THE KOSOVO BANKER

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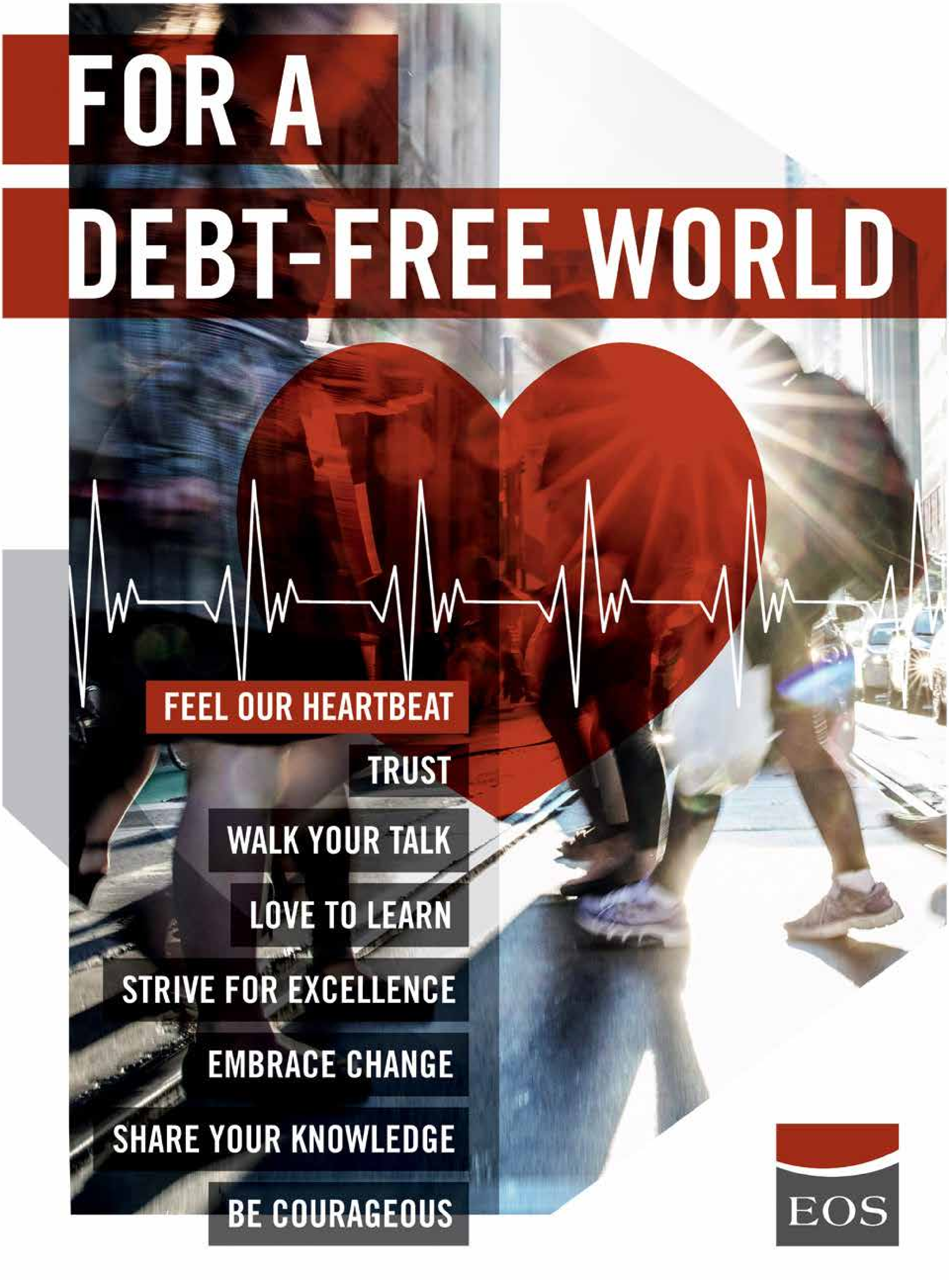
Towards european banking standards

Challenges of Kosovo's banking sector in achieving european banking standards

SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

Publication of the Kosovo Banking Association


FOR A
DEBT-FREE WORLD
FEEL OUR HEARTBEAT
TRUST
WALK YOUR TALK
LOVE TO LEARN
STRIVE FOR EXCELLENCE
EMBRACE CHANGE
SHARE YOUR KNOWLEDGE
BE COURAGEOUS
EOS

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THE KOSOVO BANKER

CHIEF EXECUTIVE OFFICER OF KOSOVO BANKING ASSOCIATION AND EDITOR-IN-CHIEF:
MR. PETRIT BALIJA

EDITOR AND COMMUNICATIONS OFFICER:
MR. ADLUM RAMADANI

SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

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.

"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.
Kosovo Banking Association; St Lidhja e Pejes, n.n Zona Industriale, Prishtina; 10000. Republic of Kosovo; +381 38 246 171; www.bankassoc-kos.com; contact@bankassoc-kos.com;

EDITORIAL

PETRIT BALIJA
CEO - KOSOVO BANKING ASSOCIATION

Notwithstanding the challenges, the road ahead of the banking sector in Kosovo is full of potential, accompanied by the many opportunities offered for sustainable and genuine development. Modern developments in financial systems, payment systems, financing potential, legal reform and institutional enforcement adequacy, are some of the elements featured in the process of integration and adjustment with the European banking sector, aiming for European standards that can be met only with maximum engagement and commitment from the banking sector in Kosovo.

Precisely for the purpose of analyzing, comparing and creating a clear picture of the current situation and the challenges of the banking sector in Kosovo, the theme of this edition of The Kosovo Banker, which will serve as a source of reference for the banking sector audience, is to provide closer insights on the challenges, opportunities and the vision towards European banking standards.

Efforts by the Kosovo banking sector to meet European banking standards are shaping up accordingly with each passing day, while the developments pursued in this sector are creating a clear opportunity to aim for European banking standards. This sector's reflections on the banking transition in Kosovo, upgrading services and adopting legal reforms has opened a window to create a new, modern stage with new developments, which obviously are essential to meeting European standards in the banking sector.

In addition to addressing topics and aspects relating to meeting European banking standards, this edition will also provide the reader with new approaches from the perspective of experts, who due to their experience in the banking sector have managed to leave a lasting impression, while contributing directly to the acceleration of this journey, which is chock-full of potential.

ALBERT LUMEZI
Chairman of the Board of Directors of KBA
Chairman of Managment Board of NLB Bank

Foreword by the new Chairman of the Board of Directors of KBA

Being elected at the helm of the Kosovo Banking Association is both an honor and great responsibility, as it will allow me to contribute towards achieving the common goals of the banking system in Kosovo. During my term in office, a key goal for the Banking Association and its Board will be to properly articulate the potential of the banking system for the country economy, with the purpose of providing financial support and financial capacity development in general.

During 2018, the macroeconomic environment in Kosovo remained stable, partly driven by high remittances from the diaspora, public investments in infrastructure, and increased domestic consumption. The high level of unemployment, an unfavorable economic structure featuring high deficits in both trade and balance of payments, modest level of foreign direct investments, and low degree of rule of law with particular emphasis on the efficiency of the judicial system, still persist as key challenges for the Kosovan society and for improving its macroeconomic environment. At the same time, the results of the banking system in Kosovo are the best testament to how well the banks know and understand the local economy. The banks' knowledge of the economic environment had a direct impact in creating a realistic perception of the risk associated with the investments made by enabling the provision of adequate and quality financial services at more favorable interest rates.

The key financial indicators of the banking sector continue to show a high degree of sustainability for this sector. Improved conditions of credit supply, coupled with an increase in credit demand, provided for an accelerated growth pace in bank lending. An increase in deposits, mainly collected domestically, continues to serve as a stable source of financing for the banking sector activity. Loan interest rates continued to decline, a reflection of improvements in the overall business environment in the country, increased competition and improved bank efficiency.

> The Kosovo Banking Association will continue to offer positive contributions for a business enabling environment in Kosovo, serving as an axis of competencies and a conduit of the banking system's potential for the country economy, as it is one of the primary backers of economic growth.

As a reflection of the technological evolution and its impact on the financial sector, the banking system in Kosovo has managed to introduce quality changes in the provision of electronic services at the country level. Consequently, aiming to meet the financial market requirements and advance the banking market in Kosovo, banks have constantly engaged in developing innovative solutions for various banking products.

The furtherance of all CBK functions has additionally contributed to the establishment of this stable situation, managing to provide the country with a stable financial system that drives the economic development and efficient services for the public. There were further enhancements introduced to the regulatory framework for the financial sector and its oversight capabilities, thus contributing to the development and stability of the financial system.

Accordingly, the Kosovo Banking Association, in cooperation with all involved stakeholders, will continue to contribute to capacity building, advancement of the banking legal framework, and positive effect on country's economic growth.

ROBERT WRIGHT
Vice-Chairman of the Board of Directors of KBA
Raiffeisen Bank Kosovo - CEO

What are the main challenges of the banking sector in its path towards EU Standards?

The date when Kosovo will be a member of the EU could be a long way off, but it is important that the banking sector operates as close to EU standards as possible, as soon as possible. More specifically I mean operating in line with the regulations, principles and standards of EU based governing bodies such as the European Central Bank, the European Banking Authority and the Bank for International Settlements.

Many of the banks in Kosovo are subsidiaries of EU based banking groups, for example Raiffeisen Bank is part of Raiffeisen Bank International based in Austria, and NLB is a subsidiary of Nova Lubljana Banska who's Head Office is in Slovenia, and therefore are encouraged or required to operate to EU standards in Kosovo even though the country is not an EU member.

Full compliance with the scope and complexity of EU banking regulations and supervisory requirements is a major challenge and includes areas such as risk management, consumer financial services, payment services, and bank reporting and auditing standards. Some of these regulations are already in progress or on the development list for Kosovo banks such as Basel II, Basel III, Mifid II, PSD2, IFRS9 etc and the Central Bank and other institutions are assisting the banking industry with these developments.

The Kosovo banking sector has already proven that it can adapt and change quickly and effectively and we have achieved in just 15 years what some EU countries took 30 or more years to achieve. For this reason I have total confidence that it will be a similar success story with the implementation of EU standards in the banking sector of Kosovo.

The ambition of the banking sector to operate to EU standards is a very positive perspective for both the banks and their customers but the stronger and more complex regulation mentioned will put pressure on the banks' resources, costs and operational efficiencies.

However compared with the heavy burden that the financial crisis imposed on people and the economy across Europe 10 years ago, I believe this is an acceptable price to pay.

In addition to the regulatory challenges, significant technological change is also required if the Kosovo banking sector is to operate in line with EU standards and this is in addition to the digital transformation that the industry is already facing. New digital, agile, lean and hungry entrants now pose a challenge to the incumbent banks in Kosovo and the banks have to deal with this at the same time as the evolution to EU banking standards.

All these developments, investments and changes will be reflected in the operating expenses and profits of the banks and will put pressure on performance ratios such as tier 1 capital and cost income ratios.

However this potentially challenging scenario is not such a challenge for Kosovo banks given the excellent performance criteria of an industry which is stable, profitable, well capitalised and successful. In this context there has never been a better time to implement change and I believe the benefits to the banking industry and its customers would be very positive and fully justify the effort and resources required.

The Kosovo banking sector has already proven that it can adapt and change quickly and effectively and we have achieved in just 15 years what some EU countries took 30 or more years to achieve. For this reason I have total confidence that it will be a similar success story with the implementation of EU standards in the banking sector of Kosovo.

