DIGITAL FINANCIAL SERVICES (DFS) WORKING GROUP

BRINGING SMART POLICIES TO LIFE

# INNOVATIVE CROSS-BORDER REMITTANCE SERVICES: EXPERIENCES FROM AFI MEMBER COUNTRIES

Guideline Note No. 30
August 2018

GUIDELINE NOTE

# CONTENTS



## ACKNOWLEDGMENT


This guideline note was prepared under the guidance of the Innovative Cross-Border Remittances Subgroup of the Digital Financial Services (DFS) Working Group. Ms. Carla Fernandes, Chief of Financial Inclusion Service of Banco de Moçambique and Subgroup lead, is the main author of the report, with support from Ali Ghiyazuddin Mohammad, Policy Manager, Digital Financial Services. Aboubacar Keita, Banque Centrale De Guinee and Jahongir Amijonov from National Bank of Tajikistan also contributed to the preparation of the report.

Developing Markets Associates, led by Mr. Leon Isaacs, provided additional analysis through stakeholder interviews and literature reviews.

AFI sincerely thanks the member institutions that participated in the survey on innovative digitally enabled cross-border remittances. We also thank stakeholders who participated in the study: Claire Scharwatt (GSMA), Ola Polczynski (TransferTo) and Hemant Baijal (MasterCard).

Special thanks to Beth Porter and Amil Aneja from UNCDF for their review and useful comments.


## ACRONYMS

| | |
|---|---|
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| ATM | Automated Teller Machine |
| B2B | Business to Business |
| BCEAO | Central Bank of West African States |
| BIS | Bank of International Settlements |
| CPMI | Committee on Payments and Market Infrastructures |
| DFS | Digital Financial Service |
| EMI | Electronic Money Institution |
| FATF | Financial Action Task Force |
| FCA | Financial Conduct Authority |
| GDP | Gross Domestic Product |
| GPFI | Global Partnership for Financial Inclusion |
| ID | Identification Documentation |
| IMTO | International Money Transfer Organization |
| KYC | Know Your Customer |
| MECBR | Mobile-Enabled Cross-Border Remittances |
| MTO | Money Transfer Operator |
| P2P | Person-to-Person |
| PI | Payment Institution |
| POS | Point of Sale |
| PSP | Payment Service Provider |
| RSP | Remittance Service Provider |
| SDG | Sustainable Development Goal |
| SSB | Standard-Setting Body |
| WAEMU | West African Economic and Monetary Union |

# BACKGROUND

According to the World Bank,[1] global remittances in 2017[2] totaled USD 595.7 billion, 75.6 percent of which ($450.1 billion) correspond with remittance flows to low- and middle-income countries. This volume marks an increase of more than 50 percent since 2007,[3] and cross-border remittances now account for more than five percent of GDP for 47 developing countries.[4]

At the societal level, remittances are associated with lower levels of poverty and represent a large and steady supply of foreign funds. Remittances support demand for local consumption and provide a cushion for the volatile flows of other types of international funds, such as foreign direct investment and aid. At the household level, remittances are associated with increased spending on housing, education and income-generating activities.[5] Remittances therefore play a vital role in the development of low- and middle-income countries.

There are challenges, however. Remittances sent through existing formal channels can be prohibitively expensive, with costs currently averaging 7.2 percent for a $200 transfer. A large proportion of remittances are still sent through informal channels, which lack consumer protection mechanisms.[6]

The rise of new communication and information technologies and innovative mechanisms for delivering financial services and products are creating new opportunities for cross-border transfers to get money into the hands — and ideally into the accounts — of those who need it most. Unfortunately, these technologies may not be covered by existing regulatory frameworks for cross-border fund transfers. To address this issue, AFI issued a guideline note in 2014, "Mobile Financial Services: Mobile-Enabled Cross-Border Payments", to identify the main challenges with cross-border remittances and payments and how regulators have addressed these challenges.

This guideline note on innovative cross-border remittances updates the 2014 guideline note and has the following objectives:

(i) To broaden the scope of the topic from mobile cross-border payments to digital financial services, or innovative cross-border payments, to cover all financial services provided through digital or other innovative platforms;

(ii) To define existing cross-border remittance business models, legal and regulatory requirements, and the challenges regulators face in promoting financial inclusion;

(iii) To reveal the results of a survey on cross-border remittances completed by members of AFI's Digital Financial Services (DFS) Working Group; and

(iv) To share cases studies from AFI member countries that document how innovative cross-border remittance services are being implemented.

1 http://passthrough.fw-notify.net/download/538676/http://www.knomad.org/sites/default/files/2017-10/Migration%20and%20Development%20Brief%2028.pdf

2 According to the BIS and The World Bank (2007), remittance transfers are defined as "cross-border person-to-person payments of relatively low value" and, according to Garcia, J. (2006), a cross-border payment is "a transaction that involves individuals, corporations, settlement institutions, central banks or a combination thereof, in at least two different countries". The GSMA (2017) has defined mobile-enabled cross-border remittances as "low-value person-to person (P2P) international transfers, delivered electronically to a financial account held on a mobile phone". https://www.bis.org/cpmi/publ/d76.pdf http://www.cemla-remesas.org/medicion/PDF/seminariomx2006/JoseGarcia01.pdf

3 https://www.ifad.org/documents/38714170/39135645/Sending+Money+Home+-+Contributing+to+the+SDGs%2C+one+family+at+a+time.pdf/c207b5f1-9fef-4877-9315-75463fccfaa7

4 https://www.theglobaleconomy.com/rankings/remittances_percent_GDP/

5 http://unctad.org/en/docs/ditctncd20108_en.pdf

6 http://www.knomad.org/sites/default/files/2017-12/Migration%20and%20Development%20Report%2012-14-17%20web.pdf

# OPERATIONAL AND REGULATORY LANDSCAPE OF CROSS-BORDER REMITTANCES

## CONTEXT AND INTRODUCTION

According to recent research, remittances contribute to the welfare of 800 million people worldwide.[7] Between 2015 and 2030, it is expected that $6.5 trillion in remittances will be sent to low- and middle-income countries.[8] In Liberia, Kyrgyz Republic, Tonga and Nepal, inbound remittances represent, on average, 31 percent of GDP (see Figures 1 and 2).

In addition to their direct economic impact, remittances also help to limit the number of displaced persons in conflict, war-to-peace transition and crisis areas by enabling those with few income prospects to sustain themselves. Remittances also support forcibly displaced persons (FDPs) while in transit and/or in refugee camps.[9]

Remittances are also a tool for achieving several of the Sustainable Development Goals (SDGs) and contribute directly to poverty alleviation and access to food, water, healthcare and housing (i.e. SDG 1, 2, 3, 4 and 6). Remittances are also associated with increased spending on income-generating activities, which improves economic growth and reduces inequalities (SDG 8 and 10).[10] Given the impact of remittances on socio-economic development and the high transfer costs, SDG 10c aims to reduce the transaction costs of migrant remittances to less than three percent.

Remittances can also be a path to financial inclusion as they provide formal channels for sending and receiving money, particularly when they are made into transaction accounts. Remittance inflows enable families at the receiving end to save and invest through formal channels. A recent study by IFAD suggests that 75 percent of remittances are used for immediate needs, such as food, shelter and bill payments. The remaining 25 percent, which accounts for approximately $100 billion, is used for education, health, savings, investments and income-generating activities.[11] As both men and women are active senders and receivers of remittances, it is important that gender is taken into account in the remittance services themselves and in the regulation and supervision of those services.

The proliferation of digital technologies is rapidly transforming the remittance landscape. Innovative new technology-based remittance models are challenging incumbent, clunky and costly models. On the one hand, these new models help to reduce transfer costs and time, and improve access at both the sending and receiving ends. On the other hand, these new, untested and fast-evolving business models present challenges to customers and regulators alike.

FIGURE 1: **FINANCIAL INCLUSION USAGE IN NUMBERS**

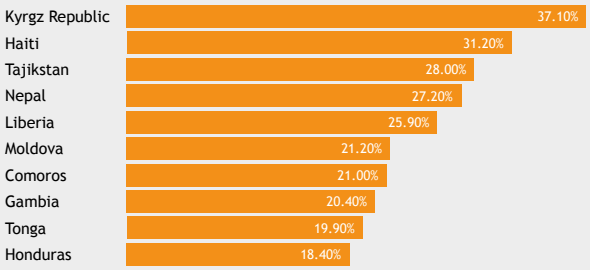
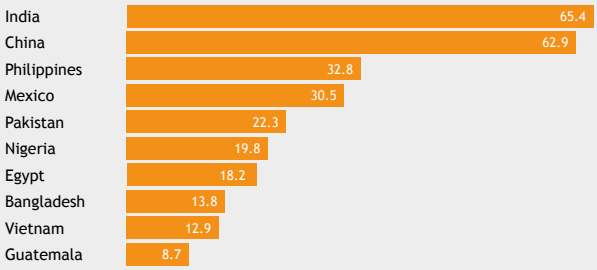



FIGURE 2: **INWARD REMITTANCES (US BILLIONS, 2017)**




In this guideline note, we analyze some of the digitally enabled cross-border remittance channels in AFI member countries and provide recommendations on regulatory approaches to support the development of these channels.

## TYPES AND CHANNELS OF DIGITALLY ENABLED CROSS-BORDER REMITTANCES

In 2017, the Digital Financial Services (DFS) Working Group conducted a survey on digitally enabled cross-border remittances. The survey covered different categories of digital cross-border remittance services (see Table 1) and different business models (see Table 2). In 2007, the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and the World Bank established "General Principles for International Remittance Services",[12] which guide countries in classifying cross-border remittance services.

