



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

Analysis on the Use of Payment Instruments

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Analysis on the Use of Payment Instruments

(Based on periodical data reported by commercial banks on regular basis)

Publisher ©Central Bank of the Republic of Kosovo
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ABBREVIATIONS:

ACH	Automatic Clearing House
ATM	Automated Teller Machine
ATS	Automatic Transfer System
CBK	Central Bank of the Republic of Kosovo
DD	Direct Debit
EFT-POS	Electronic Fund Transfer Point of Sale
EICS	Electronic Interbank Clearing System
IPS	Interbank Payments System
PSD	Payment Systems Department
POS	Point of Sale
RTGS	Real Time Gross Settlement

Note:

For detailed description refer to explanatory notes.
Data users are requested to cite the source.
Suggested citation: Central Bank of the Republic of Kosovo,
Analysis on the Use of Payment Instruments, March 2018, Pristina.
Any correction that may be required is made in the web site version.
This publication includes the data available until 31 December 2017.

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Preface

Secure and efficient payment systems are an essential factor for financial stability and economic development of a country. The primary objective of the Central Bank of the Republic of Kosovo is “to promote and maintain a sound financial system and an efficient payment system”.

In this context, ensuring the smooth operation of payment systems is one of the main objectives and tasks of the Central Bank of the Republic of Kosovo.

Payment system in Kosovo during this period continued to operate with high level of efficiency and security, enabling the clearing and settlement of payments and securities in accordance with applicable rules and standards.

Payment instruments are an important part of payment systems, which enable customers to transfer funds between bank accounts or through other financial institutions. Non-cash payment instruments which are used in Kosovo are: credit transfers, payment cards (debit and credit) as well as direct debit. The safety and efficacy of these payment instruments are important in maintaining confidence on them, and in sustainable development of the economy.

The fourth quarter of 2017 was characterized by rapid growth in the number and usage of non-cash payment instruments. The increasing number of electronic payments usually indicates the increase of payments system efficiency. It is worth noting that during this period, the number of card payments at EFTPOS terminals increased by 9.5 percent compared to the same period of the previous year. Also, payments processed through e-banking service are increased rapidly during this period.

1. Interbank payments system

In July 2016, the Central bank of Kosovo has implemented a new payment system which replaces fully the existing system – Electronic Interbank Clearing System (EICS).

The new interbank payments system, called, ATS (Automatic Transfer System) consists of two main components: The RTGS (Real Time Gross Settlement) component, which enables the transfer of funds in real time, as well as ACH (Automatic Clearing House) component that makes processing of group of payments and payments of small value.

In the new Interbank Payment System (IPS), all of the interbank payment transactions with value over 10,000 euros are settled in real time and are considered as priority payments. Payments with value under 10,000 Euro are considered as small value payments and are processed in group by sessions and settled on net basis after each session.

1.1. The Volume and value of interbank transactions

From the statistical data analysed in this report, it can be concluded for a consistent growth in the number of interbank transactions for each reporting period.

The volumes of regular payments which are processed through ACH, during the fourth quarter of 2017 are increased by 23.68 percent compared to same period of 2016.

The volumes of high value payments (over 10,000 €) and priority payments, which are settled in real time and gross bases, are increased by 12.66 percent during Q4 2017 compared with the same period of 2016. The total number of interbank transactions in Q4 2017 was 2.83 million transactions.

Table 1 presents the number of interbank transactions for each module of payment from Q1 2016 until the fourth quarter of 2017 (Q4 2017).

