



BANKA QENDRORE E REPUBLIKËS SË KOSOVËS  
CENTRALNA BANKA REPUBLIKE KOSOVA  
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

# Kosovo National Retail Payments Strategy 2021-2026

Kosovo Remittances and Payments Program  
Funded By SECO

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Strategy  
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© Central Bank of the Republic of Kosovo  
Payment Systems Department  
33 Garibaldi, Prishtina 10000  
Tel: +383 38 222 055  
Fax: +383 38 243 763

**Web-site**

[www.bqk-kos.org](http://www.bqk-kos.org)

**E-mail**

[payment.systems@bqk-kos.org](mailto:payment.systems@bqk-kos.org)

**List of Acronyms and Abbreviations:**

ACH	Automated Clearing House
AML	Anti-Money Laundering
API	Application of Programming Interfaces
ATM	Automated Teller Machine
BIS	Bank for International Settlements
CBK	Central Bank of Kosovo
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CPMI	Committee on Payments and Market Infrastructures
ECA	Europe and Central Asia
EMD2	Second Electronic Money Directive
EU	European Union
FMI	Financial Market Infrastructure
G2B	Government-to-Business
G2P	Government-to-Person
GDP	Gross Domestic Product
ILF	Intraday Liquidity Facility
IOSCO	International Organization of Securities Commissions
IPS	Interbank Payments System
KAB	Kosovo Association of Banks
KYC	Know Your Customer
MDR	Merchant Discount Rate
MIC	Middle Income Country
MTO	Money Transfer Operator
NBFI	Non-bank Financial Institution
NGO	Non-Governmental Organization
NPC	National Payments Council
NPS	National Payments System
NRPS	National Retail Payments Strategy
P2B	Person-to-Business
P2P	Person-to-Person
PFMI	Principles for Financial Market Infrastructure
POS	Point of Sale terminal
PSD2	Second Payment Services Directive
PSO	Payment Systems Operator
PSP	Payment Service Provider
RTGS	Real Time Gross Settlement
SSI	Social Security Institute
WBG	World Bank Group

**Note:**

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## EXECUTIVE SUMMARY

**The strategic approach to the development of retail payments in Kosovo by the Central Bank of Kosovo is informed by a clear vision:** *to create a modern and inclusive retail payments market in Kosovo, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of citizens throughout the country.*

**The Kosovo National Retail Payments Strategy (NRPS) 2021-2026 builds on the efforts undertaken by the Central Bank of Kosovo (CBK) in coordination with other public sector authorities and the private sector to modernize the Kosovo national payments system (NPS).** Among other achievements, safe and efficient central clearing and settlement systems were implemented for interbank payments, a sound legal and regulatory framework was developed and new legislation is currently being developed, a formal inter-institutional cooperation framework with the National Payment Council was put in place, under the leadership of the CBK, and payment system research was enhanced. Over the last five years, electronic payments have been growing steadily, even though the volume of these transaction is still relatively low in comparison with the total volume of transactions including cash, however there are new payment instruments (e.g., e-money instruments) available in the market now.

**The Kosovo NRPS provides high-level strategic guidance on the way forward to establish a modern and inclusive national retail payments market, in line with international standards and best practices, along six guiding principles<sup>1</sup>:**

**1: Transparency, fairness, and protection of users.** Transparency is vital both to enhance competition and to strengthen the protection of users of retail payments. Fairness in the domestic retail payments market ensures that stakeholders share the perception that their individual interests and needs are taken into consideration and are adequately addressed. Consumer protection efforts reduce the imbalances of information, resources, and power that are characteristic of a service relationship between individuals / small businesses on the one hand and banks / payment service providers on the other hand. Finally, financial literacy efforts enhance potential new and existing financial service users' capabilities.

**2: State-of-the-art and interoperable payment infrastructures and access point networks.** State-of-the-art payment infrastructures will be in place to support the processing of all relevant payment instruments. All payment infrastructures deemed systemically important by the CBK will observe the CPMI-IOSCO "Principles for financial market infrastructures" (PFMIs). Other payment infrastructures will follow best international practices, at a minimum. From time to time, the CBK will assess the degree of systemic importance of infrastructures and indicate the international standards / best practices by which they should abide. Payment infrastructures and access point networks will be interoperable, thus increasing efficiency and enabling the seamless use of payment products throughout the country, at a reasonable cost.

**3: Adjust existing legal and regulatory framework and enact new one, where needed.** Non-discriminatory entry rules and participation conditions in the market for the provision of retail payment services will be preserved and enhanced as necessary. Payments regulation will keep abreast of market developments in Kosovo and best international practice and in line with the European Union acquis.

<sup>1</sup> "Developing a Comprehensive National Retail Payment Strategy", World Bank, 2012.

<http://documents1.worldbank.org/curated/en/839121469729131991/pdf/84076-REPLACEMENT-FILE-PUBLIC-Developing-comprehensive-national-retail-payments-strategy.pdf>



**4: Strong competition, complemented with cooperation.** The market for the provision of retail payment services will be protected against anticompetitive behavior and the abuse of dominant position, including through close monitoring. A right balance will be sought between competition and cooperation within the retail payments industry. Private-sector initiatives will be supported to become a self-propelling force in the development of safe and efficient NPS.

**5: Governance and risk responsibilities.** An appropriate risk management framework will ensure that risks and costs in the retail payments market are identified and managed appropriately. The maintenance of a balance between risk reduction and the associated costs will be sought, keeping in mind that new market developments may, from time to time, alter the current equilibrium. A progressive, yet cautious approach will be followed in responding to new technological developments. Sound and effective governance arrangements will underpin the provision and sharing of infrastructural services by public or private sector entities.

**6: Effective oversight.** Through oversight, the CBK will aim at preserving the safety of the retail payments market and the NPS more broadly, and at promoting its efficiency, affordability and inclusiveness. In discharging its oversight responsibility, the CBK will continue to apply best practices in line with the principles and standards developed by the international financial community. As part of its oversight activities, the CBK will ensure continuous policy dialogue with all relevant stakeholders of the retail payments market. As a catalyst for change, the CBK will adopt and/or promote measures to facilitate a more rapid evolution and development of the retail payments market.

**The NRPS lays out a detailed framework for expanding access to transaction accounts and accelerating the use of electronic payment instruments, comprising eight areas for action:<sup>2</sup>**

1. **Strong stakeholder commitment.** The CBK will promote and secure the greatest possible involvement of the public and private sector in decisions of common interest and public relevance concerning the national retail payments market. This would be achieved through broadening the National Payment Council (NPC) membership under the leadership of the CBK.
2. **Conducive regulatory environment for retail digital payments.** In close consultation with the banking sector and non-bank payment service providers, the CBK will revise its legal and regulatory framework to facilitate innovative business models and ensure adequate consumer protection mechanisms. In this regard, the transposition of PSD 2 will ensure neutrality and proportionality in the licensing, supervision and oversight of payment service providers and articulate the consumer protection framework. Besides, a review of application of the AML/CFT regulations will be initiated with the objective to determine if the application of customer due diligence obligations can be simplified, on a risk-based approach, to encourage the use of transaction accounts and electronic payments in general. The CBK will also revise its oversight policy framework to make it compliant with the best international standards.
3. **Supporting the improvement of retail and other digital payments infrastructures.** The CBK will intensify its catalyst role to ensure that the instant payments interbank payment system discussion is continuing, along with acquirers or e-money providers, under appropriate governance arrangements. Besides, the CBK will consider the possibility to implement instant payment platform covering a variety of use cases. From a payment systems perspective, it will ensure implementation of fair and open access policy to payments infrastructure as well as effective mitigation of financial risks incurred in payment infrastructures. Leveraging fully the existing ID infrastructure and modern identification services for know-your-customer (KYC) processes would also facilitate the retail payments market.

<sup>2</sup> The "Payment Aspects of Financial Inclusion", 2016, by the World Bank and CPMI is used as an underlying framework. <https://www.bis.org/cpmi/publ/d144.pdf>

4. **Affordable digital payment instruments and services.** Banks and other payment service providers such as non-bank financial institutions authorized to provide payment services and issuance of electronic money, will design affordable payment products for the unbanked such as basic payment accounts, yet maintaining the essential features of a transaction account. The CBK has been working on a regulation to facilitate basic accounts. Furthermore, banks and other payment service providers, will, facilitate interoperability between different types of transaction accounts (i.e. between bank current accounts and e-money accounts or payment accounts). The CBK will design and implement in its website the price database of banking products and other payment services as a tool in the hands of consumers to effectively compare products and prices.
5. **Expansion of access points and networks for payments.** The agent banking model will be developed to increase the reachability and convenience of transaction accounts to the users, including by leveraging the infrastructure of entities with a traditionally stronger presence in rural and isolated communities; The Ministry of Finance Labor and Transfers shall analyze applicability of different examples from EU countries, of incentives provided to merchants (e.g. temporary fiscal subsidies to smaller businesses and/or other types of fiscal benefits) to accept electronic payments, while the CBK will ensure transparency and data collection of merchant discount fees.
6. **Effective financial literacy efforts.** The objective of these efforts will be to increase public's awareness of the NRPS and its benefits. CBK, other public-sector entities, the banking association and payment service providers will intensify their efforts to educate Kosovo's citizens on the access and usage of transaction accounts and electronic payments through increased and targeted information campaigns. CBK will measure as objectively as possible the effectiveness of the financial education efforts and programs it is undertaking.
7. **Economies of scale in the NPS by leveraging large-volume payment use cases.** Specific actions include migrating all government payments and collections to electronic payments to the largest extent possible, including by leveraging "basic" payment account products and non-bank models/channels, building on utility bills and mass transit payments to accelerate migration from cash to electronic payments. Furthermore, Banks and other payment service providers, in cooperation with the CBK will facilitate account services for remittances instead of cash, by increasing competition and fostering innovation in the Kosovo remittance market.
8. **Effective CBK oversight of the retail payments market and of payment service providers.** The CBK will enhance the legal basis to strengthen the oversight function of the CBK. It will also ensure that payment system operators and providers regularly review their costs and pricing structure, cyber risks, fraud risk management and consumer protection measures amongst other objectives to provide safe, efficient, low-cost, accessible services to the public at large.

**The successful implementation of the strategy will require that specific roles and responsibilities be assigned to various stakeholders, under public accountability rules:**

- a. The NRPS identifies the CBK as a critical actor in leading the definition of the policies, adapting the regulatory framework and supporting cooperation and coordination among stakeholders for the implementation of the strategy, and in prompting collective action from stakeholders whenever necessary. This role is fulfilled by the CBK in its capacity as a catalyst, regulator, overseer, payment system operator, and user of payment services.
- b. In addition, the NRPS assigns responsibilities to the Kosovo's Bankers Association (KBA), which range from coordinating and representing the interests of its members on any

matters relating to the NRPS, to promoting and coordinating initiatives on the evolution of the retail payments market.

- c. The National Payments Council (comprising a variety of stakeholders, including banks and non-bank payment service providers), as a consultative body on payment system matters, will be involved mainly in monitoring progress, and will be best positioned to accelerate progress when necessary, and to facilitate communication between public and private sector stakeholders.
- d. Important roles and responsibilities are likely to be played by government agencies holding regulatory responsibilities in areas that have critical contiguities with the NRPS and are also users of the systems.
- e. Payment service providers individually will contribute to NRPS implementation by committing to transparency in carrying out their business vis-à-vis their customers, managing all risks associated to the provision of payment services, and adopting the strategic directions approved by the CBK.
- f. Payment system operators will support NRPS objectives by committing to interoperability and to cooperation, abiding by international standards and emulating best practices, and maintaining fair and open access to infrastructure, while adopting the strategic directions approved by the CBK.
- g. Finally, industry associations and civil society organizations will engage on specific issues, in accordance with their statutory objectives and responsibilities, and at the request of the NPC, to support strategy implementation and buy-in.

**Monitoring progress in the implementation of the NRPS is critical to determine its effectiveness, and as an input into periodic reviews and evaluation.** For this purpose, two measurable overarching objectives have been established at the outset:

- 1. Increasing the current number of cashless payments per capita to 25 such payments by end-2026. The starting point is 17.3 cashless payments per capita observed as of end-2019.**
- 2. Achieving an adult payment/transaction account (bank account, electronic money account, payment account) ownership ratio of 70% by 2026. The starting point is 52% of adult account ownership observed as of end-2017.**

**A number of “intermediate variables” that convey the progress towards the agreed vision and overarching objectives and encompass several key performance indicators of access and use of transaction accounts will also be measured and monitored. This will help in identifying course correction requirements promptly. The NRPS will be discussed and reviewed in various fora as part of the process of obtaining “buy in” acceptance and ownership by the relevant stakeholders.**

## I. OVERVIEW OF RETAIL PAYMENTS IN KOSOVO

### Key stakeholders

1. **The key stakeholders in the retail payments market in Kosovo comprise the Central Bank of Kosovo (CBK), which is the licensing, regulatory, supervisory and oversight authority of financial institutions, the commercial banks, non-banking financial institutions and the community of users of payment services.** Commercial banks are licensed and supervised by the CBK, which also licenses and supervises pension funds, non-bank financial institutions, microfinance institutions, and insurance companies.
2. **The CBK plays various critical roles in the national payments system of Kosovo, acting as operator of payment systems, overseer of the national payments system, and catalyst of change.** As an operator of payment systems, the CBK owns and operates the Interbank Payment System (IPS) comprised of a real-time gross settlement (RTGS) component and an automated clearinghouse (ACH) component. It also owns and operates a central securities depository (CSD), which is integrated with the IPS. These system components are described in more detail below.
3. **CBK is legally empowered as the regulator and overseer of the national payments system in Kosovo (art.8 of the Law on CBK and art. 8 of the Law on Payment System).** These powers explicitly cover payment and securities settlement systems, as well as payment services and payment instruments. From an organizational point of view, the payment system oversight function is separated by the operational function, within the payment system department, and with separate oversight responsibilities from the CBK licensing and supervisory functions of financial institutions. CBK is working in strengthening the supervisory function and its synchronization with the licensing and supervisory function of financial institutions, in order to properly address the supervision of payment service providers and payment instruments (including new payment models such as FinTech), as well as to advance the development of its capacities in this field.
4. **CBK also contributes to the development and reform of the national payment system in its capacity as catalyst of change.** In this role the CBK initiates, coordinates, researches and consults on payment system design, operation and policy, advises the Government on payment system related issues, and contributes to the drafting of legislative proposals in the field of payment systems.
5. **The National Payment Council in Kosovo (NPC) was established in 2010.** It aims to support sustainable and efficient clearing and settlement of payments and securities systems in Kosovo. It can also serve as a forum of collaboration for insuring appropriate conditions on regional and national systems of payments. The CBK is reviewing the terms of reference on the functioning of this council by expanding its and duties and broadening the spectrum of members.
6. **As of the end of 2020, there were 11 licensed banks and branches of foreign banks in the country and 11 NBFIs licensed to provide payment services, including the Kosovo Post.** Commercial banks hold almost 94% of total financial assets in Kosovo and are the main providers of payment services. Out of the 9 NBFIs that are licensed to provide payment services, 5 of them participate in the provision of international remittances and 4 of them are also authorized to issue electronic money and electronic payment instruments.

