



SPI Albania Project: Reducing Cash Transactions

Main Findings of the Survey with Banks on Costs and Benefits of various means of payments

1. Summary findings of the survey and impact assessment

1. Respondent banks represent a large share of the banking market, therefore the results of the survey may be considered as relevant. To a large extent, the findings of this survey can be generalized to the entire banking system¹. For some of the questions, the answers were either not relevant or not uniform in order to allow extrapolations, analysis and conclusions.

2. The respondents' opinion validates the PWG's cost- benefit qualitative analysis to the extent that the total impact of cash reducing would be net cost savings.

3. Total cash transactions increased by 21% (in real terms) from 2006 to 2007. Cash transactions in Lek remain at a high level in spite of all the measures taken. Cash withdrawals over the counter are around 6 times higher than those from ATM, possible causes being the limitation in amounts for cash withdrawal from ATM, and the lack of commissions on withdrawals over the counter.

4. Cash transactions in foreign currencies have also increased in 2007 compared to 2006, which leads to the conclusion that further measures are to be taken in reducing both cash transactions in Lek and in foreign currency.

5. Human resources costs are the main component of costs related to cash transaction and can be decreased by cash reduction.

6. Banks' cash transactions are mainly composed by deposits and withdrawals at their accounts with Bank of Albania. Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered.

7. Credit transfers, both incoming and outgoing make up for more than half of clients' non-cash transactions in Lek and are mostly used for high value transactions. Meanwhile, within different types of non-cash transactions, card payments are the main ones that have increased both in number and value, from 2006 to 2007.

8. Banks do not show to pay particular attention to structures for developing new products. Commissions, often high, are applied to most of cashless payment methods (POS, internet banking), which might be a deterrent to reducing cash transactions. Measures can be taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions.

¹ The respondent banks cover different types of operational and ownership structures.

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9. The respondent banks have assessed that the main reasons for individuals and businesses preference towards cash transactions are anonymity and widespread acceptance of cash payments. Measures can be taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions.

10. Banks suggest also that a decrease in the settlement period as well as more restrictions to cash use might be effective in reducing businesses' cash transactions.

11. Current losses of banks from clients' cash withdrawals, as assessed by the impact assessment analysis, amounts to 451.4 million Lek for year 2007.

12. The potential benefits from cash reduction in the first year of application are assessed to be around 3,459 million Lek.

13. The present value of additional benefits to the whole banking system from cash reduction in the 5 upcoming years is assessed to amount to around 13.5 billion Lek.

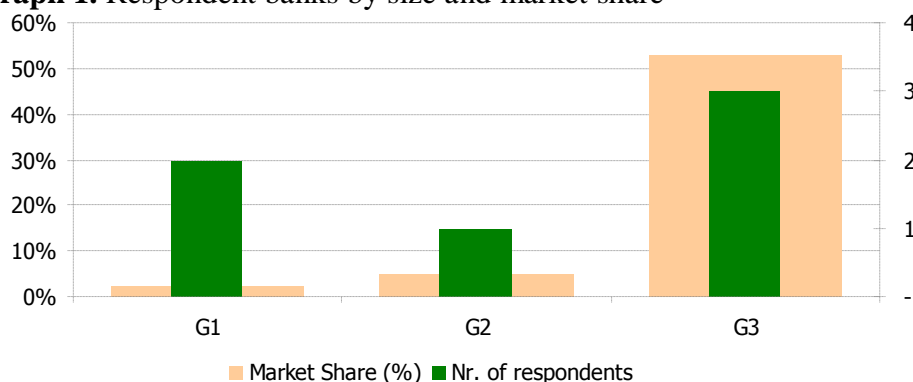
2. Detailed presentation of the survey findings

2.1. Characteristics of the surveyed sample

Conclusion: The respondent banks are only 6 but they represent all three groups (G1, G2 and G3) of small, medium and large banks, and their aggregated market share (taking as reference indicator their total assets) is 59.8 %. Therefore the survey results could be considered relevant and representative of the banking system.

Total members of AAB (no.):	16 banks
Market Share (100%):	100%
Total respondent banks (no.):	6 banks
Respondent ratio:	37.5%
Market share of the respondent banks: (reference indicator: total assets)	59.8%
Size of the respondent banks:	small, medium, large

Graph 1. Respondent banks by size and market share



The presence of all 3 groups of banks in the respondent banks' panel is important, since they deal with different amounts and structures of cash transactions, and also have different structures employed to manage cash transactions and related issues.

2.2. The aggregated answers to the questionnaire

2.2.1. Impact of Reducing Cash Transactions - Cost and Benefit Qualitative Analysis

Conclusions:

- The results from the survey validate PWG's cost-benefit qualitative analysis on the impact of reducing cash transactions, thus few initial costs in the short term, and more long term benefits, for both banks and consumers.
- In the initial period, the development of new product and/or the decrease of commission level for the cash payments would generate some costs for firms.

- In the long run, the improvement of the products and the establishment of new product would increase the business activity and even open new markets generating extensive benefits.

Only two of the respondent banks gave their opinion on the qualitative cost-benefit analysis intended to assess the impact of reducing cash transactions on the banks' profit and loss account, agreeing that the total impact of cash reducing would be net cost savings.

