



BANKSERVAFRICA

# BankservAfrica NPS Workshop

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## MARKET BARRIERS TO DOMESTIC AND CROSS-BORDER PAYMENTS

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# IS THE CURRENT APPROACH TO NPS DESIGN EFFICIENT IN THE CHANGED CONTEXT OF THE 21<sup>ST</sup> CENTURY?

## ARE WE FIGHTING YESTERDAY'S BATTLES IN A CHANGED CONTEXT?

Change in how information, goods and services are exchanged (**Marketplace**)

- Emerging networks vs existing hierarchies
- Online platforms (marketplaces) and applications that utilise them (frenemy)
- Governance
- Currency and capital
- Shared economy
- Distributed ledger technology

Change in who exchanges information, goods and services (**Actors**)

- New types of suppliers of information (e.g. publishing)
- New types of consumers (e.g. bots – AI and machine learning)
- Changing nature of supply chain (humans and machines)

Change in what information, goods and services are exchanged (**Things**)

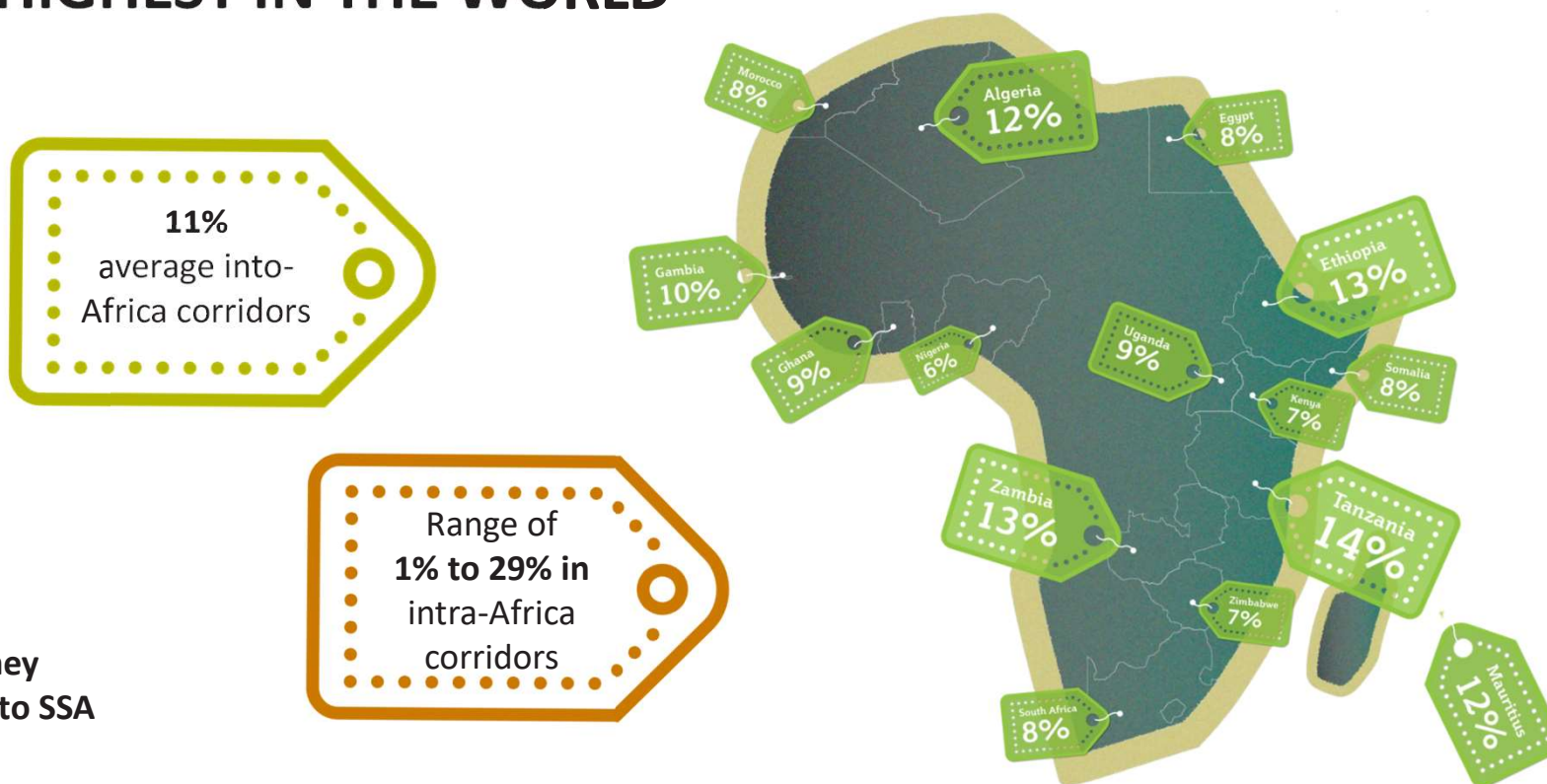
- IoT, 3D printing
- Democratisation vs popularisation (post-truth)
- Data as the new oil
- AI and machine learning
- Drones and robotics



