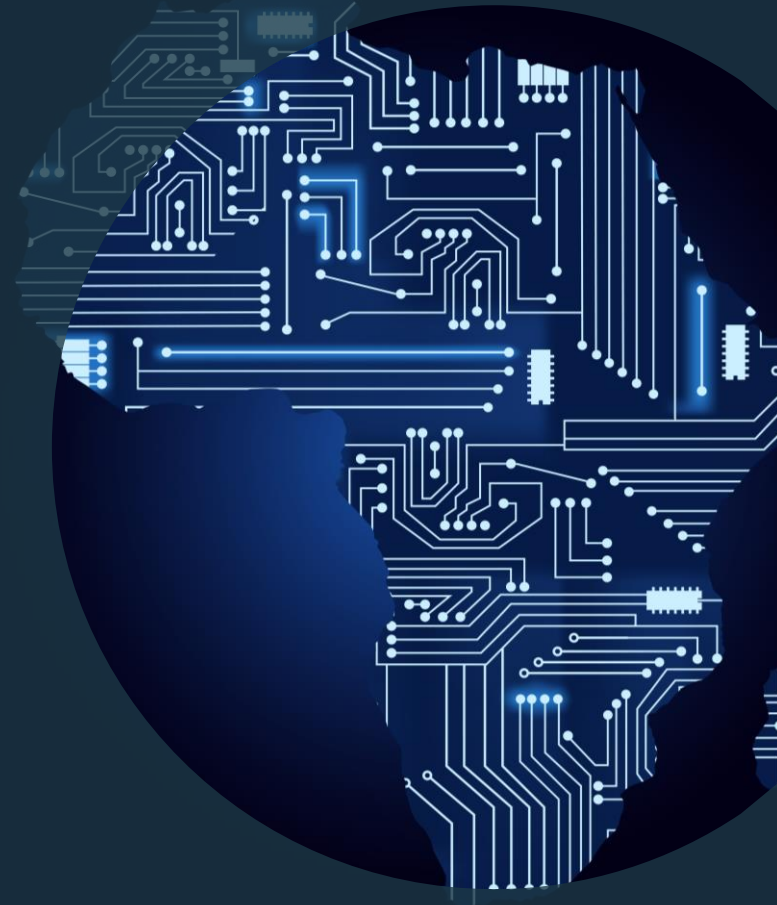


# Technology in remittances in Africa – bound by imperfect ecosystems

Barry Cooper, Technical Director

October 2019



# No doubt – theoretically, technology has lowered costs

especially through mobile-phone solutions and middle-mile efficiencies

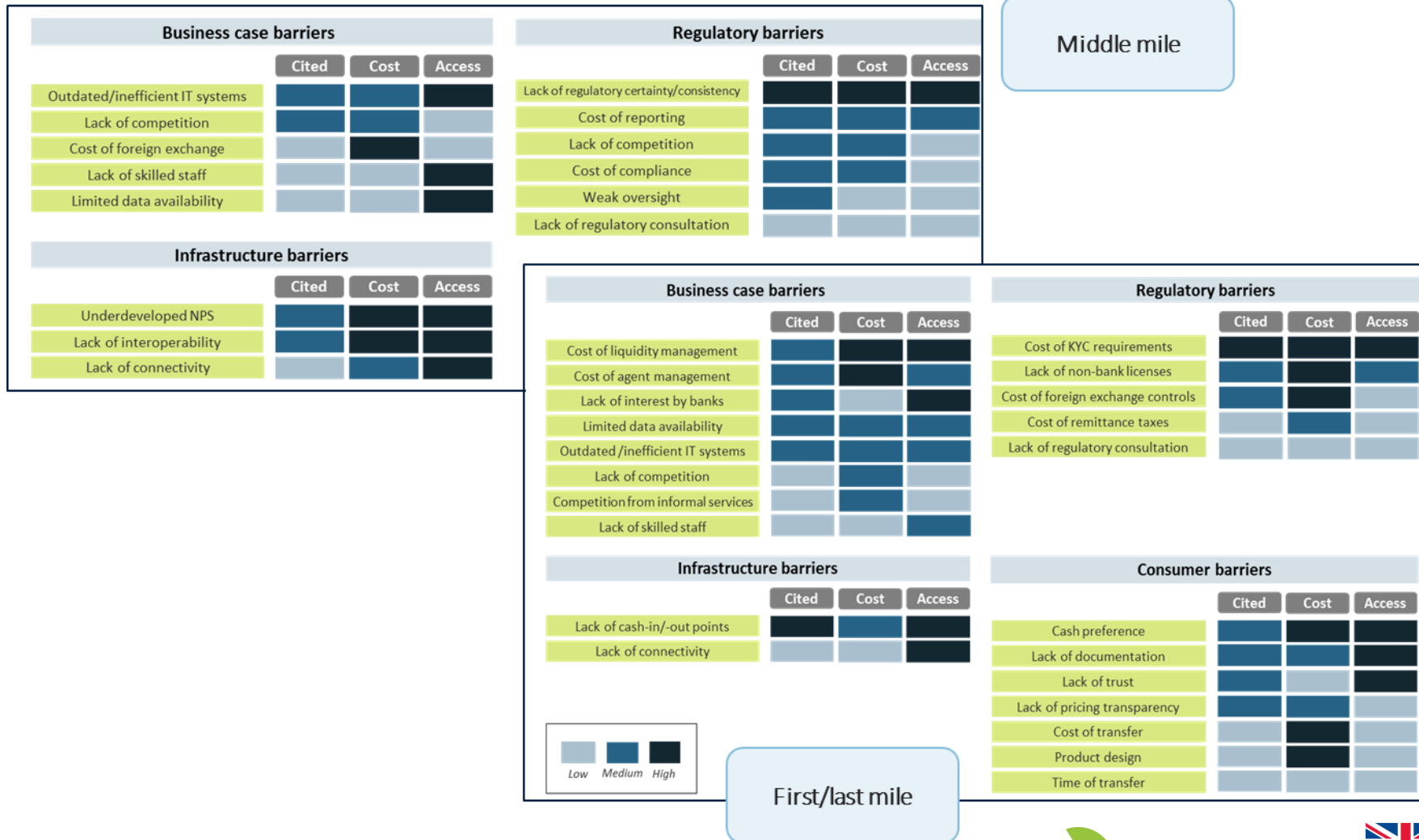


# Yet, cost reductions fairly minimal for last-mile recipients

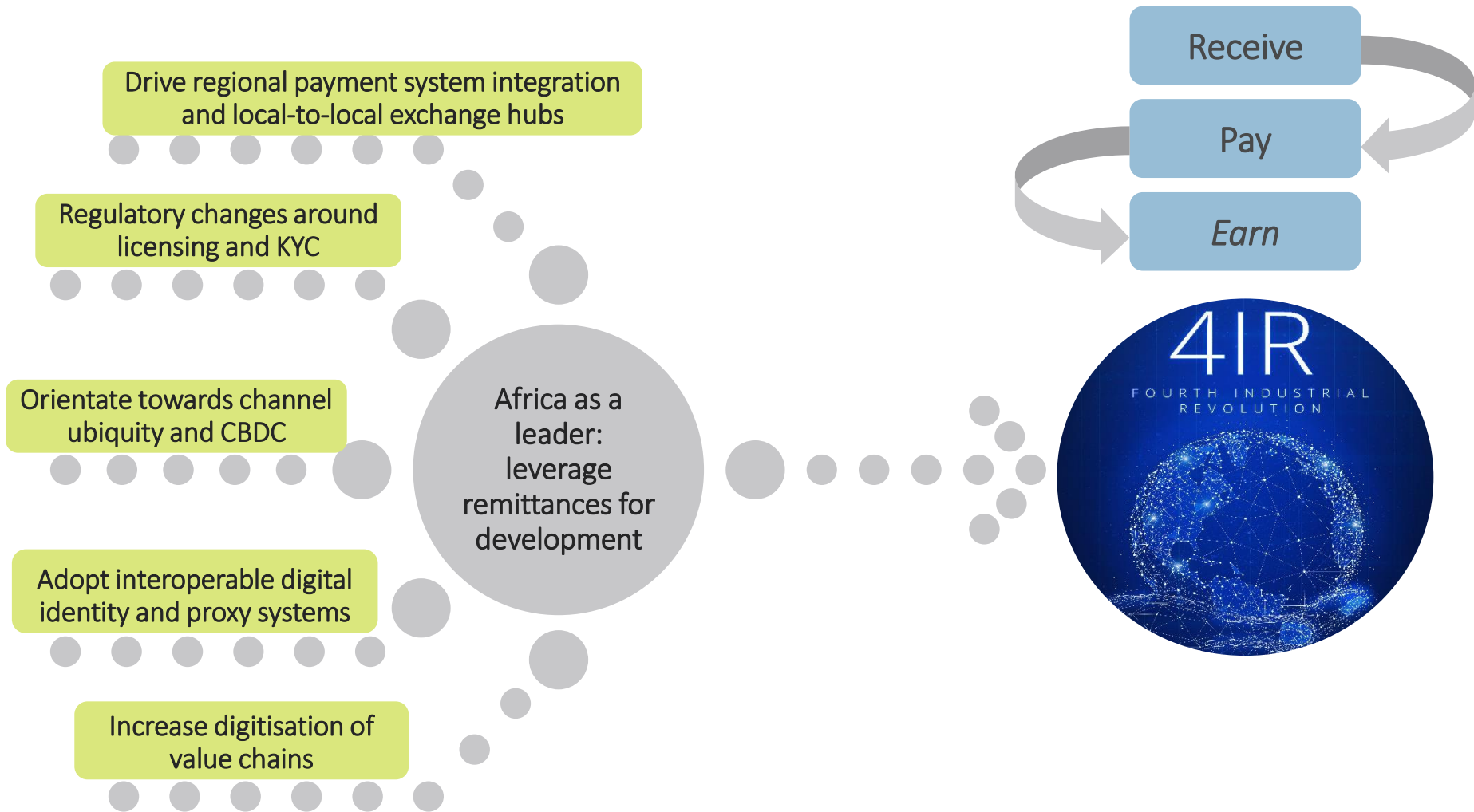
because recipients operate overwhelmingly in cash



# (Technology) providers are hamstrung by outdated regulation and inefficient infrastructure



# To reduce remittance costs much further, systemic payment changes are needed





# Review our forthcoming full list of recommendations

| REMITTANCE PROVIDERS            |  |
|---------------------------------|--|
| Barrier                         | Recommendation   |
| Lack of skilled staff           | <ul style="list-style-type: none"> <li>Develop learning/training programmes and partner with academic institutions for placements</li> <li>Recruit employees on knowledge exchange missions</li> <li>Design systems and processes to accommodate offshore staff at scale</li> </ul>                                      |
| Lack of interest by banks       | <ul style="list-style-type: none"> <li>Improve angle of business case by present to banks</li> <li>Improve business case data collection</li> <li>Focus on benefits to bank keeping funds in perpetuity</li> <li>Improve reporting and quality of data</li> <li>Aggregate correspondent banking relationships</li> </ul> |
| Cost of remittance taxes        | <ul style="list-style-type: none"> <li> lobby against mobile money remittance taxes</li> <li>Adjust pricing model to that consumers are not burdened by taxes</li> <li>Assist with research/chronometric data on impact of taxes on flows</li> </ul>   |
| Lack of regulatory consultation | <ul style="list-style-type: none"> <li>Regular check-in with regulator</li> </ul>  |

