

## **Asymmetric Information versus Banks' Customer Trust, Albania case linked with SEE countries**

ARTUR RIBAJ

Faculty of Economy

University of Tirana and Financial Advisor

Street: Arben Broci, Tirana

ALBANIA

[artur.ribaj@outlook.com](mailto:artur.ribaj@outlook.com)

ORKIDA ILOLLARI

Faculty of Economy Business and Development

European University of Tirana

Blv. "Gjergj Fishta", Nd 70,H1,Tirana

ALBANIA

orkida.ilollari@gmail.com

*Abstract:* - This article examines the impact of information asymmetry on the level of trust customers have towards their banks in Albania. Specifically, the article analyses the implementation of transparency and information symmetry related to pricing and publishing banking interest rates, commissions and fees, clarity of banking products, and reports. The minimal obligation of Albanian banks is to obey the legal and regulatory requirements regarding transparency and information symmetry. However, banks in Albania - for pricing, commissions and fees of their typical services - follow their competition which is a relatively low level of transparency. Comparison of products' terms and conditions among banks is difficult for the public as a result of the information asymmetry. In addition, some banks are in breach of regulation on transparency for banking and financial products and services. As importantly, expensive bank money transfer commissions increase customer tendency to avoid paying through the banking system, which in turn increase informality and potential forms of tax evasion. These findings are compared with data on other banks in South East Europe to identify the mechanism(s) that affect customer trust. The article presents several conclusions and implications for Central Banks in Albania and the region to prevent potential customer distrust by requiring banks to establish a common methodology for pricing and publication of symmetric information for products' terms and conditions, which will be a good practice for the banking markets in Albania and the region.

*Key-Words:* - asymmetric information, transparency, pricing of banking products, trust, regulation, central bank

### **1 Introduction**

Asymmetric Information in banking industry occurs when a bank possesses greater material knowledge than its customers. This is one of the most interesting and pertinent issues regarding the study and implementation of business ethics in banking. We are all connected to banks directly or indirectly as they play a crucial role in our daily activities and ability to get things done. With the growing digitalization of advanced economies and the decrease of cash transactions, banks have augmented their influence in society. What is often forgotten however is that although banks deal in measurable tangibles, their most precious asset is rather intangible: trust. Trust in turn is built and maintained through sound banking ethics, which

are, among others, affected by information asymmetry. In fact, trust in banks has taken a considerable hit since the financial crisis of 2008, which according to a considerable number of authors (Allen & Carletti, 2010), was predicated on the unethical behavior of banks.

The importance of banking ethics and information asymmetry is particularly important in emerging markets that are beset by weak financial institutions with fragile regulatory frameworks and unstructured oversight institutions. In South East Europe and Albania in particular, this is even more pertinent as continuous instability, organized crime, and money laundering place pressure on financial institutions to bend the rules and adapt to a market that favors informality. The 1997 pyramid scheme

crisis in Albania showed full well how fragile the banking sector is and how susceptible it is to extra institutional forces when it lacks the consumers' trust (Jarvis1999).

Therefore, this article examines the Albanian banking sector as a case study that emerged from a profound under-development, experienced a massive crisis in 1997, was able to modernize and internationalize to a significant degree, and now faces problems similar to the banking sector in neighboring countries. Specifically, the article analyses the effects of information asymmetry on customer trust, which is crucial for the stability of the financial sector. The conclusions reached here can be useful for similar cases of emerging markets with unconsolidated institutions that are faced with a large informal economy and lack of customer trust in banks. The article is organized conventionally. First, a brief theoretical overview of trust and information asymmetry in the banking sector is provided. Then the findings, based on unpublished primary data collected by the authors, regarding information asymmetry in Albanian banks are introduced and discussed. Lastly, the article's main conclusions and overall implications, pertinent to regulators and practitioners alike, are presented in the last section.

## 2 Theoretical Perspective

The issue of trust in banks has been debated for centuries now. Adam Smith in 1776 in *The Wealth of Nations* made a crucial observation regarding banks that would resonate through the ages: "Being managers of other people's money than their own, it cannot be expected that they should watch over it with the same anxious vigilance with which the partners in a private co-partner often watch over their own. Negligence and profusion, therefore, must always prevail more or less in the management of the affairs of a joint stock company" (Smith 1976, 264-265). While banking has become increasingly complex, the issues identified by Smith remains pertinent. Asymmetric information in banking leads to adverse selection and moral hazard that affects customers' trust and the economy's overall health. Customers' economic decisions are hypothetically worse than they could have possibly been if they were provided more symmetrical information.

