these services to be usable, even when the bank, or the payment institution, does not have a physical presence, in a particular area. Such development, supported by the necessary regulatory reviews to allow the open-

ing of accounts remotely, is estimated to contribute significantly to the financial inclusion of the population and coverage of the entire territory, with payment services.

- increasing trust in Albanian payment institutions, at the cross-border level, through the establishment of financial institutions with well-regulated governance and risk management structures. It is also worth noting that, the enactment of PSD 2 Directive constitutes an important step towards integration into the Single Euro Payments Area (SEPA) and opening up the interaction in the field of payments with the European Union.

In conclusion, I would like to emphasize that the drafting and adoption of the law was an important step, but there are still many steps that must be taken by all parties. From Bank of Al-

bania's viewpoint, as the regulatory and supervisory authority, much energy and capacities are really needed for drafting by-laws, which will enable an efficient implementation of the law. In this context, I would like to emphasize that our steps in this direction are being significantly supported by European experience and technical assistance by international institutions, guaranteeing security in the steps taken, in a still uncharted territory.

The Law implementation also requires significant commitment and investment from market players, themselves. From this point of view, I believe that banks, payment and electronic money institutions, should be careful in their decision-making, by taking advantage of European experience, in order to maximize the effects of the law, but also being careful that investments made in new payment institutions to comply with the required standards.



The new Law on Payment Services - challenges and opportunities for the Albanian banking sector

BANKIERI:

1. *What kind of changes do you expect to occur in your bank, regarding the implementation of the requirements stipulated by the new law?*
2. *What could be the biggest "threat", the new law could create for banks?*
3. *Do you think that new payment instruments will be developed and introduced in Albania?*



Kerem PAMUK

Head of Cards & Payments Department
BANKA KOMBËTARE TREGTARE

1. For more than a decade, Banka Kombëtare Tregtare has made large investments in payment systems and is the first bank to introduce several payment instruments, in the Albanian market. Constant efforts has been made to increase the volume and number of payment instruments transactions with cards, and especially to replace cash with non-cash, offered by digital payment instruments. However, despite the fact that BKT holds a leading place in the Albanian market, in terms of the

number of cards and POS terminals, there is still a long way to go at reaching the figures of European average.

The law, in a broad sense, seems quite promising, at motivating and guiding people and financial institutions, to invest and use financial payment systems, as well as digital channels. As BKT has invested for years in this field, it will adapt quite easily to future changes in the market and will offer the highest quality to existing and potential customers, with the current portfolio of products and projects that will be completed within the year.

2. Globally speaking, one of key challenges for banks, for a long time, is the clash between the disruptive approach of FinTech (financial technology) companies and the traditional/conventional banking. Over time, the two models have merged and created new synergies and very successful alliances, but as we all know, the early stages of clash between two completely different ways of doing business were painful, especially for banks. As the law opens the door

for FinTech companies, banks that may not capture the right position, could suffer. Certainly, when competition between service providers increases customers, it is expected that in a very short time, end-users will enjoy many benefits and solutions in payment systems.

Another threat, closely linked to increased competition, will be for banks that have not invested enough in payment systems and digital solutions. As competition and product diversity increases, institutions that provide poor and unsatisfactory services will see dramatic changes in numbers.

3. We will face and enjoy more solutions for digital and mobile payments, in the coming period. The user experience will improve and, in the end, will become digital. As technology evolves rapidly, every generation is somehow coping with the new UX, especially with mobile phones. High internet penetration and stunning smart devices' ownership figures change the daily lives of Albanian people of all ages. The pandemic also had an impact on people's access to technology solutions for payment systems,

such as contactless payment and e-commerce shopping.

In this regard, since the legislation allows and directs the market, it is highly expected that the penetration of mobile payments will be much higher than plastic card payments. In the very near future, more Albanians will use their mobile devices, not only for daily banking activities, but also for payment transactions.



Ardian HASA

Head of Operational Division/Management
Board Member
OTP BANK – ALBANIA

1. I think that the Law No.55/2020 on payment services, whose one of its main scope is: establishing, licensing, organizing, the activity and supervision of payment institutions, has a direct effect on all banks, in two main aspects:

- First, with the entry into force of this law, a new opportunity is added for banks to conduct a new business model and serve customers in real time, despite the fact that the initiator/

originator and the beneficiary are located in different banks. Despite the fact that a similar service today is covered by card payment system, however, the new law on payments brings this in the context of payments through digital channels and the integration of banking systems and institutions operating in the Republic of Albania, thus making domestic payment costs much lower than existing ones, and helping at reducing cash payments.

- The second effect is the need of banks for significant changes and investments in existing infrastructure and systems, due to the fact that the Article 30 of new law: "Access to accounts held in a bank", requires banks to provide access in customer accounts and allow payment institutions and electronic money institutions to provide payment services. These expected and mandatory changes for banks will require banks to budget significant financial and human resources in the coming year.

It should be noted that, such a law is implemented in Europe and many other countries and its entry into force has brought many innovative ideas and changes in the public behavior and opinion, in using banking services, by using digital channels already capable to offer almost the same range of services, which are offered by the traditional model, with branch network. It is very important to emphasize that the approval of the law is only the first step and there is an urgent need for relevant

authorities to proceed as soon as possible with the drafting of bylaws, rules and policies, which will enable the functioning of this law, according to deadlines.

2. Personally, I think that the law should not be seen as a threat to banks, but as a good opportunity to increase the payment activity and why not the income from such activity. It is true that the new law allows the introduction of new actors with innovative ideas, which, also supported by the law, will require access to the accounts of existing customers. On the other hand, in a country like ours where the number of people who have a bank account, compared to the total population, is low, the introduction of new actors in the payment market is seen as an component that is expected to increase the number of people who will have access to the banking system. The increasing number of people with access to banking system means more opportunities for banks to offer new banking products to new customers, even though their primary need may be access to the payment system. Having said that, I think that banks, which will be more open to the expected changes and more available for partnerships with new actors that may enter the market, will be more advantageous than banks that may see the law as a threat to their activity. So, my conclusion is that, the sooner the bank adapts to the changes brought by this law, the higher the opportunity to turn the "threat" into an opportunity.

3. As I mentioned above, this law already exists in other countries, and has been accompanied by an increase in the number of

new payment instruments. In this context, I think that in Albania there will be adaptations of existing actors and why not, newcomers in the market, who will notice good opportunities provided by the law, given that in our country the number of users of existing banking systems is very low and, on the other hand, the number of payments made today, in the form of payments in physical money, is higher than those made in electronic form. Both these elements create room for new players and instruments. However, let us not forget that the success of this law also depends on the work that the institutions will do, to complete the legal framework that would make this law applicable.



Gentian CAPO

Head of Operations
RAIFFEISEN BANK – ALBANIA

1. It is a well-known fact that the Albanian economy is characterized by problems of a high use of physical money (cash) and a low

use of financial instruments, by the general public. In these framework, the adoption of the new law on payments, taking into account the PSD2 Directive, is welcomed, as its main objectives are to encourage the intensive use of modern payment instruments, aiming to achieve about 10 "non-cash" payments per capita per year, by end-2022, as well as to increase the opportunities for access to payment accounts, reaching an account ownership ratio at the level of 70% of adult population, by 2022.

For our bank, as an entity licensed by the Bank of Albania before the entry into force of the law, additional investments will be needed, in terms of adapting the systems to the new law requirements, as well as rearranging the organizational structures, according to the new legal requirements. The law prescribes stronger requirements for ensuring transparency to customers, and in this regard, requires entities to establish structures and design procedures for alternative dispute resolution with their customers. We are working in this direction, with the aim of ensuring maximum transparency to customers, setting up special structures that will enable the review and resolution of disputes between customers and the bank, as a provider of payment services.

2. Our bank does not consider it as a "threat", but instead an opportunity offered by the presence of this law, to increase the customer base and increase payment volumes. From this point of view, the law will naturally increase competition among entities that

will provide payment services, but on the other hand, will increase the variety of payment services, as well as their costs and revenues. As a result of reducing commissions for services that will be provided by various entities, on the one hand, and the increase of customer base/number of transactions, on the other hand, we estimate that the effect of economies of scale will be positive. Raiffeisen Bank has been identified from the beginning as a bank of innovations in the Albanian banking system, by bringing modern banking services and standards, so we consider the presence of the law an opportunity to create a modern and comprehensive payment market, supported by secure and efficient infrastructures, as well as a wide range of payment instruments and services

3. Raiffeisen Bank, by recognizing the extremely high costs of using correspondent banks for payments in foreign currency within the country, encourages the need for possible interventions in this context, which would bring direct benefits to Albanian citizens, giving them more options for perform their daily transactions, easily and in a cost-effective way.

Another development could be the direct debit scheme for the Albanian market, which would bring increased benefits, both from the perspective of consumers and businesses, thus supporting the objective of wider financial inclusion.

However, we think that we are late, regarding the need to operationalize the national payroll of Public Administration, which would increase market efficiency and further stimulate competition.

New developments in the field of payments

An open market for competition and quality services

Such innovation provides numerous advantages for the consumer, not limited to cost, time, quality, as well as for the account information service, thus supporting family budgeting, thus having a consolidated information on the accounts, but also for the economy as a whole, as it promotes the financial inclusion of customers who do not have, or have limited mandatory access to the banking system.



AK – INVEST

Geis ÇEKU, MSc.
HEAD OF RISK MANAGEMENT
DEPARTMENT

The liberalization of provision of financial services by Non-Bank Financial Institutions (NBFIs), have been long implemented in Albania, by creating a better climate in the competition market and by facilitating customers in terms of time, distance and cost. NBFIs, for the provision of financial services, create a wide and intensive network (agents), which is an established reality, built and requested by the client, which has increased the quality of service to them, through the location of each agent, fast real-time processing of transactions and the reduction of transaction costs. The NBFI network already functions as a One-Stop-Shop for financial

services, so the client receives a package of financial services.

For more than 15 years, AK-INVEST, established as a Universal Financial Institution, has been adapted to retail clients and small & medium businesses, by offering financial services, such as: Loans, Factoring, Guarantee and Bank Commitments, Payments (international/ domestic), Money Transfers - MoneyGram Int. for Albania, Payments, Insurance Agent, Forex, Financial Intermediary



Along with obvious advantages for the consumer, such law promotes a cooperating practice between NBFIs and commercial banks, by allowing them to open payment accounts and issuing electronic payments instruments by NBFIs, at commercial banks.



and Consulting. As a member of SWIFT, it provides its clients with experience in the payment industry, knowledge and expertise in: the specialized field of domestic and cross-border small value payments; financial services regulatory compliance issues - including AML/CTF, sanctions control, CDD/KYC, data protection and fraud.

The adoption of the Law "On

payment services" approximates the best EU practices and makes a contribution towards the promotion of free competition, integration with the Single Euro Payment Area (SEPA1), laying the foundations of the interconnection between the Albanian and European payments' market. Pursuant to this law, even NBFIs (despite the license they hold), may also provide services in the field of payments, and such innovation provides numerous advantages for the consumer, as it promotes the financial inclusion of customers who do not have, or have limited mandatory access to the banking system.

In the framework of interaction between banking and non-banking institutions, some blocking practices have been eliminated, in some cases by violating free competition, by banks against NBFIs, such as the right of payment institutions to:

- open an account with a bank and for offering relevant services,
- participate in payment systems (directly and indirectly).

