



AZƏRBAYCAN RESPUBLİKASININ
MƏRKƏZİ BANKI

PAYMENT SYSTEMS REVIEW FOR JANUARY-DECEMBER 2021

February, 2022

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	2
2. PAYMENT SYSTEM INDICATORS.....	3
2.1. National Payment System indicators	3
2.2. Government Payment Portal indicators.....	6
2.3. Instant Payment System indicators.....	7
3. PAYMENT CARD INDICATORS*.....	8
3.1. Indicators on the use of payment cards	8
3.2. Card infrastructure indicators.....	10
4. DIGITAL BANKING INDICATORS.....	12
5. TARGETS FOR 2022	14

1. EXECUTIVE SUMMARY

Digital transformation in financial and payment systems of the world's leading countries has become a global trend over recent years with the expansion of application of modern technologies.

Changes on a global scale had a positive effect on the development of payment systems in Azerbaijan as well and the range of innovative products offered in the domestic market, and pushed faster rise in digital payment indicators.

'*Digital Payments Strategy of the Central Bank of the Republic of Azerbaijan for 2021-2023*' was elaborated to eliminate the problems hindering development of cashless payments, increase access of the population and businesses to cheap and favorable financial services irrespective the place of residence and the Bank started to implement the implied actions. The best practices-based Strategy, that targets formation of competitive, innovative and accessible payment ecosystem, covers 54 actions on five key directions.

The Central Bank signed cooperation agreements with the Visa and MasterCard international card organizations for the upcoming strategic period in 2021 to simplify cooperation with international card organizations and bring *innovative payment solutions* to the country and a joint activity is on the actions to be implemented in 2021. As part of the related actions, the AniPay payment solution was successfully activated in Azerbaijan at an initiative of the Central Bank and with the support of the banking sector and international card organizations to boost the range of contactless payment solutions and apply innovative technologies. Currently, negotiations are underway with the organization that maintains relevant service to activate the Google Pay solution in the country.

Over the reporting period to elevate access to electronic financial-banking services the Bank continued efforts to expand the coverage of the '*Digital Identification System,*' (DIS) commissioned by the Bank. The DIS platform provides face recognition and the system has been integrated to both local and international markets to ensure the effective Know Your Customer approach. Moreover, the DIS allows e-residents to open distant bank accounts without coming to the country. As of 1 January 2022, 20 banks were integrated to the DIS, legal entities and individuals opened over 1.6 million bank accounts, and users obtained over 280 payment cards through the system.

Business continuity of the Interbank Card Center (IBC), launched to domestically process transactions with payment cards issued in the country between service centers was maintained. In 2021, 92 million card operations were conducted over the IBC, the value of national currency denominated operations was AZN4.7B, and \$19.1M and €5.3M in foreign currency.

Works were done under the Actions Plan on transition of the financial system to ISO20022, as well as data formats under ISO20022 to be introduced in the National Payment System (NPS) were developed and delivered to participants. Introduction of the ISO20022 in the NPS infrastructure will allow creation of single data formats between payment system participants, minimization of risks in payment operations, reduction of resources spent on automation (financial, time, human), and formation of broad reporting functionalities.

Works on Smart Education Card with the Central Bank, the Ministry of Education and banks continued successfully in 2021 as well. As of the end of the reporting period over total

120 thousand teachers and students of higher and secondary special education institutions were provided with these cards. Smart Education Cards includes functionalities for both access for teachers and students to universities, libraries and reading rooms and getting scholarships, making any payments in and outside the country.

Within the frames of the memorandum of cooperation signed among the Central Bank, the Azerbaijan Railways CJSC, the International Bank of Azerbaijan and Visa International the 'Project on payment of fares on suburban railways with contactless bank cards' started in 2020 was commissioned in real time in June 2021. Contactless payment opportunity was created for payment cardholders issued by any bank in the country at all railway stations of the Absheron circular railway. The number of payments made with contactless cards as part of the project was 110 thousand units and the value was AZN94.6 in June-December 2021.

The Bank attached importance to cashless payment *literacy, awareness and promotion*. The Central Bank held many incentive and awareness events with international card organizations and related institutions to promote digital payments and shape cashless payment habits among the population.

Currently, banks and the national operator of postal communication make remittances through 18 *faster money transfer systems*. Out of which eight foreign money transfer systems function in the country within the frames of cooperation agreements signed with banks. Other money transfer systems were established by domestic banks and the Azerpost LLC.

