



## 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

### Third meeting

November 27<sup>th</sup>, 2008—Online

**Attendees:** Robert Wright, RB (PM)  
Elivar Golemi, BoA (DPM)  
Jonida Vaso, Union Bank (member)  
Griselda Cela, Credins (member)  
Liliana Nanaj, Intesa San Paolo (member)  
Elird Qendro, BIS (member)  
Mirela Pekmezi, BIS (member)  
Amalia Zerri, AMC (member)  
Kamelia Paskali, AMC (member)  
Anila Celiku, Vodafone (member)  
Anuela Ristani, SPI Albania Director of Operations  
Elona Bollano, SPI Albania Director of Analytics and Policy

## **AGENDA**

- I. Project Progress Briefing
- II. Revised Note on International Experience ( Discussion and Approval)
- III. Revised Banks' Cost-Benefit Questionnaire on Various Means of Payment (Discussion and Approval)
- IV. Conclusions and distribution of tasks
- V. Closing Remarks

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

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

- PWG proposal for a National Scale Survey on the causes and costs of cash usage in Albania, was not approved by the AAB Executive Committee for funding. As for enlarging the composition of our PWG, the utilities companies didn't react to our invitation.  
In order to cover for the absence of the data the PMT and SPI Secretariat concluded on the following next steps:
  1. To access Raiffeisen Bank's (or any other bank participating in this project) research database and seek for information related to cash usage on:
    - customer behavior
    - micro businesses (as potentially the largest segment of cash transactions in the market)and to explore the possibility to use Raiffeisen and any other participating banks' call center for small scale surveys.
  2. To include in the cost-benefit questionnaire for banks an open question to have qualitative assessment of banks on the usage of cash.
  3. Establishing contacts with utilities' companies through the MoE in order to measure their costs of managing cash and potential benefits from the introduction of direct debit or other payment instruments through banks.
- SPI Secretariat met with the cash managers from Raiffeisen and/or Union Bank in order to obtain their opinion and suggestions on the Cost-Benefit Questionnaire Draft. SPI Secretariat met also with the Raiffeisen/Union Bank representatives who are handling direct debit payments for Vodafone customers in order to draft a case study as part of the deliverables of this project.
- SPI Secretariat prepared a questionnaire for Bank of Albania, on cash and non-cash payments and on other general information regarding interest rates.

## **II. Revised Note on the European Experience with cash and non cash transactions**

In the second PWG meeting, the first draft of the Note on the European Experience was presented. The PWG members suggested that in addition to the experience of the developed countries in Europe, the experience of the countries in the region would add more value to the Note. In addition to that, PWG members suggested also more information on SEPA, as an initiative undertaken by the private banking community in Eurozone.

Based on the PWG suggestions, SPI Secretariat:

**a.** performed a research in the payments system in the neighboring countries and, based on the available information, prepared a summary of the main developments on cash and non cash transactions in Albania, Croatia and Serbia.

Albania, Croatia and Serbia 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. The main findings of the research on the development in cash and non-cash payments in Albania, Croatia and Serbia are:

- 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 the selected countries, in general, debit cards are the most used form of cards payments, but various national strategies have induced the usage of credit cards;
- evolution of non cash payments is related to the infrastructure and network – ATMs and POS. During the last 3 years the network has expanded significantly, but still the domestic coverage ratio is not uniform, with a more extensive coverage in large cities compared to small or rural areas.

**b.** Prepared a synthetic informative box on SEPA. SEPA is an initiative that aims at creating a domestic payments market across the Eurozone by 2010. Some of the benefits of this initiative are increased competition, price transparency and homogeneity etc. The basket of products that will be governed by SEPA includes internal and external wire transfers, direct debits, credit and debit cards, and their underlying current accounts. In 2008, consumers in the SEPA area paid an average of €48 for electronic means of payment, 3€ more than a year earlier. Banks are lowering fees for electronic payments products in an effort to move customers towards these alternatives instead of traditional payments products.

