



Project: Reducing Cash Transactions

Time: Wednesday, 4 March, 2009

Location: AAB Premises

Fourth Working Group Meeting

AGENDA

- Project Progress Briefing
- [Summary findings of the survey on shops on cost and benefits of reducing cash transactions](#) (Discussion and Approval)
- [Summary findings of the survey on banks on cash transactions \(including the quantitative impact analysis of reducing cash transactions](#) (Discussion and Approval)
- [Policy proposals - self-regulatory and regulatory measures to reduce cash transactions](#) (Discussions and solution proposals)
- Conclusions and distribution of tasks
- Closing Remarks

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SPI ALBANIA PROJECT ON REDUCING CASH TRANSACTIONS

Findings of the survey	International experience with anti-cash measures <i>Self-regulatory/regulatory</i>	PWG proposals	
		Self - regulatory	Regulatory
With shops			
A small part of shops use POS payments and payments by card make up for a small part of the daily transactions, despite the decrease in the commission fee.	<ul style="list-style-type: none"> -<i>Package of products to shops, including POS</i> -<u>Obligation for professionals, merchants and Public Administration Offices not to accept cash for payments which top a determined amount.</u> -<i>Special pricing models (es. package pricing)</i> 	<ul style="list-style-type: none"> -Provide additional incentives to shops for using POS <ul style="list-style-type: none"> -better interest rates for overnight deposits, -better interest rates for loans in case they use POS, -Increase/introduce commissions for shops' cash transactions. 	<ul style="list-style-type: none"> -<u>Maximum limits for businesses' daily cash balances</u> - <u>Obligation for professionals, merchants and Public Administration Offices not to accept cash for payments which top a determined amount</u>
Shops selling high-value goods have a better experience in using POS		-Target primarily merchants selling high value goods for developing POS network	
The limited use of POS comes at high rate from limited knowledge of both shops and consumers on their functions and features, and also from lack of contact with banks on this issue.	<i>Multi-channel promotional and educational campaign developed by PagoBANCOMAT (Italian debit card) and VISA to:</i> <ul style="list-style-type: none"> ▪ <i>Boost the use of debit and credit cards by stressing the advantages of such instruments compared to cash....</i> ▪ <i>... also involving merchants</i> 	<ul style="list-style-type: none"> -Multi-channel promotional and educational campaign for the use of cards in shops -Not charging customers for payments through POS -Separated lines in shops for clients who pay by a card through the POS; 	
Shops declare that consumers prefer cash payments, but it is likely that shops also do not encourage payments through POS since these are bearing direct costs,			-Promotional campaign on the benefits of using POS with shops



<p>while cost of cash is not easy measurable.</p>			
<p>With banks</p>			
<p>Total cash transactions increased by 21% (in real terms) from 2006 to 2007. Cash transactions in Lek remain at a high level in spite of all the measures taken. Cash withdrawals over the counter are around 6 times higher than those from ATM because of the limitation in amounts for cash withdrawal from ATM, and because withdrawals over the counter are free of commission charges. Cash transactions in foreign currencies have also increased in 2007 compared to 2006, which leads to the conclusion that further measures are to be taken in reducing both cash transactions in Lek and in foreign currency.</p>	<p><u>-Definition of a cap above which wages/salaries cannot be paid by cash</u> <u>-Credit transfers to citizens must be executed by Public Administration Offices using modern payment means (for example, pre-paid cards)</u> <u>-De-taxation of specific contributions (for example, health insurance or home restructuring) only if paid by electronic means</u></p>	<p>Attempts should be made to decrease the overall amount of cash withdrawal (from ATMs and over the counter), promoting the use of alternative electronic payment instruments, like cards for paying through POS or using credit transfers/direct debits for financial transactions between clients or businesses.</p> <p>Decrease commissions to clients/businesses for using non-cash instruments.</p> <p>Increase daily limits for cash withdrawal from ATM-s, meantime taking into consideration the risk related to this electronic payments.</p>	<p><u>Credit transfers to citizens for salaries as well as for pensions and other types of public benefits by Public Administration Offices, using modern payment means (for example, pre-paid cards);</u></p> <p><u>-Recognition of tax deductibility for some expenses only if paid through bank</u></p>
<p>Although the percentages of withdrawals from ATMs are higher in 2007, the increase is</p>	<p><i>-Reduction or cancellation of registration taxes on basic bank accounts</i></p>	<p>- Change in the commissioning policy of cash withdrawals from ATM corroborated with a respective change</p>	



<p>only by 1 %, against a 17% increase in total cash withdrawals. In fact the average cash withdrawal per ATM, derived by the data on the total system, has fallen by 13%.</p>		<p>in over the counter withdrawals</p> <p>-A change in the commission policy with the perspective to increase withdrawals from ATMs and decrease those over the counter.</p>	
<p>No commissions paid by customers on cash withdrawals over the counter, which gives them an incentive to perform cash transactions rather than cashless ones.</p>			
<p>The main part of the banks' withdrawals are from their accounts with BoA</p>		<p>Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered.</p>	
<p>As of end of 2007, there was only one out of 6 respondent banks having a product development unit that deals with cashless payments, with only one employee who spends all working time in dealing with cashless payments.</p>	<p>Development of a value proposition that combines distinctive banking services such as M-Banking (money transfers, stock trading, alerts, ...) and M-Payment services</p>	<p>Banks should increase the geographical cover of the country with POS and ATM devices. They should try to have such devices in other cities, since they are now concentrated mostly in Tirana and some other cities neighbors to Tirana (Durrës, Krujë, etj).</p> <p>Development of new non cash payments (electronic). M-payments</p>	



		would be an efficient way to decrease cash transactions taking into account the wide spread and territorial penetration of mobile communication.	
Cards payments are the most used non cash payments for small value transactions (used more by individuals)		Banks should increase transparency with the clients regarding the use of card payments. At least, clients should be provided regularly with monthly statements for their bank accounts and for the use of credit cards.	
Credit transfers are the most used non cash payments for higher value transactions (used more by businesses)		Banks should decrease commissions for using credit transfers and attempt to standardize and to automate the credit transfer processing and the settlement (STP).	
With shops and banks on consumers' behavior			
Shops declare that consumers prefer cash payments		Education and promoting campaign on cashless payments, emphasizing on costs and other disadvantages of using cash. Customer and merchant education program jointly funded by the banks and by the key third party beneficiaries such as VISA, MasterCard, and the Utilities and Telecoms companies.	
Banks consider that individuals		Commissioning policy differentiated	



<p>and micro businesses tend to have the highest level of cash transactions and use very few or none cashless services. In larger enterprises there is a higher level of non cash transactions, but still to a limited extent.</p>		<p>by type of customer</p> <p>A decrease in the settlement period as well as more restrictions to cash use might be effective in reducing businesses' cash transactions.</p>	
<p>The banks' experience shows that the main reason for cash being a preferred means of payment for the Albanian consumers is that individuals wish to preserve their anonymity/businesses want to hide real activity.</p>		<p>Efforts should be made to provide e-money to clients/consumers, supporting them to pay small value payments, but also to preserve their anonymity.</p>	
<p>The widespread acceptance of cash as a payment method is another important factor that makes it the preferred method.</p>		<p>Public institutions should have POS in their tax collection/payment offices</p>	<p>Public institutions should offer incentives in case of payments through bank accounts or by cards</p>
<p>Also, for businesses a very important factor is the high speed of transaction settlement.</p>			
<p>Low perceived costs of cash</p>		<p>Start commissioning cash withdrawals</p>	



Regulatory measures already taken by Albanian authorities

- In July 2007, the Albanian Government amended some articles in the Law on Taxation Procedures in the Republic of Albania that are in line with cash reduction initiative. The upper limit allowed to use cash for the purchase of goods and services was revised downward from 1,000,000 lek to 300,000 lek, but not more than 10% of the total purchases of that fiscal year / tax period. All the acquisitions above this amount should be paid through the banking system.
- Prior to this law amendment, the Council of Ministers has issued a decree on May 2007 on the minimal reference monthly wage to be used in the computation of the social security, health insurance and tax contributions with the provision that contributions have to be paid to the respective state institutions through the banking system or the post office network.
- In addition to the legal aspect the General Directorate of Taxation is working for modernizing the payment procedures in order to facilitate the non-cash payment of the taxes. They are working on the implementation of an on-line payment system and on the reduction and the simplification of the procedures to be followed by the taxpayers.

Action plan

No.	Measure	Actions	Responsible	Time
	Self - regulatory			
	Regulatory			



SPI Albania Project: Reducing Cash Transactions

Main Findings of the Survey with Banks on Costs and Benefits of various means of payments

1. Summary findings of the survey and impact assessment

1. Respondent banks represent a large share of the banking market, therefore the results of the survey may be considered as relevant. To a large extent, the findings of this survey can be generalized to the entire banking system¹. For some of the questions, the answers were either not relevant or not uniform in order to allow extrapolations, analysis and conclusions.

