

The perspective of Supervisory Authorities in Albanian financial system: Markets standardization according to the EU directives

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Abstract

The financial system in Albania is composed of two financial authorities and institutions, which in their missions have the monetary policies, issue of money, consumer protection, economic and financial stability, etc. The Albanian financial system is composed of two main entities such as the Bank of Albania and the Albanian Financial Supervision Authority. Both of these authorities have a fundamental role in the economy of the country, as they are not only the supervisors and regulators of the markets, such as the second level banks which are supervised by the Bank of Albania, as well as of the non-banking markets, such as the insurance markets, the securities markets as well as the markets of voluntary private pension funds, which are supervised by the Financial Supervision Authority. They are fundamental for the economy of the country since without the presence of these entities, the markets would be without a compass and full of complications that could distort free trade and encourage abuses and speculations against individuals, in security of banks activities and private firms. However, these regulators of these banking and financial markets, certainly in their functions of supervision and drafting of legislations, by-laws and regulations of the operation of these markets always refer to the Directives of the EU organizations. This paper will bring the perspectives and cooperation between each other, the functioning of these institutions, as well as the harmonization and implementation of different directives according to the markets, which regulate and turn the directives into legal and by-laws in our country.

Keywords: bank of Albania, Albania financial supervisory authority, strategies, EU directives.

Introduction

For years, the supervisory and regulatory institutions, respectively the Bank of Albania and the Albania Financial Supervision Authority, have been and are the two domes of our financial system, which have under their jurisdiction the second level banking markets and the insurance, securities and funds markets of voluntary private pensions. The main objectives of the two institutions such as the Bank of Albania (BSH), which focuses mainly on the stability of the financial system, also to have public trust in the institutions, markets and financial infrastructure through the regulation, licensing and supervision of banks and other financial institutions. They also regularly identify and analyze market risks and threats to financial stability, and the Financial Supervision Authority (AMF) has as its objective the regulation of the activity of supervised entities, the provision of state supervision over the securities market, the insurance market, voluntary pension schemes and other financial activities that are supervised by it. The role of these authorities is always very important since they are precisely those institutions that continuously focus not only on the supervision of the markets they cover, but they continuously draft rules for each market in our financial system, as well as coherently with market demands, they issue legal and by-law acts, which make it possible to orient the markets. Through these legal and sub-legal acts or the regulations of these markets that they have under their jurisdiction, they are issued and come from the directives of the European organizations for each market. European organizations aim at the unification and standardization of markets as well as their stability. In the focus of the two main entities, the aim is definitely to protect consumers, individuals and companies and business firms. The research questions on which this work will be based are related to: What will be the main challenges and perspectives of these regulatory entities in the future? Second, how quickly do these institutions respond to the demands of the markets they supervise through the drafting of legal and by-laws? Do they have a unified approach in their medium and long-term strategies so that our local markets have no barriers and are more dynamic? How quickly are these directives of the EU organizations for each market, absorbed and harmonized by regulating legal and sub-legal acts? This study will try to answer all these questions as effectively and rationally as possible in order to finally have the clearest conclusions on the dynamics of the markets in Albania.

Literature Review

Different authors such as (DEWATRIPONT & TIROLE, 2012) have analyzed how banking regulation starts from a model according to the optimal capital structure of firms. This model shows how the relationship of managers is endangered by the holders of the capital holders with those of the debt holders where they are the worst in relation to their clients as far as the exercise of control is concerned. As far as the banks are concerned, all debt holders (depositors) in most cases are not able to exercise control, so it is called the "hypothesis of representation". Another argument

is addressed for "equity provision", a term suggested by (Kashyap, 2008). Also, we can say (Dewatripont & Tirole, 1994) suggest another form of automatic stabilizers, namely procyclical deposit insurance premiums. There may be a small effect of policy rate and uncertainty on the probability of a financial crisis due to tighter policies (Svensson & Wagner, , 2015) only since monetary policy may have a limited power to influence supply of credit (Romer, 1990) and these lower policy rates may actually reduce asset price bubbles, rather than creating them. Macro policies are emerging and are necessary for financial stability. These can provide the use of new financial levers that can increase the dangerous credit boom and excessive risk taking by finance. By reviewing the literature on the integration of regulatory capital and liquidity intermediaries' instruments (Paries, 2015); (Freixas & Xavier, 2015). These robust policies available to the authorities at all times include targeted increases in capital requirements, as well as counter-cyclical capital requirements, as well as liquidity and capital reserve requirements, as well as all requirements and measures affecting loan eligibility. A loan ceiling and ratio to value for mortgages.

