File Ref: 16580

Cross-border remittances

2016

A FinMark Trust report prepared by Eighty20

CONTENTS

1. INTRODUCTION

Remittances act as a crucial lifeline to economies and make a material difference upon the living standards of recipient households[1]. Research indicates that international remittances can have a greater impact on economic growth than ODA and FDI[2]; with the World Bank estimating that money flows from migrant workers to developing countries will be worth US$440 billion this year, more than twice foreign aid. The ease and cost of sending remittances, therefore have a critical impact on the welfare for the many individuals and households reliant on these flows, as well as for economies as a whole. This report explores available money transfer offerings that facilitate remittance flows from South Africa to other countries in the Southern African Development Community (SADC), with emphasis on pricing, accessibility and the consumer experience.

While there is no publicly available data on the total volume and value of cross-border flows into SADC countries, the market of potential remitters is relatively large. According to the 2011 Census roughly 2.2 million people living in South Africa were born outside of the country. This is almost certainly understated due to the high number of individuals who did not provide information on where they were born – an additional 1.5 million individuals either did not answer the question or gave 'not applicable' as an answer – and the possibility that many illegal migrants avoided enumeration entirely. Of the 2.2 million identifiable immigrants, upwards of 55% were born in a SADC country[3]. A 2012 study estimated an even higher number of migrants, almost 3.3 million, living in South Africa are from other SADC countries[4]. Further, recent data published by the UNHCR (the UN Refugee Agency) indicates that as of June 2015 there were over 114 500 refugees and 798 000 asylum seekers in South Africa[5], many of whom are likely to have arrived in South Africa after the 2011 Census was conducted. All in all, based on available data, there could feasibly be up to four million migrants in South Africa, of which between 55% and 70% are from SADC countries[6].

The remittance corridors between South Africa and the rest of SADC are thought to be among the most expensive in the world. Recognising the impact of remittances on income and economic development, in 2009, the G8 set the goal of reducing the average cost of remittances to 5% over 5 years (known as the "5X5 Objective")[7]. According to data collected by the World Bank, as at the end of the 4th quarter in 2015, the global average cost of sending remittances was 7.37% of the amount sent. For sending from South Africa, World Bank data indicates it is 16.59%.

Several FinMark Trust studies have explored remittances in SADC. In particular, a 2011 study looked at the user experience of sending cross-border remittances from South Africa[8]. That study highlighted the barriers faced by many migrants when accessing formal transfer services including affordability and access to

[1] http://unric.org/en/un-newsletter/29294-remittances-a-high-cost-lifeline-to-developing-countries.
[2] FINANCING GROWTH: COMPARING THE EFFECTS OF FDI, ODA, AND INTERNATIONAL REMITTANCES, Journal of Economic Development June 2013.
[3] 6% were from the rest of Africa and 8% from outside of Africa. The remaining 31% did not specify an answer. Assuming those who did not disclose an origin are as likely to be from SADC countries as those who did, it is plausible that a further 17% of all immigrants are from SADC countries.
[4] http://www.finmark.org.za/wp-content/uploads/2016/01/SADCremitest_0512-1.pdf
[5] These figures have been revised from the December 2014 estimates of 112 000 and 464 000. It is not clear why the numbers have increased so significantly.
[6] There are 2.2 million foreign born individuals identified in the Census. In addition, a further 1.5 million did not answer the question on where they were born. Assuming one million of those individuals are foreign-born, this would bring the total number of migrants to 3.2 million as at 2011. In addition, there are just under 800 000 asylum seekers in South Africa. Many of these individuals would be recent arrivals who have not yet obtained official status as refugees. This brings the total to four million.
[7] See: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:22383199~pagePK:210058~piPK:210062~theSitePK:282885,00.html
[8] See: http://www.finmark.org.za/publication/the-cross-border-money-transfer-experience

documentation. Since that study, there have been several regulatory changes, supporting the reduction of barriers to effective utilisation of formal remittance products.

In some of the recent regulatory changes (2013-2014), an additional Authorised Dealer with Limited Authority (ADLA) licensing category for Money Transfer Operators (MTOs) was introduced, enabling the facilitation of cross border transactions independently of a bank. This has enabled non-bank formal providers to enter the market with an explicit focus on providing cross-border remittance services to SADC countries. The first ADLA Category 3 institution was registered in December 2014. Three additional institutions have emerged since then, facilitated by the growing consumer adoption of mobile platforms that are leveraged to provide efficient money transfer services. In addition, an exemption to certain FICA requirements for low-value remittances was passed and whilst there has been some reaction to these amendments, it is too soon to assess their cross border impact fully.

There this study seeks to understand the current state of development of formal cross border remittance providers; the extent to which registration processes and compliance barriers remain prohibitive and whether pricing structures are transparent and market appropriate. Has the value proposition of formal remittance channels been able to make inroads into informal channels in South Africa?

2. METHODOLOGY

The primary objective of this study is to present an updated description of formal remittance services along key corridors from South Africa to other SADC countries, specifically focusing on comparative instrument costs, access requirements and the customer experience. This is compared with informal remittance channels. Outputs from this research will be used to inform the ongoing policy and market debate on overcoming access barriers and bringing down the cost of cross-border money transfers. The research also supports on-going strategic engagements between FinMark Trust, and providers and regulators.

Four corridors were selected as a focus for the research, namely: the Democratic Republic of the Congo (DRC), Lesotho, Mozambique and Zimbabwe. These were selected based on several factors.

- South Africa hosts a large number of migrants from these countries[9].
- All of the corridors, with the exception of the DRC, are also included in the World Bank Remittance Pricing Database[10], which lists the cost of sending remittances of US$200 and US$500[11].
- Mozambique and Zimbabwe were included in the 2011 study enabling a comparison of cost and user experience over time.

[9] According to the 2012 FinMark report on the South Africa-SADC remittance channel, the DRC, Mozambique, Zimbabwe and Lesotho are four out of the top five nationalities of SADC migrants in South Africa.

[10] https://remittanceprices.worldbank.org/en.

[11] The World Bank has collected and published remittance prices since 2008. This data covers between eight and ten of the most popular money transfer providers across 220 country corridors worldwide, using two scenarios; a transfer of US$200 and US$500. The World Bank deconstructs the cost to the sender into a transfer fee and an exchange rate margin. This cost is expressed as a percentage of the funds received by the remittance recipient. The World Bank typically investigates between eight and ten major service providers operating along each corridor. To collect the pricing information, data collectors posing as customers contact each provider to enquire about the cost to send the specified amounts. These enquiries are made on the same day to control for exchange rate fluctuations and changes in fee structures. In most instances the data is captured from the main sending location/area in the sending country to the capital city or most populous city in the receiving country. The fees are broken down into a transfer fee and an exchange rate fee (referred to in this report as the exchange rate margin). See https://remittanceprices.worldbank.org/en/methodology.

- Lesotho, it is one of four countries forming the Common Monetary Area (CMA), offering additional insight into the workings of remittance markets within such an arrangement[12].

Data on formal providers operating along these corridors through was gathered via desktop research. In addition, a mystery shopping exercise was conducted at selected providers and the research team interviewed a number of providers to gain insight on the impact of regulation on servicing models, costs and the consumer experience.

As an initial step, the project team created a market map of all available services operating over the chosen corridors. Some providers were identified using the list of Authorised Dealers in Foreign Exchange and the Authorised Dealers in Foreign Exchange with Limited Authority (ADLA's) published on the South African Reserve Bank (SARB) website[13]. The market map summarises data on documentation required to conduct cross-border transfers, the minimum and maximum transfer amounts, pricing schedules (if available), operating hours, distributors and receiver requirements.

In addition, the project team contacted the same providers included on the World Bank Remittance Pricing Database to gather more recent data on the cost to send money from South Africa to the four focus countries[14]. In line with the World Bank findings, fees are broken down into a transfer fee and an exchange rate margin, although this is not typically how fees are disclosed by providers[15].

Aside from gathering data on the product specifications and pricing based on desk research, the team recruited foreign migrants from each of the focus countries, and shadowed them as they used, or tried to use, formal providers. In some cases, they were unable to use formal channels as they did not have the required documentation. In these instances, Eighty20 then shadowed them as they transferred money using informal channels.

A final input for the research was a series of interviews conducted with various providers. These discussions focused on the impact of the regulatory changes on their own services, as well as perceptions of the impact of these changes on the market as a whole. In addition, the discussions explored the various factors that drive costs and servicing models, with a focus on those driven by regulatory requirements.

3. THE REGULATORY ENVIRONMENT

The regulatory environment has a direct impact on ease of entry into the industry and levels of competition amongst providers. Regulations shape costs, documentation required to access formal services and the processes used by providers. A detailed review of the regulatory environment governing cross-border remittances in South Africa is beyond the scope of this report. Of interest in this research are market responses to key regulatory changes.

The 2011 study on cross border remittances identified three main areas of regulation that impact, viz:-

- exchange control regulations

12 South Africa, Lesotho, Namibia and Swaziland are part of the Common Monetary Area. These countries have their own currencies that are pegged to at a rate of one to one to the Rand. In all these countries, South African Rands are legal tender.

13 www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/ExconAdmin/Pages/default.aspx.

14 Where possible the team gathered the data by phone and the live chat function on provider websites. In some cases quotations could only be obtained through branch visits.

15 Banks typically disclose a transfer fee and quote an exchange rate explicitly. Non-bank money transfer providers typically quote the total Rands required for a recipient to receive US$200 or US$500, and an exchange rate was disclosed only after it was requested. The project team calculated an exchange rate margin using the Google spot rate at the time the quotation was given. The pricing data collected by the team does not always align with information published by the World Bank.

- anti-money-laundering and countering the financing of terrorism (AML/CFT) regulations better known in South Africa as FICA regulations, and

- immigration regulations.

3.1. Exchange Control

Two key regulatory drivers impacting the foreign exchange component of cross border remittances are regulated foreign exchange dealerships, and foreign transaction reporting requirements.

Authorised dealers

In order to deal in foreign exchange in South Africa, providers must have an authorised dealer license. Registered commercial banks can apply to become Authorised dealers, and the National Treasury will either sanction this or decline the application. In addition, the SARB has granted licenses for seventeen authorised dealers in foreign exchange with limited authority (ADLAs)[16]. These dealers are authorised to deal in foreign exchange only for travel-related transactions and remittances. The activities permitted under each category are summarised in table 1 below

Currently, 27 banks have been licensed to act as Authorised Dealers in foreign exchange[17]. In addition, 17 providers have been licensed to act as ADLAs, 4 of which are authorised to provide remittances independently.

Table 1: ADLA categories

ADLA Categories	Permitted activities	Number of authorised institutions
Category 1	Authorised to operate as Bureaux de Change (cannot offer cross-border remittances)	27
Category 2	Authorised to operate as Bureaux de Change and offer money remittance services in partnership with external Money Transfer Operators	13
Category 3	Authorised to offer money remittance services as an independent Money Transfer Operator	4

In the past, Money Transfer Operators (MTO's)[18] that undertook cross-border remittances were required to operate under the auspices of a bank that was licensed as an authorised dealer. This restricted entry as many banks were unwilling to work in the sector due to the regulatory burden, perceived risks and restricted business model and services that could be undertaken.

[16] The list of ADLAs can be found at: www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/ExconAdmin/Pages/default.aspx.
17 Note that banks are not automatically Authorised Dealers. Registered commercial banks can apply to become Authorised dealers and the National Treasury will either sanction this or decline the application. The list of authorised dealers can be found at: www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/ExconAdmin/Documents/Authorised%20Dealers%20List.pdf.
[18] Non-bank operators that have been authorised by the South African Reserve Bank to conduct cross border money transfers. They have been granted the status of authorised dealers with limited authority.

Between 2011 and 2014 the SARB developed a new type of licence specifically for MTO's known as "Category 3" licences, which was introduced in 2014. The scrapping of the requirement to partner with a bank, enabled a Category 3 licence holder to operate a cross border money transfer business independently of banks although MTO's still rely on banking relationships in order to settle money transfers, but they are not forced to partner with a bank. Since the introduction of Category 3 ADLAs, four MTO's have registered to operate under this licensing regime; Exchange4Free, Hello Paisa, Mama Money and the South East Exchange Company South Africa.

Exchange Control Reporting

Each authorised dealer and ADLA must report daily on every foreign exchange transaction, regardless of the size, to the Financial Surveillance Department through the SARB's Cross Border Foreign Exchange Transaction Reporting System. Amongst other things, this data is used to assess South Africa's Balance of Payments (BOP). Providers cite this this reporting system as relatively costly to install and maintain.

CMA member countries – Lesotho, Namibia, South Africa, and Swaziland, have similar foreign exchange regulations by treaty which differ significantly to other SADC countries. Within the CMA, although foreign exchange controls and reporting requirements still apply, there are channels with higher efficiency and lower costs for institutions and ultimately consumers. For example, the "on-us" clearing of payments through a bank with branches across jurisdictions; and the clearing of payments between South African banks with branches in some of the CMA countries. The CMA arrangement enables more cost effective movements of funds amongst member countries due in part to the pegged currency exchange rates in Lesotho, Namibia, and Swaziland. The pegged currencies do not include an exchange spread due to lower liquidity requirements and volatility risks. Transactional cost are also significantly reduced due to less reliance on correspondent relationships and also due to fewer restrictions on the flow of funds between member countries through banks which are Authorised Dealers.

3.2. FICA

The Financial Intelligence Centre Act (FICA) of 2002 and Protection of Constitutional Democracy Against Terrorist and Related Activities Act, Act 33 of 2004, stipulate stringent requirements with respect to Know Your Customer (KYC) and Customer Due Diligence (CDD).

Under FICA, in order open an account or perform a once-off transaction, a prospective customer must provide the financial institution with an officially acceptable form of identification document (ID). Personal identities must be verified and supported by acceptable proof of residential address, for which ancillary original documents such as a utility bill may be used. A financial institution is required to retain records of these documents for at least five years.

Recognising that many South African citizens and residents are unable to provide proof of address, a FICA exemption known as "Exemption 17" was passed in 2002 in respect of domestic transactions, and revised in 2014[19]. Exemption 17 allows providers to offer accounts without requiring proof of address, as long as certain conditions are met. Transactions cannot exceed R5 000 per day and R25 000 per month, and the exemption is only available for South African citizens or permanent residents. In addition, accounts opened on the basis of exemption 17 cannot be used to transfer of funds outside of South Africa, however this does not usually preclude a consumer from depositing or transferring funds into a CMA account through a branch in another

[19] https://www.fic.gov.za/DownloadContent/NEWS/PRESSRELEASE/140212%20Revised%20PCC%2021.pdf.

jurisdiction, essentially performing a cross-border transfer which in form and price is similar to an intra bank or interbank transfer or ordinary cash deposit.

Because migrants face similar, and sometimes greater challenges in providing proof of address, another FICA exemption came into effect in July 2015, which applies to cross-border transactions. This exemption removes the requirement that customers must provide proof of address for cross-border transfers, under certain conditions. The exemption can be applied only to single transactions, or multiple transfers for which the total does not exceed R3 000 per day and R10 000 per month. However, in order to use the exemption, providers must apply enhanced measures for monitoring transactions.[20]

As the cross-border exemption has only recently come into effect, it is too early to assess its impact. Theoretically this exemption reduces unnecessary barriers for migrants with valid passports and visas and also for those with only valid forms of identification, but practically there is a reluctance on the part of providers to serve the latter category. Some providers expressed hesitance to leverage the exemption because of concerns that this, along with Exemption 17, will be removed in terms of the Financial Intelligence Centre Amendment Act 2016. The transition period is currently under review by regulators and policymakers.

