



## SPI Project on Reducing Cash Transactions

### Project Objectives

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

### Project Management Team

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

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

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

## Minutes

### Fourth meeting

March 4<sup>th</sup>, 2009—AAB premises

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

### SPI Albania Secretariat

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## **AGENDA**

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

### **I. Project Progress Briefing**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **V. Conclusions and distribution of tasks**

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

## **VI. Closing Remarks**

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