As mentioned above, information asymmetry falls within the framework of ethics. George Akerlof (1970) was at the forefront of this effort and his seminal paper "The Market for Lemons", he pointedly asked what would happen to the market for used cars if buyers could not tell between good and bad cars. We rely on Akerlof's question to start

the analysis of the Albanian banking market. Are customers in Albania provided the instruments and conditions to judge between good and bad banks and between good and bad financial products? Banks frequently provide consumers with banking products whose features and prices are difficult to judge in advance without proper expertise. Furthermore, the issue tends to become more complex when dealing with financial products, not similar to buying a car or a pair of shoes. This is in large part due to information asymmetry, which, if left unchecked may lead to banking panic and banking crises at particular moments (Bordo et al., 2010b). This is crucial for the financial sector, as per the framework of OECD principles' document<sup>1</sup>, consumer trust in a well-functioning banking market promotes financial stability, growth, efficiency and innovation over the long term. Traditional regulatory and supervisory standards adopted by oversight bodies contribute to the protection of consumers – which is often and increasingly recognized as a major objective of these bodies in conjunction with financial stability.

The banking system in Albania competes to the point where the ROE (Return on Equity) rates did not fall under 10% even during the height of the global economic crisis. Differently from elsewhere in Europe, Albanian banks kept high lending interest rates and very low deposit interest rates. When the demand for borrowing dropped, banks, almost in unison, increased commissions and fees. It is commonly believed that banks might be in an unspoken agreement for price determination, at the expense of competition. All this could adversely affect the image, credibility and reputation of banks and could lead to the loss of reputation which is an important aspect of strategic risk. Weakening the trust could result in a run on banks (Miklaszewska&Kil, 2016).

The likelihood of injury to the client's self-assurance in the bank is referred to a reputational risk (Gatzert, et al 2014). The basic purpose of the principles of banking ethics is to ensure the sustainability of the reputation and trustworthiness of banking activity in public. This should be based on the objective of creating a fair competitive environment between banks and not creating secret deals or cartels. In that regard, researchers have examined the impact of asymmetric information towards distrust for banks, bank panic and next

<sup>1</sup> G20 High-Level Principles on Financial Consumer Protection, October 2011 (<https://www.oecd.org/g20/topics/financial-sector-reform/48892010.pdf>).

potential financial crisis (Svilenova 2011). Asymmetric information provides a transmission mechanism for a fall in money supply that is transmitted to a decline in the overall economic activity of a country (Ciccarelli, et al 2013).

The minimum obligation of banks is to comply with all laws and regulations that are commonly tailored to each country to ensure the sustainability of operations and to increase the bank's trust. In Albania, banks should provide full disclosure and symmetric information of their products and their financial indicators as per requirements of the Law no. 9662/2006 "On Banks in the Republic of Albania", Regulation 59/2008 "On the transparency for banking and financial products and services", Regulation 48/2015 "On consumer credit and mortgage credit", and Regulation 63/2012 "On the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators." However, it is still an open question whether banks disclose a symmetric information to their customers.

The information symmetry is estimated to be at the forefront of ethical banking, which means that an institution offers and facilitates easy access to transparent information for customers and the public. In this way, a financial institution is straightforward and transparent. As it regards Albania, the main issue with ethical banking is the asymmetric information from the bank to the client, as well as the inadequate financial education of the client to understand and request additional information. The inability, ambiguity or lack of desire on the part of the bank to provide detailed information to the client about all the contractual conditions of a product and service results in "information asymmetry", which is at the root of many problems between clients and banks.

In the huge large of banking services and products with overloaded matrices of pricing and working conditions, a complex process even for bank employees themselves, it is almost impossible for clients to find the right product that best meets their need at a minimum cost. So, it must be the duty of bankers in Albania to provide financial counseling to every single client. If, on the contrary, the employee intends to sell the most expensive product to the client, even though there are other more optimal solutions, or sells the product by pointing out only its advantages and no other conditions that may pose a client problem, this behavior has the potential to poison the relationship and it is a small 'victory' and short-term profitability. As mentioned above, asymmetric information leads to lack of trust in a financial

institution that can even lead to social disorder as it happened in Albania with pyramid schemes in 1997. Therefore, this analysis aims to uncover the dynamic between information asymmetry and customer trust in Albania and other cases like it.