Table 1. Number of interbank transactions (*in thousands*)

Transaction type	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of RTGS payments	6.43	7.93	25.56	29.47	22.98	27.24	28.82	33.20
Client's Payments	5.99	7.58	23.71	27.47	21.24	25.41	26.87	31.36
Bank to Bank payments	-	-	1.43	1.76	1.31	1.49	1.84	1.57
Securities	0.44	0.35	0.42	0.23	0.44	0.34	0.11	0.27
Number of ACH payments	2,528.48	2,896.33	2,883.01	3,210.20	2,823.17	2,989.79	2,960.82	2,792.49
Regular payments	315.34	327.66	294.87	365.81	264.50	335.97	360.09	452.45
Mass payments	934.31	1,068.97	1,085.42	998.93	979.02	1,039.67	1,169.03	1,031.11
Kos Giro payments	343.68	372.78	343.25	353.91	334.94	289.36	146.64	145.14
Salaries/pensions payments	929.43	1,121.01	1,152.92	1,483.12	1,235.59	1,315.49	1,282.45	1,161.68
Direct Debit	5.71	5.93	6.55	8.43	9.13	9.30	2.60	2.12
Total number of payments	2,534.91	2,904.26	2,908.57	3,239.67	2,846.15	3,017.02	2,989.65	2,825.69

Source: CBK (2017)

The number of individual payments during this reporting period was 452.45 thousand transactions, while number of Kos Giro transactions was more than 145.14 thousand transactions. Growing trends characterized also other types of transactions such as:

massive payments more than 1,03 million transactions, salary/pensions reached 1.16 million transactions, Direct Debit over 2.12 thousand transactions.

During this period (Q4 2017) there was a decrease in the number of transactions processed through Kos Giro and Direct Debit, resulting from the withdrawal of KEDS from these two payment schemes, which, regarding the number was the largest participant.

Table no. 2 shows the value of interbank transactions from Q1 2016 to fourth quarter of 2017. The total value of interbank transaction during this period was 3.11 billion Euros. Only the value of client's payments through RTGS exceeds the value of 1.17 billion euro, while values of other modules were smaller compared to RTGS payments.

Table 2. Value of interbank transactions (in millions of EUR)

Transaction type	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Value of RTGS payments	393.62	449.65	2,280.58	2,457.29	1,717.72	1,927.29	1,893.83	1,986.02
Client's Payments	134.73	177.86	860.64	1,066.71	833.79	1,008.38	1,063.00	1,172.67
Bank to Bank payments	-	-	1,238.00	1,192.74	689.85	594.85	730.94	640.65
Securities	258.90	271.80	181.94	197.84	194.07	324.06	99.90	172.70
Value of ACH payments	1,403.34	1,619.23	1,000.59	1,044.82	880.13	1,022.55	1,077.90	1,126.12
Regular payments	817.12	963.75	287.32	348.42	251.51	320.36	337.58	389.94
Mass payments	153.30	164.07	182.05	159.08	158.90	165.48	180.78	176.32
Kos Giro payments	239.85	288.29	321.23	296.50	244.86	300.50	332.05	304.93
Salaries/pensions payments	191.02	201.67	207.88	237.88	221.38	233.25	227.44	254.88
Direct Debit	2.06	1.45	2.11	2.94	3.49	2.96	0.05	0.05
Total value of payments	1,796.97	2,068.88	3,281.17	3,502.11	2,597.85	2,949.83	2,971.73	3,112.14

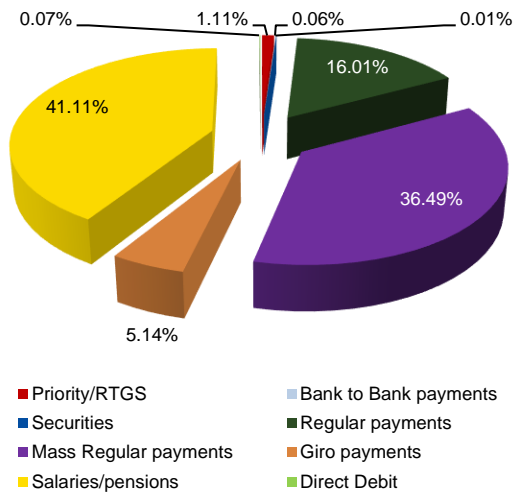
Source: CBK (2017)

Based on the data presented in the Tables 1 and 2, we can conclude about the share of each transaction in the total number and value of payments.