## Legal and regulatory framework

7. **The legal foundation for the NPS is derived from the Law on the Central Bank of Kosovo of 2010, the Law on Payment System of 2013, and to a lesser extent also the Law on Banks, microfinance institutions and non-banking financial institutions in the Republic of Kosovo of 2012.** The Law on the Bank of Kosovo and the Law on Payment System clearly empower the CBK as the regulator and overseer of the national payments system. In this context, the CBK issues regulations, decisions, orders, operational rules, standards and procedures governing the payments systems it operates, as well the activities of various other NPS participants (e.g., banks, non-bank financial institutions authorized to provide payment services, private payment system operators).
8. **A legal framework that promotes innovation and competition in the market place is developing.** Although the existing Law on Payment System includes the “payment services”, “electronic money” and “payment institution” concepts, it still needs to be aligned with the EU Directives PSD2, EMD2 and Settlement Finality.
9. **A comprehensive legal and regulatory framework for anti-money laundering (AML) / combating the financing of terrorism (CFT) risk management measures has been introduced lastly amended in 2016.** This framework is aimed at preserving the integrity of the financial system, and by adopting a risk-based approach, is meant to not unnecessarily inhibit individuals and businesses from accessing and using well-regulated financial services.
10. **Based on existing laws, CBK during 2019-2020 has either amended or prepared a set of regulations that cover in detail a wide variety of aspects related to payment systems, instruments and services.** Among those, CBK has Amended the Regulation on Registering the NBFIs; Regulation on Interbank Payment System; Regulation on Electronic Payment Instruments; Regulation on AML/CFT, and has issued Regulation on Electronic Money Issuance; Regulation on the use of agents and outsourcing of services by PSP-s; Regulation on Licensing of Payment System Operators; Regulation on Capital and Safeguarding of Funds applied to NBFIs authorized to provide payment services and issuance of electronic money.
11. **Key aspects to underpin increased consumer uptake of transaction accounts and modern payment instruments need to be further addressed in the legal framework through inter alia the revision of the Payment System Law.** Critical topics in this area include the protection of customers’ funds held in transactions accounts, transparency in the provisions of payment services or consumer protection mechanisms. It should also be noted that other important measures are already in place, such as an explicit deposit insurance, which covers money deposits in banks up to 5000 Euro per depositor per bank, and a Consumer Protection Law from 2018, which covers the distance marketing of consumer financial services and consumer credit contracts, and the Law on Payment Systems which addresses payment services.
12. **To address most of the remaining gaps, Kosovo will leverage on the existing efforts to bring the national legislation in line with that of the European Union (EU).<sup>3</sup>** Areas of opportunity in the legal and regulatory framework for payments include achieving a more consistent approach in the licensing, regulation and supervision of banks and non-banks that provide payment services and developing a stronger framework for the protection of payment

<sup>3</sup> Kosovo has signed the Stabilization and Association Agreement which is in force since April 01, 2016.

services users. In this context, CBK is working on the transposition of the EU Payment Services Directive (PSD2) and Electronic Money Directive (EMD) within the Kosovo legal and regulatory framework.

### Financial inclusion in Kosovo from a payments perspective

13. **Based on the Global Findex database, as of 2017 52% of adults<sup>4</sup> in Kosovo had an account with a bank.** Before January 2020, only banks could issue account and there was not yet such a concept as that of “a transaction account” or “payment account”. After January 2020, CBK issued new regulations on e-money issuance. As a result, payment accounts and e-money accounts are allowed to be offered by non-bank financial institutions authorized to provide payment services and issuing of e-money. Currently, there are only a small number of electronic money accounts issued by these authorized NBFIs for the e-money issuance during 2020, but with an increasing trend.
14. **As of end-2019 individuals owned 1,966,286 resident bank accounts and 32,161 non-resident bank accounts.<sup>5</sup>** However, it is estimated that only about 941,000 different individuals have an account with a bank.<sup>6</sup>
15. **While there has been some progress from year 2014, the share of adults in Kosovo that had an account in 2017 still compared unfavorably to peer countries in the Europe and Central Asia (ECA) region, and more so when compared with lower middle income countries (MICs) around the world.** Table 1 shows data on account holding and usage in Kosovo as of 2017, and equivalent figures for the countries of the ECA region as a whole, as well as for lower MICs.<sup>7</sup>
16. **Table 1 shows that the low percentage of accountholders in Kosovo is somewhat worse for women, young adults and adults living in rural areas.<sup>8</sup>** This is in tandem with the equivalent figures for lower MIC countries, but is significantly worse for young adults<sup>9</sup>. Worth noting that there are 125,800 pensioners, which compound 13% of the population owing an account in Kosovo and whose usage is only for cash withdrawals once per month<sup>10</sup>. If we take off the effect coming from the accounts of pensioners, the account ownership figure in Kosovo decreases to around 45%.<sup>11</sup>
17. **Kosovo is undertaking several legal/regulatory amendments to impact the financial inclusion level of the population.** These measures include: i) Implementation of the European Union Directives as well as preparations for expansion of the National Payments Council and implementation in process of an e-Government portal.
18. **A 5-year program on financial literacy was approved in 2017 by the Executive Board of the CBK.** As a result, several initiatives have been taken to advance financial literacy in the country. These efforts, mainly led by the CBK as well as by the Kosovo Banking Association

<sup>4</sup> Age 15+.

<sup>5</sup> CBK data: The corresponding figures for businesses are 153,252 resident bank accounts and 429 non-resident bank accounts.

<sup>6</sup> Based on Global Findex 2017 and the population of Kosovo of 1.8 million.

<sup>7</sup> Kosovo is classified by the World Bank Group as a lower-middle income economy.

<sup>8</sup> This can be explained to some extent by the fact that the Government of Kosovo enforced the channeling of employees' salaries through the banking system. Unemployment rates for woman, young adults and rural adults are higher. Hence, these groups are less likely to have an account.

<sup>9</sup> There is a very high unemployment rate for young population in Kosovo. See paragraph 36

<sup>10</sup> Based on the interviews with two banks.

<sup>11</sup> WB calculations based on Global Findex data 2017, Kosovo population (1.8 million) and number of pensioners according to Social Welfare Statistics for 2017 (122,716).



(KBA) and the Ministry of Education and Science and Technology (through the MoU), including the Global Money Week, trainings for the elementary school students, quizzes for high school students, open lectures for university students, as well as educative materials and brochures for the public. Still more focus will be paid to payment products and services e.g. through dedicated clarifying sessions on their terms and conditions, through demonstration how they work in practice or about transparency and comparability of fees.

**Tabela 1. Të dhëna bazike për posedimin e llogarive**

Account holding (% of population with age 15+)	Kosovo	ECA	Lower MICs
<b>All adults, year 2017</b>	<b>52.3</b>	<b>65.3</b>	<b>57.8</b>
<i>Women</i>	43.7	62.5	53.0
<i>Adults belonging to the poorest 40%</i>	44.3	56.3	50.7
<i>Young adults (% ages 15-24)</i>	35.6	50.1	49.4
<i>Adults living in rural areas</i>	50.2	61.7	57.6
<b>All adults, year 2014</b>	<b>47.8</b>	<b>57.8</b>	<b>41.9</b>

Source: World Bank Global Findex database

## Financial infrastructures supporting retail payments in Kosovo

19. **From an infrastructure perspective, the Interbank Payment System (IPS) is the main payment system in Kosovo.** The CBK owns and operates the IPS, comprised of a real-time gross settlement (RTGS) component for high-value payments above EUR 10,000 and an automated clearinghouse (ACH) component for retail payments below this threshold.<sup>12</sup> The IPS also facilitates the settlement of government securities trades in the primary and secondary markets.
20. **Currently there are ten commercial banks that are direct participants in the IPS (both RTGS and ACH components);** in addition to the CBK itself, the Treasury of the Ministry of Finance Labor and Transfers<sup>13</sup>, the Health Insurance Fund (still not active) and the Kosovo Pension Savings Trust (KPST) are also direct participants. The Interbank Payment System (IPS) regulation (art. 12) also envisages the participation of “payment system operators” licensed by the CBK, although currently there are none. Non-bank financial institutions (NBFIs) are not listed under art. 12. The system’s communication is based on International Standards Organization (ISO) 20022. IPS operating hours are 08:15 to 15:45 on weekdays.
21. **The IPS-ACH component has three clearing sessions (10:05, 13:35, 15:20) and processes both credit transfers and direct debits, individual and bulk payments.** The net debit positions of ACH participants are not collateralized ex-ante, nor are there limits to the size of the debit positions. In case of insufficient funds, the banks may resort to the intraday liquidity facility, collateralized with government securities.

<sup>12</sup> In addition, the CBK owns and operates a central securities depository (CSD)-securities settlement system (SSS) since 2011. This system is integrated with the IPS.

<sup>13</sup> From 6<sup>th</sup> of May 2019 the Ministry of Finance is a direct participant in RTGS.

22. **There is no national infrastructure or a national payments switch presently in Kosovo (e.g. instant payment system), which would facilitate interoperability among different payment service providers.** Still, in most cases it is possible to withdraw cash/pay with a Visa or MasterCard branded card issued by a local bank at the ATM/POS terminal of another local bank as most of these card acceptance devices are “interconnected” via the Visa and MasterCard global processing networks.

#### ID and ICT infrastructures in Kosovo

23. **Starting in 2015 Kosovo has been issuing “smart” ID cards to its citizens in Kosovo and abroad that have reached 16 years of age.** The smart ID card is required for various important services provided by both government entities and the private sector (e.g. opening a bank account). By 2018 there have been 1.6 million ID cards issued to Kosovo’s citizens.
24. **The Civil Registry Authority (CRA) is the authority in charge for the management of the national ID system and the respective data.** No physical ID card readers are provided to the interested institutions e.g. banks, yet. In the meantime, CRA is cooperating with the Agency of Information Society (AIS) on accessing the e-government platform. In this regard, drafting of legislation to facilitate personal data sharing with both public and private institutions would facilitate the process.
25. **According to World Bank data, by year 2016 100% of the population residing in Kosovo, including urban and rural, had access to electricity.** Considering that access to electricity is possible all over the country, especially in remote areas, it is not considered a barrier either for customers or payment service providers to use and offer payment services.
26. **The number of (unique) mobile cellular telephone subscriptions had reached about 1.97 million by the end of 2018 according to the RAEPK – Regulatory Authority of Electronic and Postal Communications,** and resulting in a penetration rate of 101%.
27. **According to Kosovo Agency of Statistics survey, as of end-2018, 93.2% of Kosovo’s individuals had access to internet.** A percentage higher than that is higher compared to other peer countries including Albania (63%), Bosnia (65%), Montenegro (65%), and Serbia (64%).

#### Retail payment instruments used in Kosovo

28. **Retail payment instruments are defined as instruments that facilitate the transfer of funds such as cash, cheques, credit and debit cards, credit transfers and direct debits, and innovative payment instruments, like e-money.** Retail payments can be initiated in person or remotely. Users of retail payment instruments can be broadly categorized into consumers, businesses, and government agencies. All of them have a dual role, being the payer for certain transactions and the payee for others. Depending on the payer-payee combination, retail payments can be categorized into different types. The possible combinations are shown in table 2 below.



**Tabela 2. Llojet e ndryshme të pagesave, bazuar në kombinimin pagues – i paguar**

Payer	Payee	Consumer	Business	Government Entity
Consumer		P2P	P2B	P2G
Business		B2P	B2B	B2G
Government Entity		G2P	G2B	G2G

P=Person, B=Business, G=Government

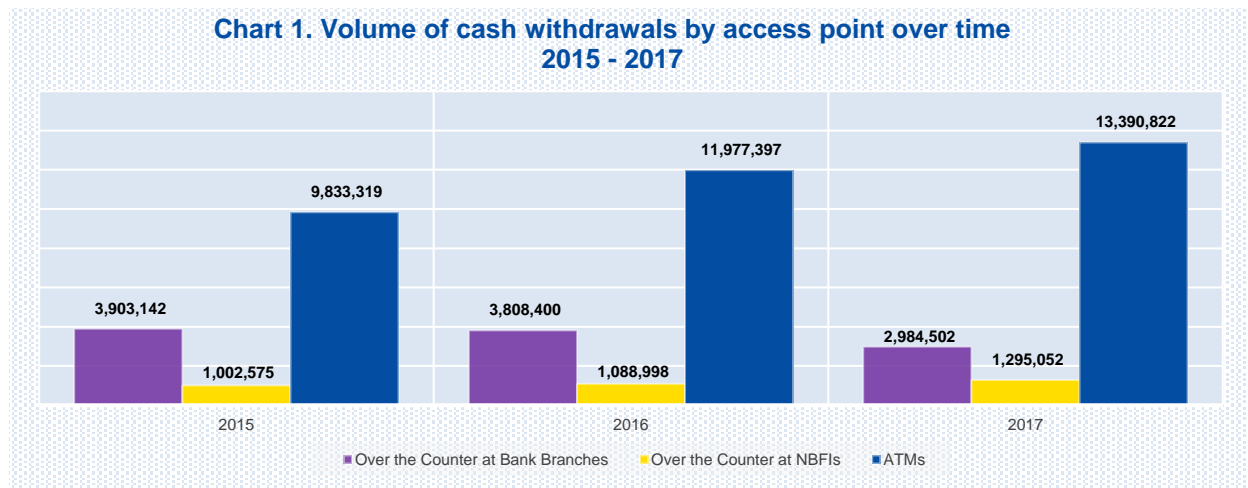
Source: World Bank (2015), "A Practical Guide for Measuring the Costs of Retail Payments".

