

THE KOSOVO BANKER

Exclusive Interview with Mr. Fehmi Mehmeti, Acting Governor,
Central Bank of Kosovo

Digital payment platforms and cash substitution

The right to electronic payments and reducing cash as a payment instrument

Sweden, the first country to withdraw cash from use?

Digitization - preparation for the future

Reducing Cash Transactions Opportunities and Challenges



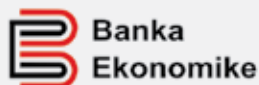
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The Kosovo Banking Association (KBA)

is the voice of the banking industry in Kosovo. KBA is a representative of Kosovo's commercial banks, KBA member, regard to the banking sector issues and cooperates with all authorities including the Assembly of the Republic of Kosovo, the Government, the Central Bank, the International Financial Institutions, the Media, etc. in order to support the stability and development of the banking sector in Kosovo.

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A është sukseesi
çështje që
lidhet me fluksin
e parasë?

Apo çështje
idesh?



Një kompani e suksesshme ka nevojë për të dyja: qetësi për të llogaritur dhe pasion për çështjen në dorë. Ky besim reflektohet në parimin tonë udhëheqës: 'EOS. Me mendje dhe zemër në financë'. Ky parim na shoqëron në punën tonë për kompaninë tuaj. Shërbimet tona minimizojnë nivelin tuaj të rrezikut ndaj mospagimit të kësteve, duke përmirësuar fluksin e të hollave tuaja. Kjo do të thotë se ju përfitoni nga rritja e sigurisë, keni më shumë burime për ide të reja dhe ruani suksesin në terma afatgjatë. Më shumë informacione mbi shërbimet tona mund të gjeni në www.eos-solutions.com

EDITORIAL

Looking towards the year 2018 and approaching the 10th jubilee anniversary of the Independence of the Republic of Kosovo, we reflect on many of the achievements but also challenges that we are leaving behind in 2017.

The banking sector marked another year of intensive activities and challenges but a year which harvests it many successes and places the banking sector of Kosovo in a position that is aspiring for many markets in the region. All indicators show that the banking sector in Kosovo is well managed which has made possible a healthy loan portfolio with only 3.6% in non-performing loans while having an irreplaceable role in the economic development which is indicated by an expansion of over 10% in lending.

Banks financed around 1 billion euro in new loans during the year that we are leaving behind, making it possible for businesses to expand their activities and to increase employment, individuals to accomplish their objectives, as well as the state treasury to supplement its budgetary needs through government bonds. The commercial banks of Kosovo are carrying the main role in economic development and facilitation of capital

**Dr. sc. PETRIT
BALIJA**

EXECUTIVE
DIRECTOR

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circulation in the country with a very favorable cost when considering that the average interest rate for loans has now fallen down to 6.5% (6.0% for enterprises).

In the general socio-economic aspect, during the year that we are leaving behind, the citizens of Kosovo achieved many successes as well as for businesses, however due to an overwhelming amount of challenges which dominated this year, somehow these achievements remained pail against the background of the aspirations to achieve more in 2018. The edition looks at one of these aspirations which will reform the economy of the country in a substantial and very concrete way, respectively the topic **Reduction of Cash Transactions.**

One of the main problems that have characterized the economy of Kosovo during these 10 years of state capacity



building is informality in the economy which, according to the latest reports, is around 31.7%. Economic informality brings a number of problems for the economy of a country including unfair competition, tax evasion, employment without contracts, sale of products below the quality standards, etc. One effective solution for this economic problem is the reduction of cash use, a topic which has been selected for this edition of The Kosovo Banker.

The reduction of cash use can be achieved through the proliferation of electronic banking services with an emphasis on conducting payment transfers through internet banking accounts known as online banking as well as an increase of the use of the banking card known as debit card for daily transactions.

The transition from cash transactions to electronic transactions brings many benefits for our citizens including a convenience in transactions, the security of their savings, easier personal finance management, as well as avoidance of encountering falsified cash notes.

In this edition, we are honored to include an exclusive interview with the acting Governor of the Central Bank of Kosovo,

Mr. Fehmi Mehmeti who has share with us the latest information from this topic. This edition also brings many articles from important representatives of the banking sector as well as experts in this field who have expressed their views regarding this topic. Furthermore, this edition included also articles of financial literacy as well as important news and events from the banking sector of Kosovo. The Kosovo Banker continues to be an important source of information about the financial sector as well as a window to financial literacy for the citizens of Kosovo with over 10,000 copies distributed in each edition throughout the territory of the Republic of Kosovo.

I would like to thank the commercial banks of Kosovo and EFSE-DF, as well as all the authors who contributed in the making of this edition and I wish you pleasant reading and successful year 2018! **At the same time Congratulations to all on the 10th jubilee anniversary of the Independence of the Republic of Kosovo!**

Sincerely,

Petrit Balijsa

Executive Director
Kosovo Banking Association

ACTING GOVERNOR, CENTRAL BANK OF KOSOVO

Opportunities and Challenges

KBA: According to CBK data, how have trends in cash and electronic transactions fluctuated in recent years?

Mr. Mehmeti: One of the primary objectives of the CBK is to maintain an efficient, secure, and sustainable payments system in the country, as a key pillar of the financial infrastructure and the country's economy. In pursuit of this objective, the Central Bank is continuously engaged in advancing financial infrastructure to conduct electronic transactions in order to reduce cash transactions.

In recent years in Kosovo, there has been an increase in the use of electronic payment instruments. From the latest statistical data, there is an increase in the number and value of credit transfers, which represent an alternative to making cash payments. Payments through electronic instruments, such as: debit card transactions, credit cards and e-banking, have been characterized by a significant increase in use, affecting the reduction in cash payments.

The use of e-banking in recent years has marked a significant increase. The number of customers using their accounts for payments over the internet reported for September 2017 is 320,314 accounts, and this number has increased by over 40% compared to last year. **The total number of bank accounts at the end of September 2017 was 1.95 million, of which according to data reported by commercial banks 16.4% of them are accessible through the internet.**

Regarding the number and value of interbank transactions realized with the e-banking service, there is an increasing trend of transactions initiated through the internet versus paper-based transactions. Of the total number of credit transfers carried out during January-September 2017, it is seen that 9.04% were initiated electronically, while in the same period of 2016, their share



was 7.99% of the total number of credit transfers. The same can be noted for the value of transactions initiated electronically, where during this period of 2017, 29.93% of the value of the transactions were realized electronically, while in the same period of 2016 the share of the value of the transactions conducted electronically was 22.41% of their total value.

In addition, with regards to transactions through electronic payment instruments, according to recent data reported by commercial banks in the Central Bank, the total number of cards available to customers at the end of September 2017 was **1,046,268, of which cards with the debit function were 886,001 whereas cards with credit function were 160,267.**

If compared to the same period last year, it is noted that the total number of cards has increased by 6%. Consequently, transactions through electronic payment instruments have an upward trend over the recent years.

The number of card transactions for the last reporting month, i.e. for September, was about 1.8 million transactions involving withdrawals and deposits at ATM terminals and payments at POS terminals. Compared to the same period last year, there was an increase of 5.5% on the number of transactions.

Growth is also observed in the value of transactions executed through cards, where during September 2017, the value of transactions was 247.9 million Euros and compared to the same period of 2016, we have an increase of 11.8% of the value of the transactions. As far as card transactions are concerned, we can also mention online purchases with cards that have become very attractive for the citizens of Kosovo in recent years. These payments are being accompanied by rapid development trends. These transactions are mainly used for the purchase of goods or services, hotel bookings, travel ticket payments etc.

If a comparison is made with the countries in the region regarding the use of cards, according to the data published at the end of 2016, Kosovo had 484,021 debit cards available per 1 million inhabitants, while Albania, for example, in the same period reported 301,596 debit cards per 1 million inhabitants, and Macedonia had 697,112 debit cards per 1 million inhabitants.

When considering credit cards for 2016, there were 88,382 cards per 1 million inhabitants in Kosovo, 29,736 credit cards per 1 million inhabitants in Albania, while in Macedonia there were 181,475 credit cards reported per 1 million inhabitants.

The total number of bank accounts at the end of September 2017 was 1.95 million, of which according to data reported by commercial banks 16.4% of them are accessible through the internet.

From the data above, it can be seen that Kosovo has an increasing trend of the number of cards in use and number of transactions through electronic payment instruments, which in some categories stands higher than some of the countries in the region, although it is necessary to do more in reducing the use of cash and using

electronic payment instruments to follow the standards of EU countries.

KBA: What are the advantages of reducing cash transactions for various stakeholders in Kosovo's economy, including public agents, commercial banks, businesses, and individuals?

Mr. Mehmeti: The use and management of cash has a high cost for all of these categories that you mentioned. This is due to the fact that cash management has its own cost of building the physical infrastructure and personnel engagement, as well as the cost of necessary security, which represent a relatively high cost, but at the same time carry a high risk to all parties who use cash. Therefore, reducing cash utilization, besides increasing efficiency through lowering costs, reduces the risk of cash use, such as from theft, potential physical assaults, fraud risk, fraudulent banknotes, and so on.

The study by Moody's on the impact of electronic payments on growth, published in February 2016, which included debit, credit and prepaid cards, showed that the growth of electronic payments directly affects consumer growth and GDP. Moreover, this impact is constantly increasing with the increase in electronic payment penetration. **For all markets and economies analyzed, there was a positive correlation between card utilization and economic growth. From this study, it is estimated that with the increase of electronic payments, economic efficiency also increases, as transaction costs are reduced and the economic flow of goods and services is improved.**

The developed electronic payment systems have a great impact also on increasing the transparency and strengthening the mechanisms of monitoring tax systems. In this regard, one of the main advantages of reducing cash transactions is the reduction of the known "informal economy" which has major negative consequences for a country's economy. These consequences can mainly be summarized in reducing the tax base,



reducing the quality and quantity of products and services to the public, damaging fair market competition, degrading economic and social institutions, and consequently direct impact on limiting the economic growth of a country. Therefore, it is very important for all these categories, such as individuals, businesses, banks, and state institutions to work on reducing cash use and to further advance the use of electronic payments.