3.3. Immigration law

Those who are not South African citizens or permanent residents face additional regulatory barriers for sending remittances. Statutes and regulations distinguish between residents (which includes citizens and foreign citizens that have been granted permanent residential status), non-residents (who have not been granted permission to live or work in South Africa, but have been granted a visa to visit), and temporary residents (who hold a valid work permit, or other permit as well as an approved application for temporary residence). Financial institutions are barred from offering assistance to consumers who are not legally permitted to be in the country and are therefore required to scrutinise the passport or ID of the sender to verify residency status and ensure that the individual is in South Africa legally.[21] There is a conflict between FICA exemptions and immigration regulations (see below) in that the FICA cross border exemption, on the face of it, permits migrants with acceptable forms of identification to transact up until the stated thresholds, but the immigration regulations still prohibit an institution from dealing with any migrant that cannot be verified as being legally within the Republic. The immigration regulations[22] also place a burden upon the institution to report such persons without sufficient proof of being legally within the Republic.

There are broader legal implications that arise where explicit prohibition are imposed upon an individual's ability to transact in that it may constitute a limitation of that person's economic rights which are subject to international treaty[23]. It is particularly concerning from a human rights perspective, where such prohibition directly affects the maintenance of children, for instance the prohibition of remittance payments in respect of child maintenance by a migrant (BOP code 410) without proof of legal residence. Such a blanket and disproportionate prohibition directly interferes with international treaty rights of children to maintenance[24] and the question arises whether such measure are reasonable, proportionate and under which circumstances do FIC regulations trump the rights of children to sustenance. This is particularly pertinent in the South African legal context where the rights of the child are considered paramount.

[20] https://www.fic.gov.za/DownloadContent/NEWS/PRESSRELEASE/SKMBT_C65215060508420.pdf.
[21] Required by Section 45 of Immigration Act, 2002, revised in 2007 and again in 2014. Available at: http://www.dha.gov.za/images/final_Immigration_Regulations_2014_1.pdf.
[22] The Immigration Amendment Act, 2007 (ACT NO. 3 OF 2007) Regulation 33(1) and 33(2)
[23] International Covenant on Economic, Social and Cultural Rights :1976
[24] Convention on the Rights of the Child :1990 Articles 10(2) 27(4)

Box 1: The Immigration Amendment Act, 2007 (ACT NO. 3 OF 2007)

Other institutions
33. (1) The institutions or persons contemplated in section 45 of the Act are—
(a) banking and other financial institutions, including micro financiers;
(b) estate agents and insurance companies and brokers;
(c) private hospitals and clinics;
(d) employment agencies;
(e) institutions recognised through a process of the National Qualifications Framework Act; and
(f) learning institutions.
(2) In ascertaining status or citizenship as contemplated in section 45 of the Act, the passport or identity document of the person shall be scrutinised by the institution or person referred to in subregulation (1) with a view to satisfying itself, himself or herself that, on the face of it, the passport or identity document, as the case may be, belongs to the person presenting it and, in the case of a foreigner, he or she is legally in the Republic.

In order to streamline the process of sending money, providers typically verify documentation during an initial registration process. For subsequent transactions, a registered customer will generally only be required to present his or her ID. For those that do not hold a South African ID, this means that an institution must still assess if, for example, a visa in a passport is valid[25].

Providers are not always consistent with requirements applied to temporary residents. Whilst the duties to identify or verify customers are based on FICA and Immigration Act provisions, the SARB regulates the use of Balance of Payments (BOP) reporting requirements and international codes to be used by institutions in order to identify transactions and activities. For temporary residents, providers are not always clear as to the correct transaction descriptor codes, for instance whether to use the code for migrant workers (416), or the code for foreign national contract workers (417). The table below summarises documents commonly required by financial institutions for transactions that fall under the different codes (though, again, the requirements themselves are based on FICA or Immigration Act provisions).

Table 2: Documents required for registration

Legal status	BOP code	Documents required to send up to R3 000 (FICA cross-border exemption applies)	Documents required to send more than R3 000
SA citizens and permanent residents	Various	▪ SA ID book	▪ SA ID book ▪ Proof of residence
Migrant worker remittances	416	▪ Foreign passport	▪ Foreign passport ▪ Proof of residence ▪ Proof of earnings

[25] This research indicates that this does not apply to asylum seekers. Mystery shoppers who were asylum seekers who used MoneyGram at a Bidvest agent were required to show documentation including proof of address and proof of funds as well as their proof of identity each time they conduct a transfer.

Foreign national contract worker remittances	417	▪ Foreign passport	▪ Foreign passport ▪ Proof of residence ▪ Proof of earnings ▪ Foreign national declaration

South African citizens and permanent residents are entitled by law to be issued with a South African identification book. Remitters who have an SA identity document or card are not required to present certain documents, such as proof of employment, foreign declaration form and proof of funds, when they send remittances. In contrast, temporary residents, although legally in the country, do not have South African ID books and are therefore required to submit the abovementioned documents which are then verified by the institution; an onerous, time consuming and costly process.

BOP reporting distinguishes between 'migrant workers' or 'foreign national contract workers' as follows:

- Category 416 refers to a migrant worker as a resident of a SADC country, temporarily residing in South Africa and who is employed in South Africa. An employment contract is not necessarily in place. These are generally small value transactions.

- Category 417 refers to a foreign national contract worker as a person from any other country with an employment contract in place and the transaction values are normally higher than a migrant worker.

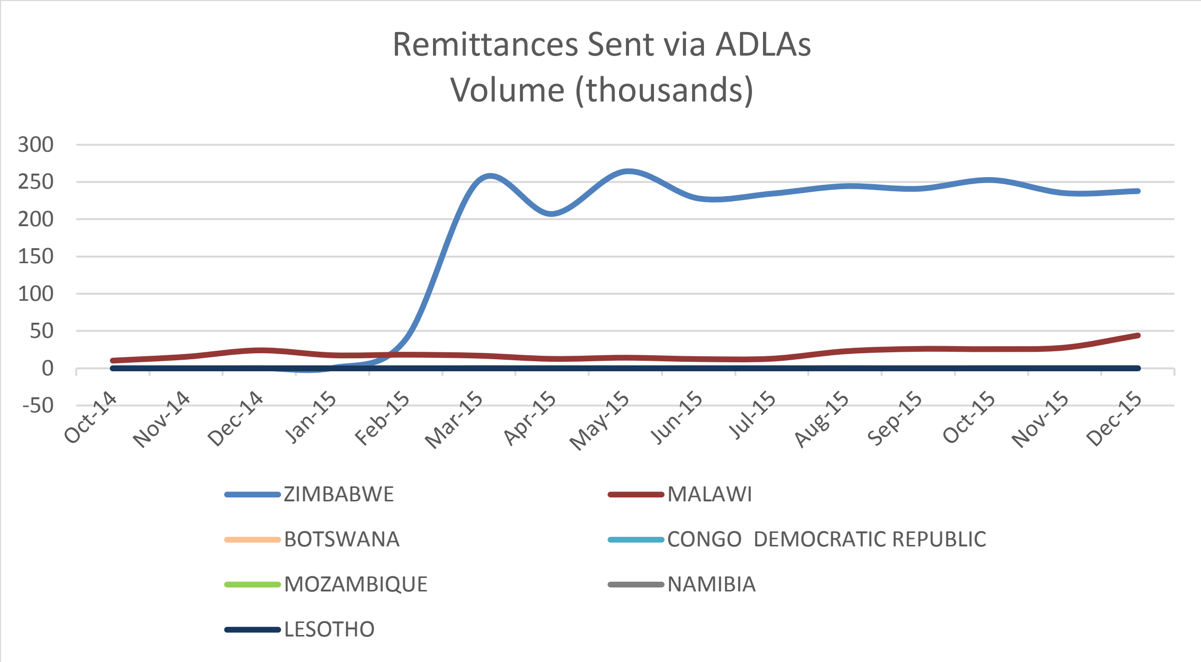
Migrant workers (416) must produce identification in the form of an original passport and a proof of residential address when conducting a transfer as per FIC regulations described below, as well as proof of earnings when sending more than R3 000. However, there appeared to be some confusion regarding when proof of earnings was required, with many providers not collecting this for migrant worker remittances. In contrast, temporary residents classified as foreign national contract workers (417 transactions) require additional documentation including employment contracts, proof of funds and a foreign national declaration form[26]. Proof of funds would include a salary slip or a bank statement that clearly shows a salary being deposited into an account.

4. PROVIDER LANDSCAPE

The provider landscape has shifted significantly since the 2011 study. At that time cross-border transfers could only be conducted through the banks (ABSA, FNB, Nedbank, Standard Bank, Bidvest Bank), MoneyGram, Western Union and the Post Office. In Q4 2015 there were 19 providers, with new solutions coming to market or significant enhancements to existing propositions regularly announced by providers. For example, over the course of this research, Mukuru partnered with Mcel (a telecoms provider in Mozambique) to allow money to be sent from South Africa into any Mkesh mobile wallet in Mozambique. Mukuru has also recently partnered with Mpesa to allow transfers to Lesotho. Likewise, FNB ran a trial promotional offering free bank transfers to Zimbabwe during Q4 2015.

Overall there has been a marked upswing in the number of remittances being facilitated through ADLAs, with a significant movement coinciding with the Category 3 ADLAS.

[26] A foreign declaration form is issued by an authorised dealer (bank). The form indicates whether the foreign national is in possession of foreign assets and, if so, provides a written statement that they will not place such assets at the disposal of any third party who is a resident in South Africa. This form must be completed once and can be used when conducting money transfers out of the country.



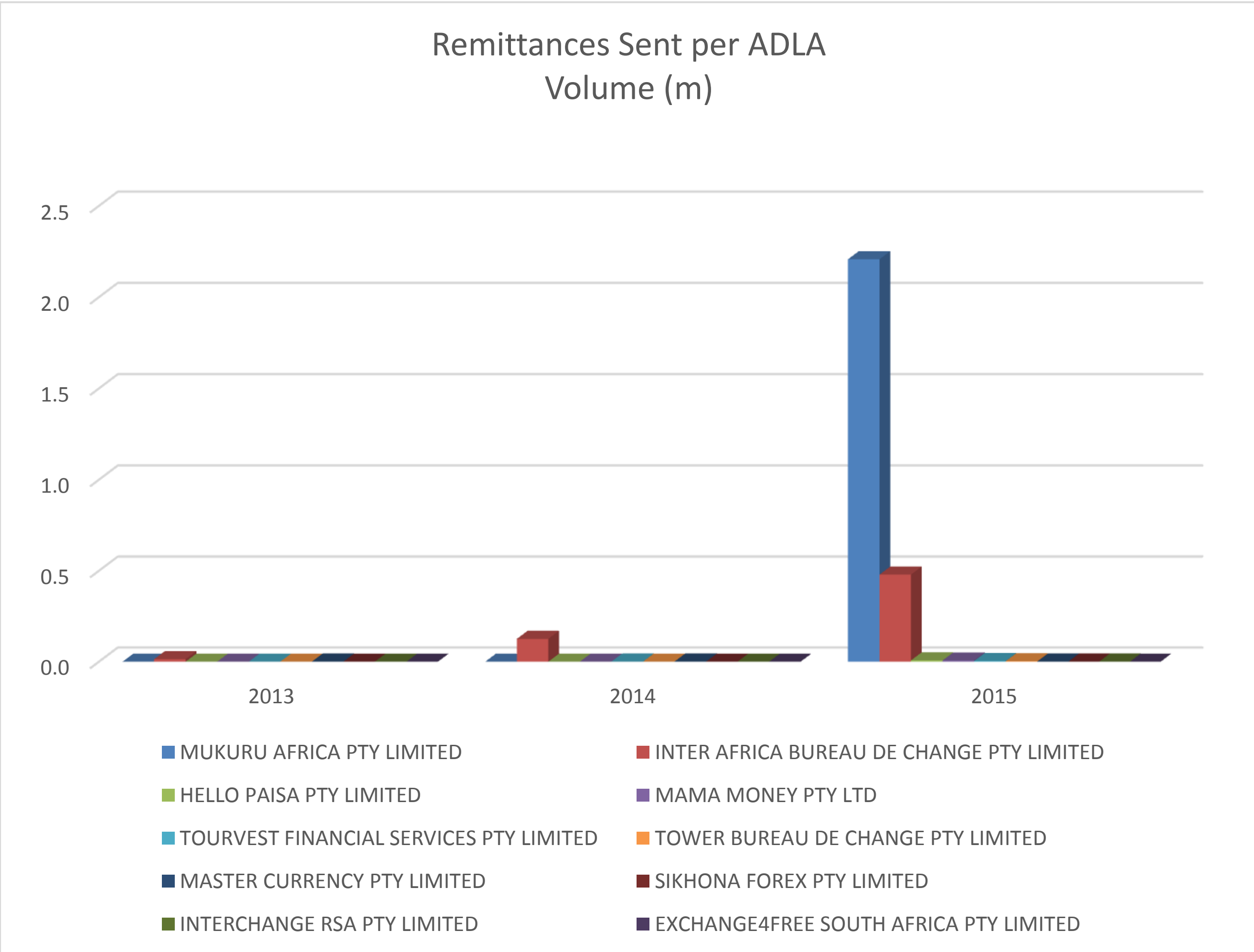
Growth and changes in the market has been facilitated through partnerships between banks and retail chain stores (the Shoprite model being the most successful) and also in part by the implementation of ADLAs, which reduced barriers to entry. Category 3 ADLAs, though a recent change, are already being leveraged to enable new entrants. To quote from an interview with Mukuru:

> *"We were trying to get our licence in SA and learnt that the easiest route was to partner with someone. Western Union was partnering with ABSA. MoneyGram partnered with Standard Bank. We went to the big banks and found they were not interested, because we were quite a small business at the time. We were about to give up on the whole plan. We luckily attended a money transfer summit in 2009 and I think I was speaking of how difficult it was to get things going compared to the other jurisdictions. For example, in the UK it's 60 pounds and your license comes in the post in 10 days…After that, [Inter-Africa] came to me after the meeting and said it is not just the big banks that have licences, There is also a couple of smaller operators that have …. And we are one of them. Shall we talk? Having had to work with the SARB since then, I have found them open to innovation and willing to consider new ideas and approaches."*

The entry of Mama Money was facilitated directly by the new regulations. They were one of the first providers to receive a Category 3 licence. To quote their founder:

> *"At the time, the regulation was such that to be an MTO [Money Transfer Operator] you had to piggy-back on an authorised dealer and a bank. The banks didn't have an appetite for it because the banks already had big MTOs that were part of them. So we went to ABSA, Standard Bank, FNB – no one was interested. MoneyGram and Western Union was already there. So, we then went back to the Reserve Bank and they said; 'look we are changing the legislation to allow you to apply as an independent Money Transfer Operator.' They had a mandate from the finance minister…So, the application process from start to finish took 18 months and in December last year (2014) we were issued with our license. 1st of February this year (2015) we launched"*

In the remittance corridors within the scope of this study, formal money transfer service providers may be grouped into four categories[27]: banks, category 2 (ADLA) providers, category 3 (ADLA) providers, and other providers. There were six banks[28] active in this space at the time of this study. All of them offer telegraphic transfer of funds to the DRC, Lesotho, Mozambique and Zimbabwe, besides Ubank, which only operates in Lesotho and Mozambique. First National Bank (FNB) also offers two instant transfer products – FNB Instant Transfer (Mozambique and Zimbabwe) and FNB Pay2Cell (Lesotho). Fee structures vary between banks and products, ranging from a flat fee to combinations of commission fees, flat fees and Swift fees. There is much more variability amongst the services offered by category 2 and category 3 providers. They offer instant and telegraphic transfer of funds, or transfer via mobile money. Some, such as MoneyGram, service all four corridors surveyed (DRC, Lesotho, Mozambique, Zimbabwe), while others, such as Afrocoin Mobile Money, only operate in one channel (Zimbabwe). Whereas banks mostly rely on bank branches to distribute funds, category 2 and 3 ADLAs in the corridors of interest rely on bank branches, exchange offices, post office branches, own agents and retail networks such as Shoprite, Pick n Pay and Spar. Their fees vary in structure. A third category of service providers in the corridors of interest includes Shoprite and the South African Post Office, which have also entered the market and leverage their own respective networks.