7 It is estimated that 200 million senders send money home to family, or around 800 million people. https://www.ifad.org/documents/36783902/4a5640d9-e944-4a8c-8007-a1bc461416e6.
8 www.ifad.org/documents/36783902/4a5640d9-e944-4a8c-8007-a1bc461416e6
9 https://reliefweb.int/sites/reliefweb.int/files/resources/EB1BC67D16B67DD0C125714E004DD94C-Remittances.pdf
10 https://www.ifad.org/documents/38714170/39135645/Sending+Money+Home+-+Contributing+to+the+SDGs%2C+one+family+at+a+time.pdf/c207b5f1-9fef-4877-9315-75463fccfaa7
11 IFAD, (2017), "Sending Money Home: Contributing to the SDGs, One Family at a Time", available at: https://maintenance.ifad.org/documents/36783902/4a5640d9-e944-4a8c-8007-a1bc461416e6
12 http://www.bis.org/cpmi/publ/d76.pdf
13 www.businessdictionary.com/definition/Bilateral-Trade-Agreement.html
14 www.businessdictionary.com/definition/multilateral-agreement.html
15 https://newsroom.mastercard.com/press-releases/mastercard-launches-cross-boarder-remittance-service-in-zimbabwe/
16 https://newsroom.mastercard.com/mea/news-briefs/mastercard-launches-cross-border-remittance-service-in-nigeria/
17 Regulation (EU) No. 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euros.
18 www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/02/GSMA_Licensing-mobile-money-remittance-providers_Early-lessons-1.pdf

TABLE 1: TYPES, CATEGORIES, CHANNELS AND DELIVERY FLOWS OF NON-BANK DIGITALLY ENABLED CROSS-BORDER REMITTANCES

| CATEGORY | ALTERNATIVES | DESCRIPTION |
|---|---|---|
| TYPES OF CONTRACTUAL AGREEMENTS | a. Bilateral agreements | Agreement between two entities or national governments in different countries/ nations[13] that gives each party rights and obligations regarding the remittance service. The cross-border bilateral agreements would be: (i) between the same entity in different countries (hypothetical examples: M-Pesa Tanzania to M-Pesa Kenya; Western Union Ghana to Western Union Mozambique); (ii) between different entities in different countries (hypothetical examples: M-Pesa Tanzania to Western Union Kenya; M-Pesa Mozambique to Standard Bank South Africa). |
| | b. Multilateral agreements | Agreement among three or more parties, agencies or national governments.[14] The cross-border multilateral agreement is based on: (i) a link between the national switch of different countries; or (ii) cross-border remittance hubs (e.g. Zimbabwe[15] and Nigeria[16]); and (iii) a "scheme", i.e. a set of business and operational rules and technical standards to which payment service providers (PSPs) agree to adhere (e.g. SEPA).[17] |
| TYPES OF NETWORKS | a. Unilateral services | A unilateral service is a proprietary product provided "internally" by a single remittance service provider (RSP) without involving other entities as capturing or disbursement agents. Examples of unilateral services include those provided by global banks (with branches in many countries) or other banks that have set up branches abroad in areas where migrants from the home country are concentrated (BIS, 2007). Examples include ICICI Bank with branches in the UK sending to branches in India, Barclays Bank sending to Barclays Bank in Ghana. |
| | b. Franchised services | A franchised service is one in which a central provider, without necessarily having any access points of its own, provides a proprietary service. The central provider creates infrastructure to support the service (e.g. messaging and settlement, advertising), but acquires the necessary access points by inviting institutions in both the sending and receiving countries to offer the service or act as franchisees with essentially standardized terms. Examples of franchised services are global money transfer operators and international credit/debit card schemes are or could be adapted for this purpose (BIS, 2007). This is the primary model currently used for money transfer services. Examples include Western Union, MoneyGram, Ria and UAE Exchange. |
| | c. Negotiated services | In a negotiated service, an RSP negotiates with a limited number of institutions in other countries to create a sufficient network of access points. Examples of negotiated services include bilateral arrangements between banks (one in the sending country and one in the receiving country), credit union schemes, most transfer services or schemes established by postal organizations (BIS, 2007). These services are more commonly used by focused corridor operators. Examples include the La Poste (France) service to Algeria and the DBS (Singapore) service to Philippines. |
| | d. Open services | In an open service, a remittance service provider offers a proprietary service to its customers in the sending country and acquires access points in the receiving country using an open network to which any RSP can have direct or indirect access. Examples include the international banking network, which consists of national payment systems that can be accessed from another country either through correspondent banking or (less commonly) through direct links between national payment systems (BIS, 2007). This model is not typically used in cross-border remittances currently due to the complex mix of technology and security standards required to make it successful. |
| MAIN DISBURSEMENT METHODS (MEANS OF PAYING OUT REMITTANCES | | a. IMTOs offering an online or mobile-based service<br>b. Electronic money institution (EMI), including mobile money providers<br>c. Agents of EMIs and mobile money providers (for cash-out), including:<br>• Microfinance institutions;<br>• Bank branches;<br>• Post offices; and<br>• Other non- bank financial institutions.<br>d. Branchless banking/agent banking agents<br>e. ATM/POS: (i) with cards and (ii) without cards |
| CATEGORY OF OPERATIONAL REGULATORY APPROACH | a. Incoming | The receiving of funds from an entity based in a different country. For example, in Ghana, electronic money issuers are only permitted to provide inward international remittance services.[18] |
| | b. Outgoing | The sending of funds from/to an entity in a different country. |
| | c. Both | The receiving and sending of funds from entities in different countries. For example, in Rwanda and Tanzania, licensed electronic money providers are authorized to provide inward and outward international remittance services (GSMA, 2017). |

TABLE 2: EMERGING BUSINESS MODELS FOR CROSS-BORDER REMITTANCES

| BUSINESS MODEL | DESCRIPTION | EXAMPLES |
|---|---|---|
| MOBILE MONEY-BASED CROSS-BORDER REMITTANCES | > This model enables cross-border remittances to be sent through mobile money or e-wallet accounts.<br>> The transfer can happen between:<br>- Providers owned by the same group holding company;<br>- Different providers working in cooperation; or<br>- Multiple providers connected through a "hub" operated by a third party.<br>> This model is prominent in West Africa, East Africa, Southeast Asia and the Pacific.<br>> Mobile money/e-wallet accounts can be used both at the sending and receiving end. | > Millicom: Tigo Tanzania and Tigo Rwanda<br>> Orange Money: Côte d'Ivoire, Mali and Senegal<br>> MTN Mobile Money: Côte d'Ivoire to Airtel Money in Burkina Faso<br>> Singtel: Singtel Singapore to Telkomsel Indonesia |
| ONLINE/ INTERNET | > This model enables users to transfer money through an online remittance platform. The transfer can be made through the provider's mobile phone app or website.<br>> Senders can use their online banking account, debit card, credit card, etc. to link to the platform to send money.<br>> Receivers can get funds in several ways, such as mobile money, bank account deposit, airtime top-up or cash pick-up. For example, WorldRemit processes the majority of transfers to mobile money accounts.[19] | > WorldRemit<br>> Xoom<br>> Remitly |
| PEER-TO-PEER | > Online peer-to-peer platform matches senders in two countries without the need for money to cross borders.<br>> As the cross-border movement of money is low, the cost of remittances is also relatively low.<br>> This is a fully online model as no cash is accepted or sent out. Transactions can happen only through a bank account, card or closed loop wallet offered by the provider. | > Transferwise<br>> CurrencyFair<br>> Azimo |
| BITCOIN/ BLOCKCHAIN | > This model enables money transfer through bitcoin or blockchain-based technology.<br>> Bitcoin: Funds are sent and received in the respective local currency, but the cross-border transfer of funds happens through bitcoin, a leading digital cryptocurrency.<br>> Blockchain: Platforms such as Ripple and Etherium[20] enable cross-border payment services through their own cryptocurrencies (XRP and Ether, respectively) or through their platforms based on blockchain technology. Blockchain provides a decentralized ledger of transactions (blocks) distributed among all members of the network (chain). The ledger is updated every time a transaction takes place, once the members in the network have verified and approved it. | > Abra<br>> Bitpesa<br>> Coins.ph<br>> Bitspark<br>> Ripple<br>> Etherium |

## 1.3. LEGAL AND REGULATORY FRAMEWORK

There are different approaches to licensing digital cross-border remittances. The three most common are:

(i) licensing non-bank digital financial services providers;

(ii) authorizing a non-bank digital financial services provider to partner with a local bank; and

(iii) licensing that is restricted to banks.

Table 3 summarizes each of these licensing models.

TABLE 3: LICENSING MODELS FOR DIGITALLY ENABLED CROSS-BORDER REMITTANCES

| CATEGORY | ALTERNATIVES | DESCRIPTION |
|---|---|---|
| LICENSING MODELS | a. Licensing non-bank digital financial services providers directly | Non-bank digital financial services providers can be licensed directly to provide international remittances services, either within their existing business operating license (e.g. Rwanda, Tanzania, European Union) or through a separate money remitter license (e.g. Kenya). |
| | b. Authorizing a non-bank digital financial service provider to partner with a local bank | Banks provide the core international remittance services while non-bank digital financial services providers provide the distribution channel (e.g. Bangladesh, Pakistan). The licensed entity in this case is a bank. |
| | c. Licenses restricted to banks only | Non-bank digital financial services providers cannot provide international remittance services under existing laws (e.g. Ethiopia). |

19 https://bankinnovation.net/2017/05/worldremit-now-handles-75-of-mobile-remittances-looks-to-add-android-pay/

20 https://www.blockchain.com/

# CHALLENGES FOR REGULATORS IN PROMOTING FINANCIAL INCLUSION

## REGULATORY CHALLENGES

The various legal and regulatory approaches and procedures used to implement digitally enabled cross-border transactions create the following challenges for regulators: (i) operational requirements; (ii) supervision requirements; and (iii) legal and regulatory requirements. Table 4 summarizes these three types of challenges.[21]