2.2.2. Cash transactions

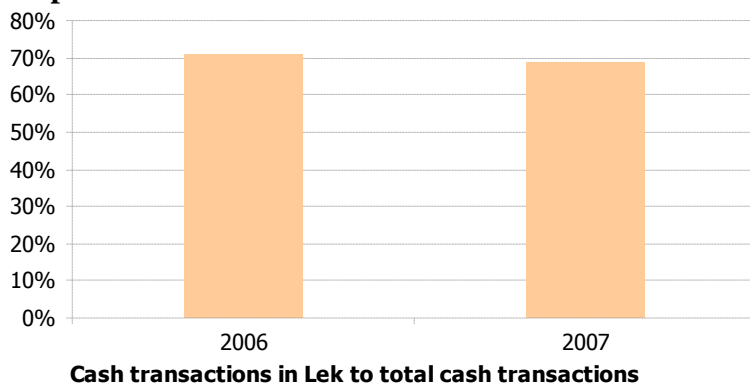
Conclusions:

- The real increase of total cash transaction is around 21% in 2007 compared to 2006.**
- There is a high and stable level of clients' cash transactions in LEK.**
- Cash transactions in foreign currencies have increased in 2007 compared to 2006 at a faster pace than those in Lek, which leads to the conclusion that measures are to be taken in reducing both cash transactions in Lek and in foreign currency.**
- Cash withdrawals make up for more than half of clients' cash transactions in Lek. There was a net outflow of cash in both years, with a decreasing trend though.**
- Cash withdrawals over the counter are around 6 times higher than those from ATM, mainly because of the limitation in amounts for cash withdrawal from ATM, and because withdrawals over the counter are free of commission charges.**
- The cost structure for clients' cash transactions shows a quite unchanged structure in time with human resources having around 70% of total. Reducing cash transactions should decrease notably the human resources costs.**
- Banks' cash transactions are mainly composed by deposits and withdrawals at their accounts with Bank of Albania. Withdrawals from the account with BoA are not commissioned; therefore BoA's respective costs are not covered.**
- The annual average cash balance in the banks has increased from 2006 to 2007, meaning an increase of missed interest income.**

2.2.2.a. Clients' cash transactions in Lek

The percentage of clients' cash transaction in Lek, compared to the total volume of cash transactions is high, at around 70%, and has not changed much from 2006 to 2007. In spite of the measures taken by the Government, there is still a very high level of cash transactions run by banks' clients, therefore more regulatory and self – regulatory measures are needed in order to restrain the volume of cash transactions.

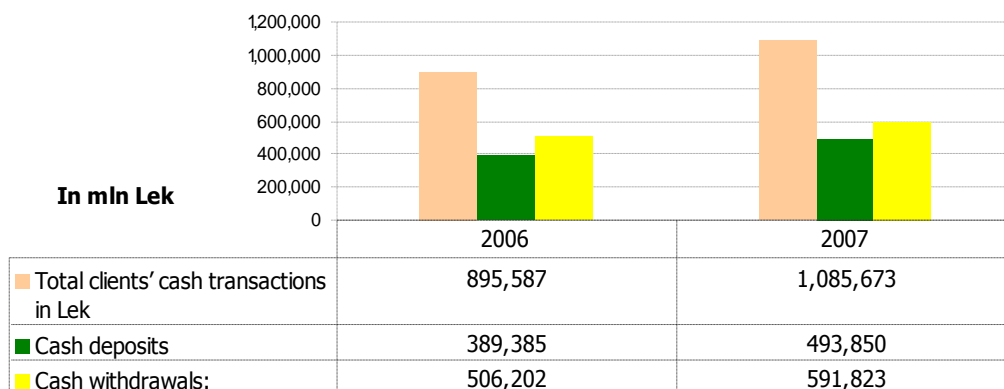
Graph 2. Clients' cash transactions in Lek



2.2.2.a.1. Structure of clients' cash transactions in Lek

Total clients' cash transactions in Lek increased with 21% in 2007 compared to 2006, meaning a real increase in the volume of clients' cash transactions in Lek of 17%, taking in consideration inflation in 2007.

Graph 3. Clients' cash transactions in Lek (in mln Lek)

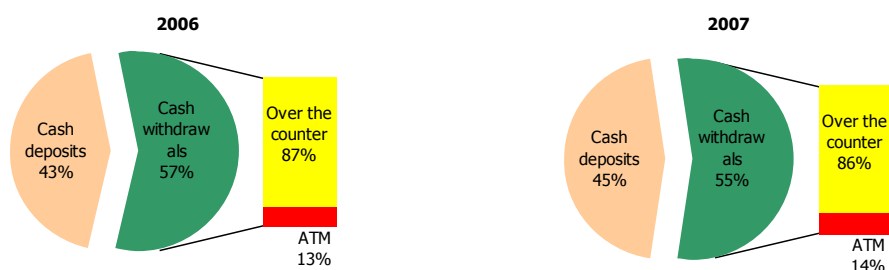


Both cash deposits and cash withdrawals have increased in 2007 compared to 2006. Figures show also a net outflow of cash (withdrawals higher than deposits) of Lek 116,817 in 2006 and Lek 97,973 in 2007, evidencing a decreasing trend (19% lower in 2007 compared to 2006).