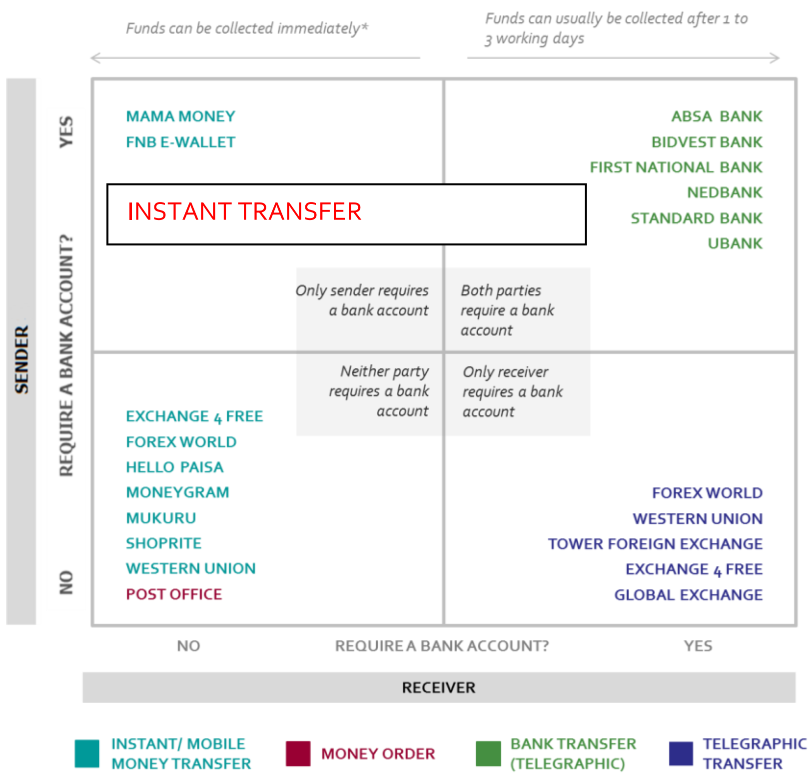


Remittances sent via ADLAs are predominantly to one destination country and by one provider.

[27] Appendix II describes available offerings over the corridors of interest at the time the research was conducted, as summarized here.
[28] ABSA, Bidvest, FNB, FNB Instant Transfer, FNB Pay2Cell, Nedbank, Standard Bank and Ubank.

Some services require the sender to have a bank account, others require both the sender and receiver to be banked and yet others require neither the sender nor receiver to have a bank account. The services are segmented on this basis in the image below. With the exception of money orders offered by the Post Office, funds collected by receivers in cash or via a mobile money account (as opposed to a bank account) are instantaneous. In contrast, there is typically a one or two day delay if funds are relayed directly into a recipient's bank account, as the transaction is facilitated by the more protracted SWIFT messaging and clearing processes. As can be seen in the figure below, new entrants under ADLA 2 or 3 licences are driving the expansion of offerings where the sender and/or recipient do not need to have a bank account.

Figure 1: Formal money transfer services offered over the focus corridors



* *Money orders through the post office can only be collected after two business days*

Although formal offerings have expanded, corridors remain well serviced by informal agents and networks. In basic, informal mechanisms, many agents or networks rely on bus or taxi drivers to physically transport cash. Whilst this may still persist in some instances, or at certain legs of the remittance process, informal mechanisms are becoming increasingly sophisticated. For instance, in this research, at least one of the agents used an import-export business in which agents on each end of the transaction keep funds on hand as a 'float' to accommodate informal remittance settlement obligations, whilst the agents set-off and settle their accounts at a later time usually by facilitating imports or exports without the movement of funds.

This enables informal channels to offer almost instantaneous remittance services. Agents leverage mobile phones to communicate between the parties to the transaction, and enable instantaneous transactions. They rely on strong networks within diaspora communities to source users, which in turn create high levels of trust for users. Further, because agents have a stronger underlying business case for providing the service – for example, they can minimise costs associated with foreign currency exchanges or SWIFT fees for individual transactions – pricing is often competitive. These type of services are mostly encountered in the non-CMA jurisdictions where formal offerings are more costly and administratively punitive.

As an alternative to sending funds to their home countries, some providers offer products which enable migrants to "send" groceries, in which case ADLA regulations would not apply. There are a number of service providers who offer these services in conjunction with grocery stores in the recipient countries. Kawena Distributors, which operates along the South Africa-Zimbabwe corridor, is a South African-based FMCG distributor, supplying products to OK and Bon Marche stores in Zimbabwe. Recipients in Zimbabwe collect funds in store where they must spend a minimum of US$30 on groceries. A maximum of US$20 cash can be withdrawn free-of-charge, with additional amounts incurring a fee of 7.5%. Like informal agents, Kawena can avoid costs associated with foreign exchange transactions.

5. COSTS TO THE CUSTOMER

The pricing structure of remittances is opaque. Money transfer fees can be tiered, a percentage of the amount sent, or a fixed fee (see table 3 in the Provider Landscape section above).

In addition, the costs incorporate an exchange rate margin, which is often not disclosed unless requested, and which can fluctuate with the exchange rate over the course of a day. Providers have varying practises with respect to purchasing and on-selling currency. These will impact on costs to the end user as discussed in Box 2.

Box 2: Cost implications of exchange rate margins (spreads)

Margins and fees included within exchange rates are a key component of the costs incurred by customers to send a cross-border remittance. This study found that in certain cases the exchange rate margin disclosed by providers accounted for almost the total cost of the transfer. These rates generally include the spot rate (the current market rate, which already is marked up for a portion of wholesale costs and fees), plus a retail margin or spread. Margins are important for providers to hedge against exchange rate risks, but margins also add to the costs passed on to customers.

Yet, despite the role that exchange rate margins play in driving up costs for cross-border remittances, it is difficult to determine the size of such margins or even the origin at any single point in time.

At high level, exchange rate margins are generally determined by exchange rate trends, with currency volatility and liquidity being key risks. For any given currency, someone must be willing to buy, and someone must be willing to sell (a relationship referred to as the "quantum"). With SWIFT transactions, transfers are accommodated in the national jurisdiction where the currency is issued. For example, if someone wishes to send USD from South Africa to the DRC, then the transaction will effectively take place in the USA and the value cleared and settled will become available to the recipient in the DRC. To facilitate this transaction, someone must be willing to buy South African currency, and sell United States currency. Costs can increase if a transfer is to be received in a jurisdiction where the provider has no operations and will be reliant on a chain of correspondent banking relationships, or when sending from a jurisdiction with a weaker, volatile or illiquid currency to one with a stronger stable currency.

If demand and supply for a currency shifts rapidly, the currency fluctuations create uncertainty about further movements. In turn, this causes a mismatch between a prevailing market rate and the rate offered as providers price in the risk of holding that currency.

As a hedge against fluctuations, exchange rate margins will increase in tandem with volatility. Providers will set exchange rates either daily or hourly. For a daily rate, a position will normally be taken in the morning for the expected daily trade in foreign exchange, based on the spot rate and recent currency trends. For an hourly rate, a position in foreign exchange is taken or updated hourly, which reduces risks of currency fluctuations and therefore enables providers to set lower margins. Whether a daily or hourly rate, currency will be sold with a mark-up, thereby passing volatility risks to the customer. However, it is not generally known at what rate a provider takes a position in foreign exchange, and therefore the margins are also not clear.

When a provider has taken a position, the prefunded amount will not always be used in the timeframe anticipated. If funds remain and exchange rates move in a direction that is detrimental for the provider, the rates charged to customers can be adjusted to a blended rate or maintained until the higher cost currency has been depleted. Similarly, if exchange rates work in favour of the provider, extra margin can be taken.

All of the complexities discussed above make it difficult to isolate actual exchange rate margins for cross-border remittances. However, margins can be assessed by comparing exchange rates applied at the time of transacting against the spot rate. If the rates quoted by a provider are consistently quite different to the spot rate, the margin can be estimated.

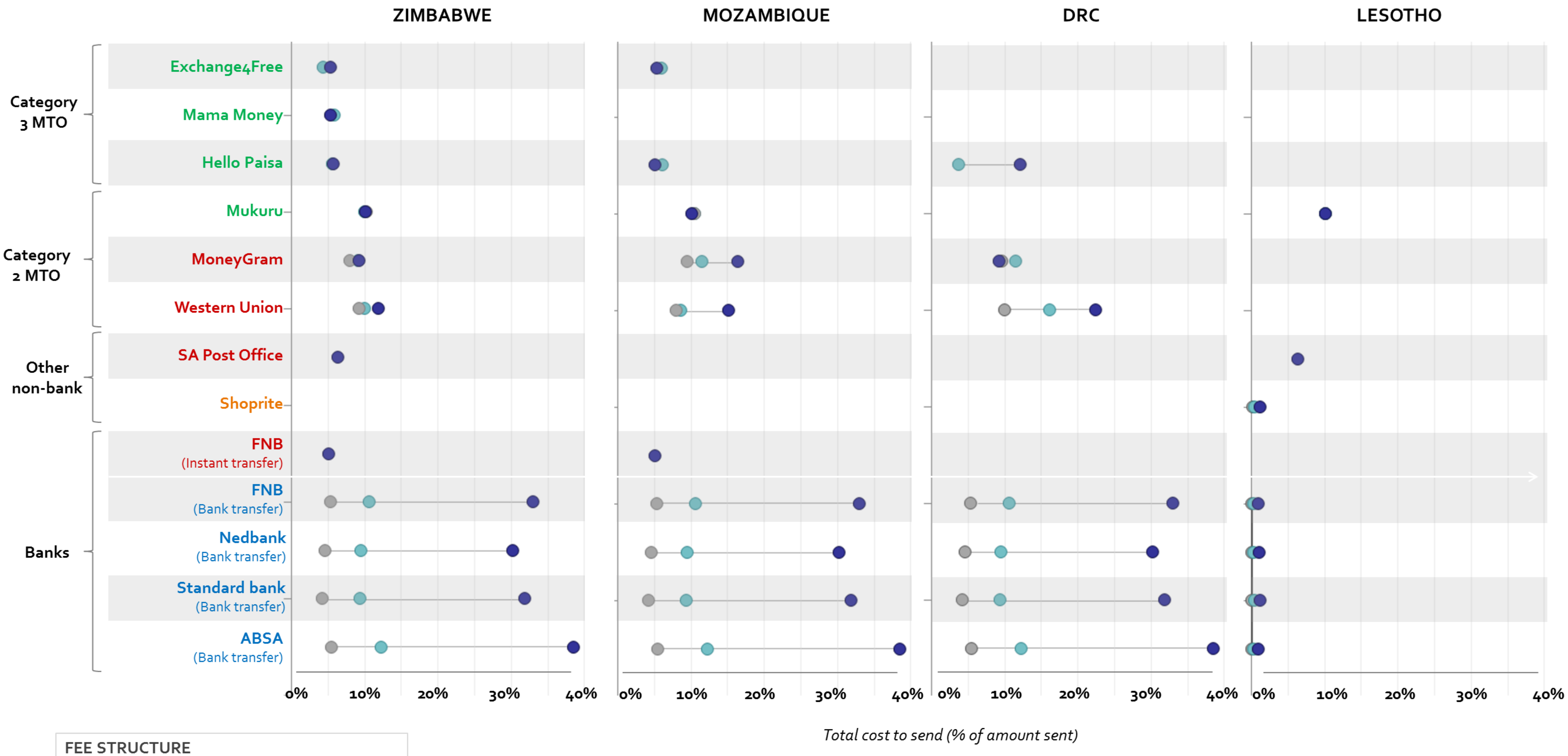
The business case for financial institutions trading in foreign currencies is a complex one, particularly when dealing with illiquid or restricted currencies in smaller markets. This is even more so when dealing with low-value retail transactions. Pricing under those conditions would therefore be expected to be commensurate with the risks undertaken and costs incurred. There is, however, a line between commercial viability and the potential to misuse a dominant market or supply position. This study has demonstrated that there is considerable scope for market innovation that can mitigate some of the costly traditional modalities.

Eighty20 collected pricing data on selected providers. The costs to send three amounts were obtained; US$200, US$500 and R850 (approximately US$55 as of February 2016). The first two price points are used by the World Bank in the Remittances Prices Worldwide database[29], which has been published since 2008 and are used in this study to enable comparability. Providers in South Africa indicate that median values for cross border remittances are closer to R850. The research therefore uses that amount as an additional reference point.

The project team collected the pricing data through branch visits, telephone communication and using the live chat function on provider websites. The pricing information collected is shown in the graphic below.

[29] The World Bank's Remittances Prices Worldwide database can be found at: https://remittanceprices.worldbank.org/en

Figure 2: Total cost to customer to send US$55 (R850), US$200 and US$500. Cost shown as % of the amount sent



FEE STRUCTURE
Percentage of total sent
Tiered fees
Flat fee
Commission % of total sent, plus SWIFT fees*

Note*: Bank to bank transfers to Lesotho cost a flat fee (dependent on bank used and type of account). SWIFT transfer would not be used when sending money to a bank account in Lesotho

Based on the pricing data, there is a pattern that emerges across Zimbabwe, Mozambique, and DRC. For low-value transfers (US$55), Category 3 providers (which charge a percentage of the total sent) generally have lower fees than other providers. Category 2 providers tend to be only slightly costlier. Banks which charge a fixed fee (usually in addition to a commission based on percentage of the total sent) are by far the most expensive for low-value transfers.

The cost to send money to Lesotho is noticeably different to the other corridors because Lesotho is part of the CMA. As discussed above, banks have flexibility in managing operations across CMA countries. In particular, transfers can be managed as internal transactions which eliminates the need for messaging through SWIFT, and there is no currency purchase or risk. Banks can therefore charge a low, flat fee to conduct transfers to Lesotho ranging from R7 to R9, depending on the sender's account type and fee structure selected. The Shoprite money transfer, which charges a flat fee of R9.99, is an affordable option when the sender and/or receiver does not have access to a bank account and the relatively high uptake of this service in a short period tends to indicate that there are other considerations for consumers beyond price including but not limited to accessibility, convenience and purpose of the remittance.

For the corridors outside of the CMA, the chart highlights the impact of the size of the transaction. When sending the smaller sum of R850, MTOs are considerably more affordable with prices ranging from 5% to 22%. FNB's instant transfer option competes directly with the MTOs at this price point, costing just over 5% to send. For bank transfers, where fixed fees are charged, the cost to send money is prohibitively high, ranging from 30% to 40%. For example, using ABSA to send from South Africa to Zimbabwe, the cost is roughly 5% for sending US$500, 12% for sending US$200, and almost 40% for sending US$55 (R850).This is due to the minimum fee structure underpinned by correspondent banking relationships, SWIFT facilities and related operational, infrastructure, and trading desk costs.

However, when sending the larger amount of US$500, banks are the most cost effective with prices ranging from 4% to 5%; this may well reflect a tendency of banks to focus on higher value transactions. Due to transfer limits, many MTOs, aside from Western Union and MoneyGram, do not conduct transfers above R3 000 per day (approximately US$190 as at February 2016) or R5 000 (US$317).

A further observation relates to the number of service providers operating along the various corridors. The Zimbabwe corridor has the most options and the DRC corridor the least. The DRC channel is also the most expensive.