During Q4 2017, individual payments which are processed through ACH represent 16.01 percent of the total number of transactions, and in the total value of interbank transactions they participate with 12.53 percent. High value and priority payments (processed through RTGS) represent only 1.11 percent of the number of transactions and their value is 37.68 percent of the total value of transactions.

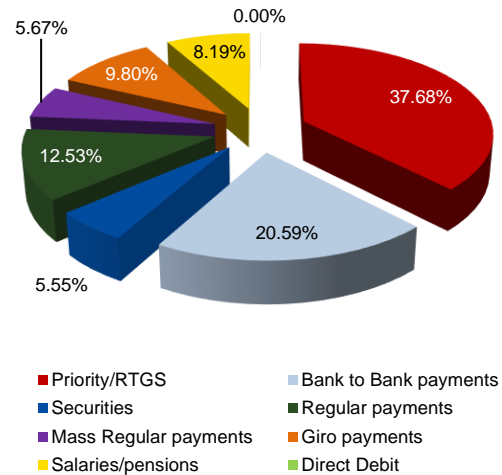
Massive payments represent about 36.49 percent of the total number of transactions while their value represents 5.67 percent of the total value of interbank transactions. Payments processed through module of salaries and pensions represent about 41.11 percent of the total number of interbank transactions, while their value represents about 8.19 percent of the total value of interbank transactions. Direct Debit is less than 1 percent of the total number and value of transactions.

Figure 1. Share of transactions (By number)



Source: CBK (2017)

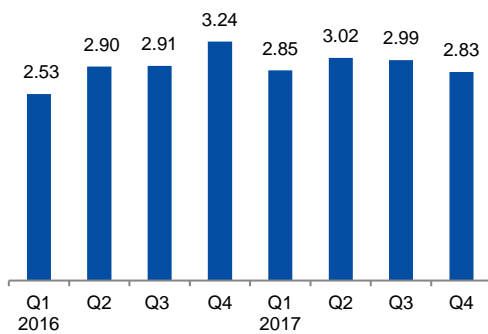
Figure 2. Share of transactions (By value)



Source: CBK (2017)

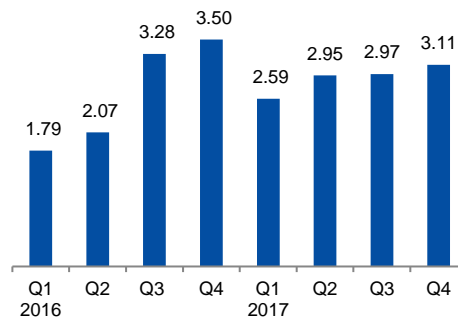
Kos Giro payments continue to be a very important part of Payment System: their number represents 5.14 percent of the total number of interbank transactions and their value 9.80 percent of transactions value. Securities represent a very low number of transactions (about 0.01%), but their value is about 5.55 percent of the total value of interbank transactions.

Figure 3. Number of interbank transactions (in millions)



Source: CBK (2017)

Figure 4. Value of interbank transactions (in billions of EUR)



Source: CBK (2017)

Figures 3 and 4 present the total number and value of interbank transactions from Q1 2016 to Q4 2017. As a result of efficient and safe operation of the Payments System in Kosovo, the number and value of interbank transactions are increasing constantly.

2. Number of bank accounts

The geographical distribution of branches of commercial banks in the entire territory of the Republic of Kosovo has led citizens to have easier access to banks, and therefore the major part of the population is in one way or other involved in relations to banks (e.g. have bank accounts, credit cards, etc.).

At the end of Q4 2017, the total number of bank accounts in Kosovo is over 1.97 million accounts; compared to the size of the population it means that nearly every citizen has a bank account.

Table no. 3 presents the number of bank accounts, divided by account holders. At the end of Q4 2017 the total number of bank accounts was 1,967,755 where 98.40 percent are resident’s accounts while only 1.60 percent are non-resident’s accounts. Compared to the last quarter, the number of accounts is increased by about 0.76 percent, while if compared with the same period of last year (Q4 2016), the number of accounts has an increase of about 4.94 percent.