Cash withdrawals made up for 57% of total cash transactions in Lek in 2006 and 55% in 2007². The vast majority of cash withdrawals are performed over the counter in both 2006 and 2007 (87% and 86% respectively).

Graph 4. Composition of Cash transactions in Lek

² There was noted a difference in the value range for cash deposit between these data (extrapolated based on received answers) and BoA statistics for 2008.



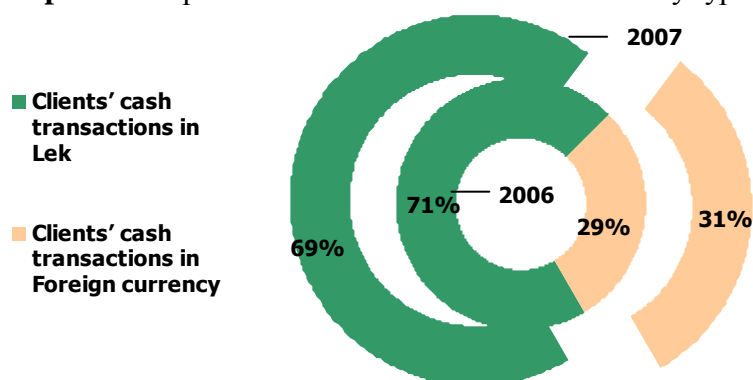
Although the percentages of withdrawals from ATM are higher in 2007, the increase is only by 1 point of percentage, against a 17 per cent increase of total cash withdrawals.

Using total clients' cash transactions in Lek and data on the percentages of clients' cash transactions in Lek to the total volume of cash transactions, we can calculate the composition of the latter as follows:

Table 1. Total clients' cash transactions, by type of currency

(In mln Lek)	2006	2007
Clients' cash transactions in lek	895,587	1,085,673
Clients' cash transactions in Foreign currency	370,451	488,907
Total clients' cash transactions	1,266,038	1,574,580

Graph 5. Composition of clients' cash transactions by type of currency



Considering the inflation rate in year 2007, as well as Lek overvaluation on foreign currencies for that year, we can see that the real increase of total cash transaction is around 21%. Cash transactions in foreign currencies have increased at a faster pace than those in Lek, which leads to the conclusion that measures are to be taken in reducing both cash transactions in Lek and in foreign currency.

Table 2. Total clients' cash transactions, by type of currency

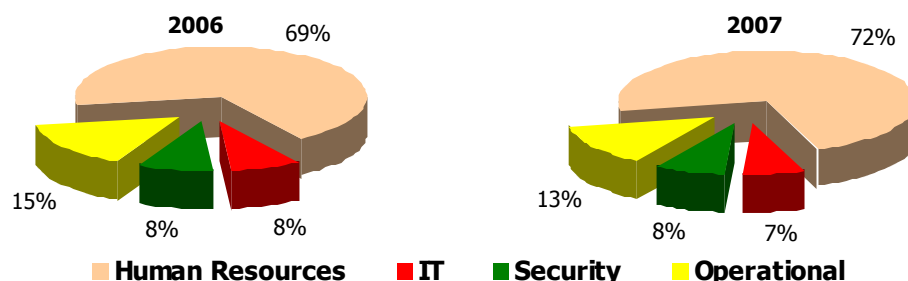
(In mln Lek)	2006	2007	Nominal change	Real change
Clients' cash transactions in lek	895,587	1,085,673	21%	17%
Clients' cash transactions in Foreign currency	370,451	488,907	32%	30%
Total clients' cash transactions	1,266,038	1,574,580	24%	21%

2.2.2.a.2. Costs of clients' cash transactions in Lek

2.2.2.a.2.i. Cost structure for clients' cash transactions in Lek

Banks were asked to provide estimates on the cost structure for cash and for non-cash transactions in Lek as follows.

Graph 6. Average cost structure for clients' cash transactions



The cost structure shows a majority of human resources costs, of around 70% of total costs, and this rate has increased from year to year. Obviously, by reducing cash transactions, the banks' human resources costs will decrease.

2.2.2.a.2.ii. Costs with human resources

The banks' staff dealing directly with clients' cash transactions, in all three categories of personnel at the branch level, has increased from 2006 to 2007, especially cashiers, whose number has risen around 34% within one year, generating more expenses to the banks.

Taking in consideration the inflation during 2007, there is no real increase in the average salary for none of the positions.

Table 3. Number of cashiers, operations managers, and branch managers

In thousands Lek	Cashiers		Operations Managers		Branch Managers	
	2006	2007	2006	2007	2006	2007
Total (for 60% of the market)	346	463	40	54	129	169
Extrapolated for the whole System	577	772	67	90	216	283
Average Annual Cost/staff (in thousand Lek)	603	617	1,141	1,155	1,361	1,425
Average hours per day handling cash in Lek /staff	5.7		2.9		2.3	

The cashiers spent, in average, the largest part of their day handling cash transactions in Lek, which shows again the large load of Lek cash transaction in the daily average of transactions. Therefore, a reduction in cash transactions would impact mostly cashiers, which make up for 14-15% of the total of banks employees, creating the possibility to create more jobs for other products selling.

