



# **STRATEGY OF THE ALBANIAN FINANCIAL SUPERVISORY AUTHORITY 2023-2027**



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## I. EXECUTIVE SUMMARY

The Strategy of the Albanian Financial Supervisory Authority (AFSA) 2023-2027 represents the fundamental document of the institution, combining the agenda of integration in the European Union with the sustainable development goals and enhanced regulation of the markets under supervision. This document is drafted following the strategic document of AFSA 2018-2022 and illustrates the AFSA's vision for sustainable and safe developments in the markets under supervision.

The goals under this institutional strategic document interact with the goals stipulated in the National Strategy for European Development and Integration 2022-2030, which, among other strategies, includes the national policy for the development of the non-banking financial sector, through the expansion of the capital markets, the insurance market, the market of voluntary private pensions, as well as the development of green financing and harmonization with European practices in green finance.

This strategy was drawn up taking into consideration the size and level of development of the non-banking financial market in Albania, as well as the fulfilment of Albania's commitments in the European integration process.

The 5-year strategy 2023-2027 defines several important development priorities for the medium term and is structured towards the directions as follows.

- Strengthening financial stability, enhancing the effectiveness of supervision and integrity of the markets;
- Alignment and harmonization of legislation with European standards, development and modernization of markets;
- Protection of consumers' and investors' interests;
- Development of green financing and harmonization with European practices;
- Digitalization and improvement of information technology systems.

Integrity, trust, professionalism and commitment represent the core values that have guided the AFSA since its establishment and constitute the foundation of the institutional direction as main points of reference.

AFSA will focus on optimizing and increasing the effectiveness of supervision during 2023-2027, through the alignment and harmonization of legislation with European standards and best practices. AFSA shall advance regulatory standards with the aim to protect consumers and investors, by increasing transparency and establishing information requirements. The development of green financing and harmonization with European practices in green finance are considered substantial developments for a sustainable economy and financial system, within the framework of the European Green Deal initiative and the commitments undertaken by Albania through the signing of the Paris agreement, and the 2030 Agenda of the United Nations for Sustainable Development Goals (SDGs). In the framework of this strategy, opportunities, capacities, infrastructure and information technology systems shall be assessed.

The implementation of the strategy shall be carried out step by step, with the focus on strategic and cross-cutting priorities. AFSA continuously communicates mid-term objectives, supported by the action plan guided by annual priorities, subject to revision, depending on the dynamics of institutional development and markets. The strategic document herein shall be supported by detailed annual plans with clear objectives that will enable the implementation of the strategy.

## **II. AFSA – THE INDEPENDENT REGULATOR OF THE NON-BANKING FINANCIAL MARKETS**

The Albanian Financial Supervisory Authority was established based on Law no. 9572, dated 03.07.2006, “On the Albanian Financial Supervisory Authority”, as amended, as an independent public institution, reporting to the Parliament of Albania. AFSA licenses, regulates and supervises the activity of the capital market, the insurance market, the market of voluntary pension funds and relevant operators, as well as other non-banking financial activities.

### **MISSION**

The fundamental mission of the Albanian Financial Supervisory Authority is to contribute to the promotion of sustainability, to ensure the effective functioning of the non-banking financial markets, increasing transparency and reliability in financial markets under supervision and respect for the rule of law. AFSA carries out its mission through its regulatory and supervisory powers.

### **VISION**

AFSA aims to promote and enhance the highest standards for consumer protection and the integrity of licensees, guarantee the stability of the non-banking financial market, as well as improve the level of professionalism, through the continuous strengthening of market regulation and supervision. AFSA’s vision is to contribute towards legislative and regulatory alignment with the European Union, to strengthen the standards of markets under supervision, as well as to facilitate the bridging of domestic and international markets.

### **III. AFSA'S CHALLENGES IN THE FACE OF RAPID DEVELOPMENTS IN THE FINANCIAL MARKETS**

The financial markets under AFSA's supervision, proved to be sustainable and with positive performance during the last years, being resilient to the ongoing effects of the Covid-19 pandemic, the earthquake events of 2019 and geopolitical developments during 2022. AFSA has diligently monitored the markets' developments and has continuously assessed the impact of these situations on the financial indicators of the entities under supervision.

The lessons learned from financial crises over the years have led to pay attention and be agile to the regulatory and supervisory process of the financial sector, focusing not only on the progress of financial institutions considered separately, but also on promoting the financial sustainability of the markets as a whole, enhancing the coordination of the actions of the regulatory authorities in the country and across the borders, strengthening the supervisory and regulatory standards in compliance with the best international practices.

Overcoming the challenges faced by the markets under the supervision of the AFSA dictate the determination of some important directions for the development in the medium term (2023-2027), as well as the identification of actions towards promoting financial sustainability and a safe development of the non-bank financial markets.

Dedicated emphasis in this strategy is placed on the integrity of the markets and increasing the credibility of the consumer and the investor, as well as designing the pillars of development and promotion of the non-bank financial markets.

Macroeconomic stability, a solid legal and regulatory framework, represent important elements to enhance the confidence of domestic and foreign consumers and investors.





## **IV. STRATEGIC AND CROSS-CUTTING PRIORITIES**

### **STRATEGIC PRIORITIES**

#### **1. STRENGTHENING FINANCIAL STABILITY, ENHANCING THE EFFECTIVENESS OF SUPERVISION AND THE INTEGRITY OF MARKETS**

Albanian Financial Supervisory Authority shall pursue to contribute to promoting the sustainability and safe development of the financial markets under supervision, playing a proactive role in the function of the adequate regulation and development of financial markets.

AFSA's priority shall be to further strengthen its supervisory function, developing and implementing risk-based supervision and alignment with international standards.