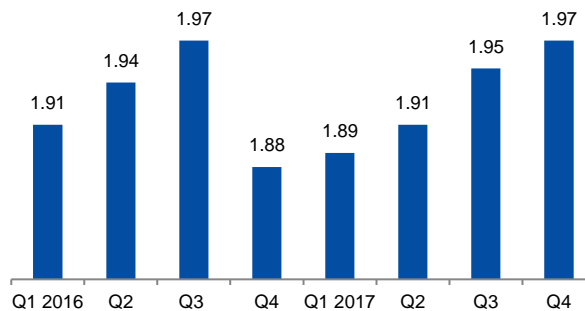
Table 3.Number of bank accounts

Description of accounts	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Client's accounts	1,909,577	1,940,745	1,966,070	1,875,091	1,890,253	1,913,016	1,952,929	1,967,755
Residents accounts	1,881,074	1,911,137	1,935,943	1,846,108	1,861,347	1,883,417	1,921,501	1,936,250
individual	1,754,093	1,781,510	1,805,458	1,714,159	1,728,351	1,750,490	1,788,983	1,802,745
business	126,981	129,627	130,485	131,949	132,996	132,927	132,518	133,505
Non resident's accounts	28,503	29,608	30,127	28,983	28,906	29,599	31,428	31,505
individual	27,640	28,761	29,283	28,112	28,041	28,720	30,598	30,711
business	863	847	844	871	865	879	830	794

Source: CBK (2017)

Such a high number of bank accounts can be explained by the fact that any costumer may have accounts in different banks at the same time.

Figure 5.Number of bank accounts (in millions)

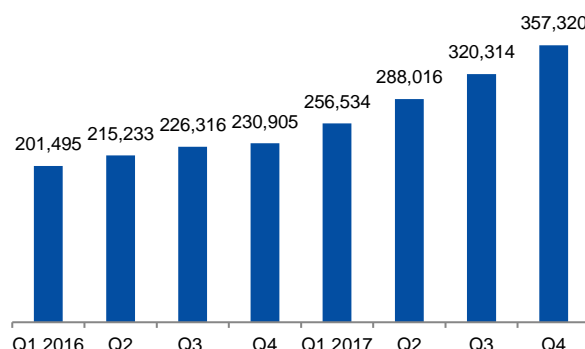


Source: CBK (2017)

2.1. E-banking Accounts

Figure 6 presents the number of bank accounts which can be accessed through internet. At the end of Q4 2017 the number of accounts which clients can access through internet reached 357,320 which compared to Q3 2017 represents increase by about 11.55 percent, while compared to Q4 2016 the increase rate was 54.75 percent.

Figure 6. Number of e-banking accounts



Source: CBK (2017)

The increase in number of e-banking service users significantly reduces cash payments, which is one of the goals of financial institutions in the country. Conducting transactions through e-banking is a highly efficient and secure form as customers save time and transactions can be performed at any time and from any location.

Table 4 presents the number of accounts which clients can access through e-banking service, divided into individuals and businesses. From the data presented in the table below, we see that 84.37 percent of all e-banking accounts are those of individuals, while only 15.63 percent are accounts used by businesses.

Table 4. Number of e-banking accounts (by type)

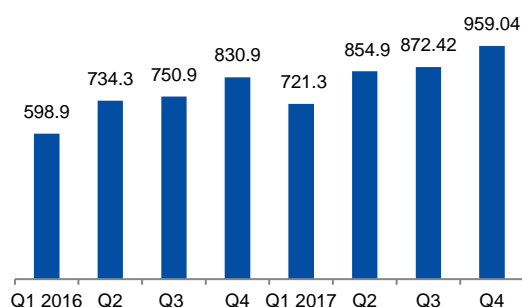
Description	Number	%
Individual's accounts	301,464	84.37%
individual (resident)	296,584	
individual (non-resident)	4,880	
Business accounts	55,856	15.63%
business (resident)	55,423	
business (non-resident)	433	
Total	357,320	100.00%

Source: CBK (2017)

The table also shows the total figure of individual’s accounts which clients can access using e-banking service, 98.38 percent of them are resident’s accounts, while only 1.62 percent are non-residents. The same can be said about legal accounts, where 99.22 percent of them are of residents, while only 0.78 percent of them are non-resident’s accounts.