DR.SC.ALBAN HETEMI
Manager of PPP and Sanctions Control, TEB

DR.SC.OZAN GÜLHAN
Head of Compliance Division, TEB

AML Risk Assessment in banks - A risk management mechanism to prevent and combat money laundering

1 INTRODUCTION

Nowadays legal framework to prevent and combat money laundering has become more risk focused, by requiring banks to understand the risks they may faces based on their business model and strategy. A risk management mechanism framework and a robust AML Risk Assessment tool of this framework has become a key priority. It is one of base/source of new scenarios to be designed by banks in order to mitigate new risks identified. As such the AML Risk Assessment shall include identifiable risk metrics, thus providing the most effective levels of AML Compliance and ability to identify, analyse, report and prevent money laundering.

Banks implement the highest standards and international best-practice methods in combating money laundering, terrorist financing and other acts punishable by law. Employees of banks are committed to adhere to these standards in order to avoid that bank's products and services are misused for the purposes of money laundering and terrorist financing. In order to properly mitigate risks banks may expose, at least an Annual AML Risk assessment should be conducted. On the basis of the AML Risk Assessment appropriate preventive measures are developed and the measures currently in force are evaluated and enhanced.

“On the basis of the AML Risk Assessment appropriate preventive measures are developed and the measures currently in force are evaluated and enhanced.

2 PURPOSE OF THE AML RISK ASSESSMENT

The purpose of the assessment is to determine what is adequate in terms of safeguarding measures visa-a-vis the risks banks may expose. Moreover, the assessment implements the requirements of laws, regulations and international best practises and standards. The assessment serves as the basis for the risk based approach as laid out in the AML Policy and Procedures of banks.

The AML Risk Assessment serves as starting point for the risk-oriented strategy of with regard to the monitoring measures and safeguards to be adopted to prevent money laundering. The purpose of it is to identify and assess risks that are specific for banks while also taking into consideration crucial risks that might be specific for Kosovo (based on typologies of the local FIU reported on annual reports and reports of EU for Kosovo). Following the mapping of the risk landscape, appropriate mitigating measures are conceived and documented for each risk within the scope of the risk assessment.

3 CONTENT AND METHODOLOGY

The AML Risk Assessment shall present a full survey of the situation regarding the exposure to the risk of money laundering in banks. Subsequently, this assessment will identify the specific risk attached to Clients, Products and Services, Countries and Service Channels.

The associated risk shall then be categorised and assessed in order to prioritise the respective preventive measures and mitigate all risks associated with money laundering.

According to the Wolfsberg Group, a three-phased approach can be adopted in order to undertake a risk assessment. The graph below illustrates the inherent risks, control effectiveness and residual risks:

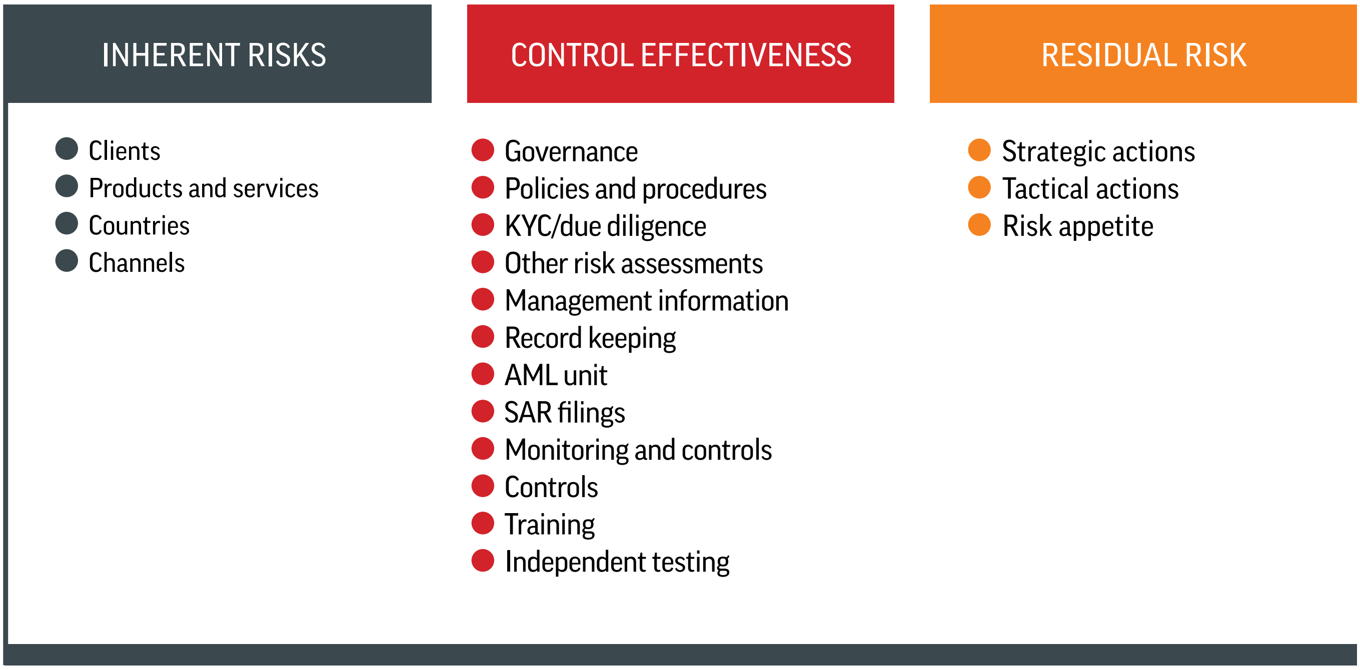


Figure 1 – Risk Assessment Methodology (Source: the Wolfsberg Group's FAQ on Risk Assessment)

First step while conducting AML Risk Assessment is to determine inherent risk and the exposure to money laundering risks. The risks can vary from one bank to another one and must be defined in a risk based approach and is a key point for the overall AML Risk Assessment.

Second step is the evaluation of internal controls/safeguards. In this step is evaluated the effectiveness of internal control mechanism and they need to be mapped versus these risks identified.

Third step is determining the residual risk. As such, once the inherent risks are identified and determined as well as the effectiveness of internal control mechanism has been evaluated, the residual risk can be determined. Based on the residual risk the bank may enhanced existing measures they have in place or accept risks as the case can be.

The identification of risk factors shall mainly rely on empirical data sourced from typology analysis of cases that have occurred in banks. But, it shall also take into consideration risk factors identified in typology reports from relevant external sources (government bodies, international organisations, research papers, media reports etc.).

3.1 CLIENT RISK ASSESSMENT

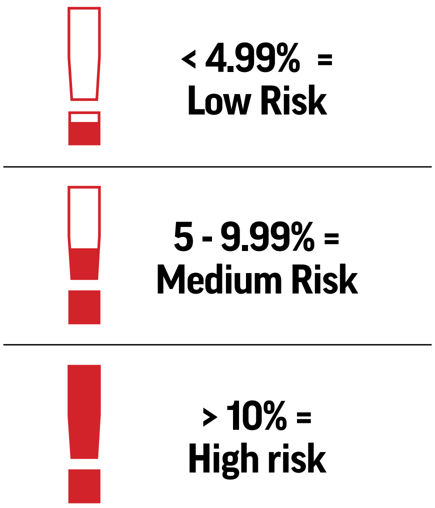
The assessment of risks associated with the clients of banks is based on a number of client type, ownership, industry, activity, profession and/or business, alongside other factors, such as the length of a client relationship with bank. Some factors that may impact the risk score of clients are: country of residence, country of activity, sector of activity, presence of PEP, financial incidents, cross border flows, usage sensitive products, country of incorporation, sector sensitivity, Ultimate Beneficial Owner residence, date of creation (for legal entities). The client risk assessment model is expanded by client related criteria to understand specific aspects of risks that can be associated with clients.

Based on these factors each client type is assigned a risk score, depending upon the expected amount of ML risk each type carries. The data may be utilised to determine what percentage of each client types are classified according to the risk score, e.g. low risk versus high risk, medium risk versus high risk, in order to determine the overall inherent client risk. A bank's approach for risk classification shall be clearly documented and defined in the internal AML Policies and Procedures.

3.2 PRODUCTS AND SERVICES RISK ASSESSMENT

The assessment of risks associated with the products of banks is based on empirical evidence from the analysis of Suspicious Activity Reports (SARs), filed by banks within a period of time (e.g. the past five years) and according to the following methodology: The frequency of transaction types and product types involved in all SARs of the past five years is measured against the overall number of SARs during this period.

To assess the resulting rates are to be interpreted as the probability of occurrence of a certain type in an SAR. The following threshold values can be applied:



Product types or transaction types present in more than for example 15% of all SARs are considered to be of higher risk.

Two examples: current accounts are the core service; therefore they are involved in the vast majority of all SARs. Likewise, banks operate in cash intensive markets. Therefore, cash is involved in the majority of all SARs. Consequently, cash payments are classified as high risk with regard to ML/TF risks.

3.3 COUNTRY RISK ASSESSMENT

The country rating methodology describes the threat that banks could be misused for money laundering and terrorist financing through the involvement of certain countries. The Worldwide Governance Indicators (WGI) of the World Bank and the Financial Secrecy Index (FSI) of the Tax Justice Network will be taken into account to assess a country's exposure to risks of money laundering and other illicit financial flows in addition to more traditional information sources like the Corruption Perception Index (CPI) of Transparency International.

In addition to the quantitative assessment, a qualitative analysis of the general money laundering and terrorist financing risk environment will be included into banks risk profile. The qualitative part shall assess the overall framework and general situation for banks in country of operation and is rather descriptive. The qualitative assessment may draw on various sources including the following:

- current information of the Financial Action Task Force (FATF)
- national AML Risk Assessment of the country
- the reviews of Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEVAL)
- the Financial Sector Assessment Programme of the International Monetary Fund (IMF)
- the International Narcotics Control Strategy Report (INCSR)

3.4 CHANNELS SERVICES RISK ASSESSMENT

The reasoning behind the assessment of service channel risk is slightly different from other products. Here, the classification is based on the level of anonymity that these channels offer when servicing the customer. The level of anonymity of service channels refers merely to the servicing of customer after initial identification. Here, for instance, the risk of identify fraud is deemed higher when servicing a client through e-banking than servicing a customer face to face over the counter. Based on the Wolfsberg Group's FAQ on Risk Assessment channels/servicing should be assessed whether, and to what extent, the method of account origination or account servicing, such as non-face-to-face account opening or the involvement of third parties, including intermediaries, could increase the inherent money laundering risk. For this risk category banks shall determine/estimate the percentage of accounts e.g. low risk versus high risk, medium risk versus high versus etc., in order to determine the overall inherent channels risk.

3.5 CONTROL EFFECTIVENESS

After the first step of assessment, determining of the inherent risks, internal controls mechanism must be evaluated to define how effectively they offset the overall risks. Controls are essential mechanism to mitigate risks identified. Different controls apply to different activities performed within banks and will be performed by different bodies (e.g. Front Office – 1st line, Compliance -2nd line and Audit – 3rd line). As per the Wolfsberg Group's FAQ on Risk Assessment, AML controls are as follows: AML Corporate Governance; Management Oversight and Accountability, Policies and Procedures, Know Your Client (KYC); Client Due Diligence (CDD); Enhanced Due Diligence (EDD), Previous Other Risk Assessments (local and enterprise-wide), Management Information/Reporting, Record Keeping and Retention, Designated AML Compliance Officer/Unit, Detection and SAR filing, Monitoring and Controls, Training, Independent Testing and Oversight. If existing controls are effective or do not exist, it would be appropriate to raise an action to remedy this if an action is not already underway.