AFSA, in order to advance towards the best international standards in the field of insurance, shall finalize a full assessment of the legal and regulatory framework compliance, as well as of the relevant supervisory practices with the Insurance Core Principles (ICP). In cooperation with the experts of the World Bank, AFSA shall work on the implementation of the roadmap towards the European insurance supervision regime, Solvency II, representing Albania's commitment in the framework of EU membership.

The finalization and implementation of the capital markets development strategy will be aimed at increasing the participation of issuers, expanding the range of financial instruments, boosting market efficiency and expanding the investor base. In achieving these goals, AFSA shall continue cooperation with central role institutions for the market development (i.e. Ministry of Finance and Economy, Bank of Albania), as well as with the market stakeholders or international institutions.

The main goal remains the diligent supervision of the markets and the monitoring of the main financial indicators, preserving integrity, increasing transparency and strengthening of internal and external controls, in order to maintain the stability and prosperity of the entities under supervision. AFSA shall continue the inter-institutional cooperation related to the issues of prevention of money laundering and financing of terrorism.

##### *1.1 Protection and strengthening of financial stability*

AMF interacts and coordinates the work with the Ministry of Finance and Economy and the Bank of Albania in order to guarantee the financial stability of the country. The aforementioned institutions are part of the Financial Stability Advisory Group (FSAG), which functions as an advisory unit, for the development of common policies, cooperation and coordination of the actions of the council members;

in the preservation, stability and sustainable development of financial markets in the Republic of Albania; in improving and increasing the efficiency of control over financial market participants; conducting joint inspections in the supervised entities, as well as ensuring the exchange of information between group members.

Furthermore, the Albanian Financial Supervisory Authority shall intensify the interaction with the Ministry of Finance within the framework of the implementation of the policy document for the development of the capital markets.

The AFSA will also continue the cooperation and exchange of information with the Bank of Albania, shall strengthen joint supervision, in order to monitor the markets under supervision, to guarantee financial sustainability. .

## *1.2 Enhancing the effectiveness of market supervision activity*

### *1.2.1 Underpinning supervisory processes towards the best international standards*

The priority of the AFSA's work shall remain the diligent supervision of the markets and the main financial indicators of the entities under supervision, taking into consideration the consequential effects caused by external and internal factors, as well as developments in the international financial markets.

The AFSA shall intensify relations and cooperation with international financial partners, such as the World Bank, the International Monetary Fund and other international bodies such as IAIS, IOPS/OECD, IOSCO, EIOPA, ESMA, counterpart institutions in the region and beyond, with the aim in exchanging information and experience, as well as enhancing the effectiveness of supervision.

In the **field of insurance**, AFSA shall focus on further alignment with the Insurance Core Principles (ICP), as internationally recognized standards in the field of insurance supervision, as well as operate in accordance with the global best practices in insurance supervision.

The Albanian Financial Supervisory Authority, upon respective request, during 2022 underwent a rigorous ICP compliance assessment process by the International Association of Insurance Supervisors (IAIS). The assessment comprised of legal and regulatory aspects, institutional independence, supervisory practices, risk analysis and assessment processes, licensing procedures, supervision of insurance groups, etc. The report on the assessment of compliance with these core principles in insurance shall be approved by the Executive Committee of IAIS during 2023.

In compliance with the recommendations of the evaluation report by IAIS, AFSA shall engage in the review of the legal and regulatory framework, as well as supervisory practices in the field of insurance, with the aim of further alignment with the ICPs.

In the insurance market, AFSA shall improve the risk-based supervisory methodology, in terms of reviewing early warning indicators, in order to assess the risk profile at the company and market level. The goal is to raise an effective supervisory system, where early warning indicators enable the effective distribution of AFSA's resources, the timely addressing of concerns and the prevention of financial issues of insurance companies at an early stage. The risk-based supervision methodology will include additional indicators, as well as be implemented through an interactive module, which summarizes as follows: (a) inclusion of indicators and benchmarks for the market; (b) additional market data analysis; (c) structuring and standardization of the risk matrix for risk assessment at the level of individual companies; and (d) inclusion of a risk spectrum for the entire non-Life insurance market.

Moreover, the automation of the system is aimed, in order to aim the timely receipt of the necessary information and intervention with supervisory measures as appropriate.

Supervision of insurance groups will focus on improving regulatory requirements related to group-level indicators, increased requirements for suitability of key persons of the group, as well as increased requirements related to corporate governance.

**In the capital market**, AFSA shall focus on strengthening the prudential supervision of entities. Serving the purpose, the establishment of standard reporting formats shall be aimed at, through which the necessary information will be collected for the analysis of the subjects, to ensure their compliance with legal and regulatory requirements.

AFSA, in order to evaluate and prevent cases of market abuse, among other things, shall evaluate the possibility of establishing a system or mechanism for the timely identification and monitoring of cases that may constitute market manipulation.

In terms of further strengthening supervision, work will continue to finalize a manual for applicability, which will serve in cases of investigation of capital markets entities that do not meet or do not respect legal and regulatory requirements. This guideline will contain the procedures, lines of communication, as well as the criteria for determining administrative measures or relevant sanctions as the case may be.

To achieve the above objectives, AFSA shall operate in compliance with the documents drawn up within the framework of foreign technical assistance projects and with support from the World Bank.

Completion of the entire regulatory framework in implementation of the capital markets' new law, further alignment with the European Directives in the field, will serve to further enhance the standards of supervision over entities operating in the capital markets.

**In financial markets based on distributed ledger technology**, AFSA shall proceed towards the alignment of Albanian legislation with the EU acquis, the latest European regulation for the markets in crypto-assets "Markets in Crypto-assets (MiCA)".

AFSA in cooperation with the relevant institutions, upon compliance review of this regulation with the Albanian legislation, shall evaluate and prepare the relevant legal changes.