Costs for sending via banks have decreased somewhat since the 2011 study[30]. That study found that pricing at the US$416 price point was between 5.91% and 7.50% for four of the five banks tested, and 24.77% for the fifth bank. It is unclear why the fifth bank is an extreme outlier. Our research indicated that the total cost to send US$500 via the big four banks ranged from 4.19% to 5.42%.

The 2011 study found that the cost to send US$139 through MoneyGram was 12.34% of the amount sent. This research indicates a total cost of 9.02% to send US$200 from South Africa to Zimbabwe and 11.43% when sending to the DRC. For Western Union, the 2011 study included a quote of 5.05% to send a total of US$396.

[30] The 2011 study collected pricing data for transferring funds through five banks, Western Union and MoneyGram. It is difficult to make comparisons between this research and the pricing analysis conducted in 2011 for a number of reasons. Firstly, the price points used in the 2011 study were around the R1 000 and R3 000 marks, which at the time was equivalent to approximately US$139 and US$416 respectively. These are not easily comparable with the US$55, US$200 and US$500 points used in this analysis. Also, in the 2011 study, the exchange rate margin was not included in the total fee. There is also no indication of which country the quotes were acquired for. Although this does not matter for SWIFT transfers, our analysis shows that the country sent to does have an impact on the pricing for Western Union and MoneyGram. Finally, the previous research did not distinguish between the various banks, but rather indicated Bank A, Bank B etc. so direct comparisons for the banks cannot be made. The data collected in 2011 is shown in the appendix.

This update on our past research in this field indicates a cost of 9.13% to send US$500 to Zimbabwe and 9.97% to send the same amount to the DRC.

The price points collected by the Eighty20 team were compared with those collected by the World Bank. The World Bank deconstructs the cost to the sender into a transfer fee and an exchange rate margin. This cost is expressed as a percentage of the funds received by the remittance recipient. According to this data, as at the end of the 4th quarter in 2015, the global average cost of sending remittances was 7.37% of the amount received. For South Africa, the average was 16.59% – more than double the global average.

In general, prices gathered by Eighty20 were noticeably lower than those quoted by the World Bank, as illustrated below. Tables 4, 5 and 6 includes costs at the US$200 price point, with a table for the US$500 price point included in the appendix. Note that the World Bank does not collect pricing data for the South Africa-DRC corridor.

Table 4: US$200 transfer from South Africa to Zimbabwe

	World Bank (Collected 16/02/2016)				Eighty20 (Collected 02/2016)			
Firm	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)
Mama Money	$10.73	-0.42%	**4.94%**	$9.88	$11	0.50%	**5.78%**	$11.55
FNB (instant Transfer)	$10.22	1.97%	**7%**	$14.16	NA	NA	**NA**	NA
Mukuru	$20	-1.72%	**8.28%**	$16.56	$0.43	9.73 %	**9.95%**	$19.90
Exchange4free.com	$0	-0.05%	**-0.05%**	($0.10)	$0.25	4.16%	**4.28 %**	$8.57
MoneyGram	$22.55	1.88%	**13.16%**	$26.32	$11	3.69%	**9.02%**	$18.04
Western Union	$22.70	1.21%	**12.56%**	$25.12	$8	5.71%	**9.94%**	$19.88
ABSA	$35.04	1.43%	**18.95%**	$37.90	$22.53	0.91%	**12.18%**	$24.35
Standard Bank	$37.96	1.24%	**20.22%**	$40.44	$17	0.81%	**9.26%**	$18.52
Nedbank	$37.37	3.40%	**22.09%**	$44.18	$16	1.38%	**9.39%**	$18.77
FNB	$37.23	1.97%	**20.59%**	$41.18	$18	1.75%	**10.52%**	$21.05

Table 5: US$200 transfer from South Africa to Mozambique

	World Bank (Collected 14/02/2016)				Eighty20 (Collected 02/2016)			
Firm	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)
Exchange4free.com	$0.00	-0.08%	**-0.08%**	($0.16)	$10.56	0.63%	**5.91%**	$11.82
FNB (instant Transfer)	$10.22	7.13%	**12.24%**	$24.48	NA	NA	**NA**	NA
MoneyGram	$22.55	1.88%	**13.16%**	$26.32	$15.38	3.69%	**11.38%**	$22.76
Western Union	$22.70	1.21%	**12.56%**	$25.12	$9.97	3.51%	**8.50%**	$17
ABSA	$29.49	7.49%	**22.24%**	$44.48	$22.53	0.91%	**12.18%**	$24.35
Standard Bank	$37.96	6.95%	**25.93%**	$51.86	$17	0.81%	**9.26%**	$18.52
Nedbank	$37.37	3.40%	**22.09%**	$44.18	$16	1.38%	**9.39%**	$18.77
FNB	$37.23	7.13%	**25.75%**	$51.86	$18	1.75%	**10.52%**	$21.05

Table 6: US$200 transfer from South Africa to Lesotho

	World Bank (Collected 16/02/2016)				Eighty20 (Collected 02/2016)			
Firm	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)
MoneyGram	$22.55	0%	**11.27%**	$22.54		*N/A**[31]	***N/A****	
Western Union	$22.70	0%	**11.35%**	$22.70		*N/A**	***N/A****	
ABSA	$29.49	0%	**14.74%**	$29.48	$0.48	0%	**0.24%**	$0.48
Shoprite[32]	*N/A*	*N/A*	*N/A*	*N/A*	$0.65	0%	**0.33%**	$0.65
Standard Bank	$37.96	0%	**18.98%**	$37.96	$0.61	0%	**0.31%**	$0.61
Nedbank	$37.37	0%	**18.69%**	$37.38	$0.51	0%	**0.26%**	$0.51
FNB	$37.23	0%	**18.61%**	$37.22	$0.47	0%	**0.24%**	$0.47

Comparing the Results

Differences between Eighty20's analysis and that of the World Bank are material, particularly as both sets were collected during the same period using similar methodologies.

The Eighty20 team found that in some cases inaccurate information was provided centrally by the MTOs. For instance, with regard to the Lesotho corridor, the project team was informed by some Western Union and MoneyGram agents that transfers could be facilitated, however after extensive mystery shopping this appears to not be the case.

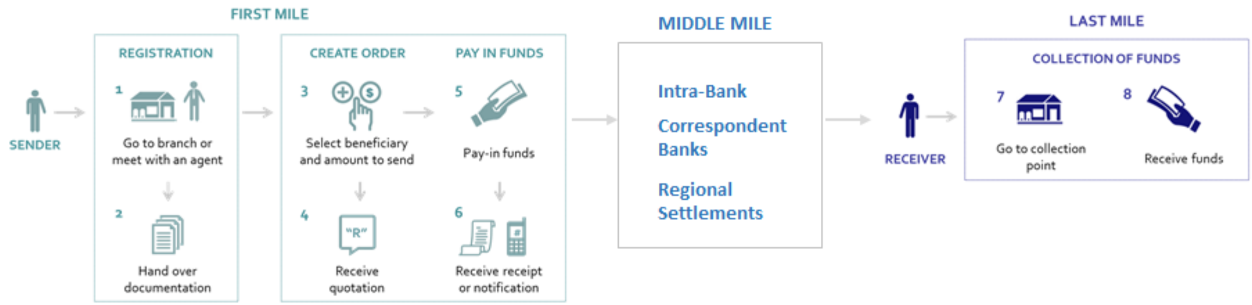
As noted in Box 2 above, the calculation of the exchange rate margin is particularly complex and fluctuating exchange rates can have a substantial impact on pricing and findings. For example, over the course of one week, Eighty20 found the cost of a Mukuru transfer fluctuated from around 9% up to 13%. In addition, institutions that do not have a foreign exchange trading desk will have to purchase currency from institutions that do, which can further add to the rate paid by customers. Although exchange rate fluctuations could account for some of the differences, they do not account for the quantum and consistency of the different results.

Mystery shopping exercises were employed in many cases to test the veracity of Eighty20 results but could also not definitively explain the material differences to the World Bank figures. The Eighty20 results are based on desk research, supplier interviews and corroborated with primary field research. Due to the importance placed upon remittance indicators, the results of this study highlight a need to revaluate the underpinnings of widely distributed secondary research.

[31] Where (N/A) -data not available; where (N/A*), mystery shopping indicated that the channels do not exist.
[32] Shoprite maximum transaction value was $197 and charges as a % of total are adjusted accordingly.

6. USER EXPERIENCE

The process of sending a cross-border transfer can be divided into three distinct phases as shown in the image below:



Formal transfer services require customers to register before a transaction can take place although this is not strictly necessary for single transactions but practically the process is the same used to collect and verify documentation in line with regulatory requirements. In the case of bank-to-bank transfers, there is generally no registration process as the bank has already vetted the customer when the account was opened. However, some requirements, such as providing necessary ID, are required on an ongoing basis. Generally, providers conduct the registration process in a branch or through a face-to-face meeting with customers.

Once registered or verified in the case of single transaction users, a consumer is able to transfer funds to a recipient in another country. During this process, known as the First Mile, the customer typically places an order by setting up a beneficiary and specifying the amount to be sent. The customer will also pay the funds to be transferred (plus any fees) over to the provider.

The clearing and settlement process occur outside of the consumers control and are often termed the Middle Mile. Most often these process involve national and international payment mechanisms and depending on the manner of deployment can either add considerably to transaction costs or significantly reduce costs through scale. The SIRESS regional system is an example of a deployment structured for scale and efficiency.

The Last Mile phase of the process involves the receipt of funds by the receiver in their home country.

A mystery shopping exercise was conducted to gain insight into the user experience of transferring funds out of South Africa. As noted in the regulatory section above, the process to send money across borders differs for foreign nationals and South African citizens, due to exchange control regulations. Because the primary interest in this research is the experience of foreign nationals, the project team recruited non-South Africans to participate in the mystery shopping exercise. They were shadowed by Eighty20 as they sent money home in line with their needs. Amounts sent therefore vary.

In total, thirteen providers were tested during the mystery shopping: three authorised dealers (FNB, ABSA and Nedbank), seven ADLAs (Mukuru, Hello Paisa, Mama Money, MoneyGram, SA Post Office, Shoprite, and

Western Union), two informal agents[33] and Kawena, a provider that facilitates the transfer of groceries rather than money.

A summary of data on required documentation and costs generated by the mystery shopping research, is shown in Table 7. Detailed process maps for all providers included in the mystery shopping exercise have been included in the appendix.

[33] Although the focus of the research is on formal transfer services, the use of informal transfers is thought to be extensive. Research conducted by the FinMark Trust in 2012, estimated that approximately 68% of remittances are sent through informal channels. These would include taxis and bus drivers, as well as informal agents. Some of the mystery shoppers recruited for this research use informal agents to remit money. These agents do not require any documentation and, in certain cases, charge lower fees than their formal counterparts, providing a compelling alternative to formal services.

Table 7: Summary of mystery shopping targets

COUNTRY	SERVICE USED	AMOUNT SENT[34]	COST TO SEND *% of amount sent*	ACTUAL COST	STATUS OF MYSTERY SHOPPER	DOCUMENTS REQUIRED DURING MYSTERY SHOP	DOCUMENTS REQUIRED ACCORDING TO WEBSITE	TIME TAKEN TO REGISTER & SEND[35]
ZIM	Western Union	R435	15%	R65	South African permanent resident	Original passport with visa/permit Proof of address	Original passport with visa/permit Proof of address	25 minutes
	Mama Money	R476	5%	R25	Foreign national	Original passport Proof of address	Original passport with entry stamp Proof of address	2.5 hours
	Hello Paisa	R529	6%	R28	Foreign national	Original passport	Original passport Proof of address	Approx. 24 hours
	Kawena	R135	1%	R1.30	Foreign national	Only the passport number was required, not the original passport	Original passport	2 hours
	FNB Instant transfer	R100	0%	FREE[36]	South African permanent resident	None (must have an FNB bank account)	None (must have an FNB bank account)	5 minutes
	ABSA (SWIFT)[37]	R397	84%	R721.68	South African permanent resident	SA ID book Proof of address	Not specified	5 minutes
MOZ	Mukuru	R318	13%	R42	Foreign national	Original passport Proof of address	Proof of ID Proof of income Proof of address	34 minutes
DRC	Informal agent 1	R9 248	1.6%	R145	Asylum seeker	No documents	Not applicable	No registration required, 6 mins to send money
	Informal agent 2	R202	9%	R18	Foreign national	No documents	Not applicable	No registration required, 5 mins to send money
	MoneyGram	R86	133%	R114	South African permanent resident	SA ID book Proof of address	SA ID book Proof of address	24 minutes
LES	SA Post office	R200	18%	R35	Foreign national	Original passport with visa/permit Proof of address	Original passport with visa/permit Proof of address	21 minutes
	Shoprite	R100	10%	R9.99 (fixed fee)	South African permanent resident	SA ID book (or Lesotho ID Card)	SA ID book (or Lesotho ID Card) Proof of address	13 minutes
	Nedbank (EFT)	R50	16%	R8.00	South African permanent resident	None (must have a Nedbank account)	None (must have a Nedbank account)	5 minutes

[34] This was the amount received by the recipient.
[35] This is the time taken from entering a branch / meeting with an agent to actually sending the money. This includes the time taken to register on the service (verifying documents and creating a user profile) and to send money using the service.
[36] Towards the end of 2015, FNB ran a promotion where users could send money to Zimbabwe for free using the FNB Instant Transfer. When not on promotion the pricing structure follows a tiered fee structure so that the transfer listed above would have cost R45 or 45% of the amount sent.
[37] This transfer was not sent – the mystery shopper got to the furthest point possible and cancelled the transaction as the fees were well above the amount they wished to send.

The mystery shopping exercise highlighted some key issues with regard to the user experience.

6.1. First mile: registration process

Physical access to a point of service can be a major barrier for customers. However, in this study the focus was on urban areas where customer proximity to access points is not always a barrier. To reach customers, providers rely on their own agent networks or branch infrastructure, which in the case of banks and the Post Office is extensive. Providers also leverage widespread distribution networks of partners, who include large retailers (for example, leveraged by Mukuru) and banks (Western Union and MoneyGram). In addition, some providers (Mama Money and Hello Paisa) employ mobile agents who leverage technology to register customers at mutually convenient locations.

Service levels vary across access points. For example, in the case of transfers to Lesotho using the Shoprite Money Market counter[38], the queues for the Money Market counter can be long, especially towards the beginning and end of the month. Likewise, response times for mobile agents varied. In one instance, an agent responded to a call centre request within 24 hours, whilst it took over a month of persistent calling to get a response from an agent with another provider.

The online channel is less suitable for customer registration. Kawena, which facilitates the transfer of groceries rather than money, allows users to register online. But this provider is not an ADLA and no documentation is required from users to comply with FICA or foreign exchange regulations. In this case, registration serves a functional purpose only; it enables the customer to create a user profile that facilitates future transactions. Users can save beneficiaries on their profile so that these details do not need to be updated each time a transfer is sent.

At least one other money transfer provider, Exchange4Free, allows users to register online. However, customers must either take their documents into a branch or mail certified documents to the provider, in order to complete the registration process. This can deter customers.

Even when physical access to points of service is not a constraint for customers, possession of the required documentation is. Undocumented migrants have no access to formal money transfer services, as they do not possess valid immigration documents. For those who are in South Africa legally, proof of address remains a key constraint. The light registration provided for by the FICA cross-border remittance exemption could improve this in the future. This exemption has relaxed the requirement for proof of address that do not exceed R3 000 per day (US$191 as at February 2016) or R10 000 per month (US$637). While the exemption was introduced in July 2015, at the time this research was conducted (August to December 2015) only Mukuru and Exchange4Free had amended their processes to take advantage of it[39]. Below is an advertisement by Mukuru promoting the light registration process.

