The remittances landscape in Zambia

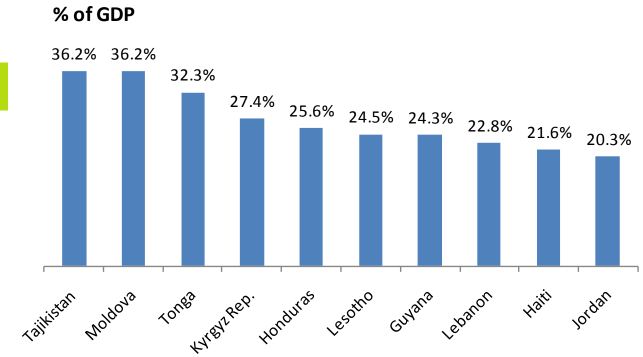
Presentation to FinMark Trust Forum
Lusaka, 21 October 2008

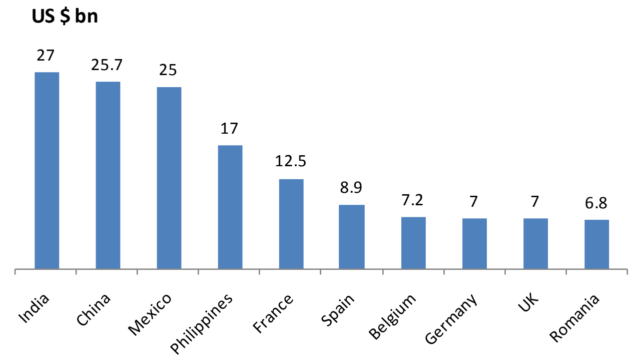
Overview

- **Context**
- Zambian remittances landscape
  - Demand
  - Supply
  - Total size?
- Regulation
- Opportunities and challenges
- Discussion

Context

- Why consider remittances?
  - US$240bn to developing countries in 2007
  - Large and stable source of external funding





- What are remittances?
  - Non-reciprocal, person to person, migrant workers
- But is this appropriate to Zambia?
  - Unique migration pattern, low international migration, de-urbanisation, intra-urban, intra-rural domestic
  - Transaction needs – **small value payments**

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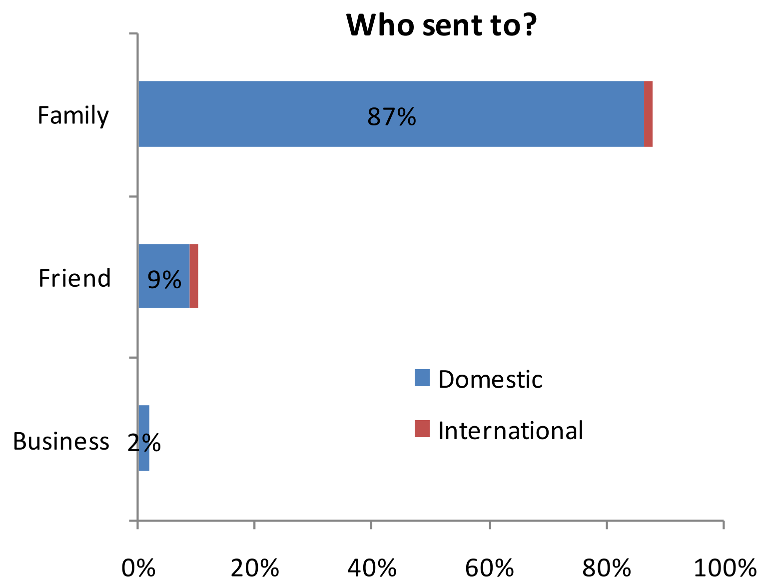
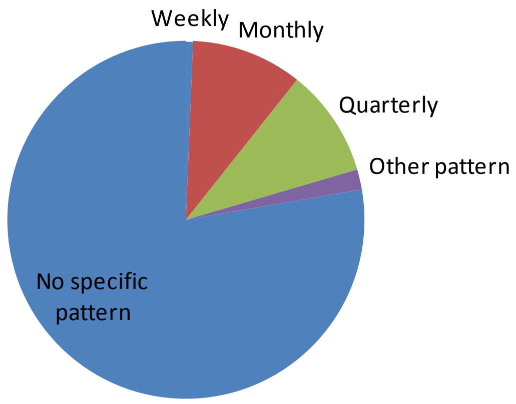
Zambian remittances landscape: demand-side insights

