

BANKA QENDRORE E REPUBLIKËS SË KOSOVËS

CENTRALNA BANKA REPUBLIKE KOSOVA

CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Payment System

Pristina, 2015

Payment system

One of the primary functions of the CBK is the functioning of an efficient, safe and sustainable payment system in the country as a key pillar of the financial infrastructure and the economy of a country.

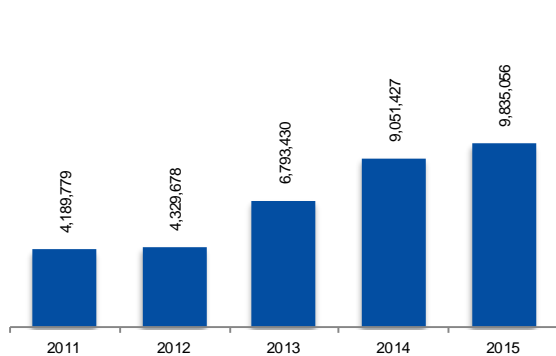
During 2015, Interbank Payments System was characterized by sustainability, security and interoperable efficiency, ensuring timely clearing and settlement in compliance with the relevant standards and procedures. Also, Registry of the Bank Account Holders has functioned well and it has been marked an increase in users' access, as a result of review and alignment of RBA Regulation. This registry is being subject to changes and corrections in order to automatize the processes and enable the electronic communication.

Among the important activities in the area of payment systems during 2015 were: inception of implementation of the new payment system (ATS/RTGS+ACH).

Electronic interbank Clearing System Operation

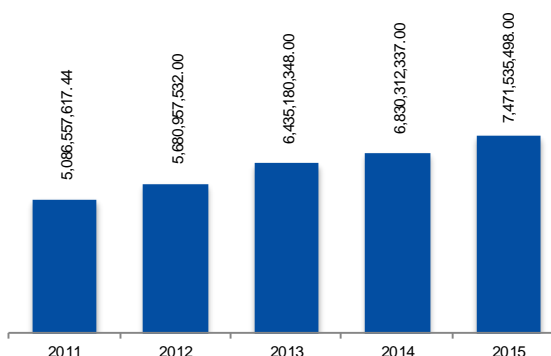
Electronic Interbank Clearing System (EICS) operates as a system which enables the interbank processing of a number of payments' instruments, interbank clearing as well as settlement of securities.

Figure 92. IECS transactions number



Source: CBK (2016)

Figure 93. IECS transactions Value



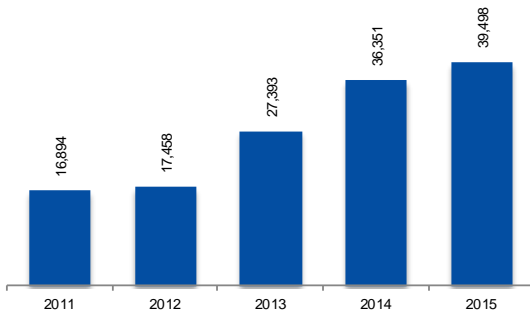
Source: CBK (2016)

During 2015, two more participating institutions “Ziraat Bank” and “Kosovo Pension Savings Trust”, were added in the Electronic Interbank Clearing System thus making the number of participants amount to 13.

Statistical indicators of EICS activity reflected an increase in the volume and the value of transactions, as presented below:

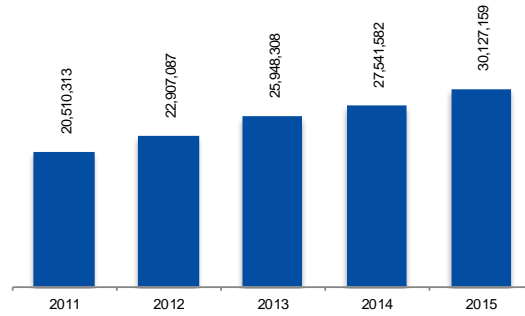
Around 9.8 million of transactions were processed with a total amount of nearly euro 7.5 billion.

