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SPI Project on Reducing Cash Transactions

http://www.spi-albania.eu/en/2008-program/reducing-cash-transactions

Project information

PUBLIC-PRIVATE FINANCIAL SECTOR MODERNIZATION MATRIX					
Italian Banking Association CRITERIA	**European Central Bank CRITERIA**				
	Asymmetric information reduction	*Completeness of the market*	*Increased opportunities to engage in financial transactions*	*Reduced transaction costs*	*Increased competition*
Business development					
Industry competitiveness				**X**	
Industry reputation					

Short description of the context: Albanian authorities have taken several legal and administrative initiatives to reduce the use of cash. 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 processing the cash and with the inefficiency produced by the high level of the unused liquidities.

Stakeholder proposing the project: Banks

Other Stakeholders involved (sponsors): BoA, utilities, card companies, and merchants

Project objectives:

1. To prepare a protocol on a common policy in respect of the actions and measures to by 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
3. To propose regulatory measures to reduce cash transactions

Description of the project contribution toward financial modernization: By reaching the project's objectives, the level of expensive and inefficient cash transaction will decrease and the level of more efficient payments will increase. The improvement of the payment system will enhance the efficiency of the intermediation function of the banking system.

Project Working Group:

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/Suela Totokoci**, Intesa SanPaolo Bank **Mirela Pekmezi /Elird Qendro,** Italian Bank of Development **Anila Celiku,** Vodafone **Amalia Zerri, Kamelia Paskali**, AMC **Arben Zace (appointed),** Ministry of Finance

PWG Meetings:

1st meeting – July 28, 2008; Output: Project ToRs and Scoping of Problem Document

2nd meeting – September 24, 2008; Output: Revised Scoping of the Problem Document; Note on Research Companies' Proposals for a National Scale study on Cash Volume Costs in Albania; Banks' Cost-Benefit Questionnaire Draft; Note on International Experience

3rd meeting – November 27, 2008; Output: Revised Note on International Experience; Revised Banks' and Shops' Cost-Benefit Questionnaire on Various Means of Payment

4th meeting – March 4, 2009; Output: Summary findings of the survey on shops and banks on cost and benefits of reducing cash transactions (including the quantitative impact analysis of reducing cash transactions); Draft Consultation Paper

5th meeting – April 21, 2009; Output: Consultation Feedback; Action Plan for Regulatory Actions, Document on the PWG Recommendations to reduce cash transactions

Contributions:

PWG members: participation in PWG meetings and discussions; answers to the Banks' and Shops' Cost-Benefit Questionnaire on Various Means of Payment, comments and feedback to the Consultation Paper.

SPI Secretariat: draft Project ToRs; Note on Research Companies' Proposals for a National Scale study on Cash Volume Costs in Albania; Note on international experience; draft Banks' and Shops' Cost-Benefit Questionnaire on Various Means of Payment; collect individual contributions and draft Summary findings of the survey on shops and banks on cost and benefits of reducing cash transactions, including the quantitative impact analysis; draft Consultation Paper and Consultation Feedback documents based on PWG meetings; draft banks' Protocol on Common Policy to Reduce Cash Transactions; draft Document on the PWG Recommendations.

Other Supportive Activities:

July 2008: Presentation by Mr. Oscar Occhipinti on ABI experience in Anti-Cash Measures

July 2008: Study visit to ABI, Ms. Elona Bollano, SPI Albania Director of Analytics and Policy

September 2008: Follow ups with METE for the Albanian Electro-Energetic Corporation (ex-KESH now OSSH) and the utility companies, which could not commit to the project

November 2008: PWG proposal for a National Scale Survey on the causes and costs of cash usage in Albania, not approved by the AAB Executive Committee for funding.

Methodology: EU Better Regulation (Annex 8)

Content

1. Summary of PWG analysis

The research on international experience (Annex 4) suggests that the level of the currency in circulation in developing Balkan countries is higher compared to developed European countries. By the end of 2007, the level of currency in circulation in Albania was 63%, considerably higher compared to Serbia (31%) and Croatia (28%). These developing countries are in the early stage of development of the payments system. The increased use of non cash payments is associated with infrastructure developments, in terms of payments cards typology and quality and in terms of operating machines - ATMs and POS[1], and the use of direct debits and standing orders. Increased ATM functionality, telephone banking and internet banking are also priorities.

Worldwide banks are building policies to attract new consumers and increase loyalty by decreasing the prices of the products. Their strategies are mainly focused on reducing the prices of the products, in particular, to incentivize the use of electronic banking channels and automated payments in the products that the consumers have in the first contact with banks: current accounts, debit/credit cards, etc. Banks are also focused on channeling the consumers' demand to low cost innovative products that affect the behavior of the consumers: on-line banking, deposits and withdrawals at ATMs, and direct debits.

Under the current project, a survey on costs and benefits of managing and reducing cash transactions on banks (see Annex 4) has been run, covering 2006 and 2007. Only six banks responded to the questionnaire but as they represent a large share of the banking market (60%), the results of the survey may be considered as relevant for the entire banking community. The respondents' opinion is that the total impact of reducing cash transactions would be net cost savings. The results of the survey show that cash transactions in Lek and foreign currencies have increased from 2006 to 2007, in spite of all the measures taken by authorities, this leading to the conclusion that further measures are to be taken for reducing cash transactions both in Lek and in foreign currency. The respondent banks have assessed that the main reasons for individuals' and businesses' preference for cash transactions are anonymity and widespread acceptance of cash payments. Commissions, often high, are applied to most of cashless payment methods (POS, internet banking), which might be a deterrent to reducing cash transactions.

The impact assessment analysis performed based on the collected data showed that the current losses of banks from clients' cash withdrawals amounted to Lek 451.4 million for year 2007. The potential benefits from cash reduction in the first year of application are assessed to be around Lek 3,459 million, while the present value of additional benefits to the whole banking system from cash reduction in the 5 upcoming years is estimated to be around Lek 13.5 billion.

The general opinion resulting from the survey on shops (see Annex 5) is that shops' costs would decrease if cash transactions were reduced, while the benefits derived would increase. 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

[1] ATM – Automated Teller Machine
POS terminals - Point of Sale terminals

payments by card make for a small part of the daily transactions, despite the decrease in the commission fees.

The limited use of POS by shops comes mainly from lack of or limited knowledge of both shops and consumers on POS' functions and features and from lack of contact with banks on this issue.

Other reasons for the limited usage of POS by shops, as observed and noted by the PWG members during the PWG meetings, are:

- shops do prefer cash as means of payment as they are used to use cash for years and it is difficult for them to fight on "cash" mentality;
- the informal economy;
- merchants are frighten to use POS-es because of fraudulent activities with cards;
- merchants are very sensitive on commissions applied to them.