2. PAYMENT SYSTEM INDICATORS

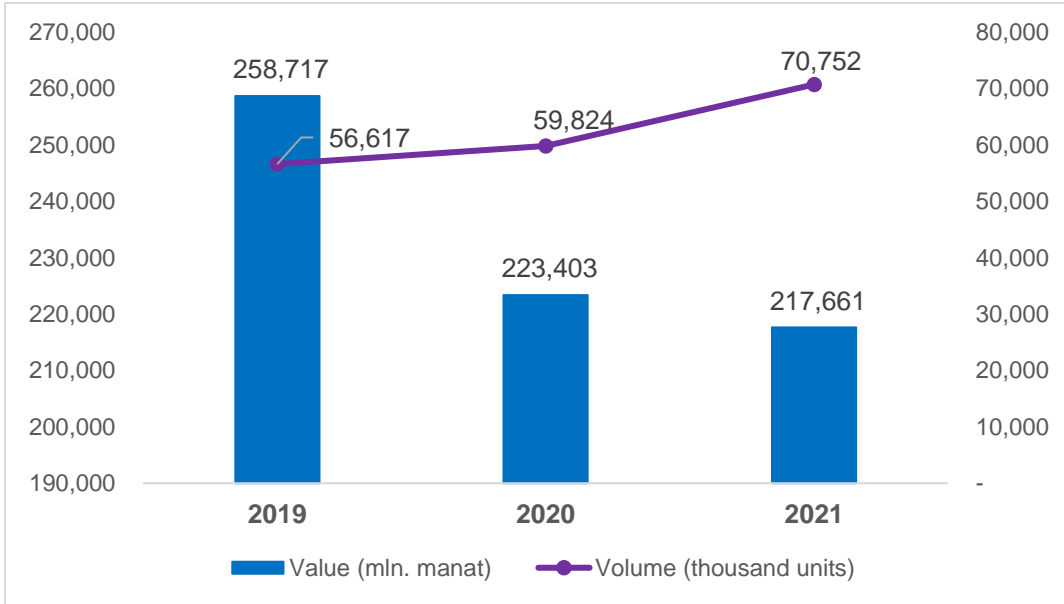
2.1. National Payment System indicators

Total value of payment operations through the National Payment System (NPS) (AZIPS, LVPCSS) made AZN217.7B and the number was 70.8 mln units in 2021.

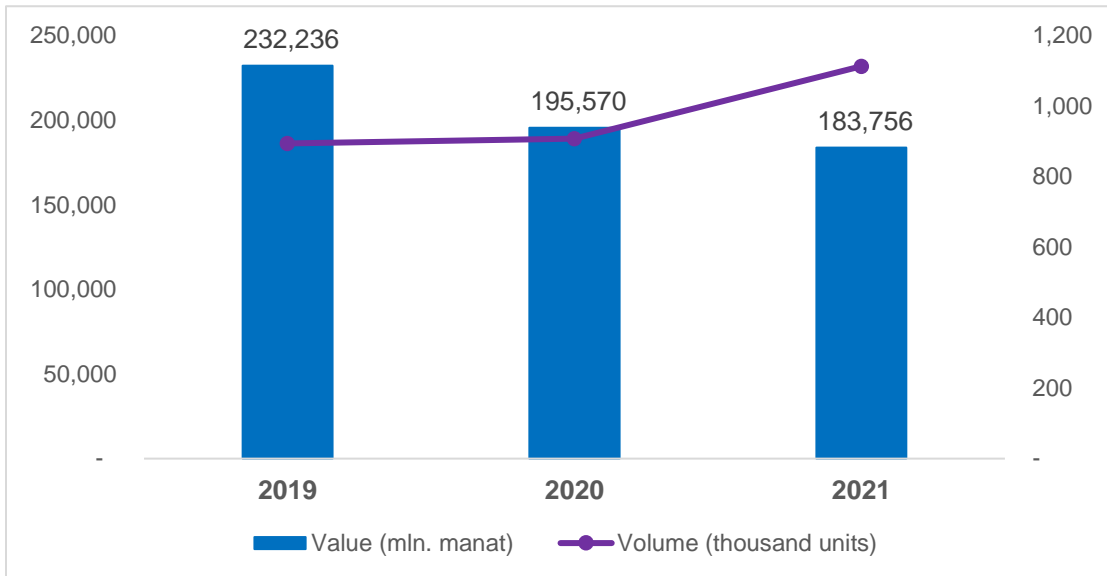
The number of payments through the *Real Time Gross Settlement System* (AZIPS) on large and instant payments was 1.1 thousand units and the value was AZN183.8B, while the number of small and reiterating payments on the *Low Value Payments Clearing and Settlement System* (LVPCSS) was 69.6 mln units and the value was AZN33.9B. If to compare relevant periods, the number of transactions in the AZIPS increased by 22.8%, while the number of transactions in the LVPCSS increased by 18.2%.

The number and value of transfers by commercial banks via the NPS yoy increased by 18.3% and 8.6% respectively.