2. The respondents' opinion validates the PWG's cost- benefit qualitative analysis to the extent that the total impact of cash reducing would be net cost savings.

3. Total cash transactions increased by 21% (in real terms) from 2006 to 2007. Cash transactions in Lek remain at a high level in spite of all the measures taken. Cash withdrawals over the counter are around 6 times higher than those from ATM, possible causes being the limitation in amounts for cash withdrawal from ATM, and the lack of commissions on withdrawals over the counter.

4. Cash transactions in foreign currencies have also increased in 2007 compared to 2006, which leads to the conclusion that further measures are to be taken in reducing both cash transactions in Lek and in foreign currency.

5. Human resources costs are the main component of costs related to cash transaction and can be decreased by cash reduction.

6. Banks' cash transactions are mainly composed by deposits and withdrawals at their accounts with Bank of Albania. Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered.

7. Credit transfers, both incoming and outgoing make up for more than half of clients' non-cash transactions in Lek and are mostly used for high value transactions. Meanwhile, within different types of non-cash transactions, card payments are the main ones that have increased both in number and value, from 2006 to 2007.

8. Banks do not show to pay particular attention to structures for developing new products. Commissions, often high, are applied to most of cashless payment methods (POS, internet banking), which might be a deterrent to reducing cash transactions. Measures can be taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions.

¹ The respondent banks cover different types of operational and ownership structures.

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9. The respondent banks have assessed that the main reasons for individuals and businesses preference towards cash transactions are anonymity and widespread acceptance of cash payments. Measures can be taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions.

10. Banks suggest also that a decrease in the settlement period as well as more restrictions to cash use might be effective in reducing businesses' cash transactions.

11. Current losses of banks from clients' cash withdrawals, as assessed by the impact assessment analysis, amounts to 451.4 million Lek for year 2007.

12. The potential benefits from cash reduction in the first year of application are assessed to be around 3,459 million Lek.

13. The present value of additional benefits to the whole banking system from cash reduction in the 5 upcoming years is assessed to amount to around 13.5 billion Lek.

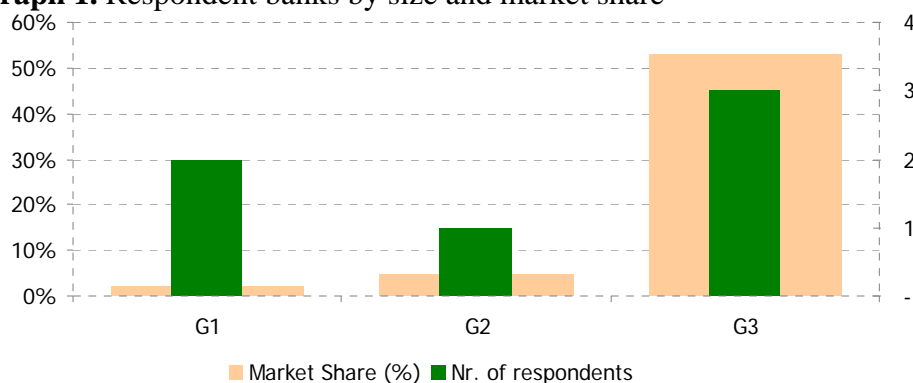
2. Detailed presentation of the survey findings

2.1. Characteristics of the surveyed sample

Conclusion: The respondent banks are only 6 but they represent all three groups (G1, G2 and G3) of small, medium and large banks, and their aggregated market share (taking as reference indicator their total assets) is 59.8 %. Therefore the survey results could be considered relevant and representative of the banking system.

Total members of AAB (no.):	16 banks
Market Share (100%):	100%
Total respondent banks (no.):	6 banks
Respondent ratio:	37.5%
Market share of the respondent banks: (reference indicator: total assets)	59.8%
Size of the respondent banks:	small, medium, large

Graph 1. Respondent banks by size and market share



The presence of all 3 groups of banks in the respondent banks' panel is important, since they deal with different amounts and structures of cash transactions, and also have different structures employed to manage cash transactions and related issues.

2.2. The aggregated answers to the questionnaire

2.2.1. Impact of Reducing Cash Transactions - Cost and Benefit Qualitative Analysis

Conclusions:

- The results from the survey validate PWG's cost-benefit qualitative analysis on the impact of reducing cash transactions, thus few initial costs in the short term, and more long term benefits, for both banks and consumers.
- In the initial period, the development of new product and/or the decrease of commission level for the cash payments would generate some costs for firms.

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- In the long run, the improvement of the products and the establishment of new product would increase the business activity and even open new markets generating extensive benefits.

Only two of the respondent banks gave their opinion on the qualitative cost-benefit analysis intended to assess the impact of reducing cash transactions on the banks' profit and loss account, agreeing that the total impact of cash reducing would be net cost savings.

2.2.2. Cash transactions

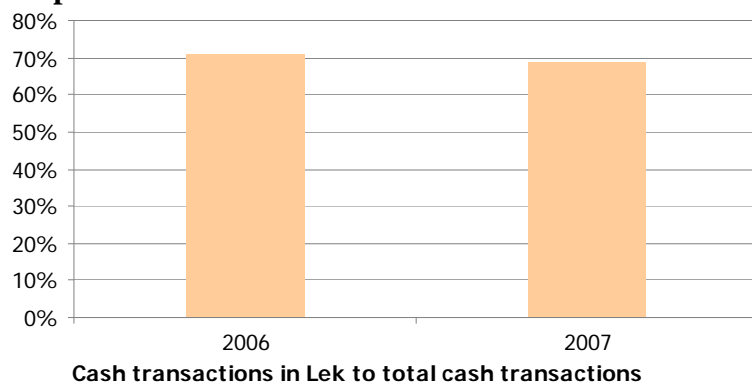
Conclusions:

- The real increase of total cash transaction is around 21% in 2007 compared to 2006.**
- There is a high and stable level of clients' cash transactions in LEK.**
- Cash transactions in foreign currencies have increased in 2007 compared to 2006 at a faster pace than those in Lek, which leads to the conclusion that measures are to be taken in reducing both cash transactions in Lek and in foreign currency.**
- Cash withdrawals make up for more than half of clients' cash transactions in Lek. There was a net outflow of cash in both years, with a decreasing trend though.**
- Cash withdrawals over the counter are around 6 times higher than those from ATM, mainly because of the limitation in amounts for cash withdrawal from ATM, and because withdrawals over the counter are free of commission charges.**
- The cost structure for clients' cash transactions shows a quite unchanged structure in time with human resources having around 70% of total. Reducing cash transactions should decrease notably the human resources costs.**
- Banks' cash transactions are mainly composed by deposits and withdrawals at their accounts with Bank of Albania. Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered.**
- The annual average cash balance in the banks has increased from 2006 to 2007, meaning an increase of missed interest income.**

2.2.2.a. Clients' cash transactions in Lek

The percentage of clients' cash transaction in Lek, compared to the total volume of cash transactions is high, at around 70%, and has not changed much from 2006 to 2007. In spite of the measures taken by the Government, there is still a very high level of cash transactions run by banks' clients, therefore more regulatory and self – regulatory measures are needed in order to restrain the volume of cash transactions.

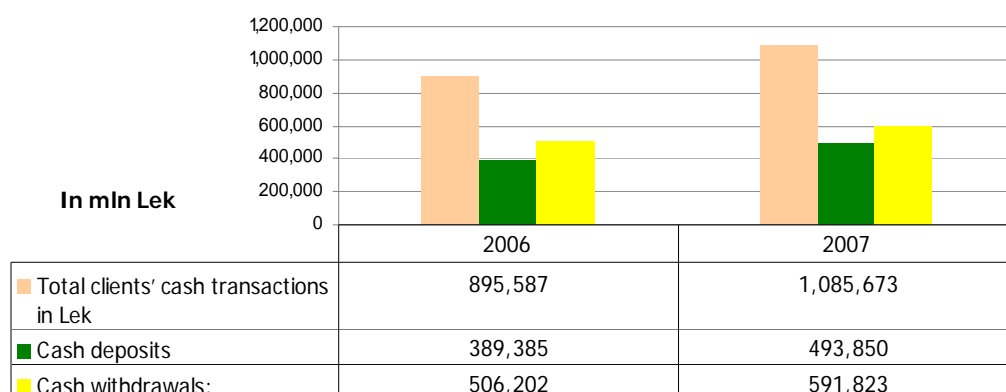
Graph 2. Clients' cash transactions in Lek



2.2.2.a.1. Structure of clients' cash transactions in Lek

Total clients' cash transactions in Lek increased with 21% in 2007 compared to 2006, meaning a real increase in the volume of clients' cash transactions in Lek of 17%, taking in consideration inflation in 2007.

