



## SPI Albania Monthly Activity Report March 2009

### I. SPI Albania Activity Highlights

The most important March achievements are:

- **Approval of the 2009 SPI Albania Activity Program.** During the third meeting the SPI Committee approved the 2009 SPI Albania Activity Program which is intended to have a high impact mainly on 2 key areas: completeness of the market and core prudential issues. The program includes 10 projects out of which 3 are proposed by public stakeholders, 4 by private stakeholders and 3 by both private and public stakeholders.
- **Enhancing Banks' Liquidity Risk Management: First PWG meeting.** Gathering more than 20 representatives from Bank of Albania and 12 commercial banks, the Project Working Group met for the first time on March 13<sup>th</sup>. PWG members became acquainted with SPI Albania project management and methodology, based on EU Better Regulation norms, as well as with the project objective.
- **Reducing Cash Transactions. Cost-Benefit Analysis Findings and Consultation Paper released.** After the elaboration of the data collected from 6 banks and 43 shops, SPI Secretariat drafted the two respective reports. Based on the findings of the survey and on the research on international experience, PWG formulated proposals for reducing cash transactions. These proposals and the background information were sent to all banks for consultations.
- **Consumer Financial Education:** The analytical process for the Consumer Financial Education project is concluded with the approval of the Qualitative Cost-Benefit Analysis and the approval of the Note on Albanian Experience during the second PWG meeting. In conclusion the PWG will discuss and approve the recommended National Strategy for Consumer Financial Education as well as the Medium-Term Action plan involving different participating institutions in improving the Consumer Financial Literacy.
- **Signing of Memorandum of Understanding with Italian Banking Association (ABI).** For one year, starting in April 2009, ABI will support SPI Albania activities with its technical knowledge of more than 400 professional staff and experience in completing more than 2,400 regulatory changes in the last five years. SPI Albania has also a Memorandum of Understanding with European University Tirana.
- **Donors' Coordination Conference.** In order to raise donor community awareness about SPI Albania as a coordination center for future financial modernization initiatives, SPI Committee decided to seek Council of Ministers invitation to make a presentation in the Conference on Donor Co-ordination in the Western Balkans and Turkey, organized for the first time in Albania by the European Commission and Albanian Council of Ministers.

### II. Project Activities

#### 1. Reducing Cash Transactions

The Project Working Group members gathered for the fourth meeting which led to the following results:

- The PWG approved the report on the summary findings for the banks. The quantitative assessment performed based on the survey findings showed that banks are experiencing current losses from clients' cash withdrawals of about Lek 451.4 million for 2007. The evaluation resulted also in the potential benefits from cash reduction in the first year of application of around Lek 3,459 million at the banking system level, the present value of additional benefits in the 5 upcoming years being of approximately Lek 13.5 billion. The report was consolidated with 2008 data received from Bank of Albania's Payments Department
- The PWG members approved the report on the main findings of the survey on shops that provides a good source of qualitative data on the merchants and their position with regards to the usage of electronic or other non-cash payments as well as some very good insights on consumer behavior in Albania. PWG members noted that due to the very small sample, the collected data cannot be statistically relevant for the market but the qualitative insights will be very helpful to the banks' retail departments.
- Based on the comments and suggestions of the PWG members, SPI Secretariat worked on the draft Consultation paper that was sent to all the banks for feedback. The Consultation paper contains all the analytical findings for this project as well as the proposed PWG recommendations for the reduction of cash transactions. Banks'

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commitment to undertake individual and collective measures for reducing cash transactions are reflected in the draft protocol included in the consultation paper.

## 2. Consumer Financial Education

The Project Working Group composition was enriched through the participation of the Ministry of Finance, Ministry of Education and the Competition Authority in addition to the original PWG composition. While not all of the confirmed institutions were present in the [second PWG meeting](#), the project's progress was marked by the following:

- The PWG approved the [Note on Albanian Experience](#) that reflected the findings of the analysis of the aggregated information on different Project Working Group Member Institutions' experience and past activities in Consumer Financial Education. Along with the Note on International Experience, this document will provide the basis for the Project Working Group proposed actions.
- PWG approved [cost-benefit qualitative analysis](#) in order to highlight the effects that improved financial education will have on firms, authorities and consumers.

## 3. Improving Capital Adequacy Regulation

Following the PWG decision to analyze other bank's experiences in implementing Basel II, SPI Secretariat and PMT met with Raiffeisen Bank representatives to discuss their experience in Basel II implementation. SPI Secretariat prepared detailed notes from the meeting to deliver to all the PWG members and finalized also the questionnaire for assessing the impact of the adoption of the Basic Indicator Approach for operational risk and of the Standardized Approach for credit risk on banks' regulatory capital needs.

## 4. Improving Banks' Liquidity Risk Management

The [first PWG meeting](#) the following had on the agenda:

- Delivery of a [presentation](#) on SPI Albania framework, procedures and methodologies by the SPI Secretariat in order to facilitate PWG members' understanding on their specific roles and responsibilities.
- Validation by the PWG members of the [Terms of Reference](#) and approval of the [Note on International Experience](#) and of the [Scoping of the Problem Document](#).
- Presentation of the [IMF Draft Regulatory Proposals](#) provided to BoA Supervision Department as a recommendation from the IMF expert mission.
- Presentation of the findings of the research in the international experience in regulating liquidity requirements.

SPI Secretariat and BoA PWG members formulated a questionnaire on Albanian banks experience in managing the liquidity risk.

## III. Other SPI Activities

- SPI Secretariat released the [main findings of the PWG members' evaluation](#) for the [Auction Procedures Project](#). Based on the responses to the evaluation questionnaire from the participating PWG members, SPI Secretariat drafted the [summary of findings](#) for the SPI Secretariat's contribution evaluation for the project on Auction Procedures.
- The SPI Committee decided that its Permanent Observers from Ministry of Finance, Ministry of Economy, Trade and Energy and Financial Supervisory Authority become full SPI Committee Members. Based on the MoU between SPI Albania and ABI (Associazione Bancaria Italiana), Mr. Pierfrancesco Gaggi, SPI Albania Technical Partner, is the new SPI Committee Permanent Observer.

## IV. Highlights of Expected April Activities

- **Cash Transactions:** In their final PWG meeting the members will discuss and approve the final PWG recommendations on the reduction of cash in Albania as well as the draft Protocol to be signed by all the second-level banks after SPI Committee endorsement.
- **Consumer Financial Education-** The PWG will discuss and approve the recommended National Strategy for Consumer Financial Education as well as the Medium-Term Action Plan.
- **Capital Adequacy-** During their third meeting, the PWG will discuss on the changes brought by the new regulation on capital adequacy as intended by Bank of Albania.
- **Bank's Liquidity-** The findings of the survey on banks' experience in managing liquidity risk will be a relevant reference for the formulation of the regulatory proposals by Bank of Albania and for discussions in the PWG next meeting.
- **Public Procurement** – The project is expected to start after the endorsement of the ToRs by the Ministry of Finance and after the completion of the recruitment process for PWG members.