TABLE 4: CHALLENGES FOR REGULATORS OF DIGITALLY ENABLED CROSS-BORDER REMITTANCES

| CATEGORY | ALTERNATIVES | KEY CHALLENGES |
|---|---|---|
| OPERATIONAL REQUIREMENTS | a. Settlement | Because transactions can be paid out to receivers immediately, there is a risk to customer funds. If the sending or receiving remittance service provider becomes insolvent, the receiver may not receive their money unless the services are pre-funded or guaranteed. Regulators also need to ensure that settlement funds can be "netted off" rather than processed as two gross settlements in the opposite direction. For example, if company A in country 1 must settle USD 10,000 to cover transactions sent to country B, while at the same time is due to receive $5,000 from partners in country B, the regulators in country B could allow it to transfer $5,000 to country B. This netting, $10,000 minus $5,000, reduces the overall risk and exposure and is preferable to partners in country B transferring $5,000 to company A and company A not transferring the $10,000 to country B. |
| | b. Liquidity management | Regulators must ensure that RSPs are able to manage liquidity to protect cross-border transfers. |
| | c. Infrastructure for sending and receiving funds | There are different models in place for sending and receiving remittances (through bank branches, remittance service provider offices or agent shops, online transfers via bank accounts or credit cards and mobile phones via e-wallets). Ensuring there is a robust interoperable infrastructure platform for transfers to be sent/received between different service providers using the same payment instrument and, where possible, between different payment instruments, is crucial for operationalizing remittance flows (e.g. national switch, hubs). |
| SUPERVISION REQUIREMENTS | d. AML/CFT[22] | Regulators must seek to ensure the provider has adequate systems and procedures in place to spot money laundering and terrorist financing activities. As part of AML/CFT regulation, clients of remittance services must also be identified. In some jurisdictions where customers may not possess identity documents or their identity document(s) do not comply with AML/CFT regulations, those individuals may not be excluded unnecessarily. This can affect women disproportionately since they are less likely than men to have identity documents. Regulators should ensure that KYC/ID requirements are proportional to the nature and amount of transaction.[23] |
| | e. Anti-fraud measures | Because remittance services span multiple jurisdictions, regulators need to ensure that both senders and receivers can transact in a safe, reliable and secure environment. This could mean requiring identification/verification of the transacting parties or receipt (or proof of record) of transaction that can be queried in the event of fraud or error. |
| | f. Security of IT systems | Regulators need to ensure IT systems are secure enough to maintain the integrity of the overall remittance system, such as requiring compliance with international safety/security standards and periodic technology audits. |
| | g. Cost transparency | Regulators should require that all costs and fees are disclosed to senders and are communicated to customers in plain language so they can make informed decisions about which channel to use to send money. |
| | h. Consumer protection and safeguarding customer funds | Regulators must ensure that RSPs have sufficient safeguards in place to ensure customer funds are protected, even in the event of insolvency.<br>Regulators must also ensure that RSPs have sufficient consumer protection measures in place, including dispute resolution mechanisms and data protection and privacy standards. |

21 See AFI (2014), Guideline Note No. 14; GSMA (2017).
22 Anti-money laundering (AML) and countering the financing of terrorism (CFT).
23 https://www.imf.org/external/np/sta/bop/2008/rcg/pdf/ch2.pdf

| CATEGORY | ALTERNATIVES | KEY CHALLENGES |
|---|---|---|
| SUPERVISION REQUIREMENTS *continued* | i. Third-party risk | Innovative cross-border business models often involve multiple stakeholders in the transaction (e.g. cloud computing, data services, third-party agents, hubs, card networks and payment initiation services). Regulators must ensure adequate controls and safeguards are in place for all parties involved in the remittance transaction and have clear lines of responsibility. |
| | j. Foreign exchange and cross-border transfer data collection | Regulators require providers to have systems in place to record transactions to comply with FATF guidelines and international and local regulations. Collecting this data allows supervisors to audit and inspect the transactions and to have oversight of the complete flow of funds. |
| LEGAL AND REGULATORY REQUIREMENTS | k. Different legal and regulatory requirements of countries involved in cross-border remittances | The main differences between international and domestic requirements:<br>> Transaction limits;<br>> KYC/AML requirements for international transfers;<br>> Different KYC levels between sending and receiving countries;<br>> Consumer protection (disclosure, transparency and dispute resolution);<br>> Financial literacy/education (sufficient information provided about the operating model, prices and risks of the remittance channel options);<br>> Transparency and disclosure of fees and terms and conditions expressed in simple, easily understood language;<br>> Types of entities authorized to operate in digital cross-border remittances; and<br>> Exchange control authorization or reporting. |

## CHALLENGES FOR FINANCIAL INCLUSION

To promote financial inclusion, it is important to implement proportionate financial integrity and financial inclusion measures. One of the recommendations is drawn from the High-Level Principles for Digital Financial Inclusion published by the global Standard-Setting Bodies (SSBs) with the support of The World Bank and the Global Partnership for Financial Inclusion (GPFI).

Regulators must also consider the measures prescribed by the CPMI-BIS on "General principles for international remittance services" (BIS, 2007) and "Payments aspects of financial inclusion framework and guiding principles" (BIS, 2016). The main challenges regulators face in promoting financial inclusion are summarized in Table 5.

TABLE 5: BIS GENERAL PRINCIPLES ON CROSS-BORDER REMITTANCES

| CATEGORY | GENERAL PRINCIPLE | TOPICS COVERED |
|---|---|---|
| TRANSPARENCY AND CONSUMER PROTECTION | General Principle 1: The market for remittance services should be transparent and have adequate consumer protection. | > Transparency by individual remittance service providers<br>> Enabling end users to understand the market for remittances<br>> Appropriate consumer protection |
| PAYMENT SYSTEM INFRASTRUCTURE | General Principle 2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. | > Domestic payment infrastructure<br>> Cross-border payment arrangements |
| LEGAL AND REGULATORY ENVIRONMENT | General Principle 3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions. | > Prerequisites for a well-founded legal and regulatory framework<br>> Multiple legal and regulatory frameworks<br>> Content of the regulatory framework |
| MARKET STRUCTURE AND COMPETITION | General Principle 4: Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry. | > Obstacles faced by RSPs in accessing payment systems, e.g. de-risking<br>> Exclusivity contracts |
| GOVERNANCE AND RISK MANAGEMENT | General Principle 5: Remittance services should be supported by appropriate governance and risk management practices. | > Types of risk, including financial, legal, operational, fraud and reputational risks<br>> Risks for senders, receivers, RSPs and markets |

24 https://www.gpfi.org/sites/default/files/Digital%20Financial%20Inclusion-CompleteReport-Final-A4.pdf .
25 http://www.bis.org/cpmi/publ/d144.pdf .

In addition to the traditional challenges of achieving financial inclusion, regulators and policymakers also need to work to close the persistent gender gap in financial inclusion. Box 1 lays out the issue in more detail, outlining some of the challenges women have with remittances and innovative payments and some areas where improvements could be made. [26] [27]

## BOX 1: THE GENDER GAP IN ACCESS TO FINANCIAL SERVICES

The persistent gender gap in access to formal financial services has been a long-time barrier to full financial inclusion. According to Findex data from 2017, despite the progress that has been made in increasing account ownership among women, 980 million* women around the world remain unbanked. The global gender gap is seven percent at global level and nine percent in developing countries.20 Women are also 36 percent less likely to use mobile money than men.21

Although research has revealed local differences, generally women represent half of all remittance senders globally and tend to send a higher proportion of their income regularly and consistently, even though they typically earn less than men.23 In many markets, women are the main receivers of remittances, particularly in rural areas. There is also evidence that some women tend to use informal services rather than formal services in some markets, due to familiarity with informal service providers, ease of use, accessibility and flexibility, as some informal providers deliver remittances to their doorstep. Furthermore, while there are significant issues with formal identification for all receivers, women tend to be disproportionately affected.

Specific regulatory interventions can help to ensure uptake of innovative financial services by women. These include:

(i) Delivering financial education programs aimed at girls and women.

(ii) Requiring financial service providers to submit sex-disaggregated data, which can help regulators identify necessary policy or regulatory actions and enable FSPs to improve the development and marketing of products to women.

(iii) Establishing a regulatory environment that promotes partnerships between financial institutions and other value chain stakeholders that lead to new products, wider distribution of services and agent training, with a focus on trust. Women usually require more interactions with agents than men before they feel comfortable using the service and can also be less able to travel, making access to agents an additional challenge.22

(iv) Developing digital identification solutions at both the sending and receiving ends.

(v) Creating incentives to encourage the use of formal channels.

(vi) Linking remittances to broader financial services.

(vii) Developing gender-sensitive policies around remittances and development.

Another way to improve women's access to innovative financial services is to create use cases more targeted at women. International remittances delivered through innovative platforms is one example. Enabling innovative international remittances, together with more targeted regulatory interventions, could be an important step in closing the current gender gap in access to formal financial services.

26 https://www.uncdf.org/download/file/127/3265/uncdf---asean-remittance-paper-22-6-2017final2pdf

27 https://www.iom.int/sites/default/files/about-iom/Gender-migration-remittances-infosheet.pdf

# RESULTS OF THE SURVEY ON INNOVATIVE CROSS-BORDER REMITTANCES

The use of innovative new technology-based business models is an opportunity for financial services providers to offer cross-border remittances services securely, efficiently and at a low cost, while also helping to reduce financial exclusion around the world.

There are many people living without access to formal financial services, yet most have a demand for cross-border remittance products and services. To understand the situation, a survey on cross-border remittances was administered to fifteen AFI member institutions (see the Appendix for details on respondents). It aimed to identify the main business models, regulations, risks and challenges of innovative cross-border remittance products in DFS Working Group member countries. The key results of the survey are presented in the following section.

## TYPES OF AUTHORIZED REMITTANCE CHANNELS

The survey revealed that banks and money transfer operators are still prominent channels/access points for receiving remittances.