AFSA aims to finalize and implement the strategy for the development of capital markets in order to increase the participation of issuers, expand the range of financial instruments, improve market efficiency and expand the investor base. To this extent, the AFSA shall continue the inter-institutional cooperation with the Ministry of Finance, the Bank of Albania, as well as with the market stakeholders or international institutions.

**In the collective investment undertakings market**, the implementation of the Risk-Based Supervision Manual remains one of the main objectives in terms of enhancing supervision mechanisms. This new supervisory approach will ensure efficient and timely intervention, the protection of investors' interests, promoting stability, transparency and reliability in the market. The application of this methodology in the market of Collective Investment Undertakings (CIU) will serve for an approach focused on those administrative and depository companies with a higher level of risk, giving priority to the distribution of supervisory resources to higher risk subjects.

### 1.2.2 Implementation of the roadmap towards the Solvency II regime in the insurance market.

The implementation of the Solvency II supervisory regime is one of the main priorities of AFSA and an obligation in the framework of EU membership. Referring to the European experience, the process of implementing Solvency II in the Albanian insurance market should be a gradual, efficient applicable process.

The transition to the Solvency II supervision regime, thus establishing a modern risk-based system, is expected to bring competitive advantages to insurers, contribute to the development of the insurance sector, and further promote the role of insurance sector in the country's economy.

Over the next few years, AFSA aims to implement the detailed roadmap, drafted and prepared with the technical assistance of the World Bank and approved by the AFSA's Board.

The Solvency II regime foresees new and complex requirements for insurance companies and AFSA at the technical and organizational level. Therefore, it is of utmost importance to plan the preparatory actions related to the implementation of elements of the three pillars of this regime, which, among others, include: the evaluation of the financial statements based on the Own Risk and Solvency Assessment (ORSA) report, performance of assessment of the quantitative impact of capital requirements, assessment of requirements for corporate governance and good risk administration, etc. The development of appropriate supervisory capacities through dedicated trainings, including those in the actuarial field, consisting of one of AFSA's challenges for the implementation of the Solvency II supervisory regime.

Pursuant to the guideline, from the moment of its application to the full implementation of the Solvency II regime, a period of seven years is planned. Preparatory activities are planned to extend to five years, while the sixth year is planned for the adoption of regulations and will also serve as an exercise year, where insurers shall report under Solvency II. The objective is to start the implementation of the Solvency II regime in the seventh year.

### *1.3 Integrity of the Markets*

#### *1.3.1 Increasing transparency*

The integrity of the capital markets is the foundation for efficient and well-regulated markets, guaranteeing equal access for participants, fair trading practices and meeting high standards of corporate governance to protect investors and increase confidence in markets and financial institutions.

In the framework of increasing transparency and with the aim of enhancing the integrity of the capital markets, AFSA shall support the establishment of a central system for the filing and storage of information published by listed companies, in order to be accessed at any time by all relevant stakeholders. This system shall comply with standards for security quality, reliability of information source, registration time and ease of access by end users.

Transparency and trust are also substantial for the integrity and development of the private pension fund and CIU markets. Law 56/2020 "On Collective Investment Undertakings" has added and strengthened the requirements for transparency towards CIU investors with a public offering, as well as the requirements for financial reporting to AFSA by the management companies. The implementation of these increased requirements for transparency according to the new legal and regulatory framework by CIU management companies shall be the focus of the AFSA's supervisory work in the following years.

In the draft law "On private pension funds" expected to be approved in 2023 by the Parliament of Albania, the requirements for transparency and information of members of pension funds have increased. Upon approval of the draft law, AFSA shall cooperate with pension fund management companies for the implementation of the process of adapting their activity to the new legal and regulatory requirements for transparency.

### 1.3.2 Market abuse monitoring

Market abuse harms the integrity of financial markets and public confidence, thus infringing potential interests of investors. These behaviours can lead to a lack of confidence in capital markets, higher risk, or a decrease in investor participation in regulated markets.

The AFSA, in order to preserve the integrity of the markets, aims to ensure the implementation by all institutions of procedures and measures for the timely detection and prevention of market manipulation practices. Moreover, AFSA must ensure that issuers of securities publish privileged information as soon as possible, being complete, true and accurate.

Regarding the need for monitoring cases of market abuse, a report was drafted and prepared with foreign technical assistance, which lays the foundations for evaluating and preventing cases of market abuse. In this framework, the AFSA shall adopt the rules, criteria and procedures necessary to prevent, identify, or report these cases.

During the period 2023-2027, the goal is to establish a system or mechanism to collect and analyse the necessary inputs from various sources of available and appropriate information, in order to timely detect suspicious cases that may lead to market abuse.

### 1.3.3 Reinforcing controls and corporate governance

Corporate governance represents a key element to ensure integrity and an effective direction of the company, contributing to increasing accountability, increasing transparency and confidence in the market. This directly affects the increase in the demand of investors to invest in shares of companies listed on the Stock Exchange. Strong corporate governance protects the interests of shareholders and ensures that they are aligned with the interests of the company.

The drafting of a corporate governance code, as a standard practice implemented in the European Union countries, becomes a necessity for the Albanian capital market as well. The aim of drafting a corporate governance code is to maximize the long-term success of the organization, establishing a sustainable value for its shareholders and all stakeholders.

To this end, one of the objectives of the AFSA is to coordinate the work with capital market institutions for the drafting of a corporate governance code for listed companies, in order to establish and promote the highest standards of corporate governance, and behavioural risk management.

Furthermore, attention shall be paid to strengthening the standards regarding the interaction of licensed entities with customers, in order to protect them. In this case, the entities shall draw up internal rules/procedures on ways of assessing the client's appropriateness and suitability to the service and the financial instrument provided, thus performing the categorization of the investor.

The draft law "On private pension funds" based on EU Directive 2016/2341 "On the activities and supervision of occupational pension institutions", aims to promote the sustainability and good governance of pension fund management companies, as well as the establishment of new rules according to the IORP Directive II, related to internal control structures, compliance, as well as risk management or self-assessment.

