

Reducing Cash Payments in Kosovo

Draft Proposal

November 20, 2011

We would like to share our proposed approach to support Central Bank of Kosovo in reducing cash payments

Background and Project Objectives



- Central Bank of Kosovo initiated a project with **objective of reducing volumes of cash transactions within the banking system**
- Based on discussions with Central Bank of Kosovo, **MasterCard Advisors prepared a proposal** to help **(1) design framework for establishing national card processing center, and (2) bring worldwide legal and marketing practices** to increase share of electronic payments
- We built a **custom approach for Central Bank of Kosovo with three main workstreams**: (1) Market Assessment and Target Setting; (2) Benchmark Analysis and NPC Op Model Options; (3) Legal and Marketing Practices Benchmarking
- Today we would like to **share with you our proposed approach and get your feedback** on our methodology and workplan

We built a custom approach for Central Bank of Kosovo which has three main workstreams

1

Market Assessment and Target Setting

- *What is market's cash displacement potential?*
- *What are CB's objectives / 5-year strategy?*

Market Assessment

1. Debit / credit card penetration
2. Card usage vs cash usage
3. POS penetration
4. Legal / marketing practices
5. Cash displacement potential est.

Target Setting

1. Objective and target setting
2. Alignment on strategy
3. Definition of business requirements

2

Benchmark Analysis and NPC Op Model Options

- *What are advantages / disadvantages of NPC establishment?*
- *What are NPC op. model options for CB of Kosovo?*

Benchmark Analysis

1. Success and failure stories from past NPC establishments
2. Strategic outlook for NPC model given CB's objectives

NPC Op. Model Design

1. NPC vs Bank Scope
2. Organization design
3. Estimation of investment required (human / tech etc)

3

Legal and Marketing Practices Benchmarking

- *What are regulatory and marketing practices from around the world to increase share of e-payments?*

Benchmark Analysis

1. Analysis of worldwide regulatory practices
2. Analysis of worldwide marketing practices and examples of creatives (where possible)

In Workstream 1, we will estimate potential for cash displacement and align with Central Bank on objectives and strategy

Proposed Approach

Kosovo Payments Market Assessment

- Assessment of **credit / debit card market**
- Analysis of **current card vs cash usage** at POS by:
 - merchant category (MCC) and segment
 - demographic group
 - geographic location
 - For current card usage: credit / debit, channel (POS, E-commerce, M-commerce), ATM vs POS
- Analysis of **current penetration of POS** devices in merchant population by merchant segment (ie card turnover segmentation)
 - Sole trader / SME / Mid-Corp / Large Corp
- **Legal and marketing strategies** to influence
 - Merchant POS
 - Cardholder perception of card usage at POS
 - ATM usage
- **Estimation of potential for displacement of cash transactions** at POS

Target Setting

- Defining **objectives and targets** for cash displacement given market potential for 1-5 years
 - Overall card utilization vs cash displacement targets
 - Merchant category targets (e.g. grocery)
 - Merchant segment targets
 - Channel targets
- **Alignment with Central Bank** on objectives and strategy
- Definition of **high-level requirements**

In Workstream 2, we will share learnings from other markets in establishment of NPC and construct operating model

Proposed Approach

Benchmark Analysis

- **Assessment of historic and current precedents** from around the world
- Review of **NPC operating model options**
- Analysis of **original business drivers for the creation of an NPC**
- Description of **success factors, limitations and issues**
- **Strategic outlook for NPC model** given Central Bank of Kosovo's objectives
- Potential **alternatives to NPC**
- **Evaluation of final Go / No Go decision** by Central Bank of Kosovo

NPC Operating Model Design

- **NPC vs Bank scope** (role of the NPC in the value chain including potential role as the main switch into MasterCard)
 - High level sizing
 - Cards and POS
 - Transactions and authorisations
 - Members / financial institutions
- **Organisation design and resource estimates**
- **Technology options** (build / buy / partner)
- **High level cost estimate** for each option of:
 - Hosting
 - Hardware / software
 - Network
 - Maintenance and support
 - Customization and implementation