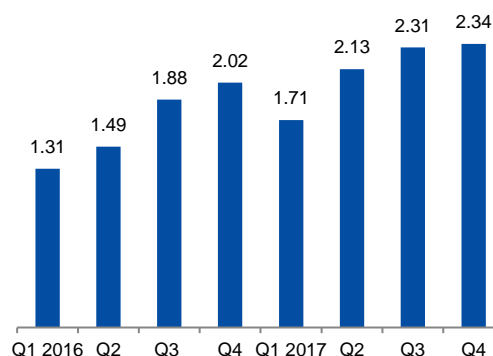
Figures 7 and 8 show the number and value of payments processed through e-banking. From the data presented in the graphs below, we can conclude about the increased number and value of e-banking transactions.

Figure 7. Number of e-banking transactions (in thousands)



Source CBK (2017)

Figure 8. Value of e-banking transactions (in billions of EUR)



Source CBK (2017)

2.2. Direct Debit

One of the forms provided by CBK for making certain payments is the direct debit. If we compare direct debit figures of Q4 2017 with the same period of previous year (Q4 2016), we will see that there was an decrease of 74.90 percent, while the value of these transactions through direct debit scheme for this quarter was decreased about 98.16 percent.

Table 5. Number and value of Direct Debit transactions

Interbank transactions processed through Direct Debit scheme	Number			Value		
	Q4 2016	Q4 2017	(%)	Q4 2016	Q4 2017	(%)
	8,429	2,116	-74.90%	2,941,248	54,246	-98.16%

Source: CBK (2017)

3. ATM and POS terminals

Table no. 6 shows the number of ATM terminals from Q1 2016 to Q4 2017. From the data in the table, it can be concluded about the decrease of ATM terminals over the reporting periods.

At the end of Q4 2017 the number of ATM terminals was 512. Most of ATM terminals which are installed in Kosovo offer the withdrawal function and 172 of them offer the possibility of cash deposit.

Table 6. Number of ATM terminals

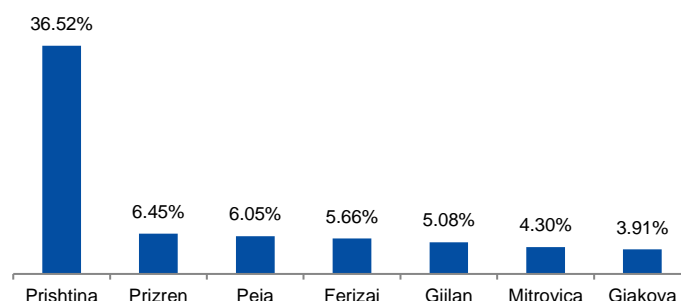
Terminals by function	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Automated Teller Machines (ATM)	542	534	535	522	520	518	511	512
<i>of which:</i>								
ATM with cash withdrawal function	542	534	535	522	520	518	511	512
ATM with Kos Giro payment function	97	91	89	131	134	123	116	109
ATM with cash deposit function	82	88	115	121	122	123	168	172

Source: CBK (2017)

Figure 9 shows the distribution of ATM network in the largest cities in Kosovo during Q4 2017. From the chart below, it can be concluded that most of ATM's are concentrated in

Pristina, while the rest is distributed among the other cities of Kosovo. There are different reasons why there is such a large concentration of ATM terminals in Pristina, like: the large number of population living in it, the number of branches of banks, businesses operating, etc.

Figure 9. Distribution of ATM network



Source: CBK (2017)

The following table presents the number of POS terminals installed in Kosovo. POS terminals enable card payments for customers without the need of cash. This is a very easy and secure way of making payments for goods or services.