However, it is interesting to note that digital channels, such as electronic money institutions (EMIs), payment service providers and online remittance providers, are beginning to become active. For example, El Salvador received 3.41 percent of its total remittances (i.e. $156 million out of $4.57 billion) through digital channels in 2016. Afghanistan, El Salvador, Rwanda and Tanzania allow inward international remittances via EMIs.

## APPROPRIATE MEASURES TO FACILITATE CROSS-BORDER REMITTANCES

From a policy/regulatory standpoint, regulators think that cross-border remittances can be facilitated with appropriate measures that: (i) address operational and compliance risks; (ii) ensure consumer protection; and (iii) apply harmonized and proportionate KYC. Other measures that would need to be implemented include ensuring AML and CFT controls are in place and exchange control requirements are met (where relevant).

## CHALLENGES COUNTRIES FACE WITH FORMAL CROSS-BORDER REMITTANCE SERVICES

Survey respondents clearly felt that the prevalence of informal channels and the cost of remittances were the most significant regulatory challenges with current cross-border remittance mechanisms. This could be because of a lack of available formal channels or because the channels are inadequate.

FIGURE 3: **MAIN CHANNELS AUTHORIZED TO RECEIVE REMITTANCES**

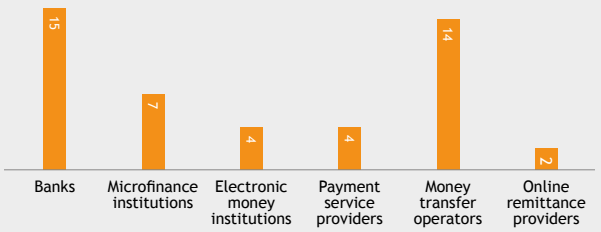
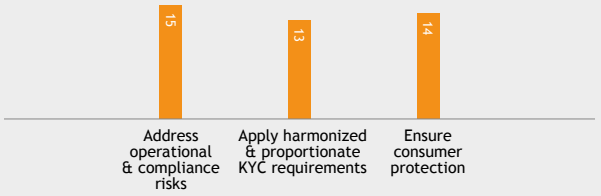



FIGURE 4: **APPROPRIATE MEASURES TO FACILITATE CROSS-BORDER REMITTANCES**




### BOX 2: INFORMAL REMITTANCES

The definition of informal remittances can vary based on a country's regulatory regime, institutional structure and legal system. However, there are certain channels for sending and receiving remittances that are generally recognized at the global level as being "informal" or "semi-informal". These include carrying cash either in person, through friends and relatives or through buses and transport companies. Other examples may include businesses that are not licensed to carry out remittance transfers, but offer these as an unregulated side business. Informal fund transfer systems, such as the hawala system, where flows are netted off and transfers are based on established, trusted networks (which are unlicensed and unregistered), are also popular informal remittance systems.

Estimates of the prevalence of informal remittances vary widely, from 35 percent to 250 percent of recorded flows. As informal transactions are usually not recorded and relatively small, measuring informality in the remittance market is a major challenge (see Annex 1 for more information). The prevalence of informal remittances depends on several factors, including the high transaction costs of formal channels, lack of financial infrastructure, lack of formal remittance services (particularly where non-bank services are restricted), limited financial inclusion and exchange controls. In some countries, particularly those with uneven migration, documentation requirements make informal channels the only option for sending remittances across borders.

The average cost of sending remittances is 7.09 percent[29] and is much higher in many African and Pacific Island countries. Estimates suggest that by reducing the cost to three percent by 2030, an SDG target, remittance communities stand to save USD 18 billion annually.[30]

The complex reasons for informality in the remittance market makes addressing the issue a serious challenge. However, initial evidence suggests that innovation in cross-border remittance services is helping to move informal flows into the formal sector (see Box 3) as financial services become easier to access and transaction costs are lowered (see Figure 10).

### BOX 3: INNOVATION AND INFORMALITY: A CASE STUDY OF ORANGE MONEY IN WEST AFRICA

In 2013, Orange Money introduced a cross-border mobile money service between Côte d'Ivoire, Mali and Senegal. Remittances between these markets had previously seen very high rates of informality. World Bank surveys conducted in 2009 and 2010 found that 41 percent of those sending remittances from Senegal to other African countries were doing so through friends and family, one percent by bus and 14 percent were carrying it themselves in cash.[31]

Within 18 months of the service launching, the value of money flowing from mobile to mobile was equivalent to 24.7 percent of the total formal remittance value previously recorded by the World Bank.[32] Although data has not been released, anecdotal evidence suggests this proportion has grown even more, with reports that a higher value of remittances flows from mobile to mobile in a few months than the World Bank has estimated flows annually.[33] Given that other RSPs are still operating in this area, this would strongly suggest a switch from informal services to cross-border mobile money.

## TYPES OF CROSS-BORDER REMITTANCE AGREEMENTS

Most of the countries surveyed reported the types of cross-border remittance agreements (between both regulators and private entities) that are considered bilateral. Countries reporting bilateral agreements include Rwanda, Tanzania, Mozambique, El Salvador and Bhutan. This may be due to the lack of a national switch or remittance hubs in many countries. Multilateral agreements are seen in countries like Jordan and Ghana that use a functional national switch.

## INNOVATIVE CROSS-BORDER REMITTANCE REGULATIONS, GUIDELINES AND POLICIES

Digital channels for cross-border remittances are evolving. However, regulations related to new digitally enabled remittances services are struggling to keep up with the rapidly changing market. Only three of the 15 participating countries reported having regulations, guidelines or policies for digitally enabled cross-border remittances: Rwanda, Afghanistan and Tanzania (regulations). The regulatory framework for digitally enabled cross-border remittances includes the provision of international remittances, i.e. allowing both inward and outward

FIGURE 5: **CHALLENGES COUNTRIES FACE WITH FORMAL CROSS-BORDER REMITTANCE SERVICES**

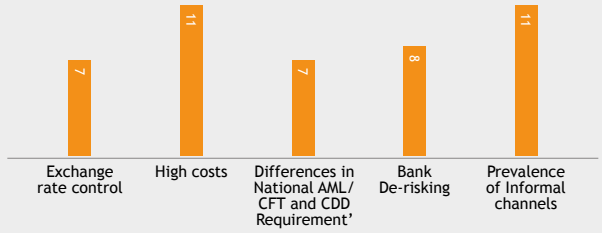
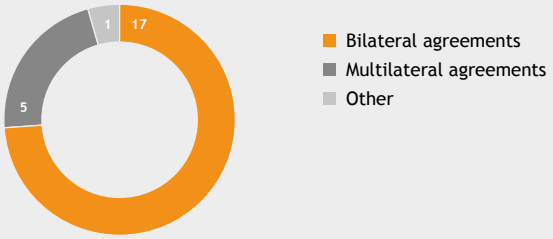



FIGURE 6: **TYPES OF CROSS-BORDER REMITTANCE AGREEMENTS**




29 World Bank (December 2017) "Remittance Prices Worldwide", available at: https://remittanceprices.worldbank.org/sites/default/files/rpw_report_december2017.pdf

30 IFAD (June 2017) "Sending Money Home: Contributing to the SDGs, one family at a time", available at: https://www.ifad.org/documents/38714170/39135645/Sending+Money+Home+-+Contributing+to+the+SDGs%2C+one+family+at+a+time.pdf/c207b5f1-9fef-4877-9315-75463fccfaa7

31 World Bank (2011) "Migration and Remittances Household Surveys in Sub-Saharan Africa: Methodological Aspects and Main Findings", available at: http://pubdocs.worldbank.org/en/866251444753456291/Plaza-Navarrete-Ratha-MethodologicalPaper.pdf

32 GSMA (2017) "Guidelines on International Remittances through Mobile Money", available at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/09/GSMA-September-2017-Guidelines-On-International-Remittances-via-Mobile-Money-1.pdf

33 Interviews conducted in February 2018

remittances under an e-money license or similar (Rwanda[34] and Tanzania[35]) and allowing inward remittances only (Afghanistan).

## MECHANISMS FOR FACILITATING DIGITALLY ENABLED CROSS-BORDER REMITTANCES

From a business model perspective, mobile money[36] remains a prominent channel for digitally enabled cross-border remittances. The majority of mobile-money providers (12 of the 15 countries that participated in this survey) connect to global, regional and national remittance service providers such as Western Union and MoneyGram.

Mobile money providers also enable cross-border remittances by connecting to money transfer hubs, such as TransferTo, Homesend and MFS Africa. Some providers also connect directly to mobile money providers in other countries through bilateral or multilateral agreements. This cross-border cooperation can be with different mobile money providers (e.g. MTN Côte d'Ivoire and Airtel Burkina Faso) or the same provider (e.g. Orange Money in West African countries)

## LIMITATIONS ON ENABLING DIGITAL CROSS-BORDER REMITTANCES

The survey showed that it is not only a lack of specific national regulations that is a major limitation on enabling digital cross border remittances, but also the different regulatory requirements of sending and receiving countries. Differences in KYC requirements, consumer protection requirements and transaction limits also figured prominently.

## POTENTIAL OF DIGITAL CROSS-BORDER REMITTANCE CHANNELS

DFS Working Group countries agreed on the potential benefits of formal digital cross-border remittance channels. The main benefits identified in the survey were lower costs and the increased speed of low-value cross-border payments (see Figure 10).

Digitally enabled cross-border remittances have the potential to lower remittance costs, increase speed and provide last-mile accessibility to consumers both at the sending and receiving end.