3.6 RESIDUAL RISK ASSESSMENT

In order to determine the residual risk on the basis of the factors defined above, it is necessary to screen the respective risks against all mitigating measures in place. However, some of the mitigating measures applied bear a higher mitigating potential than other mitigating measures applied. Banks deem mitigating measures to be central for managing the risks associated with money laundering, terrorist financing, and other acts punishable by law. This includes the presence of Compliance Officer who serves as the KYC Policy owner and coordinator of all AML and CFT activities, an implemented KYC principle and well defined CDD procedures/policies which govern client information and risk categorization as well as regular awareness raising and AML training. When assessing the residual risk from the probability of occurrence and the efficiency of the measures, the following methodology/matrix can be used (table 1):

4 DERIVING CIRCUMSTANTIAL EVIDENCE FROM THE AML RISK ASSESSMENT

In order to derive circumstantial evidence from the AML Risk Assessment, which can be applied by an IT-based monitoring system, all results of the above described risk measuring model must be taken into consideration. Based on the risk profile of banks, certain indicators are applied to monitor transactions that address the specific risks in banks. They are reflected in the AML risk profiles for banks and their results are being analysed to determine their effectiveness. Further, all data of SAR are evaluated to establish the risk profile of banks. This provides to banks with clues for necessary adjustments of the individual monitoring scenarios.

5 FURTHER DEVELOPMENT OF RISK MITIGATING MEASURES

Taking into account all results of the AML Risk Assessment, the already implemented measures for the prevention of money laundering can be assessed and developed further, if necessary. The AML Risk Assessment will name the necessary measures to enhance the mitigation of the exposure to the risk of money laundering and terrorist financing in the Financial Institutions and outline the implementation of the necessary measures to further the prevention of this risk. The AML Risk Assessment of the Financial Institutions must be shared with Senior Management of the Financial Institutions as well as Audit Committee in order to allow for the addressing of all risks identified during the analysis.

Table 1 – Matrix of Risk Assessment Methodology

Probability of occurrence	Efficiency of measures	Residual risk
LOW	LOW	LOW
LOW	MEDIUM	LOW
LOW	HIGH	LOW
MEDIUM	LOW	MEDIUM
MEDIUM	MEDIUM	MEDIUM
MEDIUM	HIGH	LOW
HIGH	LOW	HIGH
HIGH	MEDIUM	MEDIUM
HIGH	HIGH	MEDIUM

An example of how the bank approaches weighting risks is shown in tables below:

Table 2 - Inherent risk values

Inherent risk		
6	5	4
HIGH	MEDIUM	LOW

Table 3 - Effectiveness of measures

Effectiveness of measures		
3	2	1
STRONG	ADEQUATE	WEAK

Tabela 4 – Nivelet e “scoring-ut”

Scoring level			
Inherent risk rating		Residual risk rating	
Average	**Risk level**	**Average**	**Risk level**
0 – 4	LOW	0 – 2.0	LOW
4.1 – 5.4	MEDIUM	2.1 – 3.4	MEDIUM
5.5 -	HIGH	3.5 -	HIGH

The matrix which is used to calculate the risk is as follows:

Table 5 – Matrix for residual risk

MATRIX		Effectiveness of measures		
		Strong (3)	Adequate (2)	Weak (1)
Inherent risk	High (6)	3 - MEDIUM	4 - HIGH	5 - HIGH
	Medium (5)	2 - LOW	3 - MEDIUM	4 - HIGH
	Low (4)	1 - LOW	2 - LOW	3 - MEDIUM
			Residual risk	

Explanation about the matrix:

- If inherent risk is **High (6)** and effectiveness of measures is **Strong (3)** the residual risk is **Moderate (3)**, based on the scoring levels (please refer to table above Scoring levels);
- If inherent risk is **High (6)** and effectiveness of measures is **Adequate (2)** residual risk is **High (4).**

DAFINA DOBROSHI-KABASHI
Head of Operational Risk
ProCredit Bank Kosovo

Ensuring risk and compliance in outsourcing activities from the German regulator and best practices perspective

In today's dynamic environments, financial institutions continue to shift and increase the complexity towards outsourcing/third party solutions with both domestic and foreign service providers. Common outsourcing arrangements with inherent risks include the following but not limited to:

- Outsourcing full banking functions to third party service providers
- Outsourcing lines of business or products
- Concentrations of outsourcing activities to a single third party provider (in the market) to either perform to perform multiple or critical activities
- Allowing service providers to directly interact with the institution's (key) customers
- Providing third parties the right to subcontract the institution's outsourcing activities to other providers (domestic or foreign).

Based on best practice definitions, an activity is classified as outsourcing when an institution mandates another third party provider to perform its core activities/services that it would otherwise perform itself. In principle, all activities may be outsourced as long as outsourcing does not lead to a pure letterbox company and as long as the institution may ensure proper monitoring and business continuity of the outsourced activities at all times.

Specific regulatory EU frameworks such as German Law[1] provisions of § 25b of the German Banking Act [Kreditwesengesetz –KWG] in connection with AT 9 of the Minimum Requirements for Risk Management [Mindestanforderungen an das Risikomanagement – MaRisk] specify that key management functions such as decision-making bodies like the Management Board, business strategy and definition and business planning may not be outsourced. Overall, activities and processes can be outsourced as long as proper business organization and continuity are not impaired pursuant to section 25a (1) of the Banking Act.

In addition, special criteria must be implemented with regards to complete or partial outsourcing of specific functions such as risk control, compliance and internal audit. Based on BaFin's last amended version of the MaRisk, key changes of the new requirements mainly relate to areas such as outsourcing, risk reporting, data aggregation and risk culture.

In the area of outsourcing, BaFin puts special emphasis on identified weaknesses and through the amended version of the regulation it specifies particular risks associated to loss of control and loss of expertise of the outsourced activity from the side of institutions. As a minimum requirement, the regulation requires the banking institutions to maintain its expertise in order to ensure proper monitoring of the outsourced activities. Based on these requirements, the financial institutions must have proper mechanisms in place to ensure business continuity in case if the outsourcing arrangements are terminated for whatever reason as well as to retain their internal expertise at minimum for proper monitoring of the outsourced activity.

1 BaFin - German Federal Financial Supervisory Authority

Based on BaFin's last amended version of the MaRisk, key changes of the new requirements mainly relate to areas such as outsourcing, risk reporting, data aggregation and risk culture.

Additional explanations as well as new requirements in the amended version of the MaRisk are specified in the area of external procurement of goods and services particularly concerning the purchase of (IT) software. As a general rule, the MaRisk explains that the isolated procurement of software used such as support services should in general not be classified as outsourcing. However, the regulation differentiates the purchase of (IT) software used by institutions to identify, assess, manage and monitor or report risks of material importance for the banking activities. In line with the regulation, the operation of software by an external third party should be classified as outsourcing and that the standard provisions of the outsourcing requirements must be implemented.

Further requirements from the MaRisk regulation perspective specify that full outsourcing of functions such as risk control, compliance and internal audit are not allowed. At minimum, institutions must assess and determine how and whether they can ensure that the outsourced activities related to these functions and processes can be integrated into its day-to-day risk management.

The MaRisk requires banking institutions to establish a centralized outsourcing unit whose

Further requirements from the MaRisk regulation perspective specify that full outsourcing of functions such as risk control, compliance and internal audit are not allowed.

main responsibility would be to regularly oversee the outsourced activities as to whether the outsourced activities correspond with contractual and service level agreements. The centralized unit would also provide guidance on supporting the organizational units in risk assessment and review of the outsourcing agreement as to whether the minimum outsourcing requirements are addressed. This way, effective monitoring of the outsourcing activity is ensured regularly while sharing the performance assessment results with the management board either directly or through specific risk committees within the institutions.

From a risk management perspective, it is critical to maintain a risk management process over third-party (outsourcing) relationships starting from the initial phases and through the entire outsourcing cycle. This starts from phases such as the identification of potential service providers, due diligence of potential service providers, up to ongoing performance monitoring and even to termination of outsourcing risk assessments.

Whether institutions choose to fully or partially outsource their products or lines of business or whether the outsourcing activities are classified as material or immaterial, emerging risks will arise from each outsourcing activity. It is recommended that a minimum set of elements be taken into account in order to properly manage the outsourcing activity and to ensure effective risk management. In addition to effective risk management methodologies, depending on the country of operation and jurisdiction it operates in, banks are required to ensure sound compliance with regulatory requirements at all times.

The following elements serve as a guidance from an effective risk management perspective in order to ensure that the outsourcing risks with service providers are property assessed and monitored:

1

Proper due diligence of potential service providers

- Financial stability (audited financial statements)
- Anti Money Laundering (AML) checks
- Backup/contingency solutions
- Ability to respond to disruptions
- Assessment of the service provider's organizational structure

2

Outsourcing Risk assessment

Institutions must perform an internal risk assessment based on a set of criteria which will enable them to assess the materiality and the risks it faces commensurate with the outsourcing activities. Some of the criteria to be considered include but not limited to, potential risk concentrations, dependency risks with the service providers, exit strategies and costs, risk from subcontracting, data protection and information security risks, etc. The Management Board must be aware of the inherent and residual risks and risk mitigating must be proposed and followed-up on. The complexity and scope of the assessment depends on the riskiness of the outsourced activities and processes. For example, for material or outsourcing of specific functions such as risk control, compliance or internal audit the institution must consider as to how it will integrate the outsourced activities into its effective risk management framework and methodologies.

3

The following minimum elements of the outsourcing (service level) agreement should be specified[2]

- Detailed description of services to be provided by the service provider
- Service provider's subcontracting rights and if the institution prohibits subcontracting to certain subcontractors or locations
- Termination rights and notice periods
- Internal, external auditor's and supervisory authorities unrestricted rights to examine the outsourced activities
- Obligation of the service provider to inform the institution of any developments that might impair the proper performance of the outsourced activities and processes.

Other recommended clauses from the risk management practices perspective include but are not limited to:

- Definition of key performance indicators
- The institution must internally decide on the degree of poor performance it is willing to accept. This may be defined through a set of key performance indicators as a minimum measuring unit and definition of measures to be taken in case of failure of meeting such measurable metrics.
- Confidentiality and data protection clauses
- Business continuity (contingency) plans from the service provider's perspective in line with the bank's contingency plans

4

Exit strategies

The financial institutions must at all times have contingency plans in place to either transition the activities to another service provider in the market or to bring the activities in-house. It is crucial that the institution during its outsourcing risk assessment phase to estimate an approximate time period it foresees to implement its exit strategies in line with the complexity of the outsourcing activity without impairing its operations.

5

Continuous monitoring and supervision of outsourced activities

Financial institutions must have oversight of their outsourced activities at all times. To implement this, in the case of the German regulator (Bafin Marisk), outsourcing activities must be properly monitored on the basis of pre-defined criteria between the service providers and the bank. In case of impairment of performance indicators adequate measures must be taken promptly.

6

Third party insurance coverage

From the best practice perspective, it is highly recommended that besides the contractual agreements, that institutions seek insurance coverage for the outsourced activities especially in case of material critical activities. Types of insurance coverage may include fidelity bond coverage, liability coverage, hazard insurance, and intellectual property insurance.