In Q4 2017, the number of POS terminals reached 11,501 which compared to Q4 2016 represents an increase of 8.61 percent.

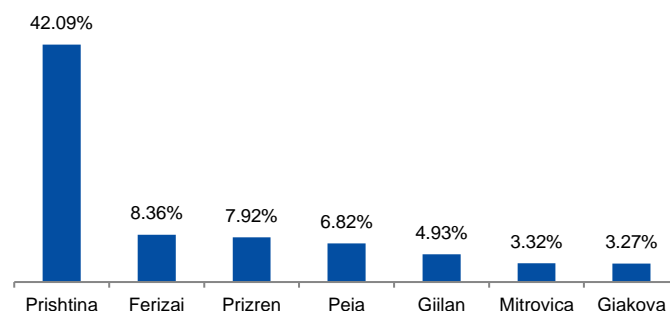
Table 7. Number of POS terminals

Terminals by function	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
POS terminals (Point of Sale)	9,785	9,785	9,973	10,589	10,518	10,631	10,778	11,501
<i>of which:</i>								
POS with cash withdrawal function	180	180	168	168	168	168	168	165
EFTPOS terminals	9,605	9,605	9,805	10,421	10,341	10,463	10,610	11,336

Source: CBK (2017)

Figure 10 shows the distribution of POS terminals network by largest cities in Kosovo for Q4 2017. Similar to the distribution of ATM terminals, POS terminals network is concentrated in Pristina while the rest is distributed with little differences among other cities.

Figure 10. Distribution of POS terminals



Source: CBK (2017)

4. Number of cards

Table no. 8 shows the number of cards by functions from Q1 2016 until Q4 2017. In Q4 2017 the number of cards with debit function was increased by about 8.11 percent compared with the same period last year, as well as the number of credit cards had an upward trend of about 5.31 percent. The total number of cards in Q4 2017 compared with the same period of last year was increased by about 7.69 percent.

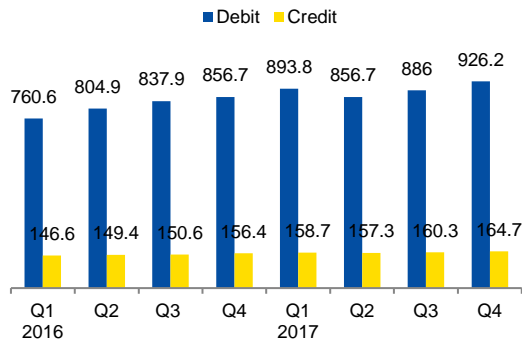
Table 8.Number of cards by function (in thousands)

Cards by function	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Cards with cash function	907.38	954.48	988.52	1,013.16	1,052.45	1,014.02	1,046.27	1,090.95
Cards with payment function	907.19	954.27	988.52	1,013.16	1,052.45	1,014.02	1,046.27	1,090.95
<i>of which:</i>								
Debit Cards	760.58	804.86	837.89	856.72	893.79	856.72	886.00	926.21
Credit Cards	146.61	149.41	150.63	156.44	158.66	157.30	160.27	164.74
Cards with e-money function	0.20	0.21	0.21	0.23	0.26	0.29	0.33	0.40
Total number of cards	907.38	954.48	988.73	1,013.39	1,042.53	1,014.31	1,046.60	1,091.35

Source: CBK (2017)

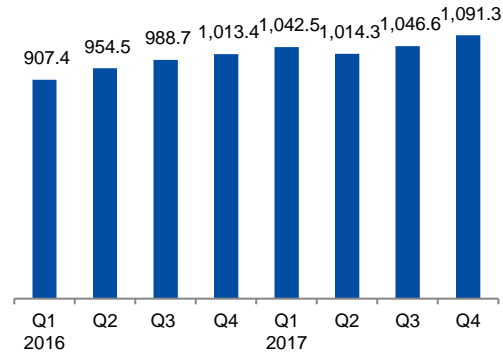
Figures 11 and 12 present the number of credit and debit cards, as well as their total number for the last years. Debit cards continue to be much more in number compared to other types of cards. Thus, in Q3 2017 debit cards represent about 84.87 percent of the total number of cards, credit cards 15.13 percent of the total number of cards.