### 3 Methodology

This article relies on primary and secondary data on all sixteen commercial (second level) banks<sup>2</sup> in Albania. Overall, the article examines unpublished analytical data from the Albanian Central Bank, interviews with high management of the Central Bank, and interviews with key persons from the top six commercial banks in Albania.

Specifically, the article is based upon data produced from supervision and auditing reports from the Albanian Central Bank that have not been published and other reports that are publicly available. In addition, to test the conclusions of the secondary data, we conducted six semi-structured interviews with key persons in charge of retail, treasury, cooperate services, reporting finance and audit. We conducted interviews in six of Albania's largest banks. For privacy concerns and in respect of the banks' internal rules, we cannot make the names of the interviewees publicly available.

Based on the primary and secondary data we classified Albania's commercial banks according to their information symmetry in pricing the typical bank services provided to clients. For assessing and categorizing banks, the article relies on the calculation of cost rate per person for providing the same service in all banks in Albania, taking into consideration the published banking products' terms and conditions for a certain period of years after the last global economic crisis. To carry out a comparative analysis, this study analyses the typical bank services and commissions/prices applied for these services, comparing with commissions of typical bank services applied by banks in other countries of South Eastern Europe<sup>3</sup>, based on their

<sup>2</sup> Banks in Albania: Alpha Bank (Albania) (member of Apha Bank Group); American Bank of Investments (ABI); BKT; Credins Bank (CB); Credit Bank of Albania (CBA); First Investment Bank (FIB); International Commercial Bank (ICB); Intesa Sanpaolo Bank (Albania); NBG Bank; Pro Credit Bank; Raiffeisen (Albania); Société Générale Albania (SGAL); Tirana Bank; Union Bank (Albania); United Bank of Albania. The majority of Albanian banks ownership belongs to EU Banking Groups with activity in SEE countries as well.

<sup>3</sup> This grouping excluded Kosovo due to the lack of data

official publications online. Based on this analysis, this article reaches several contingent conclusions and implications regarding the threats of asymmetric information of typical banking services in Albania to customers' trust.

The richness of the data, which include interviews with key persons and unpublished Central Bank data, make this article both interesting and revealing from an academic and practitioner perspective. As important, besides its importance for Albania, this article's findings are important for understanding the risks faced by the banking sector in the emerging banking market of South East Europe, which is increasingly becoming interconnected to the wider European market. Since fourteen of Albania's sixteen banks are owned by European banks, their developments reflect wider developments and studying them can be indicative of regional characteristics.

#### 4 Asymmetric information of typical banking services in Albania

Lack of information symmetry in pricing policy of commissions and fees, applied for the typical bank services and publication of terms and conditions of bank services are part of this paper, conducted with the purpose of analyzing the level of information symmetry applied by banks in Albania and in comparison, with banks in South East European countries. Do banks use asymmetric information for setting the final price/commissions applied to customers? Do banks publish a symmetric information related to their typical products?

##### 4.1 Information symmetry for typical banking services

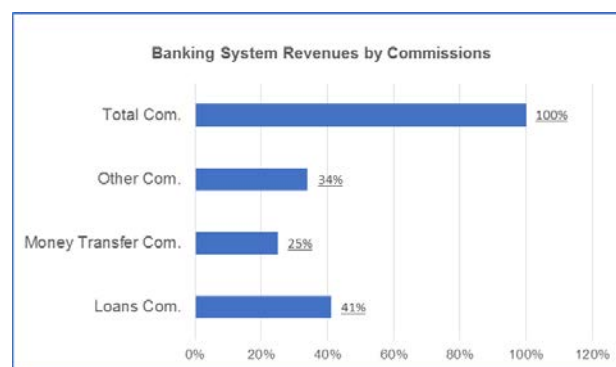
In implementation of the regulation on transparency for banking services, banks in Albania are required to fully publish the terms of reference on the Bank's website. To assess the implementation of this regulation, this study analyses was over the banks' official websites, focusing on two elements: completeness of products terms and conditions; the ease of finding and understanding the products terms and conditions on banks official websites.