2 Bafin MaRisk

BORYANA IVANOVA MUSTAFA
Director of the Payment Division and Treasury
NLB Bank

€STR – (The NEWBORN) New Algebra of banks

The interest rate benchmarks play a significant role in the financial system and the economy. They are mainly used as a reference in contracts indexed to variable interest rates by a variety of financial institutions, ranging from banks that provide loans to businesses and households to derivatives market-makers. The use of reference rates to price financial contracts facilitates standardization and makes the interest rate benchmarks essential to the smooth functioning of the financial markets. Benchmarks are also important for central banks. Monetary policy is transmitted through financial markets and benchmark rates play a key role in the implementation and monitoring of the transmission of the Central Bank's monetary policy.

Such benchmarks are widely used to value balance sheet items, mainly as discount rates for some financial instruments, or in valuations for accounting purposes. They are broadly used as an index for retail loans contracts, as well by the derivatives markets in products such as swaps, options and forward contracts.

The most extensively used benchmarks for interest rates for contracts in euro are EONIA (the Euro Overnight Indexed Average) and EURIBOR (the Euro interbank offered rate), administered by the European Money Markets Institute (EMMI). Both Indexes EURIBOR and EONIA are based on actual borrowing and lending in the unsecured interbank Money Market.

PRIOR THE CRISES THE EONIA YEARLY AVERAGE VOLUMES WERE

32

BILLION EURO PER YEAR

UP TO

48

BILLION EURO PER YEAR

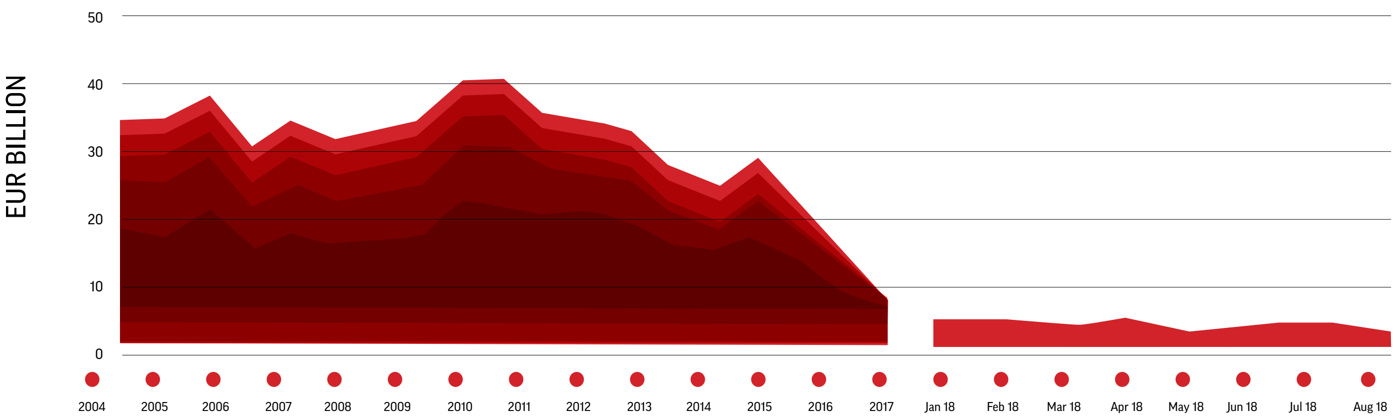
The European Commission has estimated that about EUR 180 trillion contracts are indexed to EURIBOR. Most of these contracts are interest rate swaps, in which a fixed rate of interest is exchanged for a floating rate. But such contracts also include retail segment loans or floating rate bonds.

EURIBOR is a benchmark giving an indication of the average rate at which banks lend unsecured funding in the euro interbank market for a given period. The benchmark is calculated daily by EMMI on the basis of the quotes of a panel of 20 banks from the EU contributing on a voluntary basis. It is published every day at 11:00 CET.

EONIA is a reference rate based on real transactions. It is computed as a weighted average of all overnight unsecured lending interbank transactions of the panel of 28 banks and published by 19:00 CET. The ECB acts as the calculation agent for EONIA and compiles the daily contributions of the banks from the EONIA panel and communicates the final rate to EMMI.

EONIA volumes have decreased further, to a yearly average of EUR 7 billion in 2017. On 31st October 2018, EONIA was published on the basis of an underlying activity of EUR 488 million

SOURCE: EMMI



Concentration of EONIA volume: between 1999 and 2009, approximately 51% of total daily EONIA volume was reported by the 5 most active banks in the Eonia panel. In2019, about 81% of volume was reported by the top five banks. In 2017, this concentration indicato increased to 88%.

Using a purely interbank rate, such as EONIA, reflects the fact that, the interbank market was perceived as the appropriate market on which to base a useful benchmark.

However, the last years of post-crisis macroeconomic environment, along with low interest rates and central banks liquidity provision didn't encourage short term lending between banks. Banks no longer rely on interbank funding as much as they used to and they have other sources of funding beyond the interbank market or the unsecured market which could be taken into account in the calculation of an Index.

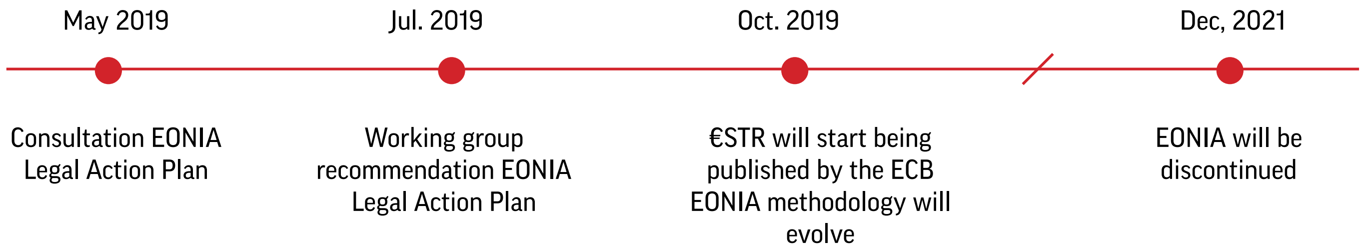
As a result, during the last several years, the confidence in those Indexes is veined due to the very low volumes to be realistic to reflect the true price. Both benchmarks currently rely on the voluntary contributions of two distinct panels of banks, the number of which has fallen sharply in recent years.

In order to counter this vulnerability, EONIA and EURIBOR are undergoing in-depth reforms under the lead of EMMI. These reforms aim to bring both benchmarks into compliance with the new EU Benchmarks Regulation (BMR), which came into force in January 2018. Following a transition period, the requirements of the BMR will become fully binding as of January 2020. The BMR imposes technical-legal certification, subject to new standards of accuracy and transparency in order to safeguard the stability of the EURIBOR and EONIA panels.

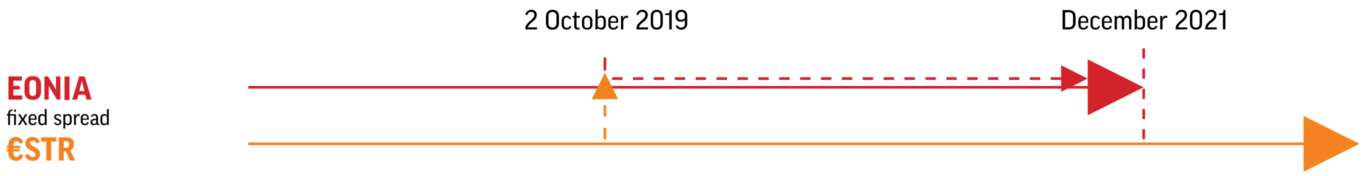
Given the systemic importance of the benchmark rates reform and the massive impact on the Eurosystem, the ECB's Governing Council stepped in by deciding to develop a new robust benchmark euro short-term rate, abbreviated as €STR (ESTER).

EONIA embarking on €STR

Prior the crises the EONIA yearly average volumes were EUR 32 billion



Source: Third public consultation by the working group on euro risk-free rates on the EONIA to €STR Legal Action Plan



On 31 October 2018 EONIA was published on the basis of an underlying activity of EUR 488 million only. Other shortcoming of EONIA became the Concentration indicator of EONIA volume: between 1999 and 2009, approximately 51% of the daily EONIA volume was reported by 5 most active banks in the EONIA panel. In 2017, 88% of the volume was reported by the top five banks.

– 48 billion per year. However, in the last years due to lack of incentives for banks to engage in interbank lending, EONIA volumes heavily declined, to a yearly average of EUR 7 billion in 2017.

On 31 October 2018 EONIA was published on the basis of an underlying activity of EUR 488 million only.

Other shortcoming of EONIA became the Concentration indicator of EONIA volume: between 1999 and 2009, approximately 51% of the daily EONIA volume was reported by 5 most active banks in the EONIA panel. In 2017, 88% of the volume was reported by the top five banks.

Due to low underlying transactions and the high panel concentration EONIA will not meet the criteria of the BMR. The market needs to move from a non-sustainable benchmark to a sustainable benchmark as per the end of the BMR transitional period.

The newborn €STR, launched into financial orbit in 2017, was recommended as an alternative sustainable risk-free reference rate. The working group for Risk-free Rate (RFR) recommended that the European Money Market Institute (EMMI) to modify the current EONIA methodology to become €STR plus a spread (8.5 basis points) from the first publication date of €STR, i.e. 2 October 2019, until its discontinuation on 3 January 2022, to give market participants sufficient time to transition to the €STR.

The ECB will begin publishing the €STR by October 2019. The rate will be available by 09:00 CET on each TARGET business day, based on actual individual transactions from the previous day. It will be published on the ECB's website.

After 2 October 2019, whenever operationally feasible, market participants should consider no longer entering into new contracts referencing EONIA, in particular new contracts maturing after 31 December 2021 or embedding

Name	EONIA	€STR
Similarities	EUR	EUR
	Overnight	Overnight
	Unsecured	Unsecured
	Transaction Based	Transaction based
Definition	Eur o/n unsecured lending interbank transaction	Eur o/n unsecured borrowing wholesale transactions
Data basis	Unstable Panel 28 banks (19 MMSR)	Stable panel (depends on regulatory data) 52 bank MMSR (Money Market Statistical Report)
Administrator	EMMI	ECB
Data basis	Narrow Panel	Wider Panel
Methodology	No limit	From EUR 1 m mean trimming 25%
Benchmark Regulation	Non-compliant (no order received from panel banks)	Compliant
Publication	Published on T (from 2nd October 2019 next day by 9:15 a.m.)	Published on T+1 by 9:00 a.m (2nd October 2019)
Fixing level determined	Approx. – 0.36%	Approx. – 0.44%
Historical data	Since 01/99	Since 06/16

Source: WG EuroRFR-Subgroup#4 and Bayern B presentation

fallback clauses with reference to the recommended fallback rate for EONIA.

The new euro short-term rate (€STR) will be based on data already available to the Eurosystem and will take into account not only interbank transactions but also transactions with other entities, such as money market funds, insurance companies and other financial corporations.

The calculation will be entirely based on actual individual borrowing transactions in euro that are reported by banks in accordance with MMSR EU Regulation No. 1333/2017.

The embarking from EONIA to €STR is a big complex task for all financial institutions should be as smooth as possible that protects market integrity and is the fairest to all benchmark users.

EURIBOR is a quote-based interest rate benchmark, available, until 2018, for 8 maturities (one and two weeks, and one, two, three, six, nine and twelve months). The lowest used tenors, such as two-week, two-month and nine-month maturities were discontinued as of 3 December 2018.

EURIBOR was categorized as critical benchmark by the European Commission, given its systemic importance for financial stability, it is used as a benchmark for a wide variety of financial products and contracts, like Retail and business loans, debt securities, derivative products, as well deposits.