[38] The Money Market services a range of needs, including domestic remittances, third party payments and ticket purchases amongst other things. This can result in long queues, especially at the end and the beginning of the month, when domestic remittances are popular.

[39] Mystery shopping research of Mukuru was conducted just before the light registration was implemented. We therefore cannot comment on the customer experience.

Advert on the Mukuru Facebook page explaining the new light registration

You can now send money home from South Africa with only your ID document. Moo!!

There's no need for proof of address or proof of income. All you need to register with Mukuru is a valid ID document (passport, SA ID or asylum paper). You can send money to Botswana, Malawi, Mozambique, Zambia and Zimbabwe!

It's called a Light Registration and you can now do it at any Mukuru Consultant, Mukuru Branch or PEP Store countrywide. Yes, any PEP Store!! Give us a call on 086 001 8555 to find your nearest registration point.

IMPORTANT: A Light Registration comes with some limitations:
- You can only send up to R3 000 a day.
- Your monthly limit for sending is R10 000. Once the limit is reached you will have to wait for the next month.
- You will not be able to get a Mukuru Money Card or Funeral Cover. But you can upgrade to a Full Registration later to get these.

Other providers may be reluctant to implement the exemption as the wording of the directive is vague. As per the notice from the FIC; "*The remittance exemption can only be applied in respect of single transactions where funds are transferred or remitted to a destination outside South Africa. This means that the remittance exemption does not apply where the accountable institution has already established a business relationship with the client…*"[40]. One of the large banks highlighted that the wording of the exemption could effectively preclude them from offering a light registration process to clients who transact regularly, but do not have an account with the institution.

Nevertheless, based on our interaction with mystery shoppers, it appears that if widely implemented, the FICA cross-border exemption will have a significant impact on access to and usage of formal services. During the mystery shopping exercises and other branch visits the research team observed many prospective customers being turned away either because they did not have proof of address or because the proof of address they supplied was considered inadequate. Two mystery shoppers from Lesotho were unable to take part in the research because they were unable to provide a proof of address. Similarly, a mystery shopper from the DRC also struggled to obtain proof of address and has consequently been unable to access formal transfer services.

The mystery shopping exercise also highlighted the lack of standardisation in the documentation accepted by providers. Providers can have very different interpretations of what constitutes adequate proof of address. For instance MoneyGram required an original lease agreement that had been notarised by a lawyer or issued by a real estate agent, whilst Mukuru only required a copy of a lease agreement signed by the lessor and lessee. In contrast, Western Union only accepted a recent monthly utility bill, and some providers, like the Post Office, accept any recent letter with a visible address.

In addition to proof of address, some providers require foreign nationals to provide proof of funds and proof of employment when registering for the service. For example, Bidvest MoneyGram requires these documents for all users without a South African Identity Document, whilst these were not required by other providers.

[40] Public Compliance Communication 32: www.fic.gov.za/SiteContent/ContentPage.aspx?id=40

As a subset of foreign nationals, asylum seekers face the most intense scrutiny during the registration process. They are often required to provide more documentation, more frequently. For instance, some providers require asylum seekers to provide proof of address and proof of funds, in addition to their proof of identity, each time they transfer money out of the country. Other providers will not register asylum seekers at all. Box 3 details some of the challenges facing asylum seekers in South Africa.

Box 3: Asylum seekers

The UNHCR (the UN Refugee Agency) estimates that there were a total of over 114 500 refugees and a further 798 000 asylum seekers as at June 2015. They face the most onerous barriers when trying to access formal transfer services (and formal financial services in general, as it is very difficult for them to obtain and maintain the correct documentation).

On crossing a border into the country, asylum seekers are given five days to get to a Refugee Reception Office at the Department of Home Affairs, of which there are only three in the country. They are given an asylum permit which is valid for three to six months (most commonly three months). The asylum seeker must go back to the same office when the permit expires to be issued with a new one. In theory, asylum seekers should receive refugee status within five years of applying, however this is generally not the case. Only once they have refugee status can migrants apply for permanent residency status.

Providers are reluctant to service asylum seekers, in part because inefficiencies within the system have created a market for false asylum documents. Money transfer providers[41] indicated that due to the high number of fake asylum documents, they must email copies of all application documents from asylum seekers to the Department of Home Affairs for verification, but often a response is not received.

Asylum seekers also generally struggle to provide proof of address. As noted, despite the new FICA exemption, this is still required by many providers.

One of the mystery shoppers enlisted, Julie, is an asylum seeker from the DRC. She indicated to the research team that she would prefer to conduct transfers through MoneyGram or Western Union. However because she cannot obtain a proof of address she sends money using an informal agent.

Because customers are uncertain about what documentation is required, the registration process often entailed repeat visits to a branch. For instance, registration at Western Union required three branch visits. The mystery shopper was turned away on the first visit because the address on the bank statement did not match the address on the original lease agreement. The second branch visit was unsuccessful because the mystery shopper did not have a South African ID Book, despite being a South African permanent resident. Together, the three visits took an hour and half excluding travel time.

A similar situation occurred when the same mystery shopper attempted to transfer funds from her ABSA bank account to an account in Zimbabwe. The mystery shopper was required to re-submit her FICA documents because since opening the bank account she had become a permanent resident. The mystery shopper visited the branch three times before the bank was satisfied with her documentation.

Customers may also have to wait for documents to be verified. For example, when registering at MoneyGram through a Bidvest branch, foreign nationals may have to wait for up to two days for their documents to be verified.

[41] From a conversation with the founders of Mama Money

MoneyGram agents appeared to be strictest in terms of documents required for registration. This is not, however, determined by MoneyGram itself. Rather, the banks, who act as MoneyGram agents, determine these criteria. Given the liability and reputational risks of not adequately complying with regulatory requirements, and the relatively low revenue generated by cross-border remittances, banks understandably prefer to err on the side of caution.

For those who are unable to register for a formal service, an obvious option is an informal agent. Generally no documentation is required when sending through an informal agent, although some informal agents might request a form of identification from new customers.

6.2. First mile: integrating with the financial system touch points

A number of channels and touch points facilitate first mile processes – setting up the order and paying over the cash. These include low-touch, self-service channels, such as the internet and mobile phones, call centres and face-to-face channels, including own and third party branches. These first mile processes need to integrate with the middle mile payment clearing and settlement systems and mechanisms at both the national and international levels. Appropriate integration between consumers and the financial system touch points and thereafter into the broader middle mile financial system is crucial to balance risk, efficiency and the customer value proposition.

Mama Money uses low-touch channels exclusively for the first mile processes, enabling it to keep costs down. Users create an order online or via the USSD code, and pay funds directly into a Mama Money bank account. Of course, this limits the pool of potential users to those who are comfortable using online and mobile channels, and who have access to a bank account, but also assists with limiting the integration layers between the touch points and the broader financial system.

Mukuru uses a very different strategy. The provider has partnered with a network of retailers, Inter-Africa, FNB branches and Kazang[42]. Customers can also pay funds in using a Mukuru Money card which was developed by the provider in response to requests from users. More information on the card is shown in Box 4.

Box 4: Mukuru Money card

Mukuru wanted to offer a bank account to their customers, as they were receiving multiple requests for this due to the difficulties many migrants were facing when attempting to open an account in South Africa. Mukuru approached all the large banks to provide a Mukuru-branded, fully-fledged bank account through which migrants from Zimbabwe could receive their salaries. However, none of the banks were interested.

Mukuru therefore looked for the next best alternative. The Mukuru card is a prepaid reloadable debit card, which Mukuru offers as a convenient payment method to their clients. Salaries can be paid directly onto the card and cash can be can be withdrawn from ATMs. The card can be used to purchase airtime and, because it is MasterCard-enabled, it can be used to pay for goods free-of-charge. The monthly account fee is R25.

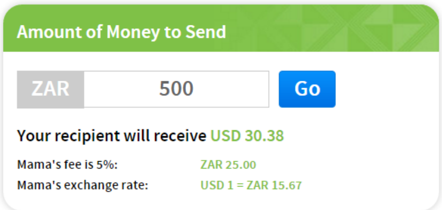
Clients with a Mukuru Money card can transfer funds directly from the card without having to visit a pay-in partner.

[42] Kazang is a micro-payment processing service that offers the ability to pre-pay for essential products like airtime and electricity. The service is primarily used in rural and peri-urban areas in South Africa, Botswana, Kenya, Namibia, Nigeria, Tanzania, Zambia and Zimbabwe.

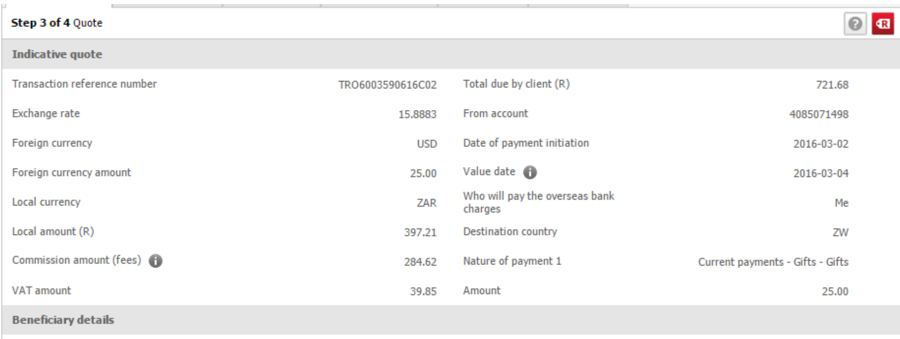
Senele, one of the mystery shoppers, went to the Mukuru Branch in Cape Town to register for a card. After waiting in line for about 20 minutes an agent attended to her. She was asked for her passport and proof of residency. The agent took a photo of the front page of her passport and the first and last page of her lease agreement. He then filled out the Mukuru Card application form for her using the documents she had provided. He did not ask to see her proof of income, but asked what her monthly salary was and entered this information into the form. After the form was dated and signed he took a photo of it on his smartphone and sent all documents to the head office. The documents took about 15 minutes to verify, after which the agent issued Senele with a Mukuru card. She then received a text message with her Mukuru card number and PIN, as well as instructions on how to use the card and the costs associated with the card. The next step would have been to go to an ATM to activate the card by inserting the card, entering the PIN code and depositing R50, which is the once-off activation fee. The whole process was relatively easy and took about 35 minutes from the time the agent attended to her.

There is no standardised convention with regard to the content and form of fee disclosure across providers during the process of initiating an order to send money, nor are there predictable points in the process when fees are disclosed to customers. Only Mama Money and ABSA provided a quote showing the cost of the transaction before it was finalised, as well as the exchange rate used.

Get a quote function on Mama Money website



Quote shown after creating an order for a transfer to Zimbabwe on an ABSA banking profile



Step 3 of 4 Quote

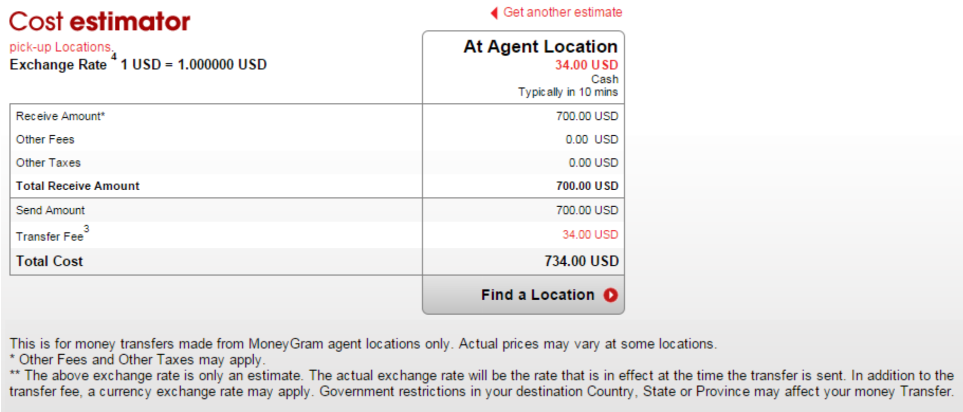
Indicative quote

Transaction reference number	TRO6003590616C02	Total due by client (R)	721.68
Exchange rate	15.8883	From account	4085071498
Foreign currency	USD	Date of payment initiation	2016-03-02
Foreign currency amount	25.00	Value date	2016-03-04
Local currency	ZAR	Who will pay the overseas bank charges	Me
Local amount (R)	397.21	Destination country	ZW
Commission amount (fees)	284.62	Nature of payment 1	Current payments - Gifts - Gifts
VAT amount	39.85	Amount	25.00

Beneficiary details

Most providers quote the total Rand amount required in order for the recipient to receive a given US Dollar amount. For example, Western Union indicated that it would require R2 736 to send US$200 to Zimbabwe. Both MoneyGram and Western Union agents were reluctant to provide a quote to send a specified Rand amount and indicated that this was against policy to provide quotes over the phone. Likewise, MoneyGram's online fee calculator only allows users to enter amounts in US Dollars. The exchange rate margin is therefore undisclosed. Whilst the rationale for this may be sensible – exchange rates vary, and the quote may not be valid when the customer actually comes into the branch to conduct the transaction – this makes it difficult to compare costs across providers.

MoneyGram fee estimator



Cost **estimator**

pick-up Locations

Exchange Rate [4] 1 USD = 1.000000 USD

Get another estimate

	At Agent Location 34.00 USD Cash Typically in 10 mins
Receive Amount*	700.00 USD
Other Fees	0.00 USD
Other Taxes	0.00 USD
Total Receive Amount	**700.00 USD**
Send Amount	700.00 USD
Transfer Fee[3]	34.00 USD
Total Cost	**734.00 USD**

Find a Location

This is for money transfers made from MoneyGram agent locations only. Actual prices may vary at some locations.
* Other Fees and Other Taxes may apply.
** The above exchange rate is only an estimate. The actual exchange rate will be the rate that is in effect at the time the transfer is sent. In addition to the transfer fee, a currency exchange rate may apply. Government restrictions in your destination Country, State or Province may affect your money Transfer.

The lowest cost providers by a substantial amount were Kawena (1% to send R135), followed by an informal agent (1.6% to send R9 248). Of course, the amount sent through the informal agent was much larger and could have had an impact on the cost; a transfer conducted through the second informal agent was considerably more expensive; 9% to send R202. Given that Eighty20 observed these transactions surreptitiously we were unable to gain any clarity on the informal agents' pricing structure.

Selected experiences from the mystery shopping exercise highlight the differences in servicing models. These are described in Box 5.

Box 5: Mystery shopping experiences

To send money through **Mama Money**, the mystery shopper logged onto her account using her registered cell phone number and four digit PIN. She created an order by entering in the beneficiary's details (including their full name and mobile phone number) and the total Rand value available for the transaction, inclusive of all fees. The site displays how much the recipient will receive in US Dollars and the fee to send the funds in Rands – one of the few services included in the mystery shop to do so. The exchange rate used in the transaction is also displayed to the user. The mystery shopper then transferred the funds into the Mama Money bank account via an EFT using her mobile phone number as a reference number. The mystery shopper received an SMS about an hour later stating that the order was being processed. Within an hour the mystery shopper received another SMS confirming that the funds had been transferred successfully to the recipient.

Western Union and MoneyGram service customers through a network of branches operated by agents. To send money, customers must go to a branch and complete a send form by hand. This form requests the personal details of the sender and the recipient, as well as the amount to be sent. When sending through Western Union, Senele had a total of R500 available for the transaction, inclusive of the cost-to-send. She was told that the recipient would receive US$34. However, no specific fee in Rands was disclosed at this point. After payment had been made, the agent issued Senele with a receipt that detailed the fees of the transaction, including a money transfer number that must be passed on to the receiver.