**Cash**

**29. Cash is by far the dominant means of payment in Kosovo, especially for retail payments.** Withdrawal volumes across time show the heavy usage of cash in the country.<sup>14</sup>

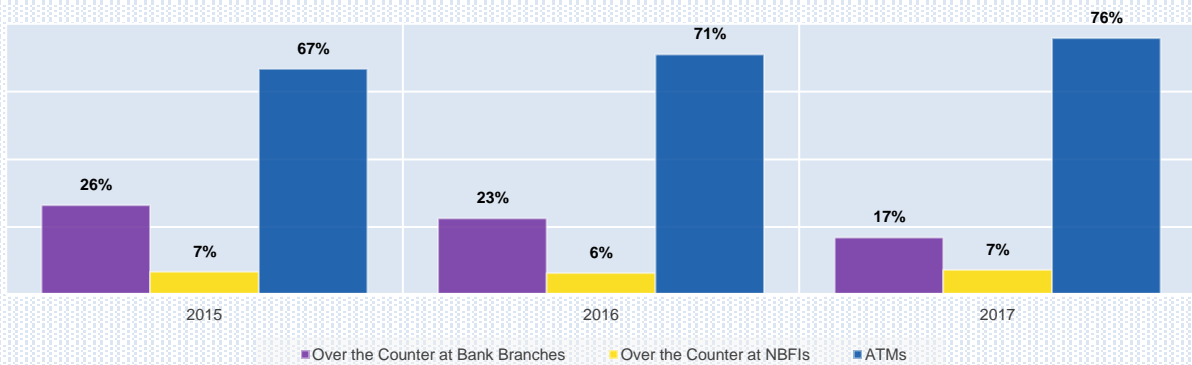
**30. Unsurprisingly, ATMs account for the vast majority of cash withdrawals processed.** The share of cash withdrawals processed by ATMs grew over the period, from 67 percent in 2015-2016 to 76 percent in 2016-2017. At the same time, the share of cash withdrawals over the counter at non-bank financial institutions (NBFIs) stayed roughly constant while the share of cash withdrawals over the counter at bank branches declined. Despite a constant share of cash withdrawal transactions, the absolute volume of cash withdrawals at NBFIs increased over the same period.

**Chart presentation: Volume of cash withdrawals processed over a three years period**

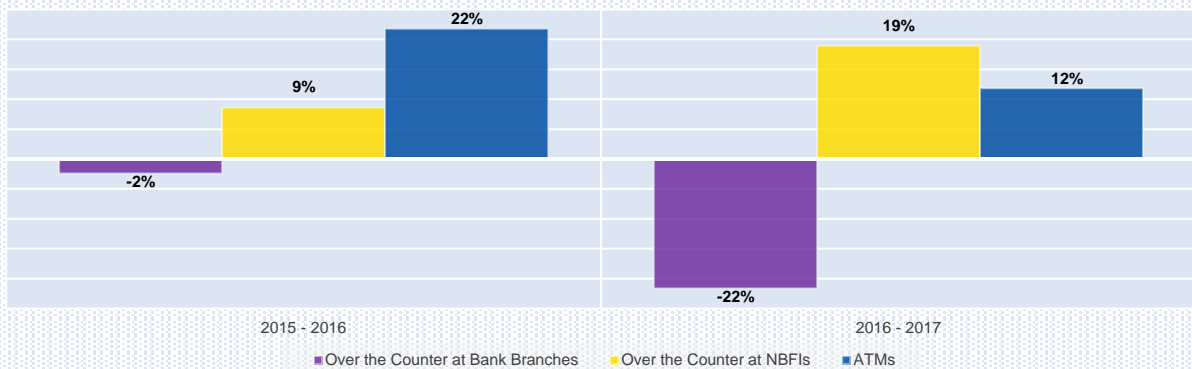


<sup>14</sup> Data taken from a World Bank study on usage and cost of retail payment instruments by the supply side in Kosovo.

**Chart 2. Share of cash withdrawals by access point over time  
2015 - 2017**



**Chart 3. Growth rates of cash withdrawals by access point over time  
2015-2017**



### *Non-cash payment instruments*

**31. Use of non-cash payment instruments in Kosovo for transactions other than cash withdrawals is still low compared to other countries in the region, except Albania.**

The total number of cashless payment transactions per inhabitant in Kosovo was 17.3 in 2019, which is higher compared to lower MIC (4.2 as per GPSS 2016 data). Compared to the region, in 2016 Albania reported 4.3 cashless transactions per capita. In 2015 Montenegro and Serbia reported 26 and 62 cashless transactions per capita, respectively. High income countries report over 250 cashless transactions per inhabitant on an annual basis.

**32. Payment cards are the most heavily used non-cash payment instrument, which grew almost 50% over the 2015-2019 period.** Table 3 shows data on usage of the various payment instruments available in Kosovo. Payment cards still have room for further growth, considering the fact that only 37% of adults in Kosovo<sup>15</sup> have a debit card (compared to around 51% for ECA countries and that they are still mostly used for cash withdrawals at ATMs).

**33. Starting in 2018, usage of paper-based credit transfers has declined in Kosovo.** Apart from payment cards, electronic initiation channels are increasingly being used for credit transfers making them also fully electronic payments.<sup>16</sup> Direct debit transactions had a significant decrease in 2018 due to fact that the main participant “Kosovo Electricity Supply

<sup>15</sup> Global Findex survey 2017.

<sup>16</sup> Electronic payment instruments use electronic means for initiation, authorization and authentication of a payment transaction. However, even though a transaction might be initiated electronically, in some cases the subsequent processes of clearing and settlement might involve some manual procedures.

Company” left the direct debit scheme. On the other hand, electronic credit transfers grew by 18%. Online banking services have been made available by most retail banks. However, penetration of this service is still low. As of end-2019 only about 303,602 of all accounts held by individuals were accessible via online banking.

- 34. Payments through e-money instruments.** Since January 2020 the new regulations for the issuance of electronic money, based on EU Directive for electronic money, which enable the issuance of electronic money by NBFIs apart from banks, have entered into force. There is one newly registered NBFIs and three existing NBFIs that are already providing payment services, which are authorized to issue e-money. This brings the number of NBFIs registered to provide payment services and electronic money issuance to 4, all of which are authorized for electronic money services during 2020.

**Table 3. Number of transactions initiated by customers (including individuals and businesses)**

Description	2015	2016	2017	2018	2019
1. Paper-based credit transfers	13,731,800	15,440,364	15,246,593	12,346,739	12,680,625
2. Electronic credit transfers	2,311,564	2,915,082	3,407,660	4,391,441	5,199,787
3. Payments with cards	5,471,659	6,811,339	7,610,989	10,631,516	13,266,708
4. Direct debits (intrabank)	15,565	26,610	23,151	2,738	1,037
5. E-money payments	N/A	N/A	N/A	N/A	N/A
6. Cheques	N/A	N/A	N/A	N/A	N/A
Total non-cash payments	21,530,588	25,193,395	26,288,393	27,372,434	31,148,157
Non-cash payments per capita	<b>11.96</b>	<b>14</b>	<b>14.6</b>	<b>15.21</b>	<b>17.3</b>

Source: GPSS 2017 and CBK

- 35. There is still a low usage of non-cash payment instruments in Kosovo. Besides the low share of adults holding accounts, the design of the various payment products available in the country is considered as a contributing factor. Furthermore, high unemployment rates (29.6%<sup>17</sup>) especially for the youth<sup>18</sup> (55.4%), high levels of economic and labor informality<sup>19</sup> and low education levels<sup>20</sup> seem to be other possible contributing factors.** A higher share of adults having a transaction account is likely to lead to higher usage of non-cash payment instruments, although not necessarily. Account holders may decide not to use the non-cash payment features of their accounts, a major reason being that these do not satisfy their needs. Box no.1 below summarizes the “design” factors that influence the adoption by users of the various retail payment instruments (including cash) based on the experience on the World Bank. These factors relate both to the intrinsic design of a payment instrument as well as to the elements or features that a payment service provider decides to include in the payments product through which that payment instrument is used. On the other hand, high levels of economic and labor informality or high unemployment rates will tend to preserve a low share of adults having and using an account regularly, and a strong preference for cash.

<sup>17</sup> KAS, 2018 data.

<sup>18</sup> KAS data, Age 15-24

<sup>19</sup> Country partnership framework for Republic of Kosovo for the period FY17–FY21 – World Bank Group

<sup>20</sup> According to Kosovo Agency of Statistics (KAS) data for 2015, 38.1% of the employed adults have completed I-IX classes, 26.9% professional secondary school and 20.1% secondary gymnasium. Only 12.6% of the employed have completed tertiary education.

### Box 1: Factors Influencing the Adoption of Specific Retail Payment Instruments

The adoption of any given retail payment instrument by consumers, businesses and governments is influenced by how well-suited that instrument is to the specific payment needs of the payer and the payee, as well as how each of these perceive the instrument in terms of risk, liquidity, cost, acceptance, and convenience. For a payer, the choice of payment instruments is typically influenced by the following factors:

- **Cost:** Usage of payment instruments entails both explicit as well as implicit costs. Explicit costs include the direct charges paid by the payer for using the instrument, such as per-transaction fees. Implicit costs incurred include, for example, the waiting time for processing the payment request or the cost of time spent commuting to a designated place to obtain cash to make payments or to be able to use the non-cash payment instrument.
- **Safety and reliability:** A payer needs to have a high level of trust that a payment instrument will work as expected and discharge the payer's payment obligation to the payee as required. This includes aspects related to system uptime, fraud misuse, correcting processing errors, and so forth.
- **Convenience:** The payment instrument needs to be convenient to use. This includes aspects like what the payer needs to remember or what the payer needs to physically carry or use when making the payment, how much time the transaction takes to complete when using that payment instrument, and other related considerations.
- **Acceptance:** A payer would want the payment instrument to be widely accepted for his payment needs. For example, a payment cardholder might not find his card useful if the card is not accepted at locations like grocery shops and restaurants, or for utility payments and other uses that constitute a significant share of the cardholders routine payment needs.
- **Payment confirmation and reconciliation:** A payer would want a confirmation that his payment has been initiated and will be processed as per a defined timeline. This is to serve as a reconciliation record and also as proof that payment has been made. This would help the payer in managing and monitoring his payment account.

For a payee, the factors influencing his choice of payment instruments are similar to those mentioned above, but have some important differences:

- **Cost:** The payee incurs various explicit and implicit costs when accepting a payment instrument. Cash, for example, has associated handling and safekeeping costs. One major implicit cost is the time taken for receipt of funds into the payee's account. The longer the delay, the higher the cost in terms of unearned interest and/or higher liquidity management costs, among others.
- **Acceptance:** In general, the payee would want to accept those payment instruments that a significant proportion of the payers like to use (i.e., "payer's choice"). Some payment instruments will require the payee to have some type of deposit account with a bank or another payment service provider. In addition, for some instruments the payee will need to deploy certain infrastructure, like POS terminals and the associated telecommunications means.
- **Safety and reliability:** The payee needs to trust that the payment instrument he has accepted will be processed as expected and the payment will be honored. This includes aspects like assured processing timelines, system uptime, non-repudiation of payment, and settlement finality.
- **Payment reconciliation and audit trails:** A payee needs payment reconciliation information to enable proper bookkeeping. Payment audit trails are also crucial, for example when defending repudiation related claims.

Source: World Bank, 2012, "Developing a comprehensive national retail payments strategy".

## The Government as user of payment services

- 36. Public sector mass disbursements typically include recurrent payments of social benefits or grants, wages, pensions and other social security payments and contributions.** The public sector in Kosovo employs more than 83,000 individuals<sup>21</sup>. At the level of Kosovo's central government, wages and other compensations are all paid through bank accounts. It is understood that at the municipality level, the same practice is followed.
- 37. Based on the law “On pension schemes financed by the state” the Pensions Department at the Ministry of Labor and Social Welfare in Kosovo is responsible for the management of the pension schemes mentioned in the law.** According to the law, all the pensions should be disbursed in the bank account of the pensioner. The Social Welfare department in the Ministry administers some social assistance programs, which should be also by law disbursed into the bank account of the beneficiary.
- 38. Payments to the Central government, custom duties and social security and health insurance contributions are collected via bank channels.** All payments to government entities above 10 Euros are processed via banks. From May 2019 the Treasury/Ministry of Finance Labor and Transfers is direct participant in RTGS, by reducing the operational risk associated with the paper-based payment orders and increasing the effectivity and efficiency of the treasury payments.
- 39. The Government of Kosovo, through the Society Information Agency, under the Ministry of Public Administration, is leading a project on e-government.** The purpose of this project is to provide to the citizens of Kosovo online access to several public services and to enable the possibility to pay for these services (digitally) through e-commerce. The government authorities and the private sector have been engaged in technical meetings and discussions to make the platform operational. As a result, the first part of the project, related with the centralization of the public services and citizen's information in the platform is almost ready. Still further developments are needed to complete the payment feature of the platform, so that the citizens can either access the public service needed, through ID authentication credentials or pay for it digitally (through e-commerce or e-banking) should that service have a fee.