Figure 94. Daily average of IECS transactions number



Source: CBK (2016)

Figure 95. Daily average of IECS transactions



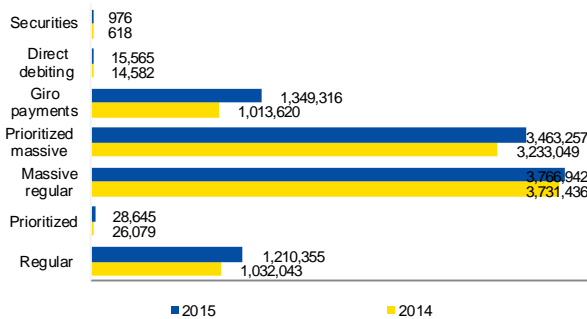
Source: CBK (2016)

Compared to IECS transactions in the previous year, the volume of transactions increased for 8.66% and the value of transactions increased for 9.39 %.

Continued increase in volume and value of interbank transactions of IECS reflects the relative increase of non-cash payments and increase of the confidence to the banking system.

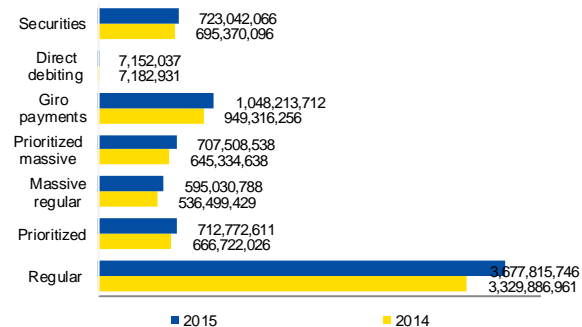
Within IECS are processed some specific categories of payments, such as: regular payments (individual and massive), priority payments (individual and massive), Kos-Giro, Direct Debit and settlement of securities. Levels of increase in both volumes and values of these categories of payments for 2014 and 2015 are presented in the following figures:

Figure 96. Annual transaction volume of IECS, by their type



Source: CBK (2016)

Figure 97. Annual transaction value of IECS, by their type

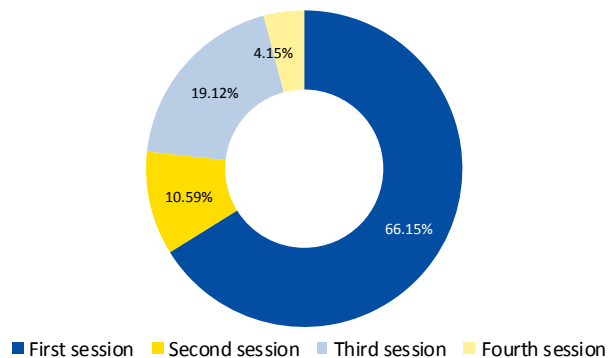


Source: CBK (2016)

Regular payments (individual and massive) constitute around 50.6 percent of the volume and around 57.2 percent of the value of the transactions of IECS.

Kos-Giro transactions represent a specific type of regular transactions which are also processed through clearing sessions and are settled on net basis. Kos-Giro transactions are intended for the collection of standardized and automated large billing entities. During the 2015, Kos-Giro number of payments increased for

Figure 98. Number of transactions by IECS sessions



Source: CBK (2016)

33.1%, while their value increased by approximately 10.4%. Priority (urgent) transactions are immediately processed and settled during working hours on a gross basis. Similar to regular transactions, prior transactions are channeled through EICS either as individual or as massive transactions. They still represent a small part of the overall EICS transactions.

In 2015, in terms of volume, they represented less than 1% of transactions, while in terms of value they represented over 9.5% of the transactions.

Direct Debit as an instrument and new payment scheme in Kosovo is being used to a small extent compared to other payment instruments. Thus, during 2015, this type of transactions, in total, represented less than 1% of the volume and the value of EICS transactions.

Reflection of payments processed through EICS system by sessions in 2015, shows a more pronounced concentration in the first clearing session, compared with two other sessions. Avoiding overload payment flows over the last clearing session minimizes additional risks within the functioning of the payment system.