## REGULATORS AND POLICYMAKERS

| Barrier                      | Recommendation  |
|------------------------------|---|
| Lack of regulatory certainty | <ul style="list-style-type: none"> <li>Facilitate the deployment of interoperable CDD and ID proxy systems either centrally or through interoperable databases</li> <li>Facilitate access to a centralised, accessible database RBA/RBS to ML/FT; develop guidance</li> </ul> |
| Cash preference              | <ul style="list-style-type: none"> <li>Remove compulsion requirement; provide robust identifiers</li> <li>Provide a regulated electronic on-board e-storage</li> </ul>  |

## DEVELOPMENT PARTNERS

| Barrier                           | Recommendation  |
|-----------------------------------|---|
| Cost of foreign exchange controls | <ul style="list-style-type: none"> <li>Research on effects of foreign exchange controls at micro- and macro- level</li> <li>Technical assistance on the softening of exchange controls, particularly with regards to SME growth and low-value retail consumers</li> <li>Research on parallel market that foreign exchange controls fuel</li> </ul>  |
| Lack of connectivity              | <ul style="list-style-type: none"> <li>Assist with electricity quality and penetration</li> <li>Remedial plan to guarantee tower roll-out in high population-density areas</li> <li>GIS analysis of services overlaid with population density to discover gaps in digitalisation</li> <li>Investigate implementation of risk-appropriate, offline digital transactions, including offline digital identity</li> <li>Development of joint working groups with multi-ministerial representatives (communications regulator, payments regulator, ICT regulator)</li> </ul> |

| Barrier                         | Recommendation  |
|---------------------------------|---|
| Outdated/inefficient IT systems | <ul style="list-style-type: none"> <li>Assist with ISO20022 integration; capacity building</li> <li>Technical assistance, upskilling staff</li> <li>Support undercapitalised yet vital institutions for lower-income consumers with IT system development</li> </ul>  |
| Limited data availability       | <ul style="list-style-type: none"> <li>Harmonise data standards and taxonomies across regulators</li> <li>Train regulators on common standards regularly; ensure continuity</li> <li>Leverage regional platforms such as AF, ESABECL, CABA, GABAC, AIR for trainings on data quality</li> <li>Country diagnostics on the informal market to size informal flows</li> <li>Introduce global data quality standards</li> <li>Fund qualitative data initiatives to bridge quantitative data gaps</li> </ul> |

| Barrier                   | Recommendation  |
|---------------------------|---|
| Lack of skilled staff     | <ul style="list-style-type: none"> <li>Assist with improving course content</li> <li>Enable knowledge exchange between regulators</li> <li>Develop learning/training programmes contingent upon service in local institutions</li> <li>Study exchange and knowledge transmission for regulators</li> <li>Secondment programmes from developed to developing markets to facilitate knowledge transfer</li> </ul> |
| Lack of interest by banks | <ul style="list-style-type: none"> <li>Policy recommendations around the adjustment of banking licenses with a flexible inclusion component (incl. remittance)</li> <li>Develop code of market conduct, banking practice, treating customers fairly, financial services charters that require banks to ensure fair service provision</li> </ul>   |

| Barrier                         | Recommendation  |
|---------------------------------|---|
| Cost of remittance taxes        | <ul style="list-style-type: none"> <li>Systematic study of feasibility and implications of taxation of (outward and inward) remittance flows</li> <li>Analytical modeling of remittance taxes</li> <li>Compile body of evidence; organise events and workshops around the topic</li> <li>Understand the micro- and macro-implications on remittances</li> </ul> |
| Lack of regulatory consultation | <ul style="list-style-type: none"> <li>Create mandates and structures of consultative forums</li> <li>Develop policy guidance on and seek funding for forums</li> </ul>   |