Graph 3. Clients' cash transactions in Lek (in mln Lek)

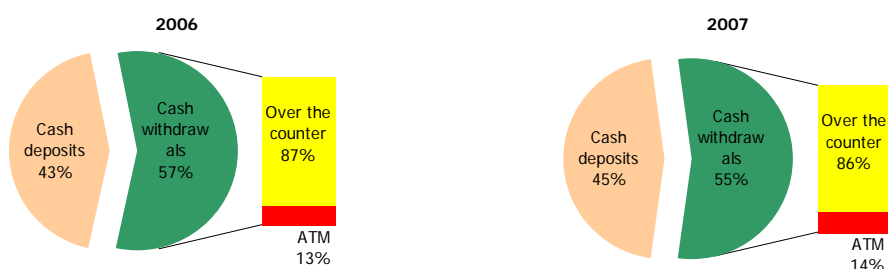


Both cash deposits and cash withdrawals have increased in 2007 compared to 2006. Figures show also a net outflow of cash (withdrawals higher than deposits) of Lek 116,817 in 2006 and Lek 97,973 in 2007, evidencing a decreasing trend (19% lower in 2007 compared to 2006).

Cash withdrawals made up for 57% of total cash transactions in Lek in 2006 and 55% in 2007². The vast majority of cash withdrawals are performed over the counter in both 2006 and 2007 (87% and 86% respectively).

Graph 4. Composition of Cash transactions in Lek

² There was noted a difference in the value range for cash deposit between these data (extrapolated based on received answers) and BoA statistics for 2008.



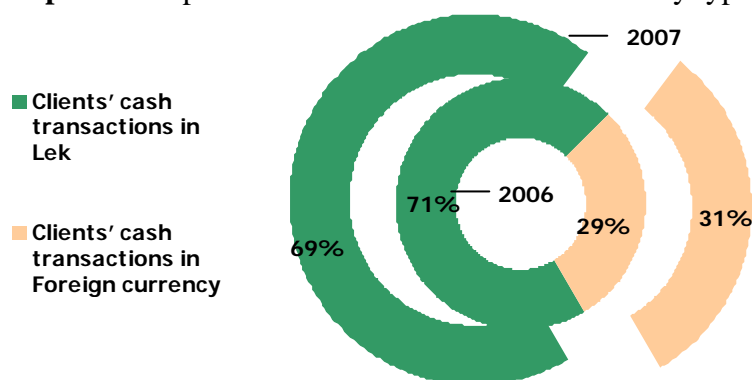
Although the percentages of withdrawals from ATM are higher in 2007, the increase is only by 1 point of percentage, against a 17 per cent increase of total cash withdrawals.

Using total clients' cash transactions in Lek and data on the percentages of clients' cash transactions in Lek to the total volume of cash transactions, we can calculate the composition of the latter as follows:

Table 1. Total clients' cash transactions, by type of currency

(In mln Lek)	2006	2007
Clients' cash transactions in lek	895,587	1,085,673
Clients' cash transactions in Foreign currency	370,451	488,907
Total clients' cash transactions	1,266,038	1,574,580

Graph 5. Composition of clients' cash transactions by type of currency



Considering the inflation rate in year 2007, as well as Lek overvaluation on foreign currencies for that year, we can see that the real increase of total cash transaction is around 21%. Cash transactions in foreign currencies have increased at a faster pace than those in Lek, which leads to the conclusion that measures are to be taken in reducing both cash transactions in Lek and in foreign currency.

Table 2. Total clients' cash transactions, by type of currency

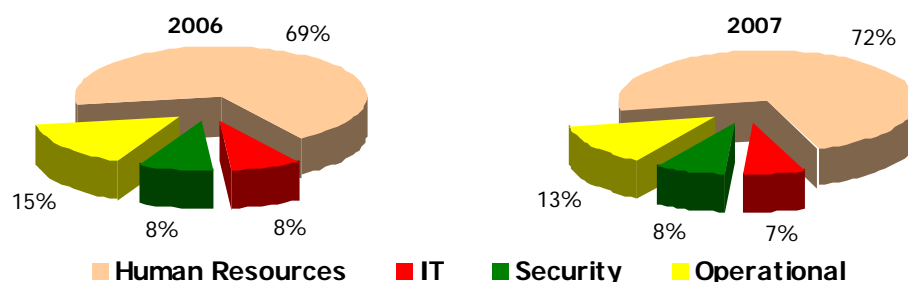
(In mln Lek)	2006	2007	Nominal change	Real change
Clients' cash transactions in lek	895,587	1,085,673	21%	17%
Clients' cash transactions in Foreign currency	370,451	488,907	32%	30%
Total clients' cash transactions	1,266,038	1,574,580	24%	21%

2.2.2.a.2. Costs of clients' cash transactions in Lek

2.2.2.a.2.i. Cost structure for clients' cash transactions in Lek

Banks were asked to provide estimates on the cost structure for cash and for non-cash transactions in Lek as follows.

Graph 6. Average cost structure for clients' cash transactions



The cost structure shows a majority of human resources costs, of around 70% of total costs, and this rate has increased from year to year. Obviously, by reducing cash transactions, the banks' human resources costs will decrease.

2.2.2.a.2.ii. Costs with human resources

The banks' staff dealing directly with clients' cash transactions, in all three categories of personnel at the branch level, has increased from 2006 to 2007, especially cashiers, whose number has risen around 34% within one year, generating more expenses to the banks.

Taking in consideration the inflation during 2007, there is no real increase in the average salary for none of the positions.

Table 3. Number of cashiers, operations managers, and branch managers

In thousands Lek	Cashiers		Operations Managers		Branch Managers	
	2006	2007	2006	2007	2006	2007
Total (for 60% of the market)	346	463	40	54	129	169
Extrapolated for the whole System	577	772	67	90	216	283
Average Annual Cost/staff (in thousand Lek)	603	617	1,141	1,155	1,361	1,425
Average hours per day handling cash in Lek /staff	5.7		2.9		2.3	

The cashiers spent, in average, the largest part of their day handling cash transactions in Lek, which shows again the large load of Lek cash transaction in the daily average of transactions. Therefore, a reduction in cash transactions would impact mostly cashiers, which make up for 14-15% of the total of banks employees, creating the possibility to create more jobs for other products selling.

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Table 4. Number and percentage of cashiers to total banks' employees

	2006	2007
Cashiers	577	772
Total Banks' employees ³	4,189	5,155
Cashiers to total employees	14%	15%

Operations and Branch Managers dedicate in average 2-3 hours to the management of Lek cash issues, and most of banks do not have customer service involved in cash transactions. If cash transactions would be reduced, operational and branch managers would have more time to develop cashless transactions, to improve service quality or to increase sales.

Taking in consideration data from the above tables we have estimated the total costs for human resources related to cash transaction in years 2006 and 2007, using the full time equivalent for the hours each category of employees spend on cash transactions.

Table 5. Total salary costs with clients' cash transactions in Lek at system level

	2006			2007		
	Cashiers	Operational Managers	Branch Managers	Cashiers	Operational Managers	Branch Managers
FTE ⁴	156.75	79.75	63.25	156.75	79.75	63.25
Average annual cost with cash transactions in Lek/staff (in thousand Lek)	429	414	391	440	419	410
Total annual staff cost with cash transactions in Lek at system level (in thousand Lek)	359,925			493,249		
EUR equivalent (in thousands EUR)	2,924.3			3,989.2		

2.2.2.a.2.iii. Other cost categories

Using the data on the structure of costs with clients' cash transactions and the estimated data on the human resource costs, the figures for the other categories of costs can be calculated:

Table 6. Total costs for clients' cash transactions

In thousands	2006		2007	
	Lek	EUR	Lek	EUR
Human Resources	359,925	2,924	493,249	3,989
IT	40,662	330	46,050	372
Security	44,072	358	51,849	419
Operational	80,012	650	91,418	739
Total costs	524,672	4,262	682,567	5,520

³ Bank of Albania's statistics

⁴ FTE – Full Time Equivalent (8 hours/day)

2.2.2.a.3. Other information on cash management costs

2.2.2. a.3.i. Costs with cash transportation

Cash transportation is outsourced in 4 of the respondent banks (with 17% of market share, while only some operations are outsourced in the other 2 (with 43% of market share). All banks have reported the following annual costs for either totally or partly outsourced services of transport and security for 2006 and 2007 as follows:

Table 7. Cash transportation costs

	2006	2007
Total transport and security costs (6 banks, in mln Lek)	123	146
Total clients' transactions in Lek (6 banks, in mln Lek)	537,352	651,404
Average rate per million clients' cash transaction (Lek)	229.3	223.4
Total clients' and banks' transactions in Lek (6 banks, in mln Lek)	640,701	746,846
Average rate per million of total cash transactions (Lek)	192.3	194.8

2.2.2.a.3.ii. Insurance costs for cash

Most of the banks have an insurance policy covering both operational risk for handling cash and robbery or theft of cash damages. Furthermore, between 2006 and 2007, there are reported losses from cash (such as fake money, mistakes, etc) that altogether with the processing, handling, and transportation, add to the costs caused by cash transactions.