Bank portfolios are complicated and often difficult to value, so transparency would reduce asymmetric market information by promoting effective market discipline (Atif, 2012), (Petrella & Resti, 2013). Increased risk awareness by all parties (eg banks, supervisors and potential market investors) has also been argued to reduce risk exposure (Bischof & Daske, 2012). Always a higher transparency of them makes it possible for supervisors to carry out deeper analysis from the outside, thus increasing their accountability (Tarullo, 2014). Financial stability refers to the situation in which transactions in the financial market can be affected by prices set normally according to demand and supply, as well as financial instability when large fluctuations in the prices of financial assets are recorded. Similarly, the author Mishkin argues that financial stability always exists when we have a diversification of savings that meets the possibility of investment (Mishkin, 1992). (Akram, 2006) has argued how the role of central banks maintains financial stability, which definitely requires a deeper analysis of possible threats to stability, as well as forecasts in risk management. Also, the role of central banks is in financial stability, which is their main focus.

Meanwhile, Martin Čihák argues that there are always reasons why central banks should definitely pay attention to stability and sustainability in the financial sector, (Čihák, 2006). He also argues that the development of the Financial Stability Report by the central banks of each country plays a role in ensuring financial stability and increases awareness of the risks to financial intermediaries in the economic environment; also alert financial institutions and all market actors for a possible collective impact that may be affected by their individual actions; which is a kind of way to establish a financial stability and an improvement of the financial infrastructure and this makes possible the role of the central banks to protect the financial system.

Challenges and Perspectives of Regulatory Authorities

The Bank of Albania

The Bank of Albania is the largest supervisory financial institution in our banking system and its main objective is to achieve and maintain price stability. The Bank of Albania is autonomous and independent and does not depend on any other institution in our country to achieve its main objective.

The Bank of Albania is a bank that has all state capital and reports only to the Assembly of the Republic of Albania. In its structure, there is a Supervisory Council, which is led by the Governor of the Bank, who also acts as its General Executive Director.

The Bank of Albania, through its main objective of achieving and maintaining price stability, helps and influences the sustainable and long-term growth of the country's economy, as well as helps the stability and development of the financial system. Of course, this objective is realized through the implementation of monetary policy in an independent manner.

Since the Bank of Albania is the institution that issues the national currency, it contributes to the normal functioning of the payment system with the aim of: ensuring a safe, fast circulation of it, at a low cost, with the aim of reducing risks and to maintain the stability of financial institutions and markets.

The Bank of Albania is a regulator that regulates the banking market, licenses and supervises banks and other financial institutions in order to eliminate risks and create confidence in citizens against threats to financial stability.

What are the functions of the Bank of Albania?

Being the supervisory monetary authority in the country, the Bank of Albania has several functions to achieve its objectives:

- **Financial stability.** The Bank of Albania must guarantee that the banking and financial system as a whole has stability and performs efficiently.
- **Monetary policy.** In order to achieve its objectives, the Bank of Albania drafts, approves and implements the country's monetary policy.
- **Supervision.** The Bank of Albania is the entity that licenses or may revoke the license for second level banks,
- **Issuance of money.** The Bank of Albania has the exclusive right to issue banknotes and the national currency and supplies the country's economy.
- **Currency exchange.** The Bank of Albania is the entity that designs, approves and implements the foreign exchange regime, as well as the policy maker of the exchange rate in our country.

- **Foreign exchange reserves.** The Bank of Albania reserves and manages foreign exchange reserves in the Republic of Albania.
- **Fiscal agent and government advisor.** The Bank of Albania is an agent entity that acts in the capacity of a banker, is a fiscal agent advisor for the Government of the Republic of Albania.
- **Payment systems.** The Bank of Albania has a main task of promoting and guaranteeing the normal functioning of the national payment system.

Albanian Financial Supervisory Authority

The financial supervision authority is the second largest regulator in the financial system in our country. Under his jurisdiction are 3 markets that are supervised and regulated by him, as below;

1. Insurance market
2. Securities market
3. The market of voluntary private pension funds.

So, to fulfill its main objectives, which are as follows;

1. To regulate the activity of supervised entities,
2. To ensure the supervision of the securities market, the insurance market, as well as the voluntary pension market and other supervised financial activities, which are regulated and operate in accordance with the laws in force,

AMF exercises its first two functions:

- Regulatory Function;
- Supervisory function.