Despite innovations and positive aspects for the development of the banking and non-banking sector, cooperation between them and facilities offered for the consumer, I think that this law still reflects some ambiguities, which

would translate into future problems during implementation. Specifically, referring to the Directive (2015/2366) it is evidenced:

- the existence of NBFIs, which have payment activities, as well as other financial activities.
- the payment service as a sub-category of activities offered by the NBFIs, whereas referring to the law, the identification of NBFIs (by the Directive) seems as implied but is underlined as the presence of the Payment Institution, only.

If here we are dealing with such a divergence of the law from the directive, so if the aim of the law is to "partially approximate the Albanian legislation with the Directive 2015/2366 EU":

- Attention should be paid to avoid the inconsistency with the Directive from its partial implementation, which could jeopardize hybrid applications, paving the way for a need for interpretations from the outset.
- These financial services, currently provided by NBFIs, pursuant to licenses granted by the Bank of Albania and possessed for years by AK-Invest (e.g. loans, factoring, guarantees, etc.), must maintain the same scope, even if the name of the NBFIs (this does not happen with the bank or EMIs) will change, with the aim of expressing another institutional attribute
 - the Payment Institution.

As above, I think that the regulator and the legislator will have to take these aspects into consideration, when considering other additional interventions in the

regulatory framework, related to payments in Albania. Despite this, clients will continue to benefit from the competence of human, financial and technological resources of AK-Invest, as well as will be able to integrate into new markets faster, by having professional advisory support. Monitoring local developments, to support innovation to customers, from now on, will serve the implementation of best practices in relations with banking partners.



EASYPAY

Jonida KËLLEZI
HEAD OF MARKETING
DEPARTMENT

Migrants' digital payments, lending and remittances have increased significantly in recent years. Many government institutions, in various parts of the world, have employed various forms of digital payments and transfers, for tax refunds, social programs, salaries, pensions, emergency packages, etc., in order to respect social distance, but also to help families and businesses in need. EasyPay responded to the current needs of consumers and local business, by

developing and introducing several packages of digital services to the market, such as:

- a) real-time electronic money transfer services via mobile, enabling individuals and businesses fast and secure transfers (P2P payments), as well as giving them more convenience and opportunity to choose where and when they want receive money, compared to the equivalent service of physical money.
- b) QR Code payments - local merchants have the opportunity to use the EasyPay platform to sell their products, without need to have an e-commerce platform of their own.

Towards the future: scenarios and instruments of transformation

The situation created by the recent crisis, but also by the fact that Albanian population has a low access to financial services, led the Parliamentary Committee of Economy and Finance to discuss for approval, on April 30th, 2020, the second Directive on "Payment Services", which is expected to be a very good regulator, especially for FinTech companies. Currently, the services from FinTech that need to be rapidly developed in our market, among others, are: digital payment services, instant electronic money transfers, digital lending and digital investments.

However, for a successful benefit of such opportunities, a cooperation between banking system and FinTech institutions is required, as:

- 1) Providing real-time payments requires B2B and B2G integrations with all public services/utilities, as well as

with the billing of government services, or large Albanian corporations. These integrations require large investments in resources and technology, so banking institutions can choose one of the following scenarios:

- a. building this structure by themselves, which requires a lot of time and investment of their time, which is not favorable at the stage of affairs of our market; or
- b. partnering with FinTech institutions in the country, which already have such investment in place, for their clientele.

2) FinTechs operating in the Albanian market, have already established, for years, a very wide network of distributors, or agents, even in rural areas, where banking institutions are not present. In order to be efficient, setting up such consolidated network again requires a lot of resources, training and expertise on the behavior of the unbanked customer. Meanwhile, according to the new law on payment services, banking institutions will be able to set up such a network of agents, themselves. However, as per above, it may be more effective and efficient for them to choose the option of cooperation with FinTech institutions in the country, to whom they can transfer (outsource) some of their services.

3) FinTechs in the Albanian market have started to offer other payment models for merchants (e.g.: QR payments), which thanks to technology will replace the

card payment model. This allows banking institutions to cooperate with FinTech in this sector, to reduce their costs and provide lower cost service to local merchants, while increasing facilities for the final consumer.



FinTechs in the Albanian market have started to offer other payment models for merchants (e.g.: QR payments), which thanks to technology will replace the card payment model.

Conclusions

History has shown that crises (recall the global financial crisis of 2008) are the right mechanisms to accelerate the transition of consumers from the use of traditional financial services to FinTechs. Along with pain and loss that Covid-19 brought to the world, it gave FinTechs a tremendous opportunity to instantly increase their services, geographic coverage and image. These achievements, which were not made possible for several years, thanks to the pandemic were achieved within just a few months. Convenience and agility are the two competitive advantages of this industry, which are essential to cope with economic uncertainties.



FED INVEST

Pertat SULAJ
EXECUTIVE DIRECTOR



FED Invest is the largest financial cooperative in Albania, with about 73 thousand members, resident throughout Albania, offering services through 63 offices, located in urban and rural areas. FED Invest has paved the way for the development of microfinance in Albania and has scored 28 years of experience, in the field of lending, deposits and advisory services for small entrepreneurs and farmers. Today, it is the financial institution with the largest presence in rural areas in Albania. Such position is in line with its mission, to expand the financial inclusion of population in rural and peri-urban areas, by offering a wide range of financial services, based on modern banking technologies.

FED Invest has undertaken a number of initiatives in recent years to modernize information technology systems, by providing new financial and non-financial services, given the great need of population in rural areas for financial services, including payment services, along with the need for loans and deposits. FED Invest switched to the new ICT system, by the beginning of 2020, a

version of the latest FlexCube, and it obtained the license by Bank of Albania to provide payment service to its members. We are currently in the testing phase for the utility payment product, which will be the first payment product for FED Invest members.

With the development of digital



FED Invest aims to pave the way for payment services in rural areas, within the year. Providing utility payment services is only the first step, as FED Invest has started important projects with its strategic partners, to provide a wide range of payment services to the population in rural areas, including the online ones.



technologies, payment services and products around the world have increased, along with increased innovation for fast, secure and cost-effective services. Albania is no exception, which has witnessed an increase in recent years,

especially during 2020, during the pandemic. The number and use of debit cards and the number of online payment transactions have increased. For June 19 - June 20 period, the number of debit cards with payment function (these cards represent 90.1% of all cards with which payment function, by end-June 2020) increased by 6.7% and the number of POSs, for the same period, increased by 23.7%, while the increase in the number of POSs was 17.7%, for January - June 2020 period, only. The number of online transactions, compared to June 2020 and June 2019, has increased by 4.9%.

Despite this, it must be said that Albania continues to be among the last countries in Europe for penetration and coverage with payment services, including online ones. This is related not only to the recent history of providing banking services to the population, but also to the challenges of further formalization of economy and inadequate education of individuals to use digital channels. The Bank of Albania has played an important role in promoting and developing payment services, by improving and adapting the regulatory framework in this regard, and the adoption of

the new law on payment services is expected to have a very positive impact. Despite the expansion of banking system and the penetration of their services, mainly in urban areas, payment services for rural areas provided by banks and other financial institutions, are almost non-existent.

FED Invest aims to pave the way for payment services in rural areas, within the year. Providing utility payment services is only the first step, as FED Invest has started important projects with its strategic partners, to provide a wide range of payment services to the population in rural areas, including the online ones. These projects, also, include educational and awareness campaigns for farmers, to explain the benefits of farmers' access to payment services, ease of use, reduction of transaction costs, etc. We believe that their implementation will affect not only the further formalization of economy and the expansion of financial inclusion of rural areas, but also the creation of new opportunities for further intervention of public and private institutions and agencies, in the development of agriculture and rural areas.



KREDI PËR SHTËPI NGA



ProCredit Bank

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Seven Systems for Smooth and Efficient Payment Operations

The Association of Serbian Banks holds a significant place in the implementation of the National Strategy and will be actively involved in the development of new services, based on the application of these legal solutions, in accordance with the PSD2 initiative.



Vladimir VASIĆ

Secretary General
ASSOCIATION OF SERBIAN BANKS

Payment operations in Serbia are under the jurisdiction of seven payment systems that enable transactions to be performed smoothly, with minimal retention of funds in payment channels. The National Bank of Serbia maintains the banks' business accounts and is responsible for organizing, managing, and operating the following payment systems:

- (1) Payment system for real-time interbank payments: **RTGS (Real Time Gross Settlement)**, intended for payments exceeding the legally defined amount (large payments), in real time on a gross basis (the entire amount of each individual transaction);
- (2) Payment system for payments by interbank settlement: **Giro Clearing (GC)**, intended for payments below the legally defined amount (small payments), in deferred time, according to the net settlement principle;

- (3) Payment system for direct payments from clients' accounts in near real-time: **Instant Payment System (IPS)**, intended for transfers according to the "instant" principle, i.e. in a short period of time (close to real-time) from the payer to the payee.

- (4) Payment system for payments made with the domestic payment card: **DinaCard Clearing System**, in deferred time, according to the net settlement principle.

- (5) Payment system for interbank and international (only with the Central Bank of Bosnia and Herzegovina) foreign exchange clearing, intended for the realization of payment transactions in euros.

The Association of Serbian Banks, as the second payment operator, is responsible for the following payment systems:

- (1) Payment system for interbank clearing and settlement by **cheques**;
- (2) Payment system for interbank clearing and settlement of **direct debit**.

The main participants in payment systems are **Banks**, which are in charge of managing funds on clients' current accounts. Other participants in the payment systems are: **Payment Institutions** and **Electronic Money Institutions**, which maintain payment accounts for clients' accounts and exercise their participation in payment systems through the banks.

In accordance with the Law,

Turnover value of RTGS and the Giro Clearing System in June 2020, in EUR millions:

	Turnover value	Daily turnover value	Share in %
RTGS	109,816.42	4,991.66	99.53%
Giro Clearing	346.19	15.74	0.31%
IPS	158.20	5.27	0.14%
Cheque Clearing	18.33	0.83	0.02%
TOTAL	110,339.14	5,013.50	100.00%

*Source: National Bank of Serbia, www.nbs.rs

payment transactions are realized as:

- Payment transactions (credit transfer), based on a payment order issued by the payer;
- Collection transactions (direct debit), based on a collection order issued by the payee (creditor).

As part of banking services, various technologies for submitting payment orders and accompanying

Number of payments in RTGS and the Giro Clearing System in June 2020:

	Number of payments	Daily number of payments	Share
RTGS	17,008,209	773,100	72.98%
Giro Clearing	3,747,473	170,340	16.08%
IPS	2,093,073	69,769	8.98%
Cheque Clearing	455,423	20,701	1.95%
TOTAL	23,304,178	1,033,910	100.00%

*Source: National Bank of Serbia, www.nbs.rs

documents have been developed that provide an easy, yet secure way to provide payment and billing services from/to clients' accounts, based on services for accessing current and business accounts without coming to a branch office, as well as one-time and multiple payment and billing services, on behalf of and for the clients. Technological solutions are mainly based on web platforms of banks that provide electronic services, i.e. automated solutions

for the payment and collection on pre-submitted payment orders (standing orders), i.e. authorization for payment execution (direct debit).