Number and value of transactions by sessions:

The total value of transactions settled in EICS was euro 7,475,585,326, where three first institutions with larger value of initiated transfers comprise 61.16 % of the total value, while all other institutions comprise 38.34%. Regarding the number of initiated transfers, by their total number of 9,837,977, three first institutions with the largest number of initiated transfers comprise 66.19% of the total number, while all other institutions comprise 33.81%.

Regarding transfers received, three institutions with a higher value of transfers received comprise 65.84% of the total amount, while all the other institutions comprise 34.16 percent. On the other hand, out of total numbers of received transfers, the first three institutions comprise 60.03% of total number, while all the other institutions comprise 39.97%.

A detailed overview of concentration indicators of the participation of more active institutions in EICS during 2015 against the total activity in the system is presented in the table below:

Table 17. Indicators of concentration for initiated/delivered transactions in EICS

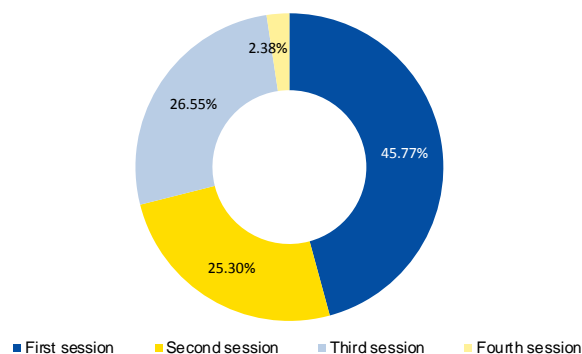
EICS system	Volume	Value
Three banks	66.19%	61.16%
Seven other banks	33.81%	38.84%
Total	9,837,977	7,475,585,326

Source: CBK (2016)

Payment System Oversight, Analysis and Developments

Law on Payment System in Kosovo authorizes CBK to oversee the payment systems in order to ensure efficiency and reliability of the system and its compliance with the legal provisions, maintaining the public confidence in the payment system and instruments and promotion of free competition in the payment services market.

Figure 99. Value of transactions by IECS sessions



Source: CBK (2016)

Within the payments system oversight, several activities have been undertaken and the relevant function has been increased and developed in line with international principles and standards.

Also, during this year regular inspections at banks have been conducted in order to monitor the processing of payments under the procedures established by legal provisions.

We conducted the regular publishing of analysis indicators for payment instruments in Kosovo. It continued the publishing of regular analysis on developments of payments systems and other financial information material with financial education character of the public. During this year, the following analyses have been published:

- Analysis on the use of payments instruments in Kosovo (on a quarterly basis);
- Analysis of Kos-Giro payments scheme developments and the Direct Debit;
- Analysis for the reduction of transactions in cash;

Until the end of 2015 several phases of the ATS project concluded such as: basic study; hardware installation; software and documentation development.

Also, in order to advance the knowledge and preparation of participants for the implementation of the new payment system, a seminar was organized in CBK in cooperation with SWIFT. The topic of this seminar was “ISO 20022 Real Time Gross Settlement (RTGS) System Standards”.

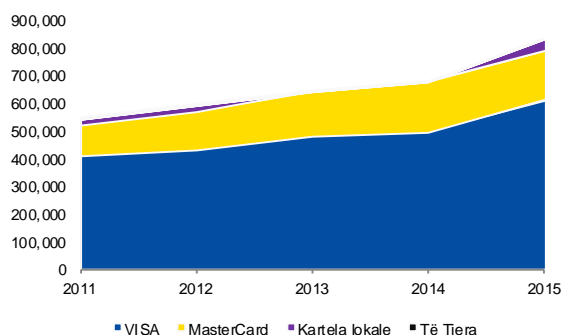
Aiming at approximation with the best international standards and CBK recommendations in the area of payment systems, the following regulations and instructions have been reviewed, corrected and adapted:

- Regulation on Bank Account Standard Numbering System,
- Regulation for Clearing and operating of Settlement Accounts and
- Instruction for Identification of International Outgoing Payment Orders.