## Relevant access points and channels in Kosovo

### *Bank branches and agents*

- 40. Banking infrastructure in general is more concentrated in major cities.** As of 2017, the number of bank branches per 100,000 adults decreased to 16.8 compared to 20.6 in 2015. As shown in the table 4 below, this figure is the lowest among neighboring countries.
- 41. The banking agent model has not been developed in Kosovo.** The figures above show that banks are also decreasing the number of branches. Even though the Law on Payment Systems in article 13 allows banks to have agents, this possibility had not been sufficiently used in practice. To further regulate the activity, in January 2020 the CBK has also approved a new regulation “On Agents and subcontracting activities of payment service providers”. It

<sup>21</sup> Ministry of Finance – Financial Annual Report of Budget: <https://mf.rks-gov.net/desk/inc/media/B4CA39B5-EC06-48D0-90D1-3A73D40D7772.pdf>

is expected to be pursued by the banking sector and NBFI-s authorized to provide payment services and issuance of electronic money, given that presently they have shown interest in favor of an agent-based model for certain categories of clients such as pensioners.

**Tabela 4. Numri i degëve të bankave për 100,000 banor – Vendet e Ballkanti Perendimor (2017)**

Country	Number of branches/100,000 adults
Montenegro	43.6
Bosnia dhe Herzegovina	28.3
Serbia	28.2
Republic of North Macedonia	25.6
Albania	20.6
<b>Kosovo</b>	<b>16.7</b>

Source: Financial Access Survey, International Monetary Fund, 2017

### *ATMs and POS terminals*

**42. The ATM and POS infrastructure is not sufficiently developed in Kosovo, compared to the other countries in the region.** The number of ATMs per 100,000 adults is 35.3, among the lowest in the region. While the number of POS per 100,000 adults is 642, still at lower levels compared to the region, with the exception of Albania.

**Table 5. Number of ATMs and POSs per 100,000 adults – Western Balkans countries (2018)**

Vendi	Number of ATM/100,000 adults	Number of POS/100,000 adults
Montenegro	87.0	1,962
Republic of North Macedonia	59.8	1,545
Bosnia and Herzegovina	55.8	761
Serbia	48.4	1,038
Kosovo	35.3	642
Albania	30.6	254

Source: Financial Access Survey, International Monetary Fund, 2018; CBK data for 2018 and WB calculations.

**43. Compared to 2015, in 2018 the number of ATMs per 100,000 adults decreased from almost 40 to 35.3 while the number of POS per 100,000 adults increased from 540 to 642.** ATMs are used almost exclusively for cash withdrawals, as only about 15% of the total number of ATMs offer funds transfer functionalities. POS terminals are used almost exclusively for card payments to merchants, though recently some banks introduced cashback services. Table 6 shows some basic data on ATMs and POS terminals in Kosovo.

**Table 6: ATMs and POS terminals in Kosovo (2019)**

<b>Automated Teller Machines (ATM), of which:</b>	<b>497</b>
ATM with cash withdrawals function	497
ATM with credit transfer function	51
ATM with deposits function	244
<b>Terminals POS (Point of Sale), of which</b>	<b>13,769</b>
POS Terminals with cash withdrawals function	87
EFTPOS terminals	13,682
Virtual POS terminals	N/A
E-money terminals	16

Source: CBK, December 2019

**44. Geographical coverage of ATMs and POS terminals is still limited.** In fact, as of 2019 about 34.6% of the ATMs and 41.5% of POS terminals were concentrated both in Pristina's region with a huge difference from the other municipalities<sup>22</sup>. Coverage is further limited by the fact that there is limited interoperability of these access channels.

#### *Other channels of payment service provision*

**45. Kosovo Post is also licensed by the CBK as a NBFi providing payment services.** It has a network of 120 branches out of 150 in total through which, in addition to postal services, even payment services are offered. These include government payments, utilities, car insurance payments, etc. and money transfers through Western Union super-agent UFP. Starting from 2017, Kosovo Post has signed an agreement with the Ministry of Labor and Social Welfare and the BPB Bank to become a bank agent for the distribution of the social benefits to the citizens. Due to the size of their network and their presence in remote places, their interest is to increase the number of payment services and to become a distributor of pensions for people living farther from bigger cities.

**46. Other relevant networks are those of the two NBFIs that are the major remittance service providers in Kosovo.** In total they have a network of 341 outlets throughout the country. Western Union through its local super-agent Unioni Financiar Prishtinë together with MoneyGram through its local super-agent Moneta comprise 85% of the remittance provider's market share. The rest is covered by Ria International through two different local agents, NBFi Vilesa and NBFi Capital. All the contracts that super agents have with their agents contain exclusivity clauses. This has been a regulatory requirement by the CBK up to January 2020, when the new regulation which prohibits exclusivity entered into force. There are two other remittance providers in Kosovo, such as Small World which operates through Vilesa and UPT which works with BKT Bank, KLM which only provides incoming remittances services, and the NBFi Paysera licensed during 2020 as an electronic money institution, which enables the receiving and sending of transfers through SEPA scheme.

<sup>22</sup> Usage of cards in Kosovo, August 2019. Central Bank of Kosovo.



## THE VISION AND STRATEGY FOR DEVELOPING THE RETAIL PAYMENTS SYSTEM IN KOSOVO

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### *Our Vision*

*To create a modern and inclusive retail payments market in Kosovo, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of payment service users throughout the country.*

### *Our goal*

*To ensure that the retail payments market will give users of payment services more choices across more places for conducting their day-to-day transactions in more convenient and cost-effective manners, also supporting the objective of broader financial inclusion.*

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**The overarching objective of the NRPS will be to promote the intensive use of modern (i.e. fully electronic) retail payment instruments across the whole country, with the goal of achieving 25 cashless payments per capita by end-2026.<sup>23</sup>** This objective would entail duplicating over the next five-year period the rate at which cashless payments per capita grew during 2014-2018. Hence, the overarching objective of achieving 25 cashless payments per capita by end-2026 is deemed ambitious, yet reasonable.

**Broadening access to transaction accounts is a necessary condition to achieve the overarching objective.** In this regard, Kosovo will aim at achieving an adult account ownership ratio of 70% by 2026. There has been a 4% increase in adult account ownership every 3 years in Kosovo. While in LMIC, an average of 14% has been achieved. Hence, assuming there will be a 9% increase every 3 years, the overarching objective of achieving 70% account ownership is deemed reasonable (starting point being 2017).

**Implementing the NRPS not only aims at increasing the levels of ownership and usage of accounts, but also at improving the quality of payment services to customers.** The successful implementation of the NRPS will benefit existing and new customers by:

- (i) Increasing the speed with which retail payments are initiated, cleared and settled;

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<sup>23</sup> From a baseline indicator of 15.2 cashless payments per capita as of end-2018.



- (ii) Enhancing the reliability of payments and their immediate availability made through the domestic infrastructures and through the distribution and payment acceptance channels that support retail payments;
- (iii) Increasing convenience to users by expanding the possibilities to pay electronically remotely or onsite;
- (iv) Making payment services increasingly affordable to individuals, businesses and the government by promoting enhancements to infrastructure (financial and broadening acceptance), and by fostering increased competition and innovation in the provision of payment services.

## II.1 Guiding Principles

47. **The NRPS will have to be implemented rigorously.** Once approved, the NRPS will be implemented according to a strict timetable. Depending on implementation progress, the credibility of all the institutions involved in the strategy will be at stake vis-à-vis the Kosovo's public. Progress will be monitored on the basis of a number of key performance indicators discussed in Section V.2 of this NRPS. Transparent accountability mechanisms will make sure that each player will be called on to respond of its performance on implementation progress.
48. **The implementation of the NRPS will be based on six guiding principles.** These principles will support the actions of the CBK, government agencies, banks and non-bank payment service providers and all other relevant stakeholders in discharging their responsibilities toward the NRPS. The guiding principles essentially follow the World Bank Group's Guidelines for Developing a Comprehensive National Retail Payments Strategy, and are as follows:

### *Guiding Principle 1: Transparency, fairness, and protection of users*

**Transparency is vital both to enhance competition and to strengthen the protection of users of retail payments.** Making the retail payments market operate transparently will reduce the incentives for misconduct and abusive behaviors from individual payment service providers and operators. One key aspect of transparency relates to the disclosure of prices for the various payment services/products offered under a methodology that permits effective comparisons, together with other relevant terms and conditions.

**Fairness in the domestic retail payments market will be promoted to ensure that stakeholders share the perception that their individual interests and needs are taken into consideration and are adequately addressed by regulators, overseers and operators of payment systems and of access point networks.** Fairness relates to the equal treatment of banks and authorized non-bank payment service providers (e.g. NBFIs), including applying risk-based, non-discriminatory criteria for participation in interbank payment systems and other retail payment networks. It also refers to the use of just and effective sanctions to penalize market misconduct and abusive behavior. Instrumental to firming this perception will be an ongoing policy dialogue by the CBK with market players and other stakeholders, and the CBK's capacity to exert its authority competently, consistently and transparently. A first step in this regard is taking place through the involvement of market players in the discussion and elaboration of this NRPS.

**Information for education purposes will be targeted to potential new users, as well as to enhance financial literacy of existing users – including recipients of remittances.**

Educational and transparency efforts help to promote effective competition and to strengthen market discipline by making more relevant information accessible to existing and new users. Awareness on the features of modern payment instruments and how these can help individuals and businesses fulfill their payment needs will be raised among existing and new users, although with a special focus on the latter considering their limited exposure to modern financial services.

**Consumer protection efforts will reduce the imbalances of information, resources, and power that are characteristic of a service relationship between individuals (or small businesses) and banks or other payment service providers.** Together with the provision of information for better decision-making mentioned earlier, these efforts will include prohibiting banks and other payment service providers from engaging in unfair or misleading practices, and making sure through legislation that adequate mechanisms for customer protection and the resolution of customer disputes are in place.

***Guiding Principle 2: State-of-the-art and interoperable payment infrastructures and access point networks***

**State-of-the-art payment infrastructures will be in place to support the processing of all relevant payment instruments.** The CBK has implemented two of the key payment infrastructures that allow the clearing of retail credit transfers and their final settlement in central bank money, respectively. The CBK will support the implementation of other needed infrastructures (i.e. for payment cards), although their actual implementation and effective operation will be the responsibility of the private sector.

**All payment infrastructures deemed systemically important by the CBK will observe the CPMI-IOSCO “Principles for financial market infrastructures” (PFMIs).** Other payment infrastructures will follow best international practices, and may be required to also observe a sub-set of the CPMI-IOSCO PFMIs. Periodically the CBK will assess the degree of systemic importance of infrastructures and indicate the international standards / best practices by which they should abide (see also Guiding Principle 6).

**Payment infrastructures and access point networks will be interoperable via the establishment of a national retail payment processing infrastructure.** This will ensure fair and equitable access and will support efficiency while minimizing financial, operational and other risks. Interoperable access point networks will enable the seamless use of payment products at multiple locations throughout the country, at a reasonable cost.

***Guiding Principle 3: Appropriate legal and regulatory framework***

- 49. Non-discriminatory entry rules and participation conditions in the market for the provision of retail payment services will be preserved and enhanced as necessary.** These rules play a critical role in ensuring the contestability of, and facilitating broad participation, in the retail payments market, in fostering innovation, and more generally in establishing and maintaining the level playing field among authorized payment service providers irrespective of their nature or size.
- 50. Payments regulation will keep abreast of market developments and best international practices.** On the regulatory front, the actions of the CBK will be aimed at ensuring the smooth functioning of retail payments and of the NPS more broadly, by preserving its safety, promoting its efficiency and affordability, and at making sure that it develops over time in a way that matches the payment needs of the growing Kosovo’s economy.

***Guiding Principle 4: Strong competition, complemented with cooperation***

51. **The market for the provision of retail payment services will be well protected against anticompetitive behavior from individual payment service providers or payment system operators.** Market players being able to achieve and exploit monopolistic positions would put at risk the capacity to innovate, to improve the quality of services, and in the provision of payment services to customers at competitive prices. As overseer of the NPS, the CBK is in a privileged position to monitor market developments and to collaborate with the competition authority, in the event monopolistic practices are identified.
52. **Protection against anti-competitive behavior will not rule out the possibility for individual entities becoming leading providers of critical infrastructural services, transferring to customers the benefits of economies of scale and scope.** Yet, the protection of market competition and contestability, and the strict application of rules against market abusing practices will make sure that no individual payment system operator or group of operators exploits payment service providers or act in ways that impede new market entries (see below).
53. **A right balance will be sought for between competition and cooperation within the retail payments industry.** While competition ensures the efficient provision of innovative and cost-effective retail payment services, cooperation among market players, as well as between them and the CBK, is necessary to build shared infrastructures, define and adopt common standards for services, and undertake needed collective action. Therefore, the CBK will continue to induce the required level of industry cooperation through appropriate incentives and rules, dialogue, and moral suasion. Moreover, the CBK will take a leading role in catalyzing private-sector initiatives, whenever necessary. Yet it will do so with a view to assisting the private sector to become a self-propelling force in the development of safe and efficient NRPS.

***Guiding Principle 5: Governance and risk responsibilities***

54. **An appropriate risk management framework will ensure that risks and costs in the retail payments market are identified and managed appropriately.** Market players should have sufficient regard to risks and costs in the design and operation of their facilities. The maintenance of a balance between risk reduction and the associated cost will be sought, keeping in mind that new market developments may from time to time alter the current equilibrium. While the CBK will continue to oversee the NPS as a whole and supervise payment service providers / payment system operators, the latter two hold the ultimate responsibility for managing the risks they introduce into the retail payments market and to the NPS more broadly.
55. **A progressive, yet cautious approach will be followed in responding to new technological developments.** It is imperative that the risks involved in opening the NPS to new actors and instruments are fully understood and appreciated. The general approach of the CBK will aim at accepting and facilitating innovation, while making sure that the identified or potential risks are appropriately understood, appreciated and managed, and that related responsibilities are adequately shared.
56. **Sound and effective governance arrangements will underpin the provision and sharing of infrastructural services by public or private sector entities.** In order to ensure that infrastructural services operate smoothly and ensure interoperability, their governance will need to reflect the needs and interests of all participating institutions, of

regulators and of the economy as a whole, maintaining a balance between private interests and public goals.

