

Ahmet Ismaili: Western Balkans towards the Single European Payment Area (SEPA)

Speech by Mr Ahmet Ismaili, Governor of the Central Bank of the Republic of Kosovo, at the event "Western Balkans towards SEPA", organised by the Bank of Albania, Tirana, 28 February 2024.

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Dear Mr. Mete, Minister of Finance of Albania

Dear Mr. Sejko, Governor of the Central Bank of Albania

Ministers of Finances of WB6,

Governors of Central Banks WB6,

World Bank Representatives,

Ladies and Gentlemen,

I would like to thank the Bank of Albania for organizing this event on the Regional Ministerial "Western Balkans towards SEPA" in the framework of the Regional Summit on Growth and Convergence Plan and for the invitation to Central Bank of the Republic of Kosovo, which we have positively accepted.

It is my pleasure to be here at such an event with the opportunity to share our current activities towards SEPA.

We are living in a time when all aspects of our lives are advancing at such a rapid pace of technological development, and the financial industry is advancing at the same pace.

In the dynamics of global development, the financial system in Kosovo is facing a rapid change in the field of innovation and migration towards digital payments.

A developed financial payment system, where payments are made in a cost-effective and time-efficient manner, makes trade cheaper, enables competitive businesses to grow and provides consumers with easier access to goods and services. At the same time, a developed payment system ensures the protection of the integrity of the financial system and the euro currency, the reduction of the negative effects of the phenomenon of counterfeiting, the protection of consumers and the promotion of market practices, the reduction of the effects of money laundering activities and terrorist financing, and the improvement of access to financial services and financial inclusion.

In line with the Stabilization and Association Agreement and the Berlin Process, the reform process and the development of the payment system through the development of fast local payments and the integration of the payment system at the regional level will also accelerate access to SEPA.

CBK, in the Strategic Plan 2024-2028 has planned several important activities which are related with CBK and the financial industry which are in line with the current developments in the area of digitalization.

Within the activities of CBK to adopt toward digitalization as main activities are planned the following:

- Advancement of cybersecurity, heightened preparedness for cybersecurity risks, and the establishment of greater virtual information storage capacities;
- Digitalization and automation of operations, support for electronic signatures, and internal authorization processes; and
- Advancement and consolidation of the CBK's internal records, as well as interfacing with systems of institutions for data exchange in the best public interest.

CBK, within the mandate as the authority for licensing, regulation and supervision of financial institutions, has planned the following activities:

- Strengthening the supervision of systems and systemically important payment instruments, including FinTech;
- Advancement of the regulatory and supervisory framework for AML/CFT and compliance;
- Development of infrastructure, enhancement of security and efficiency for payments and securities clearing, collateral management, and system interface;
- Advancement of the legal and regulatory framework in relation to payment services, with the aim of harmonization with European Union legislation, PFMI, and other international standards;
- Development of technical infrastructure to facilitate fast payments 24/7, creation of the national QR Code, and standardization of API for system interconnections;
- Advancement of the regulatory framework for Anti-Money Laundering and Combating the Financing of Terrorism in connection with payment services;
- Facilitation of access to International Payment Platforms;
- Reduction of cash payments and promotion of electronic payments;
- Creation of opportunities for access to the payment system for non-banking service providers, as well as enabling the possession of IBAN to enhance access to finance within the concept of "payment account"; and
- Advancement of the legal and technical infrastructure of the CBK for membership in the SEPA Payment Scheme and access to the Target Instant Payment Settlement of the European Union (TIPS).

In this regard, within the planned activities of CBK we have:

- Participated in high-level meetings at the European Central Bank (ECB) in Frankfurt, where the ECB, within the framework of supporting the EU project for the modernization of payment systems in the Western Balkans and the objectives of the G20, is supporting concrete initiatives such as the interconnection of payment systems and the integration of our region into the European Union systems, and we are in constant contact for further developments.

- In January 2024 we have reinitiated the National Payment Council to support payment reforms through inclusion and increasing of cooperation among market participants in the payment system in the Republic of Kosovo; and
- Defined a national plan for financial inclusion and reducing the use of cash where the activities of interested parties will be defined and agreed to increase access, use of payment accounts and electronic payment instruments and reduce cash, in order to reduce the cost of payment services for the most efficient flow of transactions as well as other positive effects on the economy.
- We have created the possibility for access to the payment system of non-bank financial institutions, as well as the possibility of having an IBAN, to increase access to finance, within the concept of "payment account", where we have also approved the relevant regulation.
- We have changed the Organizational Structure, where the responsibility of Payment Institutions and Electronic Payment Institutions supervision has been added to the MFI / NBFi Supervision Division, the IT Systems Supervision Division has been established, within the Credit Registry Division, the responsibility of Register of Bank Accounts, as well as the Department of Consumer Protection was established where, in addition to the Division of Consumer Complaints of Financial Services, the Division of Supervision of Market Practices was also established.
- We are in the process of finalizing the draft law on Payment Services, in compliance with EU Directives such as PSD2 (Payment Services Directive 2), EMD (E-money Directive), PAD (Payment Account Directive), and Interchange Fees, where at the beginning of February we have organized jointly with the World Bank and Financial Institutions the two-day workshop in order to increase knowledge about payment services based on the most advanced developments in this field.
- The Law on the Anti Money Laundering will also be revised and the relevant CBK regulations will be amended in order to fulfill the necessary criteria in this field
- We are in the process of building infrastructural capacities and human resources to ensure that systems, equipment, knowledge, skills and personnel tools remain relevant and effective in overseeing the risks of new technologies and innovative business models.
- We have approved the regulation on cash operations as one of the basic criteria towards membership in the SEPA Payments Scheme and access to the European Union's Fast Payments System (TIPS).
- Recently we are in contact with Central Bank of Italy (Banca d'Italia) and we are interested in gathering insights on the current status of the TIPS clone project, its features, potential implementation in our domestic context, and, possibly, associated costs.

We are also working to increase the awareness in our institution and to the supervised institutions for the risks that are linked with digitalization.

Cyber intrusions pose a risk to the stability of national and international financial systems due to their potential cross-border spillover effects, and are becoming more complex as a result of increasing digitalization, growing dependence on third parties, and geopolitical tensions. Strengthening cybersecurity in the financial sector is therefore a high priority, particularly for financial institutions and for the financial stability of the country.

During the conferences and workshops organized, the CBK has also encouraged all financial institutions to have effective governance structures and risk management processes, risk management practices and processes in place in relation to outsourcing services and to have qualified personnel to monitor and oversee their outsourced activities, including operational risk management, ongoing monitoring and proper execution of contracts with outsourced service providers that define each party's responsibilities, agreed service levels and audit rights.

I would like to take this opportunity to thank our international partners, such as the IMF and the World Bank, for their cooperation and coordination, especially the World Bank which has supported us in recent years through the SECO-funded Payments and Remittances Program and the European Union-funded Western Balkans Payment System Modernization Project, administered by the Council for Regional Cooperation (RCC).

Let me conclude by reiterating that the development of the national payment system of Kosovo through the possibility of "instant" payments (24/7), as well as the connection to the TIPS system, as a goal of the CBK, if achieved, will have a great impact on the economy of our country, the region, the Diaspora, as well as the circulation of payments for commercial exchanges with the EU, as the largest trading partner of the Republic of Kosovo, with an importance for the free movement of capital, services and products, including the free movement of people from Kosovo through the liberalization of visas from January 1 this year.