Payments instruments and banking infrastructure for payment services,

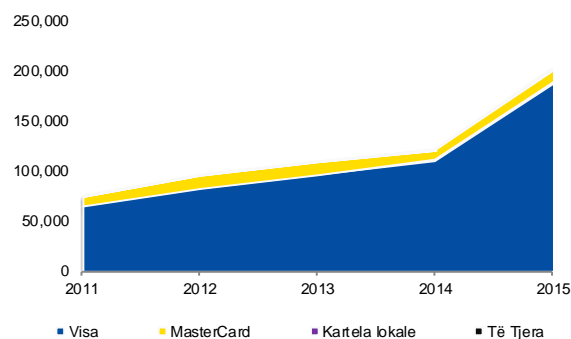
Regarding payments instruments and bank infrastructure of the payments services, it is worth mentioning that it is observed a sustainable development, inclined with growth and expansion both in the application of innovative technologies as well as in the use of electronic instruments.

Figure 100. Number of debit card accounts, by their type



Source: CBK (2016)

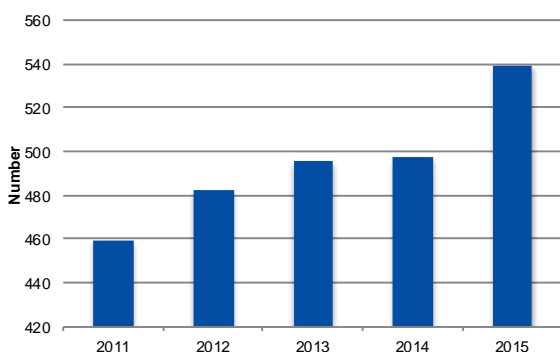
Figure 101. Number of credit cards, by credit type



Source: CBK (2016)

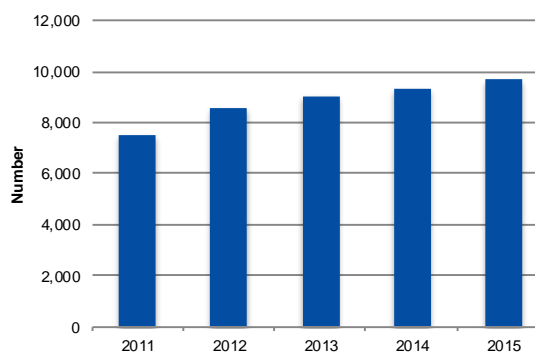
Based on the methodology for reporting of payments instruments, commercial banks have continued regular reporting of statistics on payments instruments to the Payments System Department at the CBK.

Figure 102. Number of ATM



Source: CBK (2016)

Figure 103. Number of POS



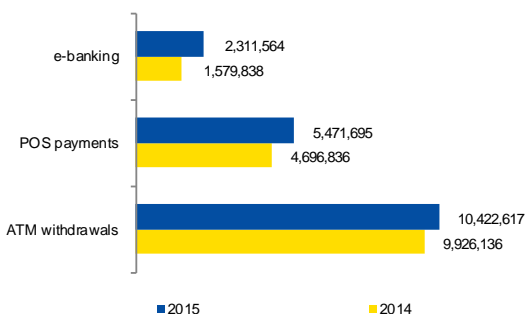
Source: CBK (2016)

A broad overview on development of the national payments system has been generated from the data collected, processed and analyzed during 2015.

The number of cards with the payment function has constantly increased. The network of bank terminals in Kosovo is also increasing. In December of 2015, 837,747 debit cards and around 203,845 credit cards have been reported. These cards could be used in 540 ATM (Automated Teller Machine) terminals and in 9,705 POS (Point of Sales) terminals located throughout Kosovo.

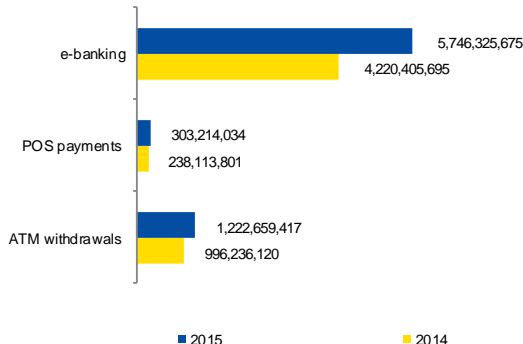
In comparison to the previous year, the number of ATM terminals has increased by 8.4% and the number of POS terminals has increased by 3.8%.

