

## Elisabeta Gjoni: Innovation in the banking sector

Speech by Ms Elisabeta Gjoni, First Deputy Governor of the Bank of Albania, at the conference on “Innovation in the banking sector”, Tirana, 14 May 2015.

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Good morning and welcome at the Bank of Albania to discuss about innovation in the banking sector.

The Ministry of Innovation and the Bank of Albania, under the auspices of the Minister for Innovation and Public Administration, Ms Milena Harito, and the Governor of the Bank of Albania, Mr Gent Sejko, in collaboration with the Albanian Association of Banks, organise this activity jointly in a common approach to work together and discuss ideas among the main stakeholders of innovation in financial services.

Honourable Minister Harito, Honourable Chairman of the Albanian Association of Banks, Your excellencies ambassadors, representatives of banks and businesses, and of the Albanian private sector, dear colleagues, I take this opportunity to thank you, on behalf of the Bank of Albania for your commitment and collaboration for this activity.

We are living in a new phase of banking that is frequently qualified as a silent revolution in the way we do things, and the way we live, which poses challenges to any developing or influencing stakeholder.

People use technology for the new ways of communication it offers: to create social groups, purchase online and why not, to use banking and financial services. That certainly implies a wide spectrum of actions: from generating online the account statement to transfers and payments via electronic platforms from various institutions, which are different from banks, digital money or virtual currency. Physical and digital worlds are intertwining rapidly. What do we imply with financial innovation, while speaking about financial technology ( *Fin Tech*)? An expert of this field says than *Fin Tech* should not indispensably be a rather complicated or sophisticated technical concept. *Fin Tech* supports business to be more effective and the systems to function better and faster, or simply to make life easier to individuals/businesses through the use of efficient financial services.

Authorities have a decisive role in being committed to and supporting innovation. Advanced countries, such as Great Britain, are a good example of this approach. In the United Kingdom, the volume of transactions has grown by 74% since 2008, compared to 27% growth for the whole world or 13% for Silicon Valley. The British success is driven by the large support of government strategies and programs, from the regime of the points of sales, initiative to encourage investments and the establishment of the regulatory framework that provide grounds for the success of new initiatives, the possibility to access credit data for small-size enterprises, in the payment system and equal participation in the free competition.

What can a Central Bank do? In its role as the regulator, the Bank of Albania’s vision is to contribute to the future, aiming to establish a highly adequate environment for boosting financial innovations and modernising the financial structure. Our regulatory regime aims at fostering innovation, being a positive catalyser and not a barrier.

We aim at being avant-garde for a modern financial infrastructure. But experience shows that technology always is a step ahead and rapidly spreading. Technology has no limits and we, as regulators, should adopt rules and laws that these technologies be used by the consumers, individuals or businesses. At the same time, we should be aware of the risks that accompany these new technologies. Finding a perfect balance between the promotion of new ideas and the regulatory prudence constitutes one of the major challenges in this regard.

Bank of Albania has designed a payments regulatory framework, which paved the way for the development and modernisation. This framework provides all banks or other suppliers of financial services with the possibility to access the payment system in an equal and transparent way, thus contributing to the development of a competitive payment industry, without any asymmetry.

Bank of Albania welcomes the contribution of innovation and technology in financial services as a support for achieving its strategic objectives for financial inclusion and reduction of cash use in the economy. These objectives serve crucially to both the transmission of the monetary policy and the safeguarding of financial stability. The international experience has shown that the employment of innovative means in the banking and financial system contribute to reducing social costs in the economy from 1% to 2% of GDP. In the case of Albania, this figure may be higher, as cash use in economy is considered to be high.

Allow me to highlight some of the considerable developments of banking system.

Nowadays, businesses and individuals are increasingly using banking services, mainly in the payments market, where the adaptation of information technology to the development of banking services and products is more substantial.

In recent years, the use of banking cards has been rising, not only for basic services, but also as a means of payment. This is followed by the development of the necessary infrastructure, such as PoS and ATM devices. As reported by banks, the number of PoS and ATM devices currently stands at 6.427 and 811, respectively. The number of physical Points of Sale grew 19% in 2014, compared to 2010. Recently, we have also seen an increase in virtual services through the development of infrastructure for the realisation of e-commerce.