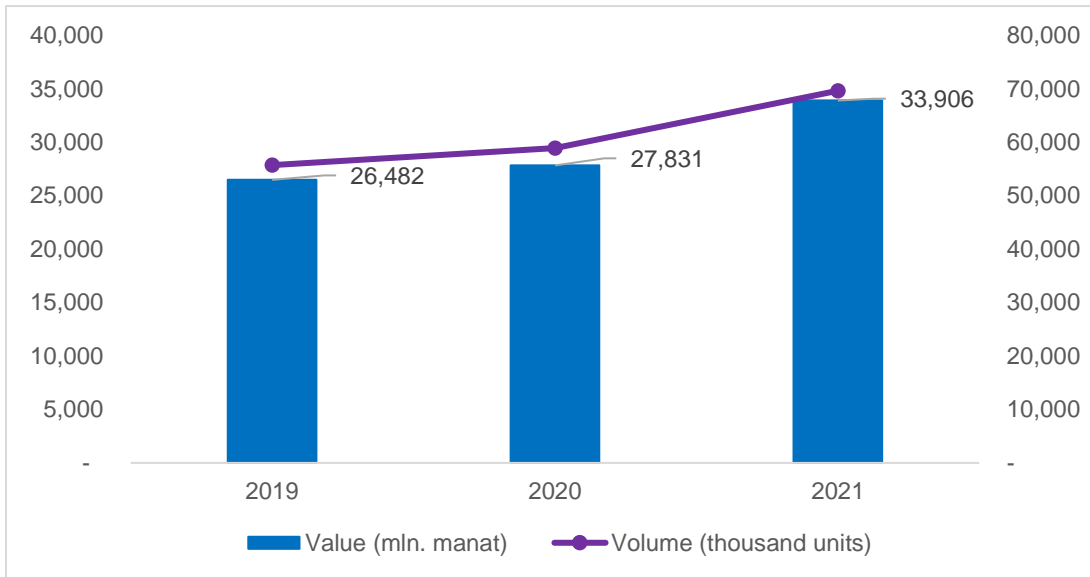
Operations in the National Payment Systems over recent 3 years



Operations in the AZIPS over recent 3 years



Operations in the LVPCSS over recent 3 years



Breakdown of payment operations through the National Payment System on participants

NPS participants	2020	2021	Increase/Decrease (%)
Number of payments (thousand units)			
AZIPS	907	1113	23%
Central Bank	14	12	-16%
Commercial banks	601	782	30%
Other participants ¹	292	319	9%
LVPCSS	58916	69639	18%
Central Bank	52	56	7%
Commercial banks	58554	69222	18%
Other participants ²	311	361	16%
Value of payments (million manat)			
AZIPS	195570	183756	-6%
Central Bank	49864	31213	-37%

¹ Other participants on the AZIPS mean the State Treasury Agency, the National Deposit Center, the Agricredit NBCI.

² Other participants on the LVPCSS mean the Mortgage and Credit Guarantee Fund, the State Treasury Agency, the Agricredit NBCI.

Commercial banks	110138	116417	6%
Other participants	35567	36126	2%
LVPCSS	27833	33906	22%
Central Bank	819	978	19%
Commercial banks	22017	27307	24%
Other participants	4997	5621	12%

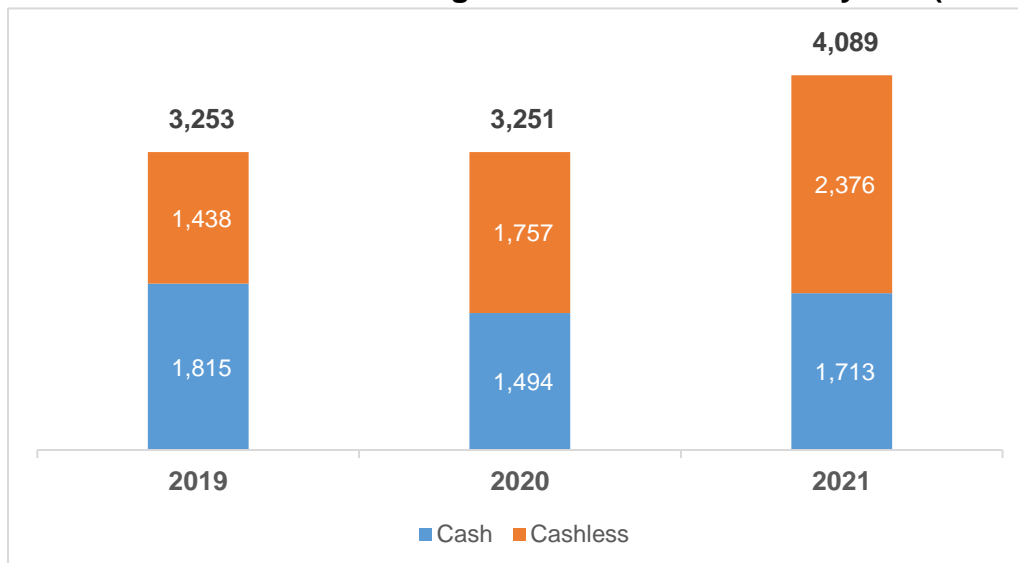
2.2. Government Payment Portal indicators

Efforts to expand the capacity of the Government Payment Portal (GPP) created to collect budget payments and payments on mass services in a centralized manner continued over the reporting period. Currently, 11 central executive power bodies, 4 utility entities, 5 landline and mobile operators, 116 judicial authorities, 19 insurance companies, 1438 municipalities, 109 higher and secondary special education institutions and other institutions of social importance have been integrated to the infrastructure.