These services are also recognized in the legislation, which defines the form, conditions, manner and deadlines of payment service providers in the implementation of payment orders, but also in the field of client notification, customer identification, data protection and other customer interests. In accordance with the Law on Payment Services, payment service providers are obliged to, within the jurisdiction related to payment accounts, provide clients with:

- (a) services related to opening, maintaining and closing an account;
- (b) services enabling cash to be paid into a payment account;
- (c) services enabling cash to be sent from a payment account at a payment service provider's office, ATMs and other similar devices, during or outside business hours;
- (d) payment transaction execution services by transfer of authorization, at terminals, bank counters, on internet and mobile platforms, including standing orders,
- (e) debit payment transaction services at terminals, bank counters, on internet and mobile platforms (direct debit);
- (f) payment transaction execution services using payment cards, including online payments;
- (g) payment transaction execution services with an almost instantaneous transfer of funds between the payer and the recipient of the funds (instant payments).

The ASB Cheque Clearing Payment System dates back to end-2004 and was so revolutionary at the time that the Association of Serbian Banks received the prestigious European Technology Award in 2005 for this system, in

the category of "the best payment systems solutions". The system has been modernized several times since then and is now the basis of working with cheques in the Republic of Serbia.

The ASB Direct Debit Clearing Payment System is a modern payment system, harmonized with the principles and standards of the European Union, providing the payer and payee with a reliable way to settle mutual obligations, in a fast and efficient way, and complying with the state digitalization policy, being based on electronic data exchange, equipped with the state-of-the-art protection.

The Instant Payment System (IPS) is the latest payment system under the jurisdiction of the NBS, which started operating in October 2018, that enables the following:

- Availability of funds transfer in the 24x7x365 mode, up to the determined maximum amount;
- Immediate, or almost instantaneous execution of transactions and availability of funds to the payee, without the possibility of revocation (debiting/crediting of the payer's/payee's account is done in real-time, and interbank settlement can be done subsequently);
- Internet and mobile payments executed directly from the current account (not only via card).

The key features of payment innovations are that billing is integrated, based on the use of mobile applications for ordering, payment, and integrated shopping. They are easy to use, as they allow one-touch payment, through a single connection (e.g. wireless connections, NFC). Most innovative payment solutions are not limited to one type of payment, allowing users to manage and use different

credit cards, debit cards or payment accounts. Many innovative solutions offer additional functionalities that, in addition to payments, enable merchants and financial institutions to interact more closely with customers and provide added value (e.g. loyalty programs, individual offers, etc.). At the same time, security has been improved by implementing new methods and standards that are available and easily accessible on mobile platforms (biometrics and location identifications, tokenization, etc.).

The further development of regulatory framework for payment systems in the Republic of Serbia was presented by the National Bank of Serbia in the National Strategy for 2020-2024, which, among other things, provides for the transposition of the Payment Services Directive II (PSD2) into domestic legislation. This will encourage open banking, by improving the authentication mechanism, encouraging the provision of payment initiator/aggregator services and improving access to payment accounts.

The Association of Serbian Banks holds a significant place in the implementation of the National Strategy and will be actively involved in the development of new services, based on the application of these legal solutions, in accordance with the PSD2 initiative, such as: API (Application of Programming Interfaces), the open and interoperable interfaces for communication between applications. The standardization of the API interface with the level of interoperability according to the A2A principle (Account to Account) into the Unified Payment Interface (UPI) for communication between banks and payment initiators/aggregators enables the realization of payments directly from the payer's account.

Pandemic, public debt and the economy

The increase of public debt, during 2020, has been inevitable and, at the same time, quite necessary, not only for Albania, but also for countries with much more advanced economies, which had not known such debt levels, since World War II.



Interview with Mrs. Anila DENAJ

Minister
MINISTRY OF FINANCE & ECONOMY

At the beginning of the interview I will refer two very important assessments by international credit rating institutions. First, Standard & Poor's **B+/Sustainable/B** (January 2020) and second, Moody's **B1/Sustainable** (August 2020), rated government reforms, fiscal consolidation work and financial balance over the years, even during a very difficult year for the Albanian state's finance, which was hit successively by November 2019 earthquake and Covid-19 pandemic.

The Albanian government has set as priority the fiscal consolidation and debt reduction. In this regard, starting from 2014, numerous initiatives and activities have been undertaken to enable fiscal consolidation of public finances, the effects of which were reflected within

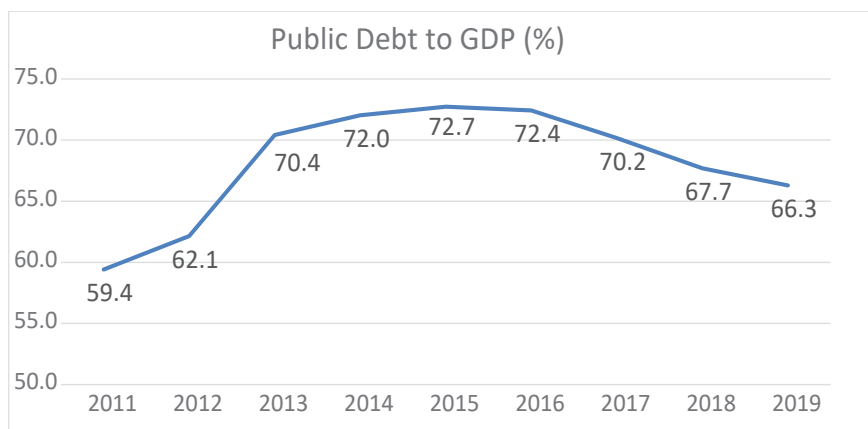
a two-year time frame, thus enabling the reduction of public debt at 66% of GDP, by end-2019. The level of public debt, in relation to GDP, continued to follow such trajectory, until the first quarter of 2020, whereas it is projected to increase during the year. The increase of public debt, during 2020, has been inevitable and, at the same time, quite necessary, not only for Albania, but also for countries with much more advanced economies, which had not known such debt levels, since World War II.

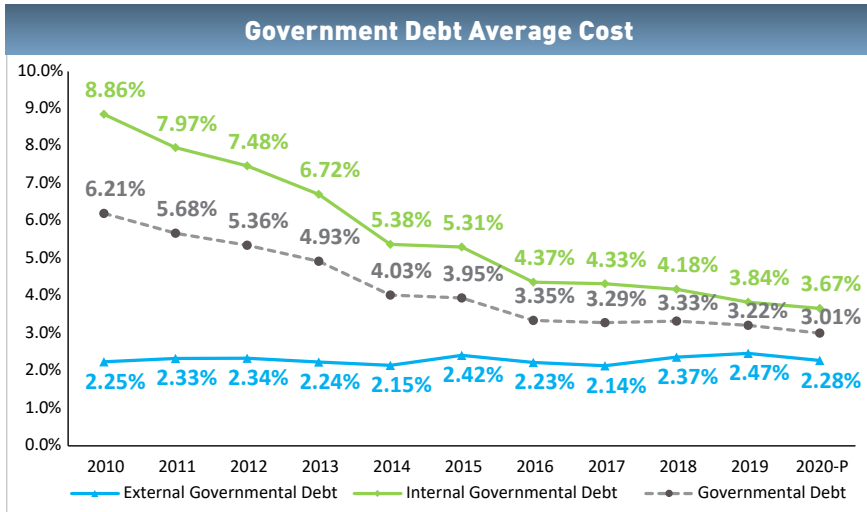
Despite the economic contraction during 2020, we do expect the public debt will return to a downward trajectory, starting by 2021. This increase in debt level has been viewed with skepticism and alarm, both by businesses and politicians around the world, but not from the economists. Most economists in the world think that increasing debt to support countries' econ-

omies, the survival of businesses and employees, which were under lockdown, due to the fight against the virus spread, was quite necessary.

What about the situation of public debt in Albania?

Given budgetary needs for increased funding, caused by the COVID-19 pandemic and earthquake, as well as a declining GDP forecast, this ratio is projected to increase to approx. 80.5%, by end-2020. In a macro-fiscal framework, in the next 5 years, it is projected to return to the downward trajectory, aiming at a return below 70% of GDP, by 2025. It is worth noting that Albania has not encountered difficulties in meeting its borrowing needs, as both domestic market demand and Eurobond issuance in the international market, immediately after the economy's lockdown, not only managed to meet the needs, but it ensured





liquidity, in line with strategic objectives for improving debt structure, has increased the possibility of private sector financing by the banking sector, as well as reduced the pressure on interest rates, in the domestic market.

The high demand for Eurobond, with a subscription/coverage ratio of 4.3, shows the market interest (international investors) for the instrument, as well as being an indicator in ensuring financing at a lower rate. This demand reiterates, above all, the confidence in financial statements of the Albanian state and the reforms initiated by the Government.

them with the same cost, as that before the pandemic.

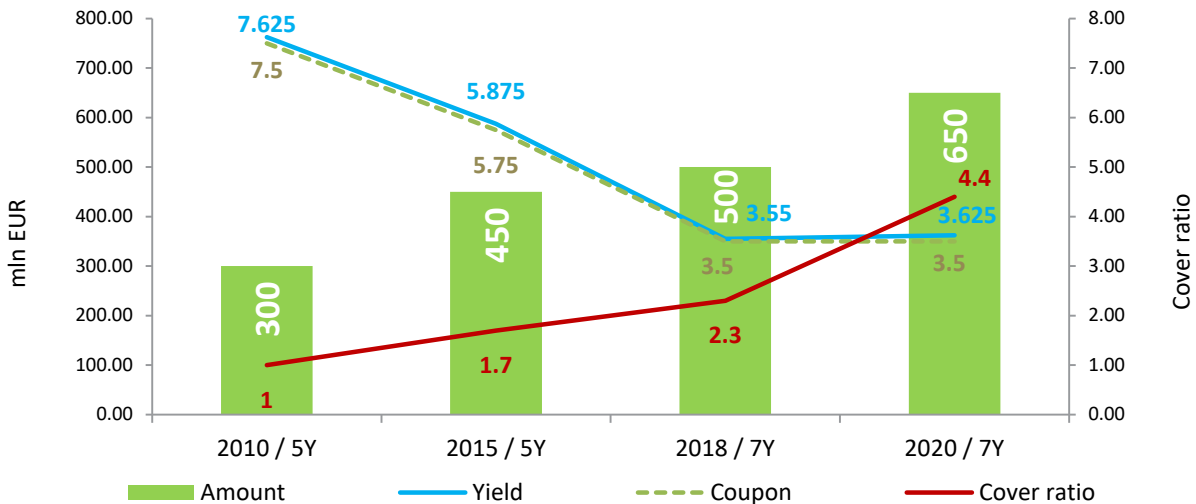
The trend of demand has been heading towards long-term securities, enabling the government to accomplish borrowing, in line with its strategic objectives. In June 2020, the market demand, in relation to borrowing needs reached a 1.79 subscription ratio, a ratio deemed as satisfactory by Government. Despite the increase in debt stock, in absolute terms, and the in-

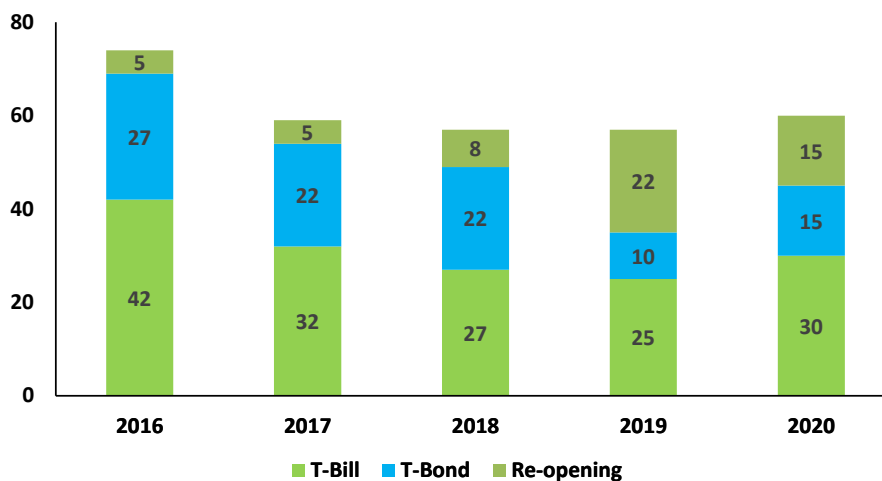
creasing concentration of long-term debt within the portfolio, debt costs continue to be a low levels, reflecting an improvement in the ratio between cost and risks.