One of the main ways to advance in this direction is the further development of financial infrastructure, the encouragement of innovations in the field of electronic payment services, and the promotion of increased use of payment instruments.

KBA: In some EU countries, there are restrictions on maximum cash transactions. Are there such restrictions in Kosovo that are governed by a legal framework in terms of cash transactions, and is it expected to have any in the following years?

Mr. Mehmeti: Despite the fact that in most of the EU countries there are restrictions regarding the maximum value of cash transactions, there is still no unified EU position regarding this issue. Although recently, largely as a result of recent terrorist attacks in several EU countries and the need to prevent money laundering and terrorist financing, there have been some developments to unify the possible application of such a limitation at the level

of EU. For example, in France in 2015, the limit on cash transactions between businesses and cash transactions between customers and businesses has been reduced to 1,000 Euros from 3,000 as it was earlier, or the case Spain, which has also followed France through the application of the 1,000 Euro limit. While in other countries, such as Germany and Austria, there is still no such limitation, and the recent attempt to initiate a similar restriction has been faced with a major public reaction.

The total number of cards available to customers at the end of September 2017 was 1,046,268, of which cards with the debit function were 886,001 whereas cards with credit function were 160,267.

Also, the Central Bank of Europe has warned that starting from the second part of 2018 it would stop issuing the 500 Euro banknote in order to make an impact on reducing the likelihood and ease of using high-value cash to carry out transactions. However, the current 500 Euro banknotes will continue to be traded without any restrictions.

Currently, in Kosovo, in terms of cash transactions between businesses, the Tax Administration has applied a limit of 500 Euros, while there is no limitation on transactions between physical persons and businesses. In addition, there are requirements to notify FIU regarding transactions over 10,000 Euros, source disclosure for depositing amounts over 10,000 Euros, as well as disclosure requirements in cases of transferring amounts over 10,000 Euros in cash at entry/exits outside Kosovo. Even the current legislation of the CBK has limited the disbursement of credit funds in amounts over 10,000 Euros from the borrower's account, where funds over 10,000 should be disbursed only through bank transfers supported by valid documents.

It is worth noting that in some cases, for example, the UK and Scandinavian countries, although no such restrictions have been applied, these countries are at the top of the list as cash low-use countries and the highest use of electronic payment instruments. This implies that there are many other methods and incentives that can be used to increase the use of electronic payment instruments. For example, many countries have set their national strategy to reduce cash use and have therefore focused on improving the financial infrastructure through technology investments, developing legal infrastructure to create space for innovative services, and have created incentives through tax instruments for payment instrument users.

The application of these methods other than limiting the maximum cash value of cash transactions, I consider should be taken into account especially in countries that are largely based on widespread use of cash, which should apply gradual policies on applying changes in order to eliminate the possibility of adverse impact on the application of such limits.

KBA: What is the role of the CBK and Commercial Banks, respectively, in the commitments to reduce cash transactions?

Mr. Mehemti: I believe that the reduction in the use of cash and consequently the reduction of the informal economy should be a national level strategy for which all the state institutions should be engaged. However, the Central Bank as the sole regulator and supervisor of the financial sector, along with commercial banks as key players in the provision of payment services, have a key role in reducing cash transactions.

One of the most basic issues is providing a secure, stable, and efficient infrastructure for making payments, for which I think it was worked hard during this period, thanks to the engagement of the Central Bank, but

also thanks to the close cooperation with the banks and with all relevant stakeholders in this field.

Since July 2016, the Central Bank has activated the new interbank payment system, which enables the payment of large amounts, over 10,000 Euros in real time, known as the "RTGS" module, and has also advanced the payment system for small value transactions that are performed through the module known as "ACH" throughout three daily sessions. This has been an important step in the further advancement of the payment system in terms of security, speed, and efficiency in the performance of interbank payment services, in line with international standards. The new payment system is designed according to the latest international standards for payment systems (ISO 20022) and the most recent technology.

For all markets and economies analyzed, there was a positive correlation between card utilization and economic growth. From this study, it is estimated that with the increase of electronic payments, economic efficiency also increases, as transaction costs are reduced and the economic flow of goods and services is improved.

At the same time, it should be emphasized that the Central Bank has adopted two important schemes for facilitating payment services, such as the KosGIRO scheme and the Direct Debit scheme. By means of these schemes, companies as well as clients were enabled to make their payments according to internationally recognized standards, by which the billing of services is unified. In addition, bill payment automation has been enabled through the Direct Debit scheme implemented in cooperation with

commercial banks, which enables the automation of performing regular payments by customers more efficiently.

An important element is also the adoption of international rules and standards to track new developments in the field of payment services. This is achieved through the harmonization of the legal framework with the relevant European Union directives, which is a continuous part of CBK commitments.

In order to advance the payment system, the Central Bank in August of this year has issued the Regulation on Electronic Payment Instruments and has amended the Regulation on Reporting of Payment Instruments Statistics to align it with the relevant Regulation of the Central Bank of Europe.

By means of the new Regulation on Electronic Payment Instruments, requirements for enhancing customer transparency as well as the terms and obligations of users and providers of electronic payment services have been adopted. This will have an impact on increasing transparency and security for users of electronic payment instruments.

Banks have also worked in this regard, where almost all of them have advanced their services by offering the possibility of completing "online" payment and services through telephone applications, as well as through the establishment of sites known as "24/7" which enable payment and deposits through ATMs over 24 hours.

In addition to the further advancement of technological infrastructure, creation of space for innovative services and further development of legal infrastructure in line with international standards and EU directives, **I consider that an important role that the Central Bank and commercial banks can play is also the promotion of the use of electronic payment instruments by publishing and informing the clients about the way of**

using, as well as informing them on the advantages and the security offered by the banks for the provision of these services.

KBA: Do you consider that an upgrade to the interbank processing center, i.e. the consolidation of ATMs and POS would positively affect the growth of electronic transactions and cash reduction, and are there plans to be developed in this regard?

Mr. Mehmeti: The Central Bank has conducted some analyzes related to this issue, based on which it is estimated that the consolidation of a local payment processing center through electronic payment instruments (such as cards, e-banking, mobile banking, etc.) especially the unification of the Points of Sales (POS terminals) and ATM terminals, would have an impact on increasing the use of payment instruments, consequently in reducing the use of cash. In this respect, a feasibility

study was conducted in 2016 for the creation of a possible interbank system for POS and ATM transactions, supported by the Government-to-Government Program (G2G Program) as a partnership by USAID for local capacity building.

From the analysis conducted so far, but also from the study in question, the establishment of such a card processing interbank processing center requires modern infrastructure and technology and therefore has a relatively high cost.

As a result, the Central Bank is in the process of initiating a project with the support of the World Bank to find the most adequate and efficient way for Kosovo's needs to establish such a center for processing payments and interbank card transfers, in order to unify the use of POS and ATMs for use through all cards issued by different banks, which would increase the efficiency and reduce the cost of these transactions. This would also make it possible to expand the



network of POS terminals and ATMs, e.g. by eliminating the need to use many POS from each bank in a location, which could be used for distribution at those missing locations.

At the same time, in this regard, the Central Bank has been continuously working on, completing, and adapting the necessary legal and regulatory infrastructure to create the right space for licensing and market entry of institutions and operators for electronic payment services, such as e.g., electronic money institutions.

KBA: How do you assess the general state of the banking system in Kosovo?

Mr. Mehemti: The primary objective of the Central Bank of the Republic of Kosovo is to maintain financial stability, an objective we are achieving with great success. **Kosovo's banking sector, as the main component of the financial system, is proving to be a very stable source of financing for the country's economy and a very important source of overall macroeconomic stability due to its high degree of sustainability.**

I consider that an important role that the Central Bank and commercial banks can play is also the promotion of the use of electronic payment instruments by publishing and informing the clients about the way of using, as well as informing them on the advantages and the security offered by the banks for the provision of these services.

Kosovo's banking sector continued to grow in this period of 2017, maintaining good liquidity, profitability, and equity indicators. The total value of banking sector assets in September 2017 amounted to 3.66 billion Euros, marking an annual growth compared

to the same period last year of 9.3%. The asset structure continued to be funded mainly by deposits and focused on lending activity.

Total loans at the end of September 2017 amount to 2.4 billion Euros, which marked an annual growth of 10.3%. Despite continued lending growth, the non-performing loans indicator has declined, which in September 2017 marked the rate of 3.6% from 5.1% in the same period last year. Loan loss provisions continue to cover non-performing loans at a satisfactory level of 140%. Total deposits in September 2017 amounted to 3.07 billion Euros, marking an annual growth of 8.6%.

The banking sector continues to be well capitalized. The risk-based capital indicator in September 2017 was recorded at 18.3%, which is higher than the CBK's regulatory requirements of 12.0%.

Kosovo's banking sector, as the main component of the financial system, is proving to be a very stable source of financing for the country's economy and a very important source of overall macroeconomic stability due to its high degree of sustainability.

The Central Bank of the Republic of Kosovo will continue to provide the financial system, particularly the banking system, with all the necessary financial infrastructure to develop free competition and increase efficiency. Therefore, the CBK encourages the banking sector in Kosovo to engage even more in growing the lending activity, with conditions that are more favorable and with lower interest rates and tariffs for banking services.