Regarding the compliance of the insurance market with the core principles of insurance, AFSA intends to expand the regulatory provisions in the direction of strengthening corporate governance, focusing on increasing transparency regarding the remuneration policies applied by insurance companies, the extent of the implementation of the requirements for skills and appropriateness and suitability for the key representatives of the insurance company. This goal also precedes the requirements provided for in the second pillar of the Solvency II regime, for good governance and enhanced risk management.



#### 1.3.4 Prevention of money laundering and terrorist financing

The Albanian Financial Supervisory Authority is part of the inter-institutional group, established by Decision no. 1, dated 19.2.2020 of the Anti-Money Laundering Coordinating Committee, for the follow-up and fulfilment of the recommendations made by the Special Financial Action Task Force (FATF) and the International Cooperation Review Group (ICRG). AFSA provided contribution and implemented the ICRG/FATF Action Plan in the period 2020-2022.

AFSA, related to the issues of prevention of money laundering and financing of terrorism, shall address the recommendations issued by the MONEYVAL Committee of the Council of Europe, regarding the measures taken against PPP/FT.

The AFSA provides a risk - based supervisory approach, in line with the best international standards, for the effective management of risks arising from money laundering and financing of terrorism. To this aim thematic inspections shall continue in the supervised entities related to the practices and procedures for addressing the risks of money laundering and terrorist financing, as well as the fulfilment of legal requirements shall be monitored during the exercise of the activity. These inspections shall be carried out either independently, or even in cooperation with the General Directorate for the Prevention of Money Laundering (GDPML) and the Bank of Albania. Furthermore, a special attention shall be given to training and awareness raising related to PPP/FT issues.

The regulatory framework of financial markets based on distributed ledger technology and the prevention of money laundering charges several responsible institutions for the regulation of this ecosystem in Albania, inter-institutional cooperation is one of the key elements in ensuring an effective supervision of these markets, regarding issues of prevention of money laundering and financing of terrorism.

## 2. COMPLIANCE AND ALIGNMENT OF LEGISLATION WITH EUROPEAN STANDARDS, DEVELOPMENT AND MODERNIZATION OF MARKETS

The First Intergovernmental Conference between Albania and the EU was held in Brussels in July 2022, marking the official opening of talks for our country's membership in the European Union.

The Albanian Financial Supervisory Authority represents the leading institution regarding Chapter 9 "Financial Services" and headed the Albanian delegation that participated on February 13-14, 2023, in the Albania-EU bilateral meetings. The negotiating group consisted of representatives of the Albanian Financial Supervisory Authority, the Bank of Albania and the Albanian Deposit Insurance Agency.

AFSA, in cooperation with the contributing institutions regarding Chapter 9, has carried out coordination, reports and special meetings in subcommittees, as well as continuously follows the implementation of the national integration plan.

Furthermore, AFSA is also part of the inter-institutional working groups within the European integration and contributes to the chapters: Chapter 2- Freedom of movement of workers, Chapter 3- Right of Establishment and Freedom to Provide Services, Chapter 4- Free Movement of Capital, Chapter 6- Company Law, Chapter 17- Economic and Monetary policy and Chapter 28- Consumer Protection.

AFSA's contribution in terms of aligning the legal framework with the *acquis communautaire* has been highlighted in the Progress Reports of the European Commission. AFSA shall continue the work for the further harmonization of the internal legislation of financial services with the *acquis communautaire*, taking in consideration the recommendations of the EC Report, after the Bilateral meetings in Brussels.

The advancement of legislation alignment with the European standards establishes new opportunities for development and modernization of the non-banking financial markets. AFSA shall support market developments and cooperate with institutions and stakeholders in this regard.

### *2.1 Alignment of legislation with European Directives*

In terms of harmonization with European Directives, progress has been made in the approximation and alignment of legislation in the field of investment funds, private pension funds, the securities market and the insurance market.

AFSA shall complete the necessary sub-legal basis, in implementation of the new laws for capital markets and for financial markets based on distributed ledger technology, pursuant to the European Directives and best practices.

**In the voluntary pension market**, the draft law "On private pension funds" has been drafted with a high level of alignment with European Directives, in particular with Directive 2016/2341/EC "On the Activities and Supervision of Institutions for Occupational Retirement Provision" (IORP II). The objective shall be to complete the entire regulatory framework in implementation of the new law, after its approval by the Parliament of Albania.

**In the market of investment funds**, AFSA shall adopt by-laws that will enable cross-border activity with EU countries in this area. These regulatory acts are related to: i) the procedures, rules and information necessary for the recognition of administrative companies, their branches and CIU with public offering licensed in the EU for marketing and sales in the Republic of Albania; and ii) the rules for the registration of legal entities that will market and sell CIU quotas with a public offering, licensed in EU member countries.

**In the insurance market,** the implementation of Solvency II consists of one of the main priorities of AFSA within the EU integration process. The Solvency II regime is expected to generate fundamental changes in the culture and way of risk management by insurance companies. Part of the mid-term objectives of the AFSA is the preparation of the new project “On the Activity of Insurance and Reinsurance”, to further align the legislation in force with the European Directives in the field of insurance and the Insurance Core Principles (ICP).

**In the capital market,** the completion of the regulatory framework through the approval of draft regulations drawn up pursuant to Law no. 62/2020 “On Capital Markets”, is a priority for the AFSA, in order to regulate and strengthen supervision in the field of capital markets. Draft regulations drawn up with foreign technical assistance have been significantly aligned with the regulations and directives of the European Union, establishing European standards in the practice of regulation and supervision.

Moreover, during the period 2023-2027, the AFSA, in cooperation with other institutions with a key role in the capital markets, shall analyse the possibility of drafting a special legislation for Covered Bonds, in accordance with the European Union Directive on this financial instrument. The drafting of this legislation is of utmost important not only at the European level within the EU agenda for a united capital market, but also at the national level in order to create new financial instruments and develop the domestic capital market.