Based on the data provided by 2 banks, the loss rate was of about 0.008 Lek for a thousand Lek transaction in 2006 and of about 0.012 Lek for a thousand Lek transaction in 2007. This could lead to the conclusion that, at the banking system level, the losses from cash transactions might have been of around 9 million Lek in 2006 and of around 14 million Lek in 2007 (in case the non-response by the other banks is due to the lack of evidence and not to the non-occurrence of such events).

A reduction in cash transactions and in the amount of cash to be handled on daily basis would bring a decrease in all the above mentioned costs.

2.2.2. a.4. ATM Network

The total number of ATM terminals provided by banks, at the end of 2007 was 443, 43% higher than in 2006.

It is to be noted that the in spite of the 43% increase in the number of ATMs, the value of cash withdrawals through ATMs has increased only by 24%, thus not at the same pace. In fact the average cash withdrawal per ATM, derived by the data on the total system, has fallen by 13%.

Table 8. ATM terminals and transactions

	2006	2007
Nr. of ATM terminals provided by the banks	309	443
Total cash withdrawals through ATMs (in mln Lek)	66,037	82,132

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Average annual withdrawal per ATM (in mln Lek)	213.7	185.4
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Half of the respondent banks (45% of market share) use a totally outsourced ATM technical maintenance, and in the other half (15% market share) only some maintenance operations are outsourced.

2.2.2.a.5. Benefits from clients' cash transactions in Lek

The information given by 3 of the respondent banks on commissions paid by banks' clients in 2006 and 2007 is not sufficient to derive proper results on the rates of commissions applied on cash deposits and withdrawals.

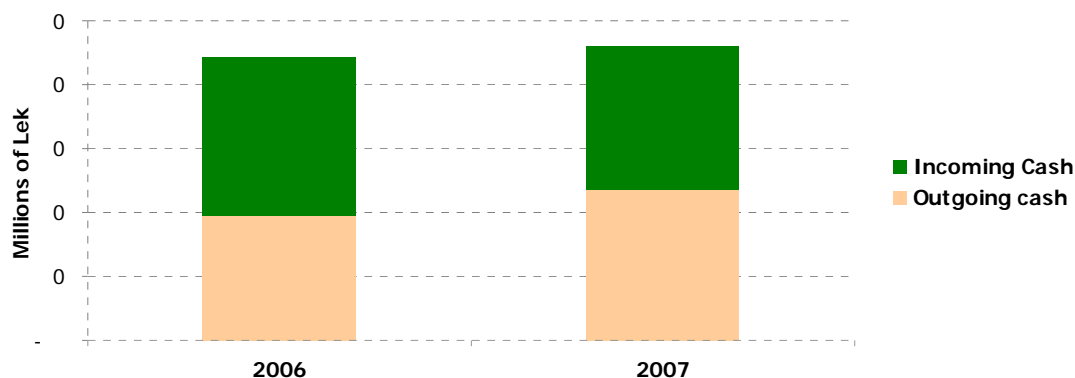
However, it is reported that there are no commissions paid by customers on cash withdrawals over the counter, which gives them an incentive to perform cash transactions rather than cashless ones. Banks might consider changing the commission policy with the perspective to increase withdrawals from ATMs and decrease the work of cashiers.

Only 2 out of 6 respondent banks (32% market share) report to remunerate their clients' current account, and the average annual interest rate used is around 0.3% for 2006 and 0.2% for 2007.

2.2.2.b. Banks' cash transactions in Lek

Banks' transactions in Lek have not changed much from 2006 to 2007. They are estimated at around 230 billion Lek in 2007, with 4% increase from 2006.

Graph 7. Banks' cash transactions in Lek



2.2.2.a.1. Structure of banks' cash transactions in Lek

Main banks' cash transactions in Lek are cash deposits with and cash withdrawals from their account with Bank of Albania. Selling and buying cash between banks does not seem to have an important role in the banks' own cash transactions.

Actually banks do not pay any commissions to Bank of Albania for cash withdrawals or deposits. BoA should start charging commissions to cash transactions, which could

be the benchmark for a change in banks' commissioning policy for clients' cash transactions in Lek.

Table 9 .Composition of banks' cash transactions in Lek (at system level)

(In mln Lek)	2006	2007
Outgoing cash	96,918	118,813
To the bank account with BoA ⁵	95,950	118,111
To other banks	968	702
Incoming Cash	124,692	111,079
From cash withdrawals from the account opened with BoA ⁶	123,090	108,164
From other banks	1,602	2,915

2.2.2.b.2. Costs of banks' cash transactions in Lek

The banks' staff dealing with banks' cash transactions, in the treasury unit has increased in number and average annual costs to the bank (in terms of salary and benefits). The specialists at the treasury unit spent more than half of their working day handling cash issues, therefore reducing cash transactions would give the possibility to re-direct their activities to other transactions.

Table 10. Number of Treasury Unit specialist and managers, and total salary costs with cash transactions in Lek at the banking system level (FTE).

In thousands of Lek	Treasury specialist		Treasury Unit manager ⁷	
	2006	2007	2006	2007
Total (for 60% of the market)	7	10		
Extrapolated for the whole System	18	25		
Average Annual Cost	677	778	1,195	1,519
Average hours per day handling cash	5.2		2.7	
FTE	143.00		74.25	
Average annual cost with cash transactions in Lek	440	506	403	513
Total annual cost with cash transactions in Lek	7,922	12,640		

On the total commission cost and income of banks' own cash transactions in Lek there were only 2 responses and the data provided were not relevant to the banking system level.

The data provided and estimation on the whole system, show that there were more than 3 billion Lek average cash balance in the system in years 2006 and 2007.

Table 11. The daily average cash balance in Lek

In mln Lek	2006	2007
Total (6 banks, 60% market share)	1,927	2,088
Total System (extrapolated)	3,211	3,480

⁵ Bank of Albania statistics

⁶ Bank of Albania statistics

⁷ There is no information from the respondent banks on the number of Treasury Units Managers.

Interest rate of overnight deposits	3.39%	3.97%
Total missed interest income	108.9	138.2

On the question on total interest cost of banks' overnight loans with Bank of Albania, in Lek, there was only one response from one bank, and it can not be relevant to draw conclusions. However, the average interest rate applied by Bank of Albania on overnight loans was 6.89% in year 2006 and 7.47% in 2007⁸.

2.2.3. Non cash transactions

Conclusions:

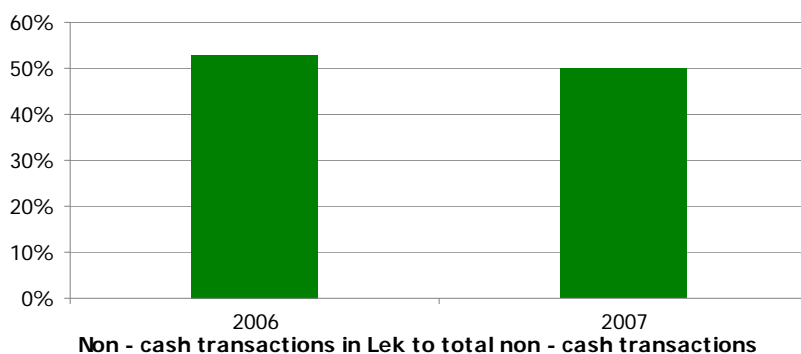
- **Clients' non-cash transactions in Lek have slightly decreased from 2006 to 2007.**
- **Credit transfers, both incoming and outgoing, make up for more than half of clients' non-cash transactions in Lek and are mostly used for high value transactions.**
- **Within the different types of non-cash transactions, card payments are the main ones that have increased both in number and value, from 2006 to 2007.**
- **Direct debit is the less spread type of non-cash payment.**
- **In the cost structure for clients' non-cash transactions, IT costs have a higher weight, while HR costs a lower one compared to cash transactions cost structure.**
- **Banks do not show to pay particular attention to developing new products in payments area (with specific structures).**
- **Some banks apply commissions on POS use to shops and the cardholder which might be a deterrent to cashless methods of payments.**
- **Internet banking is used for payments in large amounts and the commissions are still high.**

2.2.3.a. Clients' non-cash transactions in Lek

The percentage of clients' non-cash transactions in Lek in the total volume of clients' non-cash transactions is lower than the same rate for cash transaction, at around 50% and fairly stable in time.

Graph 8. Clients' non-cash transactions in Lek

⁸ Bank of Albania statistics



2.2.3.b. Structure of clients' non-cash transactions in Lek

From the reports from 6 banks on non-cash transactions in Lek, data were extrapolated for the whole system as in the following table. There were no complete data on each type of cards payments, and data on commissions paid for each type were not uniform and could not be used to come up with results.