Table 4. Number and percentage of cashiers to total banks' employees

	2006	2007
Cashiers	577	772
Total Banks' employees ³	4,189	5,155
Cashiers to total employees	14%	15%

Operations and Branch Managers dedicate in average 2-3 hours to the management of Lek cash issues, and most of banks do not have customer service involved in cash transactions. If cash transactions would be reduced, operational and branch managers would have more time to develop cashless transactions, to improve service quality or to increase sales.

Taking in consideration data from the above tables we have estimated the total costs for human resources related to cash transaction in years 2006 and 2007, using the full time equivalent for the hours each category of employees spend on cash transactions.

Table 5. Total salary costs with clients' cash transactions in Lek at system level

	2006			2007		
	Cashiers	Operational Managers	Branch Managers	Cashiers	Operational Managers	Branch Managers
FTE ⁴	156.75	79.75	63.25	156.75	79.75	63.25
Average annual cost with cash transactions in Lek/staff (in thousand Lek)	429	414	391	440	419	410
Total annual staff cost with cash transactions in Lek at system level (in thousand Lek)	359,925			493,249		
EUR equivalent (in thousands EUR)	2,924.3			3,989.2		

2.2.2.a.2.iii. Other cost categories

Using the data on the structure of costs with clients' cash transactions and the estimated data on the human resource costs, the figures for the other categories of costs can be calculated:

Table 6. Total costs for clients' cash transactions

In thousands	2006		2007	
	Lek	EUR	Lek	EUR
Human Resources	359,925	2,924	493,249	3,989
IT	40,662	330	46,050	372
Security	44,072	358	51,849	419
Operational	80,012	650	91,418	739
Total costs	524,672	4,262	682,567	5,520

³ Bank of Albania's statistics

⁴ FTE – Full Time Equivalent (8 hours/day)

2.2.2.a.3. Other information on cash management costs

2.2.2. a.3.i. Costs with cash transportation

Cash transportation is outsourced in 4 of the respondent banks (with 17% of market share, while only some operations are outsourced in the other 2 (with 43% of market share). All banks have reported the following annual costs for either totally or partly outsourced services of transport and security for 2006 and 2007 as follows:

Table 7. Cash transportation costs

	2006	2007
Total transport and security costs (6 banks, in mln Lek)	123	146
Total clients' transactions in Lek (6 banks, in mln Lek)	537,352	651,404
Average rate per million clients' cash transaction (Lek)	229.3	223.4
Total clients' and banks' transactions in Lek (6 banks, in mln Lek)	640,701	746,846
Average rate per million of total cash transactions (Lek)	192.3	194.8

2.2.2.a.3.ii. Insurance costs for cash

Most of the banks have an insurance policy covering both operational risk for handling cash and robbery or theft of cash damages. Furthermore, between 2006 and 2007, there are reported losses from cash (such as fake money, mistakes, etc) that altogether with the processing, handling, and transportation, add to the costs caused by cash transactions.

Based on the data provided by 2 banks, the loss rate was of about 0.008 Lek for a thousand Lek transaction in 2006 and of about 0.012 Lek for a thousand Lek transaction in 2007. This could lead to the conclusion that, at the banking system level, the losses from cash transactions might have been of around 9 million Lek in 2006 and of around 14 million Lek in 2007 (in case the non-response by the other banks is due to the lack of evidence and not to the non-occurrence of such events).

A reduction in cash transactions and in the amount of cash to be handled on daily basis would bring a decrease in all the above mentioned costs.

2.2.2. a.4. ATM Network

The total number of ATM terminals provided by banks, at the end of 2007 was 443, 43% higher than in 2006.

It is to be noted that the in spite of the 43% increase in the number of ATMs, the value of cash withdrawals through ATMs has increased only by 24%, thus not at the same pace. In fact the average cash withdrawal per ATM, derived by the data on the total system, has fallen by 13%.

Table 8. ATM terminals and transactions

	2006	2007
Nr. of ATM terminals provided by the banks	309	443
Total cash withdrawals through ATMs (in mln Lek)	66,037	82,132

Average annual withdrawal per ATM (in mln Lek)	213.7	185.4
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Half of the respondent banks (45% of market share) use a totally outsourced ATM technical maintenance, and in the other half (15% market share) only some maintenance operations are outsourced.

2.2.2.a.5. Benefits from clients' cash transactions in Lek

The information given by 3 of the respondent banks on commissions paid by banks' clients in 2006 and 2007 is not sufficient to derive proper results on the rates of commissions applied on cash deposits and withdrawals.

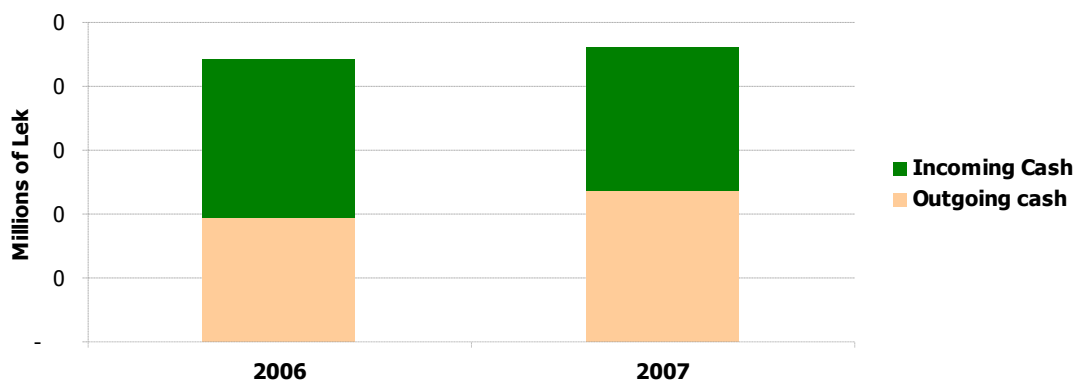
However, it is reported that there are no commissions paid by customers on cash withdrawals over the counter, which gives them an incentive to perform cash transactions rather than cashless ones. Banks might consider changing the commission policy with the perspective to increase withdrawals from ATMs and decrease the work of cashiers.