- 57. Payment systems operators and payment service providers should at all times refrain from any actions that might put at risk public confidence on the NPS or the broader financial system.** Public confidence in payment systems, especially on those of a retail nature, is of the utmost importance. In this regard, the CBK will cooperate with other relevant authorities as necessary to guard against all forms of criminal abuse of the payment system, such as fraud, breaching of data integrity, money laundering, or financing of terrorist activities.

### *Guiding Principle 6: Effective oversight*

- 58. Through oversight, the CBK will aim at preserving the safety of the retail payments market and the NPS more broadly, while promoting its efficiency, affordability and inclusiveness.** The CBK will continue to strengthen its internal capacity necessary to oversee the growingly complex retail payments market effectively. The CBK will revise its oversight policy framework to make it compliant with the principles on payment systems oversight.
- 59. In discharging its oversight responsibility, the CBK will continue to apply best practices in line with the principles and standards developed by the international financial community.** For the oversight of specific retail payment instruments, services and schemes, the CBK will adopt international guidelines,<sup>24</sup> and will take into consideration experiences and practices developed by other central banks when aiming at mitigating risks in retail payment services and instruments.<sup>25</sup> To the extent that any retail payments system is designated as systemically important, the CBK will ensure compliance of these systems with the CPMI-IOSCO PFMI adopted by CBK with the Methodology for assessment of systemically important payment systems.
- 60. As part of its oversight activities, the CBK will ensure continuous policy dialogue with all relevant stakeholders of the retail payments market.** Such a dialogue will be necessary to secure fair representation of all public and private interests in the decision-making processes concerning the retail payments market. It will help to create consensus on policy choices and to improve the quality of policy design, and will offer a channel for the CBK to provide stakeholders with indications on its policy orientation and for stakeholders to give feedback. Where necessary, the CBK will use policy dialogue channels as conduits to exert moral suasion on market layers, as ways to disseminate knowledge of best practices across the industry, and as means to prompt voluntary arrangements for collective action at the industry level (for example, on decisions involving infrastructural investments and risk mitigation measures).
- 61. As a catalyst for change, the CBK will adopt and/or promote measures to facilitate a more rapid evolution and development of the retail payments market.** For example, the CBK will facilitate the adoption, by payment service providers, of common standards for individual types of retail payment instruments. Likewise, it will ensure, with regulations if

<sup>24</sup> Such as, the CPMI-World Bank Group "General principles for international remittance services" (2007) and the guiding principles in the "Payment Aspects of Financial Inclusion" report (2016).

<sup>25</sup> For instance, there are several relevant reports from the European Central Bank: Harmonized oversight approach and oversight standards for payment instruments (2009); Recommendations for the security of internet payments (2013); Assessment guide for the security of internet payments (2014); Guide for the assessment of credit transfer schemes against the oversight standards (2014); and, the Guide for the assessment of card payment schemes against the oversight standards (2015); Revised oversight framework for retail payments (2016).

necessary, that operators of retail payment systems and access point networks develop rules and procedures for the efficient, reliable and safe settlement of retail payment transactions.

## II.2 Strategic areas and actions

The actions foreseen by the CBK in order to implement the NRPS in Kosovo are aligned with the Guiding Principles laid out earlier, and can be categorized into eight broad strategic areas: (i) stakeholder commitment to the NRPS; (ii) legal and regulatory framework; (iii) improved payment and supporting infrastructures; (iv) customer-centric and affordable payment services based on transaction accounts; (v) access point networks; (vi) financial literacy, (vii) leveraging of large volume payment programs to achieve scale; and, (viii) effective oversight.

### *i) Strong stakeholder commitment*

Facilitating the reform of the retail payments market as a joint public-private effort

**The NPC of Kosovo will broaden its membership and will reinvigorate its activities to facilitate the implementation of the NRPS and raise the quality of the policy dialogue.**

Under the leadership of the CBK, the NPC of Kosovo has been an important forum to facilitate a cross-sectoral discussion on payment system issues. For facilitating the reform of the retail payments market and for ensuring the continuous dialogue among stakeholders, the NPC will broaden its composition to include non-bank providers of payment services as voting members. Moreover, the NPC will have a more active and visible role in the context of the NRPS. Therefore, it will:

- a. Create a retail payments working-level task force that will meet on a quarterly basis or whenever deemed necessary to monitor and report progress of the NRPS, inform on the obstacles being identified, and suggest involvement from the NPC as necessary.
- b. Create a coordination group which will ensure that resources for advancing financial inclusion efforts and achieving the overarching goals of the NRPS are effectively coordinated.

**62. The CBK and NPC as a consultative body, will promote the greatest possible involvement of the private sector in decisions of common interest and public relevance concerning the national retail payments market.** These areas may include aspects such as the choices concerning operational standards, infrastructure adoption and design, ways to achieve interoperability of payment instruments and across bank and e-money accounts (when these will be issued by non-banks), risk management, and ways to address public confidence issues.

**63. CBK will seek to catalyze resources for technical assistance from external experts, specialized agencies or peers in other countries to address NRPS challenges.** International organizations will be very useful sources of technical assistance, while dialogue and exchanges with other central banks and national authorities will provide unique perspectives and exchanges of applied knowledge.

### **Advancing access to transaction accounts**

**Kosovo will adopt a deliberate, coordinated and strategic approach that involves and commits both the public and private sectors to enhance access to transaction accounts and to advancing broader financial inclusion.** A working group, with NPC members and/or members' representatives, will be created to ensure that resources and actions are put in place in a coordinated

fashion to advance financial inclusion.<sup>26</sup> In a first stage (2021-2023), the coordination group will focus on advancing access to and usage of transaction accounts. In a second stage, other financial services that should be broadly available to individuals and businesses, like credit, savings and insurance will be included in this effort.

Building capacity across the payments industry

**The CBK, in cooperation with other stakeholders, will seek to develop adequate capacity and know-how on retail payments matters.** Active banking and financial industry participation, cooperation and investment with/from private sector will be necessary. Cooperative efforts will aim to address industry human resource needs via seminars, workshops and technical assistance. To this end, capacity-building initiatives, training sessions will be organized, if necessary with external support from international organizations and partner institutions.

## *ii) Conducive regulatory environment for retail payments*

Ensuring regulatory neutrality and proportionality

- 64. CBK will finalize the transposition of the relevant EU Directives e.g. PSD 2, E-money Directive, Settlement Finality Directive, which will help ensure inter alia, a more consistent approach to the regulation of the various types of payment service providers.** In doing so, the CBK will support technological and business model neutrality. This will allow for the development of new types of payment services, while ensuring equivalent operating conditions for both existing and new payment service providers.
- 65. In this way, a functional approach to payments regulation will be ensured.** This includes setting regulatory requirements consistently across the various types of payment service providers, thus further facilitating market entrance, a level playing field for competition and innovation and addressing risks. On the latter, the framework would be proportional to the risks that non-bank PSPs authorized to provide payment service and issuance of e-money, and new products and business models could create.
- 66. The CBK, in close cooperation with the relevant NPC members, will continuously review the legal and regulatory framework of the Kosovo retail payments market.** This review is important in light of the rapid pace of technological advancement, the fast change in business practices, and the quickly evolving typologies of risk (including various types of like cyber fraud), which characterize modern retail payments markets. A comprehensive joint review will be carried out at least once a year, or more frequently if deemed necessary with consequent legal or regulatory amendments.

## **Facilitating innovative business models and technologies**

- 67. The use of third parties as agents and sub-agents for the provision of payment and payment-related services is currently being regulated comprehensively by the CBK.** The new regulation is approved and in force from January 01, 2020. CBK will provide clarity on the minimum requirements that agents should meet, and it clearly states that principals (i.e. banks, NBFIs, etc.) remain fully liable for any act of their agents. Exclusivity agreements in the use of agents is explicitly banned.
- 68. The CBK is also currently developing the regulatory framework which will regulate in a consistent manner the use of outsourcing across the payments sector, with a special focus on the use of technical service providers.** The new underlying regulation

<sup>26</sup> Including that the specific goals and strategies related to financial inclusion are consistent with this NRPS.



is ensures that outsourcing of important operational functions does not materially impair the quality of the payment service providers' or payment system operator's internal controls and the ability of the CBK to oversee them effectively. The CBK will also reserve the right to extend its oversight and set requirements over technical service providers.

- 69. The CBK under its catalyst role, will encourage and promote the usage of innovative payment services and instruments.** In this context, it will explore introducing Instant Payments that can be used for a range of use cases, including for P2B payments at the point of sale, making use of QR codes. Instant Payments can contribute to lower initiation and acceptance costs (given that they are typically linked to credit transfers as the underlying payment instrument), instant settlement for end users as well as 24/7/365 availability. Overall, the payments market of Kosovo could benefit from new payments and general FinTech solutions, given that so far commercial banks have been the main providers of such services. Yet, banks have not been very proactive and have not come up with innovative solutions in this respect that could benefit end users and could contribute to more financial inclusion and the needs of the different population segments and merchants. The new regulatory changes are also expected to boost the payments market in the country.

### Protecting user rights, transparency and promoting the public good

- 70. The Government of Kosovo, through the Ministry of Trade and Industry, has provided the Central Bank of Kosovo CBK the powers and the responsibility to monitor and enforce protection of users of payment and other financial services.** The relevant agency for consumer protection under the Ministry of Trade and Industry has signed an MOU with the CBK to extend the authority for protection of consumers of financial services to the CBK. In the payments arena, CBK will ensure consistency with the provisions on transparency and consumer protection that emerge from the transposition of EU PSD2.
- 71. The CBK will also continue to work on ensuring that the rights of users of payment services are protected.** In this way, users will have an easily accessible and affordable out-of-court mechanism for the resolution of conflicts. Among other features, the regulation will require that this mechanism include clear, publicly available and easily applicable procedures in cases of fraud and disputes, and that it be available to all consumers, regardless of the type of PSP offering the service. The operation of this mechanism will be monitored in an ongoing basis through CBK's division for handling consumers complaints, in cooperation with the department for supervision of payment service providers and the department for the oversight of payment instruments.

### Preventing criminal use of the retail payments market (and the NPS more broadly)

**The CBK and the Financial Intelligence Unit in Kosovo should further explore the possibility to apply the simplified measures in the case of electronic money instruments<sup>27</sup>.** In certain proven low-risk circumstances and under strict risk-mitigating conditions it is possible to simplify electronic money products from certain customer due diligence measures, relating to the identification and verification of customers and beneficial owners (including micro and small merchants), while continuing to monitor transaction limits.

<sup>27</sup> European Union Directive 2018/843 amending Directive 2015/849 "On the prevention of the use of the financial system for the purposes of money laundering or terrorist financing" and amending Directives 2009/138/EC and 2013/36/EU.

### Leveraging electronic identification services

**The Ministry of Economic Development, as the Ministry in charge for the ITC sector in the Republic of Kosovo, as well as all the relevant government agencies, will ensure that the new draft law on “Electronic identification and trust services for electronic transactions”<sup>28</sup> be finalized and sent for approval as soon as possible.** The new law, which will replace the existing one<sup>29</sup>, is expected to establish the necessary legal framework for secure electronic identification, electronic seals, electronic broadcasting services and web site authentication in the Republic of Kosovo. The main benefits expected upon its implementation are enhancing security for electronic transactions, providing a common basis for secure electronic interaction between citizens, businesses and public authorities, enhancing the effectiveness of on-line public and private services and e-commerce services in the Republic of Kosovo.

#### *iii) Improvements to payment and other supporting infrastructures*

All key payments infrastructures and instruments need to be in place

- 72. The CBK and ACH participants in cooperation with the utility billers in Kosovo, will increase the use the interbank direct debit infrastructure already operational in the ACH, with the proper legal framework.** Any biller will be able to debit any bank) in the financial system from a single point/account, which will result in efficiency gains. Furthermore, interbank direct debits will further level the playing field for smaller banks to be able to attract billers and accountholders that need to pay the services received from those billers.
- 73. The CBK will explore the implementation of an instant payment infrastructure and will induce the private sector to build such infrastructure.** This new platform would allow making and settling small value payments instantly, by increasing the speed of payments 24/7/365. It is considered as an added value service especially across different use cases, which would create more opportunities for existing and new payment service providers as well as for merchants e.g. through scanning QR codes from mobile apps to perform payments, instead of using point of sale terminals. Account to Account interoperability can be achieved through Application of Programming Interfaces (APIs), given that different payment service providers have to be participants in the system in order to provide the service to their users across different types of transaction accounts.

### There should be fair access to payment infrastructures

- 74. The CBK will ensure that the regulations and other rules of all the payment system infrastructures in the country guarantee fair and open access, while preserving safeguards against financial, operational and other risks. Where necessary, legal amendments will be pursued.** Regarding its Interbank Payment System and other payment infrastructures, the CBK will adhere strictly to Principle 18 of the CPMI-IOSCO Principles for Financial Market Infrastructures (“A financial market infrastructure should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access”), while for other payment infrastructures the CBK will follow best international practices. The CBK will take advantage of its current work on transposing the EU PSD2 to introduce legal changes to this end with regard to retail payment systems.

<sup>28</sup> Transposing the EU regulation 910/2014 “On electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC”.

<sup>29</sup> Law Nr. 04/L-094 “On Information Society Services”.



75. **Specifically, the CBK will consider the participation of non-banks payment services providers as direct participants in IPS and the possible platforms what will be developed in future for enabling Instant Payments.** This could prove useful to some NBFIs that presently provide payment services and/or issuance of e-money. CBK will develop and include within the regulation for the interbank payment system objective, transparent criteria based on the risks they pose, which shall be fulfilled in order to access the ACH and RTGS modules of IPS. Similar criteria with additional changes as needed will be applied for the participation in the future platforms/systems that will enable instant payments.