DIGITAL PAYMENT PLATFORMS AND CASH SUBSTITUTION

In recent years, the impact of technological innovations in the field of payments has been transformative. Consumers today have access to a large number of alternatives to make payments electronically. At the same time, the competitive market outlines for commercial banks in the field of payments have surpassed banks as key players, opening up the payment market for FinTech-oriented non-financial companies or new financial technologies. **But, what do these new technological developments offer, and why is their effect on the global economy considered transformative?** The answer is simple. Today, the client is able to become independent and take control of his relationship and communication with banks or other companies that enable purchases or payments. This is because today's technology enables electronic payments made by a large number of electronic devices that are used widely in everyday life, such as mobile phones, tablets, computers, cards, and so on. The processing of these payments is becoming increasingly faster, easier, less costly, done in real time 24/7, and is carried out with a high comfort..

Worldwide consumers are expected to complete about 726 billion transactions through digital payment platforms by 2020.

As a result, over the past two to three years, the number and volume of electronic payments worldwide has grown at rapid rates. Globally, non-cash transactions between 2014 and 2015 increased by 11.2%, the highest increase in the last decade. According to a study by Capgemini and BNP Paribas published in 2017, worldwide consumers are expected to complete about 726 billion transactions through digital payment platforms by 2020.

MS. ERIOLA BIBOLLI

DEPUTY CHIEF
EXECUTIVE OFFICER
OF PROCREDIT BANK



What are digital payment platforms?

I. Debit or credit cards, and quick contactless payment cards. Today, debit and credit cards with the largest global usage are MasterCard and VISA trademarks. The latest technology in the world of cards is the contactless card for fast payments that have recently revolutionized the use of these electronic payment cards. In EU, contactless cards have a very widespread use and today this payment is considered normal and does not constitute innovation. During 2015, in France, VISA contactless cards have doubled to 40 million, out of 20 million active cards during 2014. While the UK market is the largest contactless card payment market in Europe, with 106.9 million active cards in 2015.

Another successful example of using digital payments, and in particular card payments in Europe, is the state of Denmark. According to the European Payments Council's publications, 77% of the 16-89 year old Danes have bought and paid in electronic forms during 2016. During the same year, 81% of payments in the Danish economy were made with a card, and Denmark is the first country in the EU for the highest rate of card payments, when the average of the European Union countries is 49%. Everyone uses the card on average 330 times a year.

What does the Kosovar banking market offer in this context?

Kosovo's banking market has a quite satisfactory presence of internationally accepted VISA and MasterCard debit and credit cards as part of global payment systems.

Based on the reports published by the Central Bank of Kosovo, in September 2017, the Kosovar market had over 1 million debit and credit cards active, and the number of card transactions is constantly increasing.

It is worth mentioning that since 2016, Pro-Credit Bank has been the first bank to bring the contactless debit card from MasterCard, which enables fast and easy payments, in full harmony with international developments and trends in the field of payments. The fact that some of the other commercial banks in Kosovo have followed this pace of bringing the latest technology of contactless cards in the country is encouraging, and today the Kosovar consumer is up to date with the European and global consumer. **If we were to ask why the Kosovar customer should make payments through contactless cards, the answer would be straightforward: it is a quick, easy, and safe payment; it is an integrated payment with global international payment systems and has high acceptance across the world, not just in the Kosovo market.**

II. Modernization and advancement of electronic banking or e-banking platforms

Electronic banking is a way of banking through which the client performs financial services as well as electronic payments from his bank account at a commercial bank through the bank's website.

The banking market in Kosovo has moved with a fast and encouraging pace in adopting and using electronic banking platforms. In September 2017, about 320,314 active e-banking accounts were reported on the market, with a fairly satisfactory growth rate of 41% compared to 2016, where the number of these accounts was around 226,316.

The client's advantage to using electronic banking is 24/7 access to accounts and the ability to make electronic transactions and payments at any time, every day of the week.

III. Payments via smart phones, tablets, and digital portfolios

The use of mobile phones as a means of payment for the purchase of products and services represents another change of the payment system model towards digital payments. This re-orientation is mainly driven by the demands and needs of consumers to make payments through integrated electronic portfolios on mobile phones called "digital portfolios". According to the VISA EUROPE survey on digital payments published in October 2016, the number of European citizens using the mobile phone to make payments has tripled during 2015 compared to 2014 (54% to 18%). British consumers are leading this trend with 74% making payments over the mobile phone.

What are digital portfolios?

Digital portfolios are the electronic version of the traditional portfolios that individuals carry with themselves. For consumers, digital portfolios contain information and money in electronic form, ready to make payments. For businesses (or merchants), as recipients of these payments, the digital portfolio represents another alternative way of payment. It is important to note that a digital portfolio is simply an encrypted and secure storage of information / data in electronic form. Digital portfolios are widely used not only in the field of payments, but also in the field of electronic ticket storage, electronic keys, regular customer cards, and so on. Meanwhile, a wallet on the mobile phone is nothing but a digital portfolio version, through which some types of electronic payments can be made.

Today there are several types of electronic payments via mobile phones, but the two mostly used are:

- Payments through the integrated digital portfolios on the mobile phone. These payments are alternative forms of pay-

ments similar to debit or credit cards, and use contactless technology known as “tap and go”. Today, such portfolios are offered through mobile banking applications, developed by commercial banks, or through applications developed by non-financial companies.

- Payments through various platforms enabled by mobile phones. An example of this type of payment is the platform created by the PayPal Company established in 1998, which enables direct customer to customer payments, or online payments to different merchants. The use of these payments picked up after 2010 as a result of the drastic increase in the use of mobile phones, which led to the creation of electronic payment platforms such as “Google Portfolio” in 2011, “Apple Pay” in 2014, etc.

However, the challenges for this digital payment instrument are obvious. Firstly, addressing the issues of digital payments’ security through mobile phones in a timely manner, particularly digital payments made by applications developed by non-financial companies that are not subject to supervision and banking regulations.

What does the Kosovar market offer?

The use of payments through mobile phones is at an early stage in the Kosovo market. Currently there is a small number of commercial banks that offer payments through digital portfolios integrated in mobile phones, and at the same time, there is a lack of merchant sales terminal infrastructure to receive such payments through the phone.

However, following the rapid growth trends of these payments in the global markets and given the unstoppable technological innovation, the configuration of this infrastructure in the Kosovo market is expected to change very soon. These payments are expected to penetrate rapidly in the Kosovo market, and are expected to be the digital payments of the future.

IV. Online purchases through the electronic commerce platform (e-commerce)

The term electronic commerce or e-commerce refers to the purchase and sale of goods and services online through electronic channels, such as the internet. E-commerce as a business model and innovative way of electronic payments has its beginnings since the 1960s, but has taken tremendous gains with the drastic increase in access to the internet of a part of the global population and at the same time with the successful development of new business models like Amazon in 1995 and Ebay in 1997.

If we were to ask why the Kosovar customer should make payments through contactless cards, the answer would be straightforward: it is a quick, easy, and safe payment; it is an integrated payment with global international payment systems and has high acceptance across the world, not just in the Kosovo market.

What does the Kosovo market offer in e-commerce?

This service is currently also available on the Kosovo market, where various entrepreneurs and businesses have made the online sale of products and services possible through the “gateway” payment platforms provided by commercial banks in Kosovo. The first “gateway” platform for online shopping in Kosovo was provided by ProCredit Bank in 2013. Payment rates on this platform are average, but similar to developments worldwide, and this business model and this form of trade and electronic payment is an untapped potential in Kosovo that is expected to flourish and to gain momentum in the near future.

V. Digitalization of the banking sector in Kosovo and the experience of ProCredit Bank so far

In line with the digitalization of the global and Kosovar economy, as a result of rapid technological developments and innovation, ProCredit Bank is the first bank in the Kosovar market that has offered an integrated concept of digital banking, with its core component being the modernization of electronic payment platforms. The functionalization of the 24/7 zones during 2014 and 2015, as well as the integration of this concept with the modernization of the electronic banking platform, banking via mobile phones, re-modeling customer communication through the web site and contact center, etc., have offered a unique concept of modern and up to date banking in the Kosovo market. This banking concept has become one of the strategic objectives of ProCredit Bank as well as many commercial banks around the world. It is a pleasure to note that Kosovar clients have welcomed this new concept of fast growing banking and have adapted their banking habits by embracing all electronic payment and cash management channels. Today, 100% of all transactions at ProCredit bank level are performed through the electronic platform and the 24/7 zone.

What will the future bring? The inevitable increase in digital payments and the economy with less cash

While we discuss and talk about digital payments and world trends, the world around us continues to adopt the digital technology with a fast and unstoppable pace, which is continuing to fundamentally affect existing payment platforms and systems. According to the Business Insider magazine, countries like Sweden, Singapore, the Netherlands, France, Canada, Belgium, and the United Kingdom are transforming into cashless economies. In Sweden, during 2016, only 1% of transactions were carried out in cash, while the rest in digital form. Meanwhile, India's Prime Minister in November 2016 announced his government's decision to de-monetize his state by removing from circulation large banknotes, which account for about 86% of the cash turnover in the country, when cash payments

account for around 98% of transactions. In this way, India has embraced the opportunities offered by digital banking and technology, and is significantly increasing the use of electronic payments through cards and digital portfolios.

However, despite the fact that digital payments are on the rise, cash is still a way of paying, present in the global economy, but with a significantly reduced presence.

Kosovo's economy with less cash, a dream or a reality?

If we turn to the Kosovo banking market, despite the short history of this sector, we can conclude that there is an ongoing improvement in the electronic payment infrastructure in the country, a continuous increase of payment platforms, advancement of this infrastructure, and the adaptation of advanced and modern forms of technology. At the same time, electronic payment instruments in Kosovo provide the necessary security and sustainability elements of a payment system, and the adoption of advanced cyber security technologies remains a priority of the banking system. However, the share of purchases and cash payments in the economy continues to remain high, compared to the global trends mentioned above. There is therefore room to significantly increase the use of electronic payment instruments. Particular attention should be paid to provide new forms of electronic payments, and to encourage customers to benefit from the limitless opportunities offered by technological advancements today. Such a development would significantly reduce the level of cash in circulation; would contribute significantly to the reduction of the informal economy and the fight against money laundering and the terrorist financing.