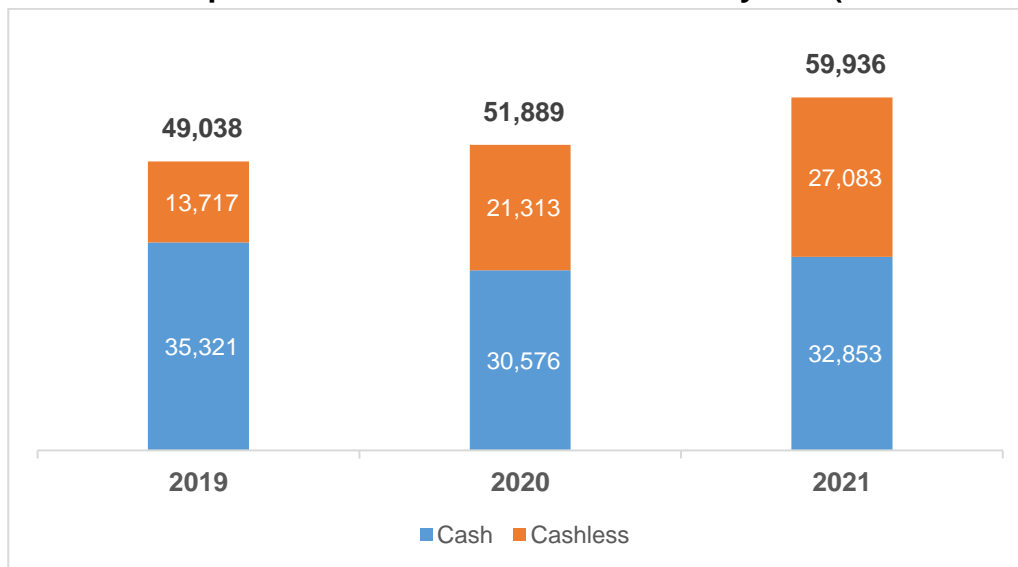
Now the GPP allows collecting payments for over 1100 services on the bodies integrated to the Portal in cash at 26 banks and over 2500 branches and divisions of the Azerpost LLC, and at 4000 payment terminals in a cashless form.

In 2021 total AZN4,1 B (58% cashless) worth payment transactions were handled in the GPP. Total value of operations yoy increased by 25.8% and the value of cashless operations increased by 35.2%.

The value of transactions through the GPP over recent 3 years (million manat)



The number of operations in the GPP over recent 3 years (thousand units)



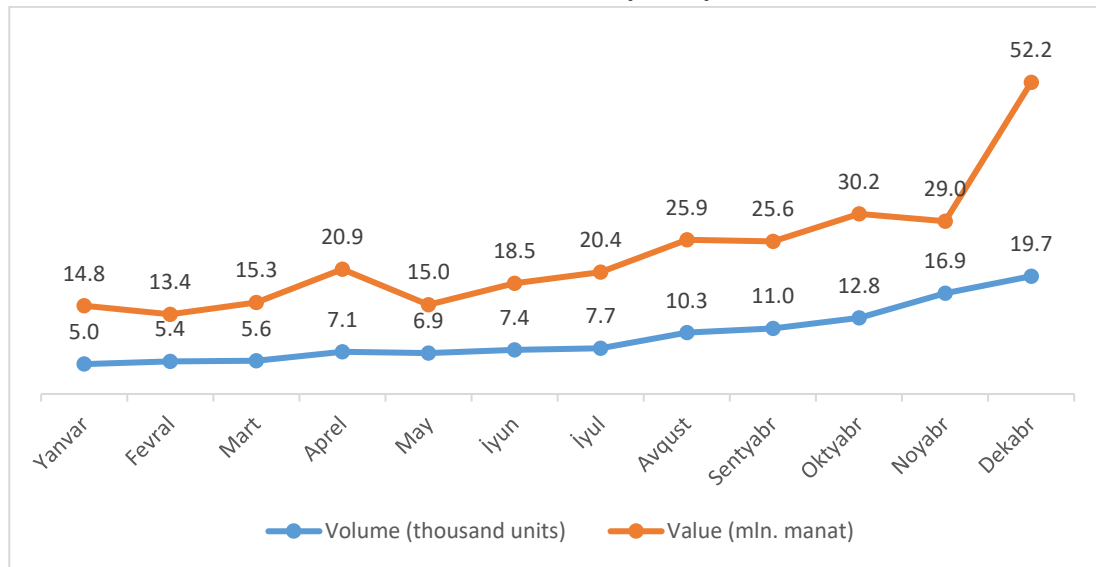
2.3. Instant Payment System indicators

Over the reporting year coverage and functionality of the 24/7 *'Instant Payments System'* (IPS) expanded, affordable payment methods as QR code payments were created that allow small businesses to accept non-cash payments. At the same time, the *'Methodological guideline on QR code payments in the Republic of Azerbaijan'* to apply a single QR code standard throughout the country was developed and approved. Currently, the IPS, that allows settlements between individuals and legal entities, as well as public institutions to be conducted over bank accounts through simplified identifiers (PIN, TIN, mobile number, e-mail), hosts 21 banks, the Azerpost LLC and the State Treasury Agency under the Ministry of Finance.

AZN281.2M worth 115.7 thousand payments were made through the IPS in 2021.

In 2021 cashless QR payment functionality was created on the IPS platform. The advantages of this payment facility include payments made directly over bank accounts and payments for the goods purchased via mobile devices without using payment cards. AZN7.9 thousand worth 2.3 thousand units of QR payments were made via the QR code.