**In financial markets based on distributed ledger technology,** AFSA shall proceed with the alignment of Albanian legislation with the EU acquis, the latest European regulation for crypto-assets markets “Markets in Crypto-Assets (MiCA)”, with the aim of regulating the crypto-asset ecosystem, and a special focus on prudential requirements for service providers related to crypto-assets, enhancing consumer protection, prevention of money laundering and robustness of systems.

This regulation is expected to enter into force at the beginning of 2023, being part of a package of regulations (Digital Finance Package) approved by the European Commission, with the scope to improve the competitiveness of the FinTech sector in Europe, while simultaneously addressing the risks and issues of financial stability in EU economies.

AFSA in cooperation with the relevant institutions, upon examination of the degree of compatibility of this regulation with the Albanian legislation, shall evaluate and prepare the relevant legal amendments.

## *2.2 Support for the development and modernization of markets*

The diversification of the financial system through the development of the non-banking financial markets aims at supporting sustainable economic growth, as well as increasing competitiveness at the national level.

Interconnection with the international and European markets, the expansion of investment alternatives and financial instruments, the increase of accessibility, transparency, trust and protection of investors, contribute to the further development of the capital market. Moreover, the operators of the insurance market, investment funds and private pension funds are important institutional investors, and the development of these markets would boost the growth of the domestic capital market.

**In the insurance market,** the growth and progress of this market is intended, through the development of new products that meet consumer requirements, the improvement of existing products, new forms of distribution and marketing of products, with the scope of expanding the base of insured persons and increasing the level of financial inclusion.



AFSA also considers that the development of inclusive insurance products will affect not only the expansion and diversification of the insurance market, but also the fulfilment of social objectives for certain groups of society. AFSA shall support initiatives for the development of new products in both segments, Life and Non-Life Insurance, in accordance with the legal and regulatory requirements in force.

Regarding compulsory insurance products, the objective of the AFSA shall be the strengthening of cooperation with the state institutions responsible for monitoring compulsory insurance products, in order to duly implement the legal framework, mainly related to professional and civil liability insurance.

AFSA shall continue the cooperation with the World Bank, the Ministry of Finance and Economy and will be in consultation with the relevant stakeholders, to advance the work related to the draft law “On compulsory insurance of dwellings against earthquakes”.

Regarding **the capital market**, AFSA during the period 2023-2027 shall continue to prioritize its proactive role in ensuring the efficiency, integrity and development of capital markets in the country. The capital market encourages the diversification of the financial system and funding sources and mitigate exposure to systemic risk.

With the free movement of capital and interaction with foreign markets, the Albanian capital market should become attractive for foreign investors, including investments from the Albanian diaspora. Considering its importance as a potential source still untapped, it is intended to return the capital markets to a sustainable financing alternative, compared to the traditional sources of financing and to put these markets into the function of the economy, as well as to attract foreign investments.

To this end, the implementation of the action plans, defined in the political document for the development of the capital markets, drawn up by AFSA in cooperation with the Ministry of Finance and Economy, shall continue. Inter-institutional coordination and joint dialogue shall focus on increasing the participation of issuers and the listing of Albanian companies on the Stock Exchange; expanding the range of financial instruments; further improving the efficiency of capital markets through digitalization and new technologies in Fintech, expanding the investor base, as well as raising public and issuer awareness of the benefits of access to capital markets.

Regarding **the market of private pension funds**, the approval of the draft law “On private pension funds”, compliant with the European Directive IORP II, is expected to generate prosperity of this market through increased participation in the scheme. This draft law foresees the establishment of new forms of private pension funds, the automatic inclusion of employees in certain cases, fiscal benefits, higher requirements for transparency, new investment policies of the fund’s assets, as well as the reduction of barriers for cross-border services.

AFSA, upon approval of the law by the Parliament of Albania, in addition to the work to complete the entire regulatory framework in its implementation, shall engage in monitoring the process of adapting the activity of the administrative companies to the new legal and regulatory requirements, as well as the relevant applicability.

**In the market of investment funds**, Law 56/2020 “On Collective Investment Undertakings” provides for the establishment of new forms and structures of the organization of CIU, such as: undertakings with closed participation, that can be established as commercial companies (companies of investments with fixed capital), or in contractual form (investment funds), interval funds in contractual form, umbrella investment companies, main enterprises, supplier enterprises of collective investment undertakings. Furthermore, the new legal framework makes possible the recognition of foreign CIUs in transferable or non-transferable securities, with a public offering.

The provision in the law of new forms and structures of CIU constitutes potentiality for the development of this market, creating new investment opportunities for investors and Albanian citizens and increasing access to new financial resources for businesses.

In the framework of carrying out cross-border activity, AFSA is engaged in concluding cooperation agreements with the regulatory authorities of the EU countries, as well as in drafting and approving relevant regulations to this end. These regulations enable the implementation of detailed rules and procedures regarding the recognition of management companies licensed in EU countries, as well as CIU with open participation with public offer in transferable securities approved in EU countries, as well as the sales agents of these CIUs in the Republic of Albania.

The development of capital markets with new financial instruments, as a basis for investments of CIU assets, will make it possible for collective investment undertakings attractive to investors, as well as create premises for entering the market of new types of CIU.

Fulfilling the objectives for the development of the non-banking financial markets requires the cooperation and commitment of the relevant stakeholders, as well as institutions with a key role in these markets.

### **3. PROTECTING THE INTERESTS OF CONSUMERS AND INVESTORS, INCREASING FINANCIAL INCLUSION AND FINANCIAL LITERACY**

Consumer protection and market conduct in the field of financial services consist of the main focus to undertake initiatives aimed at addressing the challenges faced by consumers and users of financial services.