2. PWG recommendations

Analyzing the findings of the surveys performed under the project, the Italian experience in fighting against cash and the measures already taken by Albanian authorities, PWG members formulated several proposals. SPI Secretariat, with AAB's support, run consultations with banks and other non-bank PWG members on the proposals. Based on the consultations feedback, PWG agreed on the final recommendations for reducing cash transactions (more details on the consultation feedback in Annex 3).

2.1. Proposals for self regulatory measures to be taken by the private institutions

2.1.1. Education Campaign

The surveys performed emphasized the customers' and merchants' education as a very important step towards reducing cash transactions.

In this respect, one of the main proposals of the PWG is the undertaking of a customer and merchant education program jointly funded by banks and by the key third party beneficiaries of cash transaction reduction, such as VISA, MasterCard, and the utilities and telecoms companies.

Regarding Utilities and Telecom companies, the priority should be direct debits from the salaried current accounts that are active in the banking system, considering that the facilities and the technology already exist, but there is a lack of commitment from these companies.

The campaign should emphasize on costs and other disadvantages of using cash as well as on the benefits of using POS in shops. Trainee groups can be created for training merchants on card and security features, POS features, Direct Debit and Credit Transfers, and Chargeback procedures. Card Fraud Committee could be called in for organizing such trainings; banks can contribute on financing, hosting, preparation of training materials etc.

2.1.2. Other measures to increase non-cash payment methods

In order to decrease the overall amount of cash transactions (both through ATMs and over the counter) and to promote the use of alternative electronic payments instruments (cards and payments through POS, credit transfers/direct debit), PWG members recommends banks to stimulate the use of non-cash payments through:

- Additional incentives to shops for using POS such as better interest rates for overnight deposits, better interest rates for loans, etc;
- Not charging customers for payments through POS;
- Improvement of the POS and ATM devices[2] network coverage;
- Decreasing in the commissions for credit transfers (payment orders) based on a standardized and automated processing and settlement;
- Increasing transparency with the clients regarding the use of card;
- Developing new non-cash payment methods (electronic) such as mobile-payments (M-payments), given the wide spread and territorial penetration of mobile communication;
- Promoting internet banking to individual costumers, supporting non-cash payments of even small values, and also the preservation of their anonymity.

The PWG members agreed that, in order to increase the awareness of the utilities companies, as well as to establish the infrastructure for the development of non cash payment instruments, banks, Utility Companies and Bank of Albania to undertake a common project on the standardization and unification of the procedures related to direct debit and credit transfer transactions.

Based on the above self regulatory proposals, SPI Secretariat prepared a protocol stating banks commitment to reduce the volume of cash transactions through common and individual initiatives (Annex 1). Card and utilities companies could also join banks under this protocol..

2.2. Proposals for regulatory measures to be taken by the public institutions

Considering that regulators could further strengthen the anti-cash legislative framework, PWG formulated some proposals for regulatory measures (more details in Annex 2).

These proposals are mainly focused in three areas: in the tax control and tax policies for private businesses; the payment methods and instruments in the Public Administration Offices; and transfers of public benefits to citizens.

[2] 77% of all POS device provided to the shops by the end of 2008, are located in Tirana and some other cities neighbors to Tirana (Durres, Kruje, etj). See Annex 5 for more details.

In order to decrease cash transfers between customers and private businesses, non cash payment can be incentivized by recognizing tax deductibility for some expenses only if paid through banks. Another measure could be allowing only a certain limit of daily cash balances, according to the type of business.

The Public Administration Offices should promote non cash payments by offering incentives for payments by card or through bank accounts. Hence, the presence of POS devices should be compulsory in tax collection/payment offices.

The actual regulation framework stipulates that monthly wages are to be paid through the banking system or the post office network. The same could be done for all other types of public benefits paid to citizens by Public Administration Offices (e.g. pensions, social welfare, etc.).

The PWG observed that banks in Albania are investing in IT for improving their services, offering low cost innovative products and using advanced technologies. On the other side, the public entities (state and private owned), strongly related to such services, are not following the same trend in terms of payment infrastructure developments such as hardware, software and communication. As discussed and agreed by the PWG members, a project could be undertaken, with the support of banks to executive authorities (ministries, municipalities, etc.), with the aim of developing the IT services and payment infrastructure of the public administration.

3. Proposed SPI Committee Decision

SPI Committee endorses the PWG recommendations for regulatory actions for further presentation to the Ministry of Finance and to Ministry of Economy Trade and Energy for considering their enactment. SPI Committee endorses PWG recommendations on self regulatory initiatives and sends them to AAB for ensuring the signing of the Protocol and for coordinating its implementation. The two PWG project proposals are to be included in 2010 project proposals.

4. Annexes

Annex 1. Draft Protocol on Common Policy to Reduce Cash Transactions

Preamble

The following banking institutions and members of the Albanian Banking Association (AAB):

Alpha Bank (Albania)
Credins Bank
Credit Bank of Albania
Emporiki Bank (Albania)
First Investment Bank (Albania)
International Commercial Bank
Intesa Sanpaolo Bank (Albania)
Italian Development Bank
National Bank of Greece (Tirana Branch)
National Commercial Bank
Popular Bank
Procredit Bank
Raiffeisen Bank
Tirana Bank
Union Bank
United Bank of Albania,

hereinafter referred to as the Parties,

convinced of the need to improve the payment system in Albania thus enhancing the efficiency of the intermediation function of the banking system,

concerned of the high level of cash transactions and of the costs associated with handling the cash,

bearing in mind the inefficiency produced by the high level of unused liquidities,

acknowledging the potential economic benefits to the whole banking system from the reduction of the cash transactions in the economy,

reaffirming their will to cooperate on establishing a common policy to achieve the objective of reducing cash transactions,

have agreed to conclude this Protocol.

1. Objective of the Protocol

The Protocol objectives are to reduce the level of expensive and inefficient cash transaction in the Albanian economy by promoting the use of more efficient non cash payments methods..

2. Individual actions for pursuing the Protocol objectives

The Parties are hereby expressing their commitment to undertake individual actions in order to stimulate the use of non-cash payments by:

- offering additional incentives to merchants for using POS devices and not charging customers for payments through POS;
- adjusting the commissioning policies for non cash payments such as credit transfers;
- developing POS and ATM networks coverage;
- increasing transparency with clients regarding the use of non cash methods of payments;
- promoting innovative means of doing payments such as M-payment and E-money.

