

**Project management group meeting for “reducing cash transactions in Kosovo”
within the National Payments Council (NPC)**

Meeting minutes

Nr: 2/2010

Place: Central Bank of the Republic of Kosovo (CBK)

Date: January 26th 2011

Time: 11:00 – 12:20

Participants:

Robert Wright, CEO, Raiffeisen Bank (*chairman*)
Arzen Çavderbasha, Development Coordinator IPSD, CBK
Rinor Gjonbalaj, Oversight Officer IPSD, CBK
Diturie Hoxha, Executive Director, KBA
Naim Gashi, Treasury Manager, PTK Sh.A
Akile Cërnobregu, Head of Payments & Back Office Department, PCB
Teuta Gazideda, Manager of CM & Treasury BO, RBKO
Makfire Osmani, Executive Manager for Client Relations, KUR "Prishtina"
Milot Kelmendi, Performance Analysis Manager, KEK
Boryana Ivanova Mustafa, Director of Payments and Treasury, NLB
Edmond Jashari, Senior Cash Management Marketing Officer, TEB
Dukagjin Shylemaja, Deputy Manager Director, TEB
Ozenc Alkan Asik, Head of Banking Operation, TEB

Absent:

Gjylfidane Kadrijaj, *Director of Interbank Payment Systems Directorate, CBK (was represented at the meeting by the substitute representative)*
Samir Lleshi, *Expert on fiscal and financial issues, KCC (was absent without prior notification)*

The meeting was called to order at 11:00.

Discussions and Presentations

Approval of minutes from the first/last meeting

Members unanimously approved the minutes of previous meeting held on December 2, 2010.

Payment instruments and terminals - Kosovo compared to the countries in Southeastern and Central Europe (*short presentation*)

CBK representatives presented to the participants the analysis aimed at comparing Kosovo with countries in Central and Southeastern Europe in terms of payment instruments and terminals. As was decided at the last meeting of the project management group, the selected comparative countries were as follows, from Southeastern Europe: Albania, Montenegro, Bosnia, Serbia, Croatia, Slovenia, Bulgaria, Macedonia, Turkey, and two countries from Central Europe: Czech Republic and Hungary. The analysis compared the number of terminals (ATM and POS), bank cards (credit and debit) and the number of E-Banking account in relation to 1 million people. Also, the growth trends were compared separately for each country. *See the attached presentation.*

Some conclusions from the analysis:

- Kosovo started 'developing' its banking sector and payments infrastructure from scratch after the war in '99, much later than the countries in the Southeastern and Central Europe.
- The terminal infrastructure (ATM and POS) is growing at a faster rate than the average growth in the region. However, currently in terms of terminals per 1 million people, Kosovo has:
 - **ATM**: The fewest ATMS's in the region (161), 5 times less than Slovenia and 2 times less than Macedonia
 - **POS**: The second fewest POS terminals in the region (2,500)
- The number of payment cards is increasing, however Kosovo still lacks behind other countries in Southeastern and Central Europe. Kosovo is ahead of only Albania regarding the number of payment cards per 1 million people.
- Lack of domestically-arranged interoperability or interconnection of card networks in Kosovo causes inefficiency. CBK in collaboration with commercial banks and other stakeholders have prepared the Strategy for the development of National Payment System, which also deals with small value payments (*pillar 3*). The overall objective is to provide the economy with a broad range of safe and efficient payment services.

Customer and Merchant research to understand their issues concerning non cash payments

As was decided at the last meeting, Mr. Robert Wright informed the participants approximately how much the Customer and Merchant research to understand their issues concerning non cash payments will cost. 3 out of 4 companies who were contacted about conducting the research have submitted their prices which range from about 18 to 25 thousand Euros, and the duration of the research which ranges from 4 to 8 weeks. These prices are tentative and only indicative of the final project costs which will definitely be less.

The project management group decided unanimously that it is necessary to carry out this research.

With regards to the cost of research and its funding, it was proposed to initially seek a donation. Ms. Diturie Hoxha (KBA) took the task of contacting the potential donors, and informing the group members through the CBK, no later than the middle of February, on the success of securing the necessary funding.