AFSA, having as its fundamental goal the protection of the consumer and the investor, shall continue the work in the direction of increasing the requirements for transparency and information, in accordance with the international standards. AFSA's activity shall focus on the implementation of market conduct requirements, which are considered substantial for long-term and sustainable development, ensuring consumer and investor protection.

AFSA, within the framework of the national strategy for education and financial inclusion, shall cooperate with the Bank of Albania and other institutions in the country, regarding initiatives in the function of financial education and increasing public awareness. Commitment and inter-institutional cooperation are a guarantee to build a sustainable platform with coordinated activities, with the aim of raising public awareness and literacy with the wider scope of financial culture in the country.

The increase in financial inclusion in the non-banking financial markets can be supported through advancing comprehensive insurance, creating new products that suit consumer and investor needs, facilitating access to financial services through digitalization, etc. AFSA aims for a wider public access to financial products.

AFSA shall focus on financial education activities, improving the complaint system for consumers and investors, as well as improving and enriching the official website of the Albanian Financial Supervisory Authority with information dedicated to the public.

#### *3.1 Protection of the consumers and investors interests*

##### **3.1.1 Monitoring the behaviour of market operators**

In order to protect consumers and investors, AFSA shall advance regulatory standards, increasing transparency and information requirements. To this end, AFSA shall continue to monitor the behaviour of market operators, to ensure that in the insurance sector, consumers are provided with the necessary information regarding insurance conditions, benefits or exemptions they have, as well as investors in the market of investment funds to be provided with the appropriate and necessary information for making the investment.

Furthermore, AFSA shall continue to monitor the implementation of legal and regulatory requirements by commission companies/banks that provide investment services, regarding the categorization of clients and the necessary information that is made available to investors, in order to make well-informed decisions on their part. The categorization of investors into professionals and non-professionals, according to the level of financial literacy and experience in the field of investments, represents an important element in the function of investor protection. Companies providing investment services have the obligation, through suitability and appropriateness tests, to collect information on the investor, the nature and profile of his risk, as well as to provide the investor with detailed information on financial instruments and respective risk level.

The focus shall be the monitoring of the products provided on-line to consumers and investors. In order to protect the insured, the monitoring of the websites of the entities under supervision shall continue, in order for the information provided about the insurance company and the products provided to be in an efficient form and in accordance with the legal requirements and rules for information, as approved by AFSA.

The objective lies on strengthening the standards for regulating and monitoring the promotional practices of companies operating in the markets under supervision, especially for new and specific products, in the insurance market, investment funds, private pension funds, as well as investment services aiming to protect consumers and investors.

AFSA will continue to engage in publishing warnings on the official website regarding special situations, related to services or investment products that bear increased risk for investors. These warnings aim to draw the public's attention to the risks that certain financial instruments carry, or in the event that the provision of financial services comes from unlicensed, unregistered or unknown companies, according to the relevant legal provisions in force.

### 3.1.2 Modernization of the complaint handling systems

AFSA has a centralized complaints system for consumers and clients of supervised companies. Each complainant is provided with a unique lodged complaint code, through which the complainant can follow up complaint handling at any stage. The focus of the work shall be the further development and improvement of the complaints system, to improve and simplify its usage by consumers and investors. Supervised companies are obliged by law to have their own complaints system in place, where customer complaints are recorded from the handling until the final solution.

AFSA shall continue to focus on monitoring the complaints systems to ensure that these systems are set up by companies and operate effectively and in real time. Moreover, the aim is to increase the regulatory requirements for the complaints system of companies. In order to improve the administration of complaints, the intent is to digitalize the company's complaints register so that it is accessible by AFSA, like the register of claims. This will enable qualitative and quantitative analyses of complaints lodged by customers with the companies, with the aim of identifying the causes of complaints, product or process deficiencies, as well as problems and deficiencies in the company, and taking measures to appropriately address and improving the situations.

### 3.1.3 Compensation protection schemes

**The Compensation Fund** is an insurance protection scheme, through which injured parties by accidents caused by uninsured or unidentified vehicles are compensated. The amendments to Law no. 32/2021 "On compulsory insurance in the transport sector" determine the creation of a guarantee fund with a minimum value of 150 million ALL, as well as the keeping of provisions by insurance companies, for damages, under the scope of the Compensation Fund, in the judicial process or in the claims handling process, as well as the right of the insurance company (as a direct insurer) to perform the functions of the compensation body for the handling and claims compensation. The claims handling through the direct insurer has resulted in a workload reduction of the cases handled by the Albanian Insurance Bureau.

The reduction of the number of insurance claims for damages carried over for years, the restructuring of the Albanian Insurance Bureau, the reduction of the number of guarantee claims for the Green Card, also brought the Bureau's exit from the nearly 10-year monitoring of the Council of Bureaux (CoB).

AFSA shall continuously monitor the Albanian Insurance Bureau and insurance companies for compliance with legal and regulatory requirements regarding the Compensation Fund. Through the rigorous monitoring of the procedures for the pay-out of claims, AFSA shall aim to solve the issues related to the Compensation Fund's claims practices, with the goal of reducing the level of the Compensation Fund's liabilities, mainly for claims with an early accident date.

**The compensation scheme for investors in the capital market** is a protective mechanism that aims to protect investors against the risk of losses in the event of the investment company's inability to repay its obligations in cash or financial instruments, held on behalf of the client and administered by the investment company. This scheme is currently implemented in the European Union countries, as a requirement of the European legislation.

The law on capital markets lays the foundations for the establishment of this scheme, for the operation of which further rules must be drawn up. Pursuant to Law no. 62/2020 "On Capital Markets", the creation of a compensation scheme is required within a period of 5 years from the adoption of the law. To this end, it is intended to define the rules for the creation and operation of the investor compensation scheme, as well as to conduct a market study to assess the possibility of the operation of the protection scheme for investors, within the deadlines provided for in the law.