3. Common actions for pursuing the Protocol objectives

3.1. The individual actions will be complemented by community's actions that need more efforts and financial means, as follows:

- The Parties commit themselves to undertake common actions in order to plan, finance and manage an education campaign targeting customers and merchants on the non-cash payments advantages and use;
- The Parties commit themselves to promote direct payments, through an information campaign developed in cooperation with utilities and mobile companies;
- The parties commit themselves to promote the use of cards and POS devices through an information campaign developed in cooperation with card companies such as VISA and MasterCard;
- The Parties commit themselves to support additional regulatory measures to be promoted by regulatory authorities.

3.2. Mobile companies and card companies will be invited to join this protocol. Their adhesion to the protocol objectives and actions will take the form of addenda to this document.

4. Implementation of the Protocol

AAB Secretariat will follow up with the implementation of this Protocol provisions and Parties will be represented in the relationship with third parties by the AAB Chairman.

Agreed and accepted
The protocol was agreed on …… and will be effective by Parties’ signatures:

Signatures

Annex 2. Regulatory Proposals

No.	Regulatory Measure	Authority issuing the relevant regulation	Regulation Type	Text of the regulation
1.	Maximum limits for businesses' daily cash balances	Ministry of Finance	Law amendment	Law no. 9920 dated 19.05.2008 and on Tax Procedures in the Republic of Albania should be amended by including a new provision with the following text: "The companies' daily cash balance should not be higher than ALL ………… "
2.	Obligation for Public Administration Offices not to accept cash for payments that top a determined amount, offering incentives in case of payments through bank accounts or by cards Gradually and at a later stage, the same should be done for private professionals and merchants.	Ministry of Finance Ministry of Economy, Trade and Energy	Law amendment Internal regulation	Law no. 9920 dated 19.05.2008 and on Tax Procedures in the Republic of Albania should be amended by including a new provision with the following text: "Public Administration Offices cash payments acceptance should not be higher than ALL……..." Small discounts for payment through banks accounts or by cards could be granted.
3.	Credit transfers to citizens must be executed by Public Administration Offices using modern payment means (for example, pre-paid cards)	Ministry of Finance	Internal regulation	Yearly agreement on rules and criteria for revenue collection service of the Government and of payment through budget funds should be amended to

No.	Regulatory Measure	Authority issuing the relevant regulation	Regulation Type	Text of the regulation
				include a new provision with the following text: “Credit transfers to citizens must be executed by Public Administration Offices using modern payment means”.
4.	Recognition of tax deductibility for some expenses only if paid through bank	Ministry of Finance	Law amendment	Law no. 8438 dated 28.12.1998 on Tax on Profits amended through law no. 9844 dated 17.12.2007 should be amended by including a new provision with the following text: “Tax deductibility is granted for the following expenses…….. only if paid through bank”
5.	Making compulsory POS equipments in the tax collection/payment offices	Ministry of Finance	Internal regulation	Yearly agreement on rules and criteria for revenue collection service of the Government and of payment through budget funds should be amended to include a new provision with the following text: “POS equipments in the tax collection/payment offices are compulsory starting from……….”

Annex 3. Consultation with Banks

Issue / Provision	PWG members comments and suggestions	PWG conclusions / final proposals
Proposals for regulatory measures to be taken by the public institutions		
- Introducing maximum limits for businesses' daily cash balances	- This limit should be adopted according to the business type; - This restrictive condition on business clients might not be helpful in reducing cash transactions.	1. Introducing maximum limits by business type for the daily cash balances.
- Introducing obligation for professionals, merchants and Public Administration Offices not to accept cash for payments that top a determined amount	- This should be implemented in a later stage; - There is a top limit on cash payments, maybe that has to be reduced.	2. Introducing obligation for Public Administration Offices not to accept cash for payments that top a determined amount, offering incentives in case of payments through bank accounts or by cards; Gradually and at a later stage, the same should be done for private professionals and merchants.
- Establishing a binding responsibility to execute credit transfers to citizens for salaries, but also for pensions and other types of public benefits by Public Administration Offices, using modern payment means (for example, pre-paid cards);	- This should be implemented in a later stage. Instead of this, all public institutions should facilitate (make possible) the opening of accounts in the banks in order for the employees to receive the salaries through a debit card.	3. Establishing a binding responsibility to execute credit transfers to citizens for salaries, but also for pensions and other types of public benefits by Public Administration Offices, using non-cash payments.
- Recognition, by the Tax Office, of the tax deductibility for some expenses only if paid through bank;	- Agreed	4. Recognition, by the Tax Office, of the tax deductibility for some expenses only if paid through bank;
- Offering incentives in case of payments through bank accounts or by cards to Public institutions;	- Incentives might distort the competition among banks for serving public institutions;	Included above (point 2.)
- Making compulsory POS equipments in the tax	- Cannot make debit or credit card ownership mandatory for customers. POS terminals should	5. Making compulsory POS equipments in the tax collection/payment offices although not as

Issue / Provision	**PWG members comments and suggestions**	**PWG conclusions / final proposals**
collection/payment offices;	be in the Tax Offices but not as the only payment method.	the only payment method.
- Commissioning cash withdrawals from accounts with Bank of Albania.	- Limits should be set for cash withdrawals in order to apply commissions; - Can't see the relation between BoA accounts and reduced cash transaction	**To be removed:** - not directly relevant on cash transaction reduction; - banks do not have alternatives to cash withdrawals from BoA.
- Banks in Albania are investing on IT for improving their services, offering low cost innovative products and using advanced technologies. On the other side, the public entities (state and private owned), strongly related to such services with banks, are not following the same trend in terms of payment infrastructure developments such as hardware, software and communication. A bilateral project could be undertaken, with the support of banks to executive authorities (ministries, municipalities, etc.), with the aim of developing the IT services and payment infrastructure of the public administration.		**General remark:** A bilateral project involving banks and the executive authorities (ministries, municipalities, etc.) could be undertaken with the aim of developing IT and technical services and payment infrastructure of public administration.
Recognition by utilities companies of the electronic receipts, produced by ATM-s or POS terminals for payments performed through these terminals. Ministry of Finance to get involved in such liberalization of the payment		**Not relevant:** There exists a regulation, in force from February 2008, on recognition of electronic invoices. It is up to banks to follow the application procedures for the recognition of their