In recent years, the sovereign debt portfolio in foreign currency has tended to diversify in terms of reducing the weight of Euro currency and increasing the weight of other currencies. The issuance of Eurobond on June 16th, 2020 has increased

Domestic borrowing is projected to increase and generally, in line with the objectives for reducing risks in terms of creating benchmarks, it has continued to consolidate the number of government securities' auctions, by reducing the issuance frequency for new securities and

EUROBOND (2010-2020)





using treasury reopenings of previously issued securities.

No. of auctions by issuing instrument

The exposure towards exchange rate risk has been kept under control, as the stock of government debt in foreign currency continues to be significantly below the strategic and debt sustainability threshold.

In Q2 2020, the structure of public debt has been improved, by increasing its sustainability:

- The risk of refinancing is reduced,

- Interest rate risk is reduced.

In the medium term, long-term instruments will continue to make the major share in the portfolio.

How did the pandemic affect the country's economy?

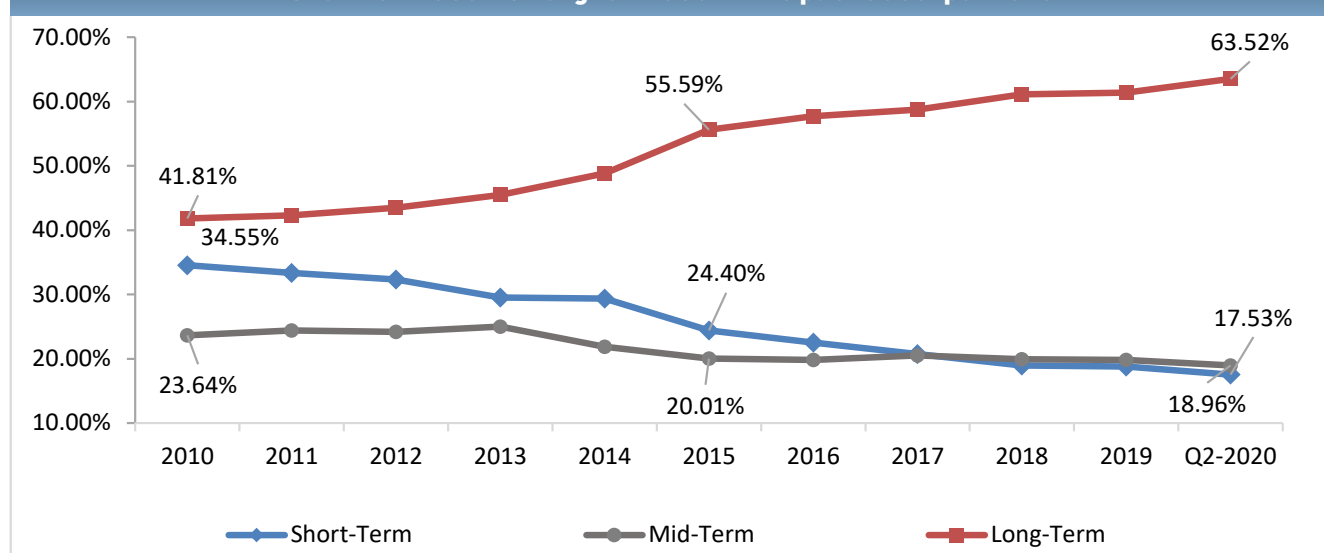
Protecting the lives of citizens and strengthen the public health system remains quite important, but at the same time, the economic needs generated by two consecutive shocks must be addressed, as well as continuing with reforms that guarantee a

stable and strong (economic) growth.

According to estimates, the Albanian economy is expected to experience a decline of 4.5-5.0% of GDP, in 2020. Inflation reached 1.9%, compared to 1.1% at the end of 2019. Inflation still remains within acceptable limits, given the Bank of Albania's target of 3%.

The unemployment rate reached 12% in June 2020, versus 11.4% at the end of 2019. During this period, the number of suspended, closed or reopened businesses has fluctuated,

Short term debt vs Long term debt in the public debt portfolio



BANKA JOTE TË NDJEK NGA PAS



clearly showing a kind of uncertainty about the future. The same situation displays the number of employees who quit work and are re-employed again. It is worth noting that such indicators are still at the stage of a short-term analysis and that businesses themselves are assessing the everyday impact, manifested by the pandemic. However, we have consistently seen positive signals from various sectors.

With financial support packages, the Albanian government, as in other economies around the world, aimed to provide immediate support and provide necessary consumption for the most individuals in need. About 250 thousand people benefited from direct payments, with Packages 1 and 2. State guarantees offered to businesses, aim to support them in their short-term plans, until the situation becomes clearer. While deadlines have not yet expired, there are over 600 businesses that have benefited from the two guarantees offered, about ALL 13 billion are approved, by end-August.

In July 2020, the Government took several additional measures, which focused on small business, by raising the VAT threshold for businesses, with a turnover of over ALL 10 million and waiving profit tax for all businesses subject to an annual turnover of up to ALL 14 million, until 2029. Employment promotion packages were launched in September and there is work in process for launching business support policies.

A common concern of developing countries remains the fact that, due to high

informality, informal workers and businesses remain out of humanitarian aid.

What about the economic recovery?

On May 27th, 2020, the European Union approved the "Next Generation EU recovery plan" with a budget of EUR 2 trillion, in order to revive the economy in EU member states. While it was initially thought that the economic downturn would be at 7.4%, it is now expected to be at least 8.3% in EU. This unusual and unprecedented situation has often made predictions quite impossible. In presenting the plan, the European Commission President Ursula von der Leyen said: "The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalization will boost jobs and growth, the resilience of our societies and the health of our environment." It is clear that environment protection and digitalization of the economy are the two key directions, through which the economic recovery in EU countries will go through.

In addition to participating in European initiatives and European integration process, the Government has drafted its plan for economic recovery, and we believe that it will give quick results in 2021, when our economy is projected to grow by an average of 4.5% each year, during the next three years.

Some of the initiatives that will help us recover from the effects of Covid-19, are as follows:

1. Reconstruction plan, ad-

ressing the consequences of earthquakes, which is expected to give a significant boost to the construction sector, as well as employment growth. The creation of new urban areas, with the most modern standards, will give us the opportunity to introduce the latest technologies, in the field of transport, energy efficiency, etc.

2. Important projects in the field of renewable energy, by increasingly focusing on solar energy (e.g. the Karavasta Photovoltaic Park), where we still have a great untapped potential; important infrastructure projects.
3. Stimulating business climate. In addition to easing the fiscal burden for 91% of businesses registered in Albania, and by believing that it can be a good driver for increasing their number, as well as self-employment, the focus will also be on medium-term fiscal policies, for a medium-term consolidation.
4. Strengthening all structures of vocational education and training, to prepare skilled workers, responding to the new needs of labor market.
5. Promoting innovation, creating tech hubs, regional funds to support innovation, as well as strengthening vocational education, in the field of ICT.

Accomplishing all these initiatives will definitely require cooperation and enthusiasm from all other market players, such as: banks, businesses, and every citizen of this country.

INTERVIEW

UNION BANK - dedicated to automatization and modernization of banking services

We aim at making customer service even more personalized in the future. This will bring a strategic change, which will be reflected in the change of the bank's organizational processes.



Flutura VEIPI
Chief Executive Officer
UNION BANK

You have been recently appointed CEO of Union Bank and faced the COVID-19 pandemic almost immediately afterwards. How challenging is such position under current conditions and along the "new normal", within the Albanian banking sector and financial system?

My journey in Union Bank started in 2016, as a member of Board of Directors of the bank. During these years, I have been part of the progress and achievements of Union Bank, which in recent years have been quite positive. Upon the appointment at the position of Chief Executive Officer, challenges showed up very quickly, where the most important was and continues to be managing the pandemic situation and ensuring the continuity of the bank's activity.

Top priority under current conditions for me has been the safety

of staff and customers, the focus on addressing personal concerns of employees, staying by them and offering maximum support, as well as positive messages, as this is not an event that has brought about a pre-determined change for the banking system; it is a transitory obstacle, which has forced us to adapt, find the right direction and advancing on the pathway.

The pandemic happened during the second week of taking office and that was definitely a challenge for me. Familiarity with the institution and roles of everyone, in



We are always looking to improve them and in addition to the latest improvement of e-banking and mobile banking platform, we also have a number of projects, related to the bank's system, which will serve and will support business plans, as well as help automate and modernize a large part of the bank's operations, at Head Office and branch network.



any change, take their time, and in the situation, we found ourselves, there was no time for natural adjustment. A manager has the primary responsibility to make decisions and guide staff towards the future, especially in moments of uncertainty, where more guidance is required, and no matter how long you have been in this position, it

cannot change the need that others expect from you and the personal responsibility.

However, despite the overall impact, the bank managed to be successful in coping with everyday challenges, since March, by being at work and operational for all customers. We kept growing in all indicators, also ensuring profitability, supporting with additional funding the clients affected by the pandemic, to guarantee stronger foundations for an increased stability in the future, despite the existing uncertainty. Everything mentioned above has been possible thanks to the support of the bank staff and close associates, who have been the most efficient source of information.

The trust of customers in the bank and the trust of the staff in me, that I can lead them, even in such challenges, is the power that every manager possesses; personally speaking, its the greatest strength and energy in such situation.

Beyond the challenge of COVID-19 pandemic, what are some key priorities and objectives, Union Bank aims to achieve under your management?

Union Bank, in recent years, has maintained a high double-digit growth rate, and during the first 7 months of 2020, was ranked among banks with the highest results, despite the unfavorable business situation, created by the pandemic. We have witnessed once again our resilience and commitment as a bank to carry on with seriousness and persistence our mission, in

providing quality and efficient banking products and services to our customers. We are aware that this will not be easy, as the impact of the pandemic will have effects on economy and the performance of our customers. Although it's difficult to make accurate predictions, we continue to look positively and commit ourselves to see forward and take steps to be well-prepared at dealing with the impact of such situation.

So, it is inevitable that the focus this year continues to be management of the pandemic cost, significantly expressed in the growth of non-performing loan portfolio, with an impact on credit growth, but also in liquidity, given the lack of tourism in the country, as compared to levels of previous years, and the absence of migrants during summer, as well as the reduction of mass consumption. However, managing such situation has been carried out in tandem with and in line with the clear vision of Union Bank positioning in the market, as a bank with quality service and focus on customers, by creating a long-term relationship with them. We aim at making customer service even more personalized in the future. This will bring a strategic change, which will be reflected in the change of the bank's organizational processes.