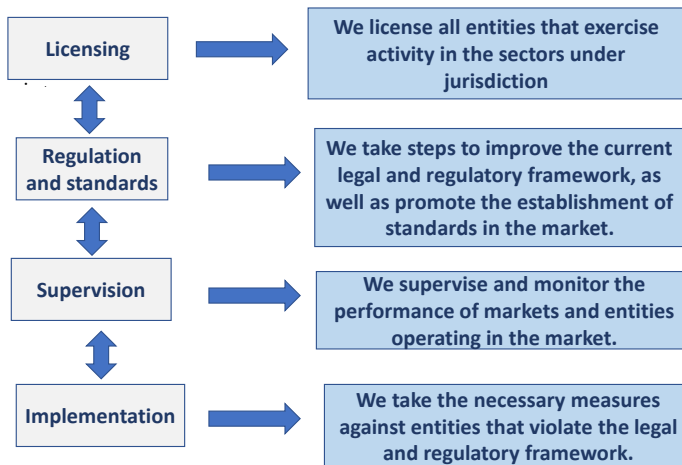
The activity of the Financial Supervision Authority regulates the improvement of the legal and regulatory framework, in the manner and function of creating a stable market and protecting the safety of consumers.

The activity of the Financial Supervision Authority is implemented through offside and on-site controls of the activities included in the visible license. The purpose of this activity is to protect the interests of investors and their security.

There are 4 main aspects of the AMF in exercising the functions and powers given by the law.

The aspects regulate the relationship of the regulatory body with the markets and their subjects:

Figure 1: The four aspects of the Financial Supervision Authority



Source: Albanian Financial Supervisory Authority

Cooperation with International Organizations

The rapid pace of development of the financial markets, as well as the unification of regulatory and supervisory standards, as well as the commitment of the regulators of other countries for their implementation, make cooperation with the counterpart institutions necessary. The goal is the exchange of experiences, as well as the involvement in international organizations and this is a primary task to bring a foreign expertise. At any time, international cooperation becomes necessary due to the need to harmonize the EU Directives and the implementation of the Stabilization-Association Agreement.

Membership of the International Association of Insurance Regulators (IAIS)

The Financial Supervision Authority of Albania (AFSA) is part of IAIS since 2001. IAIS was founded in 1994 and a representative from AFSA is a member of the executive committee. IAIS has 100 observers worldwide and represents the interests of regulators in about 130 countries around the world, or 97% of global premiums.

Membership in the International Organization of Securities Commissions (IOSCO)

IAIS has been a member of IOSCO since 1998. It is currently included in the European Regional Committee and a member of the Developing Markets Committee.

Membership of the International Organization of Pension Regulators (IOPS)

IOPS is an international organization that represents the interests of regulators in the field of private pensions. Since December 2006, AFSA is a member of IOPS.

Table 2: Cooperation of International Organizations

Memberships in International Organizations of Regulators	Year	Institution
IOSCO (International Organization of Securities Commissions)	1998	KLV (today ASFA)
IAIS (International Association of Insurance Regulators)	2001	AMS (today ASFA)
IOPS (International Organization of Pension Regulators)	2006	ASFA

Source: Albanian Financial Supervisory Authority

Alignment of legislation with European Directives

The supervisory and regulatory institutions of our country, in terms of harmonization with European Directives, has made progress in the approximation of legislation, especially in the field of banks, in the field of investment funds, in the field of private pension funds, in the field of the securities market and in the field of the insurance market. Our authorities will complete the necessary base of by-laws, in implementation of the new laws for second-tier banks, capital markets and financial markets based on distributed ledger technology, always relying on directives and practices European best. As far as the voluntary pension market is concerned, the draft law "On private pension funds" has been drawn up with a high level of alignment with European directives, in particular with Directive 2016/2341/EC "On the activity and supervision of Occupational Pension Institutions" (IORP II). Now it is expected to draw up the regulatory framework based on the law and get approval in the Albanian parliament. As far as the market of investment funds is concerned, AFSA is expected to adopt by-laws which will bring the EU countries closer in this field. Of course, these regulatory acts are for: 1) the procedures, rules and information necessary for the recognition of administrative companies, with a public offer licensed in the EU, which will market for sale in our country; and 2) the regulatory framework for the registration of legal entities that will market and sell SIK quotas with a public offer, which are licensed in EU member states.

