The remittances landscape in Zambia
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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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

Channels used to send money:

- Telegraphic transfer: 2%
- Postal money order: 1%
- By postal mail: 1%
- Through post office: 1%
- Swift transfer: 14%
- Cash delivered in person: 19%
- Cash through 3rd party, e.g. Taxi: 26%
- By courier service: 1%
- Funds money transfer agency: 9%
- Cheque: 1%
- Bank transfer by cellphone: 0%
- Bank transfer at branch: 19%

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:

- Ease of use/convenience: 74.5%
- Transfer is fast: 7.9%
- Accessibility: 5.2%
- Affordability: 4.1%
- Only one available: 3.7%
- Transfer is safe: 2.7%
- Only method known: 1.1%
- Other: 0.8%

Source: Informal interviews; FinScope 2005
## Players and products

### Money transfer operators:

<table>
<thead>
<tr>
<th>Operator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union &amp; Moneygram</td>
<td>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.</td>
</tr>
<tr>
<td>Swiftcash</td>
<td>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.</td>
</tr>
<tr>
<td>Cash4Africa</td>
<td>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.</td>
</tr>
<tr>
<td>Natsave Transcash</td>
<td>A non-account service currently operated by means of fax between Natsave’s 26 branches. Now plan to implement an online system.</td>
</tr>
<tr>
<td>Celpay</td>
<td>A dedicated payment mechanism provider operating largely business to business transactions, as well as person to business transactions through a POS network.</td>
</tr>
<tr>
<td>MTZL (Mobile Transactions</td>
<td>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.</td>
</tr>
</tbody>
</table>

### 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
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:**
    - 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

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

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

<table>
<thead>
<tr>
<th>Channel used - total senders</th>
<th>Number of senders</th>
<th>% of senders</th>
<th>Percentage of total adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total formal</td>
<td>718 054</td>
<td>47%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Total informal</td>
<td>811 999</td>
<td>53%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Total</td>
<td>1 530 052</td>
<td>100%</td>
<td>20.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Channel used - total senders</th>
<th>Annual transactions</th>
<th>Assumed average value (ZMK)</th>
<th>Total market estimate (K bn)</th>
<th>Total revenue estimate (K bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>2 154 161</td>
<td>250 000</td>
<td>539</td>
<td>65</td>
</tr>
<tr>
<td>Informal</td>
<td>2 435 996</td>
<td>150 000</td>
<td>365</td>
<td>62</td>
</tr>
<tr>
<td>Total</td>
<td>4 590 157</td>
<td>196 930 (weighted average)</td>
<td>904</td>
<td>127</td>
</tr>
</tbody>
</table>
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☐ Regulation

☐ Opportunities and challenges

☐ Discussion
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
- Brining down cost

**Challenges: demand-side**
- Consumer awareness and trust
- Cash culture

<table>
<thead>
<tr>
<th>Principal amount</th>
<th>Weighted average fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>K100,000</td>
<td>22%</td>
</tr>
<tr>
<td>K200,000</td>
<td>13%</td>
</tr>
<tr>
<td>K300,000</td>
<td>10%</td>
</tr>
</tbody>
</table>
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

Traditional business of banks

- Deposits/savings
- Store of value
- Loans
- Investment
- Intermediation
- Transactions

Remittances space: small value payments/transactions

Challenge 2: Provide value added services
Space facilitated by regulation

Challenge 1: Increase formal traffic
other players
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Thank you!

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