IPS indicators (2021)

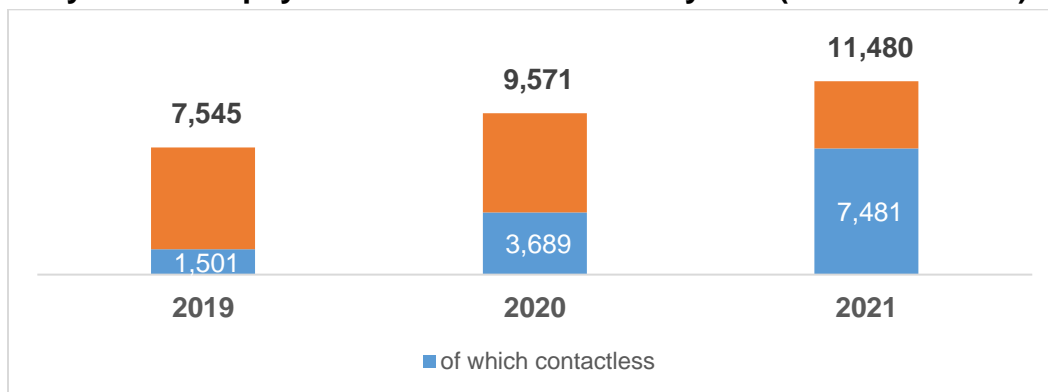


3. PAYMENT CARD INDICATORS*

3.1. Indicators on the use of payment cards

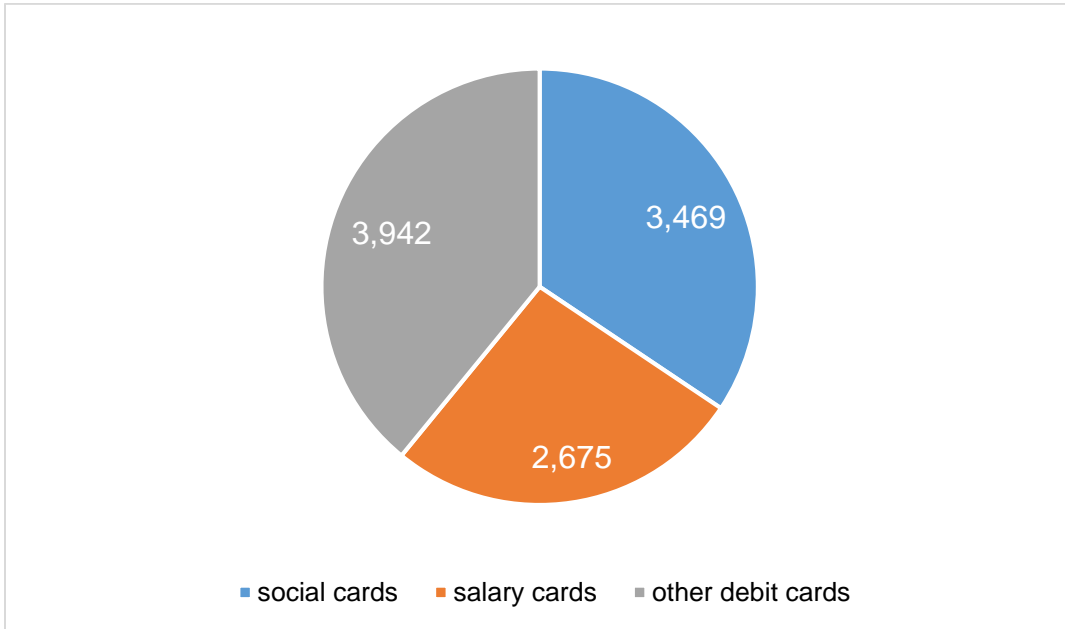
Bankcards are used as the main payment instrument for cashless payments in the country. The volume of cashless payments increased significantly, the use of cashless technologies and e-commerce has expanded in 2021. As of 01.01.2022, the number of payment cards in circulation was 11.5 million units, out of which 65% supported contactless payments. The number of payment cards y/y increased by 20%, and the number of contactless cards y/y increased by 2 times. 88% (10.1 million units) of issued payment cards are debit, while 12% (1.4 million) are credit cards.

Dynamics of payment cards over recent 3 years (thousand units)