Kawena makes use of mobile channels and their own stores to facilitate transactions. The mystery shopper first created an order using the Unique PIN and USSD code that had been sent to her during the registration process. To send money, the mystery shopper transferred a total of R135 into Kawena's local bank account via her banking app, with her mobile phone number as a reference[43]. About three hours later she received an SMS saying her account had been credited with a total of US$10. She then dialled the USSD code and followed the instructions to add a recipient and send the money. The Dollar-Rand exchange rate on the day was US$1 : R13.29[44], implying that the fee was just 1%.

The transfer to Mozambique through **Mukuru** was conducted by Mark. Mark initiated the transfer whilst still in the Mukuru branch, directly after registering for the service. A Mukuru agent in the branch assisted Mark to create an order using a USSD code on his cell phone. To create the order, Mark had to first add a beneficiary and then enter the amount to be sent. He was quoted a lump sum in Rands that he would need to pay in order for the recipient to collect this amount. Mark decided to send the minimum amount allowed on the service of MT1 000 (about R317) to his brother in Mozambique. Immediately after creating the order, Mark received a reference number via SMS.

Mukuru relies on a network of retailers, Inter-Africa, FNB branches and Kazang[45] to facilitate cash transactions. It also accepts EFTs into its back account. Mark took his reference number to a nearby Pick n Pay store where he paid for the transaction at a till point using the reference number. Within five minutes of making the payment, Mark received an SMS confirming that his payment had been received and the order was being processed. Mark received a further message within 24 hours of making the payment, stating that the funds had been sent to his brother.

Sending through **Hello Paisa** involves a similar process. Users can create an order using USSD code, the mobile app or via the call centre. Once an order is created, the user has 24 hours to pay in the funds. This can be done at a Hello Store (Hello Paisa's branch in Johannesburg) and a number of grocery retailers. Alternatively, funds can be deposited or transferred directly into Hello Paisa's bank account.

The experience of sending **directly from a bank account** differed, depending on the type of transfer and the corridor selected. The first transfer was conducted using FNB's instant transfer service to Zimbabwe. At the time of the mystery shop, FNB was running a promotion that allowed free instant transfers to Zimbabwe. The mystery shopper logged onto her online FNB banking profile and selected the option to send to Zimbabwe. She entered the recipient's name, phone number and ID number, as well as the amount she wanted to send (R100). A few minutes later, she received an SMS confirming that the money had been sent. As per the promotion, there was no fee charged.

The process to send money to Lesotho through a **Nedbank account** was also very simple. The mystery shopper logged on to her online Nedbank profile and sent an EFT in exactly the same way as sending to an account in South Africa. The mystery shopper was able to select the recipient's bank from her bank's list of approved beneficiaries and send R50. A review of her banking statement showed that the cost of the transfer was R8.

The final bank transfer was a **SWIFT transfer from an ABSA account** to a Barclays account in Zimbabwe. Once the sender had resubmitted documents for FICA requirements, she was able to log onto her online banking profile, where she created a profile for the recipient, including the recipient's contact number and bank details. The shopper was also prompted to select the purpose of the payment from a long list of over 80 BOP codes. She selected 'gift'. It is unclear if she would have been able to select this option if she was not a

[43] She could have paid the funds over in a Kawena store. Kawena Distributors has seven branches as well as over 100 sales reps deployed daily to a selection of over 150 sales points across various mines, townships and other locations throughout South Africa.
[44] According to the Google spot rate on the day.
[45] Kazang is a micro-payment processing service that offers the ability to pre-pay for essential products like airtime and electricity. The service is primarily used in rural and peri-urban areas in South Africa, Botswana, Kenya, Namibia, Nigeria, Tanzania, Zambia and Zimbabwe.

permanent resident. The mystery shopper was then able to create an order. She selected to send US$25 (R397). The system generated a quote which details the exchange rate, and all fees applicable. Because the cost to send was high the mystery shopper opted not to send the money and cancelled the transaction

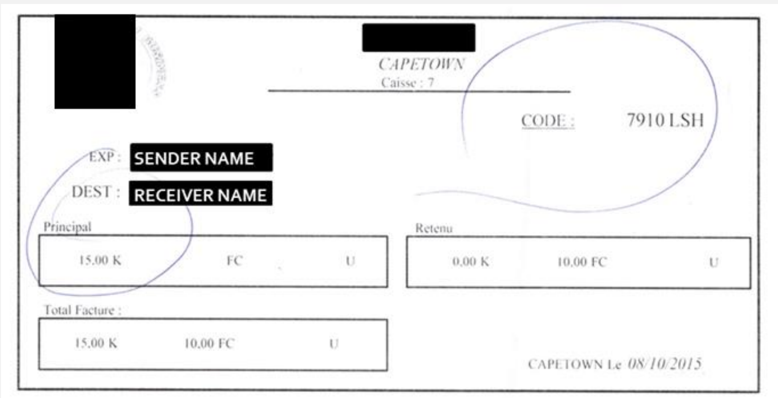
Two mystery shoppers sent transfers using **informal agents**. Julie, an asylum seeker from the DRC needed to send money home urgently for a funeral. When she could not access formal services she went to an informal agent, who she has used before. The agent has offices in Cape Town city centre. Sending through the informal agent was simple. Julie told the agent that she wanted to send US$700. The agent quoted R9 391, which implied a fee of 1.6% of amount sent using prevailing exchange rates. Had she sent this same amount via MoneyGram it would have cost her approximately 4.9%[46].

After handing over the cash, Julie was given a unique code which she SMS'd to the recipient. The recipient could collect the funds immediately after the transaction has been completed at a collection point in the DRC. The location of this collection point was not disclosed to the research team.

The second mystery shop through an informal agent was conducted by Daniel. Daniel has been living in South Africa for many years and works principally as a French facilitator, although he has numerous side jobs. The agent he uses appeared to be an import-export company with offices in Cape Town city centre. Access to the office was controlled so that the mystery shopper needed to ring an intercom to be let in. There were approximately seven other people at the agent, sending or receiving money at the time. No documentation was required.

Daniel sent US$15, the minimum transaction amount allowed by this agent. He was quoted R220. Based on the exchange rate at the time of the transfer, the total cost to send was about 8.6% of the amount sent. After completing the transaction, the agent issued Daniel with a receipt that had a unique code that he would need to pass on to the recipient. It took less than 10 minutes to complete the transaction

Receipt given to Daniel with the amount sent (US$15) and the transfer code circled



[redacted]

[redacted]

CAPETOWN
Caisse : 7

CODE : 7910 LSH

EXP : SENDER NAME

DEST : RECEIVER NAME

Principal: 15,00 K FC U

Retenu: 0,00 K 10,00 FC U

Total Facture : 15,00 K 10,00 FC U

CAPETOWN Le 08/10/2015

6.3. Last mile: receiving the funds

In this study, less emphasis was placed on the last mile processes, as the focus of this research is on the experience of sending out of South Africa. However, the team did follow up with recipients, and all were able to collect the transfers without a problem.

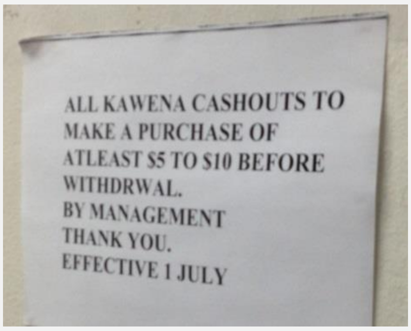
[46] According to the MoneyGram fee estimator on the MoneyGram website.

Funds are either deposited into a recipient's personal bank account or mobile wallet, or collected in cash through an agent or retail partner branch in the recipient's home country. There are typically no fees associated with collecting cash. Many MTOs have partnered with mobile money providers. Western Union has partnered with EcoCash in Zimbabwe, so that recipients with an EcoCash account can receive the funds directly into their accounts. Likewise, Mama Money has partnered with CABS bank to deposit funds into Textacash accounts[47]. When withdrawing cash out of the account a nominal withdrawal fee applies. Mukuru's transfers to Mozambique can only be received in an Mkesh wallet. The recipient was only required to show proof of identification to open this account.

Mukuru, Kawena and FNB instant transfer have partnered with OK stores in Zimbabwe to offer a cash-out facility. For Kawena transfers, the recipient must register for a Shop Easy card, which requires an ID document. Funds are loaded onto this card and can be swiped to pay for purchases at no cost, or withdrawn in cash at the till point. For Mukuru and FNB transfers, the recipient must take a form of ID to collect funds at the till point. In the case of FNB instant transfers, funds are collected in Rands.

As noted, Kawena facilitates the transfer of groceries rather than cash, and is not regulated as an ADLA. However, it appears they have obtained official sanction. According to their website; "The necessary authorisations for this business line have already been sought and granted by the reserve banks of SA and Zimbabwe". Whilst some customers claimed they had withdrawn the full transfer value in cash, counterparts in the mystery shopping research were unable to do so. The recipient had to purchase goods worth between US$5 and US$10. He could then receive the balance of the transfer in cash at no cost. Over the course of the research the cash withdrawal threshold changed. Customers are now required to spend at least US$30 and can take out a maximum of US$20 at no cost. A fee of 7.5% is charged on cash withdrawals above US$20.

Photo taken by recipient during mystery shop of notice in the OK Zimbabwe store in October 2015



Advert on the Kawena Facebook page posted in November 2015

Send	Min. in store spent	Free Cash	extra cash @ 7,5%	7,5 % charges
$ 30	$30	$ -	$ -	$ -
$ 50	$30	$20	$ -	$ -
$100	$30	$20	$50	$ 3,75
$200	$30	$20	$150	$11,25
$250	$30	$20	$200	$15,00

With regard to the informal channels, recipients were able to collect funds in cash immediately using their reference codes, at no cost.

7. DRIVERS IMPACTING COST

An understanding of the cost drivers contextualises the pricing of the various services and can indicate areas of inefficiency and opportunities for cost reduction. Because of scope and scale, cost drivers are very different

[47] Textacash is a low-cost and easy to access CABS account that can be operated from a mobile phone. To register for this card one needs to take any form of official identification to a CABS branch or OK store. No proof of address is required. Once registered, funds are credited into the Textacash account and the recipient is informed via text message. The card can be swiped at various retailers for free.

for banks whose products facilitate a range of transactions, compared to specialist remittance service providers. Banks have legacy systems and processes, and multiple income streams, of which cross-border transfers are a relatively small part. Given that most of their costs are fixed and leveraged across various services, it is fairly complex to allocate costs directly and identify cost drivers clearly in this context.

For Money Transfer Operators operating as an ADLA, economies of scale are critical; providers therefore focus on getting more people using the service more often. In their context, technology can be a vital differentiator, not only because it can lower operating costs, but also because it can make transacting more convenient, thus increasing usage.

Pricing also reflects the business case or strategic rationale for offering the service. Banks focus on developing strong customer relationships across a rich service offering, which mean cross-border remittances might not be part of their core business. For some providers, remittances can help build a customer base for other products. For example, retailers such as Shoprite might facilitate transfers to attract customers into the store. In contrast, for ADLAs, remittances are their only offering.

First mile cost drivers

A provider's distribution and business strategy (for example, target market, number of users and number of transfers) influences operational and administrative costs. Mukuru, which facilitates registrations through its own dedicated branches, Inter-Africa branches, Pep stores and its team of mobile sales agents, has relatively high costs. Aside from the overheads involved in running its own Mukuru branches, Mukuru pays Pep a fee and mobile sales agents a commission, for every account they open. Mama Money on the other hand only uses an agent network, so does not have to carry the cost of any physical infrastructure. However, agents need to be recruited, trained and paid a commission to register users.

Administrative costs are also driven by FICA requirements. For example, Mukuru has a team of 20 full-time staff that verify documentation and rectify errors. Mukuru believes the light registration may lower some of these costs as there will be fewer data capturing errors, but could not indicate the extent of the potential cost reduction.

Banks may require more complex and costly systems and infrastructure, and wages of bank staff may be higher because they are unionised and trained more extensively. Even though there is no explicit registration process required to send a cross-border transfer through a bank, a portion of these fixed costs may be notionally allocated to the service and passed on to the customer.

Cost drivers in linking the first mile to the middle mile

A key element of the middle mile is integration with the first mile being consumer touch points and transaction origination. The complexity, logistics and ultimately the cost of integration is largely determined by the provider's channel strategy. Providers that collect funds in cash from customers directly, or via a third party distribution network, will in general have higher costs integrating into the middle mile financial system than those who require customers to transfer funds into institutional bank accounts electronically.

Other examples of providers with high touch channel strategies are those that host call centres. Consumer convenience through direct contact incurs costs through the establishment and maintenance of these facilities. The call centre is the focal point of Mukuru's high touch strategy. This is a major cost for Mukuru; not only because of the staff, premises and equipment, but also because agents often receive call-back requests from clients who do not wish to use their own airtime. Hello Paisa also has a 24 hour call centre.

For bank transfers to non-CMA countries there are the costs involved in conducting SWIFT transactions.[48]

Box 6: Cost implications of SWIFT for cross-border remittances

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) was founded in 1973 with the intention to provide a "common language" for international financial transactions. Headquartered in Belgium, SWIFT is a cooperative, owned by member financial institutions. From an initial 239 banks spread across 15 countries, membership has grown to the current 10 800 in over 200 countries worldwide.

Because a "growing number of systemically important payment systems have become dependent on SWIFT", a group of ten national central banks[49] plus the European Central Bank formed a "cooperative oversight" structure to monitor (though not directly regulate) SWIFT. To engage central banks from large economies, but who are not part of the cooperative oversight structure, the SWIFT Oversight Forum, of which the South African Reserve Bank is a member, provides an information sharing platform.

SWIFT describes itself as a "communications platform" to "connect and exchange financial information securely and reliably".[50] Essentially, SWIFT provides automated and standardised instructions – or "messaging" – for financial transactions sent from one institution to another. In 2015, over 6 billion messages were sent, with a daily average of over 24 million.[51]

SWIFT provides messaging for international and domestic payments between financial institutions. It is designed to accommodate the secure sharing of financial information that supports higher risk, systemically sensitive payments. The nature, complexity and cost of the SWIFT platform makes it appropriate for a range of financial applications, from large value wholesale interbank payments to higher value retail orientated payments.

SWIFT enables increased efficiencies and reduced costs for wholesale funds transfers but the platform was not originally intended to facilitate low-value transfers such as remittances. Lower value retail payments and micro payments tend to be inappropriate for the SWIFT platform due to their lower risk nature and the need to be cost appropriate.

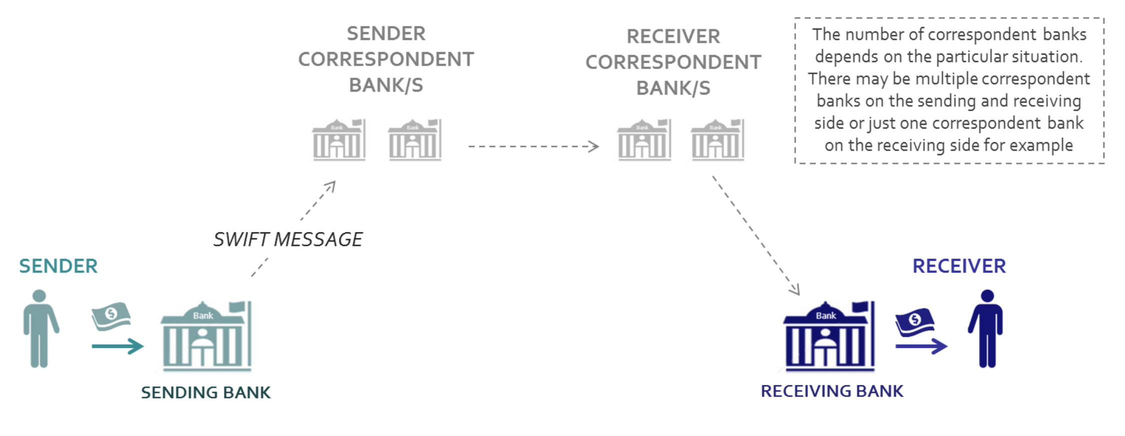
International remittances accommodated through the SWIFT platform are dependent upon correspondent banking relationships either of the sending and receiving institutions or other local institutions with access to correspondent relationships. Correspondent banks require costly suspense account systems and are reliant upon liquid deposits or securities to offset payment obligations. Maintaining these critical elements to support correspondent banking needs to be cost justified and worth the liquid resources tied up in the system in perpetuity.