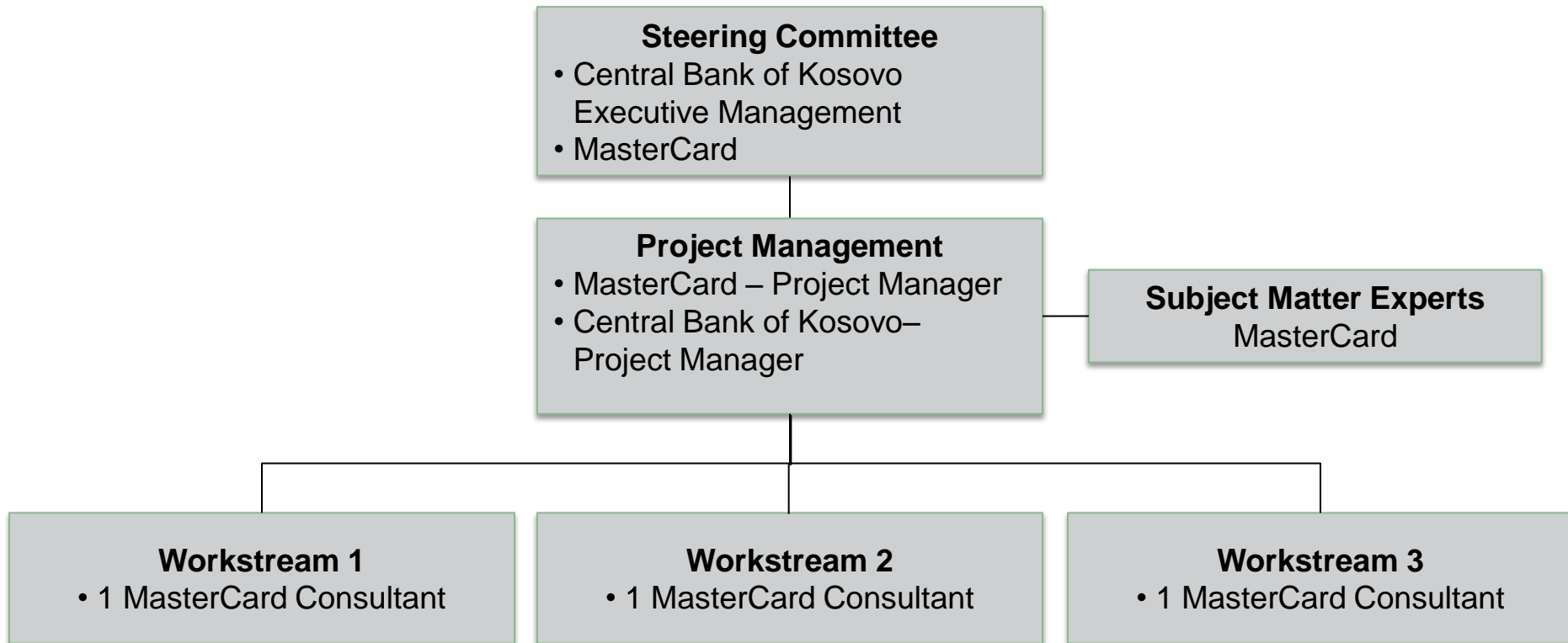
In Workstream 3, we will share legal and marketing practices from around the world in increasing share of electronic payments

Proposed Approach

Legal and Marketing Practices Benchmarking

- **Analysis of worldwide legal and marketing practices to:**
 - Discourage cash circulation
 - Broaden card acceptance
 - Encourage POS use
 - Increase e-payments
 - Reduce material advantage of cash
 - Foster financial inclusion
 - Reduce red tape
 - Increase law enforcement etc.

A team of four consultants and international Subject Matter Experts will support Central Bank of Kosovo for 10 to 12 weeks





MasterCard AdvisorsTM

The logo features five overlapping circles in a horizontal row. From left to right: a yellow circle, a red circle, a yellow circle, a red circle, and a red circle with a yellow center.

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