* Including service network of the Azerpost LLC

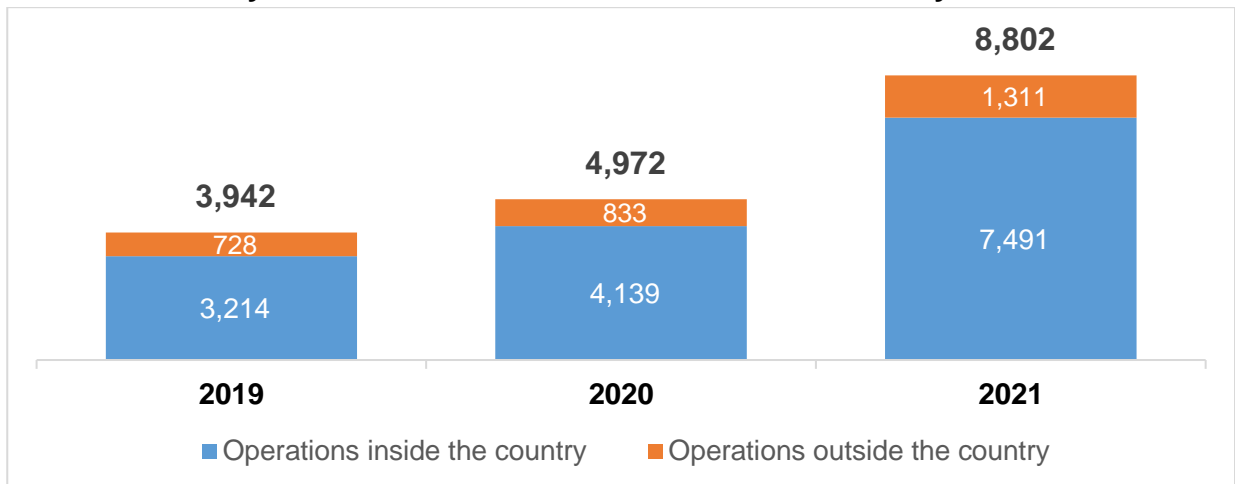
Debit card structure on the types of products (thousand units)



In 2021 total value of domestic payment card operations y/y increased by 29% to AZN38B, and the value of cashless payments increased by 79.6% to AZN11.5B. The weight of cashless settlements in domestic payment card operations y/y increased by 9.1% to 31.8%.

E-commerce transactions account for major part of cashless payments with bankcards. In 2021 the number of e-commerce transactions y/y increased by 57.5% to 110 mln units, while the value y/y increased by 81% to AZN7.5B.

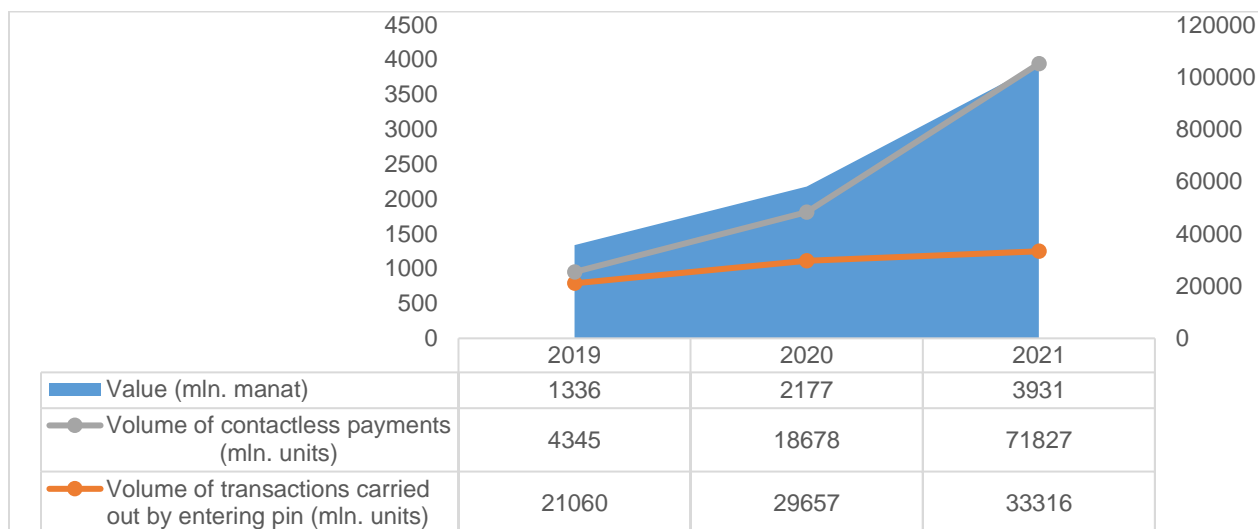
Dynamics of the value of e-trade over recent 3 years



The number of POS-terminal transactions in merchants y/y increased by 2.2 times to 105 mln units, while their value y/y increased by 80% to AZN3.9B. The number and value of

contactless payments with POS-terminals y/y increased by 3.8 (71.8 mln units) and 5.2 times (AZN2.6B) respectively.

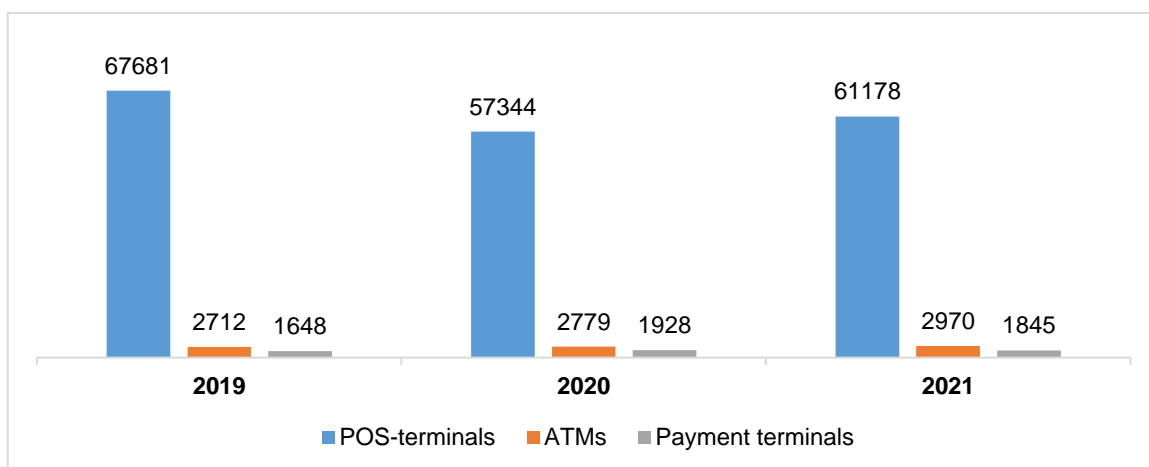
Domestic cashless operations via POS-terminals over recent 3 years