Over the past few years EMMI has been developing a plan to gradually reform the existing EURIBOR in order to anchor it to transactions instead of quotes. EMMI is reforming EURIBOR because the EU BMR and international guidelines require benchmarks to be based on a robust calculation methodology using arm's length transactions when possible to meet the market economic reality that EURIBOR covers, which conditions are likely not to be satisfied by the current quote-based methodology used by EMMI.

Therefore, EMMI decided to explore the feasibility of a hybrid model where the methodology is supported by transactions whenever available, and relies on other related market pricing sources when necessary. A task force was created to gather market participants' feedback and guidance on the new methodology. In the course of 2019 the Belgian Financial Services and Markets Authority (FSMA), the authority responsible for supervising EURIBOR,

will assess whether the new methodology complies with the BMR Regulation. In any case, EURIBOR users will need to embed fallbacks to improve the robustness of their contracts, as required by the BMR.

The new hybrid EURIBOR is anticipated as a robust methodology evolution of the current quote-based methodology, compliant with the regulatory requirements by BMR Regulation, whose implementation will have to wait until year 2022.

The benchmarks reform will involve the whole spectrum of financial institutions to the end customers. The aspects related to compliance and contracts, as well as to technical infrastructure, are the most vulnerable to the change in rates. Banks have to face the complex issues of adapting tools and valuation models to the new benchmark.

Concerning Kosovo impact, even though only limited number of banks on the local market are offering products, mainly loans, with variable rates or mixed rates (fixed rates + variable rates), the engagement of the Central Bank is required as well in order all needed adaptations to be smoothly implemented for the banks and their clients.

There are still open issues and unknown unknowns, which will be further discussed on public consultations encouraging the public to participate during June 2019. Nevertheless, the financial system is witnessing an interest rates revolution, where EMMI and ECB are engaged in a delicate transition between old and new rates, subject to new standards of accuracy and transparency, a crucial step forward the integrity of the Eurosystem financial markets.

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WG EuroRFR-Subgroup#4 materials

https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.pr190531~a3788de8f8.en.html

Other online sources and roundtables materials on euro risk-free rates benchmarks

CHRISTOS ELEFTERIADIS
Executive Advisor for Europe
EZOPS

Digital Transformation in the Banking Industry

Banks have for centuries acted as the oil in the economic machinery of societies. Traditionally they have been given much trust, which has of course been important for their existence. Who would bring their hard-saved money to someone they didn´t trust? A bank typically had thick walls and an armoured safe. Something that gave the impression of being unbreakable regardless of what would happen. The general trust in banks has survived states, wars, economic depressions and even revolutions. However, the financial crisis and a range of banking scandals have caused a large crack in the wall. People not involved in day-to-day banking could not understand that it took months and months for thousands of bankers around the world to figure out what their open positions with Lehman Brothers were after they collapsed. In the age of computers and data, this seemed not to have been possible. Still we ended up with large losses and banks closing or be saved by states, which in turn got bankrupt and needed to be saved by other states and supranational institutions (IMF, ECB, ESM). The international community understood that something needed to be done to get better control and transparency of the financial sector and to make sure such a crisis would not be repeated. Consequently, several new requirements and legislations were imposed on banks and buy-side firms. Basel III, updated liquidity risk management requirements (BCBS 144) and new risk management requirements (BCBS239), MiFID I/II and EMIR are just some of the plethora of the new regulations that banks need to be compliant with. Add to this country specific differences in interpretation and country specific regulations, like the Dodd-Frank Act, one quickly understands that the burden for banks

> Banks are not alone anymore! So, what does this mean for banks and what can banks do in order to survive in the 21st century?

have been tremendous the last decade. In addition, what we have seen last decade, and this is a difference to earlier times, is the leap frogging technology advancements, which has opened for real disruptive competition by start-ups and large technology companies. Banks are not alone anymore! So, what does this mean for banks and what can banks do in order to survive in the 21st century? In order to answer this, it is important to first understand what problems the banks generally have.

First, many banks have relied on old processes and systems, which resulted in inflexibility and high costs. Many processes still include many manual steps. Cost cutting was to a large extent done by outsourcing to cheaper labour countries instead of tackling the root-cause of the problems.

Second, the quality of data is still in many cases poor, leading to breaks and unnecessary high cost to investigate an remediate. In addition, the poor data quality also affects liquidity management of the bank, where most banks do not have correct real-time positions available for their decision making.

Third, when people need to wait for batch processes, until the next day or even longer to get the data they require, for instance positions, one can hardly say that the availability is good. In times of intraday, real-time and instant movement of funds, it becomes impossible to manage a bank when data is not readily available in real-time, without using large liquidity buffers in order to be on the safe side.

On the front end, banks are seeing challengers in form of internet and smartphone banks, and alternative payment providers like PayPal and Amazon Pay.

So traditional banks are pressured from both front and back through innovative and challenger banks that do not have the burden of old systems and processes but can focus their business on areas where banks traditionally have had a monopoly and where margins still are quite interesting.

To many of the problems there are interesting state of the art solutions, which help

1. Improve data quality
2. Make data available in real-time
3. Reduce cost so that cost per transaction becomes competitive and volume insensitivity provided so that business can grow without the need to add staff in the same rate
4. Reduce likelihood of penalties due to issues with regulatory reporting and compliance in general
5. Get the most out of sunk cost in existing systems sometimes difficult to replace
6. Become flexible in order to handle new data and new processes easily

The benefits can be achieved by implementing some key things.

First, necessary data control points can be put in place so that exceptions can be identified and dealt with as early as possible in the transaction life cycle where the cost of remediation is the smallest. Using artificial intelligence, like unsupervised machine

learning will identify anomalies that can be corrected even before any reconciliation is performed.

Second, supervised machine learning, can massively help banks reduce cost of investigating and managing exceptions. Machine learning would learn by historical data and make its prediction with various confidence. The high confidence predictions could automatically trigger further processing, without operations staff involved. It therefore reduces cost and risk of human errors. At the same time bank staff can focus on all exceptions with lower prediction confidence. Over time, the machine learning algorithm gets trained on new transactions and processes, wherefore more and more of the exceptions processing can be automated. The faster high data quality of transactions, reference data and positions are provided, the better dependent processes like cash and liquidity management and regulatory reporting can be handled.

Due to lack of quality-controlled positions and real-time possibilities, banks are forced to keep large operational liquidity buffers in order to be able to handle their payments obligations. According to the McKinsey Global Payments Map from 2016 this amounts to 34% on an average of the total cost a bank has for international payments. With PLUTO from FBT, banks have a real-time system that is integrated with all different sources that affect current and future liquidity positions and are given the tools needed in order to minimize their operational liquidity buffers as much as 70% and more. This has a direct positive effect on the margins of the bank, as the cost is directly reduced. This means also the Funds Transfer Price is reduced, making the bank more competitive on the market. In addition, using PLUTO banks can fulfil the regulatory requirements defined in BCBS144, even concerning the ability to manage liquidity intraday!

The fundamental element behind the data quality is reconciliations combined with machine learning so that speed of remediation, operational cost and risk is as low as possible. EZOPS´ ARO solution being the leader when it

comes to combining reconciliation of any type of data with tested and proven artificial intelligence, achieves intelligent process automation that is flexible as it adapts and learns when data is changing.

Both PLUTO and ARO can easily be integrated into existing system landscape making the most of sunk cost banks already have realized in their books. Large replacement projects are therefore usually not necessary, meaning that project implementation time is short and project risk low.

PLUTO is built using a modern web technology. Banks interested in offering their corporate customers advanced cash management services, could even use the system to increase revenue and market share. As this is one of the most competitive markets, being able to provide valuable services with functionality usually only available to banks internally, can make a big difference.

On the risk side, banks are required to conduct liquidity stress tests and liquidity forecasting, as specified in BCBS144 and BCBS248. ARO machine learning can be used together with PLUTO to predict future positions based on historical data, known future cashflows and parameters. Stress testing parameters such as described in the BCBS248 documentation can be configured thus providing the bank an excellent system for liquidity stress testing as well.

Much of the recent year reporting requirements, be it concerning liquidity (Intraday Liquidity Management, LCR, NSFR, etc.) or transaction reporting according to EMIR, Dodd-Frank or SFTR that is to be implemented in 2020, are demanding for banks, especially if they require to comply with multiple such reporting requirements in different jurisdictions. Most banks have taken the approach of tactical solutions to this problem. They have created their own specific solutions for each of them. Solutions, which often include much manual work, especially when it comes to controlling the data. EZOPS has helped banks centralized such controls into one single monitor and with the use of machine learning and intelligent process automation are able to reduce operational time with over 60% and reporting accuracy with 50%. This means banks minimize the risk of missing to report transactions or reporting transactions that are not eligible to report. Such wrong or miss-reporting can cause supervisors to penalize banks substantially.

To summarize, banks in general encounter several problems causing operations, compliance, liquidity and competition headaches. FBT and EZOPS, used by some of the leading banks in the world, are perfectly positioned to support banks overcoming these issues, i.e. to become regulatory compliant, to become agile and reduce cost, to manage liquidity optimally and to become more competitive.

> “FBT and EZOPS, used by some of the leading banks in the world, are perfectly positioned to support banks overcoming these issues, i.e. to become regulatory compliant, to become agile and reduce cost, to manage liquidity optimally and to become more competitive.

EZOPS

FBT

KATERINA BOSEVSKA
Managing Director
EOS Matrix-Macedonia, Kosovo and Montenegro

The individual`s rights against their obligations to the controllers of personal data

Personal data is considered to be any information related to a natural person (called data subject), which can directly or indirectly identify it. It can be any information which is unique to an individual, or an information which is not unique to an individual but combined with another information can lead us to identify the individual.

There are many different categories of personal data. One of the most interesting nowadays is the digital personal data, which includes emails, social media accounts and posts, metadata, and also the IP address in some cases. IP addresses are considered as personal data only in some cases, bearing in mind that the IP address can be dynamic, and different IP addresses can be assigned every time the device is connected to the Internet.

As technology is constantly progressing and the artificial intelligence is becoming the future of the information technologies, protecting the personal data becomes more and more important with every day passing by. It is very important to acknowledge that the digital personal data category is becoming the future of the data protection, although the other categories are not less meaningful.