Only 2 out of 6 respondent banks (32% market share) report to remunerate their clients' current account, and the average annual interest rate used is around 0.3% for 2006 and 0.2% for 2007.

2.2.2.b. Banks' cash transactions in Lek

Banks' transactions in Lek have not changed much from 2006 to 2007. They are estimated at around 230 billion Lek in 2007, with 4% increase from 2006.

Graph 7. Banks' cash transactions in Lek



2.2.2.a.1. Structure of banks' cash transactions in Lek

Main banks' cash transactions in Lek are cash deposits with and cash withdrawals from their account with Bank of Albania. Selling and buying cash between banks does not seem to have an important role in the banks' own cash transactions.

Actually banks do not pay any commissions to Bank of Albania for cash withdrawals or deposits. BoA should start charging commissions to cash transactions, which could

be the benchmark for a change in banks' commissioning policy for clients' cash transactions in Lek.

Table 9 .Composition of banks' cash transactions in Lek (at system level)

(In mln Lek)	2006	2007
Outgoing cash	96,918	118,813
To the bank account with BoA ⁵	95,950	118,111
To other banks	968	702
Incoming Cash	124,692	111,079
From cash withdrawals from the account opened with BoA ⁶	123,090	108,164
From other banks	1,602	2,915

2.2.2.b.2. Costs of banks' cash transactions in Lek

The banks' staff dealing with banks' cash transactions, in the treasury unit has increased in number and average annual costs to the bank (in terms of salary and benefits). The specialists at the treasury unit spent more than half of their working day handling cash issues, therefore reducing cash transactions would give the possibility to re-direct their activities to other transactions.

Table 10. Number of Treasury Unit specialist and managers, and total salary costs with cash transactions in Lek at the banking system level (FTE).

In thousands of Lek	Treasury specialist		Treasury Unit manager ⁷	
	2006	2007	2006	2007
Total (for 60% of the market)	7	10		
Extrapolated for the whole System	18	25		
Average Annual Cost	677	778	1,195	1,519
Average hours per day handling cash	5.2		2.7	
FTE	143.00		74.25	
Average annual cost with cash transactions in Lek	440	506	403	513
Total annual cost with cash transactions in Lek	7,922	12,640		

On the total commission cost and income of banks' own cash transactions in Lek there were only 2 responses and the data provided were not relevant to the banking system level.

The data provided and estimation on the whole system, show that there were more than 3 billion Lek average cash balance in the system in years 2006 and 2007.

Table 11. The daily average cash balance in Lek

In mln Lek	2006	2007
Total (6 banks, 60% market share)	1,927	2,088
Total System (extrapolated)	3,211	3,480

⁵ Bank of Albania statistics

⁶ Bank of Albania statistics

⁷ There is no information from the respondent banks on the number of Treasury Units Managers.

Interest rate of overnight deposits	3.39%	3.97%
Total missed interest income	108.9	138.2

On the question on total interest cost of banks' overnight loans with Bank of Albania, in Lek, there was only one response from one bank, and it can not be relevant to draw conclusions. However, the average interest rate applied by Bank of Albania on overnight loans was 6.89% in year 2006 and 7.47% in 2007⁸.

2.2.3. Non cash transactions

Conclusions:

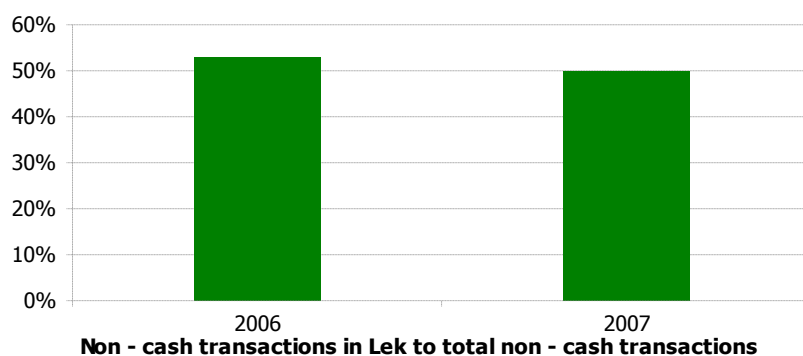
- **Clients' non-cash transactions in Lek have slightly decreased from 2006 to 2007.**
- **Credit transfers, both incoming and outgoing, make up for more than half of clients' non-cash transactions in Lek and are mostly used for high value transactions.**
- **Within the different types of non-cash transactions, card payments are the main ones that have increased both in number and value, from 2006 to 2007.**
- **Direct debit is the less spread type of non-cash payment.**
- **In the cost structure for clients' non-cash transactions, IT costs have a higher weight, while HR costs a lower one compared to cash transactions cost structure.**
- **Banks do not show to pay particular attention to developing new products in payments area (with specific structures).**
- **Some banks apply commissions on POS use to shops and the cardholder which might be a deterrent to cashless methods of payments.**
- **Internet banking is used for payments in large amounts and the commissions are still high.**

2.2.3.a. Clients' non-cash transactions in Lek

The percentage of clients' non-cash transactions in Lek in the total volume of clients' non-cash transactions is lower than the same rate for cash transaction, at around 50% and fairly stable in time.