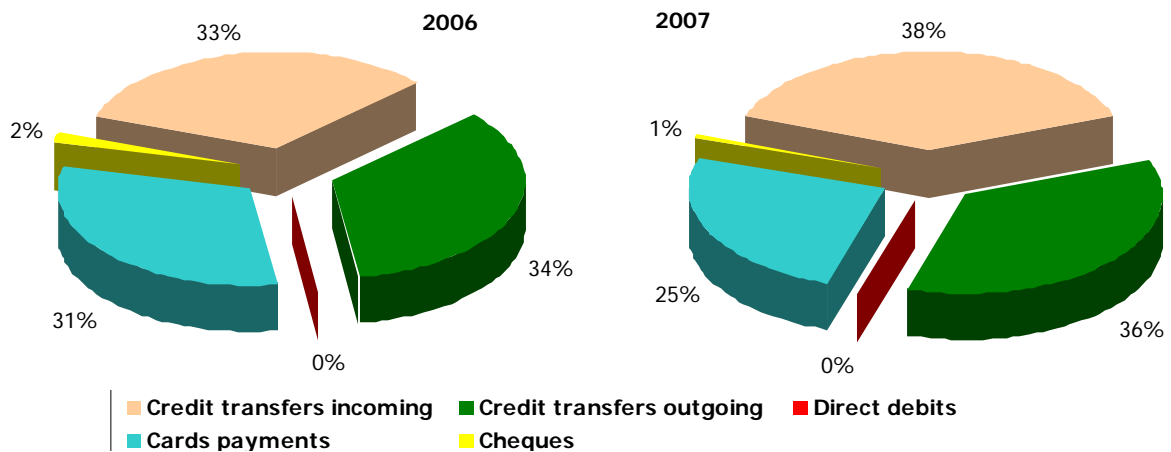
Within the different types of non-cash transactions, card payments are the main ones that have increased both in number and value, from 2006 to 2007.

Table 12. Number, value and average amount of clients' non-cash transactions

	Number of non-cash transactions		Value of non-cash transactions, in mln Lek		Average value of non-cash transactions, in Lek	
	2006	2007	2006	2007	2006	2007
Credit transfers incoming	40,690	23,550	54,520	99,209	1,339,887	4,212,696
Credit transfers outgoing	60,368	34,918	57,654	91,614	955,042	2,623,690
Direct debits	10,713	12,133	36	74	3,360	6,099
Cards payments	5,599,368	6,708,940	52,240	65,087	9,330	9,702
Cheques	6,358	4,437	2,661	1,573	418,528	354,519

Largest part of the value of non-transaction payments is composed by incoming and outgoing credit transfers. The graph below shows that instruments such as direct debits are almost not developed at all, while use of cheques is decreasing.

Graph 9. Value of non-cash transactions in Lek, by type of transaction



Cards payments are the most used non cash payments for small value transactions (used more by individuals).

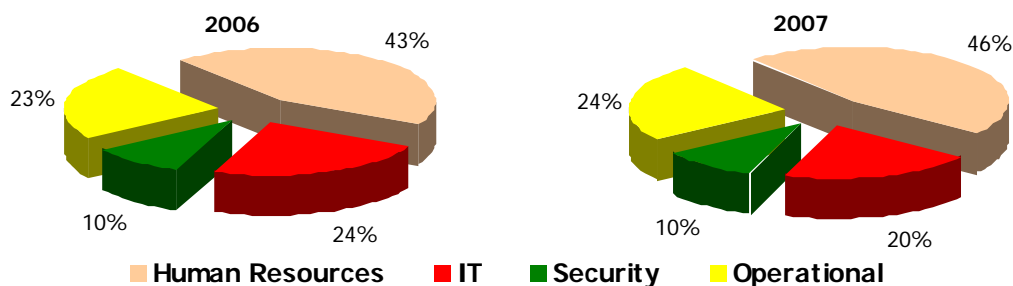
Credit transfers are the most used non cash payments for higher value transactions (used more by businesses).

2.2.3.c. Cost structure for non - cash transactions

The structure of costs related to non-cash transactions differs from that of cash transactions mainly regarding human resources and IT costs. Obviously, IT costs have a higher weight on non-cash transaction costs than in cash transactions ones.

However, they show a decreasing tendency from 2006 to 2007 (24% and 20% of total costs, respectively).

Graph 10. Average cost structure for clients' cash transactions



Human resources costs have a proportion of 24-25 percentage points lower on costs related to non cash transactions than on costs related to cash transactions.

2.2.3.d. Product development

As of end of 2007, there was only one out of 6 respondent banks having a product development unit that deals with cashless payments, with only one employee who spends all working time in dealing with cashless payments.

Considering the responses, banks do not pay enough attention to developing new products in order to increase cashless transactions.

2.2.3.e. POS network

The total number of POS devices provided by banks, at the end of 2007 was 1832, 48% higher than in 2006, when the total number of POS' was 1234. At the end of year 2008, the total number of POS' was 2953⁹, or 61.2% higher, which shows the increasing trend of the number of POS devices during the last years.

From the total number of POS devices provided by banks at the end of 2008, around 77 % are located in Tirana and some other regions around Tirana¹⁰.

Most of the banks apply commissions for the merchant that uses the POS at the shop and some banks also for the cardholder. Applying such commissions to the cardholder is a deterrent to the expansion of cashless methods of payments, and measures should be taken to avoid them.

2.2.3.f. On line services – home banking

4 out of the 6 respondent banks (representing 29% of the market share), were providing online services by the end of year 2007 or have started doing so in 2008. The online banking has been initiated since year 1999, and all the providing respondents report to apply a commission for this service.

The figures for Internet Banking transactions performed in the entire banking system¹¹ are shown in the table below, and evidence an increase in both number and value of transactions.

Table 13. Internet / Home Banking statistics

	2006	2007	2008
Nr. of transactions	19,096	42,447	88,261
Value of transactions (mln. ALL)	16,830	48,490	104,880
Average value for one payment (ALL)	881,336	1,142,366	1,188,294

However, evidently, internet banking is used for payments in large amounts and the commissions are still high. There are not reported incentives offered in order to stimulate the use of this service, only different marketing campaigns used to promote it.

2.2.4. Consumers' behavior

Conclusions:

- The respondent banks have assessed that the volume of cash transactions decreases evidently from individuals to corporate.

⁹ Bank of Albania's statistics.

¹⁰ Bank of Albania's statistics. The allocation of POS devices was referred to the BoA branches location

¹¹ Bank of Albania's statistics.

- **Anonymity and widespread acceptance of cash payments make cash transactions most preferred for both individuals and businesses.**
- **Measures can be taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions.**
- **Banks suggest also that a decrease in the settlement period as well as more restrictions to cash use might be effective in reducing businesses' cash transactions.**

2.2.4.a. Use of cash and cashless payments

According to banks' opinions, individuals and micro businesses tend to have the highest level of cash transaction and use very few or none cashless services. In larger enterprises there is a higher level of non cash transactions, but still to a limited extent.

Table 14. Use of cash and cashless payments

	Total responses	1	2	3	4	Average level of use
Households / Individuals	5	2	3			1.6
Micro businesses	5	3	2			1.4
Small&Medium enterprises	5	1	2	2		2.2
Corporate	5			3	2	3.4

(1 uses mostly cash; 2 moderate, uses mainly cash and some cashless service; 3 balanced, uses cash and cashless services; 4 uses mostly cashless services)

2.2.4.b. Reasons for cash preference by individuals

The banks' experience shows that the main reason for cash being a preferred means of payment for the Albanian consumers is that individuals wish to preserve their anonymity. The widespread acceptance of cash as a payment method is another important factor that makes it the preferred method.

Of medium importance are factors like the limited network of POS devices, and the high level of commissions charged.

Table 15. Reasons for cash preference by individuals

	Total responses	1	2	3	Avg. level of importance
Limited coverage with POS network	5	1	2	2	2.2
Anonymity	5		1	4	2.8
Widespread acceptance	5		2	3	2.6
Low perceived costs	4	1	2	1	2
Clear perception of the amount at disposal	5	1	3	1	2
Matter of habit	5	3		2	1.8
Clear perception of the amount spent	5	1	4		1.8
High level of commissions for cashless payments	4	2	1	1	1.8

(1 low importance, 2 medium importance, 3 high importance)

2.2.4.c. Reasons for cash preference by businesses

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Main reasons for cash preference remain the same for businesses as for individuals, emphasizing their tendency to hide their real activity. Also, for businesses a very important factor is the high speed of transaction settlement.

In spite of the measures undertaken recently by the Government, there are still not enough restrictive regulations on cash, and this seems to be of medium to high importance to businesses, together with the low perceived costs of cash and limited coverage with POS network.