Remittance behaviour

- Sending money is common
- Senders tend to be more affluent
- Difficult to isolate corridors, but Lusaka, Copperbelt large senders and receivers
- Few people send money regularly
- Typical amounts vary



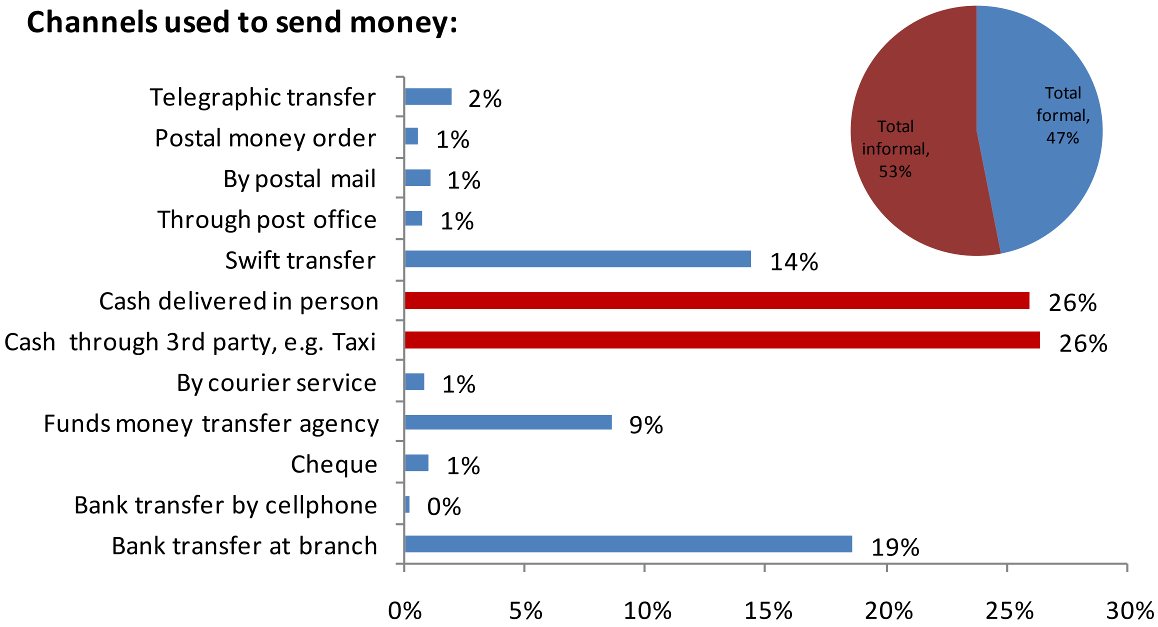


Source: Informal interviews; FinScope 2005

Zambian remittances landscape: demand-side insights

Channel preferences

- Bus drivers/ conductors most used– typically charge 10%
- Sending money with friend/relative: preferred if available
- Formal channels – Zampost
- Cashing in of talktime transfers
- Sending money to headmaster



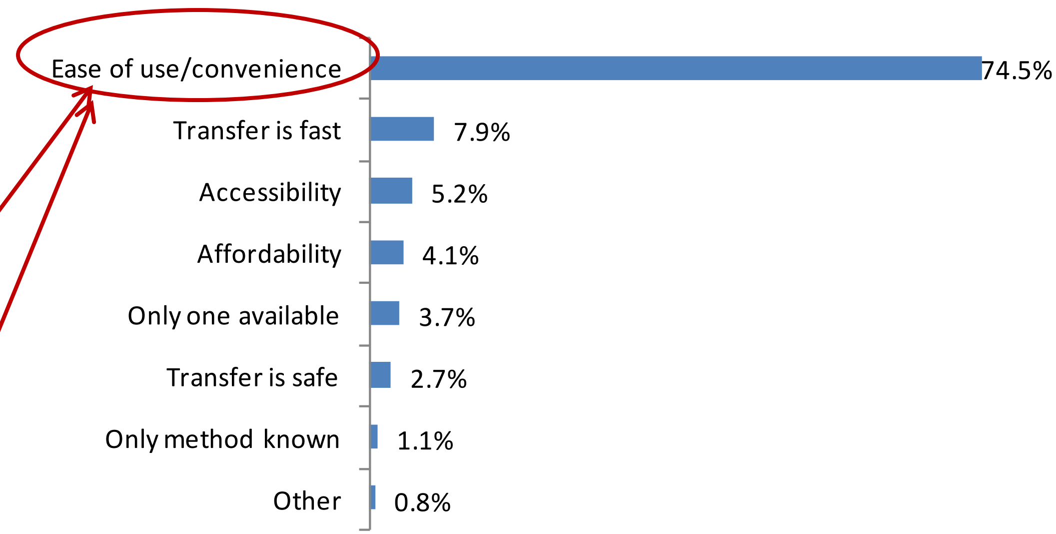
Source: Informal interviews; FinScope 2005