Issue / Provision	PWG members comments and suggestions	PWG conclusions / final proposals
procedures. A project should start for unification of electronic payment ID-s.		electronic invoices**.**
Acceptance of Direct debit to be introduced as an obligation for utility companies.		**Not relevant:** It is a matter of collaboration between banks and utility companies in order to introduce direct debit as a payment method, not a matter of regulatory obligation, as now most utilities companies are privatized.
- Albanian Postal Office to offer direct debit for pensioners that have chosen to use their service for payment of pension also.		**Not possible:** Only commercial banks are licensed and have the right to perform and offer direct debit as a method of payments, and to keep clients' accounts.
Municipalities to introduce this service for individuals or SME-s for payment of yearly local taxes.		**Same as above**
Proposals for self regulatory measures to be taken by the private institutions		
- Undertaking of a 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.	- Considered very important / a priority	1. Undertaking a 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. Regarding Utilities and Telecom companies, the priority should be direct debits from the salary current accounts that are active in the banking system, considering that the facilities and the technology already exist, but there is a lack of commitment from these companies .The campaign should emphasize on costs and other disadvantages of using cash as well as on the

Issue / Provision	PWG members comments and suggestions	PWG conclusions / final proposals
		benefits of using POS in shops. Trainee groups can be created for training the merchants on Card and security features, POS features, Direct Debit and Credit Transfers, and Chargeback procedures. Card Fraud Committee could be called in for organizing such trainings; banks can contribute to financing, hosting, and preparing the training materials etc.
i) provide disincentives for cash transactions through:	- Disincentive measures are not appropriate, rather simulating measures are a better suggestion.	**To be removed** Based on the comments of PWG members and ABI representatives for each of the 3 proposals below
- change in the commissioning of cash withdrawals from ATM corroborated with an increase in the daily limits for cash withdrawal from ATMs;	- Cash withdrawals are free in most banks, however increasing the cash withdrawals from ATMs does not decrease the total cash withdrawals	**To be removed**
- increase/introduce commissions for shops' cash transactions;	- A large number of people do not have bank accounts and cards. Shops will lose trade. In addition there will always be cash transactions for small value items.	**To be removed**
- application of differentiated commissioning policy for different types of customers (individuals, micro businesses and larger enterprises);	- Most of banks already apply differentiated commissioning policies for different types of customers based on their characteristics	**To be removed**
ii) stimulate the use of non-cash payments through:		
- additional incentives to shops for using POS such as better interest rates	- Agreed	2. Additional incentives to shops for using POS such as better interest rates for overnight

Issue / Provision	PWG members comments and suggestions	PWG conclusions / final proposals
for overnight deposits, better interest rates for loans, etc;		deposits, better interest rates for loans, etc;
- targeting primarily merchants that sell high value goods for developing POS network;	- Replace "merchants that sell high value goods" with "merchants with high turnover"	**To be removed:** Target customers are a matter of each banks own strategy; if all the banks would target a certain segment of the market not all segments would develop as they should.
- not charging customers for payments through POS;	- Agreed	3. Not charging customers for payments through POS;
- increasing the geographical cover of the country with POS and ATM devices	- Agreed	4. Improve the network coverage of POS & ATMs. (geographical coverage is driven by the market)
For all direct debit products, banks in Albania should enter into an agreement for not competing each other on pricing. A common pricing policy is to be established. Banks should be represented as a unique body (through ABA or BoA) while dealing with the government entities/bodies.	A common pricing policy might not be accepted by all the banks; however, that is not the main question for the moment. The highest priority is the commitment of utilities companies and a standardized infrastructure for the development of such payment instruments.	**General remark:** Banks, Utility Companies and Bank of Albania should undertake a common project on the standardization and unification of the procedures related to direct debit and credit transfer transactions.
- Establishment of a common ATM and POS network for the entire banking system with unified tariffs and limits.	- For POS. Instead of each bank having to make individual agreement with merchants for POS (a shop may have 3 -4 POS-es from 3-4 banks), to have an unified network. Thus a merchant could have only one POS in which all cards are treated under the same conditions. Benefits: the banking system can expand the POS network with the lower costs (instead of 4-5 POS for 1 shop to have 4-5 shops with 1 POS	**This proposal would be more appropriate for a further stage of development in cashless payments:** Establishment of a domestic ATM and POS network for the entire banking system in collaboration with a local provider of ATM and POS devices, with the agreement of all banks or at least larger banks.

Issue / Provision	PWG members comments and suggestions	PWG conclusions / final proposals
	for the same total cost); consumers will have a better access to the overall system and will not be constrained to use only one bank's system. - The same rationale for ATM: clients to withdraw money from every ATM without commission or the whole system to apply a unified commission policy.	
Banks to enter in an agreement *for increasing card usage, improvement of the quality of card-related financial services and improvement of card use security in Albania.* The aim of the agreement would be the cooperation but which doesn't restrict the market competition. Main points of the agreement to cover: 1. Unification of the merchant acceptance procedure. (Balance sheet, site inspection, previous merchant agreement, legal documents based on internal regulation for opening an account)		**Not accepted** There is a BoA regulation defining the necessary documentation banks should require from merchants, therefore there is no need for further action.
2. For a certain time, banks should agree not to compete on pricing while they are dealing with merchants clients of other banks. At least they should converge to the same level as by reducing the commission more and more, the service might become inefficient.	- Might be accepted by some of the largest banks, but not all banks.	**Not accepted**

Issue / Provision	PWG members comments and suggestions	PWG conclusions / final proposals
3. Placing fraud prevention measures (written warning, suspension, and Merchant contract termination)	- This is not the right moment and contexts for such measures.	**Not relevant** Not directly relevant on cash transaction reduction
4. Merchant training commitment/ obligation[1]	- Considered very important / a priority	Already included in point 1.
- decreasing in the commissions for credit transfers (payment orders) based on their increasing standardized and automated processing and the settlement (STP);	- Agreed	5. Decreasing in the commissions for credit transfers (payment orders) based on a standardized and automated processing and settlement;
- increasing transparency with the clients regarding the use of card payments (for example, clients should be provided regularly with monthly statements for their bank accounts and for the use of credit cards);	- Monthly statements are provided on request at the branches. A poor postal system and the inability to securely deliver confidential information prevents monthly statements being sent to customers; - People get that statement	6. Increasing transparency with the clients regarding the use of card payments;
- developing new non-cash payment methods (electronic) such as mobile - payments (M-payments), given the wide spread and territorial penetration of mobile communication;	- Add: Increased ATM functionality, telephone banking and internet banking are all priorities	7. Developing new non-cash payment methods (electronic) such as mobile-payments (M-payments), given the wide spread and territorial penetration of mobile communication;
- promoting e-money to individual costumers, supporting non cash payments of even small values, and also the preservation of their anonymity.	- Agreed	8. Promoting internet banking to individual costumers, supporting non-cash payments of even small values, and also the preservation of their anonymity.