Table 16. Reasons for cash preference by businesses

	Total responses	1	2	3	Avg. level of importance
Widespread usage	5		1	4	2.8
Anonymity / Easy to hide the real activity	5		1	4	2.8
High speed of transaction settlement	5		2	3	2.6
Low perceived costs	5		3	2	2.4
Widespread acceptance	5		3	2	2.4
Not enough restrictive regulations on cash	5	1	1	3	2.4
Limited coverage with POS network	5		3	2	2.4
High level of commissions for cashless payments	4	1	2	1	2
Not enough controls from the state authorities	5	1	3	1	2

(1 low importance 2 medium importance 3 high importance)

3. Summary of the Impact Assessment Analysis

3.1. Current situation

The quantitative impact assessment analysis aimed at assessing the economic impact of reducing cash transactions on banks' balance sheet and income statements.

Estimations of costs and losses produced by the maintaining the current situation are presented in the following table.

Table 17. Current situation of loss from banks cash transactions

Costs of cash transactions at the banking system level per year: (in mln Lek)	2007
- personnel costs	493
- security & transportation	143
- others	46
- lost income coming from non – placed sources	138
Total annual costs at the banking system level	821
% of cash deposits	45%
% of cash withdrawals	55%
Total annual costs for cash withdrawals at the banking system level	451.4
Total income from withdrawals at the banking system level	-
Net annual loss with cash withdrawals at the banking system level	-451.4

Under the current situation, the total annual net loss at the banking system level from cash withdrawals are of about Lek 451 million, respective EUR 3.7 million.

3.1. Impact of cash transactions reduction on the banks' financial statements

The impact of reducing cash on banks' financial statements was measured based on a scenario analysis, using the following assumptions:

1. the total volume of clients' cash transactions reduces by 20%;
2. the current structure of cash deposits and withdrawals in total clients' cash transactions is preserved;
3. a decrease of 20% of clients' cash transactions is due entirely to withdrawals;
4. 50% of the decrease in the clients' cash withdrawals leads to an increase of clients' deposits (59,182 mln Lek);
5. out of the additional deposits, 10% will be deposited with the central bank as a corresponding increase in the minimum reserve requirements;
6. the rest of the additional deposits is used half in short term loans to customers and half in interbank deposits (we assume that none of this goes to trading securities);
7. a decrease by 20% of the client's cash withdrawal leads to a decrease by 20% (21.682 mln Lek) in the banks' withdrawals from BoA;
8. a decrease by 20% in clients' cash withdrawals determines a decrease of 20% in total personnel expenses (at branch level and at HO level) at the banking system level;

9. a decrease by 20% in clients' cash withdrawals determines a decrease of 20% in total administrative expenses;
10. A decrease by 20% in clients' cash withdrawals determines a decrease of 20% in total expenses.

With such assumptions the effect on the banks' balance sheets and on banks' profit and loss account, at the banking system level, in the first year of application of the reduction in cash transactions with 20%, is described in the bellow tables:

Table 18. Impact of reducing cash transactions on banks' balance sheet, in mln Lek, in the first year of reducing cash transactions by 20%, at the banking system level

ASSETS		Additional amount	LIABILITIES		Additional amount
+	Customer loans	26,632	+	Customer Deposits	59,182
	Other Loans			Banks Deposits	
+	<i>Total Customer Loans</i>	26,632	+	<i>Total Deposits</i>	59,182
	Problem Loans			Money market funding	
	Other non-performing Loans			Other Negotiable Instruments	
	<i>Total Problem Loans</i>			<i>Total Money Market Funding</i>	
	Total Loans				
+	Minimum Reserves with BoA	5,918		Other Funding	
+	Due from Other Banks	26,632		Other Bonds	
	Other Securities			Subordinated Debt	
	Investment Securities			Other Funding	
	Trading Securities			<i>Total Other Funding</i>	
	<i>Total Securities</i>				
	Non-earning Assets			Loan Loss and Other Reserves	
-	Cash and Due from Banks			Other Non Equity Reserves	
	Intangible Assets			<i>Total Loan Loss & Other Reserves</i>	
	Other Non-earning Assets				
	<i>Total Non-earning Assets</i>			Other liabilities	
	Fixed Assets			Total Liabilities	59,182
	<i>Total Fixed Assets</i>				
				Equity Reserves	
	Total Assets	59,182		Retained Earnings	
				Other Equity Reserves	
				Minority Interests	
				<i>Total Equity Reserves</i>	

Table 19. Impact of reducing clients' cash transactions on the banks' income statements, in the first year of reducing cash transactions by 20%, at the banking system level

INCOME STATEMENT ITEMS		Explanations	Additional amount
+	Interest Income	From additional loans and deposits with other banks	4,180.1
-	Interest Expense	For additional customer deposits	473.5
	<i>Net Interest revenue</i>		3,706.7
+	Commission Income	As cash transactions over the counter are not charged – no impact on income As cash withdrawals from ATMs are charged – a decrease in this commission (but not significant, having in mind the low percentage)	
-	Commission Expense	As cash bought/sold from/to banks is not significant, we consider only the commission paid to BoA for cash withdrawals and deposits.	
	<i>Net Commission Revenue</i>		0
	Net Trading Income		
	Other Operating Income		
	<i>Total Operating Income</i>		
-	Personnel Expenses	Less personnel involved in cash management	-98.7
-	Other Administrative Expenses	Less expenses with cash management (overheads, for example)	-38.0
-	Other Operating Expenses	Less expenses with cash management: security, transportation	
	Loan Loss Provisions		
	Other Provisions		
-	<i>Total Operating Expense</i>		-136.60
	Non-operating Income		
	<i>Pre-Tax Profit</i>		3,843.3
	Taxes		384.3
	<i>Post-Tax Profit</i>		3,458.9

The present value of additional benefits to the whole banking system from cash reduction in the 5 upcoming years is assessed to amount to around 13.5 billion Lek.



SPI Albania Project: Reducing Cash Transactions

Main Findings of the Survey with Shops on Costs and Benefits of various means of payments

1. Summary findings of the survey

- 1. The sample of shops surveyed represents different natures of activity and sizes of enterprises. At least eight types of trading activities are included grouped in three main categories as of the number of their employees.**
- 2. Quantitative results should be taken with reserves taking in consideration the small size of the sample surveyed (43 shops). Notwithstanding, the qualitative assessments are very relevant and representative.**
- 3. The general opinion is that costs of shops implicated with methods of payment will decrease when cash transactions are reduced, and the benefits derived will increase. Also consumers' risks will decrease while their benefits will increase with non cash payments. The general perception that increasing non-cash transactions would bring net benefits is a good background for measures restricting use of cash.**
- 4. There is a general agreement on the usefulness of POS payments as an alternative to cash ones, although only a small part of shops use POS payments and payments by card make for a small part of the daily transactions, despite the decrease in the commission fee.**
- 5. Shops selling high-value goods have a better experience in using POS.**
- 6. The limited use of POS comes at high rate from limited knowledge of both shops and consumers on their functions and features, and also from lack of contact with banks on this issue. These limitations could be taken in consideration by banks in their further efforts to reduce cash payments.**
- 7. One of the means that could be used in order to promote POS utilization might be the link with access to financing facilities (packages).**
- 8. Shops declare that consumers prefer cash payments, but it is likely that shops also do not encourage payments through POS since these are bearing direct and clear costs, while cost of cash is not easy measurable.**

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2. Detailed presentation of the survey findings

2.1. Characteristics of the surveyed sample

Conclusion: The sample of shops surveyed is small but representative from the point of view of nature of activity and size. At least eight types of trading activities were included in the survey, grouped in three main categories according to the number of their employees. According to Bank of Albania's statistics¹, at the end of 2007 almost 60 per cent of POS machines were concentrated in Tirana, therefore the geographic location of the shops (mainly in Tirana) is relevant.

Total respondent shops (no.): 43 shops

Stratification (in %)

Type of activity

Specialized shops	47%
Specialized shops, health care	28%
General shops	26 %

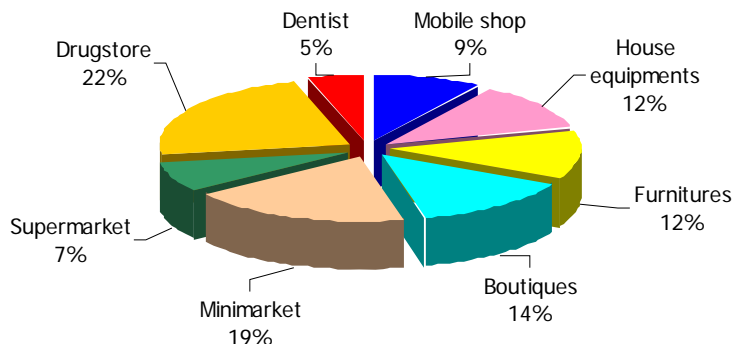
Number of employees

Micro (1 – 2)	47%
Small (3 – 8)	40%
Medium (9 – 24)	13%

The shops surveyed are 43, mostly located in Tirana and the surrounding area, and Berat (3 shops).