### *3.2 Enhancing financial inclusion in supervised markets*

Financial inclusion is intended for individuals and businesses to have access to useful and affordable financial products and services that meet their needs and are provided in a responsible and sustainable manner, such as: transactions, payments, savings, investments and insurance. Due to greater access to financial services, individuals can better conduct their daily needs, more easily overcome unexpected events and engage in long-term planning through savings and investments.

The enhancement in the financial inclusion of individuals and businesses can be supported through the advancement of comprehensive insurance, the creation of new products that suit the needs of consumers and investors, the facilitation of access **to investment services through digitalization, the automatic inclusion** of employees in schemes of private pension funds, etc. Increasing access and the insurance coverage of low and middle income categories is substantial for increasing financial inclusion in insurance (inclusive insurance).

Law no. 62/2020 "On Capital Markets" established new dimensions for the connection with global markets, favoured by technological developments in the financial services industry. The advancement of digitalization of investment services will not only bring diversification **of opportunities for local investors and further expansion of the market, but will also increase access to financial services, through direct involvement in instruments listed** and traded in recognized international markets.

The automatic inclusion of employees in private pension schemes, as provided for in the new law on private pension funds, anticipated to be approved by the Parliament, is expected to influence the further expansion of the market, as well as increasing access **to private pension schemes to expand and enhance social protection for these categories of individuals in the future.**

### *3.3 Enhancing financial literacy and training of professionals*

Dynamic developments in the non-banking financial markets are closely related to the constant need for raising public awareness and education. The inclusion of new technologies in FinTech, especially in the capital market, puts the public in front of information that is not easily understandable.

AFSA aims to facilitate wider public access to financial products in order to mitigate risks and increase confidence in financial institutions in the country.

The undertaking of concrete initiatives and action plans will be detailed through the adoption by the AFSA of a special strategy for education and financial inclusion, in accordance with the dynamics of the markets under supervision. The educational and informative initiatives within the Strategy shall be coordinated with other institutions such as the Bank of Albania, the Ministry of Education, as well as with the associations of professionals operating in the financial markets.

Climate change represents a common challenge, with an impact on the financial system, and therefore requires interaction and initiative not only at the national level, but also at the global level. AFSA shall undertake a series of initiatives aimed at increasing awareness of the financial and economic effects of climate change and the risks associated with them, to make environmental factors an integral part of financial policies and to change the financial behaviour of Albanian investors towards the inclusion of green products in the respective investment portfolio.

AFSA aims to promote the role of the financial sector for a sustainable economy and identify the basic prerequisites for creating an ecosystem that promotes sustainable and green finance, such as an appropriate regulatory framework, appropriate market infrastructure, or requirements for reporting and transparency.

AFSA has reviewed the regulatory framework and developed educational programs aimed at enhancing the literacy of groups of professionals operating in the non-banking financial markets. The educational programs are related both to professional training for experts who are licensed for the first time in the markets under the supervision of AFSA, as well as to the continuing education of experts who are licensed and operate in the markets under supervision.

AFSA shall continue to have as its main objective the continuous education and training of market professionals under supervision. This objective is also closely related to the rapid dynamics of market development with the inclusion of FinTech in the financial world. Responding to developments in the field of the capital market, technological progress in the field of financial services based on distributed ledgers, AFSA shall cooperate with the professional associations of these markets to create training modules for professionals based on demand and needs.

All the above objectives and initiatives, in the literacy developing of professionals, will serve to increase the role of the AFSA in the training of qualified professionals and therefore increase the quality of service and establish better protection mechanisms for consumers and investors.



## CROSS - CUTTING PRIORITIES

### 4. GREEN FINANCING

The development of green financing and harmonization with European practices in green finance are considered as substantial for a sustainable economy and financial system. The financial sector represents a key role in this direction, to reorient investments towards green technologies and businesses, as well as to finance growth in a sustainable and long-term way. The mobilization of financial flows and investments in green projects is of utmost importance, as it serves the achievement of climate and environmental objectives within the framework of the European Green Deal initiative, the commitments undertaken by Albania under the Paris Agreement, as well as the 2030 agenda of the United Nations for sustainable development.

In order to achieve these objectives, coordination of efforts and cooperation with all stakeholders is required, in order to undertake a series of actions:

- Establishment of a unified classification system in line with European practices through the establishment of taxonomy regulations, which will determine the criteria when economic activities or investments will be considered green and environmentally sustainable;
- Encouraging and promoting the issuance of green bonds, where funds from bond issuance are allocated to projects with a positive impact on the climate or the environment;
- Stipulation in the legal and regulatory basis of requirements for transparency and information related to ESG factors (environmental, social and corporate governance factors) and risk management related to ESG factors;
- Promotion of global standards and principles for reporting entities operating in the financial sector, related to the inclusion of ESG factors in the respective activity;
- Financial literacy to raise awareness regarding the financial and economic effects of climate change, with the aim of changing the financial behaviour of the Albanian investor, to consider environmental factors when creating his investment portfolio.

#### *4.1 Integrating sustainability principles and incorporating ESG factors into the regulatory framework*

Currently, on a global level, work is being carried out to unify the definitions of activities that are considered “green”, as well as the standardization of the assessment of ESG factors (*ESG rating*), which supports the development of green financial markets towards sustainable long-term investments. The global standardization of the classification of financial products as ESG products promotes their comparability and increases the reliability of the investor, to make the right decisions, in accordance with the respective goals related to sustainability and ESG factors. These matters are being addressed through international organizations such as IOSCO, to approve as soon as possible, initially on a voluntary basis, unified standards for reporting related to ESG factors, known as International Sustainability Standards.