#### Minimizing financial and other risks

76. **Management of credit and liquidity risks in the ACH will be improved by the CBK in its role as operator and overseer of this payment system.** Net debit positions incurred by participants will be collateralized “ex ante”. Along with reducing credit and liquidity risks, this measure will also facilitate non-bank payment service providers becoming direct participants in the ACH (as they would not need to access the CBK’s intraday liquidity facility as a settlement assurance tool for ACH positions). The CBK will also analyze setting limits to net debit positions of ACH participants.
77. **The IPS will also be assessed in detail versus the CPMI-IOSCO Principles for Financial Market Infrastructures.** The CBK will complete a self-assessment of the two payment system components of the IPS and will ensure it is assessed periodically and independently by the oversight division within PSD.
78. **The CBK and other payment service providers will pay close attention to cyber security risk and undertake relevant measures when needed<sup>30</sup>.** As the technology evolves rapidly, so do the cyber threats to the payment systems and instruments. To mitigate these risks, CBK and other payment service providers will ensure appropriate security measures related with electronic payments to prevent abuse with personal data or abuse with funds which would negatively affect the customer trust on the payment instruments usage. Furthermore, they will ensure appropriate measures related with payment systems activity to protect their integrity and ensure their business continuity.

#### *iv) Customer-centric and affordable payment services based on accounts*

Designing mainstream payment products for the unbanked

79. **The financial system system, with support from the KBA and the CBK, will design and offer a “basic” transaction account<sup>31</sup> for unbanked customers.** This is currently being underpinned by legislative actions from the CBK by transposing the Payment Accounts Directive<sup>32</sup>. Thanks to this, the current financially excluded could gain access to a broader set of financial services like credit, savings and investments. Beyond banks, non-bank financial institutions will also provide transaction accounts, which are a stepping- stone to broader financial inclusion.

<sup>30</sup> See also: CPMI “Guidance on cyber resilience for financial market infrastructures”, June 2016; Eurosystem cyber resilience strategy for FMI, March 2017; CPMI “Reducing the risk of wholesale payments fraud related to endpoint security: a toolkit”, October 2019; ECB “Cyber resilience for financial market infrastructures”, November 2019.

<sup>31</sup> See Article 17 of EU Directive 2014/92/EU “On the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features” on the characteristics of payment accounts with basic features and Payment Aspects of Financial Inclusion report, Box 3 and Box 4.

<sup>32</sup> Directive 2014/92/EU “On the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

- 80. The design of the “basic” transaction accounts will ensure their affordability, yet keeping the essential features of a transaction account.** At a minimum, basic transaction accounts will make it possible for the target population to store value safely and to send and receive payments electronically at little or no cost. In determining the pricing structure and other features of the basic transaction account, bank and non-bank PSPs will bear in mind that their key target population are poor individuals for which a minimum balance requirement or the maintenance fees are not likely to be a viable option. In any event, these basic accounts will make it possible for the respective target populations to transfer (receive) funds and pay electronically to/from as many parties as possible, but in particular to/from those parties with which these individuals transact regularly for routine issues.

Using pricing as an incentive for increased usage of electronic payments

**The CBK will develop a price database of financial products and services for making comparisons across institutions (banks, NBFIs, MFIs) and make this database public at its website. The contents of this price database will be reviewed frequently to ensure that it includes all the relevant data items and other elements (i.e. comparability) that are necessary for bank and NBFIs customers to make informed choices.**

*v) Expansion of access points and networks for payments*

Developing the agent banking model

- 81. Agent banking will be developed to increase the reachability and convenience of transaction accounts to all the users.** Usefulness of transaction accounts will be augmented by achieving greater coverage of the banking and payment system, especially for those individuals that live/work far from major financial districts. In addition to the approval of the necessary regulatory changes, the CBK will facilitate the roll-out of agent banking in liaison with banks, and other payment service providers that are interested in establishing agent relationships, and by monitoring its development throughout Kosovo.
- 82. CBK will incentivise the cooperation between banks and NBFIs.** Taking into consideration the experience in providing services in rural areas and isolated communities, it is highly useful to maintain the branch network and expand the access to opening and using payment accounts outside the main urban centres of Kosovo. This may be achieved even through engaging the NBFIs as banking agents in distributing pensions, the social assistance scheme and other payments, therefore it is recommended for the agent banking model to be used for other payment services within the whole country. Banks and NBFIs are free to choose those agents they trust are more adequate for their plans and Business needs.

Developing interoperability

**The reach of access points will be effectively increased by achieving interoperability of the various channels and outlets.** Interoperable access point networks will enable the unified use of payment products at multiple locations throughout the country.

Inducing higher acceptance of electronic payments through pricing and incentives

- 83. The Ministry of Finance Labor and Transfers may analyze the feasibility of providing a set of incentives to merchants to accept electronic payments.** However, once undertaken, these should be applied as temporary initiatives which would contribute to the increase of payment instrument usage. Incentives may include but not limited to: providing a temporary subsidy to smaller businesses for the rental of POS terminals or other transaction-

acceptance devices; providing a temporary fiscal benefit for purchases in which the business accepted cards or other electronic payment instrument as a means of payment; among others.

- 84. The CBK will require banks that are payment card acquirers to be transparent on the fees they charge to merchants, including by making this information available in a standardized form to the latter.** The CBK will also collect data systematically on these fees. The cost of accepting payment cards is one of the key determining factors for businesses to accept them. These costs include monthly rental fees for acceptance devices, the per transaction merchant discount rate (MDR), and other monthly or per transaction charges. The CBK will apply transparency requirements in the merchant acquisition space (vis-à-vis merchants that accept or are considering accepting payment cards) similar to those that are already applied in relation to accountholders. The CBK will also incorporate data related to merchant acquisition services (as part of oversight data collection from acquirers) to its financial services price database and will make this information available in its website.

#### *vi) Effective financial literacy efforts*

Increasing the public's awareness of the NRPS and its benefits

- 85. The CBK and KBA will develop compelling messages explaining what benefits the implementation of the NRPS will bring to Kosovo.** They should also inform about risk mitigation measures, user rights responsibilities and customer complaints redressing mechanisms available. The strategic objectives will have to be known to the business community and the general public, through public information and educational campaigns.

Informing and educating current and potential users on accounts and electronic payments

- 86. The CBK, other public sector entities, and payment service providers will intensify their efforts to educate Kosovo's citizens and country residents on the usage of transaction accounts and electronic payments through increased and targeted information provision.** Financial literacy efforts will target the main aspects that inhibit individuals and businesses to change their payment habits. Hence, these efforts will specifically address how accounts can effectively help meet an individual's payment and store-of-value needs, and will also target specific "fear" factors, such as: i) perception of lack of sound proof of payment if paper is not used; (ii) fear that the new modalities may be vulnerable to fraud; (iii) fear of dealing with unresponsive, complicated systems prone to operational error; and, (iv) perception of loss of privacy.
- 87. Payment service providers will make sure that sufficient hands-on training is provided as part of consumer onboarding.** This refers to consumers understanding how a payments product or service works in practice, including its potential weaknesses. Special emphasis will be placed on new users with limited first-hand exposure to electronic payment services. Hands-on training will also be provided to existing or new customers as part of the roll out of new or complementary payment products or services.
- 88. The Agency for Information Society under the respective ministry, will engage on making fully operational e-portal to with a payment function capability (perform e-commerce) for government services.** This Ministry will also focus on educating the general public on how to use it as effectively and widely as possible (i.e. including to make on-line payments, where available).

- 89. Particular population segments, such as remittance recipients, will be given particular attention, given the frequent flows of payments they receive. Indeed, most remittances in Kosovo are received through paper-based means, and as such, there is potential to educate recipients in terms of the more cost-effective electronic channels and payment methods.** In this context, CBK and other relevant authorities will continue implementing project Greenback 2.0, an initiative of the World Bank. Project Greenback 2.0 aims at increasing efficiency in the market for remittances through an innovative approach of promoting change inspired by the real needs of the ultimate beneficiaries of international money transfers, the remittance recipients. In Kosovo, the city of Prizren has been selected as a champion city under Greenback. Through various educational and informational campaigns and workshops, the project focuses on the migrants and their needs, while also working with other stakeholders such as supply side (i.e. remittance service providers), local government, universities, and NGOs.
- 90. The CBK will measure as objectively as possible the effectiveness of the financial education efforts and programs it has been undertaking.** This is crucial to make informed decisions on whether changes and/or adjustments are necessary to aspects such as the training materials themselves, the form in which these are delivered and/or distributed, the target group(s), etc. Some of the aspects to be measured will likely include how many more people are now aware of modern payment and other financial products and how many have changed their behavior as a result of the information that was made available to them.

*vii) Economies of scale in the NPS by leveraging large-volume payment use cases*

Migrating government payments and collections to electronic payments

- 91. Given that payment or transaction accounts (including e-money accounts), since January 2020, are allowed for payment service providers, they will also be used for the disbursement of pensions or other social welfare benefits in the medium-term once they become interoperable with bank accounts.** Transitioning the delivery of these types of payments via payment accounts is more complex than other government payments (e.g. payroll), because of the beneficiaries' low income, low account ownership and lower general levels of financial and digital literacy. Hence, beside the lower cost, these accounts will be accessible/usable at a mix of ubiquitous channels – both virtual and physical; moreover, these accounts will be mainstream products (i.e. multi-purpose and interoperable with other bank products and with the various access channels/points). In the meantime, it is crucial that users are offered the possibility to choose the payment service provider that they want to use to access their funds. Users may choose the payment service provider based on their preferences or the level of fulfillment of their needs, considering that they have their own specific requirements and they shall be able to choose the payment service provider which offers them a more convenient access from home or from work, depending on their needs.
- 92. Any remaining legal or regulatory barriers to collection of electronic payments to the government by non-banks will be eliminated.** Collections of government income (P2G and B2G payments) could benefit from innovative business models and electronic and online channels that eliminate the need to visit the bank branch or the premise of the government agency.

Leveraging the role of large billers and transit payments

- 93. Given the current situation of dominance of cash for utility bill collections and transit payments, more deliberate actions to discourage use of cash and incentivize electronic alternatives will be taken.** The CBK recommends to the Ministry of Finance Labor and Transfers to analyze the feasibility of introducing VAT rebates on purchases made with electronic means, including bill payments. Moreover, CBK recommend to the large billers and municipalities which offer transit services to also collaborate in inducing a greater usage of electronic payment instruments, which in turn could reduce their own collections costs. Billers shall analyze offering rebates and/or other incentives if bills are paid via direct debit. They shall also carry out educational campaigns with their customers, their own employees and local authorities to clarify that bills paid with electronic means of payment are legally valid, and therefore paper proof is not required. Likewise, once they are able to accept electronic payments, municipalities who manage transit services will consider offering rebates to users when they pay electronically on a regular basis.

*viii) Effective CBK oversight of the retail payments market*

- 94. The CBK will revise its oversight policy framework to make it compliant with the international best standards (i.e. General principles for effective oversight) and also include payment services.** This would require for instance including the criteria for classification of the payment systems and better defining the scope of oversight by considering other financial market infrastructures as well as the cooperation with other units such as supervision department with regard to payment services and instruments.
- 95. In addition to the assessment methodology for its systemically important payment system, the CBK will draft the assessment methodology for retail payment systems including PSPs and PSOs.** It will include all the necessary steps to perform the oversight process, the principles applicable as well as the cooperation within the CBK and other relevant authorities, should that be necessary.
- 96. The CBK both from a supervisory and oversight perspective will make sure that payment service providers and payment system operators regularly review their cost and pricing structure, and that they avoid any abusive pricing practices. CBK will maintain close and continuous contact with the market in order to monitor pricing policies and watch against unfair practices.** The CBK will not allow distortive pricing practices in the provision of infrastructure services (i.e. including interchange fees in the payment cards market). To promote more transparent pricing, it will also persuade payment service providers and payment system operators to avoid cross subsidizing their payments business.
- 97. The CBK and the Kosovo Competition Authority will closely monitor and act upon against any anti-competitive practices in the retail payments market.** In particular, they will monitor any actions from market players aimed at denying, hindering or limiting access to services that involve competitors. The CBK will take directly all actions that are consistent with its legal mandate and policy responsibility to protect competition in retail payments. When necessary, competition issues will be addressed to the Competition Authority of Kosovo for further legal actions.
- 98. Through the transposition of the PSD2 through the new Payment System Law, the CBK will make sure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced.** These include aspects like how transactions are authorized and executed, maximum execution time and value dating of payments, revoking payment orders, liabilities in case of unauthorized use of payment instruments, and refunds on payments.
- 99. The CBK requires by regulation the establishment and publication of a register of agents used by banks and other payment service providers.** The CBK will ensure this register is maintained and updated on a periodic basis and is made publicly available to consumers.

### III. IMPLEMENTATION OF THE NATIONAL RETAIL PAYMENTS STRATEGY: ROLES, RESPONSIBILITIES AND PROGRESS MONITORING

#### III.1. Roles and Responsibilities

**100.** The successful implementation of the strategy will require that specific roles and responsibilities be assigned to various stakeholders, under public accountability rules.

##### *Central Bank of the Republic of Kosovo*

**101.** The CBK is a critical actor in the implementation of the NRPS. The CBK will play a very proactive role in promoting the NRPS by supporting cooperation and coordination among stakeholders, and by prompting collective action from stakeholders whenever necessary. In its multifaceted payments capacity as a central bank, the CBK will:

- i. Catalyze retail payments reforms and development measures, largely by prompting cooperative actions and decisions by the private sector as well as from relevant public sector entities;
- ii. Draft laws and regulations (or changes thereof), as well as strategic documents;
- iii. Oversee the retail payments market and the broader NPS to ensure their smooth functioning;
- iv. Provide clearing, settlement and infrastructure facilities through the operation of IPS, including ensuring finality and irrevocability in the payment and settlement in central bank money, thus increasing confidence in the payment system; and
- v. Use the modern payments infrastructure and instruments and services for its own payment activities and that on behalf of its client institutions and customers.