Current situation, but even more, the future, have brought the challenge of digitalization at the doors of the banking system. Although a small country with an economy where cash transactions remain strong and without noticeable changes over the years², there will be increasingly efforts in channeling them into the banking system, where the most obvious

is the approach towards online payments, which are growing incessantly and the high number of customers being served through digital channels. The situation created by COVID-19 highlighted such need more and turned it into a stimulus, which educated, to some extent, even the most hesitating clients. These platforms are an added value in customer time management; they offer more service opportunities, as s/he is served almost without time limits and from wherever the customer is located. They also produce profitability in the structure of client's bank costs. Surely, human contact is important, but its value is now focused on counseling, information complement for the client to make the right and informed choices.

We aim to build a bank that is attractive to younger generation, or the generation Gen-Z², who have different behaviors, different from their parents, who today form the key customer base of the banking system, but who are a global generation that differ from each other quite slightly in behavior, regardless where they live.

How do you assess the position of Union Bank within the Albanian banking sector and within the financial system, regarding banking products and services?

As per above mentioned. Union Bank has scored a very positive performance in recent years, which has positioned it well within banking system. During 2019, the bank recorded one of the best years in its 15-year history. The growth certainly came thanks to the acquisition of the International

Commercial Bank, but it was also largely due to the continued organic growth of Union Bank, itself. Based on financial data, Union Bank also achieved the highest historical profit, with almost ALL 800 million net profit. With such figure, Union Bank secured a Return on Equity of 17.71%, thus being the second most profitable bank in Albania, for the past year.

The finalization of International Commercial Bank (formerly ICB) acquisition brought an increase in assets, which significantly contributed to the increase of the size of Union Bank, after the merger between two banks. Currently, Union Bank has a balanced asset structure, between exposure to the private and public sectors.

Regarding products and services, we are always looking to improve them and in addition to the latest improvement of e-banking and mobile banking platform, we also have a number of projects, related to the bank's system, which will serve and will support business plans, as well as help automate and modernize a large part of the bank's operations, at Head Office and branch network.

In terms of standard banking products, we aim to maintain our stable parameters and continue to grow in lending, with a particular focus on individuals and SME businesses. I emphasize that, at the same time, the bank will regularly review and monitor all exposures and risks, trying to maintain a good quality of loan portfolio. The current structure of funds will also be closely monitored, compared to the products offered by the bank, which form the basis for the cost structure of funds.

¹ Money outside banking system is approx. 40% relative to M2, based on Bank of Albania's source: www.bankofalbania.org/statistikamonetaredhefinanciare/

² Generation born during the period of 1996-2015.

BANKING SYSTEM

Banks - a indispensable reality for the economy and society

Banks not only continued with their contribution to society and the economy, by playing the role of financial intermediaries, but have provided again a very important element during such aggravated situation: the country's financial resilience and stability.



Dr. Spiro BRUMBULLI

Secretary General

ALBANIAN ASSOCIATION OF BANKS, AAB

The COVID-19 pandemic had a multidimensional effect: health, psychological, economic, social, with significant negative consequences, whereas their time span cannot be accurately realized. COVID-19 put to the test every sector, every kind of resilience, every system. More or less, the situation is aggravated.

The financial sector cannot escape such situation. He crawls into this COVID-19 tsunami, along with the whole economy. Finance and production, services and consumption are bound together here. The bond is that strong, so that the fall of one attracts the other. The chain must be kept unshackled, otherwise the consequences will be even more devastating and painful.

Banks could not be in a more relaxed situation than other

businesses. Although they are well-organized, apply the advanced principles of corporate governance, are controlled and supervised by a specialized institution, are regulated by a specific legal framework - all of these allow for better shock absorption, but they are there, facing an increased risk. This is so, because banks do not think for themselves, only. Banks cannot survive if the economy collapses, if the economic slump wrecks businesses and individuals. In addition to the shocks, like any other business gets, in terms of employee protection measures



Banks cannot survive if the economy collapses, if the economic slump wrecks businesses and individuals. In addition to the shocks, like any other business gets, in terms of employee protection measures and its own business logistics, banks need to think about the performance of their own customers.

and its own business logistics, banks need to think about the performance of their own customers. The performance of borrowing clients is essential, regarding the effect on deposits, as financing funds. Deposit protection and security is the basis of

the financial stability and soundness.

This is why banks do not put profit, as their primary objective, under such situation; the actual profit would be illusory, short-term, whereas overcoming the situation and resuming economic life at the fullest possible, would be the guarantee for success and stability. Because the situation it perceived in such way and is highly given such importance, banks did not cease financing and relaxing solutions, for business and individuals, during this period. The two loan payment holidays, which were offered to borrowers by choice (recalculation of installment size within the same maturity, or extending the maturity for as many months as the loan holiday), according to an AAB assessment, have boosted the liquidity in the market with approx. EUR 110 million (over ALL 13 billion). Second quarter figures show credit growth, albeit under very difficult short-term forecasting and reliability. By end-June, credit to economy reached ALL 591 billion, compared to ALL 576 billion, at the end of 2019.

These data show that banks do not care to save themselves, or solving their problems, away from what the economy is suffering. Banks not only continued with their contribution to society and the economy, by playing the role of financial intermediaries, but have provided again a very important element during such aggravated situation: the country's financial resilience and stability. The

provision of services and products, online access to these services and products, acceptance of loan applications and their handling, stability of deposits – all these are positive facts that banks do not "cry" over their plight, but they are in the same boat with the whole economy and anyone contributes according to its role and weight.

The pandemic, due to strong lockdown measures, highlighted the need to use and get familiarized with online services – provided by the private and public sector. Banks have been offering online banking for years, via computer and mobile. A lot has been invested in this infrastructure and a lot of marketing has been conducted for its learning, familiarization and use – accompanied by a special care about how to defend against cyberattacks. Under lockdown conditions, people, more than a hobby, were forced to deal with online services. The obligation to perform many services through e-albania platform, helped in developing computer skills, thus overcoming fear and ensuring a safer access to technology. However, using e-albania is not like using a bank account, where a mistake can cost you dearly. There is still a need for more education and much more use of digital services, by bank customers. So, we are living a time when both public and private services need more technology use. Welcome to this rendez vous! Because we (banks) were almost the only ones who, for years, were promoting the use of cashless online services and card payments.

Banks enabled their customers to use digital banking extensively, while protecting themselves, in the face of pandemic lockdown and not limiting their vital services. Moreover, they lifted commissions for a period of time, not because no one showed up to the bank (it cannot be said, in a

time banks were criticized for queues during the pandemic), but because banks did not want people to go out and break the established lockdown rules, during the pandemic. Stay at home and use the digital bank! – that was the motto of banks. Banks not only provide digital services but have also brought new and improved technological products. Significant changes that occur in developed countries, are also implemented by our banking industry, within acceptable timeframes. Finally, the introduction of contactless card was carried out within the timeframes dictated by the companies that provide electronic transfer of funds. Student card, prepaid card, online limits – these are another set of products offered, albeit not uniformly, by all banks. The claim and demand that the sector must move faster and with more creativity in this regard is welcomed and appreciated, but without forgetting market demand for them. We are still at a low level of debit card use as a payment card; it is mainly used to withdraw salaries at ATMs.

Banks, as the most avantgarde sector of our economy and society, is a widely accepted reality, not only at academic and institutional level, but also at the popular one (various surveys show the banking industry as the country's most reliable industry). We have never claimed that it is a perfect sector, as we always underline the fact that this industry conducts its activity with people from this society, with the same institutions as those for all other businesses, with the culture that prevails in the market, with financial literacy of the population, still at a low level, within the business climate that features the Albanian economy. So, it is impossible not to be affected by these phenomena, for better or worse, even finding unacceptable cases. However,

this does not decrease the value of the sector. Coexistence and knowing how to intervene, by not compromising on the standard, is a prominent skill, at least for the banking industry, so far. Beyond kindly and constructive criticism, but also for any case that probably gets more attention, especially on social networks, banks have always known to react with rationality and professionalism, without ever compromising on banking principles and advanced standards of banking activity. If we do not respond to every criticizing attack, it does not mean that we do not read and keep our position, therefore, whoever YOU may be (politician, blogger, journalist, analyst, businessman, ordinary citizen, etc.), YOU cannot attack banks, and do that just because it suits you, or with the ease of talking about politics, or sports. The financial sector is a typical representation of the expression: "one plus one makes two"!

Finally, I would like to close with a quote from the speech of Mr. Gent Sejko, BoA's Governor, on the monetary policy decision, on August 5th, 2020:

"The Supervisory Council deems that the banking sector has provided a significant contribution to mitigate shocks. Credit to the private sector continued to grow, in the second quarter, peaking at 7% in June and supporting Albanian businesses and households with the liquidity needed to cope with the crisis. Also, this sector has absorbed a part of the financial cost of the shock, by further easing the burden to the private sector. The Supervisory Council notes that the persistence of such positive approach by the banking sector toward credit, which is also favored by sovereign guarantee instruments, will be a necessary precondition for the recovery of the economy in the future."

BANKING SYSTEM

Beyond loan holiday/moratorium

Issues to be addressed and managed by the banking sector

In recent months, banks have adapted to the new dynamics, while the unique characteristics of the recession have forced them to move faster, by making analysis in real time, in terms of loan decision-making.



Admira LLAZARI

Head of Credit Risk Department
BANKA KOMBËTARE TREGTARE

The whole world is experiencing an unprecedented situation, where the primary emergency in saving every human life, through restrictive measures of mass lockdown and social distancing, was quickly followed by economic collapse. Undoubtedly, Covid-19 is considered one of the most serious crises that humanity has experienced, in recent centuries.

Globally, the economic recession is projected to exceed 5%, a figure much worse than the consequences of the Great Depression of 1929-1933, or the financial crisis of 2008. Meanwhile, the economy's decline for Albania is projected at 9%, which is among the highest in the region, due to the

economic model, based heavily on small businesses, trade and services, high dependence on tourism, declining remittances and foreign direct investments, the consequences of earthquake and high public debt, which left quite little room for government fiscal intervention to support businesses and the private sector.

The keyword now is how to stimulate economic recovery and the strategies, policies and fiscal incentives, which need to be applied in this regard. Even globally, there is much debate as to whether the economic recovery



In an economy that continues to experience heavy pressure on already limited fiscal capacity to address the urgent needs of public and social health, the insecurity, the inability of job recovery and a slowing economic pace will continue to transmit respective effects into loan installments' repayment.



will have a V-shape, indicating a short-term economic downturn with a rapid return to previous levels of production, or whether the recovery will take longer,

following a U- form; or could it be more like an L-shape, where the recovery will take many years, or even decades.