Figure 11. Debit and credit cards (in thousands)



Source: CBK (2017)

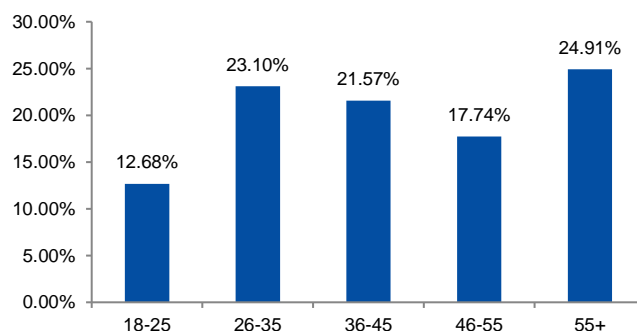
Figure 12. Total number of cards (in thousands)



Source: CBK (2017)

The following graph shows the distribution of cards by the age of cardholders. The data presented in the graph shows that from the total number of card holders, 12.68 percent of them are 18-25 years old, 23.10 percent are 26-35 years old, 21.57 percent are 36-45 years old, 17.74 percent are 46-55 years old and 24.91 percent are older than 55 years.

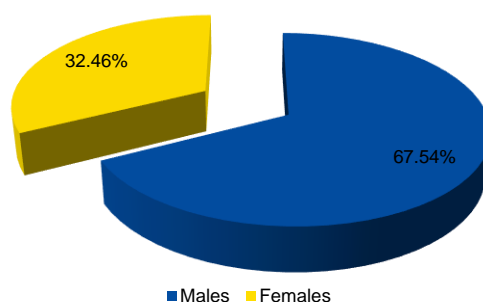
Figure 13. Cardholders by age



Source: CBK (2017)

Figure 14 shows the structure of card holders by gender. From the data presented in the graph, it can be concluded that there is a disproportion distribution of cards by gender of owners, where, from the total number of cards, only 32.46 percent of them are owned by females, while the remaining 67.54 percent are owned by males.

Figure 17. Cardholders by gender



Source: CBK (2017)

5. Card transactions

In the following table are shown the number of card transactions in recent reporting periods. From the data presented in the table, we can conclude that the total number of card transactions had an upward trend in each period.

In the fourth quarter of 2017 the number of card transactions was increased by about 10.26 percent compared with the same period of last year (Q4 2016). The number of withdrawals at ATM terminals was increased by about 6.69 percent, while the number of card payments at POS terminals was increased to 9.50 percent.

Table 9. Number of card transactions (in thousands)

Description	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Transactions number	4,414.33	4,958.04	5,098.93	5,486.17	5,191.70	5,754.11	5,714.54	6,049.09
<i>of which:</i>								
ATM cash withdrawal	2,697.96	3,052.95	3,162.79	3,372.85	3,198.83	3,528.17	3,467.19	3,598.50
ATM deposit	166.11	192.98	215.16	246.12	238.58	299.55	326.64	398.71
Credit transfers through ATMs	8.54	8.64	8.68	7.85	6.86	7.19	6.54	9.32
Cash withdrawal in POS	2.21	1.30	1.36	0.61	0.70	0.90	3.58	7.21
Payments with cards in POS	1,539.51	1,702.17	1,710.94	1,858.73	1,746.73	1,918.31	1,910.59	2,035.36

Source: CBK (2017)

From the data presented in table 9, we see that ATM withdrawals represent the main part of card transactions. In Q4 2017, ATM withdrawals were 59.5 percent of the total number of card transactions, payments in POS terminals about 33.7 percent, credit transfers in ATM around 0.15 percent, withdrawals in POS terminals and cash deposits on ATM around 6.6 percent of the total number of card transactions.