##### *Kosovo Banking Association*

**102.** The KBA as a representative of commercial banks in Kosovo, will:

- i. Coordinate and represent the interests of its members on any matters relating to the NRPS, including but not limited to the design and launch of new payment products across the banking industry, financial literacy;
- ii. Promote and coordinate initiatives to create privately-owned retail payment infrastructures, and promoting their integration with other infrastructures (e.g. IPS);
- iii. Design and adopt standards across the banking industry (and with other payment service providers) to ensure uniformity and efficiency in operations; and,
- iv. Promote and facilitate the interoperability of all bank accounts, access points and between bank accounts and e-money accounts.



***National Payment Council***

- 103.** Regarding NRPS implementation, the NPC will be involved mainly in monitoring progress. In this context, the Council will also:
- i. Facilitate communication between public and private sector stakeholders
  - ii. Identify and recommend solutions to different issues raised on the stakeholders' common interest;
  - iii. Monitor and report along with CBK on the progress in the implementation of the NRPS and the actions taken by its members.

***Other Government Agencies and Institutions***

- 104.** Important roles and responsibilities are likely to be played by government agencies holding regulatory responsibilities in areas that have critical contiguities with the NRPS. These include regulatory agencies for IT, telecommunication, competition, consumer protection, labor and social security, among others.
- 105.** Other government entities that have important roles in the context of the NRPS are the Treasury/Ministry of Finance Labor and Transfers, the Ministry of Economic Development, Ministry of Public Administration, the Ministry of Education, Science and Technology, the Agency for Civil Registration, the Agency for Information Society, the Financial Intelligent Unit.

***Payment Service Providers (banks and other payment service providers)***

- 106.** The individual payment service providers will:
- i. Commit to transparency, including sound market conduct and protection of users rights, in carrying out their payments business vis-à-vis their customers, (individuals, businesses that hold accounts with them, as well as merchants in their acquiring business and government entities);
  - ii. Manage in a robust manner the risks associated with the payment services they provide to the public as well as their payment operations more generally; and,
  - iii. Adopt the strategic directions for the retail payments market approved by CBK and within the NPC, and contribute actively to the policy dialogue on NPS issues.

***Payment System Operators and card/e-money schemes***

- 107.** The individual payment system operators and card/e-money schemes will:
- i. Commit to practices that foster interoperability and to cooperation leading to common standards, shared infrastructures/services, and collective action when needed;
  - ii. Abide by international standards in risk management, commit to follow the rules and standards set by the CBK or other relevant authorities and, where possible, go beyond these

by adopting best international practices, that raise the bar of efficiency and effectiveness in serving market needs;

- iii. Maintain and enhance an open, fair, and risk-based access policy; and,
- iv. Adopt the strategic directions for the retail payments market approved by CBK and within the NPC. Moreover, contribute actively to the policy dialogue on NPS issues.

### *Industry Associations and Civil Society Organizations*

- 108. Industry associations and civil society organizations, including users associations (if/when this is applicable) will engage on specific issues, in accordance with their statutory objectives and responsibilities, and at the request of the NPC, to support strategy implementation and buy-in.

## III.2 Progress Monitoring

- 109. **A framework for monitoring and evaluating progress in the implementation of the NRPS will be developed up front and become an integral part of the overall plan.** Progress in the implementation of the NRPS will be assessed periodically against the vision and the measurable overarching objectives established at the outset of the NRPS. A number of “Intermediate variables” that convey the progress towards the agreed vision and overarching objectives will also be measured/calculated and monitored. This will help in identifying course correction requirements promptly.
- 110. **In this regard, the measurable overarching objectives of the NRPS are:**
  - i. **Increasing the current number of cashless payments per capita to 25 such payments by end-2026. The starting point is 17.3 cashless payments per capita observed as of end-2019.**
  - ii. **Achieving an adult account ownership ratio of 70% by 2026. The starting point is 52% of adult account ownership observed as of end-2017.**
- 111. **The CBK will measure these overarching variables once a year and will report them to the NPC, which would in turn assess the respective progress or relevant actions to be undertaken. The CBK will communicate progress achieved to the general public.**
- 112. **On the other hand, the CBK will select those intermediate variables that it will calculate at least on a quarterly basis in an attempt to identify trends as early as possible. These calculations will be reported twice per year to the NPC.**
- 113. **In these reports, the CBK will identify the original baseline figure for each intermediate variable, the expected direction of the variable (i.e. whether it should have a growing or decreasing trend in order to be compatible with the overarching objectives), the actual figure for the month and how it compares with the original baseline (changes in absolute value and growth rates).**



**Table 7: Possible Intermediate Variables to Assess Progress in NRPS Implementation**

Intermediate Variable	Explanation
Access points	This would include metrics like ATMs and POS terminals per 1000 inhabitants and number of branches per 1000 adults.  To get a more accurate assessment, a metric for specific geographic areas (region, urban versus rural, etc.) may also be developed.
Other access metrics  These set of metrics help in assessing the penetration of payment instruments and alternative access channels.	This would include metrics like number of credit and debit cards per capita; share of accountholders subscribed to Internet banking and/or mobile banking; share of accountholders that use Internet banking and/or mobile banking at least once every month; number of e-money accounts, number and volume of payments with e-money instruments, etc.
Transactions per ATM and POS terminal, e-Commerce	This is the number of transactions per ATM, POS or acceptance infrastructure over a period of time. This serves to measure the level of interoperability and usage of infrastructure.
Transactions at POS/ Transactions at ATMs	This number reflects the evolution in the usage of payment cards as an electronic payment instrument with merchants <i>versus</i> its usage as a cash distribution mechanism (i.e. at ATMs)
Percentage of payment instructions received by PSPs purely through electronic means	This is the share of payment instructions received by payment service providers through electronic means in the total number of payment instructions (including electronic plus paper-based and face-to-face channels).
Percentage of payment instructions received and processed purely electronically by PSPs	Same as above, although this variable also includes whether payment instructions were processed electronically once they were received in electronic form (i.e. to identify evolution in straight-through processing)
Volume and value of frauds and operational errors	This is the count and value of frauds represented in percentage terms for specific categories of frauds and operational errors like late processing of a funds transfer, debit of a wrong amount, counterfeit fraud, repudiation related fraud, etc.

Source: Adapted from World Bank (2012), "Developing a comprehensive national retail payments strategy".

## III.3. Implementation Plan

Table 8. Implementation Plan for the Kosovo NRPS

Strategic area	Actions	Main Implementing Entity/Unit	Timeframe	
<b>Strengthening Stakeholder Commitment</b>	Broaden the membership of the NPC to also include as voting members all the entities (NBFIs and/or other payment service providers) that can contribute to the policy dialogue of the NPC objectives	CBK to coordinate	2021	
	A more active and visible role for the NPC in the context of the NRPS. This can be done through: <ol style="list-style-type: none"> <li>1. The creation of a retail payments task force within the NPC to monitor and report progress of NRPS.</li> <li>2. The creation of a coordination group to ensure that resources for advancing financial inclusion efforts are effectively coordinated.</li> </ol>	NPC members, with support from the CBK (as the Secretariat)	2021, ongoing work thereafter	
	Promote the greatest possible involvement of the private sector in decisions of common interest and public relevance concerning the national retail payments market	CBK and NPC members	Start 2021 and ongoing thereafter	
	Catalyze resources for technical assistance from external experts, specialized agencies or peers in other countries to address NRPS challenges.	CBK and KBA	Start 2021 and ongoing thereafter	
<b>Consolidation of a Conducive Legal and Regulatory Environment for Retail Payments</b>	Finalize the transposition of the following EU Directives in the national legislation: <ul style="list-style-type: none"> <li>• PSD-2</li> <li>• E-money directive</li> <li>• Settlement Finality Directive</li> <li>• On Payment Accounts</li> </ul>	CBK and Government	2021-2026	
	Periodic review of the legal and regulatory framework of the Kosovo retail payments market.	CBK, KBA and representatives of NBFIs and payment system operators	Ongoing	
	Ensure consistency with the provisions on transparency and consumer protection that emerge from the transposition of EU PSD2.	CBK	2021-2024	
	Regulate in a consistent manner the use of outsourcing across the payments sector, with a special focus on the use of technical service providers	CBK	2021-2023	
	Approve and implement the new law on "Electronic identification and trust services for electronic transactions"	Ministry of Economic Development	2021-2022	
	Assess the possibility to apply the simplified measures with regard to AML/CFT in the case of electronic money instruments.	MoF/FIU, CBK	2021-2022	
	<b>Improvements to payment and</b>	Explore the possibility to introduce the instant payment infrastructure in Kosovo.	CBK	2021-2025

Strategic area	Actions	Main Implementing Entity/Unit	Timeframe
<b>other infrastructure</b>	Increase the use the interbank direct debit infrastructure already operational in the ACH.	NPC, CBK, Banks, utility companies	Ongoing
	Regulations and other rules of all the payment system infrastructures in the country will guarantee fair and open access. Where necessary, legal reforms will be pursued.	CBK	Ongoing
	Broaden the category of direct participants in the IPS with non-bank payment service providers.	CBK	2021-2023
	Net debit positions incurred by participants of the ACH will be collateralized “ex ante”.  Analyze setting limits to net debit positions of ACH participants.	CBK	2021-2022
	Detailed assessment of IPS on the basis of the CPMI-IOSCO PFMI: <ul style="list-style-type: none"><li>• Prepare detailed self-assessment</li><li>• Conduct an external assessment.</li></ul>	CBK and External Review Parties	Conclude by 2021-2024
	Require payment systems operated by the private sector to implement robust risk management measures in their clearance and settlement arrangements.	CBK	2021- and ongoing
	Address cyber security risk issues and undertake relevant measures when needed	CBK, payment service providers	2021 and ongoing
<b>Provision of Customer-Centric and Affordable Payment Instruments</b>	Design and offer a “basic” transaction account product for currently unbanked customers.  Ensure affordability of these accounts through an appropriate pricing structure.  Basic accounts will allow users to pay (be paid) electronically to/from as many parties as possible.	Banks, NBFIs authorized to provide payment services with support from KBA and CBK	2021-2022
	Re-design the existing pricing structure for current accounts to induce more individuals and small businesses to have accounts and to use the electronic payment features of those accounts more intensively (instead of cash).  To the extent possible, upfront costs for opening an account and mandatory monthly or annual maintenance fees will be reduced.	Banks, NBFIs authorized for payment services and electronic money issuing	2021-2022
	Design a price database of financial products and services, further disseminate it among existing and potential new users through the CBK website.	CBK, banks, NBFIs	2021-2022
<b>Expansion of access Points and Networks for Payments</b>	Develop agent banking.	Banks, NBFIs	2021- and ongoing
	Achieve interoperability of the various channels and outlets via the instant payment system that will be established..	CBK, Banks and NBIFs	2021-and ongoing
	Analyze the feasibility of providing a set of temporary economic and/or fiscal incentives to merchants to accept electronic payments, or bill payments.  Implement this measure (if feasible).	Ministry of Finance Labor and Transfers	2021-2022 2022-2023
	The CBK will require banks that are payment card acquirers to:	CBK	2021-2022

Strategic area	Actions	Main Implementing Entity/Unit	Timeframe
	<ul style="list-style-type: none"> <li>Be transparent on the fees they charge to merchants.</li> <li>Make this information available in a standardized form to the latter..</li> </ul>		
	Collect data systematically on fees charged by payment card acquirers and other electronic payments acquirers to merchants and incorporate this data to the CBK database on financial services (see action above).	CBK	2022-2023
<b>Improve the Effectiveness of Financial Literacy Efforts</b>	Develop compelling messages explaining what benefits the implementation of the NRPS will bring to Kosovo.	CBK, KBA and NPC	2021-2026
	Intensify efforts to educate Kosovar citizens on the usage of transaction accounts and electronic payments through increased and targeted information provision.	CBK, other public sector entities, and PSPs	2021- and ongoing
	Sufficient hands-on training to be provided as part of consumer onboarding.	Banks and NBFIs providing payment services	2021-and ongoing
	Make operational the e-portal for government services, and raise public awareness how to use it as effectively and widely as possible (i.e. including paying on-line or using their ID cards to access the portal).  Increase the number and variety of public services and other P2G and B2G payments that can be paid on-line in the e-portal.	The Ministry of Public Administration, Agency for Information Society  Ministry of Economic Development  Treasury / Ministry of Finance Labor and Transfers	2021-and ongoing
	Measure as objectively as possible the effectiveness of the financial education efforts and programs undertaken by CBK, KBA or other authorities.	CBK, KBA Other authorities	2021-and ongoing
<b>Achieve Scale by Leveraging Large Volume Payment Programs</b>	Payment accounts (including e-money accounts), once they will be allowed for payment service providers, will also be used for the disbursement of pensions or other social welfare benefits in the medium-term once they become interoperable with bank accounts..	CBK, Ministry of Labor and Social Welfare	2021-2022
	Any legal or regulatory barriers to collection of payments to the government by non-banks should be eliminated	Ministry of Finance Labor and Transfers; Ministry of Labor and Social Welfare and CBK	2021-2022
	Analyze offering rebates and/or other incentives if bills are paid via direct debit.  Once they are able to accept electronic payments, the Municipalities which manage transit service will consider offering rebates to users when they pay electronically on a regular basis	Large billers (Utilities, Telcos, Cable TV, etc.)  Municipalities	2021-2022  2021-2022
	Large billers to carryout educational campaigns to ascertain the validity of bills paid using electronic payment instruments.	Large billers	2021-and ongoing
<b>Effective CBK Oversight of the</b>	Revise the oversight policy framework to make it compliant with the international best standards (i.e.	CBK	2021-2023