Banks offered to borrowing clients the choice of loan installment re-scheduling, or loan repayment plan modifications, to support their recovery. So far, loan holiday, fiscal incentives and government support have helped to a certain degree, but they are not enough. The loan holiday/moratorium has ended, and customers have started making their loan payments, in September. Throughout this period, we are committed to support all claims, assessing the impact of the situation on (client) solvency and offering adaptive solutions, in order to enable the recovery of activities for our borrowing clients. Despite the comprehensive complexity of the whole process, keeping in mind the uncertainty and unpredictability of the pandemic's duration, as well as whether there will be a wave of recovery, the solutions offered have been on individual basis, tailored according to each client's situation and expectations for recovery. Also, we applied a more specific approach to those clients who showed delays, even before the pandemic. Given the portfolio distribution, approx. 85% of requests were submitted by individuals, but in volumes,

it is businesses that makes the major share. Despite the fact that almost all these requirements have already been addressed and applied in the banking system, the challenges, we must live up to, remain numerous. The moratorium itself provided liquidity for borrowers, and again the recovery of businesses and individuals remains a challenge, yet. Transport, tourism, bar and restaurant service chain, contract manufacturing and retail sectors, which employ a significant number of active population, continue to be among the most severely hit sectors and, consequently, their recovery will be the most difficult. Given the current situation, a declining economic activity, rising unemployment, high levels of informality, fragile finances, rising public debt and lack of investment, the performance of our economy proves that recovery will be a difficult and slow process.

In an economy that continues to experience heavy pressure on already limited fiscal capacity to address the urgent needs of public and social health, the insecurity, the inability of job recovery and a slowing economic pace will continue to transmit respective effects into loan installments' repayment. A new wave of problem loan exposures may begin and it needs to be addressed. Loan portfolio' recovery requires close monitoring and fostering stronger customer relationships. Since we

do not have any clue how long this pandemic will last, BKT will continue to do its best, to help, among other things, support businesses' revival and carefully monitor the progress of its borrowers, but also to obtain, as soon as possible, any necessary measures to prevent the current challenge from being transformed into long-term financial difficulties and insolvency for them.

The new reality has also reformatted the way of doing the banking business, as well as accelerated the pace of digital transformation. From the perspective of the banking system, the COVID-19 crisis has shown specific effects on loan risk management and mitigation. In recent months, banks have adapted to the new dynamics, while the unique characteristics of the recession have forced them to move faster, by making analysis in real time, in terms of loan decision-making. Fortunately, the banking sector is well-capitalized and is liquid, but falling demand for loans is worrisome, which means that the market is panicking and there is a decline in consumption. In this reality, the creditworthiness or solvency of customers varies, to a higher degree, by sectors and subsectors, when compared to previous recessions. Industries, such as: food distributors, are doing better, also coping with a growing consumer demand. Meanwhile, sectors, such as:

travel, transport, tourism and hotels, bars and restaurants, have been severely challenged. Therefore, to assess the new loan payback capacity & capability, in the context of such crisis, in line with the severity of the impact in different sectors and sub-sectors of the economy, each borrower is assessed individually, applying and combining different loan risk mitigation techniques and schemes. In this context, the bank has also updated its appetite for credit risk and has reoriented lending policies, by making the criteria more prudent, but always not forgetting its much-needed contribution to the revitalization of economy.

The most important lesson from the COVID-19 pandemic is the importance of working together on problems that affect all humanity. Constrained solutions, in times of crisis, can reshape the world for decades to come. As stated above, this crisis has accelerated the pace of digital transformation, which is already in an irreversible process, and the consumer approach, influenced by our new lifestyle, is being reshaped in this regard. Now, also as per oriented, more transactions have started and are executed through online channels and traditional banking will be reduced, perhaps serving as a possible catalyst for innovative banking developments, so necessary and indispensable for our country.

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KËTU PËR JU

The new legislation on capital market - the right investment for developing and deepening the Albanian financial system

The partial application of MIFID II in Albania is not only convenient, but also helps in developing this market, by setting higher standards, in order to increase investor confidence in the market.



Niko KOTONIKA

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ALBANIAN FINANCIAL SUPERVISORY
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The new Law No.62/2020 "On Capital Markets", which entered into force on September 1st, 2020, aims at contributing to the deepening of the financial sector, seeking the development of the capital market as a whole, but at the same time, linking such development with transparency, market integrity and investor protection. The law is partially harmonized with a series of European Union directives, mainly the Markets in Financial Instruments Directive II (MIFID II), which standardizes the behavior of actors, participating in capital markets.

How appropriate is the MIFID application for a country like Albania, where the capital market

is in its early stages?

The understanding of financial and capital markets as a whole is closely related to the importance of investor confidence in financial markets, a very important factor for the development of a new capital market, as in case of Albania. Confidence is a factor, which is quite difficult to build up. Market abuses, lack of transparency, as well as market failures in general,



The new law on the capital market is a precondition and a driving factor for a transparent, well-regulated and reliable capital market, however, the development of this market will also depend on a number of other factors, such as: expanding the investor base, improving market infrastructure, the range of financial instruments, matching demand and supply for securities, investors and issuers' financial education, or encouraging companies to be listed on stock exchange, through a public offering.

affect the decline of confidence. Should the confidence be low, then it would not be possible to create capital markets, as investors would

not invest in investment products/ financial instruments, offered by the capital market.

In this regard, a partial application of MIFID II in Albania is not only convenient, but also helps in developing this market, by setting higher standards, in order to increase investor confidence in the market. The new law, which is based on investor protection, categorizes investors into eligible/acceptable parties, professional investors, non-professional investors, and qualified investors. The purpose of such division is primarily to ensure that non-professional investors receive the appropriate level of protection, regarding their ability and willingness to take risks, as well as to set specific requirements, regarding the transparency, brokerage firms must provide, when offering financial instruments to these investors. The law prescribes requirements for all brokerage firms to conduct the investor suitability test, as well as providing sanctions for all firms that do not conduct such test. Through the suitability test, the brokerage company ensures the right information about investors' knowledge or experience with financial markets, their financial situation, the ability to weather losses, as well as their investment objectives and risk tolerance. In this way, the investment is carried out in accordance with the investor's profile.

A very important element for proper functioning of the capital



market is both corporate governance and the requirements for a quality audit of listed companies. The recent Wirecard scandal proved how important the audit quality is, for listed companies, which are considered of high public interest. Thus, the new law on the capital market sets specific criteria, regarding the transparency of listed companies, as well as special requirements for disclosure and publishing information. The law also provides criteria, regarding the auditors of financial statements of these companies.

The MIFID directive is often criticized for imposing high requirements on corporate governance, as well as new requirements regarding the organization of brokerage firms, indirectly increasing costs for companies operating in the market. The new legislation in the field of capital market has been drafted with the aim of approximating the requirements for governance and organization of brokerage companies with European standards, but also adapting to the current stage, in which the development of capital market in Albania is. In order to improve the functioning of capital market in the country, the new legislation stipulates high standards in the process of selecting key persons and officials, who will play a key role in managing the activity of these companies, as well as a completely new model of certification for key personnel, in line with European standards, by enabling smaller companies to delegate certain functions. Hence, the aim is to attract and activate serious brokerage companies in the capital market, which have clear business plans and ideas, and which also have a qualified staff, with necessary professional skills and experience to operate in a market, in which the participation of experienced players is a must, to promote its further development.

In order to promote the development of the capital market, the new Law "On Capital Markets" provides special requirements for licensing of banks, when the latter provide investment services, aiming at a less bureaucratic process. The financial market in Albania is chiefly dominated by the banking sector, which has shown so far high levels of professional responsibility. Banks play an important role in providing investment services, not only in Albania, but in almost all Southeast European countries. Seen from another perspective, today, when we talk about capital markets, we are talking about integrated and global markets. Investors today can trade freely, where they want, and the harmonization of legislation with more developed countries helps increasing the investors' protection. The law provides special requirements regarding foreign companies, which may offer investment services in Albania, by establishing a representative office, or through a related agent, but at the same time, setting requirements for Albanian brokerage firms, which will decide to offer services.

In addition to the Stock Exchange, as a very important market institution, the new law sets requirements for new forms and structures of market organization, such as: multilateral trading platform, or organized trading platform. The Authority has currently licensed the Albanian Stock Exchange - ALSE, in which only government securities are currently traded. Listing the first companies with public offering remains a very important challenge for the development of the capital market. AFSA is working with the Ministry of Finance & Economy, through a joint working group, to analyze the possibility of transforming state-owned companies into public offering companies.

The public offering of securities' is regulated through a special chapter, which stipulates, among other things, the obligation to publish the Prospectus, as the most important document, which serves at informing the investor about characteristics of the offer, as well as relevant risks accompanying such offer, aiming at maximum transparency with investor, so that the latter makes a well-informed decision when deciding to invest in capital market products. The Offering Memorandum is another document, similar to the prospectus, but presented in a more simplified way, adapted, mainly for professional investors, or individuals within a limited number, in order to simplify the issuance process and, at the same time, maintain high transparency standards.

The law has conferred the Authority sufficient power to ensure its effective enforcement. Thus, foresees the increase of the Albanian Financial Authority competencies, in terms of conducting administrative investigations, in order to prevent market abuse, as well as to impose sanctions on all entities that violate legal requirements.

The new law on the capital market is a precondition and a driving factor for a transparent, well-regulated and reliable capital market, however, the development of this market will also depend on a number of other factors, such as: expanding the investor base, improving market infrastructure, the range of financial instruments, matching demand and supply for securities, investors and issuers' financial education, or encouraging companies to be listed on stock exchange, through a public offering. All these factors are closely related to the role that the main stakeholders in the capital market should play in promoting and developing this market.

Moving towards a digital-first mindset

At the global level, VISA has launched series of initiatives, aimed at helping businesses to complete digital transformation and motivating consumers around the world to shop at local businesses.



Vladimir DJORDJEVIC

General Manager
VISA FOR SOUTH-EASTERN EUROPE

The pandemic has resulted in one of the greatest economic contractions in recent history, disrupting all aspects of our lives. It has changed the way we work, interact with our families, colleagues, business partners and communities. With many countries imposing lockdowns, closing borders, banning gatherings of any kind and sustaining social distancing to stop the spread of the corona virus, businesses and consumers around the globe have caused a rapid growth in use of digital payment solutions to satisfy their needs.

Over the course of pandemic, our records show shoppers worldwide were looking for a safer, more reliable payment experience at the physical point-of-sale, more frequently opting for a tap-to-pay solution.

In April, over 70% of all VISA payments across Europe were contactless. In many of the largest countries in Europe, the share of VISA transactions that are contactless has increased by at least 25%, year on year. This has helped consumers make larger purchases, like groceries, without making contact with payment terminals. In Albania, number of contactless transactions shows increasing trend during COVID and in June the number of transactions increased 87% comparing to March when COVID started.

With shoppers spending greater amount of time in their homes and merchants shifting sales to digital arena, eCommerce across the world continues to grow. In the UK, active eCommerce credentials increased 16% while spend per active credential increased 3%. On the other corner of the world, in Brazil, active eCommerce credentials have risen 11% and spending per active credential grew 12%. In markets where eCommerce is not as developed, there are examples of dramatic changes in adoption. Argentina experienced active eCommerce card growth of over 100% and Romania 70%. In Albania, eCommerce in domestic purchases was the main contributor to growth with +500-600% growth rate year on year, in April and May. Food and grocery is the biggest market segment in domestic commerce with the highest growth rate,

during COVID period – up to 60% compared to previous year.

Enabling seamless payment experience to all parties

With the pandemic serving as a catalyst for a transition to digital payments, VISA's long-standing commitment to ensure safer and smoother payment experience for all parties involved and make digital commerce available to more individuals, small and micro businesses, has become more important than ever. To help meet the growing demand for safe, secure and reliable digital payments, VISA has partnered with governments, in more than 55 countries across the world, to raise contactless limits, so consumers can tap-to-pay without touching a terminal, or another person and feel safer at checkout. In SEE region, VISA increased the limit on contactless transactions that do not require to enter PIN code for confirmation allowing consumers to simply tap-to-pay using their contactless card. In Albania, the limit was increased to 5.500 lek, which is 22% more than the previous amount.