Graph 8. Clients' non-cash transactions in Lek

⁸ Bank of Albania statistics



2.2.3.b. Structure of clients' non-cash transactions in Lek

From the reports from 6 banks on non-cash transactions in Lek, data were extrapolated for the whole system as in the following table. There were no complete data on each type of cards payments, and data on commissions paid for each type were not uniform and could not be used to come up with results.

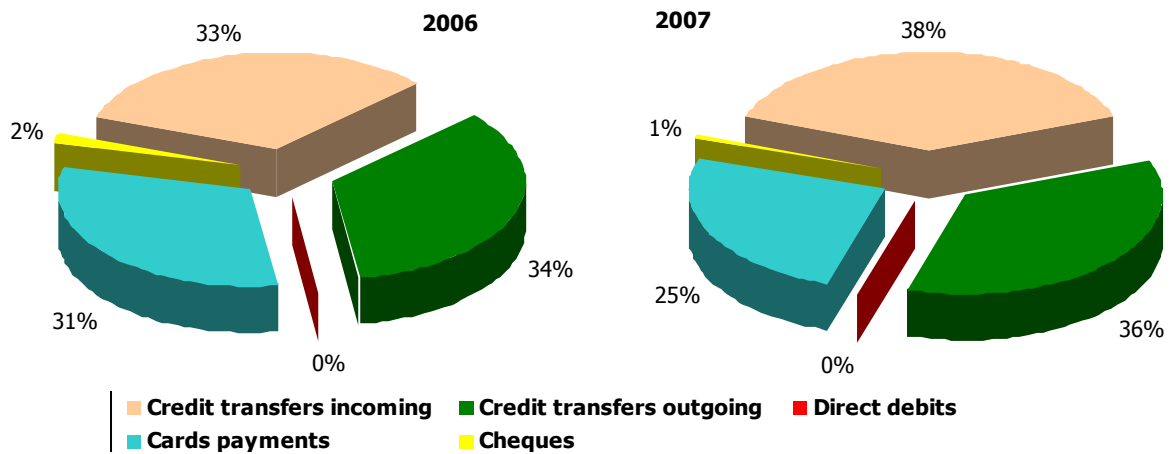
Within the different types of non-cash transactions, card payments are the main ones that have increased both in number and value, from 2006 to 2007.

Table 12. Number, value and average amount of clients' non-cash transactions

	Number of non-cash transactions		Value of non-cash transactions, in mln Lek		Average value of non-cash transactions, in Lek	
	2006	2007	2006	2007	2006	2007
Credit transfers incoming	40,690	23,550	54,520	99,209	1,339,887	4,212,696
Credit transfers outgoing	60,368	34,918	57,654	91,614	955,042	2,623,690
Direct debits	10,713	12,133	36	74	3,360	6,099
Cards payments	5,599,368	6,708,940	52,240	65,087	9,330	9,702
Cheques	6,358	4,437	2,661	1,573	418,528	354,519

Largest part of the value of non-transaction payments is composed by incoming and outgoing credit transfers. The graph below shows that instruments such as direct debits are almost not developed at all, while use of cheques is decreasing.

Graph 9. Value of non-cash transactions in Lek, by type of transaction



Cards payments are the most used non cash payments for small value transactions (used more by individuals).

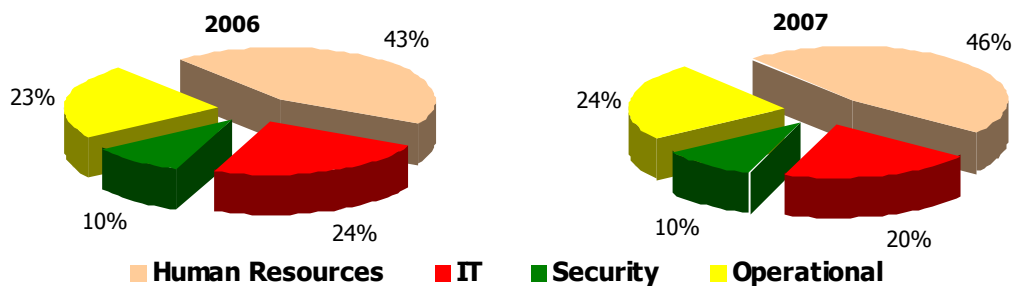
Credit transfers are the most used non cash payments for higher value transactions (used more by businesses).

2.2.3.c. Cost structure for non - cash transactions

The structure of costs related to non-cash transactions differs from that of cash transactions mainly regarding human resources and IT costs. Obviously, IT costs have a higher weight on non-cash transaction costs than in cash transactions ones.

However, they show a decreasing tendency from 2006 to 2007 (24% and 20% of total costs, respectively).