In the end, digital banking as a new business model offered through multiple electronic payment instruments, reflected in the reduction of cash in circulation is the future of the payment model in a century where technological innovation is transformative and unstoppable.

THE RIGHT TO ELECTRONIC PAYMENT AND THE REDUCTION OF CASH TRANSACTION AS A PAYMENT INSTRUMENT

More than 20% of Europe's citizens rarely use cash, while every third says they would leave the cash as a payment instrument and rely on electronic payment forms if they had the opportunity (could).

Kosovo and Kosovo's consumer preferences follow the global trends with a fast pace and Kosovar clients are aware of the disadvantages of using cash, which relate to higher costs, insecurity, discomfort, and risk of loss or theft.

Reducing the use of cash in Kosovo has been the goal of the entire financial sector in the last decade. Based on the cooperation between the banking sector and the Central Bank of Kosovo (CBK), the first steps to reduce the use of cash and to encourage the use of electronic payment forms have been taken since 2011.

The development of digital technology, the improvement of internet penetration and smart devices in the Kosovo market has enabled banks to develop and launch new electronic payment instruments. Banks now offer numerous cash alternatives, enabling customers a wide range of non-cash payment instruments:

Credit and debit cards, credit transfer and Kos Giro through e-banking or mobile banking, as well as Direct Debit, all of them non-cash payment instruments by which users of these services transfer funds between banks or other financial institutions accounts. In addition, the banking infrastructure of payment services in Kosovo is characterized by a sustainable development, driven by growth and expansion both in the application of innovative technologies and in the use of electronic instruments.

Only five years ago, 25% of Kosovo's consumers stated that they lost complete control over their personal finances with non-cash payments, complained about the lack of POS



terminals where they made purchases, the merchant's preferences to be paid in cash, high costs associated with card payments, POS terminal problems, or delays in payment processing.

While in the last seven years, there is a tendency to increase the use of electronic payment instruments.

In 2017, over 70% of payments passing through the banking sector are carried through electronic channels.

Of the total accounts at the end of 2016, approximately 231 thousand accounts have an online access over the internet to process payment orders, to check the account balance, or to apply for various banking services, an increase of 23.3 % compared to 2015 and a fivefold increase compared to 2009 (41 thousand users of e-banking). The expansion of the ATM network has marked a 54% increase in the last five years; while an additional 5,000 POS terminals have been functionalized over this period by increasing the number of POS terminals by 102%.

			Growth in%
Kosovo	Year 2009	Year 2016	2016 vs 2009
People	2.10	1.77	
Surface area (km ²)	10,887	10,887	
Density (per km ²)	193	163	

ATM	339	522	54%
per 1 million inhabitants	161	295	
per 100 km ²	3	5	

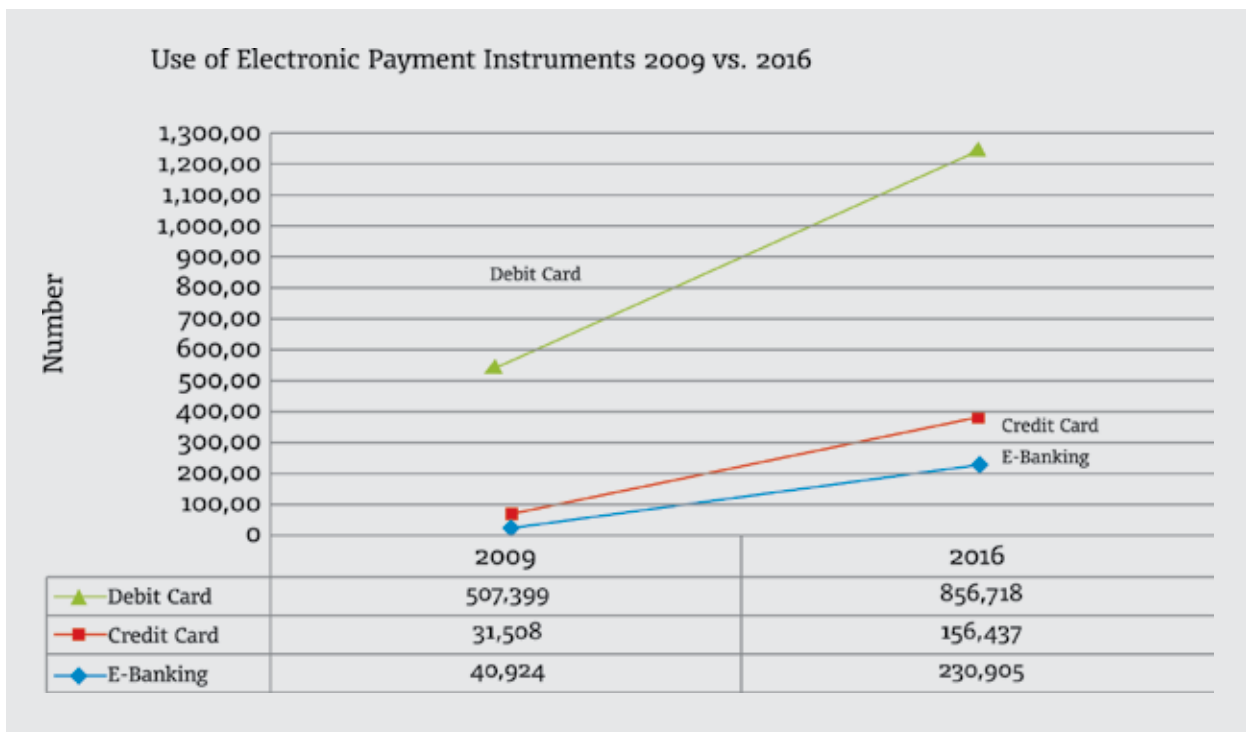
POS	5,251	10,589	102%
per 1 million inhabitants	2,500	5,982	

Credit Card	31,508	156,437	396%
per 1 million inhabitants	15,004	88,382	

Debit Card	507,399	856,718	69%
per 1 million inhabitants	241,619	484,021	

E-Banking	40,924	230,905	464%
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Resource: CBK Payment Statistics





The transformation of demands of the European society and Kosovo's society have pushed banks to keep up with technological advancements by providing customers with the opportunity to transact efficiently and securely at any time and from any country, saving their time.

Therefore, the growth of the number of electronic instruments is not the sole purpose of the banks, but an increase in the ability to meet the constant needs of Kosovo's customers by providing the most convenient and quick services that will be available 24/7/ 365.

Challenges

While in Kosovo's banks most of the payments are already done electronically, this trend does not apply to many public companies, government institutions, and businesses that are still undergoing transformation.

A large part of institutions, excluding some industries such as telecommunications and energy, fail to follow trends and rapid developments in the modernization of the payment system and do not take real steps to improve their systems to develop communication opportunities through web services.

The development of digital technology, the improvement of internet penetration and smart devices in the Kosovo market has enabled banks to develop and launch new electronic payment instruments

The settlement of customer payment orders within Kosovo is carried out through the advanced CBK Interbank Clearing System (ATS), implemented in 2016, which enables processing of small value payments in 3 sessions within the working hours of the system (ACH) and large, priority real-time payments that are settled within 5 minutes (RTGS). While in 2017, the Regulation on electronic payment instruments has entered into force.

In addition to the measures for the above mentioned improvement of infrastructure developments and the legal basis, on the basis of cooperation between the Central Bank, the banking sector, and the Ministry of Finance, the standardization of unique reference codes for invoices was done years ago. This has been done with the goal of unifying and standard-

izing the government payment processing (massive payments), as well as facilitating the updates and reconciliation of the received payment data.

Bank customers via electronic channels carry out most small value payments in favor of various governmental, non-governmental, or private institutions, but the settlement of funds and the reconciliation of the final lending to the beneficiary takes place a day later. There are, therefore, cases where ordering customers are obliged to print their e-banking payment form, send it to the bank to stamp it originally, and then submit the physical copy as evidence to the beneficiary institution.

In this way, sending a physical copy makes e-processing meaningless and stops the entire cycle of automation of payment processing.

Regarding the beneficiaries of pension schemes, after a more than ten year stop by state institutions for issuing debit cards and after long negotiations and insistence of the banking sector, most of them have already been provided with debit cards.

Beneficiaries of Social Assistance schemes and other categories receive funds through bank accounts, but still in cash, without the legal possibility to be provided with debit cards, thus completely excluding them from the provision of financial services. Cash payments result in irreversible social and financial consequences - loss of time, waiting in long lines at the bank or other institutions, providing short-term solutions, customers are put at risk - of stealing and feeling deeply insecure.

Role of State Authorities

The financial and social cost of cash circulation for a country ranges from 0.5% to 1.5% of GDP. The use of cash increases the costs of distributing, increases the loss of time in waiting in lines, promotes informal economy, and facilitates corruption, fraud, terrorism, and fiscal evasion.

To promote economic growth, reduce costs, and help collect taxes and government revenue, state authorities should pay particular attention to the elimination of cash, the establishment of conditions for the functioning of electronic payment instruments, the functionalization of e-government, modernization and digitization of the complete payment and disbursement cycle.

The financial and social cost of cash circulation for a country ranges from 0.5% to 1.5% of GDP.

In order to further promote the transparency and social progress of society, it is necessary to find more appropriate financial and social discouraging ways to reduce cash circulation, to favor electronic payments and to enable citizens to use digital e- forms of communication and payment.

Meanwhile, the e-right to use and adopt all the alternatives offered should be left to the customer and technological advancements.