Deficiencies in symmetric information were evidenced as a very important issue. From the study conducted with the purpose of assessing the publication of terms and conditions, ease of finding and understanding, the study results that symmetric information is impossible to find on-line. In about 66% of the surveyed banks had to be contacted in order to obtain additional information to clarify and understand the information received on the Web. In about 10% of surveyed banks had little or no

information available on Web and about 33% reported incomplete information on the commissions and fees applied. On the other hand, for the banks that have published the products' terms and conditions, the study emphasizes that it is impossible for the customer to compare them in order to choose the bank that offers the product/service on more favourable terms in the market. Such a problem is also confirmed for the product of mortgage loans and consumer loans for which based on the above-mentioned regulation, standardized information is required to be provided to the consumer as contractual information<sup>4</sup>. However, for these 2 products, the answers of customers interviewed were that there is done an improvement compared to years ago when banks were not required to provide pre-contractual information at all.

##### 4.2 General analysis

Loan commissions are the largest share of commissions from clients in the system at approximately (41 percent), followed by commissions for payments (on arrival and outgoing money Transfer) 25 percent. Commissions divided for individuals and businesses to total commissioning from customers recorded at 47 percent and 53 percent, respectively<sup>5</sup> (see graphic 1).



Graphic1. The weight of commissions according to the main activities of banks

##### 4.3 Analysis by typical banking services

###### 4.3.1 Credit

<sup>4</sup> Pre-contractual information is the information the client receives on the characteristics and working conditions of the product or financial service before deciding on his / her choice / performance.

<sup>5</sup> These figures are based on operational data for 9 main banks in the system for a certain period after the last global crisis.

According to the interviewees, loan commissions are applied at the same time with both, fixed amounts and percentage of the loan amount, thus presenting difficulties in comparison among banks, by the public. Also, clients encounter difficulties in understanding the language used in published leaflets and in the information from banks, which is required under the regulatory framework of the central bank in Albania.

The most applicable commissions in the banking system in Albania are the loan application commission; loan management fee, and loan prepayment commission. While there is also a bank which, in addition to these commissions, also applies a loan account maintenance fee. To carry out a comparative analysis, this research did a verification of the pricing applied by banks in some countries of South Eastern Europe, based on the publications of these banks on their official websites. The comparison showed that banks in the countries of the region applied commissions significantly lower than the banks in Albania for mortgage loans and other types of loans to households. Regarding commissions on business loans, the level of rates applied in Albania was slightly higher than that of the countries in the region.

### 4.3.2 Money Transfer and Payments

#### a) Money transfer / Payments in ALL

From the analysis of commissions and working conditions published by banks, it is noticed that banks have high commissions for payments or transfers of customer money from one bank to another. While according to interviewees the money transfer within the same bank has a very low commission or even free. This conclusion is supported by the fact that only 2 percent of payments pass through payment systems (AIPS & AECH), while 98 percent are settled within the same bank accounts. Unfavourable commissions on payments between banks can be converted into an increase in customer tendency to avoid paying through the banking system by increasing informality and affecting cash growth in the economy. On average, a bank's client in Albania pays: 400-1,500 ALL (3-11 euros); the values in EUR are converted at the exchange rate of the Bank of Albania<sup>6</sup>; 1,500 -5,000 ALL (11-36 euro) to

transfer an amount greater than 10,000,000 ALL, from his bank to another bank in Albania. Direct costs for these transfers are: 350-1.000 ALL (AIPS system).

As mentioned above, commissions that apply for domestic lending are comparatively higher than the direct costs paid by banks for the performance of this service (the annual cost of the bank as well as the payment to be paid to the central bank of Albania as a manager of AECH and AIPS). According to interviewees, commissions are even higher for non-bank clients, with limits ranging from 1,000 to 22,000 ALL (7-157 Euros) for ALL payment.

From the working conditions published by banks, it is noticed that the information is not always easily understandable regarding the commissions applied. In 2 of the banks in Albania is not clearly defined if they apply client commissions for money transfer within the bank, in terms of working conditions. In 4 banks, no level of commissioning for non-clients is set in terms of payments within the bank. Commissions that banks apply for a payment transfer for payments through AIPS (mainly over 1 million ALL) apply rates ranging from 0.1% to 0.15% of the payment value but not less than 1,000 ALL. Meanwhile, 4 banks apply even higher commission rates. Also, all banks apply even higher commissions for non-bank clients reaching up to 0.25% of the value or (up to 22,000 ALL) for the money transfers with up to 10 million ALL. To carry out a comparative analysis of the level of commissions applied in the region for money transfer in local currency, a verification of the commissions applied by banks in the South East Europe region was made, based on the publication of these banks on the official websites. From the comparison, it turned out that Payments / money transfers in local currency were more expensive in Albania. Commissions applied by banks in region for local currency payments are quite inexpensive and range from 0.25 to 1.2 euros for small value payments (under 12,500 euros); as well as 1.5 to 7 euros for large value payments (over 12,500 euros).

b) Money transfer / payments in foreign currency  
According to the statistics, money senders in about 70-80% of cases have completed full payment of commissions for transferring money in foreign currencies, while beneficiaries in about 20-30% of cases. Commissions that banks apply for a domestic customer payment in domestic currency range from 0.15% to 0.25% of the value of the payment.