**c.** Prepared a summary of the prices development in the Europe for non cash transactions, based on the information of the World Retail Banking Report for the period 2006 - 2008. The main findings on pricing of non-cash payments for selected European countries are:

- in a world wide base, in 2008 compared to 2007, users paid in average €7 less for the banking services;
- 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;
- 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 the share of fees from cash utilization.

### **III. Revised Cost and Benefit Questionnaire on Various Means of Payments**

SPI Secretariat prepared a questionnaire with aim to assess and quantify the costs associated to various cash transactions, the impact of reducing cash transactions on banks' profit and loss account and the costs and commissioning level of non-cash payments denominated in Lek. As AAB didn't approve to sponsor the nation-wide research, the questionnaire includes also questions on the customers' behavior.

The questionnaire is composed by two main sections:

- I. Cost and Benefit Qualitative Analysis on the impact of reducing cash transactions
- II. Questionnaire on Cash and Non-cash payments
  - A. Management of Cash
  - B. Management of non-cash payments
  - C. Network

#### **1. PWG expected contribution on the Cost and Benefit Qualitative Analysis**

The qualitative cost-benefit analysis is intending to identify the effects of reducing cash transactions on the banks' profit and loss account, on consumers and authorities and the size of the respective impacts.

The qualitative analysis is a preliminary step for the quantitative analysis (section II).

The members of the PWG are expected to make validation of the:

- Identified costs on Banks and Private Enterprises other than banks, Consumers and Authorities;
  - Identified impact on costs (increase or decrease);
  - Identified benefits on Banks and Private Enterprises other than banks, Consumers and Authorities;
  - Identified impact on benefits (increase or decrease);
- by ticking in the respective boxes in the questionnaire.

The PWG members suggested analyzing separately banking sector from the retail sector & companies since the effects are not the same.

#### **2. PWG expected contribution on the Questionnaire on Cash and Non-cash payments**

The purpose of this survey is to:

- Assess and quantify the costs associated to various cash transactions for the period 2006 – 2007.
- The impact of reducing cash transactions on banks' profit and loss account.
- The costs and commissioning level of non-cash payments denominated in **Lek**.
- Acquire a better understanding, from the commercial banks point of view, on customers' behavior related to cash transactions.

In the basket of cash transactions there are included:

- clients' cash deposits, cash withdrawals and cash payments for utilities
- banks' own cash transactions supporting clients' transactions

In the basket of non-cash transactions there are included:

- Credit transfers
- Payments cards,
- Non cash payments for utilities,
- Direct debit
- Cheques.

As the information requested by the questionnaire is to be provided by several departments in the bank (Cash management, Payment management, Treasury, Security, Human Resources etc), SPI Secretariat has grouped the information according to the respondent departments, in order to have a more user friendly questionnaire.

The members of the PWG are expected to make a preliminary validation of the questionnaire related to the:

- comprehensiveness of the processes and issues in the cash transactions section;
- comprehensiveness of the processes and issues in the non-cash transactions section;
- banks' capabilities to provided answers on the questionnaire;
- the correctness and the opportunity of the grouping according to the respondent department.

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

PWG agreed on the following actions and tasks:

- SPI Secretariat will revise all documents presented according to the PWG recommendations;
- After getting PWG agreement on the cost and benefit questionnaire, SPI Secretariat will run the consultations with banks through AAB; Upon PM suggestion, SPI Secretariat will deliver a modified version of the cost-benefit questionnaire to the utility companies.
- PWG members will assume responsibility to collect answers to the questionnaire for their banks;
- DPM will collect and send the data required in BoA questionnaire;
- SPI Secretariat will collect and aggregate individual answers and draft a document on the findings.

## **V. Closing Remarks**

After performing the survey, PWG will gather in a meeting in order to discuss the findings and the proposals to be made to the banking community. The meeting is preliminarily scheduled to take place in January 2009.