Source:

CBK statistics

ING International Survey Mobile Banking 2017 - Cashless Society

KBA survey

DIGITIZATION - PREPARATION FOR THE FUTURE

In conditions of tough competition and relatively slow economic development, economic entities in the financial industry are under serious pressure of digitization - a revolutionary process in today's world that implies a complete transformation of their business models and adjustment of strategies in order to respond to the new reality and contribute to their development: reduction of costs and needs of investment in digitization of business processes.

Most financial services managers think that their strategies must be digitized in the direction of easily-adaptable and differentiated strategies and altered customer relationships, while the new fast-track technologies (artificial intelligence, machine learning with mass data) will contribute to completely new experiences.

These and similar results are apparent in a recently published report by Forbes magazine entitled "Digitizing financial services - Mastering Digital Differentiates Leaders from Lag-



**MRS. KATERINA
BOSHEVSKA**

MSC -MANAGING
DIRECTOR OF EOS
MATRIX IN MACEDONIA

gards". Prepared under the auspices of Cognizant, the report examines the continued transformation of economic entities in the financial sector through the digitization process.

The financial services executives who participated in the survey perceive a direct correlation between digitization and the company's future growth - they believe that 25% of their future growth will be driven by decisions based on digital strategies. Failing to keep up with digitization can be devastating

Recently in the region the FinTech companies are being considered as leaders in digitization in the financial industry. The basic characteristics for these relatively young and fast-growing companies are agility, digitization and innovation.

These features are just one segment of the EOS code.

EOS unlike FinTech companies combines these features, in particular innovation and flexibility with the experience and responsibility associated with EOS based on the company's long tradition and presence on the market for decades. Always in the forefront when it comes to implementing new technologies in our day-to-day operations - because we want to remain among the most efficient service providers for receivables management and always offer attractive products for our clients.

Currently, two key projects are underway at our Group level in this context.

The first one concerns the utilization of the advantages of digitization in the direction of positioning EOS as a technology leader in the field of receivables management.

The second refers to the adequate positioning of EOS in the context of the changes that digitization will bring in the company's behaviour, values and internal arrangements.

These two projects pave the way for EOS to the future.

for companies. As high as 71% of respondents consider that those who do not use modern technologies to transform their strategies are at heightened risk of disruption of their business processes or even market marginalization. However, just one out of six survey participants described themselves as leaders in the use of technology in terms of their service delivery and differentiating customer experiences.

The survey reveals the limiting factors for investing in digitization: 43% of respondents prefer to be fast followers versus first movers in the digitization process because of the high costs of leading the process, lack of talented and professional staff, and inability to allocate the development budget across the enterprise. In any case, 60% of respondents believe that big data programs will deliver results about one year after their application, 55% consider the same regarding mobile applications, 54% for advanced mobile applications. These rapid payoff periods related to the return of investment in digitization are more than a clear message that technology will provide continuous and rapid development and bring competitive advantage and for these reasons it will become increasingly important who will first implement digitization strategies and apply modern digital technologies.

Në një kohë kur e gjithë industria financiare vazhdon të vuajë pasojat e besimit të humbur si pasojë e krizës së fundit financiare, dhe në të njëjtën kohë duke u shtypur nga nevoja për reagim të shpejtë në procesin e digitalizimit, ofruesit e shërbimeve financiare sfidohen për t'iu përgjigjur revolucionit digjital në një rën anë dhe për të forcuar rregullat e sigurisë së të dhënave dhe përputhshmërisë së plotë me standardet ndërkombëtare në anën tjetër.

Another view of digitization is presented in the study of Ernst & Young and the University of St. Gallen from Switzerland, which for the first time shows the extent to which the clients' trust in financial service providers suffers in conditions when personal client contact is neglected as a consequence of technological innovations. The study is the first of its kind to examine client behaviour in terms of how they build trust with the digital world. The study gives recommendations how trust and client relationship can continue to be maintained and preserved in the digital world. There are many ways to also maintain trust while digitizing the services and communicat-

ing with the clients through digital channels. The study recommends that the economic entities combine the information they encounter through their portals for each individual client and use them in their offers or in the personal communication with the client, thus leading to real added value for the client. Also, from this study it remains unclear to what extent client behaviour might change as a consequence of future technological developments. However, this is very important for determining the future strategies of financial service providers in particular the answer to the question whether future generations will continue to highly value personal contact or it can be completely replaced by digital interaction.

At a time when the entire financial industry continues to suffer the consequences of lost trust as a consequence of the latest financial crisis, and at the same time being pressed by the need for rapid reaction to the digitization process, the financial service providers are challenged to respond to the digital revolution on the one hand and the tightened data security regulations and strict compliance with international standards on the other.

Fast, efficient processes, high level of transparency and certified, confirmed data security for our clients are very important criteria for EOS, which as a company we can always prove and confirm to our clients.

The quality systems translated into ISO 20000 and ISO 27001 standards that the company EOS Matrix is certified with, and especially the high level of dedication of the company to their implementation, ensures trust and confidence among our clients.

Digitization is gradually becoming our everyday life. Digitization is happening now. Its impact is multi-dimensional and continuous. Companies in the financial industry must act quickly to create a digital strategy through which they will essentially re-define the way they conduct their business. Digital innovation and strategies are the key to making a difference in terms of competition and improving business operations.

TRENDS, CHANGES AND INCREASED PAYMENTS THROUGH DIGITAL PLATFORMS

Cash operations today can be considered one of the costliest, effortful, and simply not easily manageable actions. This fact applies not only to banks, but also to small and large businesses. And what is more important, the difficulties of cash operation are being introduced and noticed by customers themselves in Kosovo, even by those who previously wanted to have cash in their hands.

Nowadays, in many cases, cash does not allow you to make a payment, receive a service, or even grant services to customers. This is because of the development and evolution of the market, but also the methods and channels of doing business.

The excessive technological development, in particular information technology that is interconnected and well-suited to banking systems and payment systems in general, is providing multiple opportunities to meet customer needs for all levels of payments.

This development trend is quite visible and even compelling to us; it is the moment when the needs and demands of the customers themselves are being combined with the need for change in the banking system in Kosovo.

It is a good trend for banks in Kosovo to push and further develop digital payment platforms, and avoiding as much as possible the manual methods of operating with cash. Moreover, some of the banks have made very important and decisive steps in this regard. It is worth mentioning that ProCredit Bank has applied a very specific method and strategy for reducing cash operations, by reducing almost all cash operations at its service points and orienting the same on electronic channels. This way, the customers continue to be informed about complex banking products and services through service points and get the necessary information and advice for banking services.



The difficulties of cash operation are being introduced and noticed by customers themselves in Kosovo, even by those who previously wanted to have cash in their hands.

Such strategies, of course, have been accompanied by very high investments in technology to provide other service channels that are convenient and cheaper for the customers themselves.

In the banking system in Kosovo, there is a recent high trend of investments in the development of digital platforms. Almost all banks are developing their own platforms, so that their clients can be provided with the most appropriate methods of service delivery, i.e. transactions.

One of the most popular platforms so far in Kosovo is the digital/ electronic platform called e-Banking (electronic banking).

Usually this platform is offered to clients in the 'web' version or as a mobile application that can be used through mobile devices, where smart phones are customers' favorite.

So far, the services that have been offered to clients through these platforms have been limited to: national and international transfers, payments to various institutions, etc.

Recent developments have begun to complement this electronic platform with other elements for different periodic payments, management and integration of other payment devices (cards), etc.

One of the most popular platforms so far in Kosovo is the digital/ electronic platform called e-Banking (electronic banking).

The integration of cards in e-Banking and their use for direct payments is a step up to be offered with the so-called 'digital wallet' versions offered by powerful technology companies but now also for payments such as Apple Pay, Samsung Pay, MC Wallet, etc.

This is closely related to mobile devices (smart phones) known as mobile payment platforms, and based on the current trend in the world, it is expected to hold the main place on the digital payment platform.

Naturally, the use of this platform requires hardware and software technology support.

What needs to be mastered by participants in the ecosystem of transaction management in general is the role of smart phones and the impact they have in the future of banking. This personal object is replacing the customer's need to use other banking equipment such as cards, security tokens, etc. on a daily basis.

For physical payments at points of sale (POS) the standard methods of payment with contact are known, but also the contactless forms are also getting well known.

Contactless – contactless payment via card, or 'stickers' placed on the phone or other devices chosen by the client.

Most banks in Kosovo have started offering this technology through 'contactless interface' cards to their customers. There has also been a significant investment in equipment that accepts this technology and cards with such functions (POS terminals). According to some recent statistics, the number of terminals that receive contactless payments in Kosovo has exceeded 1,000.

NFC (Near Field Communication) technology, the technology that uses the mobile device functions to make payments.

There are also other quite interesting payment methods combined with the above mentioned ones, which have begun to be applied in other countries, but in the near future can also be offered in Kosovo.

For example, the use and reading of QR Codes for making digital payments, which is being applied in many countries of the world.

Another method of digital payment at a distance known as 'E-Commerce' is being supported for several years in Kosovo. Through this method, customers are able to pay remotely over the internet for the products they have chosen from home or even mobile phones.

Customers are able to make payments for products or service, through this channel at any time and from any place, as long as they have internet.

Businesses are also offered much easier and inexpensive ways to manage the goods and space they need. It is worth noting that in addition to the increase in the number active cardholders, the increase in the number of businesses that prefer to offer their services or goods through this platform is notable.

Nowadays, there are businesses specialized in the aspect of information technology in Kosovo, specifically for the banking sector. These companies are offering various banking services and at the same time facilitating the preparation of platforms for digital payments. We can also mention Quipu LLC, which has been operating in Kosovo for a long time. A specialized and certified company from VISA and MasterCard payment systems, offering specialized services to banks for card personalization, maintenance of digital payment platforms, etc.

In addition to the above mentioned advantages, the security of digital payments occupies a very important place for both the client and the service provider.