<sup>6</sup> to transfer an amount up to 1,000,000 ALL, from his bank to another bank in Albania. The direct costs for these transfers are: 20-60 ALL (AECH).

According to interviewees, commissions are still higher for non-bank clients, ranging from 0.2% to 0.3% of the value of the payment. Most banks apply higher commissions for cross-border, national vs. foreign currency payments. Some banks (8 banks) do not apply commissions to their clients for foreign currency payments within the same bank. Other banks do not have clear definition if they apply or not commissions to their clients, for currency payments within the same bank.

Based on the data's of a comparative analysis of commissions applied by banks in the South East Europe region for money transfer in foreign currency, it turned out that payments/money transfer in foreign currency varies greatly depending on market infrastructure, the development phase of payment services in each country and banks' policies. However, commissions in South East European countries in any case are cheaper than those applied in Albania.

#### 4.3.3 E-banking (home banking payments)

70% of licensed banks in Albania provide "home banking" services. The commissions that banks apply for these services are much lower compared to the commissions on money transfers, but according to interviewees there is still a need for more public awareness and publicity about the use of these relatively new services in the banking system in Albania.

From a range of 10 banks offering online services, 4 of them have not published data (prices/commissions) in terms and conditions for using the service. Referring to the banks' published conditions, results that the applied commissions for this service are as following: annual registration fee (10 - 25 euro); maintenance commission (9 - 60 euros / year), card commission (85-90 euros) that provide users with online service. Meanwhile, 3 of them apply also commissions for on-line transactions.

#### 4.3.4 Bank cards / card payments

In Albania, 14 banks are licensed as card issuers, and offer cash withdrawal services from ATMs. Of the issuing banks, only 8 banks are simultaneously licensed as card acceptors as well as offer card payment services via POS located in stores and shopping centres. Out of the total of debit card transactions, about 86 percent consist of cash withdrawals from ATMs, and about 14 percent are POS (Point of Sale) purchases. According to interviewees, the use of cards in POS purchases had a very positive upward trend until some of the banks

started applying commissions for card holders, without informing them, as a percentage of the amount for every purchase made at the POS.

Table 1. Commissions applied by banks to provide this service.

Type of commission	The amount of the comm.
Annual charter maintenance committee (7 banks)	150 - 1,200 ALL
Card Replacement Commission (in case of loss, etc.)	400-1,400 ALL
PIN Replacement Commission (in case of loss, etc.)	200-1,000 ALL
Commission for withdrawal from ATMs of other banks	1.5% -2.5% of the sum
Cash withdrawal commission from ATMs abroad	2% - 3% of the amount
Comm. for purchases at POS abroad / internet (3 banks)	0.5% - 3% of the amount

From the processing of information received from banks, it results that the cost income ratio from card services results 47 percent. It is also evidenced that banks do not have all the commissions applied for card-related services clearly disclosed. The comparison showed that banks in Albania apply higher commissions for the annual quota and additional card. Meanwhile other commissions are slightly higher than SEE countries.

#### 4.3.5 Deposits and Current Accounts

Deposits from households are the major share of total deposits of the system (85.2 percent). From the information received from banks, it turns out that for setting the commission level, banks consider the average commission or market price for this service.

Table 2. Commissions for providing bank account services

Type of commission	The amount of the comm.
Current account opening commission	N / A
Commission for closing the current account (8 banks)	Up to 20 Euros
Maintenance Account for savings accounts (6 banks)	Not less than 1 Euro/month
Maintenance Account for Current Account (12 banks)	Not less than 1 Euro/month

Account Maintenance Commission (10 banks)	Not less than 1 Euro/month
---	----------------------------

By comparison, banks in Albania applied much higher commissions for each of the analyzed bank accounts.

#### 4.3.6 Securities Trading Service

It is appeared that 8 banks are licensed to accomplish transactions with government securities in the primary market. Analyzing the working conditions of these banks, 20% of them do not have published information on the commissions applied for the participation of retail customers in the primary market. While the Bank with the largest volume of this business applies the highest commission compared with other banks at 1.2 percent of the invested amount, while for other banks ranges from 0.2% to 0.3% of the amount invested, as well as a minimum level of 2,000 ALL and a maximum of 10,000 ALL.