THE FIRST DATA PROTECTION DIRECTIVE WHICH WAS REGULATING THE PROCESSING OF PERSONAL DATA WITHIN THE EUROPEAN UNION WAS ADOPTED IN

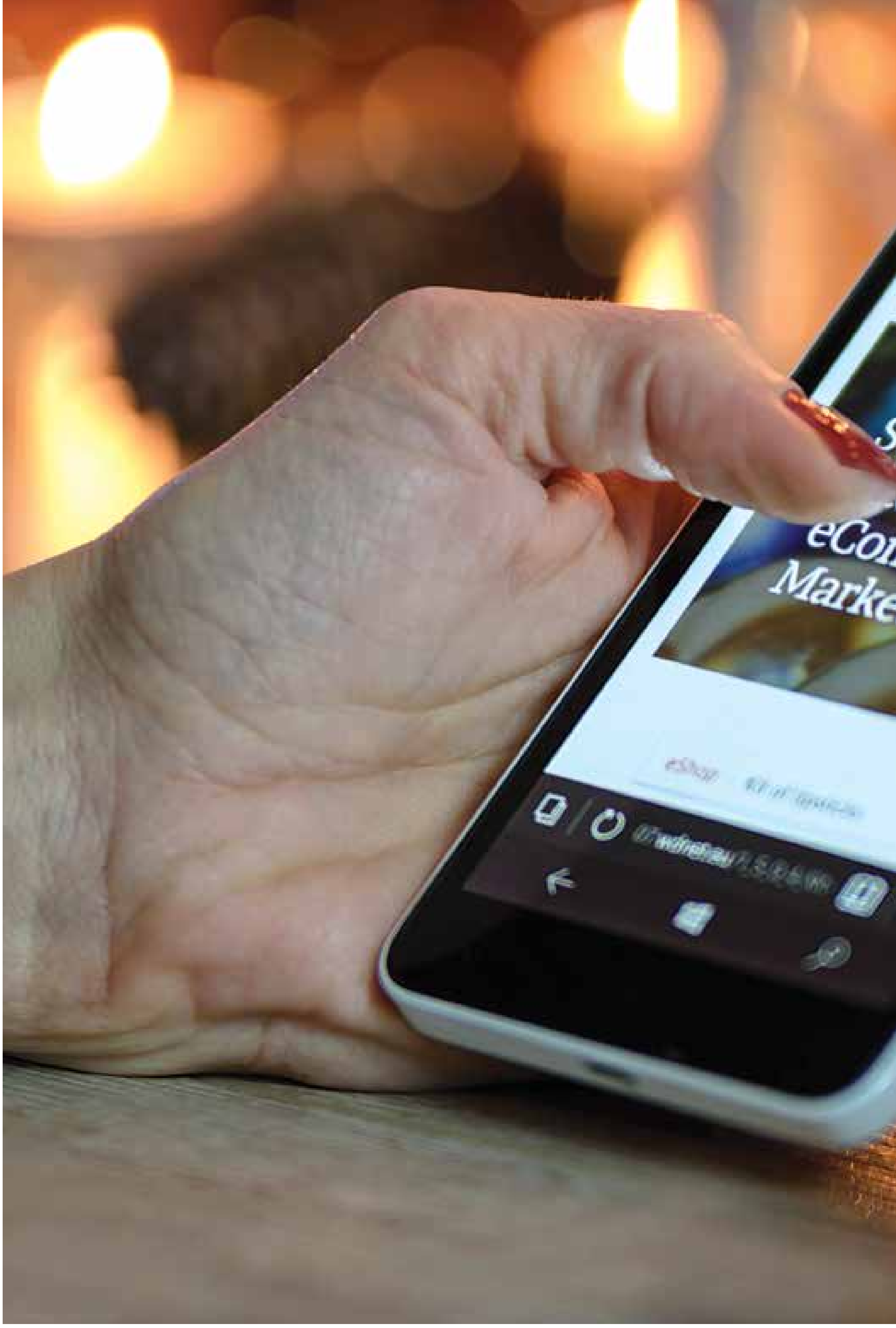
1995

The first Data Protection Directive which was regulating the processing of personal data within the European Union was adopted in 1995. In between the Data Protection Directive and the General Data Protection Regulation, United Kingdom has adopted the Data Protection Act in 1998. Starting in 1998, until 2000, Safe Harbor Privacy Principles were developed, which enabled United States companies to comply with Data

Protection Directive, in order to prevent the organizations which are storing personal data within the EU and US, from accidentally disclosing it. In 2016, the EU-US Privacy Shield framework was designed, providing collaborative companies from EU and US with a mechanism to comply with Data Protection Directive while transferring personal data from one continent to another.

Nowadays, communicating is coming down to social networks. The official communicating through printed mail is more and more replaced by electronic emails. People are buying and paying online and are not even using real money. As buying online is getting more attractive for people who do not have time to go shopping, behavioral marketing is also on the rise. Everyone has online wallets and cryptocurrencies are also becoming very popular. People are investing in smart homes, which are using fingerprints and face recognitions to provide the services which are making their lives easier. In between all these benefits which we have from using technology, we are paying less and less attention to what intangible assets, such as personal data, we are giving up from, in order to be able to use those services.

As companies need more data to implement and improve their services, and processing of personal data with artificial intelligence is requiring better performances and more expensive processors, it becomes more cost-effective for the companies to store and process personal data on cloud instead of buying servers and building server rooms which have all the requirements to keep the servers and personal data safe. As people did not know where their personal data is located and how it is processed, a need for a new law was introduced, so the authorities started working on General Data Protection Regulation, which was introduced and entered into force in 2016.



The difference between a “directive” and a “regulation” in terms of EU legislation is that directives are not directly applicable in all EU Member States, as they only set minimum standards and the EU Member States are asked to provide their own legislation to meet those standards. Thus, directives require implementation measures in all EU Member States and provide each member with flexibility to apply directives in whatever way suits them. Regulations exist as laws themselves, superseding any relevant laws passed by the Member States. They are applied consistently in all Member States. If there are opportunities for local variations, it is specifically identified in the text of the Regulation. Regulations are therefore an effective mechanism for applying a consistent approach across 511 million people across 28 Member States.

Member States had two years to ensure that the General Data Protection Regulation is fully implementable in their countries, and the organizations had to comply with it by May 2018.

The purpose of the General Data Protection Regulation is:

- to eliminate inconsistencies in national laws – the regulation is more or less the same in all Member States, as mentioned above;
- updating the law to better address contemporary privacy challenges
- providing better data protection for individuals
- reducing costly administrative burdens for companies which have services in few Member States – they will have to deal with one authority instead of multiple of them, as General Data Protection is a "one stop shop" and all companies will report to a single data protection authority, regardless of the number of Member States in which they operate.

As Republic of North Macedonia is still not a Member State, all organizations are not obliged to comply with the regulative, but only the ones which are processing personal data of European Union citizens. The law proposal has already taken place, so it is only a matter of time when it will be promulgated and the Macedonian citizens will be given the same rights as European Union citizens. Then it will become inevitable for all companies to comply with it, in order to maintain their market concurrency.

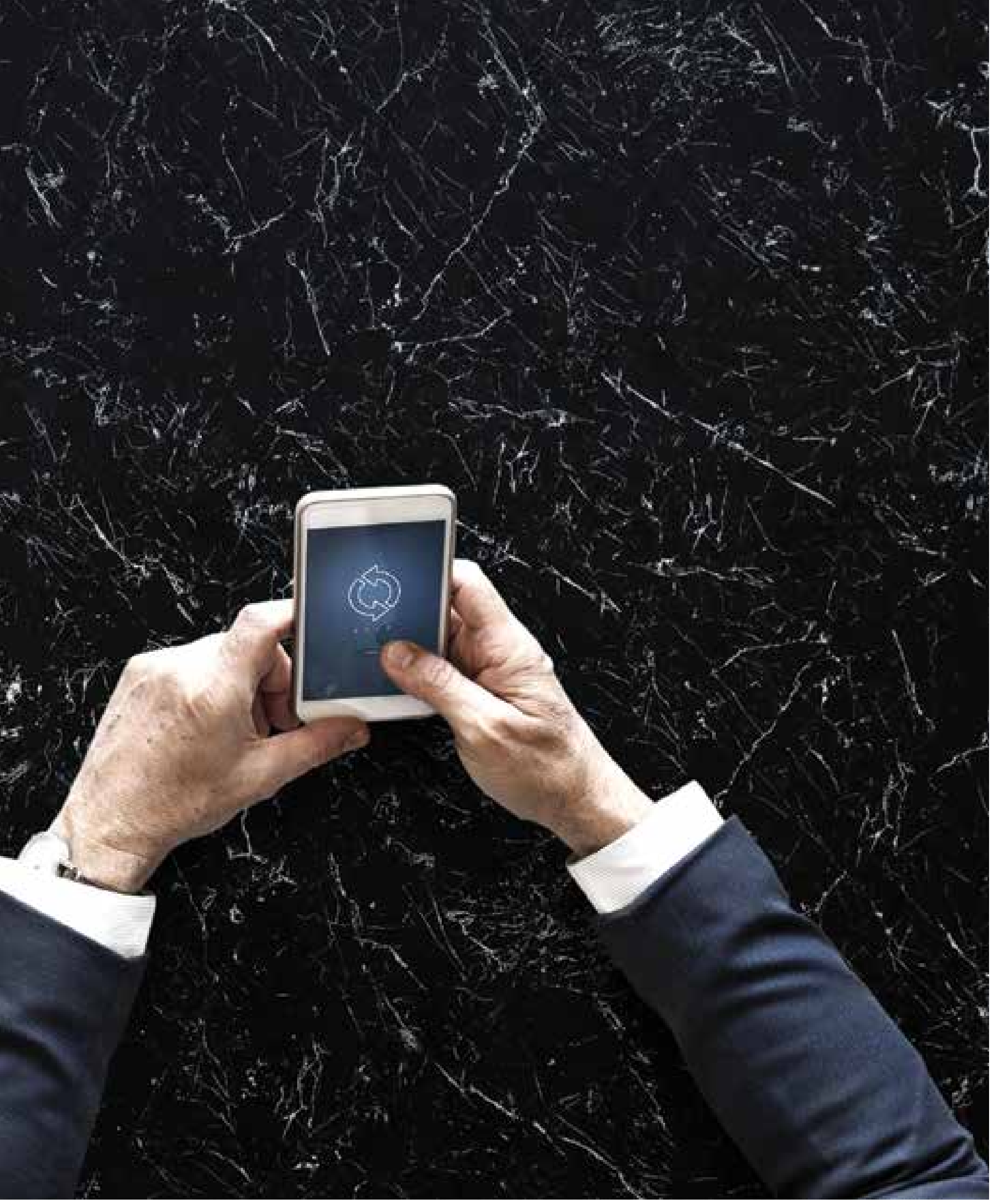
On one hand, the regulation is providing the protection of the data subject`s personal data to be their fundamental right. In order to contribute through it, the regulation is allowing the data subjects to exercise their rights, such as:

- Right of access
- Right of rectification
- Right to restrict the processing
- Right to data portability
- Right to object to the processing
- Right to erasure

On the other hand, companies that appear as controllers of personal data should follow the principle of accountability and be able to demonstrate compliance with GDPR.

Controllers will be responsible to demonstrate that they care about personal data of the data subjects. They should implement risk analysis regularly, as well as the appropriate measures to minimize the risks. In case of data breach, the authorities should be informed and depending of the volume of the data which is disclosed, in some cases the data subjects should be informed as well. In such case, the companies are taking an enormous risk of reputational destroying.

Nowadays, communicating is coming down to social networks. The official communicating through printed mail is more and more replaced by electronic emails.



In order to comply with GDPR and keep its reputation, the company should be transparent enough and provide any information about how, where and why the processing is taking place, in a concise and understandable form.

One of the most challenging principle that controllers have to meet, is to ensure that the personal data they are processing is accurate. Many researches show that very small percentage of people are reading the contracts which they are signing (before they sign it) and privacy policies which they are accepting (before they accept it), so they are not even aware of:

- The obligations they are accepting;
- If they are obligated to update their personal data in a reasonable time after they change some of it;
- If they are allowing the controller to transfer the data to third parties;

Personal data is the individual`s identity. As companies have to protect it, individuals as well are obliged to be aware of the risks and a potential misuse. The clue and the power is in continuous education.

- Which the cases are when they can ask to exercise their right of restriction of processing, or even erasure of personal data.

Individuals do have the obligation to update their personal data as soon as some of it is changed, but that almost never happens. This leads us to ask ourselves:

- Are the company interests protected enough?;
- Whether, with the adoption of the regulative, the citizens will be obliged to correct their personal data in the companies where they still have some obligations?;
- Will there be some way to control if the citizens are fulfilling their obligations, as there will be a way to control if the companies are fulfilling theirs?;
- After all, are we ready to adopt the General Data Protection Regulation yet?