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# Indications of an inefficient status quo

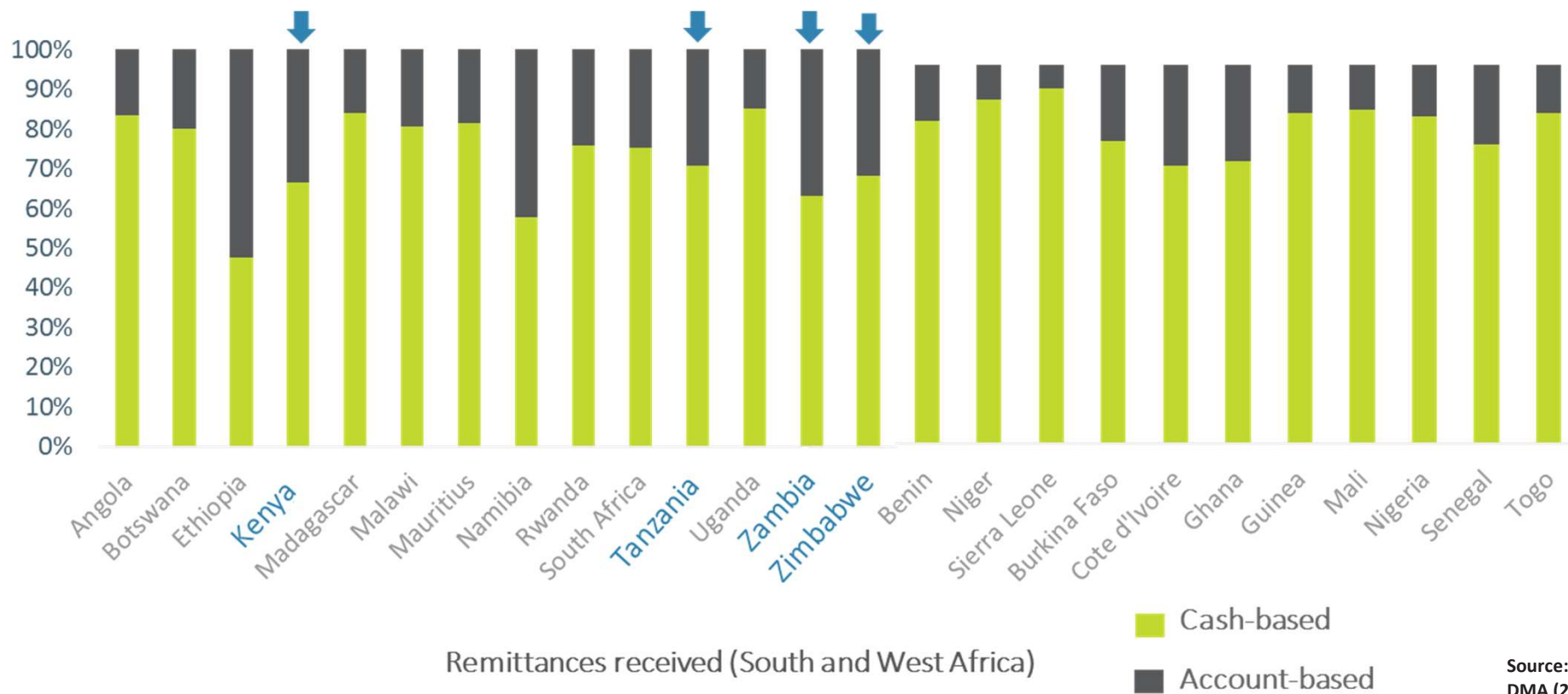
# THE COST OF SENDING REMITTANCES TO/WITHIN AFRICA IS THE