| Barrier            | Recommendation   |
|--------------------|--|
| Lack of trust      | <ul style="list-style-type: none"> <li>Research on consumer protection and recourse best practices</li> <li>Research on drivers of DFS uptake</li> <li>Set up industry pricing comparison information portals</li> <li>Set up consumer recourse ombudsman</li> <li>Deployment of redress to better understand market abuses and anomalies</li> </ul> |
| Cost of compliance | <ul style="list-style-type: none"> <li>Costing exercise for different tiers of providers</li> <li>Assist with regional harmonisation through entities such as AF and FAT</li> <li>Funding of inclusive compliance model studies</li> <li>Provide policy recommendations on cost of compliance for regulators and policy makers</li> </ul>            |

| Barrier                             | Recommendation  |
|-------------------------------------|---|
| Time of transfer                    | <ul style="list-style-type: none"> <li>Foster strategic partnerships</li> <li>Leverage resources, skills and institutions in developed markets to assist with local-to-local currency transfers</li> <li>Develop guidance on how to protect developing country customer data to foster deployment cloud-based services</li> </ul> |
| Interoperability legislation        | <ul style="list-style-type: none"> <li>Review agent licencing</li> <li>Superegnet structure</li> <li>Enhance cross-gu</li> </ul>  |
| Anti-competitive provider           | <ul style="list-style-type: none"> <li>Prohibit exclusive</li> <li>Mandate interope</li> <li>Establish clear cor</li> <li>Increase financial</li> <li>Enhance cross-gu</li> </ul>   |
| License outside banking licenses    | <ul style="list-style-type: none"> <li>Review agent licencing</li> <li>Superegnet structure</li> <li>Enhance cross-gu</li> </ul>  |
| Reduce informal activity on economy | <ul style="list-style-type: none"> <li>Review agent licencing</li> <li>Superegnet structure</li> <li>Enhance cross-gu</li> </ul>  |

Cost of licensing and annual license costs in relation to risks and competition

Cost of foreign exchange controls

Minimum capital requirements

Study effects of foreign exchange controls; net impact of informal activity on monetary policy and economy

Increase number of sending licenses for providers

## REMITTANCE PROVIDERS

| Barrier                      | Recommendation  |
|------------------------------|---|
| Cost of KYC requirements     | <ul style="list-style-type: none"> <li>Research international, regional KYC processes</li> <li>Linking into local ID proxy systems and explore</li> <li>Use funding models</li> <li>Assist with the development of guidance on risk-based innovative KYC models at regional FAT-style bodies</li> <li>Host regional/national workshops and conferences on a KYC, ID proxies and RBA/RBS</li> <li>Assistance with sector consumer risk assessments to modernise the KYC regimes</li> </ul> |
| Lack of regulatory certainty | <ul style="list-style-type: none"> <li>Regulatory gap analysis understanding the key regulatory areas</li> <li>Regularly converse regulators regularly; insist on collaboration of regulators</li> <li>Provide funding and technical assistance for the development of a regulation for innovation framework</li> </ul>   |

| Barrier                  | Recommendation  |
|--------------------------|---|
| Cash preference          | <ul style="list-style-type: none"> <li>Research on drivers of digital uptake, including participation in forums between industry and regulator(s)</li> <li>Adopt an effective risk-based approach</li> <li>Improve quality of collected KYC data</li> <li>Under per p/n approval</li> <li>Apply comp</li> </ul>   |
| Lack of interoperability | <ul style="list-style-type: none"> <li>Regular check-ins with the regulator (e.g. through participation in forums between industry and regulator(s))</li> <li>Focus on understanding and mitigation of risks when presenting to regulator</li> <li>Understand consumer demand through qualitative and quantitative research</li> <li>Change incentive structure for agents away from cash-out</li> <li>Improve consumer awareness and understanding of DFS</li> <li>Tackle DFS fraud</li> </ul> |