Strategic area	Actions	Main Implementing Entity/Unit	Timeframe
<b>Retail Payments Market</b>	General principles for effective oversight) and also include the oversight of retail payment services.  Advance the oversight of payment services using a “risk-based” approach.  Develop cooperation with Supervision Department.		
	Draft the assessment methodology for the retail payment institutions.	CBK	2022-2023
	Ensure that payment service providers and payment system operators regularly review their cost and pricing structure.	CBK	2021-and ongoing
	Ensure that payment service providers and payment system operators avoid any unfair or non-transparent pricing practices (on-site inspections and off-site data collections as part of oversight)..	CBK	2021-and ongoing
	The CBK and the Competition Authority will guard against any anti-competitive practices in the retail payments market.	Competition Authority of Kosovo in cooperation with the CBK	2021-and ongoing
	Make sure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced.	CBK, Banks and NBFIs	2021-and ongoing
	Keep a register of the agents used by banks and other payment service providers  Make this register publicly available to consumers..	CBK  CBK	2021  2021
<b>OTHER ACTIONS: IMPLEMENTATION PROGRESS MONITORING</b>			
<b>Progress Monitoring</b>	Measure the overarching objectives/variables of the NRPS (i.e. cashless payments per capita and share of adult account ownership)  Communicate progress achieved on these variables to the general public.	CBK and NPC	Once a year
	Select and measure “Intermediate variables” that convey the progress towards the agreed vision and overarching objectives.  Report the outcomes quarterly to the NPC.	CBK  NPC	Every six months
	NPC to undertake necessary measures to address insufficient progress	NPC	Ongoing

Annex 1. Glossary of selected terms<sup>33</sup>

<b>Access (or entry) Criteria</b>	Criteria for participating as a direct participant in a certain payment system, usually laid down in that system's rules
<b>Access Point</b>	A point that is necessary to initiate a payment. Access points can include branch offices, ATMs, terminals at the POS, or a personal device of the user (for access via the internet or other telecommunication networks)
<b>Agent Banking</b>	Business arrangements of banks and non-bank payment service providers using local entities (i.e. agents) such as small shops to provide basic payment and transaction account-related services on their behalf. IN some cases this arrangement is also referred to as banking through business correspondents.
<b>Agent</b>	An entity that provides payment services on behalf of a payment service provider. The type of service provided by the agent could vary from direct processing of transactions like disbursing cash or receiving deposits to accounts, to ancillary non-transaction-related services like collection of documents, opening a mobile money account, or addressing customer service queries, among others.
<b>Automated Teller Machine (ATM)</b>	An electromechanical device that permits authorized users, typically using machine-readable payment cards, to withdraw cash from their accounts and/or access other services such as balance inquiries, transfer of funds, or acceptance of deposits. ATMs may be operated either online with real-time access to an authorization database or offline. ATMs might be located at PSP branches or at other locations.
<b>Branch</b>	The physical outlet of a PSP that permits PSUs , to withdraw cash from their accounts and/or access other services such as balance inquiries, transfer of funds, or acceptance of deposits. These activities might be conducted via the teller or in the self-service area of a PSP.
<b>Cash</b>	Banknotes and coins issued by a central bank or government, which is recognized as legal tender in the country it has been issued.
<b>Clearing</b>	The exchange of payment instructions between the payer's bank and the payee's bank (or their agent.) which results in the calculation of payment obligations between system participants
<b>Clearinghouse</b>	A central location or central processing mechanism through which financial institutions agree to exchange payment instructions or other financial obligations (e.g. securities). The institutions settle for items exchanged at a designated time based on the rules and procedures of the clearinghouse. In some cases, the clearinghouse may assume significant counterparty, financial, or risk management responsibilities for the clearing system.
<b>Credit Card</b>	A type of payment card, indicating that the holder has been granted a line of credit. It enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest is charged on the amount of any extended credit and the holder can be charged an annual fee. A special type of credit card is a charge card. A charge card is a type of payment card indicating that the holder has been granted a line of credit. It enables him to make purchases but does not offer extended credit, the full amount of the debt incurred must be settled at the end of a specified period. The holder is usually charged an annual fee. Examples of these include the travel and entertainment cards.
<b>Debit Card</b>	Payment card where the funds are debited in full for every transaction. It enables the holder to make purchases and/or withdraw cash. Some issuers of debit cards provide

<sup>33</sup> The definitions are taken from: "A Glossary of Terms Used in Payments and Settlement Systems", CPMI and "Developing a National Retail Payment Strategy", World Bank.

	an overdraft feature, allowing the payer to use the card even without sufficient balance in the underlying account.
<b>Direct Debit Transfer</b>	A payment order or possibly a sequence of payment orders made for the purpose of collecting funds from the payer and placing at the disposal of the payee. The payment instructions typically move from the payment service provider (PSP) of the payee/originator to the PSP of the payer, possibly via several other PSPs as intermediaries and/or more than one direct debit transfer system. If both, the payer and the payee are customers of the same PSP, the direct debit transfer can be processed without the involvement of other PSPs and/or direct debit transfer systems. Direct debit transfers are typically categorized as electronic-fund transfer payment instruments, the authorization (or mandate) founding the contractual basis for the (series of) direct debit transfer(s) is however often still paper-based.
<b>Direct Credit Transfer</b>	A payment order or possibly a sequence of payment orders made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein typically move from the PSP of the payer/originator to the PSP of the beneficiary, possibly via several other PSPs as intermediaries and/or more than one direct credit transfer system. If both, the payer and the payee are customers of the same PSP, the direct credit transfer can be processed without the involvement of other PSPs and/or direct credit transfer systems. While direct credit transfers are typically categorized as electronic-fund transfer payment instruments, they can be a “hybrid payment instrument”, if they are initiated on paper forms. As part of the clearing process these paper forms are replaced with exchange of their images or more commonly digital substitutes.
<b>Fully Electronic Payment</b>	A payment instructions that is initiated electronically (e.g. entered into a payments system or a core banking system via the Internet or other telecommunications network) and processed electronically in all remaining steps up to where the account of the beneficiary is credited with finality (and the account of the payer is debited). The device used to initiate the payment could be a computer, mobile phone, POS device, or any others. The payment instrument used is often a payment card product, electronic credit/debit transfers, an e-money product or other innovative payment products.
<b>Interoperability</b>	A situation in which payment instruments belonging to a given scheme may be used in platforms developed by other schemes, including in different countries. Interoperability requires technical compatibility between systems, but can only take effect where commercial agreements have been concluded between the schemes concerned.
<b>Liquidity Risk</b>	The risk that a bank will not have sufficient liquidity to meet its settlement obligations (temporary need for fund)
<b>Mobile Banking</b>	The access of an account held with a bank, MFI, or other PSP via a mobile phone to obtain account information and/or initiate transactions.
<b>Mobile Money</b>	E-money product where the record of funds is stored on the mobile phone or a central computer system, and which can be drawn down through specific payment instructions to be issued from the bearers' mobile phone. It is also known as M-Money.
<b>National Payments System (NPS)</b>	Encompasses all payment-related activities, processes, mechanisms, infrastructure, institutions and users in a country or a broader region (e.g. a common economic area).
<b>Online Money</b>	E-money product where the record of funds is stored on a central computer system, and which can be drawn down through accessing this central computer system via Internet connection via a variety of devices (e.g. desktop PC, laptop, tablet, smart-phone).
<b>Oversight<sup>34</sup></b>	Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change.

<sup>34</sup> The first paragraph in this definition is the original definition from CPSS (2005) “Central Bank Oversight of Payment and Settlement Systems”. The second part is added from various WBG documents.



	Payment systems oversight aims at a given payments system, rather than individual participants. In recent years, many central banks have expanded oversight activities to payment instruments and payment services.
<b>Paying office</b>	The physical outlet of a payee (e.g. in case of utility companies) or payer (e.g. in case of government agencies) that permits PSUs to transfer and receive funds. These activities might be conducted at the teller or in the self-service area of the paying office.
<b>Payment Card Switch</b>	A mechanism that connects various institutions allowing interchange of payment cards transactions of participating institution cardholders at other participating institution merchants, ATMs and other card acceptance devices. A payment card switch is typically used for routing authorization and authentication-related messages between participating institutions, and can also generate and distribute clearing and settlement files. In some settings, the individual institutions could themselves have payment card switches to connect their own ATMs and POS terminals to their own internal card processing systems, and these payment card switches are then connected to a central inter-institution payment card switch. This term is often used interchangeably with payment card network but there are important differences: A switch in general refers to the technical infrastructure whereas a payment card network encompasses operational arrangements, payment products, rules, procedures, acceptance brands, etc.
<b>Payment instruction</b>	An order or message instructing the transfer of funds to the order of the payee.
<b>Payment Service Provider</b>	An entity that provides payment services, including remittances. Payment service providers include banks and other deposit-taking institutions, as well as specialized entities such as money transfers operators and e-money issuers.
<b>Payments System</b>	Consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money
<b>Point-of-Sale Terminal (POS)</b>	This term refers to the use of payment cards at a retail location (point of sale). The payment information is captured either by paper vouchers or by electronic terminals, which in some cases are designed also to transmit the information. Where this is so, the arrangement may be referred to as "electronic funds transfer at the point of sale" (EFTPOS). In the latter case, the terminal reads the account information from a payment card's magnetic stripe and/or embedded IC chip and in some cases also accept cardholders PIN entry; prepares a transaction authorization request based on transaction; transmits the authorization request to the acquiring institution; receives the authorization response; displays transaction completion status; and prints a transaction record.
<b>Prepaid Card</b>	E-money product for general purpose use where the record of funds is stored on the payment card (on magnetic stripe or the embedded integrated circuit chip) or a central computer system, and which can be drawn down through specific payment instructions to be issued from the bearer's payment card.
<b>Remote payments</b>	The physical location of the payer and the payee do not coincide. The retail payment can be initiated in the course of the (economic) transaction between the payer and the payee (e.g. Mail-Order/Telephone-Order or E-Commerce) or it can be separated from the underlying (economic) transaction (e.g. bill payment). Examples for remote payments are payments initiated via regular mail, the internet/designated lines and via telephone/mobile phone network.
<b>Settlement risk</b>	The risk that a settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk
<b>Switching</b>	An electronic system employed to transfer payment instructions, initiated by customers, between participating banks within a retail payments market
<b>Systemic risk</b>	The risk that the failure of one participant to meet its contractual obligations could deprive other participants of funds owed to them, resulting in a chain reaction whereby a large number or all of the participants in a settlement system are unable to meet their respective obligations
<b>Telephone/mobile phone network</b>	Voice or text communication network that allows users of payment services to access services such as balance inquiries or transfer of funds, via desktop or mobile phones.
<b>Transaction account</b>	Broadly defined as an account held with a bank or other authorized and/or regulated service provider (including a non-bank) which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts.

## Annex 2. The World Bank's Guidelines for Developing a Comprehensive Strategy for Reforming Retail Payments

The World Bank Payment Systems Development Group (PSDG) has developed a strategy for reforming retail payments systems, which contains a number of recommendations for the modernization of the NRPS.

The framework has been designed by capitalizing on the past studies carried out by the World Bank itself, the Committee on Payment and Settlement Systems, and other international and national bodies involved in payment system issues, as well as on the worldwide experience accumulated by the PSDG in supporting payment systems reforms in over 100 countries.

The framework builds on the following set of public policy objectives:

- Ensure the overall safety and efficiency of the national payment system
- Promote affordability and ease of access to payment services;
- Promote development of efficient infrastructure to support development of payment instruments and mechanisms to meet retail payment needs; and,
- Promote socially optimal usage of payment instruments.

To achieve these public policy objectives, the World Bank has formulated the following guidelines:

**Guideline I:** The market for retail payments should be transparent, have adequate protection of payers and payees interests, and be cost-effective.

**Guideline II:** Retail payments require reliable underlying financial, communications, and other types of infrastructure; these infrastructures should be put in place to increase the efficiency of retail payments. These infrastructures include an inter-bank electronic funds transfer system, an inter-bank card payment platform, credit reporting platforms, data sharing platforms, large value inter-bank gross settlement systems, availability of robust communications infrastructure, and also a national identification infrastructure.

**Guideline III:** Retail payments should be supported by a sound, predictable, non-discriminatory, and proportionate legal and regulatory framework.

**Guideline IV:** Competitive market conditions should be fostered in the retail payments industry, with an appropriate balance between co-operation and competition to foster, among other things, the proper level of interoperability in the retail payment infrastructure.

**Guideline V:** Retail payments should be supported by appropriate governance and risk management practices.

**Guideline VI:** Public authorities should exercise effective oversight over the retail payments market and consider proactive interventions where appropriate.

### Annex 3: CPMI – World Bank “Payment Aspects of Financial Inclusion”

Financial inclusion undertaken from a payments angle should aim to achieve a number of objectives. Ideally, all individuals and businesses should be able to have and use at least one transaction account operated by a regulated payment service provider:

- To perform most, if not all, of their payment needs
- To safely store some value; and
- To serve as a gateway to other financial services

In this context, the following Guiding Principles were identified. Each of these also include a set of possible actions (not presented in this annex).

**Guiding principle 1: Public and private sector commitment:** Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.

**Guiding principle 2: Legal and regulatory framework:** The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

**Guiding principle 3: Financial and ICT infrastructures:** Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.

**Guiding principle 4: Transaction account and payment product design:** The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

**Guiding principle 5: Readily available access points:** The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

**Guiding principle 6: Awareness and financial literacy:** Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

**Guiding principle 7: Large-volume, recurrent payment streams:** Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

## Annex 4: CPSS – World Bank “General Principles for International Remittance Services” and Related Roles

### **GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES**

The general principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

#### ***Transparency and consumer protection***

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

#### ***Payment system infrastructure***

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

#### ***Legal and regulatory environment***

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

#### ***Market structure and competition***

General Principle 4. Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

#### ***Governance and risk management***

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

### **ROLES OF REMITTANCE SERVICE PROVIDERS AND PUBLIC AUTHORITIES**

A. The role of remittance service providers. Remittance service providers should participate actively in the implementation of the general principles.

B. The role of public authorities. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the general principles.



33 Garibaldi Street, 10000 Prishtina  
Republic of Kosovo  
Tel: +383 38 222 055; Fax: +383 38 243 763  
Web: [www.bqk-kos.org](http://www.bqk-kos.org)