HIGHEST IN THE WORLD



Sending money  
from the UK to SSA

Source: FSDA (2017);  
World Bank (2017)

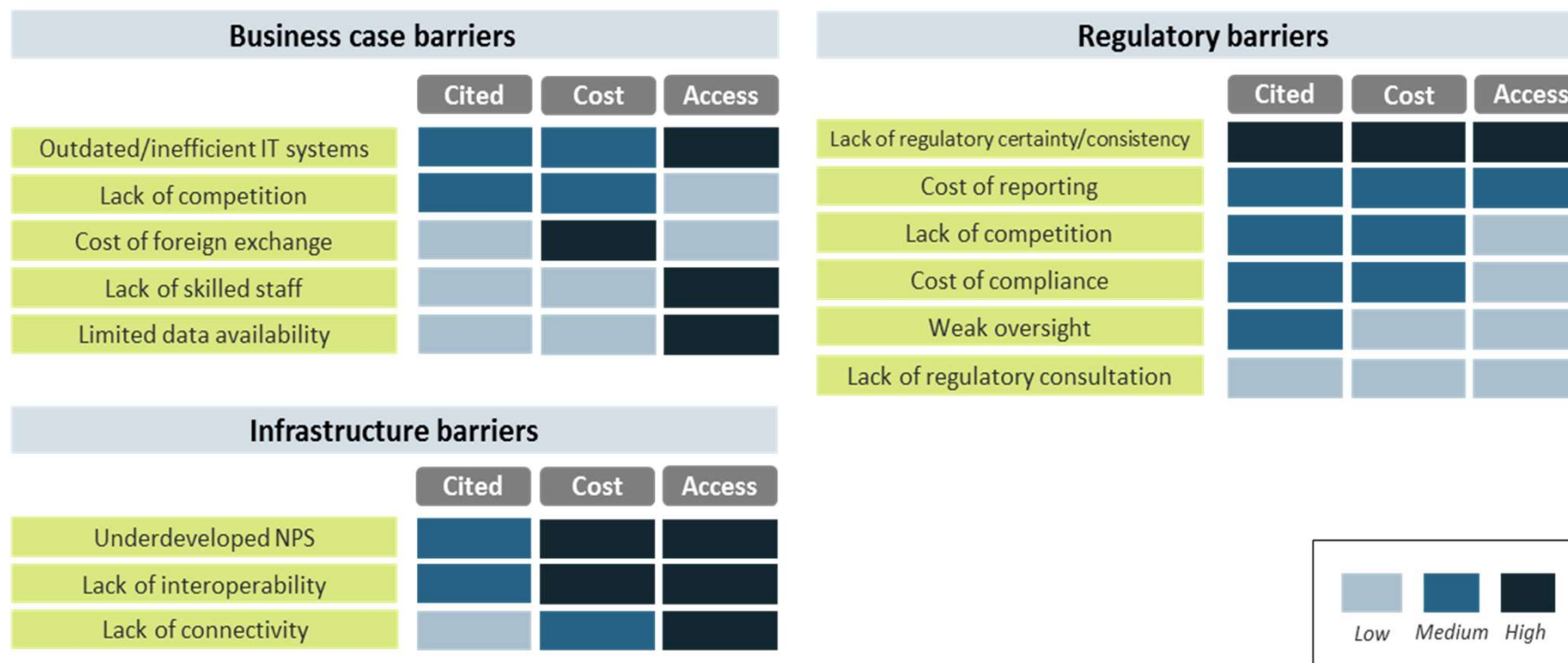
## CASH-BASED OTC TRANSACTIONS DOMINATE IN AFRICA