AFSA aims to promote and implement ESG principles in the issuers and market participants’ practices. Furthermore, in the market of collective investment enterprises, as stipulated in the provisions of Law 56/2020 “On Collective Investment Undertakings”, the opportunity has been established for the recognition of CIU, which are sustainable undertakings that take ESG factors into consideration.

The challenge of the AFSA's work is the integration of ESG factors for sustainable investments, thus enhancing literacy and the awareness raising of the Albanian investor to orient respective decision-making towards green financial products.

Increasing requirements for transparency and information related to ESG factors and risk management of these factors represent a mandatory prerequisite, so that the investor can make well-informed decisions regarding financial products.

In line with the changes undertaken in the EU regulatory framework, the AFSA aims to establish rules for transparency, so that investment companies/banks, during the assessment of the client's suitability and appropriateness for a product or financial service, take ESG factors into consideration and customer preferences related to these factors.

Moreover, AFSA shall consider the possibility of establishing rules that foresee the obligation of institutional investors and asset managers to make public information on the integration of ESG factors in their activity, including the risk analysis of these factors.

AFSA intends to establish requirements for the design of a Benchmark, including the climate requirement, which serves to the evaluation of financial instruments and the performance of investment funds, in accordance with the standards of the European Union.

In the draft law "On Private Pension Funds", the AFSA has provided that in the event that ESG factors are applied to the investment policy of private pension funds, the management companies must take these factors into consideration during the risk self-assessment process and are declared in the prospectus, as well as in the statement on the investment policy principles for each fund.

AFSA shall diligently monitor the implementation of these legal provisions in terms of increasing transparency and awareness of members of private pension funds to ESG factors in the selection of the fund in which they want to invest.

#### *4.2 Promotion of the Green Bonds Issuance*

Encouraging and promoting the issuance of Green Bonds constitutes one of the AFSA's priorities, so that the funds benefited from the bond issuance are allocated to projects with a positive impact on the climate or the environment. A unified standard for green bonds encourages market participants to issue and invest in these financial instruments, thus enhancing effectiveness and credibility in financial markets.

AFSA, pursuant to the action plan for sustainable finance, in line with European practices (EU Green Bond Standard), aims to establish a standard for green bonds issuance. When issuing green bonds, issuers benefit from the image and marketability, while investors benefit from products that respond to their investment objectives. Thus, the involvement of the financial sector in investments related to sustainability simultaneously establishes opportunities for new financial instruments, which are currently lacking in the Albanian capital market. This market represents great potential for the development and expansion of sustainable financial products.

In order to develop this market, the AFSA shall coordinate work with other institutions with a key role in the capital market, to duly analyse the possibility of establishing standards for green bonds issuing.



#### *4.3 Inter-institutional coordination on the promotion of green finance*

The goal accomplishment for the reorientation of capital towards sustainable and green investments requires the coordination of efforts and the engagement of all stakeholders, the public sector, the private sector, regulators, and all relevant stakeholders.

AFSA in cooperation with the responsible institutions shall be involved in: i) drafting and preparing a roadmap for green finance; ii) evaluating the possibilities for issuing a sovereign green bonds; iii) establishing criteria for institutions that intend to evaluate green financial products; and iv) creating a taxonomy for green activities, in line with EU taxonomy practices and rules.

The creation of a unified classification system through the establishment of taxonomy regulations shall provide for the criteria that determine when economic activities or investments will be considered green and environmentally sustainable, thus providing clarity for all stakeholders.

## 5. DIGITALIZATION AND INFORMATION TECHNOLOGY SYSTEMS

Digitalization and financial innovation are evolving at a rapid pace, influencing business models, financial products and services, distribution channels, but also increasing exposure to cyber risk. The improvement and modernization of information technology systems according to contemporary technology and best practices supports the AFSA in fulfilling its mission and accomplishing the set goals. The experiences of other countries have proven that the use of financial technology results to be particularly useful for the Supervisory Authorities, either in the insurance markets and in the capital and funds markets.

AFSA shall consider the possibility of implementing new technologies, with the aim of improving supervisory and regulatory processes, expanding the functionalities of systems for generating analytical reports, facilitating the use of services for the stakeholders, as well as increasing cyber security.

AFSA shall also continue to strengthen capacities and increase cooperation with other interactive institutions according to fields.

### *5.1 Improvement of information technology systems*

Improving internal systems and reporting systems for markets under supervision shall be a priority for the AFSA in the period 2023–2027. To this end, the improvement and development of reporting systems for the market of investment funds and voluntary private pensions, for the insurance market, the creation of an interface for the sales register of the compulsory motor insurance products, as well as further development of the On-line Sales Register and the Claims System, according to market dynamics.

The developments of information technology systems will serve for the digitization of reporting processes, the standardization and automation of supervisory processes, real-time access to the systems of supervised entities, the analysis and management of market data under supervision efficiently, serving the scope to maintain market integrity.

In the framework of support provided for the development and advanced use of new technologies in financial services (FinTech), the challenge remains in data protection, risk management through data aggregation, automation of actions according to regulatory requirements, identity management and control (KYC/AML), identification and prevention of abusive practices, transaction monitoring, regulatory reporting, etc. Depending on future developments in the financial market based on new technologies in the country, market size and product complexity, issues with impact on the FinTech ecosystem shall be duly identified, examined and prioritized.

### *5.2 Enhancing Cyber Security*

New technological developments require the strengthening of technological and legal instruments, raising professional capacities, as well as increasing cooperation with other local or foreign interactive institutions, to avoid risks and enhancing cyber security.

Security against cyber-attacks is becoming progressively challenging to manage day to day. Cyber security is exigent and demanding since that cyber attackers constantly change the methods of executing attacks, which are unpredictable. AFSA's challenge lies on the development of the current systems and their relevant update with the most advanced technologies to prevent data attacks used by stakeholders. The goal shall be the enhancement of web security procedures and policies in the systems administered by AFSA.