Graph 10. Average cost structure for clients' cash transactions



Human resources costs have a proportion of 24-25 percentage points lower on costs related to non cash transactions than on costs related to cash transactions.

2.2.3.d. Product development

As of end of 2007, there was only one out of 6 respondent banks having a product development unit that deals with cashless payments, with only one employee who spends all working time in dealing with cashless payments.

Considering the responses, banks do not pay enough attention to developing new products in order to increase cashless transactions.

2.2.3.e. POS network

The total number of POS devices provided by banks, at the end of 2007 was 1832, 48% higher than in 2006, when the total number of POS' was 1234. At the end of year 2008, the total number of POS' was 2953⁹, or 61.2% higher, which shows the increasing trend of the number of POS devices during the last years.

From the total number of POS devices provided by banks at the end of 2008, around 77 % are located in Tirana and some other regions around Tirana¹⁰.

Most of the banks apply commissions for the merchant that uses the POS at the shop and some banks also for the cardholder. Applying such commissions to the cardholder is a deterrent to the expansion of cashless methods of payments, and measures should be taken to avoid them.

2.2.3.f. On line services – home banking

4 out of the 6 respondent banks (representing 29% of the market share), were providing online services by the end of year 2007 or have started doing so in 2008. The online banking has been initiated since year 1999, and all the providing respondents report to apply a commission for this service.

The figures for Internet Banking transactions performed in the entire banking system¹¹ are shown in the table below, and evidence an increase in both number and value of transactions.

Table 13. Internet / Home Banking statistics

	2006	2007	2008
Nr. of transactions	19,096	42,447	88,261
Value of transactions (mln. ALL)	16,830	48,490	104,880
Average value for one payment (ALL)	881,336	1,142,366	1,188,294

However, evidently, internet banking is used for payments in large amounts and the commissions are still high. There are not reported incentives offered in order to stimulate the use of this service, only different marketing campaigns used to promote it.

2.2.4. Consumers' behavior

Conclusions:

- The respondent banks have assessed that the volume of cash transactions decreases evidently from individuals to corporate.

⁹ Bank of Albania's statistics.

¹⁰ Bank of Albania's statistics. The allocation of POS devices was referred to the BoA branches location

¹¹ Bank of Albania's statistics.

- **Anonymity and widespread acceptance of cash payments make cash transactions most preferred for both individuals and businesses.**
- **Measures can be taken to improve the network extension of POS devices and lower the commissions applied to non cash transactions.**
- **Banks suggest also that a decrease in the settlement period as well as more restrictions to cash use might be effective in reducing businesses' cash transactions.**

2.2.4.a. Use of cash and cashless payments

According to banks' opinions, individuals and micro businesses tend to have the highest level of cash transaction and use very few or none cashless services. In larger enterprises there is a higher level of non cash transactions, but still to a limited extent.

Table 14. Use of cash and cashless payments

	Total responses	1	2	3	4	Average level of use
Households / Individuals	5	2	3			1.6
Micro businesses	5	3	2			1.4
Small&Medium enterprises	5	1	2	2		2.2
Corporate	5			3	2	3.4

(1 uses mostly cash; 2 moderate, uses mainly cash and some cashless service; 3 balanced, uses cash and cashless services; 4 uses mostly cashless services)

2.2.4.b. Reasons for cash preference by individuals

The banks' experience shows that the main reason for cash being a preferred means of payment for the Albanian consumers is that individuals wish to preserve their anonymity. The widespread acceptance of cash as a payment method is another important factor that makes it the preferred method.

Of medium importance are factors like the limited network of POS devices, and the high level of commissions charged.

Table 15. Reasons for cash preference by individuals

	Total responses	1	2	3	Avg. level of importance
Limited coverage with POS network	5	1	2	2	2.2
Anonymity	5		1	4	2.8
Widespread acceptance	5		2	3	2.6
Low perceived costs	4	1	2	1	2
Clear perception of the amount at disposal	5	1	3	1	2
Matter of habit	5	3		2	1.8
Clear perception of the amount spent	5	1	4		1.8
High level of commissions for cashless payments	4	2	1	1	1.8

(1 low importance, 2 medium importance, 3 high importance)

2.2.4.c. Reasons for cash preference by businesses

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Main reasons for cash preference remain the same for businesses as for individuals, emphasizing their tendency to hide their real activity. Also, for businesses a very important factor is the high speed of transaction settlement.

In spite of the measures undertaken recently by the Government, there are still not enough restrictive regulations on cash, and this seems to be of medium to high importance to businesses, together with the low perceived costs of cash and limited coverage with POS network.

Table 16. Reasons for cash preference by businesses

	Total responses	1	2	3	Avg. level of importance
Widespread usage	5		1	4	2.8
Anonymity / Easy to hide the real activity	5		1	4	2.8
High speed of transaction settlement	5		2	3	2.6
Low perceived costs	5		3	2	2.4
Widespread acceptance	5		3	2	2.4
Not enough restrictive regulations on cash	5	1	1	3	2.4
Limited coverage with POS network	5		3	2	2.4
High level of commissions for cashless payments	4	1	2	1	2
Not enough controls from the state authorities	5	1	3	1	2

(1 low importance 2 medium importance 3 high importance)

3. Summary of the Impact Assessment Analysis

3.1. Current situation

The quantitative impact assessment analysis aimed at assessing the economic impact of reducing cash transactions on banks' balance sheet and income statements.