Questions, requests and proposals

Some of the numerous proposals from the representatives at the meeting were: expand the project management group and invite representatives from the Tax Administration of Kosovo (TAK) and representatives from large businesses in addition to utility companies and KCC, the possibility of clearing payments in foreign currencies, removal of restrictions from the Ministry of Labor and Social Welfare (MLSW) regarding retirees and bank cards, etc.

Representatives from the commercial banks also stressed the need for standardization of merchant reporting requirements from POS terminals. This would help increase the network of POS terminals and the number of non-cash payments. There are many institutions and businesses possibilities that are ideal for expanding the POS terminals, such as: car registration facilities, insurance companies, etc.

Representative from KEK informed the participants that from approximately 110,000 customers of KEK in the municipality of Pristina, approximately only 5,000 customers pay their bills through commercial banks. Customer and Merchant research can help find out the reasons behind clients reluctance to pay their bills through banks.

The representatives from CBK invited the participants to submit these requests and proposals via e-mail to IPSD, CBK: paymentsystems@bqk-kos.org. These proposals will be analyzed and discussed in a more organized form in the next meeting. These proposals can also help in setting the parameters for the Customer and Merchant research.

Technical issues which are outside the scope of the project management group will be addressed in individual meetings or IPAC.

Proposals from CBK

- There is a need for concrete initiatives and activities for the reduction of cash payments from all institutions (this includes commercial banks, public companies, private companies, governmental agencies, etc).
- Utility companies should expand their network where Direct Debit services are offered to their customers, because currently this service is very limited and provided only at the headquarters of the companies. Utility companies should also develop operational plans for the reduction / closure of their tellers (cash counters) that accept cash. (*Setting timeframes should be required*).
- Commercial banks should reduce the fees for electronic payment services, such as Direct Debit, E-Banking, Kos-Giro, etc. We believe that revenue lost from fee reduction will be

more than compensated by the increase in the volume of payments. Commercial banks should also organize awareness campaigns aimed at clients as well as merchants (business community).

- Analyze practices in other countries of setting maximum limits on the value of cash payments at the counters of commercial banks, and come up with recommendations to government institutions (MEF), banks, etc.

CBK representatives informed the participant of the Central Banks initiatives: promotion of Direct Debit and Kos Giro schemes, organizing informational meetings for the business community (KCC, IPKO, etc.) and the ongoing analysis on setting the maximum limits on the value of cash payments at the counters of commercial banks.

Conclusions and Next steps

- Despite the fact that the terminal infrastructure (ATM and POS) in Kosovo lacks behind the development of the countries in the region, as well as the business community view that the payment service fees are high, it remains a matter of individual banks both the expansion of their terminal infrastructure and payment service fees.
- KBA representative, through CBK, shall inform the group members through the CBK, no later than the middle of February, on the success of securing the necessary funding for the Customer and Merchant research.
- There is a need for a better domestically-arranged interoperability or interconnection of card networks in Kosovo. This is also envisioned in the Strategy for the development of National Payment System (*pillar 3*).
- Requests and proposals to reduce cash payments should be submitted in writing via e-mail address: paymentsystems@bqk-kos.org. These proposals will be analyzed and discussed in a more organized form in the next meeting.

Based on questions / proposals of the previous meeting:

1. Regarding the proposal of increased businesses community representation in the management group: Currently, members from the business community include representatives from the utility companies and KCC. It seems unnecessary to involve other companies in the management group. CBK & KBA, in coordination with KCC (group members) will continue to work with the business community.
2. Regarding the proposal to include tak in the management group: Chairman of the management group may propose to the National Payments Council (NPC) to increase the management group with two or more members (e.g. with representatives from TAK, the Treasury, MLSW, etc).
3. In general, the purpose of this working group as well as the purpose of several other CBK projects is to promote the interests of clients and to help reduce cash transactions in the

economy. The overall objective is to provide the economy with a wide range of safe and efficient payment services.

4. The proposal of clearing payments in foreign currencies: This issue is outside the scope of the project management group. It can be addressed / proposed in individual meetings, IPAC, or through KBA.
5. Ministry of Labor and Social Welfare (MLSW) requirement that retirees should not have bank cards: At the request of some banks, the CBK will engage the involved stakeholders to examine this issue in more detail and come up with a joint recommendation.