[1] In addition to merchant training by individual bank, banking industry training should be provided to merchants by creating the trainee groups with participants from different banks. The training should be organized by merchant category on Card features, POS features, Card security features, Chargeback procedures. Card Fraud Committee could be used for organizing such trainings; banks can contribute to financing, hosting, preparing the training materials etc.

Annex 4. Main Findings of the Survey with Banks

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 system[3]. 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.**

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**

[3] The respondent banks cover different types of operational and ownership structures.

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.**

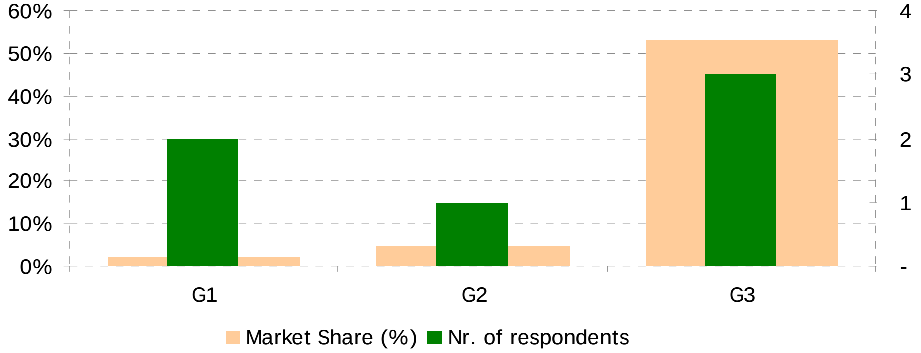
2. Detailed presentation of the survey findings

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.

- 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.

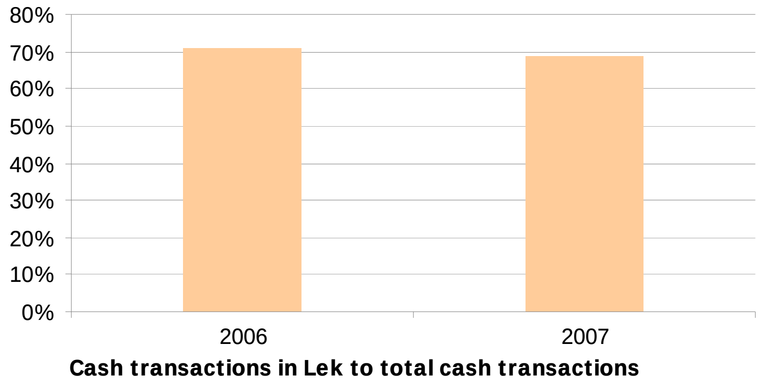
-Banks' cash transactions are mainly composed by deposits and withdrawals at their accounts with Bank of Albania. Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered.

- 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.

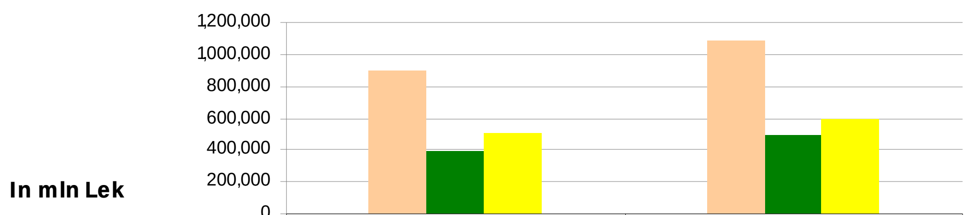
Graph 2. Clients' cash transactions in Lek



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)

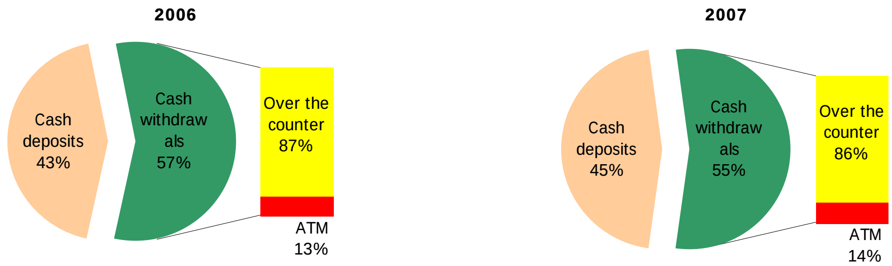


	2006	2007
Total clients' cash transactions in Lek	895,587	1,085,673
Cash deposits	389,385	493,850
Cash withdrawals:	506,202	591,823

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 2007. 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



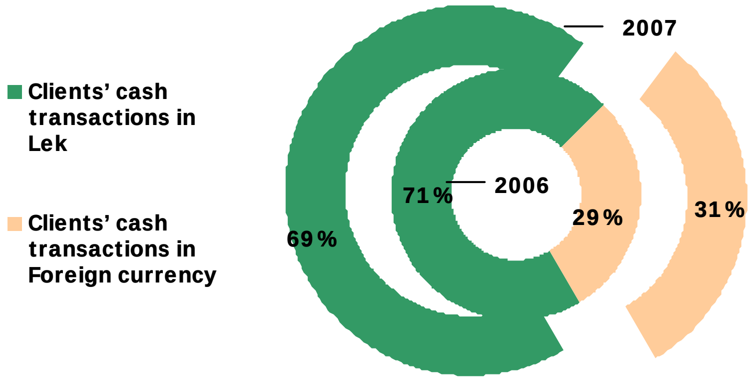
Although the percentages of withdrawals from ATM are higher in 2007, the increase is only by 1 point of percentage, against a 17 per cent increase of total cash withdrawals.

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

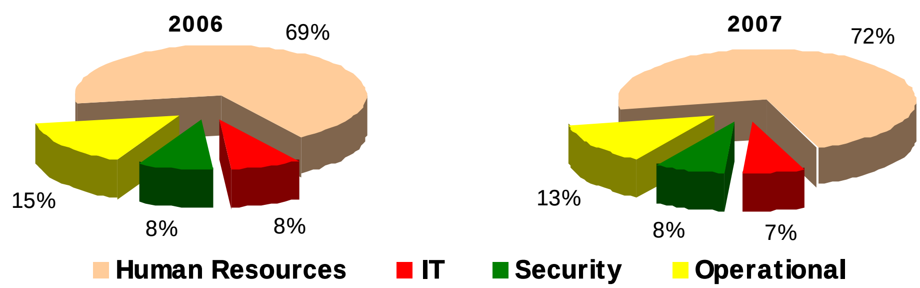
(In mln Lek)	**2006**	**2007**	**Nominal change**	**Real change**
Clients' cash transactions in lek	895,587	1,085,673	21%	17%
Clients' cash transactions in Foreign currency	370,451	488,907	32%	30%
Total clients' cash transactions	1,266,038	1,574,580	24%	21%

<u>2.2.2.a.2. Costs of clients' cash transactions in Lek</u>

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.