A recent study by GSMA indicated that the cost of international remittances through mobile money is on average 50 percent cheaper than those through traditional money transfer operators (MTOs).[37]

FIGURE 7: **DIGITALLY ENABLED CROSS-BORDER REMITTANCES REGULATIONS, GUIDELINES AND POLICIES**

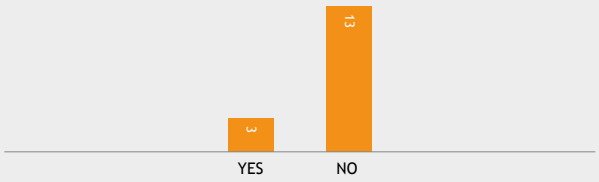



FIGURE 8: **FIGURE 8: MECHANISMS FOR FACILITATING DIGITALLY ENABLED CROSS-BORDER REMITTANCES**

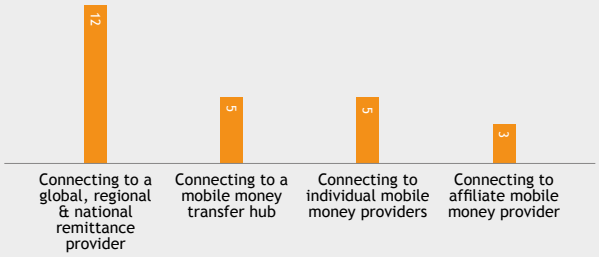



FIGURE 9: **LIMITATIONS ON ENABLING DIGITAL CROSS-BORDER REMITTANCES**

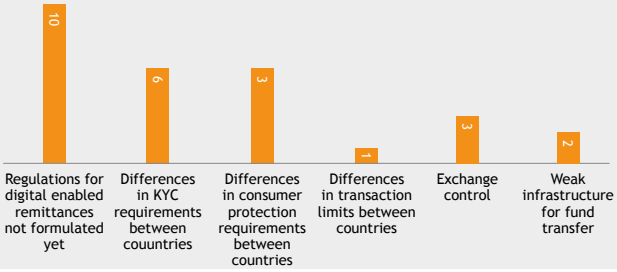
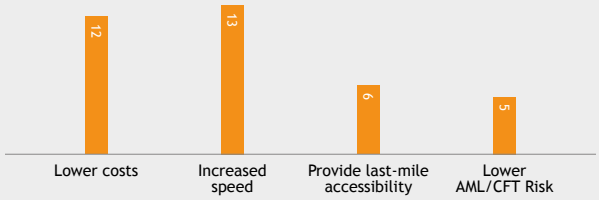



FIGURE 10: **POTENTIAL OF DIGITAL CROSS-BORDER REMITTANCE CHANNELS**




34 Article 27 of the National Bank of Rwanda's Regulations Governing Electronic Money Issuers: https://www.bnr.rw/fileadmin/user_upload/DRAFT_REGULATION_GOVERNING_THE_ELECTRONIC_MONEY_ISSUERS_May_2016.docx

35 The National Payments Systems Act (2015) of Tanzania; S34(2)(a) of The Electronic Money Regulations: https://www.bot.go.tz/PaymentSystem/GN-THE%20ELECTRONIC%20MONEY%20REGULATIONS%202015.pdf

36 Mechanisms from Guideline Note No. 14 on Mobile-Enabled Cross-Border Payments

37 https://www.gsma.com/mobilefordevelopment/programme/mobile-money/driving-a-price-revolution-mobile-money-in-international-remittances/

## FUTURE PLANS FOR CROSS-BORDER REMITTANCES

In terms of plans for cross-border remittances, member countries agreed there is a compelling need to implement digital cross-border regulations. Harmonizing regulations at regional and international levels through agreements and MoUs is also part of regulators' plans. For countries that already have or allow inward digital remittances, they plan to authorize outgoing remittances through digital channels.

## TYPES OF INNOVATIVE NEW TECHNOLOGIES

Apart from mobile money-based cross-border remittances, innovative new technology-based remittance models are fast emerging in member countries. Seven countries (of the 15 surveyed) reported peer-to-peer international transfer services, such as Transferwise and CurrencyFair. Countries such as Rwanda, Jordan, Tanzania and El Salvador reported having online/internet-based transfer services (Worldremit, Xoom, etc.). Cryptocurrency-based services (predominantly bitcoin) and blockchain-based services are also gaining prominence in countries like Mexico and Rwanda, where they were reported as being operational. In response to these developments countries such as Mexico have passed a FinTech law[38] to provide greater regulatory certainty.

FIGURE 11: **PLANS FOR CROSS-BORDER REMITTANCES**

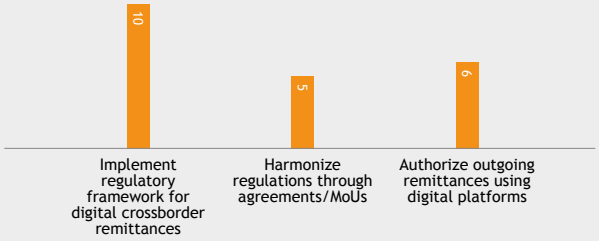
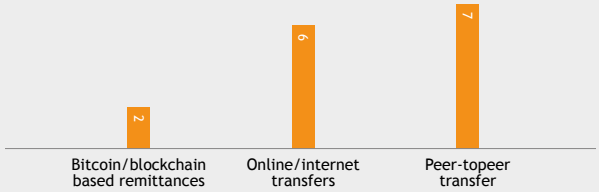



FIGURE 12: **NEW DIGITAL CHANNELS FOR REMITTANCES**




38 https://www.reuters.com/article/us-mexico-fintech/mexico-financial-technology-law-passes-final-hurdle-in-congress-idUSKCN1GD6KX

# RECOMMENDATIONS

Based on the best practices and recommendations provided by the Standard-Setting Bodies and best practice experiences around the world, it is recommended that AFI member countries implement the following measures.[39]

## LEGAL AND REGULATORY FRAMEWORK

### (I) WHERE POSSIBLE, LICENSE OR AUTHORIZE NON-TRADITIONAL REMITTANCE PROVIDERS TO PROVIDE CROSS-BORDER REMITTANCE SERVICES, BOTH INBOUND AND OUTBOUND.

Being unauthorized to offer remittance services is the main barrier to non-bank service providers being able to operate innovative cross-border remittance channels. Of the 15 countries surveyed in this study, only three had digital cross-border remittance regulations, guidelines or policies in place for non-bank services. Globally, more countries are permitting inbound remittances to non-bank digital service providers, but outbound remittances are still restricted. Most innovation in this space is being driven by non-bank financial services providers. To achieve financial inclusion goals and allow innovative services to reach scale and have a global impact, it is essential to open new corridors through regulatory change.

**Specific Policy Recommendations:**

> Where possible, ensure that non-bank digital financial services providers, such as mobile money providers and EMIs, can be licensed or authorized to offer both inbound and outbound international remittances, while also ensuring adequate risk management measures are in place. In jurisdictions where electronic money regulations are being developed or revised, international remittances should be included in the scope of electronic money regulations.

**BOX 4: EXAMPLES OF LICENSED NON-BANK DIGITAL REMITTANCE PROVIDERS**

**Malaysia -** In Malaysia, an entity that holds both an e-money and remittance license (under the Money Service Business Act 2011) can offer international remittances through mobile wallets.

**Rwanda -** Entities holding an EMI license (including mobile money providers) issued by the National Bank of Rwanda can provide international remittance services as part of the license, both inbound and outbound, under Article 27 of the regulation governing electronic money issuers.

**European Union -** A non-bank entity can be licensed in their individual jurisdiction with a PI license or EMI license, both of which authorize inbound and outbound international remittances.

### (II) ENSURE A SOUND, PREDICTABLE LEGAL AND REGULATORY FRAMEWORK THAT IS WELL UNDERSTOOD.

A sound and predictable framework that is well understood helps to minimize the risks faced by both RSPs and their customers. A predictable framework makes it clear which laws and regulations are relevant, do not change very often and are consistently enforced by authorities, including the courts. Having a sound and predictable framework for licensing and operating is essential both for private investment and for the private sector to operate efficiently and reach scale in multiple markets.[40]

**Specific Policy Recommendations:**

> Implement a clear and transparent framework for licensing non-bank remittance service providers while ensuring adequate risk management procedures are in place. This includes publishing clear application requirements for entities seeking approval to facilitate international remittances, establishing time frames for the review of license applications and the renewal process.

  In Ethiopia, a licensed provider needs to renew its license every year. In Malaysia, renewal is required after three years and Bank Negara Malaysia is considering a perpetual license (with the expectation of professional conduct* by the provider).

> Implement clear and transparent guidelines for entities operating as "hubs", including, where possible, streamlining the process for connecting to additional services via the same hub (see Box 5).

**BOX 5: BOX 5: REGULATION OF PAYMENT HUBS[41]**

Hubs connect licensed sending and receiving entities in multiple countries and through multiple channels. Hubs include HomeSend, TransferTo and MFS Africa.

In some markets, regulatory approval is required before entities can connect to another operator via a hub, even when the hub is already connected to the service provider. This limits the ability of RSPs to "switch on" corridors and allow formal remittance markets to scale.

Some markets, however, have taken an "in principle" vetting approach. In Zambia, for example, providers can receive general approval for the use of a transaction hub, enabling them to add new remittance corridors. The only stipulation is that they must notify the regulator of their intention.

Given that the largest hubs have implemented rigorous compliance standards and are subject to the requirements of the country in which they are incorporated (usually Europe), it is recommended that countries consider Zambia's streamlined approach, particularly if scale is to be achieved in markets.

39 https://www.bis.org/cpmi/publ/d173.htm
40 BIS (2007) "General principles for international remittance services", available at: https://www.bis.org/cpmi/publ/d76.pdf
41 Interviews, February 2018

### (III) CREATE A PROPORTIONATE REGULATORY AND LEGAL FRAMEWORK.

As this report has highlighted, while innovation can offer substantial benefits for consumers and regulators, it comes with significant challenges. When allowing both inbound and outbound remittances through non-bank digital institutions, a regulator must work to mitigate these risks in a way that is proportionate to the type of payment and transaction authorized.