Additionally, VISA has been offering the most reliable and secure payment solutions for merchants and their consumers, for over 60 years now. Earlier this year, VISA introduced **Visa Secure** (previously known as **Verified by Visa**) to provide increased fraud protection, minimize cardholder friction, and increase the completion of sales,

CHANGE OF HABITS

The pandemic forced numerous business representatives and consumers across the world to adopt new behaviours to address the crises they have faced. Wishing to better understand the impact of coronavirus disease and provide meaningful solutions to SMBs, VISA conducted a global Back to Business Study, interviewing 4,500 consumers and 2,000 small business owners in Brazil, Canada, Germany, Hong Kong, Ireland, Singapore, UAE, and the U.S. According to this study, nearly eight-in-10 consumers worldwide (78%) have changed how they pay, in order to reduce contact and more than two-thirds of SMBs (67%) have tried a new approach – whether launching an eCommerce site or changing POS technology – to keep their business on track. Now, more than ever, consumers expect safe and touchless payment experience at the point-of-sale. Nearly half (48%) would not shop at a store that only offers payment methods that require contact with a cashier or shared machine like a card reader. On the other end, small business owners are pivoting to digital-first mindset with more than a quarter (28%) that have tried targeted advertising on social media or sold products or services online (27%).

With the new normal shaping what, where and how we buy, Albanians as well are showing greater interest in digital payment solutions. A regional survey conducted within the campaign "In line with the digital future" finds more than 40 percent of respondents in Albania are ready to make contactless transactions, because it brings them numerous benefits. One in 10 interviewed consumers in Albania uses tap-to-pay method and is motivated to get to know this technology even better. About 60% of respondents in Albania purchase goods and services via the Internet, pointing out time and cost effectiveness, security, and convenience as the main reasons for online shopping.

leading to a better experience for both merchants and shoppers. Visa Secure uses the latest EMV 3-D Secure (3DS) specification, which is the new industry-wide messaging protocol, developed to promote frictionless consumer authentication. It enables consumers to verify their identity with their issuing bank or other entity (issuer) when making card-not-present (CNP) eCommerce/online payments. The additional security layer helps prevent unauthorized CNP transactions and helps protect merchants from exposure to CNP fraud.

Navigating the new normal

The extraordinary economic challenges, brought on by

COVID-19, are hitting heavily small and micro businesses, the backbone of the global economy, which account for more than 90 percent of worldwide businesses, contribute to more than half of global employment and represent 60 percent of GDP in low-income countries. At the global level, VISA has launched series of initiatives, aimed at helping businesses to complete digital transformation and motivating consumers around the world to shop at local businesses.

In Albania, VISA partnered up with banks to support eCommerce growth, by rewarding clients with 5% cash back. Another campaign was launched this year, this

time focused on contactless payments, striving to motivate citizens to become contactless card holders and influence on their use among the existing users. As interest in eCommerce shopping increased during pandemic, in order to educate users on how to shop online, protect themselves against data theft, VISA launched several tips and tricks videos.

As the world is slowly exiting lockdown, relaxing social distancing measures and reopening for business, VISA stays committed to helping the world recover from the economic devastation and adapt to the shift towards digital by applying its assets to get everyone back to business.

Digital Renminbi - a technical inevitability

While physical money is not yet endangered in most of economies of the developed world, the experience in some countries, particularly in Sweden, China, South Korea, Netherlands, and at some extent, in the United Kingdom, shows a world which is using less cash.



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Compared to the history of money and commercial banks, central banks' history is much shorter and permanently influenced by the development of modern countries, economic environment and technological innovations. Due to this fact, the constant novelty in technology and globalization itself are expected to have significant impacts on central banks, in the near future. Given that all essential activities of central banks, such as: money issuing, running and handling payment systems, the role as lender of last resort and drafting and implementing monetary policy, are all based on "creditworthiness" and "confidence".

Their history has been, and the future as well, will be closely related to the efficient frame of confidence building and reflecting new technological and institutional conditions. Even though digital innovation may affect the approach to

central banks' activity in the future, the importance and effectiveness of payment systems and their infrastructure, monetary policy function of the central bank and some other functions, would be maintained. Moreover, the need for risk-free money from central bank will remain strong, due to its ability to reduce risks in economic transactions. Central banks will continue to make efforts to meet these requirements, through improvement of services and their respective infrastructure, including real-time payment systems. The future of central banks and their digitalization is closely interconnected to the future of governments and countries, where they operate, and depends on their ability to identify the ideal way to use the information and data in the economy.

During the global pandemic period, central banks have been overburdened. Along with injection of large sums of money into the financial system, they have also been involved in "cleaning" large amounts of money. From America to South Korea, central banks have quarantined and disinfected many banknotes, potentially contaminated. In this respect, many countries have applied strong incentivizing policies and financial aid to families and businesses. For this reason, governments and banks are increasingly interested in a digital currency system. Moreover, the way how we pay for goods and services, is changing very quickly. The duopoly of VISA and Master Card payment cards is constantly increasing their reach, in many parts of the world. At the

same time, technology companies, such as: Apple, Ant Financial in China, Swish in Sweden and M-Pesa in Kenya are rapidly changing the game for payments through mobile phone. Facebook also has ambitious plans in this regard, but it immediately encountered a resistance wall from policy-making institutions in USA and in many developed countries.

It seems that the expression "Cash is king" is increasingly losing either the importance or its meaning. As the technology progresses, many countries are reviewing these developments and how they will adapt the payment and banking system to this new reality. The need for constant and rapid control makes this issue even more important.

Since the late 2000s, China has been trying to accelerate the internationalization of its currency - Renminbi - RMB, through political measures and financial interventions, such as: Dim Sum Bonds, but also through other forms. Dim Sum Bonds relate to a term used for bonds issued in Chinese RMB and traded in Hong - Kong. These bonds are attractive for foreign investors who want to buy assets in RMB currency, but they are under the capital control of China, as it is an investment in its domestic debt. Buying and trading them in Hong - Kong, or Macau, is an "window" left open, to avoid legal restrictions within the administrative boundaries of People's Republic of China. Such bonds have been attractive to Southeast Asia capital and economies, known as ASEAN, as well as US capital, such as: McDonald, which is well-positioned and spread

UB ONLINE

KRYEJ VEPRIMET BANKARE ME NJË KLIKIM



Paguaj faturat, këstin e kredisë,
transfero para, menaxho llogarinë.

throughout China. However, these can be seen as a pre-requisite to the next steps of movement, that Chinese government is aiming to undertake: the positioning of RMB as a premium reserve currency in the world, just as USD or EURO. The best and fast way of doing this would be digital money/currency.

While physical money is not yet endangered in most of economies of the developed world, the experience in some countries, particularly in Sweden, China, South Korea, Netherlands, and at some extent, in the United Kingdom, shows a world which is using less cash. It is increasingly likely to happen. This is why, many analysts have addressed possible ways of trading the digital currency, ways supported by respective central banks.

Due to technological disruptions in its financial system, China began to explore the digitalization concept, since 2014. A decade ago, physical money prevailed; last year, monetary transactions totaled Yuan/RMB 347 trillion (US\$ 49 trillion), counting for four out five payment transactions. An official digital currency can help in managing risks stemming from this tremendous volume of transactions, during this transition period. In case of payment systems failure, or a crisis, such as that of Covid-19 pandemic, which could take a longer time to recover, people would want money, which will be less in circulation.

For many years in a row, China has been pursuing its plans to issue a digital RMB, so that to become the first country in the world offering a sovereign digital currency. After the piloting phase of digital currency in four Chinese cities: Shenzhen, Suzhou, Chengdu and Xiong'an – in May 2020, the Central Bank of China - the People's Bank of China, is now in discussions with private companies, to expand its pilot

program. Large companies, like: Didi Chuxing, the largest travel company in China and Meituan Dianping, the giant of food distribution, are among the candidates to support, on a large scale, the digital RMB, through their enormous platforms. This would give them a lot of speed in their business.

A thorough piloting of digital currency is of a large importance for Chinese economy, because financial stability is put under a constant pressure and question. The pandemic further highlighted the weaknesses of the standard/traditional banking system. According to FinTech companies in the region, this is a big step towards innovation, because it is the first time, we will have a currency, designed to act automatically; it has full functionality and support in this economic period. The national digital currency has become, as they say in China: a technical inevitability. It's not about whether they should start with this venture; it is an absolute necessity to develop further. This really makes sense, because having a look at our lives, we understand that we are increasingly living our lives online ... on internet. Our life is very closely linked to technology, while are moving towards a digital economy; a digital economy which also includes tokenization. The new digital economy needs digital money, and many countries have realized this. It needs representative (fiat) money, in a digital format. Otherwise, the economies, especially the Chinese one, will be under the threat of Bitcoin, Ethereum, or Ripple, or other currencies, which have the appropriate technology to be integrated easily into the new digital economy. In other words, it is an absolute necessity for the Central Bank of China, like any other central bank, to improve its currency. Two real issues are raised in this story: the first one relates to the privacy and the second one relates to the

issue whether China can really turn its digital currency into a reserve currency, like the US dollar.

Regarding the issue of privacy, the data that will be collected by central bank, it has two sides. On one hand, the data will include a country's full economic activity in real time, as the data will be recorded in decentralized, distributed ledgers (blockchain). Therefore, the government will have access to all this, in real time. On the other hand, this will enable the central bank to do its job more effectively, because instead of having a delay in economic data, the central bank is able to monitor all expenditures, transactions, money supply and demand, the inflation consequences, in real time. Moreover, it will be able to track where people go in the world, because the Central Bank of Digital Currency will be available to the Chinese people wherever and whenever they do business or pay in other countries. In fact, it is some sort tracking the individual. So, there are big alarming questions that need to be properly considered, when it comes to privacy and anonymity.

Second, if China wants its currency to freely flow outside the borders of the PRC, it has the technological capability to return it into a reality. This is supported by the extraordinary trade flow, which comes as a result of the initiative: Belt and Road Initiative, but also others like these. The US dollar is still the currency to be exchanged, through which larger transactions flow. So, there is a case that the new digital currency may become a universal payment instrument for countries that are part of trade initiatives with China, and then it can rise to the role of a reserve currency in the world, initially for Asian countries, and then for the emerging economies, worldwide. All this remains to be seen and experienced....!

ALPHA BANK

- For the second year in a row, the bank was one of the supporters for the program: "Hello Life" by World Vision Albania, a social program that provides specialized services for 72 disabled children, in the villages of Librazhd, Përrenjas, Dibra and Bulqiza.
- Provided computers for the computer labs of six 9-year and high schools, in the city of Peshkopi.
- Contributed with the purchase of many shelves and counters, to support seasonal sellers of agricultural, livestock and artistic products, in the city of Pogradec.
- Supported the organization of the exhibition: "Moments' Traces - Dreaming of continuity", in collaboration with Gallery70.

AMERICAN BANK OF INVESTMENTS

- Supported "Different & Equal" organization – a Shelter for Reintegration of Victims of Trafficking and Daily Care Centers for their children, in Tirana and Shkodra, to improve physical facilities.
- Following the efforts to mitigate the situation created by Covid-19, the bank has responded to the request of Selenica Municipality, to donate 100 food packages to help families in economic difficulties in this municipality, as well as in the administrative units of Kota and Armen.