Source: World Bank Findex (2014), DMA (2017)

# CENFRI RESEARCH HIGHLIGHTS MARKET BARRIERS IN SSA

## MIDDLE MILE



Source: Cenfri (2018)

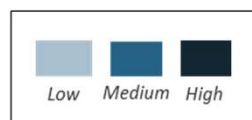


# CENFRI RESEARCH HIGHLIGHTS MARKET BARRIERS IN SSA

## FIRST/LAST MILE

Business case barriers			
	Cited	Cost	Access
Cost of liquidity management	Medium	High	High
Cost of agent management	Medium	High	Medium
Lack of interest by banks	Medium	Low	High
Limited data availability	Medium	Medium	Medium
Outdated /inefficient IT systems	Medium	Medium	Medium
Lack of competition	Low	Medium	Low
Competition from informal services	Low	Medium	Low
Lack of skilled staff	Low	Low	Medium

Infrastructure barriers			
	Cited	Cost	Access
Lack of cash-in/-out points	High	Medium	High
Lack of connectivity	Low	Low	High

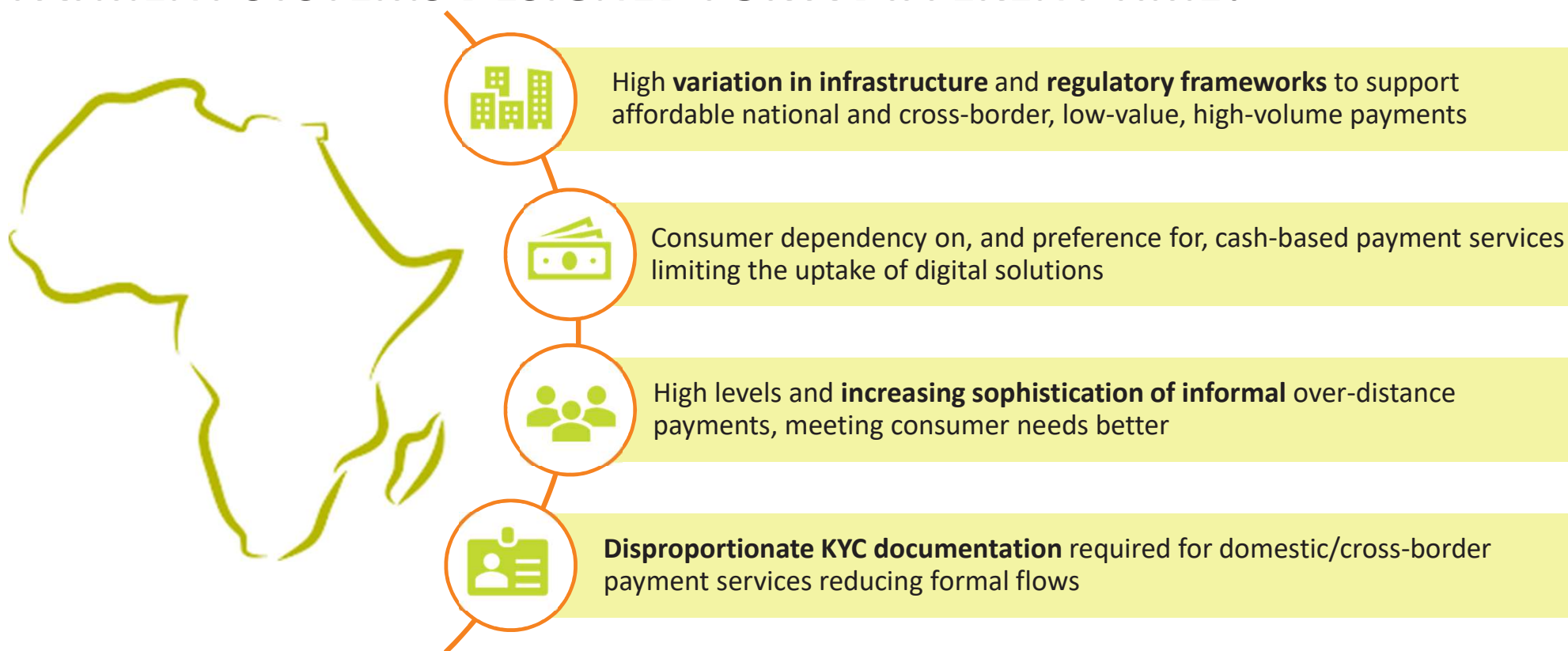


Regulatory barriers			
	Cited	Cost	Access
Cost of KYC requirements	High	High	High
Lack of non-bank licenses	Medium	High	Medium
Cost of foreign exchange controls	Medium	High	Low
Cost of remittance taxes	Low	Medium	Low
Lack of regulatory consultation	Low	Low	Low

Consumer barriers			
	Cited	Cost	Access
Cash preference	Medium	High	High
Lack of documentation	Medium	Medium	High
Lack of trust	Medium	Low	High
Lack of pricing transparency	Medium	Medium	Low
Cost of transfer	Low	High	Low
Product design	Low	High	Low
Time of transfer	Low	Low	Low

Source: Cenfri (2018)

# BALANCING DEVELOPING FINANCIAL SYSTEM FUNCTIONALITY WITH PAYMENT SYSTEMS DESIGNED FOR A DIFFERENT TIME?





## REGIONAL LESSONS LEARNED:

### Example of progress towards regional harmonisation: **SIRESS – MMA**

- Consolidate correspondent banking for regional flows
- Leverage one settlement entity as single correspondent to access 84 banks and 7 central banks
- De facto harmonisation where each regulator dictates, within bounds, the rules and players and where the system accommodates jurisdictional idiosyncrasies

### Example of integrating identity, NPS and trust: **Nigeria and NIBBS**

- With the BVN structure, the consumer becomes interoperable with the financial system, not the other way around (India Aadhaar similar)
- NIBBS is configured to accommodate innovative players and value added services