**Specific Policy Recommendations:**

- Adopt a proportional risk-based approach for digital international remittances, based on a thorough assessment of the risks and a clear understanding of the remittance industry. Many remittance transactions are low value (less than USD 200) and findings from the 2015 Global Adoption Survey of Mobile Financial Services showed that the average value of transfers through mobile money was even lower ($82 in June 2015). The risks associated with these transfers are therefore also considered to be low. When sending through digital channels, evaluating the number and value of transfers involved and making regulation accordingly "risk-based" (as recommended by the FATF), can be essential to allowing those who do not meet the ID requirements of the sending country to send money below a certain amount through formal channels.
- When addressing the issue of KYC, consider that women are less likely to have the official documents required to open mobile money accounts. Simplified and tiered KYC requirements can therefore create an enabling environment for women to access digital financial services.[43]

### (IV) ENSURE A NON-DISCRIMINATORY LEGAL AND REGULATORY FRAMEWORK.

According to the BIS, a non-discriminatory legal and regulatory framework is "one which is equally applicable to different types of RSPs insofar as they are providing equivalent services, i.e. the regulation is equal regardless of the nature of the provider's other lines of business". This helps to promote a level playing field between different RSPs and encourage competition on a fair and equitable basis.

**Specific Policy Recommendations:**

- Ensure that the regulatory and legal framework creates an open and level playing field. For example, KYC, AML/CFT and consumer protection requirements are the same regardless of the type of RSP initiating the transfer, including digital non-bank financial services. At minimum, ensure that regulations are not prohibitively restrictive to a certain category of RSP.
- Ensure cooperation between domestic payment systems departments and exchange departments, including, for example, working groups for particular aspects of regulation.

## INNOVATIVE REGULATORY APPROACHES

Since the 2008 financial crisis, there has been significant growth in the use of financial services technology. This has posed challenges for financial regulators who are trying to strike a balance between maintaining financial stability and protecting consumers, while also trying to encourage solutions that promote growth and deliver more efficient and effective services.

In many cases, regulators have been proactive in addressing the risks and challenges associated with innovative new financial services technology. A variety of approaches have been used, including doing nothing (deliberately), granting permissions on a case-by-case basis through specific agreements, and new regulatory frameworks and structured experiments through regulatory sandboxes. Regulatory sandboxes allow providers to test new financial innovations in a controlled and restricted environment, often limited by transaction size, overall volumes and other parameters. As of 31 August 2017, the concept has spread to over 20 operational regulatory sandboxes globally, with several more proposed.

**Specific Policy Recommendations:**

- Regulators should consider adopting flexible and adaptable regulatory approaches in response to fast-evolving technologies and business models while also minimizing risk. In other words, regulators could adopt a 'smart regulation' approach[46] that could be used to test the effectiveness of outbound cross-border remittances in many countries where these are not allowed and concerns over risks are high.[47]
- Regulators should seek to share experiences with peers in other markets, especially since this is such a fast-moving area.

42 GSMA (2016) "Driving a price revolution: Mobile money in international remittances", available at: https://www.gsmaintelligence.com/research/?file=8F31B31705C20A63A41DB9711BF84C25&download

43 GSMA (2017) "Closing the gender gap in mobile money: A regulatory and policy outlook", available at: https://www.gsma.com/mobilefordevelopment/programme/mobile-money/closing-gender-gap-mobile-money-regulatory-policy-outlook and "Licensing mobile money remittance providers: Early lessons", available at: https://www.gsma.com/mobilefordevelopment/wpcontent/uploads/2017/02/GSMA_Licensing-mobile-money-remittance-providers_Early-lessons-1.pdf

44 BIS (2007) "General principles for international remittance services", available at: https://www.bis.org/cpmi/publ/d76.pdf

45 CGAP (2017) "Regulatory Sandboxes and Financial Inclusion", available at: http://www.cgap.org/sites/default/files/Working-Paper-Regulatory-Sandboxes-Oct-2017.pdf

46 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3018534

47 FCA (2017) "Regulatory sandbox lessons learned report", available at: https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf

### BOX 6: FCA REGULATORY SANDBOX

The UK was the first country to implement a regulatory sandbox, announcing the approach in 2015 and approving the first sandbox FinTech services in 2016. The sandbox allows companies to test innovative financial products, services and business models in a live market environment. Any product that enters the sandbox tests must have a clear objective (e.g. reducing costs for consumers) and operate with strict safeguards in place.

Multiple firms have tested innovative international remittance services using a sandbox, predominantly digital/cryptocurrencies. One company tested the transfer of funds from sterling (GBP) to South African rand (ZAR) using an intermediary digital currency. Bypassing traditional payment rails, transactions were quick (less than an hour) and cheaper than traditional remittance methods. Strict safeguards were put in place, such as the guarantee of funds transmitted to deliver full refunds if funds were lost, to allow the innovation to be tested in a live environment while mitigating risk.

## COLLABORATION AND PARTNERSHIP APPROACH

As the survey highlighted, regulatory differences and inconsistencies are key challenges to scaling digitally enabled cross-border remittances. With the rapid evolution of technology-based remittance services, there is an urgent need for regulators to collaborate with international peers to learn and implement best practices. Collaboration among regulators within remittance corridors, both regional and global, can enable harmonization of regulatory approaches to KYC, customer due diligence, consumer protection, transaction limits and improving the financial capability of users (both at the sending and receiving end) through financial education.

### Specific Policy Recommendations:

- At regional and global levels, support the development of initiatives that promote dialogue on international remittances, including AFI platforms.
- Develop a global database of national regulatory approaches, limits and other aspects to enable cross-country comparisons.
- Ensure all countries work with the global Standard-Setting Bodies to achieve greater harmonisation of regulations and incorporate proportionality into global standards.

## PAYMENT SYSTEM INFRASTRUCTURE STREAM[48]

Robust payment system infrastructure has the potential to make remittance services more efficient and provide digitally enabled cross-border remittances to new, hard-to-reach areas and customer segments.

### Specific Policy Recommendations:

- Regulators and policymakers should encourage improvements in payments and financial sector infrastructure, such as communication standards, payment message formats[49] and electronic fund transfer systems.[50]
- Regulators and policymakers should work to create a robust digital identity system. This is especially important in the context of de-risking. Many providers have taken a stricter view of cross-border remittances due to concerns about money laundering and terrorist financing.[51] A robust digital identity system can complement cross-border remittances by offering effective KYC and due diligence solutions. Creating a digital identity system could also enhance the ability of women to access digital international remittance services in some markets, as research has found that women are less likely to have the official documents required to open mobile money accounts[52] and access other financial services.

## CUSTOMER PROTECTION AND FINANCIAL LITERACY

Rapid proliferation of digitally enabled cross-border remittances makes underserved segments especially vulnerable to risks.

### Specific Policy Recommendations:

- Countries need to take appropriate consumer protection measures, including having consumer protection and adequate recourse mechanisms, and making safeguarding customer funds requirements part of the licensing application process. The approval process should include a review of the policies and programs operated by service providers in this area.
- Any national strategy for financial education should have a digital financial services component, particularly digitally enabled cross-border remittances. Financial education/literacy campaigns should be focused on migrant workers and communities and ensure they reach women as well as men. Proper attention must be given to financial capability as senders and receivers should be able to evaluate the costs and terms and conditions, know how to send and receive remittances and take recourse if needed. This can be achieved through simple tailored products, clear terms and conditions, built-in mechanisms to confirm the identity of the receiver, confirming that funds have been sent and received, and well-established, effective and clearly communicated recourse mechanisms.

48 GSMA (2017) "Working Paper Guidelines on International Remittances through Mobile Money", available at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/09/GSMA-September-2017-Guidelines-On-International-Remittances-via-Mobile-Money-1.pdf

49 BIS: General Principles for International Remittance Services: http://www.bis.org/cpmi/publ/d76.pdf

50 BIS: Payment Aspects of Financial Inclusion: http://www.bis.org/cpmi/publ/d144.pdf

51 AFI: Stemming the Tide of De-risking: http://www.afi-global.org/sites/default/files/publications/2016-08/Stemming%20the%20Tide%20of%20DeRisking-2016.pdf

52 GSMA (2017) "Closing the gender gap in mobile money: A regulatory and policy outlook", available at: https://www.gsma.com/mobilefordevelopment/programme/mobile-money/closing-gender-gap-mobile-money-regulatory-policy-outlook

> Consider outreach and marketing strategies targeted specifically at women and girls. Women tend to be less technically and financially literate than men and have less confidence in their ability to use mobile money and other digital financial services.[53] Such strategies can build the client base, increase women's confidence in their abilities and trust in providers and, if designed appropriately, can help women make more informed decisions about sending and receiving money, how to use the money received and adopt complementary financial services.

## INDICATIVE REGULATORY FRAMEWORK FOR CROSS-BORDER REMITTANCES

Drawing on best practices in digital cross-border remittances from around the world, the following section outlines some of the main issues regulators should consider when introducing appropriate regulation in this area. An appropriate regulatory framework is a complex task with multiple dimensions, and although this high-level overview addresses many of the key issues, it should not be considered a comprehensive checklist and is for illustrative purposes only.[54]

Issues and questions to consider:

1 **Types of entities covered by the regulations** - in particular, the eligibility criteria and the licensing framework, i.e. who is allowed to apply. Governance, ownership, technology, management, key individual qualifications, audit policies, etc. for each type of entity allowed to offer the services.

2 **Policies related to agents** - will agents be allowed and, if so, what are the controls and relevant restrictions on their operation, especially in terms of consumer protection and AML/CFT?

3 **Minimum capital requirements** for authorized businesses

4 **Authorization** - which regulatory bodies will handle licensing and supervision

5 **AML/CFT requirements** in accordance with global standards and local conditions

6 **Consumer protection** - how consumers' money will be protected (e.g. bonds, insurance policies, safeguarded accounts)

7 **Safeguarding consumer funds**, liquidity and settlement - the minimum standards required to protect consumer funds and ensure an efficiently operating market

8 **Risk management policy requirements** of authorized businesses

9 **Conduct of business requirements**, including transparency considerations (around pricing, time taken, etc.) and interaction with other legislation

10 **Recourse and complaints handling** - the minimum acceptable standards for verifying funds are received and sent, complaints handling by providers and recourse to a third party should a complaint be handled unsatisfactorily.