The shops are of various nature and size. There are specialized shops for mobiles, house equipments and furniture, and boutiques, and less specialized ones like minimarkets and supermarkets.

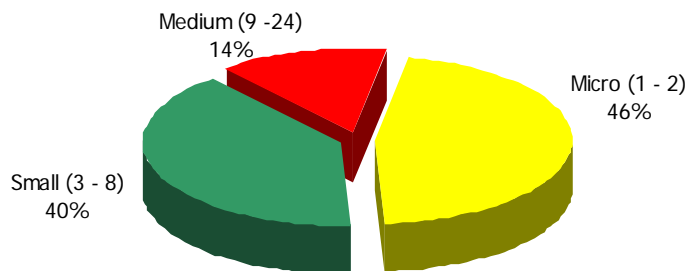
Graph 1. Shops by activity.



¹ Annual Report, 2007, Bank of Albania

Considering the number of employees, most of the shops are micro or small entities. Only 6 shops or 14 per cent of the interviewed ones have between 9 and 24 employees.

Graph 2. Shops by number of employees.



2.2. The aggregated answers to the questionnaire

2.2.1. Impact of Reducing Cash Transactions - Cost and Benefit Qualitative Analysis

Conclusions:

- The results from the survey validate PWG's qualitative analysis on the impact of reducing cash transactions, thus few initial costs in the short term, and more long term benefits, for both shops and consumers.
- For Shops initial operational costs might increase, while, all other payment – related costs of shops will decrease with the reduction in cash transactions, and the benefits in terms of various incomes will increase.
- For Consumers the reduction in the cash payments is about to decrease risks, while benefits deriving from better /faster service and better access to financing methods will increase.

2.2.1.a. Qualitative cost – benefit analysis for shops

There is a general agreement that cash management costs will decrease by promoting non-cash payments because of the improved liquidity and cash management process.

The specialized shops have the highest rate of non agreement to the increase of operational costs (35%) while an average of 70% of all the shops agree that these costs will increase in the initial phase.

The major part of respondents (60%) believes that a decrease in cash transactions would bring a decrease in cash loss. Only a small part of the micro and small shops share this opinion (32%).

The main benefits of reducing cash transactions that are better perceived by shops are:

- a better quality of service to customers;
- a higher interest income from additional deposits with banks.

Table 1. Costs and Benefits for Shops

Costs	Yes		No	
	No. of respondents	% of total respondents	No. of respondents	% of total respondents
Higher operational costs	30	70%	13	30%
Lower Cash management costs	39	91%	4	9%
Lower Other costs	24	56%	19	44%
Decrease in cash loss	26	60%	17	40%
Benefits				
Sales increase	27	63%	16	37%
Increase of payment choices	33	80%	8	20%
Increase of interest income	35	81%	8	19%
Other benefits (from better service)	40	93%	3	7%

2.2.1.b. Qualitative cost – benefit analysis for consumers

The responses from shops evidence that they strongly believe that consumers' costs will decrease by using more non cash payments.

The general situation is tight regarding the change of prices that might occur due to replacing of cash with other means of payments (a 50-50% score), although the specialized shops and micro ones sustain that prices will not increase (about 75% of the respondents from these groups do not agree with the increase).

There is a general agreement on the benefits to consumers deriving from better and more comfortable service, as well as from better access to financing.

Table 2. Costs and Benefits for Consumers

Costs	Yes		No	
	No. of respondents	% of total respondents	No. of respondents	% of total respondents
Decrease of risks	41	95%	2	5%
Higher prices	21	50%	21	50%
Improvement of Service quality	33	87%	5	13%
Benefits				
Better choices	28	65%	15	35%

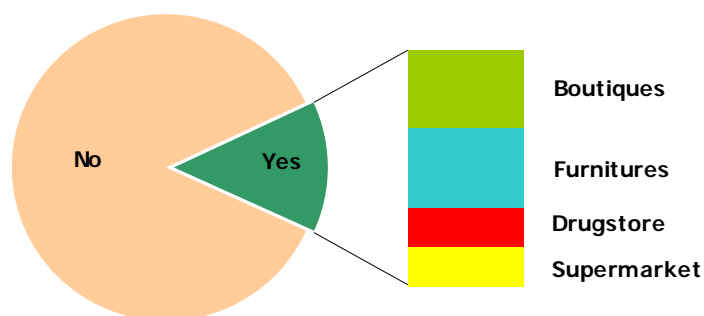
Improved access to financing	35	83%	7	17%
Increased interest income	37	86%	6	14%
Other benefits (less time consuming)	41	95%	2	5%

2.2.2. Use of POS by shops

Conclusions:

- There is a general agreement on the usefulness of POS payments as an alternative to cash ones.
- Only a small part of shops use POS payments and payments by card make for a small part of the daily transactions, despite the decrease in the commission fee.
- Shops selling high value goods (furniture) have the highest frequency in using POS.
- The main reasons for the limited use of POS are customers' preference for cash payments and the limited knowledge of shops owners on the POS functioning.

2.2.2.a. POS utilization



6 shops out of 43 (14 per cent) have responded that they use POS. Considering their size, there is one micro shop, 2 small ones and a large shop, that have chosen to use POS mainly because it is a convenient mean of payment (in 4 of the cases) or because it helps in the process of cash management.

Table 3. Use of POS

POS use	Yes	No		
	6	37		
		Never had	Had and dismissed	NA
		32	3	2
Frequency of use				
2006	12.0%			
2007	18.8%			
Cash payments	88.3%			

Card payments	11.7%			
Commission				
2006	1.5%			
2007	1.0%			

The average frequency of card payments in the respondent shops has increased from 12% of the cases in 2006 to 19% in 2007. However, in average, only 11.7% of the daily sales are paid with cards, the remaining 88.3% is paid in cash. This percentage gets higher (30% card payments) in a furniture shop.

The responses show that in almost all cases payments by card are generally performed for amounts higher than 5100 lek, except for one of the cases which is a specialized drugstore, whose clients may use the card even for amounts between 1,100 lek and 5,000 lek, although no specific rule exists on the amount for which card payment may be performed.

2.2.2.b. Expenses with POS

There is no information regarding the costs or annual expenses for the POS equipment, while the commission to be paid for each transaction is reported 1.5% in 2006 and 1% in 2007.

2.2.2.c. Relationship with banks

The responses regarding the relations with commercial banks so far are equally split between very good, good and satisfactory, and the only comments on areas to improve refer to banks' flexibility and to access to financing options.

2.2.2.d. Reasons for not using POS

86% of the 43 interviewed shops do not have a POS. Most of them have never had one (74% of all the shops), and 3 of them (or 7% of all cases) have had a POS but dismissed it.

The main reasons given for never having considered using the POS are:

- 21% of the cases - clients' preference to pay in cash;
- 21% of the cases – there is a lack of knowledge on how a POS is functioning;
- 18% of the shops - intention to introduce POS within the next 12 months;
- 12% of the shops - small value sales;
- 9% of the shops - no chance to contact with a bank on this issue;
- 6% of the sample - recently started activity;
- 6% of the shops - costs are too high;
- one shop – low level of security of such payment method.

2.2.2.e. POS advantages

In average the respondent shops that have given their opinion on the importance of POS (30 out of 43 shops) mostly agree on the usefulness of POS payments as an alternative to cash. Especially they tend to fully agree on the capacity of POS to reduce the risk of theft, as well as to facilitate cash management.

There are only 5 shops out of 30 respondents (17%) that agree to a certain extent on the non usefulness of the POS. In general, the average level of agreement (1.3) illustrates that the vast majority of the respondents believe at least at some usefulness of the POS.

Table 4. Usefulness of POS and other payment alternatives

POS and payments alternatives to cash:	1	2	3	4	Average level of agreement
Reduce the risk of theft	0	5	7	18	3.7
Facilitate cash management	0	5	10	15	3.6
Are very useful, facilitate client's purchases	2	11	13	4	2.8
Are not useful at all	25	4	1		1.3

(1 – do not agree, 2 – agree to some extend, 3 – agree, 4 – fully agree)



SPI Project on Reducing Cash Transactions

Project Objectives

1. To prepare a protocol on a common policy in respect of the actions and measures to be undertaken by the banks for reducing the volume of cash transactions.
2. To build consensus among banks in order to sign and implement the protocol.