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

	2006	**2007**
Cashiers	577	772
Total Banks' employees[4]	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[5]	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**		

[4] Bank of Albania's statistics
[5] FTE – Full Time Equivalent (8 hours/day)

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

	2006		**2007**	
In thousands	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

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
Average annual withdrawal per ATM (in mln Lek)	213.7	185.4

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.

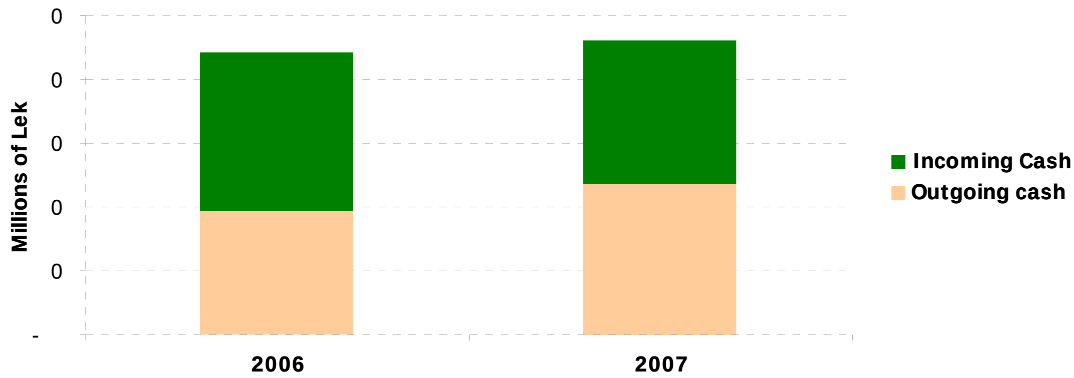
However, it is reported that there are no commissions paid by customers on cash withdrawals over the counter, which gives them an incentive to perform cash transactions rather than cashless ones. Banks might consider changing the commission policy with the perspective to increase withdrawals from ATMs 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[6]	95,950	118,111
To other banks	968	702
Incoming Cash	124,692	111,079
From cash withdrawals from the account opened with BoA[7]	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.

[6] Bank of Albania statistics
[7] Bank of Albania statistics

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[8]	
	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
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 2007[9].

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.

[8] There is no information from the respondent banks on the number of Treasury Units Managers.
[9] Bank of Albania statistics

- 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).

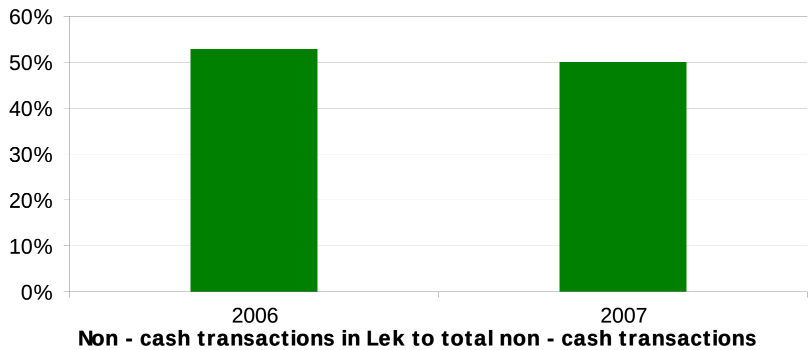
- Some banks apply commissions on POS use to shops and the cardholder which might be a deterrent to cashless methods of payments.

- 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



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.

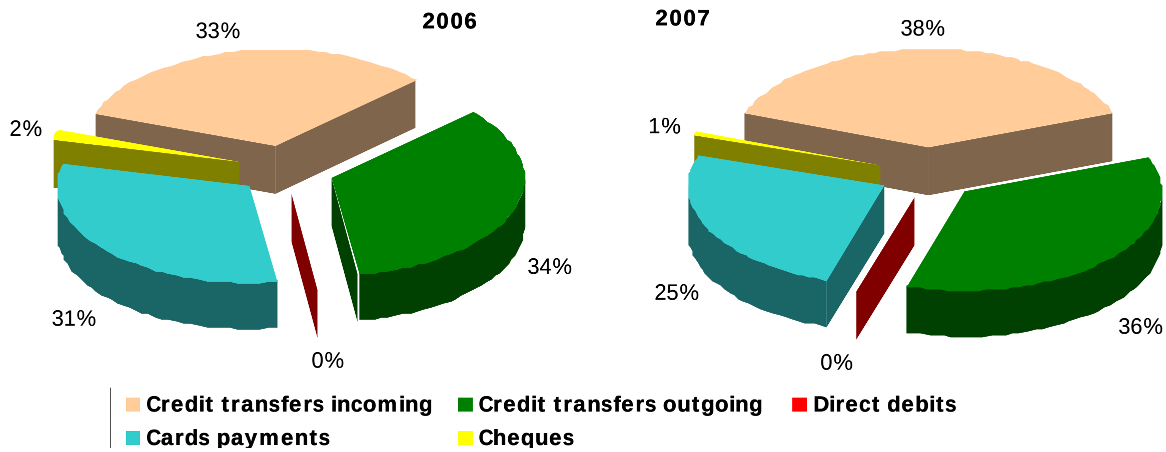
Table 12. Number, value and average amount of clients' non-cash transactions

	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).

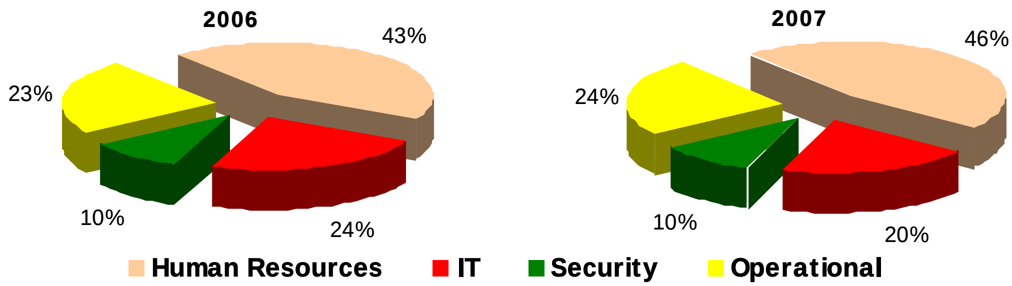
Credit transfers are the most used non cash payments for higher value transactions (used more by businesses).

2.2.3.c. Cost structure for non - cash transactions

The structure of costs related to non-cash transactions differs form 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 form 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 2953[10], 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 Tirana[11].