11 **Data privacy and protection** - specific requirements for privacy rights, opt in/opt out and clear communication of those rights to consumers. Sound data protection measures must be in place and tested periodically, be consistent with other financial data requirements and be clear in terms of what data accompanies a transaction and what happens to that data when the transaction is complete.

12 **Supervisory/oversight mechanisms** that leverage technology and cross-border regulatory cooperation because of the multiple jurisdictions involved.

13 **Reporting requirements** - Regulators and supervisors should establish what reporting is required for transactions regardless of the provider. Supervisors should have the power to obtain all the information necessary for them to do their jobs. One criteria to consider is transaction data, such as volumes handled, number of transactions handled, destinations for sending transactions or points of origin for transactions received.

14 **Enforcement and consequences of non-compliance** - the processes and potential penalties for entities that do not comply with the regulations

15 **Operational and security risks, including cybersecurity** - this area has become critical to ensuring consumer and market protection is effective.

Regulating digital cross-border remittances is complex, but many countries have developed sound and tested approaches. Consultation between regulator peer networks and policy alignment along remittance corridors and across regions should therefore be encouraged.

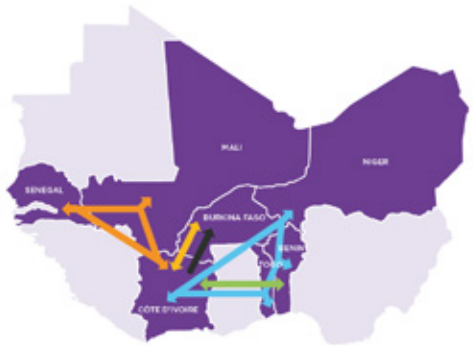
53 GSMA (2017) "Closing the gender gap in mobile money: A regulatory and policy outlook", available at: https://www.gsma.com/mobilefordevelopment/programme/mobile-money/closing-gender-gap-mobile-money-regulatory-policy-outlook

54 A useful reference is the UK Financial Conduct Authority (2017), "Payment Services and Electronic Money: Our Approach", available at: https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf

# APPENDICES

## APPENDIX 1: CASE STUDIES

### 1: CROSS-BORDER MOBILE PAYMENTS IN THE WEST AFRICAN ECONOMIC AND MONETARY UNION (WAEMU)




- Population (2012): 320,347,000
- GDP (2012): USD 666 million
- Penetration rate of mobile telephony: 44%
- Major telephone operators: MTN, Orange and Airtel

#### I. Orange Money

As mobile payment services in the region have developed and matured, Orange saw the opportunity to capture significant flows of cross-border transfers. Orange selected Côte d'Ivoire, Senegal and Mali as launching markets for cross-border transfers as part of its Orange Money International Transfer initiative. There were several reasons for choosing these markets:

i. A mature service: The Orange Money service is sufficiently mature in these three markets and benefits from solid distribution, adoption and consumer confidence.

ii. Remittance flows: There are important remittance corridors between these markets due to migration and trade, particularly between Côte d'Ivoire and Mali.

iii. A single currency: All three countries use the West African CFA franc, eliminating foreign exchange problems and simplifying implementation.

iv. A common central bank: The three countries share a central bank (Central Bank of West African States, BCEAO).

v. A common partner bank: A single partner bank is the custodian of all Orange Money's customer deposits in the three markets, which facilitates the settlement process.

vi. A common mobile payment platform: The three Orange Money services in these markets use the same platform provider, which simplifies the integration process.

vii. Easy implementation: Implementation was relatively simple. The service was launched six months after the decision to launch. Choosing three relevant markets has simplified the regulatory approval process and technical implementation without the need to share revenues with an external provider.

TABLE 6: ORANGE IMPLEMENTATION MODEL

| NO | CATEGORY | DESCRIPTION |
|---|---|---|
| 1) | Revenue-Sharing Model | The "bill and keep" model has been used, in which each entity retains the invoiced fees. It has the following characteristics:<br>> The sending operator retains the full cost to cover the cash deposit fee paid to its agent, overhead (e.g. marketing) and profit margin.<br>> The receipt of P2P transfers is free for the beneficiary, who only pays a commission if the cash is withdrawn.<br>> The recipient operator retains the cash withdrawal fee, which covers the commission paid to the agent, overhead and profit margin.<br>> A contract was signed between the three subsidiaries to define their roles and obligations. Each manages the liquid counterpart of the mobile payment in its own country with a daily reconciliation process. Bank settlement is done periodically based on trading volumes. |
| 2) | Convenient and Easy-to-Use Services for the Regional Diaspora | Orange Money launched its service with a focus on convenience and ease of use. As with domestic P2P transfers, users can send and receive money in real time without having to make long trips to withdraw money in cash. The average amount actually paid by customers is around two percent of the transaction amount. This figure is significantly lower than the fees invoiced by traditional fund transfer operators, which generally exceed five percent. |
| 3) | Cross-Border Transfers | Users frequently send money home. The average transaction size is around USD 85.<br>B2B payments: Cross-border importers and exporters, as well as some informal transfer providers, seem to group their operations and use Orange Money as a wholesale means of payment |

## II. MTN Côte d'Ivoire and Airtel Burkina Faso

MTN Côte d'Ivoire launched its mobile payment service in October 2009. Building on this success, MTN has expanded the potential to send and receive money between Côte d'Ivoire and Burkina Faso, the main remittance transfer corridor.

At the beginning of April 2014, MTN and Airtel launched a collaboration to enable MTN Mobile Money customers in Côte d'Ivoire to send money to Airtel Money customers in Burkina Faso. For the first time, two operators belonging to different groups interconnected their mobile payment services at an international level. Given their limited experience with international transfers, MTN and Airtel chose to work with an intermediary that acted as a bridge between their two services. In June 2013, they selected the HomeSend hub, the most established transfer platform at the time. HomeSend offered two main services to MTN and Airtel: a platform and interface for real-time money transfers with messaging, and the management of anti-money laundering activities.

## III. Challenges of Improving Cross-Border Remittances in WAEMU Countries

The success of cross-border payments in WAEMU countries is the result of: (i) existing transfer corridors between WAEMU markets; (ii) robust mobile payment services in both the sending and receiving markets; and (iii) a favorable regulatory framework. However, some challenges remain, including improving interoperability and exploiting the potential of cross-border payments outside WAEMU.

Sources:

- Observatoire de l'Afrique de l'Ouest: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/West_Africa_Monitor_Quarterly_-_Issue_6_-_FR_-_04_2015.pdf
- http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/09/2015_MMU_L-argent-mobile-franchit-les-frontieres_Nouveaux-modeles-de-transferts-en-Afrique-de-l-Ouest.pdf
- https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Inclusion_et_integration_financieres_a_travers_les_paiements_et_transferts_mobiles.pdf
- Banque Centrale de la République de Guinée (BCRG)
- BCEAO

TABLE 7: MTN CÔTE D'IVOIRE AND AIRTEL BURKINA FASO IMPLEMENTATION MODEL

| NO | CATEGORY | DESCRIPTION |
|---|---|---|
| 1) | Revenue-Sharing Model | To provide simple and transparent pricing to their customers, MTN and Airtel agreed that MTN transfers would pay a service-specific transfer fee, but that recipients on the Airtel side would pay nothing to receive cross-border transfers (using the same model as for national P2P transfers). The usual cash withdrawal fee would apply if the beneficiary wanted to withdraw cash from their mobile account.<br><br>For revenue sharing, it was decided that Airtel would retain its withdrawal commissions while the sending commission would be divided between the three parties, with 72.5 percent of the amount going to MTN and 22.5 percent shared between Airtel and HomeSend. MTN and Airtel have decided to be very competitive in terms of pricing, with commissions averaging only 2.4 percent of the nominal transfer amount. |
| 2) | Results | The commercial launch of the service was in April 2014 and was very successful, with amounts transferred increasing ten-fold from June 2014 to February 2015. MTN Mobile Money customers in Côte d'Ivoire transferred USD 993,000 to Airtel Money users in Burkina Faso in the first three months after launch with an average transaction amount of USD 106. In the following quarter, transfers totaled USD 4,192,000, with an average of USD 104, and from December to February, USD 9,095,000 with transactions averaging USD 141. |

## 2. CROSS-BORDER REMITTANCES IN CENTRAL ASIA

CENTRAL ASIA MAP

| | | |
|---|---|---|
| > | Region's Population | |
| | Uzbekistan | 31,910,641 |
| | Kazakhstan | 18,204,499 |
| | Tajikistan | 8,921,343 |
| | Kyrgyzstan | 6,045,117 |
| | Turkmenistan | 5,758,075 |
| | **Total:** | **70,839,675** |
| > | Area | 4,003,451 km2 |
| > | Nominal GDP | $295.331 (2012) |
| > | GDP Per Capita | $6,044 (2012) |
| > | Mobile Penetration | <120% on average |

### I. Introduction

258 million international migrants currently live abroad, about 200 million of whom come from poor countries and left home to seek job opportunities. Remittances are an important source of income for households in developing countries: in 2017, migrants sent home USD 450 billion. This amount could increase by lowering the costs of transfers and issuing work permits.