The regulation should not stop the companies from offering their services and should educate the citizens instead of just asking to exercise their rights, and expecting the companies to fulfill their obligations, they also have to fulfill theirs.

Undoubtedly, this topic will remain extremely important in the future and will affect the life of the individuals as well as the business processes. However, we must not forget the reason of need to improve the existing Data protection law is exactly the need of the citizens to use the services of the companies which appear to be controllers of their personal data. For sure, that is some kind of a “circulus vitiosus”.

Personal data is the individual`s identity. As companies have to protect it, individuals as well are obliged to be aware of the risks and a potential misuse. The clue and the power is in continuous education.

AKIL NDRENIKA
Chief Information Security Officer
PayLink

Security of using online cards

Beginning in fall of 2019, the new version 2.0 EMV 3-D Secure standard for secure online shopping applicable to all card not present (CNP) transactions performed online, shall take effect. For the European market, this new development shall help merchants to be compliant with the PSD2 SCA (strong customer authentication) according to the EU. International card brands have developed a new version of the EMV® 3-D Secure Protocol for secure online shopping, which you may have encountered before in its version 1.0 and may recognize as MasterCard Secure Code or Verified by Visa.

The new version has taken into account the current and future market needs and demands. Key stakeholders in the card industry recognized the significance of having a new version of the standard that would support app-based authentication (app-based auth) and integration with digital wallets, as well as traditional browser-based e-commerce transactions. This led to the development of version 2.0 of the 3-D Secure standard. The new specification considers new contemporary payment channels, and significantly improves performance, user experience, and delivers industry leading security in the card industry.

> Consumers are rightly concerned when no secure and easy purchase solution is offered for any online transaction. We are at a point where we have enough technology and knowledge to rule out any concerns regarding secure online shopping with the EMV 3D-Secure 2.0 standard.

EMV® 3-D Secure (3DS) is a messaging protocol that promotes consumer authentication and enables consumers to authenticate themselves with their card issuer when making card-not-present (CNP) e-commerce purchases. The additional security layer helps prevent unauthorized CNP transactions and helps protect the merchant from exposure to CNP fraud.

In fact, the customer experience with version 1.0 included steps that did not make secure online purchases easy. Many customers were discouraged and, in many cases, gave up on the purchase halfway through.

The final step in online shopping is when we click or tap, and the transaction is processed. No one wants to be declined, let alone be declined due to absence of security elements that should be implemented to protect the customer. This decline is as negative as fraud losses, because when this decline occurs, not only does the customer give up on the purchase halfway through the experience, but also creates the wrong perception about the card leading to reluctance to make online purchases in the future. False declines or erroneous declines account for hundreds of millions of Euro in lost revenue, mostly in the EU.

POS card-present purchases in stores, boutiques, hotels, etc. have become safer over time, while online fraud is on the rise. The reason is simply customer identity verification, which remains a challenge for both the online consumer and merchant. It is estimated that about 50% of online transactions have a high risk of identity theft or malicious use of credentials.

Consumers are rightly concerned when no secure and easy purchase solution is offered for any online transaction. We are at a point where we have enough technology and knowledge to rule out any concerns regarding secure online shopping with the EMV 3D-Secure 2.0 standard.

Perhaps as a term it sounds overly complicated in explaining a very simple thing, but this is a new standard in the card industry to secure the consumer's identity in digital payment transactions online.

With the implementation of version 2.0 EMV 3D-Secure, international card brands have created their own programs. This is a program that enables merchant and banks an easy way to update and enhance their security to properly assess potential risks and to ensure that transactions are approved safely and without undue difficulty to the customer.

By using these programs, artificial intelligence and machine-learning, the EMV 3D-Secure version 2.0 standard takes into account about 150 transaction variables and parameters to help the card issuer - issuing bank to make a more accurate, complete decision with more data available, to approve, or decline, an online transaction. Version 2.0 provides for more complete, accurate and quality decision-making for the card issuing bank.

These parameters, or variables, include various factors such as customer specific handling of a smartphone, since each of us has a certain pattern of han-

3DS

EMV® 3-D Secure (3DS) is a messaging protocol that promotes consumer authentication and enables consumers to authenticate themselves with their card issuer when making card-not-present (CNP) e-commerce purchases.

dling smartphones in how we use, rotate, hold, etc. the phone, track record of online purchases, shopping timetables, and even the screen lighting that the consumer uses on the cell or computer during online purchases, along with other information from the merchant and the card issuing bank, and this the data that is used to authenticate an online transaction. In cases where additional authentication is needed, biometric identification or one-time passwords can be provided (One Time Password) to protect the consumer. So, version 2.0 provides a simpler way to establish online that the person performing the action is the owner of the card (you are you).

All this happens in a fraction of time for the customer. Implementing such practical security solutions without causing any concern to the customer is critical to maintaining a three-party fiduciary relationship between the bank, the merchant, and the consumer. In the age of digital economy and information society, this 2.0 standard enables the same, simple, and practical user experience whether using a computer, tablet, cellphone, or any other means for online purchases.

Banks and online merchants have a greater confidence in online purchases when customer identity is authenticated, leading to an increase in approved transactions, and fewer false declines.

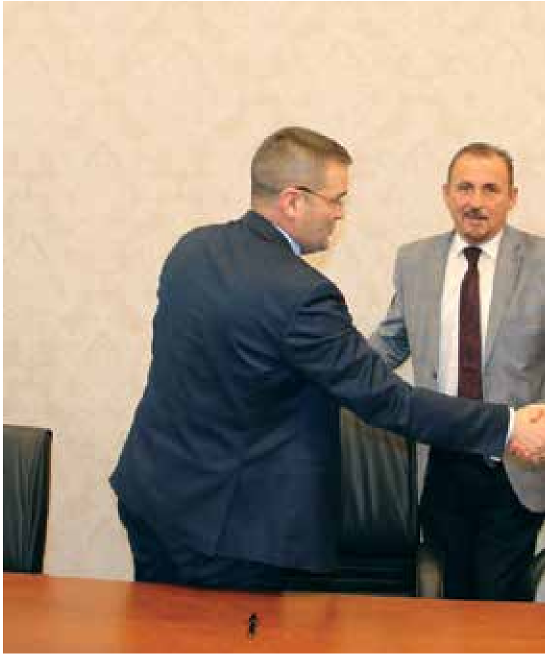
Version 2.0 enables enhanced merchant-bank confidence and customer satisfaction.

THE KEY FEATURES OF THE 2.0 VERSION ARE AS FOLLOWS:

- Enables app-based purchases on cellphones and other mobile devices
- Improves customer experience in secure online CNP purchases by allowing intelligent decision-making based on risk assessment, thus enabling secure and simple authentication.
- Provides high level of security for online payments.
- Enables various solutions for multiple authentication including one-time FNP passwords, or even biometric authentication.
- Enhances functionality for merchants who can integrate the authentication process during checkout, both for app-based and browser-based purchases.
- Provides performance enhancements from start to finish of secure online shopping.
- Adds a new message category to enable cardholder verification during card transactions, however free of charge, such as adding the card to a digital wallet.
- Enables account verification initiated by an online merchant.
- Version 2.0 is open to all participants and the public.

Note: This article is based on materials and information sources from EMV Co, MasterCard, and Visa websites.

The Memorandum of Co-operation for increasing security in the banking sector has been signed



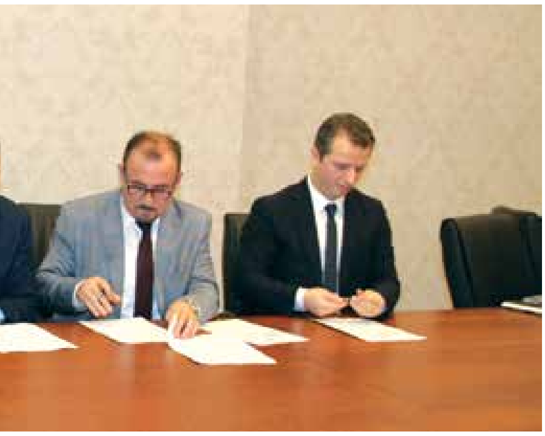
The CEO of Kosovo Banking Association Mr.Petrit Balija has signed a cooperation agreement with the Minister of Internal Affairs, Ekrem Mustafa, Kosovo Police Director Rashit Qalaj and the Governor of the Central Bank of Kosovo Mr. Fehmi Mehmeti.

This agreement was signed as a result of previous meetings held with representatives of these institutions, which discussed the concerns about the frequent robberies of financial institutions in Kosovo.The agreement aims at enhancing cooperation in raising the level of security in the banking sector so that banks, their staff and citizens have a safer environment for the development of their activity.On this occasion, Governor Mehmeti thanked the institutions involved in achieving this agreement on cooperation and the measures taken to provide a safer environment for financial institutions operating in Kosovo.

Kosovo Banking Association presents a Certificate of Appreciation to EFSE and EFSE DF, advised by Finance in Motion

The Kosovo Banking Association has awarded a recognition certificate to the European Fund for Southeast Europe (EFSE) and the EFSE Development Facility (EFSE DF), advised by Finance in Motion GmbH, for the distinguished support given to “The Kosovo Banker” publication for six consecutive years from 2013 to 2018.

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



How to manage Operational Risk in Banks

The Kosovo Banking Association, in cooperation with the House of Training/ATTF and supported by the Luxembourg Government, organized a three (3) day training on 'Operational Risks and Controls Frameworks', led by Mr. David Richards, who with his 24-years' experience in financial services, brought to attendees new approaches to advanced concepts and techniques for managing operational risk and the implementation of a permanent audit framework as part of internal control and internal audit principles.

Through this training, participants had the opportunity to analyze the causes of operational risk, discuss scenarios and different components, organizational aspects and key operational risk concepts including the control framework and the management of these risks. Through group discussions, participants exchanged their experiences by combining theory with practice.

from 2013 to 2018, helping to establish the publication and disseminate it to the general public free of charge. Their kind support has contributed greatly to increasing financial literacy for the general public of the Republic of Kosovo.

During this period of support, 12 numbers with approximately 10 thousand hard copy for each number were published with various themes and topics, ranging from high-level financial discussion to the very basic concepts in finance and banking.

The CEO of the Kosovo Banking Association, Mr. Petrit Balija, stated: "The EFSE DF has been a great partner over the years, not only supporting this project but cooperating with us in many different activities that have contributed to financial literacy and increased access to finance."

The magazine is one of the major publications of the Banking Association and has gained readership and partners over the years, including the commercial banks that support its publication. The representative of Finance in Motion in Kosovo, Ms. Venera Hoxha, stated: "For the EFSE DF, it is a great honor to accept this recognition from the Kosovo Banking Association. It has been a pleasure to cooperate and support the publication of the Kosovo Banker over the years, contributing to increased financial literacy levels amongst the financial sector players and the public in general.

We intend to continue our fruitful cooperation through future projects and activities."The Kosovo Banker magazine will continue to be one of the main channels of information from the banking sector to the general public in the Republic of Kosovo.

The banking sector supports the development of the Kosovo Credit Guarantee Fund

The CEO of the Kosovo Banking Association, Mr. Petrit Balija has participated in the conference of the Kosovo Credit Guarantee Fund, on the occasion of the third anniversary of the official launch of the KCGF institution as well as on the signing of the agreement Guarantee Agreement between the European Investment Fund for the European Union SME Program - COSME. Mr. Balija said that commercial banks have been supporting the creation and development of the Fund which has positively impacted on increasing access to finance for SMEs. The banking sector will continue to be the fundraiser of the Fund to achieve new successes in the future as well. On this occasion, in the name of the banking sector, Mr. Balija has congratulated the Board and the Fund Management and other institutions that have supported the establishment, development and supervision of the Fund.