Of course, the success of a business platform or channel, besides the mutual needs, is closely related to its reliability and security.

Two levels of security are important for all parties, whether for the bank, the client, or the business.

Security of banking systems and applications through which services are provided.

Banks are paying particular attention to the security of the systems, applications, and tools they offer for electronic/ digital payments.

There are considerable investments that banks are undertaking by executing contracts with specialized international companies in these fields, including also the delegation of specialized services to these companies.

Furthermore, the laws and regulation established by both local and international regulators are very strict for the security and regular tracking of services, i.e. digital payments.

Customer authentication

Special importance in the security of digital payments is the customer authentication both in receiving the application and during the payment process.

Dual authentication utilization known as 'Dual authentication' is essential during transaction execution.

Contactless – contactless payment via card, or 'stickers' placed on the phone or other devices chosen by the client.

The digital platforms offered to customers must have the dual authentication and dynamic (variable) standard where specific devices are combined, dynamic passwords, and other authentication elements of the client.

Banks usually provide manuals and accurate suggestions for the correct and safe use of services and platforms themselves. These publications are usually known as Best Practices.

Therefore, in order for the transactions to be conducted in a safe way, the clients should follow best practices of using these platforms so that their identity and assets are not misused by anyone.

Another issue that remains to be pursued by banks and other institutions is contributing to raising awareness of the advantages and benefits of using digital platforms in general.

Specific contribution to this direction will need to be provided by regulators at the national and international level, including financial assistance. This is to achieve the desirable effects and to be along the international trend of using digital payment platforms.

DOING BUSINESS 2018: KOSOVO AMONG TOP TEN REFORMERS IN THE WORLD

Kosovo is among the top 10 economies worldwide with the most notable improvement in doing business reforms, says the **Doing Business 2018** report, released by the World Bank Group. This year, Kosovo ranks 40th out of 190 countries in ease of doing business, compared to 60th place last year, noting that the two rankings are not fully comparable because of methodology refinement in one of the ten indicators measured by the report.

Kosovo ranks 10th on Starting a Business, 12th on Getting Credit, 48th on Trading across Borders, 122nd on Dealing with Construction Permits, 89th on Protecting Minority Investors, 106th on Getting Electricity, 49th on Enforcing Contracts, 45th on Paying Taxes, 34th on Registering Property, and 49th on Resolving Insolvency.

"Kosovo has been continuously improving its business regulations, as captured by the Doing Business indicators, and is narrowing the gap with the best global performers," says Marco Mantovanelli, World Bank Country Manager for Kosovo. "This is welcome news for Kosovo's economy. However, if these reforms are not properly and consistently implemented in practice, it will be difficult for Kosovo to achieve the desired impact on productivity gains for firms and attract more investments."

Every year, the Doing Business report measures, in 190 economies, aspects of business regulation that matter for entrepreneurship, focusing on ten areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

However, it does not include all the issues that are relevant for businesses' decisions. Doing Business does not measure the full range of factors, policies and institutions that

affect the quality of an economy's business environment or its national competitiveness. It does not, for example, capture aspects of macroeconomic stability, development of the financial system, market size, the incidence of bribery and corruption, or the quality of the labor force.

Kosovo's improved performance this year was supported by the implementation of three business regulatory reforms in the areas of: **Starting a Business, Getting Credit, and Resolving Insolvency**. More specifically, Doing Business finds that over the 12-month period up to June 2017, Kosovo implemented several improvements: starting a business was made easier by simplifying the process of registering employees; access to credit was strengthened by adopting a new law that establishes clear priority rules inside bankruptcy for secured creditors and clear grounds for relief from a stay for secured creditors in reorganization procedures; resolving insolvency was made easier by introducing a legal framework for corporate insolvency, making liquidation and reorganization procedures available to debtors and creditors.

The report notes that the reform in Kosovo that enables parties to make use of reorganization procedures for the purpose of saving viable businesses, when there is a prospect of financial recovery, is particularly noteworthy. A comprehensive insolvency law, which was adopted in July 2016, introduced a number of modern features that are aligned with international good practices.

Kosovo's Ranking in the Doing Business Report 2018



Kosovo

✓ Starting a business ^(10-th)

Kosovo made starting a business easier by simplifying the process of registering employees.

✓ Getting credit ^(12-th)

Kosovo strengthened access to credit by adopting a new law that establishes clear priority rules inside bankruptcy for secured creditors and clear grounds for relief from a stay for secured creditors in reorganization procedures.

✓ Resolving insolvency ^(49-th)

Kosovo made resolving insolvency easier by introducing a legal framework for corporate insolvency, making liquidation and reorganization procedures available to debtors and creditors..

<http://www.worldbank.org/en/news/press-release/2017/10/31/doing-business-2018-kosovo-among-top-ten-reformers-in-the-world>

REDUCING THE SHADOW ECONOMY THROUGH ELECTRONIC PAYMENTS

Impact of the regulation on the passive shadow economy

The electronic payment of wages means that people who previously received their remuneration in cash would have to make an additional effort to use cash, e.g. through ATM withdrawals, if they would like to continue to use cash. Therefore, they should more often perform their transactions with payment cards and, consequently, make less cash payments. This, in turn, should contribute to the reduction of the passive shadow economy

We estimate the impact of this regulation on the value of cash payments replaced with card payments in a few steps. First, we use the World Bank's survey data (Global Findex Database) to calculate the number of people receiving their wages in cash in 2014. Second, we assume that all unregistered employees receive their remuneration in cash. Third, we conservatively assume that cash recipients are paid, on average, the minimum wage for their work. Finally, with the use of data on household savings rate and the payment be-

haviour of a typical card holder, we estimate the value of cash expenditure replaced with card payments in the situation when all registered employees receive their wages in an electronic form. For more details on the applied approach and calculations.

The most significant decline in the passive shadow economy for the considered regulation (see Chart 3.3) has been estimated for Poland (0.28% of GDP), followed by Bosnia and Herzegovina (0.16% of GDP) and the Czech Republic (0.13% of GDP). A relatively low effect for Serbia (e.g. in comparison with Bosnia and Herzegovina) is mainly due to the large share of unregistered employees in the total employment in this country. This implies that a significant share of wages paid in cash in Serbia are remunerations obtained by unregistered employees, who would not be influenced by the regulation and would continue to receive their wages in the form of cash.

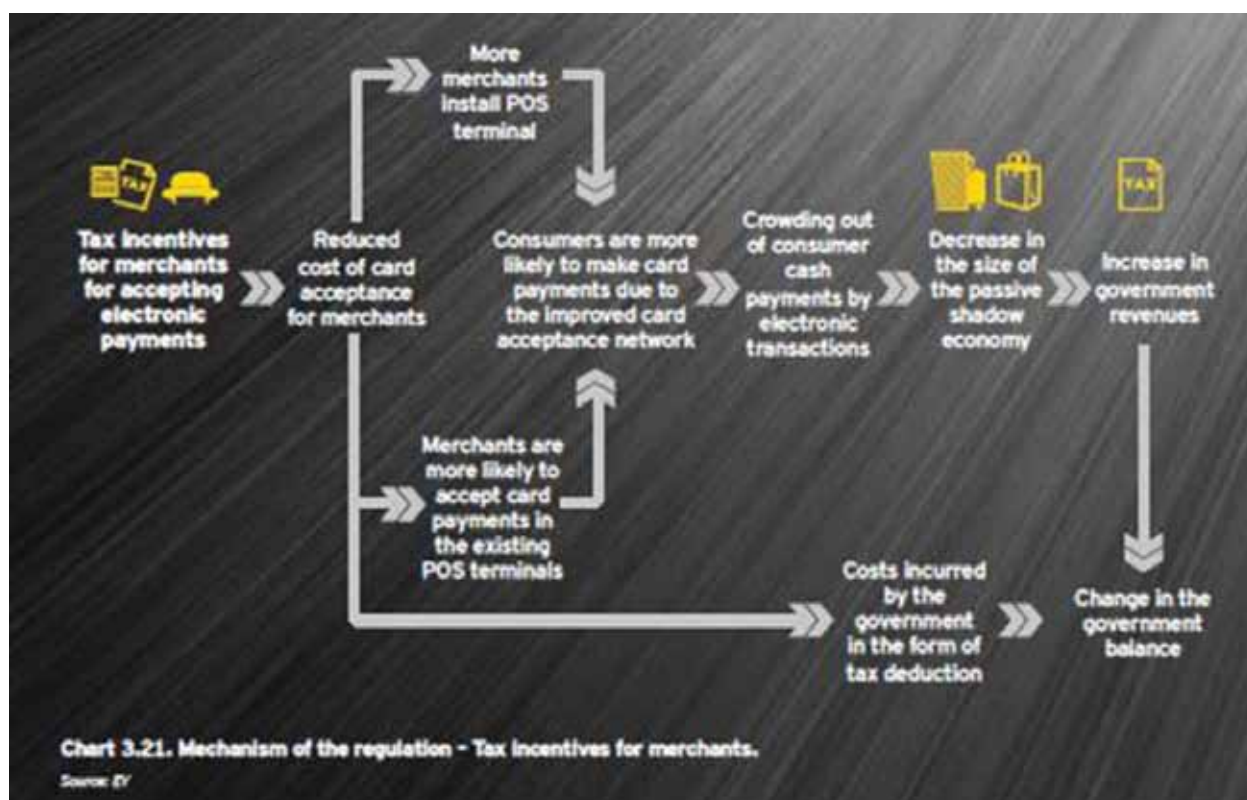


Threshold for consumer cash payments - examples

Thresholds for cash payments are already present in Bulgaria, Croatia, the Czech Republic, Slovakia and Slovenia (in some of them consumer payments above the threshold may be accepted, but generate a lot of administrative obligations for a merchant). Yet, the current thresholds are relatively high (between EUR 5 000 and 15 000) so their impact on reducing cash payments is marginal, as cash

is mostly used for lower-value transactions. Moreover, as we argue in this section, such high cash payments in retailing are already reported, not least for the sake of consumer warranty, and replacing them with card payments therefore has no effect on the passive shadow economy. Similar regulations for B2B payments are present in all of these countries, but they do not influence the passive shadow economy, since it is related to consumer transactions.