#### 4.4 Comparison of banks according to the perception of the pricing and fairness of banks

Based on the empirical techniques applied for classification of banks according to pricing the main products and information symmetry to their customers. Classification is made in 6 classes: 1- Expensive service; 2- Relatively expensive service; 3- moderately priced service; 4- Relatively cheap service; 5- Cheap service; 6- Free Service; n/a- Service which is not provided by the bank or has not been published in the terms and conditions form of the bank. The classification of banks as per tables below.

Table 3. Observation of the pricing and fairness of banks for money transfer & retail loans

BANKS	Money Transfer (Payments)		Loans		
	ALL	Euro	Mortgage	Consumer	OD
Bank 1	1	1	1	1	n/a
Bank 2	3	2	2	2	2
Bank 3	3	2	4	4	3
Bank 4	4	4	3	1	n/a
Bank 5	4	4	3	1	1
Bank 6	3	1	1	1	n/a
Bank 7	1	1	4	3	2

Bank 8	3	1	2	1	1
Bank 9	4	2	2	2	n/a
Bank 10	3	1	3	3	n/a
Bank 11	3	4	3	3	3
Bank 12	4	1	1	1	1
Bank 13	3	2	3	1	2
Bank 14	1	4	3	3	n/a
Bank 15	4	1	2	1	n/a
Bank 16	1	2	3	3	3

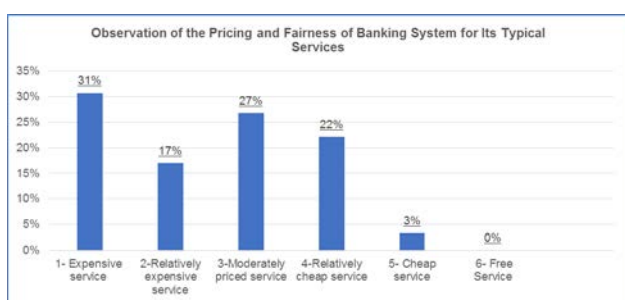
Based on the analysis and the assessment made for the classification of banks for outgoing money transfer and retail loans it is concluded that 56.3% of banking services are valued at 1- Expensive service and 2- Relatively expensive service. While 30% of banking services are rated at 3- moderately priced service. Only 13.7% of banking services are evaluated at 4- Relatively cheap service; 5- Cheap service and 6- Free Service.

Table 4. Observation of the pricing and fairness of banks for Cards & Banking Accounts.

BANKS	Cards					Acc.	
	Debit		Yearly	Credit		Adm.	Closing
	Inside country	Outside country		Inside country	Outside country		
Bank 1	2	4	1	1	1	4	3
Bank 2	4	3	1	2	4	4	3
Bank 3	n/a	n/a	n/a	n/a	n/a	n/a	3
Bank 4	n/a	n/a	n/a	n/a	n/a	3	3
Bank 5	1	2	3	3	1	5	3
Bank 6	1	1	2	3	4	4	4
Bank 7	4	2	n/a	n/a	n/a	3	1
Bank 8	1	2	n/a	n/a	n/a	4	4
Bank 9	1	3	4	1	4	4	3
Bank	n/a	n/a	n/a	n/a	n/a	1	n/a

10							
Bank 11	1	1	2	2	1	4	5
Bank 12	5	4	3	2	2	4	4
Bank 13	3	3	1	4	1	5	5
Bank 14	3	4	1	1	2	5	3
Bank 15	1	3	n/a	n/a	n/a	4	5
Bank 16	4	2	n/a	n/a	n/a	4	1

Related to the analysis and the assessment made for the classification of banks for Cards and banking accounts, it is concluded that 41% of banking services are valued at 1- Expensive service and 2- Relatively expensive service. While 22% of banking services are rated at 3-moderately priced service. Only 37% of banking services are assessed at 4- Relatively cheap service; 5- Cheap service and 6- Free Service. While the observation of the pricing and fairness of banking system for its typical services is presented in the following chart. Graphic 2. Observation of the pricing and fairness of banking system for its typical services



It is evident that 30.72% of banking system services observed as expensive services and only 3% of services observed as cheap services. While 17% remarked as relatively expensive services and 26.8% as moderately priced services.