The expansion of infrastructure for the use of cards is accompanied by the considerable increase in the number of debit and credit cards in circulation. In 2014, 777.195 debit cards and 84.824 credit cards were issued, or, in relative terms, increasing 103% and 20%, respectively from 2010. Notwithstanding the innovations, cards in the world remain very convenient, preferred and secured instruments. (While these tendencies show progress, in Britain statistics reveal a decrease in the volume of transactions via cards, due to electronic transactions via mobile phone or other means.)

The increasing use of electronic services such as home banking is a considerable development. Thus, in the last years, these services were more used and the users' spectrum expanded, including not only businesses, which were the target group at the start of supplying this service, but also by individuals. At the end of 2014, the number of accounts accessible via internet stood at 145211, from 27368 at the end of 2010, followed by fourfold increase of such transactions conducted via these accounts.

The encouragement of the use of payment instruments is reflected in the increase of activity of settlement and clearing systems operated by the Bank of Albania. In 2014, the activity of the Albanian Interbank Payment System (AIPS) grew by about 1.5 times, compared to the beginning of operations of this system in 2004. Also, the Albanian Electronic Clearing House System (AECH) shows a considerable increase. The value of transactions cleared in this system, during 2014, was 10 times higher than the value of transactions cleared in 2005, when this system started to operate. The measures taken by the Bank of Albania in March 2011 contributed to the use of the clearing and settlement systems. The measures consisted in the reduction of commissions applied to the users for transactions in the Albanian lek.

I would like to underscore that large spaces still exist for improvement and narrowing the gap between the Albanian market and the advanced markets, and to some extent between the regional markets, .They should, therefore, constitute our common challenge for the future.

In the framework of encouraging market towards these innovative services, the Bank of Albania as the regulator and catalyser has undertaken recently a set of measures. In more concrete terms, the establishment of legal and regulatory basis for the e-money institutions, followed by the licensing of the first institution of this type in March 2015, constitutes a

premise to introduce the innovative services in the Albanian market of payments. The regulation of the activity of these institutions is based on the European practices not only in the framework of Albania's adherence to the Single European Market, but also as one of the most optimum solutions in terms of security and efficiency at national level.

The liberalisation of the payment systems market through the Law on Payment Systems will boost the development of the market. This legal framework provides the necessary space for private enterprises, and lays down the standards in terms of security and efficiency, and will support the development of a contemporary financial structure. That is shown by the licensing of the first operator of the national payment system by cards, which also plays the role of the local processor, and we hope to have a direct impact on promoting the use of cards as a means of payment. A priority in the near future for the Bank of Albania is to establish regulatory framework and provide for the operation of private payment clearing and settlement systems.

This year marked the establishment of the central Albanian Financial Instrument Settlement and Registration (AFISaR) system of government's securities. The new system provides premises for the development of the securities market, rendering these securities more liquid and, consequently, promotes their use in the commercial exchanges in the domestic economy.

Bank of Albania is aware that the needs for further and more programmed interventions are still high considering the low level of penetration of either financial services or relevant innovations. Banks, various operators and suppliers of services have great potentials for new mechanisms and instruments.

In the framework of institutional architecture and understanding the need for coordinating of efforts at national level, in 2014, Bank of Albania approved the regulatory base for the establishment and organisation of the National Committee of Payments, which includes the Ministry of Innovation, Ministry of Economy, Ministry of Internal Affairs and representatives of the banking system. The committee that will be convened soon, will provide considerable contribution to promoting collaboration and interaction, for strengthening security, sustainability and effectiveness of the national payment system in Albania.

Wishing for an open and fruitful discussion, I look forward, and I think I am not the only one, to listening attentively and hope that the following issues will be addressed:

- Advancements that banks will adopt for the payments in the next 5–10 years;
- Barriers, problems, opportunities and risks that prevent the progress;
- Views of traditional banks about the payments via mobile phones supplied by mobile phone companies and assessment of the preparation degree of banks for cooperation or competitiveness;
- New trends for the increase of payments security. Which is the place of biometric elements?

Congratulations and Thank you for the work you do. You are part of the future. We all are looking forward to the next meeting of a continuous discussion on the forthcoming innovations.