Project Management Team

Project Owner (PO): Oliver Whittle, CEO, RB

Project Manager (PM): Robert Wright, Commercial Director, RB

Deputy Project Manager (DPM): Elivar Golemi, Head of Payments, BoA

Minutes

Fourth meeting

March 4th, 2009—AAB premises

Attendees: Robert Wright, RB (PM)
Elivar Golemi, BoA (DPM)
Enkelejda Balliu, ISP (alternate member)
Griselda Cela, CB (member)
Altin Sholla, BIS (member)
Juliana Shkurta, TB (member)
Anuela Ristani, SPI Albania Director of Operations
Endrita Xhaferaj, SPI Albania Director Financial Modernization Program and Analytics

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AGENDA

- I. Project Progress Briefing
- II. Summary findings of the survey on shops on cost and benefits of reducing cash transactions (Discussion and Approval)
- III. Summary findings of the survey on banks on cash transactions, including the quantitative impact analysis of reducing cash transactions (Discussion and Approval)
- IV. Policy proposals - self-regulatory and regulatory measures to reduce cash transactions (Discussions and solution proposals)
- V. Conclusions and distribution of tasks
- VI. Closing Remarks

I. Project Progress Briefing

The SPI Secretariat briefed the PWG on the project progress after the third PWG meeting:

- After the PWG approval of the Cost Benefit Questionnaire, SPI Secretariat distributed the questionnaire to all the 16 banks through AAB Secretariat;
- Based on the PWG approved Cost-Benefit questionnaire and on PWG suggestions, SPI Secretariat drafted two additional questionnaires for Shops and Utility companies and mobile operators as part of the Impact Assessment Analysis;
- SPI Secretariat followed up on the request for collaboration sent by PO, Mr. Whittle, to METE Secretary General in order to get in touch with utility companies and have them complete the Cost Benefit Questionnaire, but despite several follow ups, no data were received;
- Assisted by the EUT students, SPI Secretariat managed to deliver 60 questionnaires to shops, out of which 43 were filled in;
- SPI Secretariat collected and aggregated individual answers from the banks and shops and drafted documents on the findings.

II. Summary findings of the survey on shops on cost and benefits of reducing cash transactions

SPI Secretariat presented the summary findings of the survey with shops on costs and benefits of reducing cash transactions.

Out of 60 distributed questionnaires, 43 were valid and aggregated. Only 6 out of 43 shops had POS stations or 14% of the surveyed sample. Mainly all of the shops agreed with the statement that cash reductions would bring initially higher costs but higher net benefits on a longer run, but they also claim that it is the customers' preference to pay cash rather than electronically. In addition, other difficulties in using POS-es according to them are related to functioning of the terminals- lack of training on how to use them, small value sales. The PWG members added another difficulty on the list, related to connectivity problems. The situation has been improving over time: if initially the POS terminals were only connected through phone lines, now they're using also GPRS and the electricity cuts which before have been very frequent and lengthily now are significantly reduced.

In addition, when the interviewees think that the low level of non-cash payments it is due also the fact that most customers do not have the adequate knowledge to pay through their cards even if they do possess one. PWG members are also aware of this challenge, affecting especially people whose only interaction with the cards is withdrawing the salary from the ATMs. They are reluctant to use a new way of payment and not sure whether it will bring additional costs to their transaction. PWG think that there should be **a customer and merchant education program jointly funded not just by the banks but also by the key third party beneficiaries such as VISA, MasterCard, and the Utilities and Telecoms companies.**

PWG noted that the information provided by shops on the commissions to be paid to the banks was not very accurate – shops claimed the commissions were from 1.5 -1 while in reality they vary from 4-2 % of the transaction cost. However they were aware that the commission rates had been lowering over the years.

Out of the surveyed sample, only 12% state small value sales as the main reason for the low level of electronic payments. The PWG members view this as a very interesting detail that could serve their POS sales forces when targeting potential customers.

Another interesting detail rests on the contradictory fact that while 91% of the respondents agrees with the idea of having a POS in their shops, 86% of them do not have one. While this is an interesting fact to be taken into account by the sales forces, it might also derive from the fact that the sample is extremely small to be statistically reliable. The PWG noted that the qualitative and not the quantitative findings should be considered when drawing conclusions and proposals in the final PWG recommendations. Moreover, the contradiction that rests in appreciating the benefits of electronic payments but not using them seems to rest mainly in subjective versus objective reasons.

With the abovementioned comments being reflected in the document, the PWG appreciates the valuable information provided by the survey and the SPI Secretariat analysis and approves the Summary of findings on shops.

III. Summary findings of the survey on banks on cash transactions (including the quantitative impact analysis of reducing cash transactions)

SPI Secretariat presented to the PWG the summary findings of the survey on banks clarifying that respondent banks (6 out of 16), even if small in number, represent a large share of the banking market, therefore the results of the survey may be considered as relevant.

One of the most important confirmations obtained by the survey was the respondent banks' validation on the PWG's cost- benefit qualitative analysis, concluding that the total impact of cash reducing would be net cost savings.

According to the collected data, banks reported that total cash transactions increased by 21% (in real terms) from 2006 to 2007. Cash transactions in Lek remain at a high level in spite of all the measures taken. Cash withdrawals over the counter are around 6 times higher than those from ATM. PWG members confirm that this is the case since the ATM withdrawals have a daily limit, therefore all higher value withdrawals are made over the counter. Cash transactions in foreign currencies have also increased in 2007 compared to 2006, which leads to the conclusion that further measures are to be taken in reducing both cash transactions in Lek and in foreign currency. While contemplating the possible measures to reduce cash withdrawals, the PWG noted that introducing charges to ATM withdrawals cannot be considered as an option because it would immediately lead people to the branches and immediately increase the workload for the tellers. PWG members think that the first step is to reduce cash withdrawals from the counter and have people use more ATMs initially in order to change the current 6:1 ratio.

While considering costs related to cash transactions from the banks' responses it results that 70% of them related to Human resources and from 2006 to 2007 human resources costs have increased by 2 percent amounting to 72% the total costs. PWG think that this is largely due to the high number of new branches opening during 2007 despite the fact that card payments are the main type of non cash-transactions that have increased both in number and value, from 2006 to 2007.

While banks' cash transactions are mainly composed by deposits and withdrawals at their accounts with Bank of Albania. Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered. Credit transfers, both incoming and outgoing make up for more than half of clients' non-cash transactions in Lek and are mostly used for high value transactions.

Banks do not show to pay particular attention to structures for developing new products. Commissions, often high, are applied to most of cashless payment methods (POS, internet banking), which might be a deterrent to reducing cash transactions. SPI Secretariat notes that

there could be measure taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions. However the PWG members claim that the commissions have been decreasing from year to year and while they might differ from bank to bank, they are not high and not charged to the customer but only to the merchant.

The respondent banks have assessed that the main reasons for individuals and businesses preference towards cash transactions are anonymity and widespread acceptance of cash payments. PWG observes that this relates also to the lack of information and education of the public about the advantages of non-cash payments and asks this to be reflected in the final PWG recommendations. According to the survey, banks suggest also that a decrease in the settlement period as well as more restrictions to cash use might be effective in reducing businesses' cash transactions.

Other alternative non-cash payments such as online banking have currently significant high costs since they require secure internet connection and PCs. In Albania, only the corporations that are fewer than 4000 use the online banking (a small market for this product). No cost-reductions are foreseen by the banks in the near future with regards to these services, according to the PWG members.

SPI Secretariat has estimated in the impact assessment analysis that the current losses of banks from clients' cash withdrawals amount to 451, 4 million Lek for year 2007. This number was derived from the calculations of total costs related to non-cash transactions in Lek and the percentage they have in total costs. In addition, the SPI Secretariat calculated the costs for cash withdrawals taking in consideration the percentage that cash withdrawals have in total cash transactions.

According the SPI Secretariat calculations, the estimated potential benefits from cash reduction in the first year amount to 3.459 million Lek. For the five upcoming years, the present value of additional benefits to the whole banking system from cash reduction amounts to around 13.5 billion Lek.

PWG found the summary of findings and impact analysis very useful for their internal plans in promoting non-cash payments and on the positive value this would bring not only to the banks but also to the public authorities and overall to the Albanian economy. PWG approved the summary of findings on the banks' cash transactions and the quantitative impact analysis of reducing cash transactions.

IV. Policy proposals - self-regulatory and regulatory measures to reduce cash transactions

SPI Secretariat had drafted some policy proposals on regulatory and self-regulatory measures to reduce cash transactions for the PWG to consult and review. PWG members asked to have more time to consult and review them and they will send their comments through email.

V. Conclusions and distribution of tasks

- PWG member will review the suggested proposals drafted by the SPI Secretariat on regulatory and self-regulatory measures to reduce cash transactions and send their comments, suggestions as well as additional proposals.
- SPI Secretariat will gather all the suggested PWG proposals, will aggregate them and summarize them in the consultation paper that will be delivered to the entire banking community.
- SPI Secretariat will aggregate banks' comments and suggestions on the consultation paper and will thereafter draft the final PWG Recommendations to be approved by the PWG in their fifth and last PWG meeting.

VI. Closing Remarks

The fifth and last PWG meeting is preliminarily scheduled to take place late March 2009.