Tax incentives for merchants



In many countries, consumers are discouraged from using cards because of the limited number of places where cards are accepted. The slow development of POS terminals networks can be a result of high costs of card payments in some countries. On the other hand, large fees imposed on merchants may be an effect of the insufficient prevalence of electronic payments in the economy; if relatively few people make card payments, the maintenance costs incurred by merchants are divided over

a small number of transactions, resulting in large fees per transaction for merchants. In such cases, tax incentives decreasing the cost of accepting card payments by merchants may stimulate the growth of electronic payments, thus leading to a reduction in cash payments. This, in turn, would translate into a contraction of the passive shadow economy and a subsequent increase in government revenues (see Chart 3.21).

Obligation to make an electronic payment of wages and salaries



This regulation introduces the obligation to make an electronic (non-cash) payment of wages and salaries. In its basic form, the regulation requires that this kind of payment be performed via a bank transfer, though it is possible to allow payment also in the form of prepaid cards³⁹.

According to the World Bank data (Global Findex Database), in 2014 more than 70% of the wage recipients in the analysed countries received their wages into their accounts at financial institutions (e.g. 74.6% in Bulgaria, 77.5% in Bosnia and Herzegovina, and the highest share of 97.0% in Slovenia). This suggests that, at least in some countries, a significant amount of wages and salaries is still paid in cash. It is very likely that most of this money is later spent also in cash, part of which may contribute to passive shadow economy transactions. The introduction of the considered regulation should shift all or most of the wages and salaries that were so far paid in cash to bank accounts (or prepaid cards)⁴⁰. This should naturally increase the volume of electronic payments (especially of payments performed with cards offered with most bank accounts), thereby replacing cash transactions, which in turn, as shown in Chapter 3.2, should lead to a decrease in the size of the passive shadow economy (see Chart 3.2).

Since the discussed regulation is already in force in Croatia and Slovenia, we do not estimate its effect for these countries. In Bosnia and Herzegovina this kind of law is binding in the Republika Srpska, but is not present in the Federation of Bosnia and Herzegovina. We therefore estimate the effect of this regulation on the value of card payments for Bosnia

and Herzegovina as if the solution was absent, and then consider only part of the effect, corresponding to the population share of the Federation of Bosnia and Herzegovina in the population of the whole country.

Reducing the Shadow Economy through Electronic Payments

EY Poland, Economic Analysis Team



KOSOVO HOSTED THE REGIONAL CONFERENCE FOR FINANCIAL LITERACY



The Central Bank of the Republic of Kosovo in cooperation with Child & Youth Finance International (CYFI), European Fund for Southeast Europe- Development Facility (EFSE-DF) and the Kosovo Banking Association (KBA), has held the third meeting of the regional work for financial education of the youth Group and financial inclusion for southeast Europe. In this workshop, the participants presented the achievements and the obstacles of their states in the financial education commitment. What is worth noting is that almost all Southeast European countries were at a relatively similar level of commitments in this field and managed to exchange many ideas and proposals. One of the activities that produced the most sensitive results for the citizens of states was the regular annual organization of the International Money Week. The participants agreed that this activity has helped these places to notably increase

the youth financial inclusion and children in lower secondary school cycles by penetrating even in non-urban schools that which did not have such opportunities earlier. This activity and many other instruments, of which CFYI has made available with its members, were estimated as very valuable to this cause.

In the meeting the developments in the field of financial inclusion and consumer protection from all participating countries such as: Turkey, Croatia, Slovenia, Rumania, Macedonia, Albania and Montenegro were presented. Kosovo also this year testified that it is committed to raising the financial education of Kosovo citizens, with particular emphasis on young people and children and it is expected that these coordinated commitments will continue to intensify in the years to come.

SWEDEN, THE FIRST COUNTRY TO WITHDRAW CASH FROM USE?!



Sweden is the first country in the world that is increasingly avoiding cash payments. The study conducted by the National Institute of Technology KTH in collaboration with the National School of Economics showed that in 2023, Sweden would be one cashless place. According to the survey, in the next five years, stores in Sweden are unlikely to accept cash.

Swedish buses have not taken cash for years, it is impossible to buy a ticket on the Stockholm metro with cash, retailers are legally entitled to refuse coins and notes, and street vendors – and even churches – increasingly prefer card or phone payments. Two leading researchers claim that Sweden will become the world's first free country on March 24, 2023".

Currently, 97 percent of merchants accept cash, but only 18 percent of payments are made with cash, so that consumers become

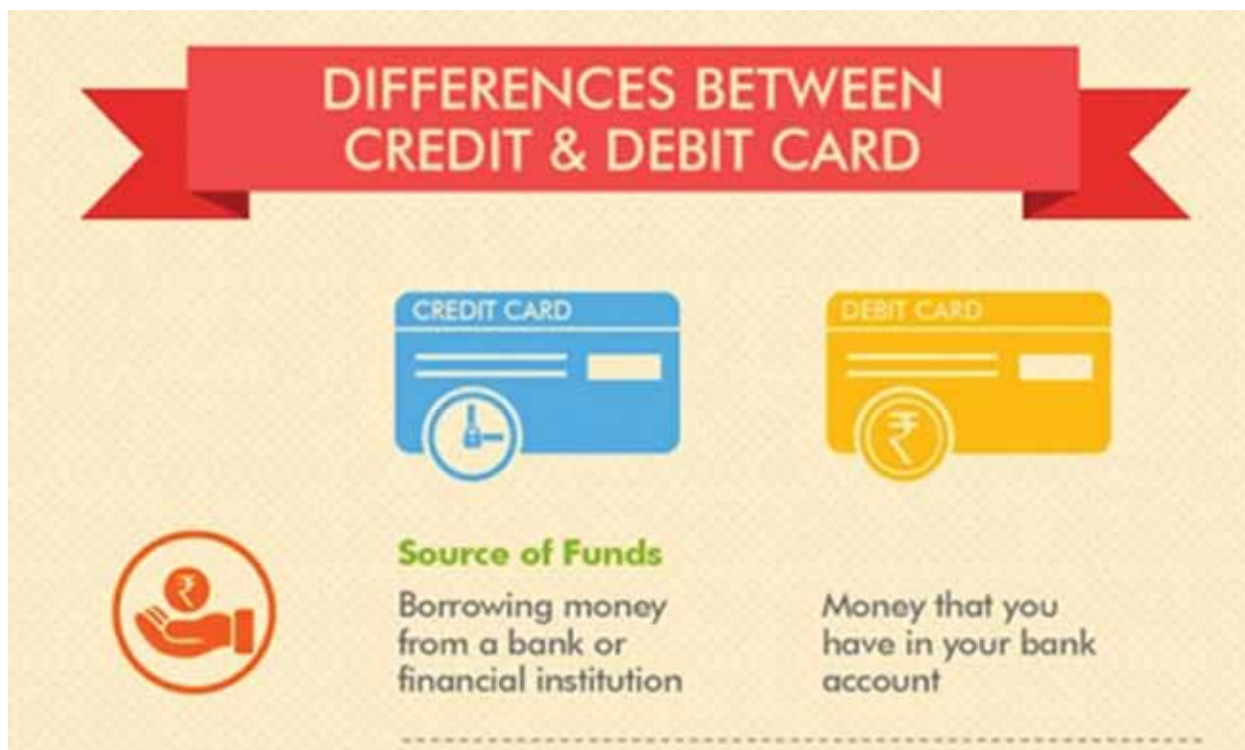
the driving force", says Niklas Arvidsson. Otherwise, Sweden was the first European country to start printing banknotes in 1661 Stockholms Banco, the precursor to the Swedish central bank, issued Europe's first banknotes.

According to central bank the Riksbank, cash transactions made up barely 2% of the value of all payments made in Sweden last year – a figure some see dropping to 0.5% by 2020. In shops, cash is now used for barely 20% of transactions, half the number five years ago, and way below the global average of 75%.

<https://www.weforum.org/agenda/2017/10/sweden-could-stop-using-cash-by-2023>

<https://www.theguardian.com/business/2016/jun/04/sweden-cashless-society-cards-phone-apps-leading-europe>

WHAT IS THE DIFFERENCE BETWEEN CREDIT CARD AND A DEBIT CARD?



Understanding the difference between a debit card and credit card allows you to make wise financial decisions. Debit cards and credit cards are accepted at the same places. Debit cards all carry the symbol of one of the major types of credit cards on them, and can be used anywhere that credit cards are accepted. They both offer convenience. The fundamental difference between a debit card and a credit card account is where the cards pull the money. A debit card takes it from your banking account and a credit card charges it to your line of credit.

What Is a Debit Card?

Debit cards offer the convenience of a credit but work in a different way. Debit cards draw money directly from your checking account when you make the purchase. They do this by placing a hold on the amount of the purchase. Then the merchant sends in the transaction

to their bank and it is transferred to the merchant's account. It can take a few days for this to happen, and the hold may drop off before the transaction goes through. For this reason, it is important to keep a running balance of your checking account to make sure you do not accidentally overdraw your account. It is possible to do that with a debit card. You will have a PIN to use with your debit card at stores or ATMs. However, you can also use your debit card without a PIN at most merchants, you will just sign the receipt like you would with a credit card.

- A debit card is tied directly to your checking account.
- It can be used where a credit card can be used.
- Generally, you will use your PIN to complete the transactions.

What Is a Credit Card?