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 system[12] 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

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

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.

- 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

Main reasons for cash preference remain the same for businesses as for individuals, emphasizing their tendency o 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 (Lek 59,182 mln);
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% (Lek 21.682 mln.) 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	
+	*Total Customer Loans*	26,632	+	*Total Deposits*	59,182
	Problem Loans			Money market funding	
	Other non-performing Loans			Other Negotiable Instruments	
	Total Problem Loans			*Total Money Market Funding*	
	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			*Total Other Funding*	
	Total Securities				
	Non-earning Assets			Loan Loss and Other Reserves	
-	Cash and Due from Banks			Other Non Equity Reserves	
	Intangible Assets			*Total Loan Loss & Other Reserves*	
	Other Non-earning Assets				
	Total Non-earning Assets			Other liabilities	
	Fixed Assets			**Total Liabilities**	**59,182**
	Total Fixed Assets				
				Equity Reserves	
	Total Assets	**59,182**		Retained Earnings	

				Other Equity Reserves	
				Minority Interests	
				Total Equity Reserves	

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
	Net Interest revenue		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.	
	Net Commission Revenue		*0*
	Net Trading Income		
	Other Operating Income		
	Total Operating Income		
-	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		
-	*Total Operating Expense*		-136.60
	Non-operating Income		
	Pre-Tax Profit		**3,843.3**
	Taxes		384.3
	Post-Tax Profit		**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.

Annex 5. Main Findings of the Survey with Shops

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.

2. Detailed presentation of the survey findings

2.1. Characteristics of the surveyed sample

Conclusion:

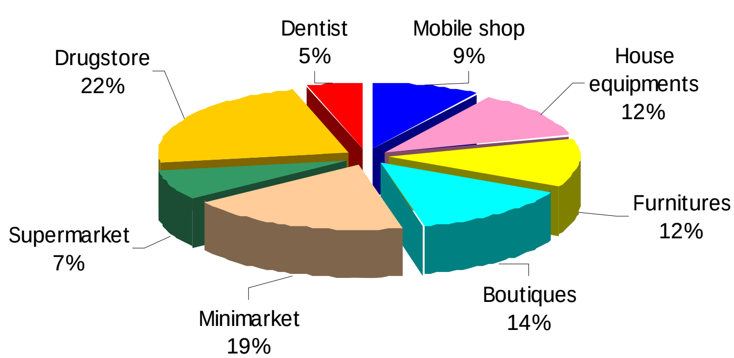
The sample of shops surveyed is small but representative from the point of view of nature of activity and size. At least eight types of trading activities were included in the survey, grouped in three main categories according to the number of their employees. According to Bank of Albania's statistics[13], 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 %)	
<u>Type of activity</u>	
Specialized shops	**47%**
Specialized shops, health care	**28%**
General shops	**26 %**
<u>Number of employees</u>	
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.

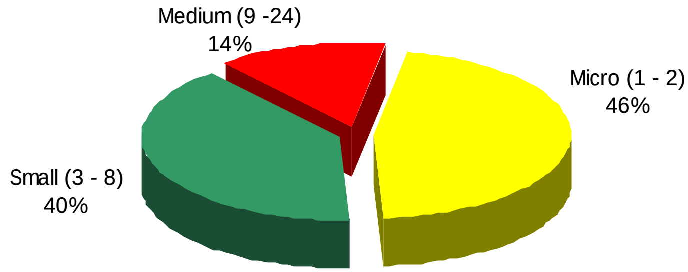
Graph 1. Shops by activity.



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.

[13] Annual Report, 2007, Bank of Albania

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

	Yes		No	
Costs	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.

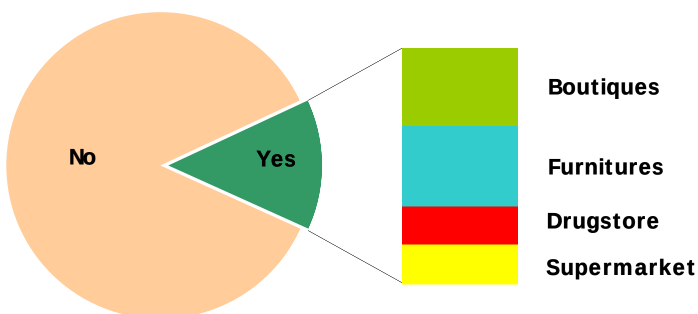
Table 2. Costs and Benefits for Consumers

	Yes		No	
Costs	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
	2006	2007	32	3	2
Frequency of use	12.0%	18.8%			
Cash payments	88.3%				
Card payments	11.7%				
Commission	1.5%	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)

Annex 6. Note on the European Experience on the Cash and Non-cash Transactions

Summary of main findings on trends in using retail payment means in selected EU countries

- The pace of increase in the currency in circulation in Euro Area and in selected European countries is demonstrating a downward slope.

- Non cash payments are increasing fast in all selected countries, these developments are more pronounced in newly developed countries i.e Greece, Bulgaria and Romania.

- In general, credit transfers are the most used mean of payments for large value payments and cards for small value payments.

- The increased use of non cash payments is associated with infrastructure developments, in terms of payments cards typology and quality and in terms of operating machines - ATMs and POS. -

- Countries in the Balkan region are working to integrate with more developed European countries even in the field of payments. These countries are in the early stage of development of the payments system.

- Due to the common background, there are similarities in the development pattern in Balkan countries, but the pace of development is significantly different.

- The level of the currency in circulation in these countries is higher compared to developed European countries and the Euro area. By the end of 2007, the level of currency in circulation in Albania was 63%, considerably higher when compared to Serbia (31%) and Croatia (28%).

- In selected Balkan countries, in general, debit cards are the most used form of cards payments, but various national strategies have induced the usage of credit cards.

- Developments in non cash payments are followed by developments in the infrastructure, ATMs, POS, but the coverage ratio is not uniform for all the countries.

Summary of main findings on pricing of the cashless retail payments in selected EU countries

- In a world wide base, in 2008 compared to 2007, users paid in average €7 less for the banking services.

- World wide banks are reducing the prices of their products. In average the prices of the products were reduced yearly by 0.1 % for the period 2006-2008.

- Banks are building policies to attract new consumers and increase loyalty by decreasing the prices of the products. These strategies are mainly focused on reducing the prices of the products that the consumers have in the first contact with banks, current accounts, debit/credit cards, and on channeling the consumers' demand to low cost innovative products that affect the behavior of the consumers: on-line banking, deposits and withdrawals at ATMs, direct debits.

- In Euro area the structure of core banking product fees is not homogenous. In aggregated terms, most fees are generated by payments and account management.