Zambian remittances landscape: demand-side insights

Perceptions

- Informal channels not always cheaper, but cost not raised as consideration – rather driven by perceptions
- Perceptions vary and tend to justify the chosen channel
- Thus: consumer awareness key to uptake
- Yet distribution footprint remains major inhibitor

Reason for channel choice:



Source: Informal interviews; FinScope 2005

Zambia remittances landscape: supply

Players and products

- Money transfer operators:

Western Union & Moneygram	Operate through a network of banks and postal agencies. Neither is regarded as an instrument for mass market small-value payments as they focus largely on international transactions.
Swiftcash	The largest domestic money transfer operator. Provided by Zampost. With 223 postal outlets, Zampost provides Swiftcash (and Western Union) with the single biggest distribution network in Zambia.
Cash4Africa	Was launched in 2007 by Money Express Ltd with the mission to serve the unbanked; conducts exclusively domestic money transfers. Currently operates through 16 outlets, mostly in border towns.
Natsave Transcash	A non-account service currently operated by means of fax between Natsave's 26 branches. Now plan to implement an online system.
Celpay	A dedicated payment mechanism provider operating largely business to business transactions, as well as person to business transactions through a POS network.
MTZL (Mobile Transactions Zambia Ltd)	About to start operations based on successful pilot experience with small farmers in a cotton industry outgrower scheme. Provides a mechanism for the company to make payments to individuals via a network of agents.

- Banks – common themes
  - A2A and/or Moneygram
  - Non-account transfers mostly international – higher value
  - Money transfers not core business
  - Banks at competitive disadvantage in terms of consumer perceptions?
  - Yet market potential recognised: entry point for the unbanked

Zambia remittances landscape: distribution

- Physical accessibility biggest challenge
  - LCMS data:
    - **Public transport** most accessible: 83% (**67.4%** rural) <5km away; only 7.8% (14.4% rural) >16km
    - **Post office**: 89% urban <5km, but only 19% rural; **55%** rural >16km
    - **Banking outlet**: **73%** rural (36% all) >16km
- Hence some plans for alternative distribution – but mostly still targeting existing networks
- M-payments potential, yet cell phone penetration constraints (16% FinScope)

Total market size: two scenarios

- **Scenario one – based on industry feedback**
  - Non-account transfers:

	Total annual transactions	Estimated average transaction value (ZMK)	Total market transaction value (K bn)	US $ million equivalent	Total revenue potential (K bn)
Cross-border	156 000	1 200 000	187.2	51	15
Small value domestic	840 000	75 000	63	17	19
Larger value domestic	360 000	250 000	90	25	11
Total formal market	1 356 000	250 885	340	93	45
Estimated informal	2 034 000	150 000	305.1	84	52
Total potential market	3 390 000	190 354	645	177	97

  - Amounts to 40% of banked market (assume 3 transactions pp/a)
  - Wider payments market potential:
    - Account to account transfers: FinScope – 4.5m additional bankable?
    - Business to person payments: agriculture – estimated 1m payments potential
    - Business to person payments: other sectors
    - Business to business transfers
    - Government to person transfers: 10% of households by 2012

Total market size: two scenarios

- **Scenario two– based on FinScope™**
  - Remittance behaviour:

Channel used - total senders	Number of senders	% of senders	Percentage of total adults
Total formal	718 054	47%	9.5%
Total informal	811 999	53%	10.8%
Total	1 530 052	100%	20.3%

  - Assumptions - frequency 3, same transaction amounts as scenario 1:

Channel used - total senders	Annual transactions	Assumed average value (ZMK)	Total market estimate (K bn)	Total revenue estimate (K bn)
Formal	2 154 161	250 000	539	65
Informal	2 435 996	150 000	365	62
Total	4 590 157	196 930 (weighted average)	904	127