CREDINS bank

- Supported "Shefqet Ndroqi" Hospital, by donating Echo Portable hospital equipment.
- In the eve of the new school year 2020-2021, it donated masks and sanitizers to some schools in Tirana.
- Supported Vlora Health Care Services Operator, by covering purchase costs of sanitizers, masks and gloves for employees of the institution.
- Credins Bank, together with its staff, supported children of "SOS" Village with didactic and school tools.
- Donated computer equipment and technological systems to Kukës Municipality, Vora Health Center and the Local Health Care Unit in Tirana.
- Supported Elbasan Health Care Services Operator, by purchasing materials to improve infrastructure.
- Supports I.E.P.D Durrës, S.C.A Fier and the Operator of Health Care Services Tirana, to improve infrastructure and working conditions in the institution.
- Supported the Innovation Investment Fund in organizing "Agro-Tourism: A Primary Investment Sector". Credins Bank is a key player in supporting farmers across the country, by providing banking products and services tailored according to their growth and development needs, as well as providing banking consultancy to further promote agri-tourism, throughout the country.
- Supported the activity: "Grandmothers' Day". The



party was held in the city of Përmet for 2 days, where there was a variety of activities and performers.

otpbank

- On July 3rd, 2020, at the premises of "Avni Rustemi" elementary school the bank distributed 100 food packages for 100 families (parents of disabled children).
- The bank responded to the call of NGOs to help a group of families in economic difficulties, with a deceased parent and children are minors with the status of orphans, by distributing food aid for these children.
- The bank allocated a fund for renovating the Red Cross headquarters in Vloa.
- Undertook the awareness campaign: "OTP recommends", to promote domestic tourism.
- "Live Albanian" – A promotional campaign dedicated to consuming Albanian products, which aims to encourage the strengthening of local economy, through the consumption of Albanian products and services.
- Organized the "Research Paper" Competition, with the participation of students from various Albanian Universities. Focusing on the topic: "COVID-19 impact in Albania – How will banks operate now?", Students from various fields offered their ideas for innovative solutions in the banking service, through in-depth market research. The compe-

tion was finalized with three winning groups and provided students with the opportunity to become part of the internship program at the bank, and at the same time, the opportunity to become part of its staff.

- OTP Bank – Albania, in the framework of improving working conditions in government and academic institutions, donated computer equipment and printers for a number of entities: Tirana Municipality, Devoll Municipality, Durrës Economic and Educational Center, Vloa Region Prefecture and Polytechnic University of Tirana.

Raiffeisen BANK

- Raiffeisen Bank joined the efforts of health institutions to cope with Covid-19 situation in Albania, by donating a fund of EUR 40,000 to help the Ministry of Health & Social Protection. At the donation ceremony Mr. Christian Canacaris, CEO of Raiffeisen Bank - Albania congratulated the Ministry of Health & Social Protection, and especially all medical staff, for the heroic work during these difficult days.
- Thanks to the support of Raiffeisen Invest it became possible to equip "Vrinë" 9-year school in Saranda with a new sports field, equipping the "Petro Nini Luarasi" school in Ersekë with a new computer lab, equipping "31 July" school in Mat with a





INVESTONI TË SIGURTË DHE FITONI ME NE

Aksioneri kryesor - IDB

Institucion Ndërkombëtar Financiar
i **Klasifikuar me AAA**



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Fitim i pagueshëm në fund të çdo viti

new library, equipping the "Bardhyl Pojani" school in Korça with new computer equipment and equipping "Kryezi" school with a new meeting room. Also, the bank supported with computer equipment and various office equipment: Shkodra Education Office, Roskovec and Tepelena - Memaliaj Local Education Office, to help them in their daily work.

- Raiffeisen Bank, for the 8th consecutive year, supported the ICT Awards, the most important event dedicated to technology and communication. This event was finalized on July 10th, with a gala evening, where the winning prizes were awarded into several categories.
- Supported the activity "Children change the world", organized by the New Generation Center.
- Supported the 9th Edition of "Jazz Fest 2020", a genuine jazz music festival.

TIRANA BANK

- In cooperation with Pogradec Municipality contributed with placing trash bins near the city avenue, under the motto: "Together for a clean city".
- Built a playground for children, in one of the suburbs of the capital. The 520 square meter park is located in Sauk and was built according to a joint project with Tirana Municipality. Along with many children, the Erion Veliaj Mayor of Tirana, and Mr. Dritan Mustafa, CEO

of Tirana Bank, attended the inauguration ceremony of the playground. The inauguration of the park was accompanied by a celebration by the Tirana Circus.

- Equipped with computers the regional environmental agency in the city of Fier.
- Cooperated with Red Cross and supported the purchase of school bags and items for children of families in financial difficulties.

UNIONBANK

- During the summer touristic season, Union Bank placed at the disposal of tourists some 100 parasols, in one of the public beaches of Vloora city. Parasols were available for use by any tourist or citizen, free of charge. At the end of the tourist season, these parasols were donated to Vloora Municipality.
- Union Bank, in the frame of extending support during the difficult situation created by Covid-19 pandemic, has started a he periodic assistance for supplying QSUT ("Mother Teresa" Hospital Center), since August, with batteries for oximeter devices, used in the treatment of patients with Covid-19. This project is also related to Union Bank customers, who may help increasing the number of donated batteries, where one battery is donated for every 4 transactions performed through the "UB Online" e-banking platform.



NEWS FROM BANKING SECTOR



Finance Central Europe awarded Mr. Seyhan Pencabligil, CEO of BT and Banka Kombëtare Tregtare, at the event: "Top South East Europe Bank Rankings 2020", on its 21st Anniversary, with the following awards:

- "The best bank in Albania for 2020" - Banka Kombëtare Tregtare SHA, Tirana, Albania
- "Best Bank in Albania for asset stability for 2020" - Banka Kombëtare Tregtare SHA, Tirana, Albania
- "The best bank in Albania for capital sustainability for 2020" - Banka Kombëtare Tregtare SHA, Tirana, Albania
- "The best bank in Albania for Earnings Before Tax for 2020" - Banka Kombëtare Tregtare SHA, Tirana, Albania
- "The best banker in Albania for 2020" - Mr. Seyhan Pencabligil, CEO, Banka Kombëtare Tregtare SHA, Tirana, Albania

JCR Eurasia Rating, during periodic review affirmed for Banka Kombëtare Tregtare SHA, a "stable" outlook, respectively **"AAA (Alb)"** on Long Term National Credit Rating and with **"A-1+ (Alb)"** on Short Term National Credit Rating, and its International Long Term FC and LC ratings as **"BB+"**, thus reflecting the frontier of the country where the main shareholder is located, Turkey (**BB +**), and one notch higher than the principal operating country (Albania is ranked (BB)).

In the frame of continuing its sustainable development efforts, BKT became part of the **United Nations Global Compact**, the world's largest corporate sustainability initiative. United Nations Global Compact is an international organization operating worldwide, with the aim of mobilizing global companies to follow and implement the 10 Principles on Human Rights, Labor, Environment and Anti-Corruption. By being part of the United Nations Global Compact, the Banka Kombëtare Tregtare supports:

- The initiative of doing business responsibly, by linking strategies and operations with principles of human rights, labor, environment and anti-corruption;
- Undertaking strategic actions to support the Sustainable Development of society, cooperation and innovation.

business and finance:

Business Worldwide:

- Best CEO in Banking Industry in Albania
- Most Innovative CEO of the Year - Albania



"International Business" Magazine Awards:

- CEO of the Year in Banking Industry for Albania
- The best bank for VIP Customer Services - "Private Banking" in Albania, 2020



Global Excellence Award

- The Best Banking & Financial Services Provider in Albania - 2020



"Prices of Excellence" by Euromoney are known as the most coveted and reliable awards in the banking industry. OTP Bank - Albania was awarded by Euromoney with the "Best Bank in Albania for 2020", award.



Mr. Silvio Pedrazzi, CEO of Intesa Sanpaolo Bank Albania, has been honored with the following awards by prestigious international magazines, in the field of

AAB ACTIVITIES & TRAININGS

The draft law on “Fiscal and Penal Amnesty for Subjects of Voluntary Declaration of Assets”

The Ministry of Finance & Economy held consecutive meetings with stakeholders, officially starting the process of public consultation on the Draft Law: “On Fiscal and Penal Amnesty for Subjects of Voluntary Declaration of Assets”.

- On July 7th, AAB representatives attended the online meeting with representatives of the Ministry of Finance & Economy and General Tax Directorate, where the draft law was discussed in principle, and the respective technical details.
- On July 15 & 16th, the AAB Secretariat presented to the Ministry of Finance & Economy and the Parliamentary Committee of Economy and Finance respectively, the unified comments and suggestions of member banks on the draft law.
- On July 24th, the AAB Secretary General, along with banks’ representatives, attended the hearing session of the Parliamentary Committee for Economy and Finance, about the draft law. The comments sent earlier by the banking sector commission were

highly appreciated.

Common Reporting Standards (CRS)

AAB Secretariat had an institutional communication with the General Tax Directorate (GDT) and the Ministry of Finance & Economy, to address banks technical issues, related to CRS and by laws prepared on its implementation, and especially on the extension of reporting deadline for Financial Institutions, until November 15th, 2020 (a proposal that was taken into the consideration by the ministry, by amending the law “On automatic exchange of information”). Online meetings were organized, and were attended by where representatives from banks’ IT and compliance departments and GTD, as well.

Draft Law on Central Register of Bank Accounts

On September 16th, representatives from member banks, along with AAB Secretariat, attended a consultation meeting with representatives of Ministry of Finance & Economy and General Tax Directorate, where they discussed the new draft Law: “On central register of bank accounts”. The main issues and concerns of banking sector on this regard were presented.

Seminar focused on online fraud

Albanian Association of Banks, REAL security, and Group-IB hosted a complimentary informative and interactive seminar, focused on online fraud, on July 15th, 2020. Industry-leading experts shared their thoughts on today’s main types of online fraud and how to effectively prevent attacks you’re most likely to face during and after the lockdown

Meeting with the Albanian Diaspora Chamber of Commerce

On September 4th, the AAB Secretary General had a meeting with representatives of Albanian Diaspora Chamber of Commerce. The main scope and activities of both organizations were presented and discussed, including possibilities for cooperation in areas of common interest.

Credit Risk and Cash Flow Analysis - Inspiring Cases

AAB, in collaboration with ATTF, offered for the second time the online training on “Credit Risk and Cash Flow Analysis - Inspiring Cases”, with the expert Erik de Jong. Virtual Classrooms took place on July 6, 7th & July 13, 14th. The training was attended by 14 participants.

PUBLICATIONS

CSR Report 2019 - Banks for Society

For the sixth consecutive year, the Albanian Association of Banks (AAB) published the annual Corporate Social Responsibility Report on the banking industry. The publication presents the efforts by member banks for a better society and economy, a clean and healthy environment to achieve a sustainable development.



The AAB Annual Report 2019

This publication of AAB’s 2019 achievements particularly demonstrates how AAB, through eminent and professional activities, representation at expert level in every meeting or event, has further increased its social visibility to the general public and has turned into the reliable voice of banks, when it comes to relations with local public institutions and reputable international institutions.



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ALBANIAN ASSOCIATION OF BANKS
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