### 5 Conclusions and Implications

Overall, this article conclude that information symmetry plays an important role in customer trust in banking services for SEE countries and for developing economies like Albania this is even more

so. This article demonstrated that banks do not finalize the pricing and publication of their typical services terms and conditions based on a methodology, but generally pricing is done by following the competition and publication as per their IT preferences.

As a result of this practice, we argue that competition in the banking system is at a relatively low level, as evidenced by the relatively high pricing commissions and fees and lack of information symmetry for their typical products' terms and conditions. Regarding the last point, some of the banks are also in breach of regulation on transparency for banking and financial products and services because comparison of products' terms and conditions among banks presents difficulties for the public as a result of the lack of a standard regarding the format, the presentation of commission levels and the terminology used. Also, unfavourable commissions on money transfer between banks in Albania (which are higher than SEE countries) can be converted into an increase in customer tendency to avoid paying through the banking system by increasing informality and affecting cash growth in the economy. In addition, and as worrisome, we did not identify a best practice by banks in SEE countries either.

These findings suggest several potential interventions that policy makers can undertake to address asymmetric information and shore up customer trust in the banking system.

The Albanian Central Bank, and financial regulatory bodies in SEE countries, in order to protect costumers from information asymmetry, should improve the regulatory framework by asking all banks to establish a common methodology for pricing and publication of symmetric information for products terms and conditions.

Also, for this purpose Central Banks should increase the frequency of off-site supervision or targeted on-site inspections. The standardization of this process, the provision of non-relevant information, complex and highly technical language, as well as product characteristics assessment, can be regulated in order to facilitate the process of selecting a product or financial service from the perspective of an ordinary customer in the SEE interlinked countries by cross border activities, etc. This will be a good practice for the banking sector in Albania and SEE countries in general, which will contribute towards the institutionalization of trust between banks and costumers thus creating the conditions for more competition and better financial services.



## References:

- [1] Akerlof, G. (1970), *The Market for Lemons: Quality Uncertainty and the Market Mechanism*. *Quarterly Journal of Economics* Vol.84 (August 1970): 488-500.
- [2] Akerlof, George A., Romer, Paul M. 1993. Brookings Papers on Economic Activity, "Looting: The Economic Underworld of Bankruptcy for Profit" Vol. 2 (1993), pp. 1-73
- [3] Akerlof, George A.(2000), "Economics and Identity", *Quarterly Journal of Economics*, 115(3)
- [4] Allen, F. and Carletti, E (2010), "An Overview of the Crisis: Causes, Consequences, and Solutions", *International Review of Finance*, vol.10 (1), pp.1-26
- [5] Bester, H. 1985, *Screening vs. Rationing in Credit Markets with Imperfect Information*. *American Economic Review* 75: 850–855.
- [6] Boot, A. W. (2000), *Relationship banking: What do we know?* *Journal of Financial Intermediation* 9 (1): 7–25.
- [7] Bordo, D Michael and Landon Lane J.S. (2010b), *The Banking Panics in the United States in the 1930s: Some Lessons for Today*, Rutgers University (mimeo)
- [8] Carol, X O., Choon, L S. (2009), *To Trust or to Distrust, that is the Question- Investigating the Trust-Distrust Paradox*. *Communications of the ACM*, 52(50), 135-139.
- [9] Chari, V.V., Christiano, L., Kehoe, P.J. (2008), *Facts and Myths about the Financial Crisis of 2008*, Federal Reserve Bank of Minneapolis Working Paper 666.
- [10] Charles W. Calomiris and Gary Gorton. (1991), "The Origins of Banking Panics: Models, Facts, and Bank Regulation". (p. 109 - 174)
- [11] Christine Lagarde. (2017), "The role of personal responsibility in reforming culture and behavior in the financial services industry".
- [12] Ciccarelli, M., Maddaloni, A. M., Peydró J. L. (2011), *Trusting the Bankers: A New Look at the Credit Channel of Monetary Policy*, unpublished manuscript. An earlier version is available as ECB working paper 1228.
- [13] Ciccarelli, M., Maddaloni, A., & Peydró J., (March 2013) "Heterogeneous transmission mechanism Monetary policy and financial fragility in the Euro area" ECB working paper series no 1527.
- [14] Cole, R. A., (1998), *The importance of relationships to the availability of credit*. *Journal of Banking & Finance* 22: 959–977.
- [15] Debab, N., Yateem, H. A., (2012), *Assessing the factors that influence trust in the Bahraini retail banking after the financial crisis*, *International Journal of Business Management and Economic Research*, 3(3): 546–565.
- [16] Diamond, D. and R. Rajan., (2001), *Liquidity risk, liquidity creation and financial fragility: A theory of banking*. *Journal of Political Economy* 109 (2): 287–237.
- [17] Dodd Peter and Jerold Warner, "On Corporate Governance: A Study of Proxy Contests," *Journal of Financial Economics* 11, April 1983, pp. 401-438.
- [18] Data and reports at <https://www.bankofalbania.org/>
- [19] Fornari, F., Stracca, L. (2011), "What does a Financial shock do? First international evidence", European Central Bank, Working Paper Series, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1522.pdf?81a61f265658b1b69d182ba53fc2beca>.
- [20] Gatzert, N., Schmit, J., & Kolb, A. (2014) "Assessing the Risks of Insuring Reputation Risk" Friedrich-Alexander-University of Erlangen-Nürnberg
- [21] Gertler, M., Kiyotaki, N., Queralto, A., (2010), *Financial Crisis, Bank Risk Exposure and Government Financial Policy*, unpublished manuscript.
- [22] Giesecke, K., F. Longstaff, S. Schaefer, and I. Strebulaev., (2012), *Macroeconomic Effects of Corporate Default Crises: A Long-Term Perspective*. NBER Working Paper Series - Working Paper 17854.
- [23] Hans-Werner Sinn., (2002/2003), *Asymmetric Information, Bank Failures, and the Rationale for Harmonizing Banking Regulation*. *Public Finance Analysis*. Vol. 59, No. 3, pp. 340-346
- [24] Hart, O. (1995), *Firms, Contracts, and Financial Structure*. Oxford University Press.
- [25] Hoshi, T., A. Kashyap, and Scharfstein, D. (1990), *Asymmetric Information, Corporate Finance, and Investment*, University of Chicago Press, chapter Bank Monitoring and Investment: Evidence from the Changing Structure of Japanese Corporate Banking Relationships, 105–126.
- [26] Houston, J. and James, C. (1996), *Bank information monopolies and the mix of private and public debt claims author*. *The Journal of Finance* 51: 1863–1889.
- [27] Jarvis, C. (1999), *The Rise and Fall of the Pyramid Schemes in Albania*; IMF WP/99/98
- [28] Kindleberger, Charles P. (1978), *Manias, Panics and Crashes*. London: Macmillan.