SWIFT messages are executed individually and therefore fees are incurred for every remittance sent, adding to the costs for low-value transfers. The more banks that the SWIFT message must relay through, the more costs are added to the remittance. If funds are sent in a currency that is not traded (or widely traded) in international markets, the routing can be complex which all adds to costs.

[48] SWIFT payments are a type of international transfer sent via the SWIFT international payment network. The SWIFT international payment network is one of the largest financial messaging systems in the world.
[49] These are the central banks of Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.
[50] www.swift.com.
[51] www.swift.com/about-us/swift-fin-traffic-figures/monthly-figures#topic-tabs-menu.

The use of SWIFT to accommodate cross border remittances is often incongruent with consumer needs as it can take up to 48 hours for the SWIFT message to be actioned by the various institutions in the correspondent value chain. This delay is, in part, because to reach the end recipient institution the message can relay through multiple banks, often in different time zones and not all of which will have a direct correspondent relationship. An example of this is depicted in the figure below. It is also necessary to limit the number of transactions crossing the International Date Line, as this can distort accounting and recorded value for financial institutions globally.

For example, if a customer sends funds from South Africa to the DRC, the transaction would need to be routed through the United States where both South African and DRC banks would have business relationships in US Dollar denominated accounts.



A platform such as SIRESS[52], although SWIFT based, cuts out the inefficiencies of correspondent banking relationships and hence is more cost effective whilst containing risks. However, at present, like SWIFT based correspondent banking, SIRESS is designed for wholesale transactions. As the use of SIRESS increases, the volume of low-value transactions could strain the platform. To more appropriately facilitate low-value transfers, further development and integration of platforms and instruments for retail transactions through retail cross border clearing houses has already been undertaken with the aim to increase efficiencies and further reduce the costs of lower value remittances.

Last mile cost drivers

At the other end of the transfer process is the pay-out of funds to a receiver. Most providers have partners in the recipient's home country, such as retailers and mobile money providers. As with pay-in partners in South Africa, providers must pay a commission to distribution partners in recipient countries. A discussion with a provider indicated that commissions to pay-out partners are generally between 1.5% and 2% per transaction.

Touched on in Box 7, a number of developments taking place could have a direct impact on the remittance landscape, including reduced costs, in SADC.

[52] SIRESS or the SADC Integrated Regional Electronic Settlement System was originally conceived to improve Intra-African trade through an improved cross-border payment system. The system is designed to allow transactions amongst banks in member countries to be settled in real time and without the need for the funds to flow through third-party clearing banks.

Box 7: Going forward, what drivers could significantly shape the SADC remittance landscape?

How will SIRESS impact low-value remittances? The SADC Integrated Regional Electronic Settlement System (SIRESS) can help reduce middle mile costs for providers. SIRESS was originally conceived to improve Intra-African trade through an improved cross-border payment system. The system is designed to allow transactions among banks in member countries to be settled in real time without the need for the funds to flow through third-party clearing banks. In 2013 the system was successfully implemented within the CMA countries and it is currently live in nine countries. The next phase in the development of integrated SADC regional payment systems will be to accommodate low-value transactions such as remittances on the back of SIRESS as the regional settlement system. This means that there will be a role for non-banks in clearing remittances but the settlement will need to be accommodated through a bank linked to SIRESS. The costs of remittances through the envisaged SADC scheme have yet to be determined but it offers the strong potential to bring costs down. However, banks may have limited willingness to actively compete in this market given that remittance services create additional compliance, reputational and operational risks for banks, disproportional to remittance values and earnings potential. Direct/indirect access to low value regional clearing by specialised, regulated, financial institutions in the form of MTOs and Mobile Money Operators is intended to promote wider and more cost effective access to cross border remittances.

What other disruptive technologies can drive costs down? There are a number of innovative payment systems and currencies that could reduce costs. The Inter Ledger Protocol (ILP) is an open payment protocol within which any currency or commodity can be transferred. It is a distributed, open-source payments methodology closely aligned to the structure of internet protocols. IPL and a network of financial services providers or market makers can complement existing banking and SWIFT-based infrastructure. The inter ledger protocol is a standardised methodology that allows for banks around the world to directly transact with each other on either a trust or an escrow basis, by means of an open platform or within closed loop systems, with or without a central counterparty or correspondent. This means that banks would have the potential to settle low value cross-currency payments in real time and efficiently by connecting directly to other banks around the globe. IPL offers an alternative to correspondent banking, improves visibility into settlement and eliminates time delays, resulting in lower back-office costs. A group of banks in Japan have piloted and extended the adoption of IPL and their network is expanding.[53]

The growing number of mobile money users across Africa has created an opportunity to facilitate cross-border money transfers through mobile wallets. MFS Africa uses this development to disrupt intra-African remittances by connecting major mobile money networks to each other, and enabling licensed financial institutions to facilitate cross-border money transfers between wallets and between bank accounts and wallets.

To send money, customers access a menu on their mobile phones, and then enter their beneficiary's phone number and the transfer amount in local currency. The sender is able to preview the amount the beneficiary will receive in the destination currency before confirming the transaction. The money is deducted from the sender's mobile wallet and credited in real-time to the recipient's mobile wallet. In early 2015, MFS Africa's mobile money hub was selected by Vodacom and MTN to integrate their M-Pesa and MTN Mobile Money platforms in East Africa. As a result, their customers in Kenya, the DRC, Tanzania, Uganda, Zambia and Rwanda can remit money across borders using their mobile money accounts. According to MFS Africa, mobile networks typically price the cross-border transfers at between 3% and 6% of the amount sent.

[53] https://ripple.com

In South Africa, given the low uptake of mobile money, MFS Africa is more focused on integrating money transfer companies and banks to enable them to send to mobile wallets in other countries. Towards the end of 2015, MFS Africa and Airtel Malawi announced the launch of a remittance service from South Africa to Airtel Money customers in Malawi. Senders in South Africa are able to send funds using either Hello Paisa or Afrocoin and the funds are deposited directly into the recipients Airtel Money account.

Cryptocurrencies such as Bitcoin could further reduce costs. There are currently a number of remittance services in Africa that use Bitcoin, for example, Bitpesa in Kenya which is linked to the highly popular Mpesa service.

A detailed assessment of the scope of digital currencies to impact on remittance markets is beyond the scope of this report. They may warrant further investigation.

8. CONCLUSIONS

The landscape of remittance services along corridors out of South Africa has shifted significantly since the 2011 report by FinMark Trust. Key drivers of change include growing adoption of technology, increased access to bank accounts and electronic wallets and regulatory changes. Together, access to technology and digital transaction mechanisms have broadened the potential market within reach of efficient channels to originate and terminate transactions. This has enabled the development of more efficient and convenient channels to send money. Recent changes on the regulatory front are also encouraging. The relatively recent licensing category for MTOs has reduced entry barriers, whilst the FICA exemption, if clarified, will have a material impact on effective access to formal services. Key findings are summarised in Box 8.

Box 8: Understanding South Africa's remittance landscape

- *Lack of pricing transparency is widespread.* Across all providers, the basis for fees is not transparent and is difficult to compare across different providers. Money transfer fees can be tiered, a percentage of the amount sent or, in the case of SWIFT transfers, a commission plus a fixed fee. SWIFT fees do not only reflect the cost of utilising the SWIFT communication service, but also cover operational and other costs involved in the transfer. Further, exchange rates were not always disclosed, unless requested. When exchange rates are provided, the exchange rate margin is generally not known.

- *ADLAs enable new entrants, and increased competition.* ADLA Categories 2 and 3 have driven market development by allowing new entrants. Before ADLAs, cross-border transfers were only offered by banks or through partnerships with banks. As banks already had partnerships with larger MTOs such as Western Union and MoneyGram, there was little opportunity for new, smaller players to enter the scene. The new Category 3 ADLA has started attracting even more entrants, pushing market development further.

- *ADLAs offer competitive pricing for low-value remittances.* While there are exceptions, overall ADLAs offered the lowest total cost for sending lower value remittances. Tiered fee structures tend to be a bit costlier than fees charging only a percentage of the total sent. In comparison, most banks charged a commission plus fixed fees, which is expensive for low-value remittances. ADLAs are also more consistently closer to the 5% target in the 5X5 Objective for different price points.

- *FICA exemption can lower access barriers, lower costs, and enable increased competition.* The 2015 FICA exemption for cross-border transfers opens the door to reach more foreign nationals or temporary residents seeking to send money to their families across SADC. In addition to reaching more customers, the FICA exemption can also reduce a provider's costs for reviewing and verifying documentation, record keeping, and other administrative processes necessary to satisfy compliance requirements. However, with only two providers currently implementing the exemption, it is too early to assess the full impact.

- *Asylum seekers and refugees face additional barriers.* Like many foreign nationals entering South Africa, it can be difficult for asylum seekers and refugees to provide proof of address. It is not clear if the FICA cross-border exemption applies to asylum seekers or refugees. Regardless, asylum seekers and refugees are required to provide additional documentation verifying their status. Providers tend to be hesitant to serve these groups, because they must have documents verified by the Department of Home Affairs.

- *CMA lowers remittance costs for banks, but this might deter smaller providers from servicing these corridors.* Because banks can essentially manage operations across CMA member countries as internal 'on-us' transactions, SWIFT and other costs are kept down. Consequently, banks in South Africa can send remittances to CMA countries at costs against which smaller providers might not be able to compete. For example, smaller providers charged approximately 5% for sending US$200 to Zimbabwe or Mozambique, compared to about 10% for banks; in comparison, banks charge less than 3% for remittances to Lesotho.

- *Unnecessary practices and over-compliance by some providers.* Practices among providers were not always consistent, or necessary. For example, providers showed some confusion for when proof of employment and proof of earnings were required. In addition, providers can have very different views on what constitutes adequate proof of address. Some providers accepted a photocopy of a lease, whilst another required the original (though this could be influenced by the nature of the relationship with the mystery shopper, such as whether the mystery shopper was an existing customer).

- *Sophisticated informal mechanisms fill the gap where needs are not, or cannot be, met by formal providers.* The study found instances where barriers, such as FICA documentation requirements, prevented mystery shoppers from accessing formal providers. In other instances, mystery shoppers had to visit a branch multiple times in order to provide documentation that would be accepted by the provider. In contrast, informal agents did not require onerous documentation, and provided mystery shoppers with quick service, and in at least one instance at much lower cost than formal options. Informal agents and networks are increasingly sophisticated, and trusted by the communities they serve. Until formal providers can compete with such benefits, informal channels will remain entrenched.

Of course there are many areas that can still be improved, and the research has flagged a number of key questions discussed below.

1. What do remittance services actually cost?

It is not a simple matter to determine the true cost of remittances. Costs include fees as well as exchange rate margins. Whilst fees are usually transparent, true exchange rate margins are not; there is no disclosure of the rate at which the currency was purchased by the provider and no information to determine the basis used by providers to mark-up currency. Providers have various practises in this regard; some peg the currency at a fixed rate over the course of a specified trading period, whilst others allow the rate to vary in line with the prevailing exchange rate, irrespective of what they actually paid for the currency. Whilst this report has used the spot rate as quoted by Google as the basis on which to calculate margin, in reality MTOs themselves receive currency already marked up by Authorised Dealers, and are therefore unlikely to be able to purchase currency at the base rate. Therefore the margins as calculated are notional rather than real.

Aside from the complexity of calculating the true cost of remittance services, there are a number of issues with regard to cost disclosure to prospective customers. In some cases, agents would not provide cost estimates over the phone because exchange rates are so variable. In addition, practises with regard to disclosure of pricing information are not standard. Some providers quote a total Rand amount required for the recipient to receive a given US Dollar amount, whilst others work off a given Rand amount to arrive at value in US Dollars. Other providers might quote a fee.

There is also no standard practice with regard to disclosing an exchange rate with some providers sharing this and others not. Finally, there is no standard practice with regard to the timing of disclosure within the money transfer process.

Together, these limitations clearly impact on the ability of the end-user to select the optimal channel.

2. How low can we go?

The research found a range of pricing bases across formal offerings with some providers charging a fixed percentage of the amount sent, others using a tiered percentage that declines as the amount sent increases, and some charging a tiered flat fee. With the exception of Western Union and MoneyGram, providers typically charge the same across the corridors we explored, although not all providers currently operate along all corridors. Of the four corridors, Zimbabwe has the highest number of providers and pricing is the most competitive.

For transfers to Zimbabwe, prices range from as high as 12.18% on a US$200 remittance to as low as 4.28%. In general, banks were more competitive than ADLAs on high-value transactions. For a transaction of around R850 – the estimated median remittance value – the lowest cost offering on the SA-Zimbabwe corridor is Exchange4Free at 4.6% of the amount sent. Mama Money charges 5%, while Mukuru, the market leader in volume and value of remittances charges 10%. These cost differentials reflect the very different processes used to register and service customers. Whilst Mukuru relies on physical branches and call centres, and allows cash deposits through their distribution partners, both Exchange4Free and Mama Money use low touch models. In the case of Exchange4Free, customers must either take their documents into one of their branches or mail certified copies of all documentation to register for the service, whilst Mama Money uses mobile agents. Processes to set up and pay for orders are conducted online or via mobile phone using a USSD code or an app, and funds must be transferred into the providers' bank accounts directly. Likewise, funds are paid out into recipients' mobile money accounts. Neither Mama Money nor Mukuru could see scope to reduce costs further given their current operating models.

Exchange rate risk materially impacts costs to send. Where these are absent – as within the CMA – costs are noticeably lower than on other corridors. Banks charge a flat fee to conduct transfers to Lesotho ranging from R7 to R9, though this may vary depending on the sender's account type and fee structure selected. Likewise, FNB's instant transfers to Zimbabwe in Rands are well priced at R45 for amounts up to R1 000; R70 for amounts between R1 000 and R2 000; and R105 for amounts between R2 000 and R3 000.

The SADC Integrated Regional Electronic Settlement System (SIRESS) will likely reduce costs for providers. SIRESS was originally conceived to improve Intra-African trade through an improved cross-border payment system. The system is designed to allow transactions amongst banks in member countries to be settled in real time, without the need for the funds to flow through third-party clearing banks. In 2013 the system was successfully implemented within the CMA countries and it is currently live in nine countries. The next phase for SIRESS will be to accommodate low-value transactions, such as remittances. The cost of remittances through the envisaged SADC scheme have yet to be determined, but it offers the strong potential to bring costs down. However, banks may have limited willingness to actively compete in this market. Remittance services create additional risk for banks which are not warranted given their small value.

Overall, services offered by informal agents and Kawena were the lowest cost offerings. These entities operate outside foreign exchange, FICA or immigration regulations and can leverage their existing infrastructure, digital channels as well as formal banking channels, to provide an efficient, low-cost solution. Most importantly, their cost advantage arises from the matching of remittance and export flows, which creates a compelling business case for trading parties to offer money transfer services. Whilst it would seem sensible to leverage these off-setting transactions – in many cases exports and remittances flow in the same directions along the same corridors – this may raise concerns about flows becoming less visible, and entities offering financial services outside the frameworks for prudential and market conduct regulations.

3. Could it be easier to access formal services?

As noted, the relatively onerous registration process curtails access and increases cost. It also effectively increases switching costs for customers who would have to re-register to use another service.