3.2. Card infrastructure indicators

Over the reporting period, development of the card infrastructure also followed a positive trend.

Development of payment infrastructure over recent 3 years



There were 2970 ATMs as of 01.01.2022 (up by 6.9% over recent one year).

ATM location across economic regions as of end-2021

Economic regions	Total	out of which			
		cash-in	Foreign currency ATMs (without card)	Recycle ATM	Contactless ATMs
Baku	1 585	393	201	249	193
Nakhchivan	116	5	-	3	-
Absheron-Khizi	206	33	8	21	31
Mountainous Shirvan	47	2	1	2	-
Ganja-Dashkesen	154	22	6	12	4
Garabag	95	2	1	2	1
Gazakh-Tovuz	113	7	3	8	4
Guba-Khachmaz	110	13	2	8	1
Lankaran-Astara	104	5	2	5	2
Central Aran	132	10	2	9	3
Mil-Mugan	79	1	-	-	-
Shaki-Zagatala	129	9	4	5	4
East Zangazur	2	1	1	-	1
Shirvan-Salyan	98	8	3	7	3
TOTAL	2 970	511	234	331	247

As of 01.01.2022 there were 61 178 POS-terminals in the country (y/y up by 6.7%). The payments increased by 28.5% to 43 920 units.

POS-terminal location across economic regions as of end-2021

Economic regions	Total	those that accept contactless payments
Baku	40 672	32 994
Nakhchivan	1624	658
Absheron-Khizi	2 677	2 104
Mountainous Shirvan	540	360
Ganja-Dashkesen	2 414	1 623
Garabag	1207	788
Gazakh-Tovuz	2 231	524
Guba-Khachmaz	1 520	937

Lankaran-Astara	2 309	905
Central Aran	1 125	838
Mil-Mugan	380	281
Shaki-Zagatala	2 147	1 363
East Zangazur	5	5
Shirvan-Salyan	2 327	539
TOTAL	61 178	43 919

As of end-2021 the number of payment terminals installed by banks y/y decreased by 4.3% to 1845 units.

Payment terminal location across economic regions as of end-2021

Economic regions	Total	those that accept payments with cards
Baku	960	185
Nakhchivan	104	12
Absheron-Khizi	124	14
Mountainous Shirvan	38	4
Ganja-Dashkesen	86	13
Garabag	55	14
Gazakh-Tovuz	51	8
Guba-Khachmaz	98	12
Lankaran-Astara	67	6
Central Aran	81	13
Mil-Mugan	38	8
Shaki-Zagatala	81	14
East Zangazur	-	-
Shirvan-Salyan	62	8
TOTAL	1 845	311

4. DIGITAL BANKING INDICATORS

Nowadays digital banking is rapidly replacing traditional banking services. The main reason for lower reliance of people on traditional banking is the convenient and easy availability of digital banking services without wasting time and waiting in long queues.

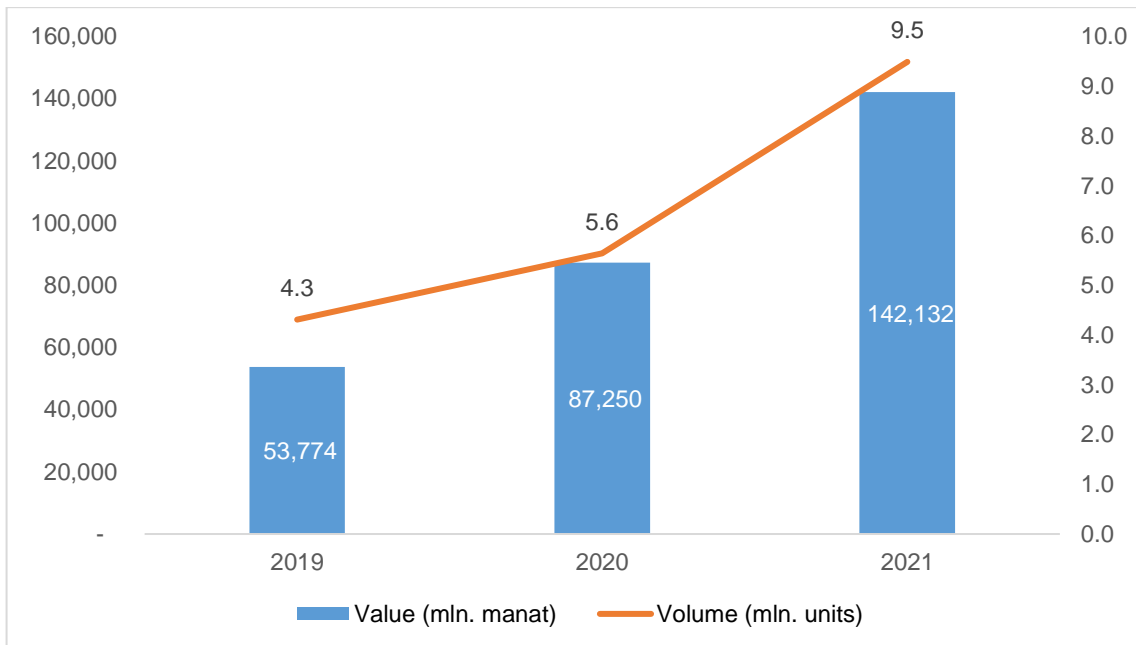
There is a positive trend in the development of digital banking in Azerbaijan too, which is one of the main challenges of modern times. As of 01.01.2022, 24 out of 26 banks operating in the country provide Internet banking and 22 provide mobile banking services.

