



BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
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Analysis on the use of Direct Debit

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Payment Systems Department
33 Garibaldi, Prishtina 10000
Tel: ++381 38 222 055
Fax: ++381 38 243 763

WEB www.bqk-kos.org

E-mail payment.systems@bqk-kos.org

Gjylfidane Kastrati-Kadrijaj, Director, Payment Systems
Department
Masar Baxhaku, Payment Systems Oversight Analyst
Qëndresa Krasniqi, Payment Systems Oversight Officer

PREFACE

Safe and effective payments system is necessary for proper functioning of the financial system. Central Bank of the Republic of Kosovo has continued its activity to promote a safe, sound and efficient payments system in order to maintain financial stability in the country and avoid potential risks that could threaten the payments system.

The CBK Payments System Department (PSD) on the course of achieving the objectives under the Strategy for Development of National Payment System, in 2009 has designed and operationalized new payments scheme, the Direct Debit. The Direct Debit Scheme is a convenient, safe and suitable method for regular and periodic payments to different service categories. It is a payment instrument that enables payments directly from the debtor's bank account, where the demand for withdrawal of funds is initiated by the creditor through his bank, based on the authorization given to the creditor, and only if debtor has been previously notified for the amount and the date of payment.

In this document are analyzed in developments of this payment scheme. There are reflected factors that influencing its use, as well as the challenges to be faced in the future this payment scheme. It is analyzed the number and the value of transactions executed through the Direct Debit scheme, presenting and analyzing statistical data, since 2009 until 2015.

PSD in the future, in cooperation with commercial banks and other companies will continue to promote payments throughout this scheme, as it is completely automated and very efficient way to for carrying out certain periodic payments. The Direct Debit, in developed countries, is a very important part of the payments system, while in our country it is used by a very small number of citizens, but encouraging is the fact that its use continues to grow.

Direct Debit

Direct Debit Scheme of the Central Bank of the Republic of Kosovo allows the creditor to collect funds from the account of debtor (payer), provided with a signed authorization from payer to the biller. Authorization is signed by the payers which authorize the creditor (biller) to make payment, and to order the bank of the debtor (payer) to perform this payment. Authorizations that must be filled by debtors (payers) are offered by creditors (billers).

The functioning of the Direct Debit payment scheme is regulated by the "Regulation on Direct Debit Scheme of the Electronic Interbank Clearing System". The purpose of the Regulation on Direct Debit Scheme of the Electronic Interbank Clearing System is to establish principles and basic requirements related to the operation of this scheme.

Direct Debit payments represent a particular type of payments destined for standardized and automated transaction for billing institutions, increasing thus the billing efficiency for both companies and their customers. The Direct Debit goal is to provide an automated payment system, reducing cash payments and increasing payments through bank accounts.

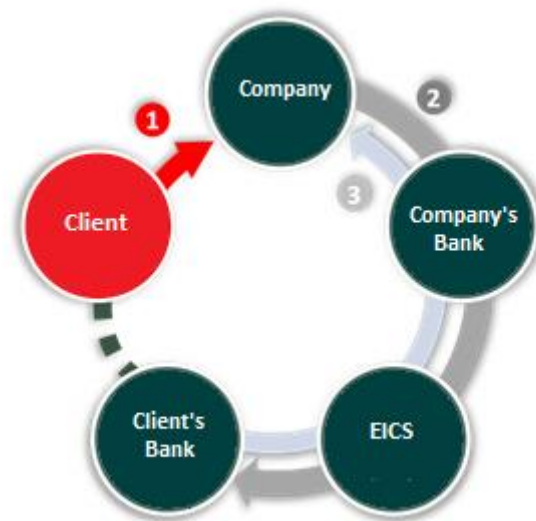
The Direct Debit scheme operation

Figure 1 shows the scheme of functioning of payment through direct debit. First, the client who wants to conduct periodic payments through the scheme must sign an authorization for the company to which payments should be made. The company which is authorized by the client to conduct the direct debit payment should register with its bank authorization. The company's bank must register the authorization to the client's bank through the Electronic Interbank Clearing System. Each month the following steps are repeated:

- Each period (e.g., month), the company will notify the customer in advance of the amount and the date of execution of the relevant payment;
- The company will send electronically the data for the direct debit to its own bank;

- Bank of company verifies and process data and sends them to the customer bank in the form of demand for Direct Debit through the Electronic Interbank Clearing System;
- The client's bank verifies the data and debits the customer's account with the appropriate amount, and sends to the company through the Electronic Interbank Clearing System;
- Company's bank credits the company's account for the amount received;

Figure 1. The functioning of the Direct Debit Scheme



The role of the Central Bank of the Republic of Kosovo

Central Bank of Kosovo (CBK) as operator of the Electronic Interbank Clearing System administers and supervises the Direct Debit Scheme. The CBK establishes operational and technical rules, the responsibilities and rights of participants in the Direct Debit Scheme. The CBK also registers and authorizes the participating companies and maintains the necessary database.

Participants in Direct Debit transactions

1. Initiator / Creditor – is the company to which the payment services through this scheme are done;

2. Client / Debtor – is the customer who make payments for services provided by the creditor;
3. Bank of initiators / creditors – is the bank where the creditor holds a bank account;
4. Bank of payer / debtor – is the bank where the debtor holds a bank account;
5. Central Bank of the Republic of Kosovo – as an owner and operator of EICS, controls operation of Direct Debit scheme. Also, CBK may participate in Direct Debit Scheme as other participating parties.

