

SPI Project: “Reducing Cash Transactions”

Questionnaire on Costs and Benefits of various means of payments

Businesses

Prepared by
SPI Albania Secretariat

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I. Context

The Albanian authorities have undertaken several legal and administrative initiatives to reduce cash transactions in economy with final objective to shrink the informal economy.

- July 2007, was amended 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.
- May 2007 was issued the Decree on 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.
- General Directorate of Taxation is working for modernizing the payment procedures in order to facilitate the non-cash payment of the taxes through the establishment of the on-line payment system and the simplification of the procedures to be followed by the taxpayers.

In 2003 Bank of Albania in collaboration with other institutions initiated a campaign on the reduction of cash usage in economy. In addition to this campaign, in order to facilitate the interbank payments BoA has established:

- (i) the Albanian Interbank Payment System (AIPS) that settles systemically important payments This is a system based on the core RTGS principles;
- (ii) The Albanian Electronic Clearing House System (AECH), an electronic clearing system owned and operated by BoA, in which files of bulk (high volume) low value payment instructions are exchanged among banks and other credit institutions after the net positions have been settled through RTGS.

AIPS and AECH have automated the clearing service provided by the Bank of Albania to commercial banks for processing payments to their clients. The implementation of these systems improvements in the national payments system in terms of increasing speed, reducing cost and security increasing in their processing.

Despite these initiatives undertaken it seems that the intended effects are not completely materialized and the volume of cash transactions continues to be high. **The high level of cash transaction raises concerns to the banks. These concerns are related to the costs associated with handling the cash and with the inefficiency produced by the high level of unused liquidities.**

SPI Albania is running a project on reducing cash transactions with two 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.

PWG composition

Project Owner: Oliver Whittle, Raiffeisen Bank

Project Manager: Robert Wright, Raiffeisen Bank
Deputy Project Manager: Elivar Golemi, Bank of Albania

Project Working Group Members: Jonida Vaso, Union Bank
Griselda Cela, Credins Bank
Liliana Nanaj, American Bank of Albania
Elird Qendro, Mirela Pekmezi, Italian Bank of Development

II. Purpose of the survey

We are seeking through this survey to get your validation on the qualitative cost-benefit analysis and your assessment on the causes determining the large use of cash transactions.

This questionnaire is part of a large scale survey on commercial banks, utilities companies and other private enterprises, with aim to identify the cause of cash usage and to assess and quantify the costs and benefits associated to various means of payments.

The questionnaire is structured as follows:

1. Cost and Benefit Qualitative Analysis on the impact of reducing cash transactions in retail shops.
2. Questionnaire

III. Procedures to run the banking survey

You are kindly requested to support the clarification of the above mentioned issues by answering this questionnaire. We estimate that filling in the questionnaire would take: For the first section on the Qualitative Analysis about 10 – 20 minutes and for the Questionnaire about 20 minutes.

Please send your answers to SPI Secretariat who stands ready to offer you more details. Your answers will be treated in strict confidentiality. The results of the banking survey will be disclosed only at aggregate level

For eventual further clarification needs, please indicate below the contacts of the person who completed the questionnaire:

Name
Position
Firm
Type of Activity
Email address
Tel/Fax

Thank you for participating in this survey!

1. Impact of Reducing Cash Transactions

Cost and Benefit Qualitative Analysis

The cost-benefit analysis is intending to assess the impact of reducing cash transactions on the retail sector and on consumers. Assuming that the total amount of payments does not change, by reducing cash transactions the non-cash payments will increase. Given this, the qualitative analysis refers also to the effect and consequences of increasing non-cash payments.

For the purpose of this survey:

- Cash transactions are considered:
 - Clients' cash payments for purchases
 - Companies' own cash transactions resulting from clients' transactions

- In non-cash transactions are considered:
 - Debit card payments
 - Credit cards payments

We would very much appreciate if you could validate our assessments by ticking in the respective boxes¹. In case you do not agree with the stated impact/rational, please state there your reasons.

Retail sector

Costs / Benefits	Impact	Comments	Validation/ Comments	Rejection/ Comments
Costs	=/-	Reducing cash transactions with a corresponding shift in the non-cash payments might significant reduce costs and increase the benefit to companies in the retail sector		
One-off	Higher			
Operational	+	Firms might have some additional costs related to the acceptance of the new / improved non cash payments such as security, training the staff or others alike. There would be some extra fees to be paid by merchants.		
On going	Lower			
Cash management expenses	-	A lower level of cash transactions would decrease the expenses and the uncertainty of cash management. The time spent with handling cash (receiving, arranging and counting) would decrease, as well as the time with depositing the extra liquidities in a bank account.		

¹ **Legend:** + increase
 - decrease
 = no effect

Costs / Benefits	Impact	Comments	Validation/ Comments	Rejection/ Comments
Other expenses	-	The commissions paid for cash depositing in the companies' bank accounts might decrease, if any commission is charged.		
Losses from cash handling	-	The losses (damages, theft, counterfeits) out of handling cash would decrease in case the volume and value of cash transactions would decrease.		
Benefits	Higher			
Increase in sales / additional business	+	Cashless payments by credit cards might allow consumers to spend more than the cash they have with them at a certain time. For retailers it means a higher volume of sales. At the same time, the increase in the prices due to bank additional commissions might decrease the sales. In case of high competition, the additional fees could not be transferred totally to clients.		
Better choice	+	Development of new (more convenient) ways to make a payment offers more options to clients.		
Income from interest	+	By improving the liquidity management of companies, lower amounts of the daily level of cash balance could mean additional placements with banks and additional income from interest.		
Other	+	The quality of service might increase for merchants, in terms of processing time and comfort (no need for change at the time of purchase).		
Total impact	Same costs, more benefits	The decline in the lost risks and the reduction in the time spent for cash transactions, as well as more choices and improved access to finance, would have a higher impact on firms than the increase in their costs.		