Figure 104. Annual transaction volume of electronic payment instruments



Source: CBK (2016)

Figure 105. Annual transaction value of electronic payment instruments



Source: CBK (2016)

The year 2015 was characterized by a growing tendency to use electronic payment instruments. The number of e-banking payments in the country increased by 46.3%, while their value increased by 36.2%.

The number of payments via POS terminals increased by 16.5%, while their value increased by 27.3%. Also, withdrawals at ATM terminals were characterized with increase. The number of ATM withdrawals during 2015 is increased by 5 %, while the value of withdrawals is increased by 22.7 %.

From the bank reports, it results that the total number of clients' bank accounts by the end of 2015, was around 1.89 million, representing a decrease of 1.6% compared to the end of 2014. Around 98.52% of them are resident accounts, whereas around 1.48% percent non-resident accounts.

Out of the total accounts by the end of 2015, around 187.3 thousand accounts had "online" access to make payments or check account balance, recording an increase of 18.7% compared to 2014.

Table 18. Number of accounts

Description of accounts	Total of client accounts			Accessible from the internet		
	2013	2014	2015	2013	2014	2015
Clients account (1+2)	1,855,383	1,917,513	1,886,644	131,365	157,761	187,297
1-Resident accounts (a+b)(%)	98.62%	98.37%	98.52%	97.10%	97.22%	97.64%
a-Individual (%)	93.25%	93.18%	93.21%	80.11%	79.66%	79.43%
b-Company (%)	6.75%	6.82%	6.79%	19.89%	20.34%	20.57%
2-Nonresident accounts (c+d) (%)	1.38%	1.63%	1.48%	2.90%	2.78%	2.36%
c-Individual (%)	96.35%	96.60%	96.84%	92.50%	91.99%	91.27%
d-Company (%)	3.95%	3.40%	3.16%	7.50%	8.01%	8.73%

Source: CBK (2016), Bank reporting according to the "Payments Instruments Reporting Methodology"

Based on statistical data, the infrastructure's development has a faster trend compared to other regional countries. The rapid growth in using electronic payments instruments remains encouraging.

Regarding the comparison of Kosovo to regional countries, it is noted that the rapid trend of development in recent years has impacted Kosovo in improving its position compared to neighboring countries.

Table 19. Comparative table of payment instruments and terminals¹

Description	Inhabitants	ATM per millions of inhabitants	POS per millions of inhabitants	Credit accounts per millions of inhabitants	Debit accounts per millions of inhabitants	E-Banking per millions of inhabitants
Kosovo	1.82	274	5,137	66,842	372,577	86,681
Albania	2.89	281	2,276	29,351	268,926	50,246
Czech Republic	10.51	423	9,618	150,795	894,314	-
Turkey	76.67	594	31,163	743,523	1,376,202	-
Slovenia	2.06	821	15,962	56,465	1,158,719	-
Bulgaria	7.24	776	10,532	129,549	868,282	-
Hungaria	9.88	494	10,617	140,928	756,474	-
Bosnja	3.83	372	6,004	-	-	55,760
Montenegro	0.62	560	20,619	78,813	573,292	101,598
Croatia	4.25	993	23,415	50,100	1,588,397	-
Macedonia	2.06	466	18,945	154,344	597,812	273,203

Source: CBK (2016) and central banks or supervisory authorities of the respective countries

Reduction of cash payment

Despite that in Kosovo, the main payment form is still cash, in recent years there is an increasing rapid use of electronic payment instruments.

From the statistical data for 2015, it is observed an increase in the number and value of credit transfers, which represent an alternative to non-cash payments. Significant increase was marked at payments through electronic instruments such as: transactions through debit card, credit card and e-banking thus influencing on the reduction of payments in cash.

In order to efficiently increase the execution of transactions with cards, CBK has envisaged implementing an interbank payment card system to provide interoperable functionality between card issuing operators.

¹ The data in the table are from 2014 since most of the countries in the region have not published yet the data for 2015.

During this year, the agreement for assistance from program Government – for Government (program G2G) was signed as partnership by the USAID for the development of local capacities in feasibility study for the establishment of interbank transactions system with POS and ATM.