KBA ORGANIZED TRAINING ON THE LAW-MAKING PROCESS IN KOSOVO

The Kosovo Banking Association organized training on the Law-Making Process in Kosovo. The purpose of this training was to present the legal and institutional framework in the process of drafting and coordinating policy and law making in Kosovo. The participants were informed about the stages of the process of drafting the laws and the role of institutions and officials in this process.

The banking sector of Kosovo held its high level meeting

The Central Bank of Kosovo and the Kosovo Banking Association have held their high level, semi-annual meeting. The meeting focused on the most important issues of the banking sector with emphasis on issues related to increasing access to credit for small and medium-sized businesses and to increase access to bank accounts for individuals. The meeting also discussed common objectives to ensure stability of the banking sector, including banking legislation and the general terms of banking service provision in Kosovo. The joint conclusion was reached that the consultation dialogue between all participants in the financial sector is of importance to ensure financial stability, protection of financial customers and to continue to increase our contribution for a greater economic development in Kosovo.

The training "International Financial Reporting Standards (IFRS)"was held

Today was successfully completed the training on "International Financial Reporting Standards (IFRS)" organized by the Kosovo Banking Association in partnership with the ATTF House of Training from Luxembourg and supported by the Government of Luxembourg. The training was taught by an experienced international consultant, Robert Hall, while the participants in the training were from commercial banks, Central Bank of Kosovo, microfinance institutions and other financial institutions. This training focused on the standard of IFRS 9, which is expected to be very soon applicable in Kosovo. The Kosovo Banking Association continues to be a promoter of human capacity building in Kosovo's financial sector.

KBA organized a workshop on the Law on Banks

The Kosovo Banking Association, in close cooperation with its members from the banking sector, organized a one-day workshop to discuss the preliminary comments on the Law on Banks. The workshop was attended by professionals from the banking sector to discuss the proposals for the amendment of the current law No.04/L-093 on Banks, Microfinance Institutions and Non-banking financial institutions which is expected to become a separate Law on Banks while the Microfinance and Non-banking financial institutions will have a different law governing them. The aim of this workshop was to prepare a KBA position paper on improving the law on Banks, to strengthen the stability of the banking sector, reduce the barriers for the operation of banks and increase access to finance for the citizens and businesses in Kosovo. The workshop was held in continuation of the ongoing discussions with regulators, ministries and lawmakers that is expected to become more dynamic in the upcoming months.

Appreciation for the special contribution of the Board Member Alper Karakoç

Chief Executive of the Kosovo Banking Association (KBA), Mr. Petrit Balija held today a meeting with Iş-Bank Branch Director in Kosovo, who was also member of the Board of Directors of KBA, Mr. Alper Karakoç, who completes his mandate in Kosovo, on which occasion, on behalf of the Board of Directors of the Kosovo Banking Association, he is awarded gratitude for his special contribution as a member of the Board of Directors of the Kosovo Banking Association.

Mr.Balija thanked Mr. Karakoç for his commitment and contribution over the years to develop a new bank in Kosovo such as IS Bank and said that his commitment to the Banking Association has made a significant contribution to the advancement of the banking sector's position and economic development in Kosovo.

How to fight back against fraud in the banking industry

The Kosovo Banking Association, in cooperation with the Albanian Institute of Internal Auditors (AIIA), successfully completed the two-day training on "Managing the Threat from Fraud", led by Mr. Bob Pointer, whose over 30-years' experience as an investigator, interviewer, consultant, and lecturer brought to the attendees new techniques of adopting a system which helps to prevent, detect, determine the quantity and respond to fraud threats.

Through this training, participants had the opportunity to create a clear picture of the current financial crime in the banking industry, through interactive work and group discussions, exploring opportunities to prevent fraud risk. During this training, it was emphasized that there are many models used to profile an internal impostor while pointing out that everyone can cause damage to an organization with or without intent. Mr. Bob Pointer international experience, who was involved in several cases of fraud investigation with the city of London Police, the UK's main force, enabled the participants of this training to acquire valuable skills in mitigating the risk of both external and internal resources.

The Kosovo Banking Association elects its new Board of Directors

Kosovo Banking Association selects schools that will benefit from Global Money Week Program -2019

The Kosovo Banking Association within its educational and financial activities will organize the program of the Global Money Week 2019 on the topic Learn.Save. Earn where from March 25, will distribute packages with educational materials for children. On date March 25, the Kosovo Banking Association will distribute packages of educational materials for children in eight (8) Kosovo municipalities including Pristina, Ferizaj, Gjakova, Mitrovica, Peja, Istog, Podujeva and Vushtrri. In these eight (8) municipalities, the primary schools were selected, where they will be taught in 16 classrooms for fourth and fifth grade students, with a participation of 1440 students. The Chief Executive of Kosovo Banking Association, Petrit Balija said that

"With these activities, the Kosovo Banking Association intends to engage children and young people to learn more about finances, including savings, money management, personal finance management, and so on. These activities are supported and funded by commercial banks in Kosovo, which aim to strengthen society through financial education. "During this week, children will have different activities, such as filling out the savings book, workbook and money-saving tips.

Raiffeisen BANK

During April, Chopin Piano Fest Prishtina 2019 was held

Chopin Piano Fest Prishtina 2019 is supported by Raiffeisen Bank for the tenth year in a row. Due to the success and great appreciation of the audience in Kosovo, the festival has become a traditional festival. The festival promotes piano music and piano performance, but also serves as an excellent platform for exchange between Kosovo and international musicians. The 10th edition of Chopin Piano Fest Prishtina 2019 brought together local and international pianists who performed not only the works of Chopin, but also of other well-known, classical and contemporary composers.

Raiffeisen Bank supports ATOM

Raiffeisen Bank supports the ATOMI project for the eighth consecutive year. The ATOMI Institute aims to identify and support people with extraordinary, gifted, and talented intelligence in Kosovo. Namely, ATOMI goal is to identify early students with extraordinary intelligence, flair and talent, as well as providing opportunities, conditions, treatment, care and special education for these students, based on their intellectual potentials, gift, talent, personality, ambitions, interests, motivation and conditions and their real socio-economic circumstances. All this is done so that these students can develop and maximize their potential and thus contribute in the first place to their personal development and at the same time to the overall interest of the country and society.

NLB Bank gave donations to improve housing conditions at the Special Institute in Shtime

With the growth of NLB Bank results, the Bank's social responsibility for the community in which it operates is growing. Overall progress in the Bank's business is a push and additional motive for supporting humanitarian projects for a better life. NLB Bank viewed the difficult conditions of residents of the Special Institute in Shtime and the need for renovation and inventory at this Institute has donated in order to improve the living conditions. With this donation was purchased inventory for 67 residents residing in this Institute and has been refurbished in many parts of it.

At the inauguration ceremony of the renovation of the Special Institute in Shtime, present were official from NLB Bank, Mr. Vesel Makolli, Minister of Labor and Social Welfare, Rrahman Jakupi, Deputy Mayor of Shtime, Xhemajl Dugolli, Director of the Special Institute in Shtime, as well as representatives from the Ministry of Labor and Social Welfare, Turkish KFOR, the Directorates of Shtime Municipality

NLB Banka

and the media. Up to now, NLB Bank has financially supported the donation of the Pediatric Hospital, the elderly home, helped children in need and participated in many other humanitarian projects.

The contribution of NLB Bank will continue in the future in support of important economic, humanitarian, social and cultural activities and projects, which contribute directly to the development, facilitation and improving the life of Kosovo's citizens.

Banka Ekonomike for the second consecutive year in the framework of social responsibility has supported the Global Walking Mentoring with the motto 'Balance for the Good'

Banka Ekonomike for the second consecutive year in the framework of social responsibility has supported the Global Walking Mentoring with the motto 'Balance for the Good' by joining the global Vital Voices initiative which this year is organized in 62 countries of the world for the purpose of empowering women. This is happening every year around the world for the celebration of the International Women's Day, where thousands of women and men, girls and boys from all over the world gather in their communities to take part in the walk. This donation is part of the continued commitment of the Economic Bank to raise the awareness and social responsibility of our society.

Banka Ekonomike

BPB, for the fourth consecutive year, supports the 'Mother and Child Action' association and the 'Let's Dance'

BPB for the fourth consecutive year, supports the 'Mother and Child Action' association and the 'Let's Dance' event organized for the purpose of fundraising in support of mothers and children in Kosovo. This time the bank is the main supporter of this event.

It is a privilege that we can help an activity with such a noble purpose.

Mothers and children are the pillar of each society, so we at BPB are trying to do as

much as we can to support such activities said Mr. Arton Celina, Chief Executive at BPB. The organized activity has a fun and humanitarian character, and it collects around individuals and institutions of goodwill with the aim of gathering funds for projects and activities that help the educational, research and advocacy programs of the 'Mother and Child Action' organization.

BPB will continue to support social responsibility activities, thereby supporting the community in which it operates.

MCYS signed a memorandum of cooperation with Banka Kombëtare Tregtare

Minister of Culture, Youth and Sports, Kujtim Gashi, hosted the Chief Executive of Banka Kombëtare Tregtare, Suat Bakkal.

During this meeting a memorandum of cooperation was signed between MCYS and Banka Kombëtare Tregtare. The purpose of this Memorandum is to increase the possibility of cooperation and coordination of youth activities, where a training will be conducted in 19 municipalities of Kosovo during this year and in 19 municipalities the following year, regarding financial education, is announced through a press release. Gashi said that "this agreement that was signed today aims to train young people, which will enable

them to develop their knowledge in the field of finance and after completing this training they will be more prepared for the labor market. "Further, he said that the demand for holding this training came from the youth themselves, according to an analysis that has been done all over Kosovo. "It has been concluded that our youth need to hold training on financial education. We will not stop there, and in the future, we will do many other trainings, given that the priority and goal of the Ministry is for young people in Kosovo to advance and train for life challenges, "said Gashi. Meanwhile, the Chief Executive of Banka Kombëtare Tregtare, Suat Bakkal, thanked Minister Gashi for the support and readiness indicated and said that the Bank has provided four coaches that will be maximally engaged, so young people benefit as much as possible while participating in this training.

Banka Kombëtare Tregtare, part of "Be a Friend of the Earth" campaign organized by the Municipality of Pristina in occasion of the "International Earth Day"

Banka Kombëtare Tregtare has supported the activity of the Municipality of Prishtina in occasion of the "International Earth Day" with the motto "Be a Friend of Earth" on April 22, 2019. About thirty employees of the National Commercial Bank have given their voluntary contributions by planting dozens of seedlings near the \"Dardania\" primary school in Pristina.

Banka Kombëtare Tregtare is dedicated to continuously support such activities organized by the Municipalities of Kosovo, and to contribute to various forms in the environment in which it operates.

ProCredit Bank for 19 years as a general sponsor of the Half International Marathon

Again, this year, for the 19th year in a row, ProCredit Bank supported the Half International Marathon - Pristina 2019, which brought contestants from all over the world. ProCredit is a traditional supporter of this important sporting event in the country, which contributes to the image of Kosovo's sport and awarded the prize for one of the marathon categories.

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

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- International Financial Reporting Standards – IFRS
- Internal Control and Audit
- Asset and Liability Management
- Digital Banking
- Cyber Security and Information Management
- Credit Assessment
- Selling of Financial Services
- Trade Finance
- Personal Data Protection
- Human Resources Management
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