Table 10 shows the value of card transactions over the last two years. As per data in the table, we can see that along with the increase in the number of card transactions, there is also an increase of the total value of these transactions.

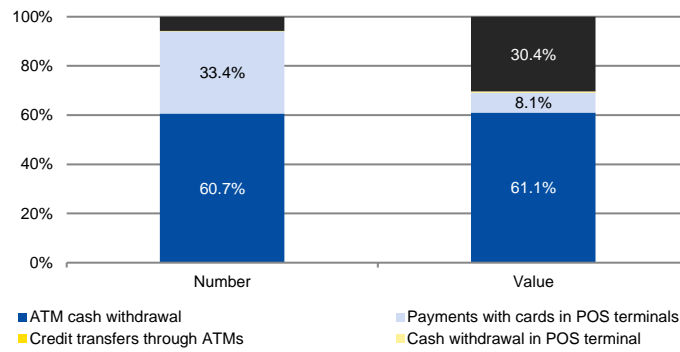
Table 10. Value of card transactions (in millions of EUR)

Description	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Transactions value	507.36	625.83	730.09	694.62	627.93	766.36	863.48	819.02
<i>of which:</i>								
ATM cash withdrawal	320.28	398.06	466.39	435.73	403.32	482.68	527.55	492.14
ATM deposit	125.44	162.22	199.09	190.49	168.84	217.82	262.76	253.61
Credit transfers through ATMs	0.08	0.11	0.11	0.16	0.11	0.14	0.15	0.53
Cash withdrawal in POS	2.78	2.80	1.36	0.60	0.64	1.03	3.50	1.25
Payments with cards in POS	58.78	62.63	63.14	67.65	55.02	64.70	69.51	71.48

Source: CBK (2017)

From the data in table 10 we see that ATM withdrawals contain about 60.1 percent of the total value of card transactions, payments in POS terminals about 8.7 percent, ATM cash deposits 30.04 percent while credit transfers through ATM and POS terminal withdrawals about 1.16 percent of the total value of card transactions.

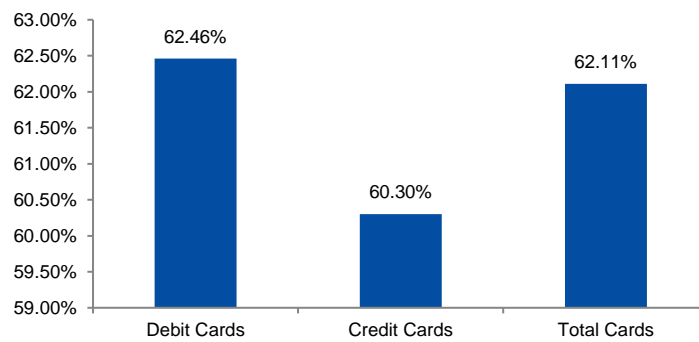
Figure 15. Participation of card transactions by number and by value



Source: CBK (2017)

From chart 16 can be concluded that only a small number of cards are active in payment terminals. The chart shows that only 62.46 percent of debit cards are active at POS or ATM terminals, while with regard to credit cards, 62.11 percent of them are active in terminals.

Figure 16. Active Cards



Source: CBK (2017)

Conclusion

In this document is analysed the use of payment instruments in Kosovo during the recent years. It is found an improvement on payment infrastructure, a steady growth in the number of payment instruments and also an increase in the use of these instruments.

During this evaluation period, there is an increased use of electronic payment instruments, which will affect the reduction of cash payments. This increase is the result of the commitment of key stakeholders of the payment system for creating conditions to reduce cash payments.

The growth rate of payment instruments and their use in recent years in Kosovo will reduce cash payments in the near future. Further increase in the use of electronic payment instruments, will reduce the amount of cash in circulation and will increase the safety and efficiency in payments.

From the data presented above can be concluded that there is still space for improvement of policies and other mechanisms to increase the use of new electronic payment instruments.