Over the reporting period, there were significant improvements in statistics on digital banking services. Total number of transfers from current accounts of bank customers in 2021

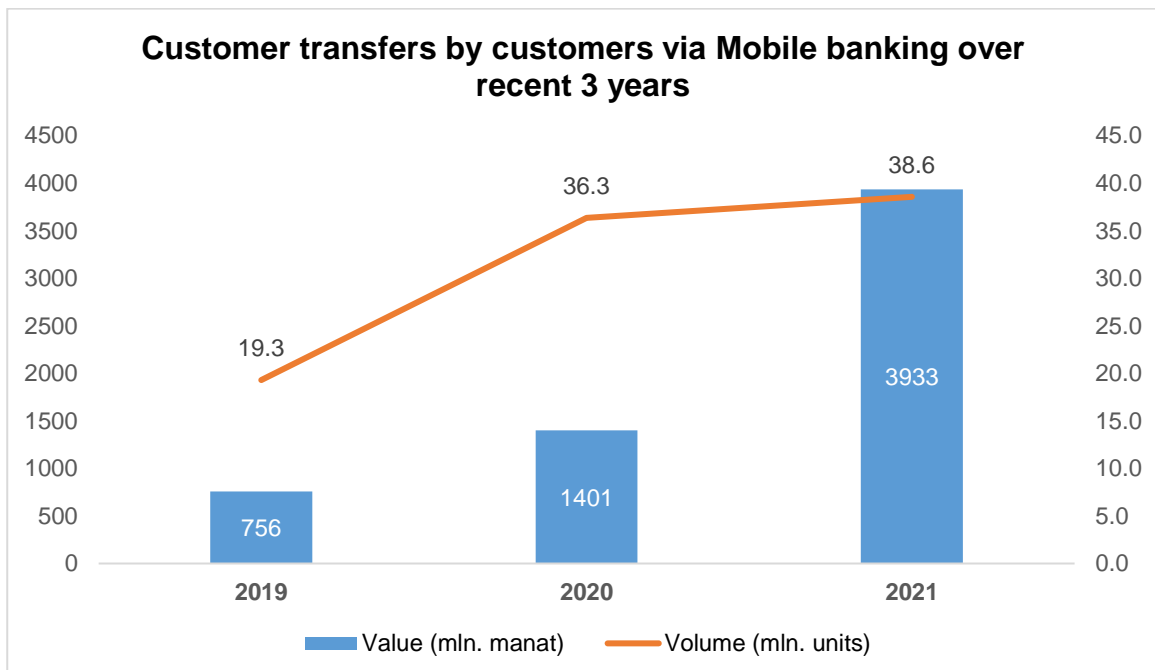
amounted to 76 mln units and the value made AZN224.5B. 80% (60.4 mln. units) in terms of number and 73% (AZN163.1B) in terms of value were made through digital banking.

The value of customer transfers via Internet banking services y/y increased by 63% to AZN 142B in 2021.

Customer transfers by customers via Internet banking over recent 3 years



In 2021 the value of customer transfers by customers via Mobile banking y/y increased by 2.8 times to AZN3.9B.



5. TARGETS FOR 2022

In 2022 the Central Bank will continue efforts on the following directions in accordance with the 'Digital Payments Strategy of the Central Bank of the Republic of Azerbaijan for 2021-2023':

- 1. Ensure stable and reliable operation of payment and information systems;**
- 2. Develop an oversight framework for non-bank payment service providers;**
- 3. Introduce ISO20022 in the National Payment Infrastructure of the Republic of Azerbaijan;**
- 4. Expand the coverage of the Instant Payments System;**
- 5. Broaden digital payments-related promo events.**

At the same time, in accordance with the above strategy and modern requirements, the target for the e-banking indicator is set at 80%, and the target for the weight of cashless turnover in domestic operations with payment cards is set at 40% in 2022.