Consumers

Costs / Benefits	Impact	Comments	Validation/ Comments	Rejection/ Comments
Costs	Lower			
Higher risks	-	Risks of theft, lost, counterfeit or damage of the banknotes would decrease in case of less cash transactions		
Higher prices	+	In case the cash transactions are charged now, the impact could be neutral on the overall costs for consumers. If not, there will be an increase in the prices paid by consumers by using non cash payments.		
Quality of service	-	The quality of service might increase for consumers, in terms of processing time and comfort.		
Benefits	Higher			
Better choice	+	Development of new products would align better the needs and the financial position of the clients with banks' and other firms' products and services.		
Price reduction	-	Please see above the rationale for higher prices.		
Improved access	+	Banks and other firms might design products that fit to a larger share of consumers. The volume of operations run through a bank account might also improve access to the lending products.		
Interest income	+	By decreasing cash payments, higher amounts of the cash balance in the bank account, mean additional deposits with banks and additional income from interest.		
Other	+	The reduction in the cash payments will produce time savings for consumers		
Total impact	Lower costs and higher benefits	The decline in the loss risks and the reduction in the time spent for cash transactions, as well as better choices and improved access to finance, would have a higher positive impact on consumers than the increase in their costs.		

Summary of CBA of the PWG recommendations for the CPC

Stakeholders	Costs	Benefits	Total
Retail companies	Lower	Higher	Few initial costs & More benefits
Consumers	Lower	Higher	Some short term costs & long term benefits
Overall economy			More benefits Some costs

2. Questionnaire

1. Do you currently have a POS? Yes No
(If you do not currently possess a POS please pass to question no. 10, next page)

2. If Yes, since when and why did you decide to install the POS? _____
(please select one of the alternatives below)

- a. It is a convenient mean of payment
- b. It helps in the process of cash management
- c. It decreases the risk of theft
- d. To offer an additional service to my costumers
- e. The bank proposed it to me
- f. Some of the clients were continually asking to pay with cards
- g. A considerable share of my clients are foreigners
- h. Other (please specify)

3. For every 100 payments how often does it happen that clients pay by card?

_____ in 2006 _____ in 2007

4. In average, during a normal working day, what percentage of your payments is:

- in cash _____ %
- in cards _____ %

5. How large are in general the payments performed with cards?

- Small value, less than 1,000 lek
- Medium value, between 1,100 lek – 5,000 lek
- Large value, more than 5,100 lek

6. Regarding the costs, how much are the annual expenses for the POS machine?

	2006	2007
- Rent	_____	_____
- Maintenance	_____	_____

7. How much is the commission, in percentage, you have to pay for each transaction through the POS?

_____ 2006 _____ 2007

8. Thus far, how do you consider the relation with the commercial banks?

- a. Very good
- b. Good
- c. Good only with some of the banks
- d. Satisfactory

9. What are some of the areas, if any, that you would expect improvements from the banks?

For Non Possessors

10. Have you ever possessed a POS?

- a. Never possessed a POS.
- b. We had a POS, but dismissed it.

If the answer to question number 1 is **A**. “Never possessed”.

11. Why do you not possess currently a POS? (please select one of the alternatives)

- a. My clients prefer to pay in cash
- b. It is too costly
- c. I would use it rarely as my clients make mostly small value purchases
- d. I prefer to be paid in cash
- e. I do not know exactly how a POS functions
- f. I'm afraid related to the level of security
- g. I have recently opened
- h. Still have not had the chance to contact with a bank on this issue
- i. My bank does not offer this service
- j. I intend to introduce within the next 12 months a POS
- k. Other (please specify) _____

If the answer to question number 1 is **B**. “You had a POS”, but dismissed it.

12. Why did you dismiss the POS

- a. My clients preferred to pay in cash
- b. It was too costly
- c. It was rarely used, my clients make small amount payments
- d. I preferred to be paid in cash
- e. I could not reach a convenient agreement with the bank
- f. I have recently changed the bank and I had to cancel the agreement
- g. I'm afraid related to the level of security
- h. My clients did not feel secure to use their cards
- i. Other (please specify) _____

13. If the answer to question 9 or question 10 is **B**. “It is too costly”, how much should the commission be, in percentage, to make it more attractive and convenient for you?

14. Do you agree with the following statements? Please indicate the level of agreement from 1 to 4 alternatives bellow:

1 do not agree **2** agree to some extend **3** agree **4** fully agree

POS and payments alternatives to cash:

- | | | | | |
|---|---|---|---|---|
| a. Are very useful, facilitate client's purchases | 1 | 2 | 3 | 4 |
| b. Facilitate cash management | 1 | 2 | 3 | 4 |
| c. Reduce the risk of theft | 1 | 2 | 3 | 4 |
| d. Are not useful at all | 1 | 2 | 3 | 4 |