Estimations of costs and losses produced by the maintaining the current situation are presented in the following table.

Table 17. Current situation of loss from banks cash transactions

Costs of cash transactions at the banking system level per year: (in mln Lek)	2007
- personnel costs	493
- security & transportation	143
- others	46
- lost income coming from non – placed sources	138
Total annual costs at the banking system level	821
% of cash deposits	45%
% of cash withdrawals	55%
Total annual costs for cash withdrawals at the banking system level	451.4
Total income from withdrawals at the banking system level	-
Net annual loss with cash withdrawals at the banking system level	-451.4

Under the current situation, the total annual net loss at the banking system level from cash withdrawals are of about Lek 451 million, respective EUR 3.7 million.

3.1. Impact of cash transactions reduction on the banks' financial statements

The impact of reducing cash on banks' financial statements was measured based on a scenario analysis, using the following assumptions:

1. the total volume of clients' cash transactions reduces by 20%;
2. the current structure of cash deposits and withdrawals in total clients' cash transactions is preserved;
3. a decrease of 20% of clients' cash transactions is due entirely to withdrawals;
4. 50% of the decrease in the clients' cash withdrawals leads to an increase of clients' deposits (59,182 mln Lek);
5. out of the additional deposits, 10% will be deposited with the central bank as a corresponding increase in the minimum reserve requirements;
6. the rest of the additional deposits is used half in short term loans to customers and half in interbank deposits (we assume that none of this goes to trading securities);
7. a decrease by 20% of the client's cash withdrawal leads to a decrease by 20% (21.682 mln Lek) in the banks' withdrawals from BoA;
8. a decrease by 20% in clients' cash withdrawals determines a decrease of 20% in total personnel expenses (at branch level and at HO level) at the banking system level;

9. a decrease by 20% in clients' cash withdrawals determines a decrease of 20% in total administrative expenses;
10. A decrease by 20% in clients' cash withdrawals determines a decrease of 20% in total expenses.

With such assumptions the effect on the banks' balance sheets and on banks' profit and loss account, at the banking system level, in the first year of application of the reduction in cash transactions with 20%, is described in the bellow tables:

Table 18. Impact of reducing cash transactions on banks' balance sheet, in mln Lek, in the first year of reducing cash transactions by 20%, at the banking system level

ASSETS		Additional amount	LIABILITIES		Additional amount
+	Customer loans	26,632	+	Customer Deposits	59,182
	Other Loans			Banks Deposits	
+	<i>Total Customer Loans</i>	26,632	+	<i>Total Deposits</i>	59,182
	Problem Loans			Money market funding	
	Other non-performing Loans			Other Negotiable Instruments	
	<i>Total Problem Loans</i>			<i>Total Money Market Funding</i>	
	<i>Total Loans</i>				
+	Minimum Reserves with BoA	5,918		Other Funding	
+	Due from Other Banks	26,632		Other Bonds	
	Other Securities			Subordinated Debt	
	Investment Securities			Other Funding	
	Trading Securities			<i>Total Other Funding</i>	
	<i>Total Securities</i>				
	Non-earning Assets			Loan Loss and Other Reserves	
-	Cash and Due from Banks			Other Non Equity Reserves	
	Intangible Assets			<i>Total Loan Loss & Other Reserves</i>	
	Other Non-earning Assets				
	<i>Total Non-earning Assets</i>			Other liabilities	
	Fixed Assets			Total Liabilities	59,182
	<i>Total Fixed Assets</i>			Equity Reserves	
	Total Assets	59,182		Retained Earnings	
				Other Equity Reserves	
				Minority Interests	
				<i>Total Equity Reserves</i>	

Table 19. Impact of reducing clients' cash transactions on the banks' income statements, in the first year of reducing cash transactions by 20%, at the banking system level

INCOME STATEMENT ITEMS		Explanations	Additional amount
+	Interest Income	From additional loans and deposits with other banks	4,180.1
-	Interest Expense	For additional customer deposits	473.5
	<i>Net Interest revenue</i>		3,706.7
+	Commission Income	As cash transactions over the counter are not charged – no impact on income As cash withdrawals from ATMs are charged – a decrease in this commission (but not significant, having in mind the low percentage)	
-	Commission Expense	As cash bought/sold from/to banks is not significant, we consider only the commission paid to BoA for cash withdrawals and deposits.	
	<i>Net Commission Revenue</i>		0
	Net Trading Income		
	Other Operating Income		
	<i>Total Operating Income</i>		
-	Personnel Expenses	Less personnel involved in cash management	-98.7
-	Other Administrative Expenses	Less expenses with cash management (overheads, for example)	-38.0
-	Other Operating Expenses	Less expenses with cash management: security, transportation	
	Loan Loss Provisions		
	Other Provisions		
-	<i>Total Operating Expense</i>		-136.60
	Non-operating Income		
	<i>Pre-Tax Profit</i>		3,843.3
	Taxes		384.3
	<i>Post-Tax Profit</i>		3,458.9

The present value of additional benefits to the whole banking system from cash reduction in the 5 upcoming years is assessed to amount to around 13.5 billion Lek.