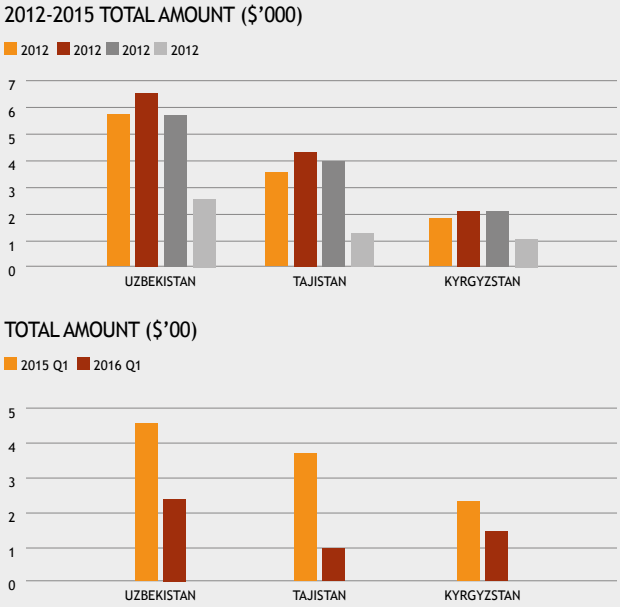
Russia currently hosts 11.7 million migrants, fourth largest after the United States (50 million), Saudi Arabia (12.2 million) and Germany (12.2 million)[55]. According to Bank of Russia statistics on cross-border remittances from 2013, $6.6 billion was sent to Uzbekistan, $4.1 billion to Tajikistan and $2 billion to Kyrgyzstan. However, the amount of remittances has decreased significantly since 2014 due to the sharp drop in oil prices, Russia's subsequent economic slowdown and steep depreciation of the ruble against the US dollar. The salaries of migrant workers have declined by half in dollar terms, with remittances now at $2.3 billion for Uzbekistan, $1.2 billion for Tajikistan and $1 billion for Kyrgyzstan. Changes to the regulations for issuing work permits has also created an additional economic burden by increasing the cost of working legally in Russia.

### II. Changes to Remittances

It is estimated that the growth rate of remittances sent from Russia to developing countries decreased from 3.2 percent in 2014 to 0.4 percent in 2015.

Between 2010 and 2013, oil prices increased to $100 per barrel (bbl), causing remittances sent from Russia to jump from $30 billion in 2010 to around $40 billion in 2013. Significant decreases in oil prices to less than $30 per barrel have since shrunk the outflow of remittances from Russia to around $20 billion. Central Asian countries are heavily dependent on remittances from Russia, which account for over 60 percent of remittances to Kyrgyzstan and Tajikistan. This decline has therefore had a significant impact on the remittances Central Asian countries received in 2015.

FIGURE 13: **REMITTANCE TO CENTRAL ASIAN COUNTRIES**




### III. Transfer Costs

Remittance Prices Worldwide indicates that the global average transfer cost was 7.09 percent in 2017, which is considerably higher than the Sustainable Development Goal target to reduce the global average cost of remittance transfers to less than three percent by 2030. However, this cost is dropping gradually, to 2.9 percent over the last eight years. One of the reasons for this slow decrease is concern among international banks that remittance transfers may increase the risk of money laundering and other financial crimes.

For Russia, the average cost of remittances decreased from 2.88 percent in 2008 to 2.09 percent in Q1 2016. Transfer costs in Russia are some of the lowest in the world due to strong competition between international and national providers, combined with the fact that most transactions in Central Asia are paid out in rubles, which eliminates foreign exchange costs. The use of different channels to transfer remittances is widespread in Russia and there are several e-wallet services that send money to customers without any transaction fee. Usage currently stands at around five percent.

55 UN International Migration Report, 2017: http://www.un.org/en/development/desa/population/migration/publications/migrationreport/docs/MigrationReport2017.pdf

### IV. Digital Remittances

In Central Asia, digital services have limited penetration. There are only a few operators, one of wich is the RSP Qiwi Payment system (a Russian-owned company), which has been actively implementing projects in Central Asia to provide digital remittance services.

Countries like Tajikistan have been adapting legislation to properly oversee the activities of new services. In March 2017, the National Bank of Tajikistan adopted the Law on Payment Services and Payment Systems, which allows new players to operate in the payment system market, including to provide digital remittance services. Under the new legislation, payment system operators are required to obtain a license from the National Bank of Tajikistan.

Table 8 lists the remittance service providers that provide traditional remittance services in Central Asia. It is anticipated that most of these companies will be engaged in the provision of digital remittance services in the next few years.

TABLE 8 : REMITTANCE SERVICE PROVIDERS IN CENTRAL ASIA

| | |
|---|---|
| 1 | Western Union |
| 2 | F5 |
| 3 | Migom |
| 4 | Anelik |
| 5 | Contact NG |
| 6 | Interexpress |
| 7 | Быстрая почта |
| 8 | БЭСТ |
| 9 | MoneyGram |
| 10 | Близко |
| 11 | Аллюр |
| 12 | Caspian Money Transfer |
| 13 | Лидер |
| 14 | Золотая Корона |
| 15 | Swift |
| 16 | Фастер |
| 17 | Союз |
| 18 | PrivatMoney |
| 19 | Аверс |
| 20 | Coinstar |
| 21 | МОПС |
| 22 | Begom |
| 23 | IBA-Express |
| 24 | Хазри |
| 25 | Интелэкспресс |
| 26 | Риа |

Operating entities: (1) Western Union; (2) F5; (3) Migom; (4) Anelik; (5) Contact NG; (6) Interexpress; (7) Bystrayapochta; (8) BEST; (9) Money Gramm; (10) Blizko; (11) Lider; (12) Zolotaya Korona ; (13) Faster; (14) BTF Souz; (15) Constar; (16) MOPC; (17) Begom; (18) Intelexpress; (19) Ria.

Sources:

- Ratha (2014); World Bank (2016)
- http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf
- http://nbt.tj/upload/iblock/9fd/Law%20on%20payment%20systems%20and%20services_final.pdf
- http://www.worldbank.org/en/region/eca

## APPENDIX 2. MEASURING THE INFORMAL REMITTANCES MARKET

Estimates of the importance of the informal remittance market vary widely, ranging from 35 percent to 250 percent of recorded flows.[56] Given that informal transactions are not usually recorded and are relatively small, measuring informality in the remittance market is a substantial challenge. However, in general, central banks and policymakers use two broad approaches.

### DIRECT APPROACH: RANDOMIZED AND REPRESENTATIVE SURVEYS OF REMITTANCE SENDERS AND RECIPIENTS

In a 2005 World Bank study that surveyed 40 central banks, 10 had developed methods to measure the volume of informal remittance flows, largely through targeted surveys of migrants (e.g. at points of entry) or household-level surveys (e.g. in El Salvador).[57] Since then, surveys have been carried out in a variety of countries, including in 2014 and 2015 by the Bank of Russia.

The World Bank also conducted household surveys in six African countries between 2009 and 2010, which aimed in part to understand the estimated value of remittances sent through both formal and informal channels. For remittances sent within Africa, it was found that migrant workers generally transfer money through informal channels: 35 percent through friends and family and 16 percent by hand themselves.[58]

However, using household data to measure informal remittances has several constraints. The tendency to underreport informal flows, particularly where they may be considered illegal or there are concerns about tax implications, poses a significant challenge to collecting accurate data. The current lack of randomized and representative surveys is also a challenge to scaling up estimates on a regional and global level.[59]

56 IMF (2008) "Understanding Remittances: Demography, Transaction Channels, and Regulatory Aspects" available at: https://www.imf.org/external/np/sta/bop/2008/rcg/pdf/ch2.pdf

57 World Bank (2005) "Workers' Remittances to Developing Countries: A Survey with Central Banks on Selected Public Policy Issues", available at: http://web.worldbank.org/archive/website01040/WEB/IMAGES/DE_LUNA_.PDF

58 World Bank (2011) "Migration and Remittances Household Surveys in Sub-Saharan Africa: Methodological Aspects and Main Findings", available at: http://pubdocs.worldbank.org/en/866251444753456291/Plaza-Navarrete-Ratha-MethodologicalPaper.pdf

59 World Bank Group and Knomad (2017) "Migration and Remittances: Recent Developments and Outlook Special Topic: Global Compact on Migration", available at: http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf

### INDIRECT APPROACH: USING AGGREGATE DATA

Studies that use an indirect approach take macro-level data from both sending and receiving countries, including migration data, social capital, financial or logistics infrastructure, and the size of the informal economy, to calculate the potential size of the informal remittance market. Examples include Page and Plaza (2006) who used international migration data and official remittance data to calculate where remittances are likely being unreported. The results were an estimate of 48 percent worldwide, ranging from 73 percent in Sub-Saharan Africa to a negligible amount in South Asia.[60]

60 Page and Plaza (2016) "Migration Remittances and Development: A Review of Global Evidence", available at: http://documents.worldbank.org/curated/en/479211468203649221/pdf/694530ESW0P0750migration0Conference.pdf

## APPENDIX 3. SURVEY RESPONDENTS

| REGION | INSTITUTION | NAME | COUNTRY |
|---|---|---|---|
| Africa | National Bank of Rwanda | John Karamuka | Rwanda |
| Africa | Central Bank of Sudan | Hamida Saleh | Sudan |
| Asia | Central Bank of Jordan | Maha Bahou | Jordan |
| Asia | Da Afghanistan Bank | Azizullah Sikandari | Afghanistan |
| Africa | Banco de Moçambique | Felizardo Balate | Mozambique |
| Africa | Bank of Tanzania | Bernard J. Dadi | Tanzania |
| Africa | Bank of Uganda | Godfrey Masajja Yiga | Uganda |
| LAC | CNBV (Mexico) | Arturo Murillo Torres | Mexico |
| Africa | Bank of Namibia | Barbara Dreyer-Omoregie | Namibia |
| LAC | CNBV | Andy Pineda | Mexico |
| Africa | Bank of Ghana | Clarissa Kudowor | Ghana |
| Asia | National Bank of Tajikistan | Jahongir Aminjonov | Tajikistan |
| Asia | Royal Monetary Authority of Bhutan | Sherab Jamtsho | Bhutan |
| LAC | Banco Central de Reserva de El Salvador | José Agustín Ventura Herrera | El Salvador |
| Africa | Microfinance Unit, Swaziland | Prudence Mnisi | Swaziland |

Alliance for Financial Inclusion
**AFI,** Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
**t** +60 3 2776 9000 **e** info@afi-global.org www.afi-global.org
www.facebook.com/AFI.History @NewsAFI