In the insurance market, the Solvency II regime will bring fundamental changes in the culture and way of risk management by insurance companies and the preparation of the new project "On the Activity of Insurance and Reinsurance", which will bring the law in force closer to European directives in the field of insurance and basic international principles of insurance.

For Capital Markets and the approval of regulations Which, in the function of regulating and strengthening supervision in the field of capital markets, is a priority for AFSA.

This whole set of draft regulations drawn up with foreign technical assistance has significantly approached the regulations and directives of the European Union,

establishing European standards in the practice of regulation and supervision. The drafting of a legislation is always important not only at the European level within the EU agenda for a united capital market, but also at the national level in function of the creation of new financial instruments and the development of the local capital market. As for financial markets with distributed ledger technology, AFSA should be in the direction of aligning Albanian legislation with the EU acquis, with the latest European regulation for crypto-assets markets "Markets in Crypto-assets (MiCA)"

All the laws and regulations of these markets have obviously been approved by the European Commission, where they aim to improve the competitiveness of the FinTech sector in Europe, making it possible to simultaneously address risks and financial stability issues in the EU economies.

Discussion

Many studies have focused on the topics of challenges or policy making of Regulators in general. For other researchers, how can this study be further expanded? I think about the case of Albania compared to the region, is that our country accedes to the European Union and this will definitely aim for our financial system from a horizontal financial system to have an orientation of a vertical direction through the application of directives. It will make it even more possible to approach and remove barriers to the movement of capital and financial markets as a whole with the EU countries. It will make it possible to have a regulator that will make it easier to monitor the markets, it will be easier to protect the interests of investors, consumers, individuals and businesses. I think it will remove the barriers of market regulation, licensing procedures and the eloquence of actors who will participate in these markets. For the Albanian reality, this is a new study in this field and is more related to the perspective of the future and therefore does not find specific compatibility with other literatures.

Conclusion

EU market organizations were still in a formative phase in terms of financial regulation years ago, as they began to try to build an integrated internal financial system, eliminating and reducing costs by introducing control mechanisms. for reducing risk and protecting financial stability. Among the factors that explained the limited influence that the EU had during that period (after the 2008 crisis), are the differences between Member States' financial markets and regulatory policies. This led to the lack of comprehensive mechanisms to speed up the development of EU financial rules. It was a stronger legislative and regulatory process which would impact other countries that were still outside the EU, such as Albania.

Regulators are known to have 'regular and formalized regulatory rules and programs that allow market participants to test new financial services or business models with their direct customers, while implementing ongoing consumer protections and market oversight that they cover the regulators of Albania present a change which is based on the approach based on principles which have been adopted often in the past.

Another, through this study, we can say that for example innovation causes legal uncertainty and doubts about the application of pre-existing rules for new business models and how it can face these issues that increase engagement with stakeholders, thus always increasing supervisory capacity and subsequently drawing up regulations for innovations or new technological changes in the markets.

Institutions and regulatory entities are always faced with the challenges and dynamics brought by the markets, not only technology how the markets evolve, how through technology the markets begin to find space to create other financial products and necessarily the main role of the regulators is to respond in time and professionalize this dynamic of markets with the drafting and implementation of legal and bylaw acts and their respective regulations.

Of course, the contributions of the Bank of Albania and the AFSA in terms of the approach and alignment of the legal framework with those of the directives of the EU bodies, have also been emphasized in the Progress Reports of the European Commission. The Bank of Albania and the Authority will continue the work for the further harmonization of the internal legislation of financial services, keeping in mind the recommendations of the EC Report. Standardization and advancement of legislation towards European standards creates new opportunities for development and modernization of banking and non-banking financial markets.

The inter-institutional cooperation of the Bank of Albania and the Financial Supervision Authority will always be a guarantee to build a synergy and a stable platform of coordinated activities with the aim of raising the awareness of individuals, citizens, businesses, consumers and the wider scope of financial culture. in place. Also, increasing financial inclusion in banking and non-banking financial markets can be supported through the creation of new products that suit the needs of consumers and potential investors, facilitating access to financial services through digitalization, etc. Both of these entities aim for a wider public access to financial products. The Bank and the Authority will always focus on financial education activities, improving the complaints system for consumers and investors, as well as improving the respective official web pages with ample information dedicated to the public.

I think that this study can help other researchers to expand and further the main issues related to the Financial Authority in our country and what is the approach of the directives or their harmonization with the Albanian laws. Other studies may have space and advance studies on how quickly the effectiveness of the harmonization of directives respond to the demands and dynamism of the markets in their efficiency.

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