A credit card is a card that allows you to borrow money in small amounts at local merchants. You use the card to make your basic transactions. The credit card company then charges you interest on your purchases, though there is generally a grace period of approximately thirty days before interest is charged if you do not carry your balance over from month to month. Credit cards have high interest rates and are considered a revolving line of credit that you can use again after you pay it down. Your credit card balance and payment history can affect your credit score.

- A credit card is a line of credit you can access with your card.
- Generally, you must sign on these purchases (exceptions may be at the gas pump or for small amounts at a drive-thru window).
- You will pay interest on the purchases made if not paid off in thirty days.

Debit Cards vs Credit Cards

In the past many people felt that you needed a credit card to complete certain transactions such as rent a car or to purchase items online. They also felt that it was safer and easier to travel with a credit card rather than carrying cash or trying to use your checkbook. However debit cards offer the same convenience without making you borrow the money to complete the transactions. It can be difficult to determine when to use a credit card or a debit card. Some argue that a credit card offers additional insurance on purchases and makes it easier to request a refund or a return. You should carefully read the disclosure information for your credit card to understand the benefit.

Choosing the Best Card for the Situation

It is better to use your debit card whenever possible, because it will prevent you from accidentally falling into the credit card trap. When you can pay cash for most items, you

are doing better financially. Some rental car agencies and hotels may still request a credit card over a debit card because they want to have a card where they can bill you for damages to their property. Be sure to check with the hotel or agency before you travel to make sure you can use your debit card instead of your credit card. Some people will argue for using a credit card for the majority of purchases to take advantage of credit card reward programs. This works if you pay off the balance in full each month. However, if you do not, you will not earn enough to make up for the rewards. The credit companies offer the rewards as an incentive for you to use the credit card and would not do so if they lost money on the transactions.

- Consider using credit cards for hotel reservations and car rentals.
- For daily purchases, your debit card can help you stick to your budget.
- If you are going to take advantage of rewards, be sure to pay off the balance in full each month.

Protecting Your Credit

Both a credit and debit card have similar risks when it comes to theft. If your credit or debit card information has been compromised, you will need to contact your bank immediately. You should also take additional steps and monitor your credit report to make sure that your identity was not stolen. It is important to check your statements each month to make sure you can identify all charges. The banks limit the length of time that you can report a fraudulent charge on the account. The bank will freeze the account and issue you a new card when you report that the card has been stolen or you see an unauthorized transaction.

<https://www.thebalance.com/difference-between-a-credit-card-and-a-debit-card-2385972>

KBA receives a recognition for outstanding contribution in financial literacy



The Central Bank of Kosovo has awarded a recognition for outstanding contribution to the Kosovo Banking Association in recognition of the active role of the banking sector in financial literacy in Kosovo. On behalf of the banking sector, the recognition was received by Mr. Petrit Baliija, Executive Director of the Banking Association of Kosovo who stated that "this recognition to the banking sector

of Kosovo honors us deeply and encourages us to do even more with regard to financial literacy in Kosovo especially for children and your of Kosovo. One of the priorities of the Kosovo Banking Association, respectively the commercial banks of Kosovo, is financial education for the young generations as a guarantee for inclusive economic development in Kosovo.



KBA Training held - SME Financing: Strategy and Organization for Banks



The training "SME Financing: Strategy and Organization of Banks" was completed successfully. This training was organized by Kosovo Banking Association in cooperation

with the House of Training from Luxembourg. The lecturer of this training was Jacques Rega, with over 40 years of experience in retails, corporate and investment banking.

Kosovo Banking Association and the Central Bank of the Republic of Kosovo held the second annual meeting for 2017



Kosovo Banking Association, in cooperation with the Central Bank of Kosovo, organized the second annual meeting for the six months of 2017. The purpose of this meeting was to present the activities from the regulatory

aspect, as well as the achievements of the banking sector for 2017, and the objectives for future periods. The meeting was held at the ProCredit Bank Training Center in Prevallë.

The Banking Association gathers economic journalists



On 29 and 30 September 2017, the Kosovo's Banking Association, in cooperation with the European Fund for Southeast Europe, organized a two-day workshop with journalists in the field of economy in Prishtinë.

The purpose of this workshop was to create an environment for discussion in the financial sector and generally for issues that have to do with Kosovo's economy. Journalists contributed by issuing important recommendations and conclusions for advancing the position of economic journalist and increasing the accuracy of reporting in this area.

In this event, important representatives took part. They were from the financial sector, including commercial banks, Central Bank, Ministry of Finances and the state Treasury. Moderator and speaker of the event was the journalist Adrian Krasta.

This is the fifth consecutive year that Kosovo's Bankers Association organizes workshops with journalists in Kosovo.



Banka Ekonomike makes a donation to QKUK



Within the scope of social responsibility, Banka Ekonomike continues to support the children by making donations to UCKK, respectively the Pediatric Clinic, in the Hematology and Oncology Department. The health system, in particular the health of the child, continues to be a major challenge for our society. Therefore, given that children are the cornerstone of a nation and society, Banka Ekonomike has decided to make a donation to UCKK, respectively the Pediatric Clinic, in the Hematology and Oncology Department. Although a modest contribution,

through this donation we have aimed at supplying new inventory and also improve the work environment in order to provide better working conditions and thus provide a safer future for children, says Merita Gjyshinca Peja, Chief Executive Officer. This donation is part of the continued commitment of Banka Ekonomike to raise awareness and social responsibility in our society.

Banka Ekonomike
Thinks about you!



TEB Bank provides non-financial services to its clients



TEB Bank JSC through activities such as the Business Academy and Women in Business, which is organized in partnership with the EBRD, is providing non-financial services to its clients. The business academy was organized five times this year, in different cities of Kosovo such as Peja, Prishtina, Gjakova, Ferizaj, and Mitrovica. The "Business Academy" is part of the non-financial services that TEB Bank JSC offers to its clients with the aim of distributing contemporary business practices and capacity building. The objective of this academy, as well as the past ones, is to provide all participants with new opportunities to exchange experiences with prominent international economics and business management professors and consultants. This activity aims to prepare businesses for new

opportunities and goals that may arise in the future. Women in Business is the series of non-financial services that is organized by TEB JSC and the European Bank for Reconstruction and Development (EBRD). This year, these events were organized in Prishtina, Gjilan, Peja, and Gjakova.

The purpose of organizing this and other seminars in coordination with EBRD is to provide businesswomen with valuable opportunities to expand the network of contacts, to meet other women who manage businesses in Kosovo and to share experiences and knowledge together.

TEB Bank for a moving world.

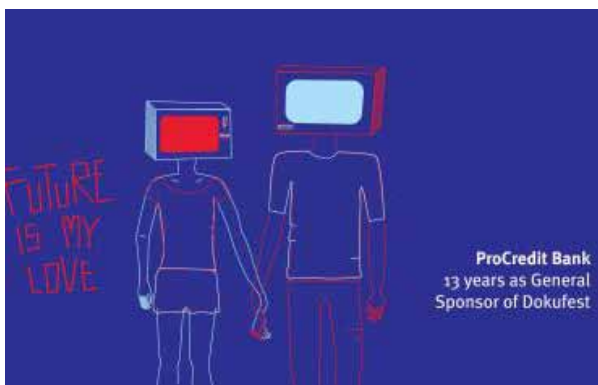
Projects supported by Raiffeisen Bank



Raiffeisen Bank has continued to support activities and projects in the fields of education, health and sports. During September, Streetball Kosovo was organized, where many youth groups were part of the organization. During September, "Cyber Defense " was organized by ICK. Except lectures at Infosec, Cybersecurity and Corporate Security, the Cyber Defense Week has also hosted boot camps on techniques and methodologies aimed at protecting our common cyberspace.

The end of the Cyber Defense Week has ended with a realistic simulation of defenders, opponents, and observers with participants filling key roles in all operations. KosICT is the most important regional conference for the IT sector. Raiffeisen Bank has supported this conference that took place on October 27-28 in Pristina by promoting and supporting key sector initiatives for the development of our country.

ProCredit Bank, Dokufest's multi-year partner



ProCredit Bank this year, for the 13th time in a row, has supported the largest cultural and prestigious event in the country, the International Short Film and Documentary Festival - Dokufest, as the general sponsor

of this event. A rich program with over 230 films and more accompanies this edition. The festival has also attracted other programs such as photography, music, concerts, and different exhibitions that each visitor and guest was given the opportunity of a special experience. "ProCredit Bank as an institution that continuously supports the authentic events in Kosovo, especially those that contribute directly to the development of culture and to the improvement of Kosovo's image in the world, has believed in DokuFest since the early years, being one of the main supporters for 13 years in a row". It is worth mentioning that after many years of hosting this festival, DokuFest is one of the 25 best documentary film festivals in the world.

Publications of the Kosovo Banking Association

“The Kosovo Banker” is a publication of the Kosovo Banking Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in

Kosovo. For more information, please go the the web site of the Kosovo Banking Association

www.bankassoc-kos.com.



Training Center for Banking

The Kosovo Banking Association offers a wide range of trainings and certifications in banking.

For more information about scheduled trainings, visit

www.bankassoc-kos.com

Join Global Money Week !!

Theme: Money Matters Matter | 12-18 mars 2018

Global Money Week (GMW) is an annual global celebration, initiated by CYFI, with local and regional events and activities aimed at inspiring children and youth to learn about money, saving, creating livelihoods, gaining employment and becoming an entrepreneur.

GMW Goal | To raise awareness of financial education, teach children and youth about money matters through fun and interactive activities.

Where? Everywhere. GMW is an international week- with many events, activities, projects, launches and competitions taking place in over 130 countries.

Who? Anybody. Anywhere. Anytime- can get involved in GMW. Whether you are a student, employee, parent or guardian. Whether you are from an education institution, financial authority, NGO, government institution, company, or community organization.



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038 246 171
www.bankassoc-kos.com