- Many banks reduced their cost of operations by influencing clients' behavior, using the prices of products to move their customers towards less expensive channels or payment means**.**

Cash utilization fees have increased steadily over the past three years.

The share of fees from payments is decreasing from 2006 in favor of share of fees from cash utilization.

The full version of the Note on the European Experience on the Cash and Non-cash Transactions can be accessed on the SPI Albania website:

www.spi-albania.eu/admin/js/filemanager/files/web/2008program/projects/cashtransiction/thirdmeeting/02%20SPI_Albania_Note_on_the_International_Experience_draft_nov_13.pdf

Annex 7. Scoping of Problem

7.1 Problem identification

1.1.1. Background information

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

- 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. The Directorate is 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.

- In 2003 Bank of Albania in collaboration with other institutions initiate a campaign for the reduction of the use of cash in the economy. In addition to this campaign, in order to facilitate the interbank payments BoA has implemented:

(i) The Albanian Interbank Payment System (AIPS) that settles systemically important payments (such as payments between settlement participants, bank-to-bank payments, including payments to and from the BoA; payments on government securities transactions, using the DVP mechanism; net transfers of funds requiring designated time settlement; and large-value customer 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 (both credit transfers and direct debits) 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. Did banks decrease their charges for payments according to the cost reduction?

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.

7.2. Market/regulatory failure analysis (nature and evidence)

Cash is considered as an expensive and inefficient mean of payment. Cash is a payment instrument that is difficult to trace and this property makes it very attractive in the shadow economy.

The currency in circulation makes up to 20% of the M3 aggregate, almost 3 times higher than the weight that this component has in EU member states (aggregate level). The spread usage of cash in the domestic economy in addition to the cultural factors and stage of economic development is linked to the informal economy and maybe to some extend to the limited financial knowledge and trust in the banking system.

In this context, the high level of cash transactions in the banking system could also be considered as a market failure due to the weak market power to identify the proper incentives for non-cash transactions and disincentives for cash transactions and thus to decrease their operational costs.

Although banks raised the issue of the level of cash transactions and of the involved processing costs, except for establishing an electronic payment system, they did not undertake additional actions to decrease the cash volume: cash withdrawals are usually free of charge, ATM and POS network is not too large, non-cash transactions are (highly) charged. Utilities companies did not take any measures to discourage non-cash payments of their bills and the card companies did not take actions to promote cards' utilization.

Authorities undertook several regulatory actions in order to reduce cash transactions, but an assessment on the effectiveness of the measures taken until now might be too early. Banks' complains on the high level of cash transactions show that, for the time being, the regulatory interventions still have not generated the desired effects. It seems that companies succeeded to identify ways of "tricking" the regulatory requirements. Therefore, this situation indicates a regulatory failure as the legal actions cannot be considered as very effective.

7.3. Policy Goal(s) threatened by the failure

The market failure described above threatens the innovation promoting and the financial stability policy objectives.

7.4. "Do nothing" option

7.4.1 Possible medium-term (max 2 years) self – corrective market actions

Various governmental institutions in the country have undertaken initiatives to curb the high level of cash in the economy. The scope of the interventions by these institutions has been related to their respective mandate or legislative obligations i.e. Albanian government's main objective has been to reduce informal economy, one of Bank of Albania's objectives is to promote the normal function of the payment system.

Due to the actions undertaken by the authorities the level of involvement of the banking system in the payment system of the economy has increased and the level of currency outside the banking system is gradually falling. Despite these developments still the level of cash and cash transactions remains very high, showing that, on one hand, the regulations are not very effective and maybe they should be completed with other regulatory actions, and on another hand that market solutions are needed.

In this landscape the banking community, through is own resources, can compliment the actions undertaken until now and identify alternative routes that will lead to lower cash transactions and higher efficiency. Banks and utility companies could take actions in order to stimulate use of non-cash payments and to raise customers' awareness on the advantages of using other means of payments.

7.4.2. Impact of the "Do Nothing" option to the various stakeholders

-

1.5. Alternative policy option(s)

7.5.1. Broad description of the regulatory or self-regulatory action(s) needed to remedy the market or regulatory failure and hence achieve the policy goal(s)

- To take additional regulatory;

- To promote non-cash payments at industry level.

7.5.2. Possible operational regulatory or self-regulatory actions to achieve the policy goal

- to perform a study on the international experience in fighting against cash through regulatory measures;
- to perform a national survey for collecting information on the level and rationale of usage of cash transactions by the consumers and by the business entities;
- to perform a study on the cost generated to banks, consumers and business entities by the use of cash, utilizing the information collected though the surveys;
- to enforce a protocol for an uniform application of the self-regulatory measures;
- to run an awareness raising campaign for the public on the benefits of non-cash payments.

7.5.3. General description of Alternative Options

The approach that can yield faster positive results in the "war" to cash is to promote the application of self regulatory actions by all banking market participants (option 1). On the other side, there might be additional regulatory measures to be undertaken that in other countries proved more effective (option 2). The most effective approach to reduce the level of cash transaction is to combine the self regulatory measures of the banking industry with regulatory measures that not only tack with the effects - high level of cash transactions, but also the root of the problem - informal economy,

financial literacy (option 3).
7.5.3.1 Detailed description of Option 1 The volumes of cash transactions within the banking system might be further reduced by the establishment of a common policy among banks that will aim: a. the reduction of cash transaction by creating disincentives for cash use; combined with b. the increase of non-cash transactions by creating incentives for the costumers to use alternatives to cash.
7.5.3.2 Detailed description of Option 2 State authorities could identify, based on the international experience, additional regulatory measures such as to cap cash withdrawals, cash payments to state institutions, cash payments in the stores or to provide incentives for non-cash transactions.
7.5.3.3. Detailed description of Option 3 The combination between the regulatory and self regulatory measures to be implemented in and by the banking market, by the utilities and other state owned companies (such as customs) could ensure very good results on short term.

Summary Problem Scoping			
Auction procedures under foreclosure for immovable collateral			
Market failure			
Asymmetric information	Market power	Positive externalities	Negative externalities
	X		
(Existing) Regulatory failure			
Regulation wrongly prescribed for the market	Regulations succeeded in addressing the failure; a different market failure (e.g. side effect)	Regulation made it worse	Regulation so far has failed to work; maybe in due course
	X		

Annex 8. SPI Albania Methodology

The EU Better Regulation Approach	
Steps	**Purpose**
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of "do nothing option"	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the "market solution").
Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
9. Data Questionnaire	To collect market structure data to perform a quantitative cost and benefit analysis
Consultations	
10. Policy Document	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report to decision-makers, based on Cost Benefit Analysis and market feedback