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Regulatory impacts

The policy & regulatory framework of relevance to money transmission in Zambia:	- The Financial Sector Development Plan and the Bank of Zambia strategic plan - The Banking and Financial Services Act and its subordinate legislation - The National Payment Systems Act - The Prohibition and Prevention of Money Laundering Act and its subordinate directives

- No adverse effects indicated
- Inclusionary approach to payment system businesses – NPS Act creates space not limited to banks
- Possible AML impact on non-account transactions?
- Bank of Zambia committed to financial inclusion
- International principles yet local context taken into account
- “Open door” regulatory stance

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Conclusion: opportunities and challenges

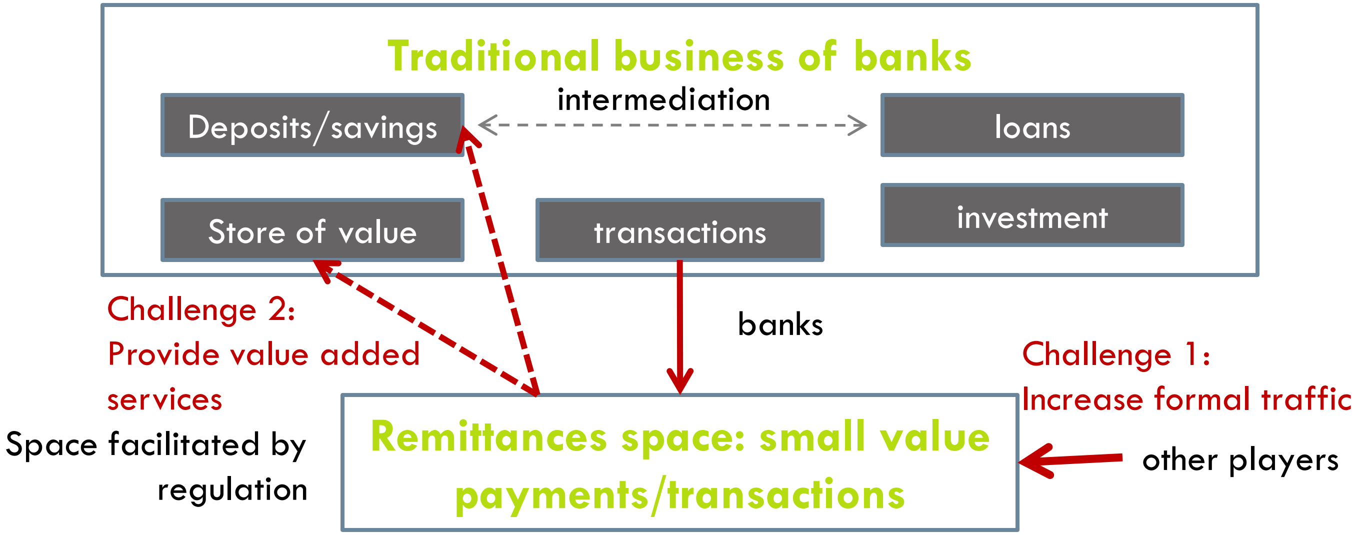
- **Objective**: making the remittances market work for the poor in Zambia
  - Increased welfare
  - Role for formal sector expansion?
    - YES: if cheaper, more accessible, more reliable, safer, quicker
    - AND: if consumer perceptions changed
- **Opportunities**:
  - Evident transacting need among low-income population implies significant scope for market expansion
  - Particular opportunity for non-account based transfers
  - Conducive regulatory stance
  - Increasing interest in alternative distribution
- **Challenges: supply-side**
  - Distribution footprint
  - Making agent relationships work and getting cash management right
  - Achieving interoperability
  - Cost-effective use of technology
  - Overcoming connectivity constraints
  - Bringing down cost

Principal amount	Weighted average fee
K100,000	22%
K200,000	13%
K300,000	10%

- **Challenges: demand-side**
  - Consumer awareness and trust – overcome by using existing touch points/aggregators?
  - Cash culture

Issues going forward

- Small value payments space:



- Prioritise affordability and accessibility challenges – feasible?
- Concerted effort to increase consumer awareness – BOZ role?
- If successful:
  - Can increase frequency and hence volumes
  - Positive network effect

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Thank you!

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