- [29] Kysucky, V. and L, Norden. (2014), *The benefits of relationship lending in a crosscountry context: A meta-analysis*. Management Science forthcoming.
- [30] Lewicki R J, Mcallister D J, Bies R J (1998). Trust and Distrust: *New Relationships and Realities*. *Academy of Management Review*, 23(3), 438-458.
- [31] K.,(2016),”Reputational Risk: *Problems With Understanding The Concept And Managing Its Impact*”, *Bezpieczny Bank* 4(65)/2016.
- [32] Mishkin, F.S. (1990), *Financial Markets and Financial crises*; University of Chicago Press; Chicago.
- [33] OECD (2011), *G20 High-Level Principles on Financial Consumer Protection*; Paris.
- [34] Petersen, M. A. and Rajan, R. G., (1995), *The effect of credit market competition on lending relationships*. *The Quarterly Journal of Economics* 110 (2): 407–443.
- [35] Law no. 9662/2006 *"On Banks in the Republic of Albania"*, as amended.
- [36] Regulation 59/2008 *"On the transparency for banking and financial products and services"*, as amended.
- [37] Regulation 48/2015 *"On consumer credit and mortgage credit"*.
- [38] Regulation 63/2012 *"On the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators"*
- [39] Schenone, C. (2010), *Lending relationships and information rents: Do banks exploit their information advantages?* *Review of Financial Studies* 23 (3): 1149–1199.
- [40] Svilenova, J. (2011), *"Regulatory Response to the Financial Crisis of 2007- 2008 Will Basel III Help Prevent Future Crises in the Banking Sector?"* *NorgesHandelshøyskole*, Spring 2011
- [41] Sharpe, S. A. (1990), *Asymmetric information, bank lending and implicit contracts: A stylized model of customer relationships*. *The Journal of Finance* 45 (4): 1069– 1087.
- [42] Smith, A., (1776), *"The Wealth of Nations"*.
- [43] Smith, Philip G., (1976), *"Knowledge and Values"*.