Benefits for Direct Debit clients

- Direct Debit can save money- Direct Debit is considered more convenient by businesses as well as by customers. For this reason, some companies offer discounts during payment through direct debit.
- Accuracy in the execution of payments- Direct Debit is one of the most secure and efficient ways to pay the bills.
- Direct Debit is a convenient and secure way to pay bills,
- Payments are done automatically, so the bills will not be forgotten, lost and there is no risk for late payments;
- Direct Debit provides convenience for customers so they do not deal with consequences of late payments; Direct Debit also enables those customers to know exactly when their account is debited.
- The customer does not pay any fee for using direct debit services;
- *Direct debit saves you time-* modern life is very intensive, so the time represents a very important factor. Direct Debit solves your problems for the payment of bills by avoiding waiting in line for payment of bills. The client will easier manage his bills and calculate how much he will pay each month.

Importance of Direct Debit for the creditor

Direct Debit helps to improve cash flow for creditor. This is especially useful if you regularly collect revenues from customers in the country, and would

like automation of payment processing and also easy reconciliation of payment after receiving them.

In which cases one payment is not appropriate for Direct Debit?

- For payments that require immediate clearing – Direct Debit payment is not a payment carried out immediately, but it requires a certain time.
- For large value payments and liquid assets – Direct Debit is not suitable for payments for example buying cars or in case of foreign exchange.

The development of the Direct Debit Scheme

Safe and efficient operation of the Electronic Interbank Clearing System (EICS) has resulted in increasing the number and value of transactions processed through this system. Meanwhile, the number and value of Direct Debit scheme payments are increased together with the number of companies that use this scheme.

Table 1. Number and value of interbank Direct Debit transactions

| Year | Number | Value |
|------|--------|--------------|
| 2009 | 201 | 3,202.41 |
| 2010 | 3,303 | 2,807,939.49 |
| 2011 | 7,321 | 6,252,067.54 |
| 2012 | 10,304 | 8,043,429.25 |
| 2013 | 13,115 | 6,763,903.32 |
| 2014 | 14,582 | 7,182,930.92 |
| 2015 | 15,565 | 7,152,037.05 |

Source: CBK (2016)

Table 1 shows the number and value of interbank transactions executed through the Direct Debit Scheme. From the data presented in the table, we can conclude for the continued growth of the number and value of the Direct Debit Scheme transactions.

Direct Debit scheme is operationalized in 2009, therefore this year there have been small number and value of these transactions. Over the time, the number of companies participating in the scheme is increased, as well as the number of customers who use Direct Debit Scheme.

So, in 2009 the number of transactions via direct debit was 201, while their value 3,202 Eur. In 2011, the number and the value of transactions doubled compared to a previous year as a result of the commitment of all participants in the scheme. In 2012 the number of transactions increased by about 40.7 percent, while their value is increased by about 28.7 percent.

In 2013, the number of DD transactions increased by 27.3 percent, while their value was decreased by 15.9 percent. In 2015, number of transactions through Direct Debit scheme increased for 6.7 percent, while their value decreased slightly by 0.4 percent.

Table 2. Number and value of intra-bank Direct Debit transactions

| Vitet | Numri | Vlera (euro) |
|-------|--------|--------------|
| 2009 | 3,769 | 139,236.25 |
| 2010 | 18,994 | 2,013,925.55 |
| 2011 | 24,203 | 1,200,015.61 |
| 2012 | 38,811 | 1,783,312.23 |
| 2013 | 34,156 | 1,845,449.37 |
| 2014 | 35,409 | 2,076,851.39 |
| 2015 | 27,298 | 1,726,504.04 |

Source: Commercial banks

Beside the interbank direct debit, commercial banks also have developed the direct debit within the bank where the debtor and creditor both are the same bank customer.

Table 2 presents data on the number and value of payments within the bank through Direct Debit.

Data presented in table 2 shows that in 2015 the number and value of payments through direct debit within banks was decreased by 22.9 percent, respectively 16.9 percent.

Conclusion

According to the above analysis we can conclude that the Direct Debit payments have started to grow as a result of an increase in the number of companies participating in the scheme, as well as from the increased number of users by the companies which until now have been part of this scheme.

Key participant of this scheme still remains KEDS (former KEK JSC.), which dominates the number and value of transactions. Also other public companies, as well as a number of private companies are increasing the number and value of transactions through this scheme.

Despite the upward trend, the Direct Debit use by Kosovo citizens is low, comparing to developed countries where Direct Debit is one of the most important instruments for periodic payments. Financial institutions and other companies in the country can boost the use of this scheme by promoting and encouraging it.

CBK is shown ready to help the participating companies and other potential companies in order to increase the use of Direct Debit. Through discussions with these companies is intended explanation of benefits they have by participating in this scheme and emphasizing increase of efficiency and lower costs in the collection of revenues.

In order to make the scheme more suitable for beneficiary companies and clients as well, the CBK in close cooperation with companies is applying some changes in the scheme by allowing to sign the authorization for the direct debit at the bank of the payer (customer) same as in the acquiring company, which is believed to enhance its use in the future.