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| Barrier                        | Recommendation  |
|--------------------------------|---|
| Underdeveloped payment systems | <ul style="list-style-type: none"> <li>Utilise local rails where feasible</li> <li>Decrease the number of closed-loop systems by focusing on regional/international open-loop system integration</li> <li>Leverage fintech solutions for better agent float management</li> <li>Agreements with cash-heavy businesses for better float management</li> <li>Partner with retailers/aggregators</li> <li>Revise agent roll-out strategies</li> <li>Locate cash-in/cash-out within value chains to understand digitisation gaps</li> </ul> |
| Cost of liquidity management   | <ul style="list-style-type: none"> <li>Open system integration</li> <li>Enable push integr</li> <li>Push integr</li> <li>Resea strate</li> </ul>  |

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| Cost of agent management        | <ul style="list-style-type: none"> <li>Rationalise agent incentive structures</li> <li>Revise agent force structures</li> <li>Digitise agents</li> <li>Develop interchange model with other providers for better coverage</li> <li>Drive interoperability</li> <li>Cap analysis of agent network in recipient country</li> <li>Understand consumer demand and preferences</li> <li>Develop value-added digital products aligned with market demand</li> <li>Increase marketing efforts</li> <li>Introduce appropriate transparency in pricing, especially in the foreign exchange margin, as a competitive advantage</li> </ul> |

| Barrier                           | Recommendation  |
|-----------------------------------|---|
| Cost of licensing                 | <ul style="list-style-type: none"> <li>Regular check-ins with regulator</li> <li>Participate in regulation for innovation pilots</li> <li>Understand the risks in-depth to propose appropriate licensing</li> </ul> |
| Cost of foreign exchange controls | <ul style="list-style-type: none"> <li>Provide regulator with cost estimate of foreign exchange controls and their effect on consumers/the economy</li> <li>Increase 4G tower penetration</li> </ul>                |

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| Lack of connectivity            | <ul style="list-style-type: none"> <li>Increase 4G tower penetration</li> <li>Diversify network channels according to status quo in connectivity (e.g. this SIMs)</li> </ul>   |
| Outdated/inefficient IT systems | <ul style="list-style-type: none"> <li>Integrate with ISO20022 (there are slimmer versions possible)</li> <li>Leverage slimmer fintech solutions and open APIs; utilise combined industry providers</li> <li>CoPs by banking association; view to ubiquity and regional integration</li> </ul> |
| Limited data availability       | <ul style="list-style-type: none"> <li>Push for industry-led reporting models to better understand industry potential</li> <li>Develop industry-led reporting standards</li> </ul>   |

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Compliance procedures implement RBA/RBS with proper risk ratings and align integrity incentives

Scale-favouring regime of licensing aggregation of operators and creation of operators/schemes to reduce flexibilities of integration centralised proxy services for real-time



# Cenfri remittances/integrity research overview

- **Barriers to remittances series:**  
<https://cenfri.org/publications/where-are-the-flows/>
- **Payment ecosystems in SSA: an overview:**  
<https://cenfri.org/blog/tipping-the-scale-in-favour-of-payment-systems-in-sub-saharan-africa-ssa/>
- **Benefits and risks of digital fiat currencies:**  
<https://cenfri.org/publications/the-benefits-and-potential-risks-of-fiat-currencies/>
- **Central bank digital currency (CBDC) and financial inclusion:**  
<https://cenfri.org/publications/central-bank-digital-currency-cbdc-and-financial-inclusion/>
- **Biometrics and financial inclusion:**  
<https://cenfri.org/publications/biometrics-and-financial-inclusion-a-roadmap-for-implementing-biometric-identity-systems-in-sub-saharan-africa/>
- **Inclusive financial integrity:**  
<https://cenfri.org/publications/inclusive-financial-integrity-guidance-note/>
- **Illicit financial flows and inclusive integrity:**  
<https://cenfri.org/publications/illicit-financial-flows-a-financial-integrity-perspective/>
- **The evolution of agent networks in Africa:**  
<https://cenfri.org/publications/the-evolution-of-agent-networks-in-africa/>

# Thank you

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[www.cenfri.org](http://www.cenfri.org)

## About Cenfri

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 who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