- Real-time EFT (NIP) creates ubiquitous consumer trust and expands P2P, P2B use cases

### Example for interoperability: **WAEMU cross-border system**

- Good example of how to reach scale, centralising scarce expertise and infrastructure
- Enabled substantial reduction in forex margin element of pricing
- Foreign exchange risk management at scale

### Example of regional scalability without reg. harmonisation: **Regional hubs (Ecobank, Equity Bank, MFS Africa)**

- One platform integration
- Reduced bilateral integration
- Scalability: one commercial hub connects 100 million customers
- Most regional and local banks and MNOs are not currently set up to compete at this scale
- Occupies the regulatory gap between jurisdictions

# SSA RESEARCH TAKEAWAYS: A NEW APPROACH FOR A NEW(ISH) CENTURY

FUNDAMENTAL STEPS TO RETOOL FINANCIAL SERVICES FOR THE DIGITAL DIMENSION OVER THE NEXT TWO DECADES

## Domestic payment systems do not need to be a domestic endeavour

Thriving in the digital economy requires scale and interoperability at regional level for both domestic and cross-border; reducing competition for scarce resources

Regional identity and risk management linked with payments outweighs development of any specific channel in any specific country

Navigate the marginal cost squeeze by gearing payments tech towards less cost friction in economic and financial processes

Promoting higher domestic and regional economic velocities opens up wider intermediation opportunities; pivot from fees to margin

Batch-based clearing more appropriate for the growing subscription economy and away from P2P, P2B spot payments

Payments have to be ubiquitous with cash in the age of the real-time micro-payments

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# Thank you

## Please engage with us:

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### About Cenfri

The Centre for Financial Regulation & Inclusion (Cenfri) is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors seeking to unlock development outcomes through inclusive financial services and the financial sector more broadly.

### About FSD Africa

FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK Aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.