There are several areas where the regulations are unclear. In the first instance, the codes used to classify transactions are confusing. These codes come with different requirements in terms of documentation required by the sender. For instance, the more stringent 417 code requires users to present proof of income, whilst code 416 does not. The SARB could provide no clear rationale for this distinction.

A second area of uncertainty relates to the quality of documents required as proof of address. Some agents require notarised copies of original documents, whilst others do not. This lack of standardisation creates some confusion for customers. Once again, it may be useful if the regulator could publish some guidelines in this regard.

The final area of uncertainty relates to the FICA exemption. This has been worded in such a way as to create confusion as to which customers would be eligible. Many providers have therefore not implemented the exemption. At the time of this research only two providers had implemented a light registration – Mukuru and Exchange for free. Neither of these providers service the South Africa-DRC corridor.

Given the severe consequences for banks that violate exchange control or FICA regulations, providers understandably prefer to err on the side of caution. This has material implications for access.

4. What matters most for the customer?

Whilst the research has focused on the user experience and cost, we did not fully explore the motivation for using particular services and the choices senders make with regard to bulking and frequency. Some mystery shoppers were loyal to one service, whilst others had used various providers in the past.

Given that tiered pricing is common, there is scope to explore the impact of pricing and the pricing basis on the selection of the service and usage patterns (in particular, bulking patterns and average transfer amounts). The research did not explore this, but this is a topic that could be investigated further.

Based on brief conversations with the foreign nationals taking part in the mystery shopping exercise, it appears that pricing has a limited impact on decision-making. In many instances the mystery shoppers could not tell us how much they had paid to transfer money, even when asked directly after making a transfer. This may in part reflect the complex way in which prices are disclosed. There also appeared to be very limited knowledge of the different services that exist, with most mystery shoppers using the method they have always used. This may simply be a function of the relatively recent entry of a number of providers. Given time, levels of awareness could improve.

5. Does the available data tell the full story?

The primary data source on the costs of cross-border remittances is the World Bank Remittance Pricing database. As noted in this report, percentages quoted in this database appear to be higher than comparable data collected as part of this research. Discrepancies may be explained by technical factors (such as the calculation of the exchange rate margin), market movements and timing mismatches, as well as inaccurate information given by providers. Given the importance of the database in framing discussions on remittances, these factors should be investigated thoroughly and data updated accordingly.

Perhaps a more important issue with regard to the database, is the reference price points of US$200 and US$500 used by the World Bank. It is not clear on what basis these two amounts were determined; providers in South Africa indicate that median amounts are closer to R850 or US$60. Given the often steeply tiered pricing structure, remittance costs for this amount can be significantly higher than those corresponding to the World Bank price points. This is particularly the case for transfers through a bank account, which are prohibitively costly for small amounts. To ensure a more complete picture going forward, research on costs for sending remittances should consider ways to enhance methodologies, such as gathering data on both average and median price points for amounts actually sent by remitters.

Transaction level data collected by the SARB can potentially play a critical role in enabling a more detailed understanding of market trends. Providers are required to submit detailed data for each transaction. This includes the time and date of the transaction, the service provider, the identity of the sender, the amount sent, transaction fees and the location of the recipient. Aside from providing a detailed picture of remittance flows, market share and pricing trends, the data can also be used to identify suspicious activity. It may well provide invaluable guidance to regulators on the impact of revisions to Exemption 17 from a risk perspective, and offer useful insights into how to improve monitoring in such a way as to mitigate any risks introduced by this exemption.

6. Final word

In conclusion, there is room for further development, specifically as registration processes remain onerous and pricing structures are confusing. As a result, informal channels can still provide a more compelling proposition for remittance senders, even for those who are legally in South Africa.

APPENDIX I: Process map for providers included in mystery shopping exercise

	FIRST MILE: REGISTRATION	SENDING MONEY & INTEGRATION WITH MIDDLE MILE	LAST MILE: COLLECTION
ABSA (TRANSFER TO A NON-CMA COUNTRY)	▪ Sender must have an account at ABSA ▪ Sender may be required to re-submit FICA documentation (proof of identification and proof of address)	▪ An order can be created online or through the branch. ▪ Through online banking the sender must create a profile for the beneficiary including contact number and bank account details, as well as the amount of money to be sent ▪ The system will generate a quote which shows all fees and the exchange rate used ▪ On accepting the quote, the funds will be taken directly from the sender's ABSA account	▪ Funds are deposited directly into the receivers bank account
NEDBANK EFT (LESOTHO)	▪ Sender must have an account at Nedbank ▪ No registration is required as the sender would have submitted all FICA documentation on opening the account	▪ All channels that can be utilised to send an EFT can be used including online and cell phone banking ▪ The sender must log onto their banking profile and select 'payments'. The sender must enter in the beneficiaries details and select their bank account from the list of approved beneficiaries ▪ The sender then confirms the transactions and the funds are taken directly from their account	▪ Funds are deposited directly into the receiver's bank account in Lesotho
FNB INSTANT TRANSFER	▪ Sender must have an FNB account ▪ No registration is required as the sender would have submitted all FICA documentation on opening the account	▪ Sending can be done through online or cell phone banking ▪ The sender must log onto their banking profile and select 'Send money' and then select either Zimbabwe or Mozambique ▪ The sender must then enter the amount of money to send, the receivers ID number and phone number ▪ Once sender confirms the transaction they will receive a text message to their phone	▪ Receiver will get a text message informing them that they can collect the funds Funds ▪ In Zim funds can be collected from an OK store, in Moz funds are collected from an FNB branch ▪ Funds are collected in Rands
WESTERN UNION	▪ Registration done at any agent branch ▪ Documents required include: original passport and proof of address (original lease or utility bill, and a three month bank statement) ▪ Asylum Seekers require additional documentation including proof of funds	▪ Sending can be done either at an agent branch or via an ABSA bank account using online or cell phone banking ▪ When sending through a branch the sender requires a form of ID. The sender must complete a form that incudes beneficiary details and specify the amount to be sent ▪ The teller generates a quote in the form of a lump sum in Rands (no breakdown of fees) ▪ Once funds are handed over, sender will receive a receipt that details the fees charged and the exchange rate used. The receipt includes a money transfer number that must be passed on to the receiver	▪ Funds can be collected at any agent branch in recipient country. Funds may also be collected directly into mobile wallet (eg: EcoCash wallet in Zim) ▪ Recipient must have the money transfer number and a form of ID to collect funds
MONEYGRAM	▪ Registration takes place in agent branches ▪ Documents required include an original passport, proof of address (lease notarised by lawyer or real estate agent), bank statement (with a stamp) or utility bill ▪ Some branches require non-residents to provide a foreign national declaration. Asylum seekers must provide proof of employment and proof of funds	▪ Sending can be done through a branch or directly from a Bidvest, FNB or Standard Bank account ▪ When sending through a branch proof of ID is required. The sender must complete a form with beneficiary details and specify amount to be sent ▪ The teller generates a quote in the form of a lump sum in Rands (no fee breakdown) ▪ Once sender has paid in the funds they will receive a receipt that includes a breakdown of fees and a transaction code that must be passed onto the recipient ▪ When sending through a bank account, the transaction code will be SMS'ed to sender	▪ Funds can be collected from a MoneyGram agent in the recipient country ▪ Recipient must show a proof of ID and transaction code to collect funds ▪ There is no cost when collecting funds

APPENDIX I: Process map for providers included in mystery shopping exercise (continued)

	FIRST MILE: REGISTRATION	SENDING MONEY & INTEGRATION WITH MIDDLE MILE	LAST MILE: COLLECTION
MUKURU	▪ Registration done at Mukuru branch, Inter-Africa branch, face to face meeting with a sales agent, or at a Pep Store (light registration) ▪ Documents required include an original passport and proof of address (less than 3 months old). If no proof of address can sign an affidavit. No proof of address required for light registration	▪ Senders must first create an order, this can be done on the website, via live chat link with an agent, through the call centre, using the app or the USSD code ▪ On creating the order a quote is generated that shows the lumps sum required in Rands ▪ The sender must pay the funds in within 7 days of receiving the quote . This can be done through: Shoprite, Checkers, Pick n Pay, Lewis, Kazang and Pep, or though direct transfer into Mukuru's account ▪ Sender will receive an SMS confirming funds have been transferred	▪ Recipient will receive a message informing them that funds can be collected ▪ Funds collected through retail and bank partners in the country or into a mobile account
MAMA MONEY	▪ Registration at a Mama Money branch or a face to face meeting with a sales agent ▪ Documents required include an original passport and proof of address (less than 3 months old). If no proof of address, user can sign an affidavit. User must have access to a bank account	▪ Sending can be done by creating an order online or using the USSD code. Order is valid for 24 hours ▪ The quote generated specifies the total amount due in Rands, as well as a transfer fee in Rands. Funds must be paid directly into Mama Money's bank account via online or cellphone banking (no direct deposits) ▪ Sender will receive an SMS confirming funds have been transferred	▪ Funds are received through a Textacash card in Zim ▪ To apply for a card the recipient needs proof of ID ▪ There is a fee when withdrawing funds from the card
HELLO PAISA	▪ Registration is done at Hello Paisa branch in Johannesburg or meeting face to face with a sales agent ▪ Documents required include: original passport and proof of address (original lease or utility bill, or a three month bank statement)	▪ Senders must first create an order (specify beneficiary and the amount to be sent). This can be done, through the call centre, using the app or the USSD code ▪ On creating the order a quote is generated that shows the lumps sum required in Rands ▪ The sender must pay the funds in within 24 hours of receiving the quote . This can be done through: Shoprite, Checkers, Pick n Pay, Boxer and Pep, or though direct transfer into bank account ▪ Sender will receive an SMS confirming funds have been transferred	▪ In Zim, recipient can collect funds from CABS or a Telecash agent. Recipient requires ID and transaction number. ▪ In Moz recipients have money sent to their Mkesh wallet
SHOPRITE	▪ Registration can be done at any Shoprite Holdings branches. ▪ Documents required include SA ID and proof of residence or Lesotho passport, residence permit and proof of residence. ▪ Only SA ID holders or Lesotho passport holders can send money to Lesotho	▪ Senders must go to a the Money Market section at a branch and specify how much the wish to send and give the details of the recipient. Flat fee of R9.99 is charged per transaction . ▪ Sender is given a receipt with a transaction number	▪ Recipient collects money from any Shoprite Holdings branch. ▪ Proof of ID is required ▪ There is no fee to collect the funds
POST OFFICE	▪ Registration can be done at any Post Office branch ▪ Documents required include original passport and proof of address that must be less than 3 months old	▪ Senders must go to the branch with original passport and specify how much hey wish to send and provide recipient details. The fee to send the funds is given and then lump sum amount in Rands due from sender is quoted. ▪ Sender is given a receipt with a transaction number . Funds are available after 24 hours ▪ Sending limit is R2000 per transaction	▪ Recipient can collect funds at any Post Office branch ▪ Proof of ID and transaction number are required. ▪ There is no fee to collect the

APPENDIX I: Process map for providers included in mystery shopping exercise (continued)

	FIRST MILE: REGISTRATION	SENDING MONEY & INTEGRATION WITH MIDDLE MILE	LAST MILE: COLLECTION
KAWENA	▪ Registration can be done at Kawena stores, online or by meeting with a sales agent ▪ Documents required include original ID/passport/drivers license and active cell phone number. ▪ Registration may take up to 48 hours	▪ Senders must first create an order by calling the call centre or using the USSD code. Recipient ID number and cell phone number must be provided ▪ Order can be paid for at Kawena Stores or depositing money into the Kawena bank account. Sender cell phone number must be used as reference ▪ Once payment has been made sender receives an SMS with a unique Ok Shop Easy card number	▪ Moz: Kawena Distributors ▪ Zim: Ok Stores, Bon Marche, Kawena Distributors
INFORMAL AGENT	▪ No registration required, although some informal agents may request a form of identification the first time money is sent	▪ The sender tell the agent how much they would like to send (usually in US Dollars) ▪ In both mystery shopping exercises the agent quoted a told Rand value to send the required amount ▪ The sender hands over the funds to the agent and the agent will give the sender a unique code that they must pass onto the receiver	▪ The recipient can collect the funds from the collection branch in their home country ▪ They must produce the unique code in order to collect the funds

APPENDIX II: Summary of formal transfer services

	Service	Type of Transfer	DRC	LES	MOZ	ZIM	Fee Structure	Distributors
BANKS	ABSA	Telegraphic[54]	✓	✓	✓	✓	Charge a commission of 0.54% of amount sent (with a min. of R160 and a max. of R740) + a SWIFT fee of R120	ABSA branches
	Bidvest	Telegraphic	✓	✓	✓	✓		Bidvest branches
	First National Bank (FNB)	Telegraphic	✓	✓	✓	✓	Charge a commission linked to size of transaction and a SWIFT fee	FNB branches
	FNB Instant Transfer	Instant transfer			✓	✓	Tiered fee structure (3 tiers) R45 to send R100 - R1 000 R70 to send R1 001 - R2 000 R105 to send R2 001 - R3 000	FNB online, cell phone banking
	FNB Pay2Cell[55]	Instant transfer		✓			Flat fee	FNB cell phone banking
	Nedbank	Telegraphic	✓	✓	✓	✓	Charge a commission of 0.52% of amount sent (with a min. fee of R129 and a max. fee of R687) + a SWIFT fee of R100	Nedbank branches
	Standard Bank	Telegraphic	✓	✓	✓	✓	Charge a commission linked to size of transaction and a SWIFT fee	Standard Bank branches
	Ubank	Telegraphic		✓	✓		To Lesotho: R20.75 + 0.52% commission (or min. fee of R100) To Mozambique: min. charge R129, max. charge R687.	Ubank branches
CATEGORY 2	MoneyGram	Instant transfer	✓	✓	✓	✓	Tiered fee structure (20 tiers) Lower tier: US$7 to send US$0.01 - US$50 Upper tier: US$290 to send US$7 500 - US$10 000	FNB Standard bank Bidvest
	Sikhona Foreign Exchange	Telegraphic	✓		✓	✓		Sikhona Foreign Exchange offices
	Afrocoin Mobile Money (partnered with Sikhona Foreign Exchange)	Instant transfer				✓	8.25% of the amount sent	Shoprite Ackermans Pick n Pay Pep Boxer Spar
	Tower Foreign Exchange	Telegraphic	✓		✓	✓		Tower Foreign Exchange offices
	Western Union	Instant transfer Mobile Money	✓		✓	✓ ✓	To Mozambique and Zimbabwe: Tiered fee structure (17 tiers) Lower tier: US$3.50 to send US$0.01 - US$50 Upper tier 2% to send US$4 000.01 or more	ABSA, EuroDollar American Express Tower Foreign Exchange Travelex, Master Currency

[54] Telegraphic transfers (TT) are electronic funds transfers, usually for cross-border transactions, or transactions external to the financial institution
[55] The FNB Pay2Cell transfer can only be sent to a FNB account in Lesotho

	Service	Type of Transfer	DRC	LES	MOZ	ZIM	Fee Structure	Distributors
CATEGORY 2 *(Continued)*	Forex World	Instant transfer	✓		✓	✓	R350 + VAT	Forex World offices
		Telegraphic	✓		✓	✓	R350 + VAT	
	Global Foreign Exchange	Telegraphic	✓	✓	✓	✓	R228 + 1% of amount sent	Global Foreign Exchange offices
	Interchange RSA	Instant transfer		✓				Interchange RSA offices
	Mukuru	Instant transfer			✓	✓	10% of amount sent	FNB Shoprite Pep Lewis Boxer Kazang Checkers Usave Pay Zone (Spar) Pick n Pay Inter-Africa
CATEGORY 3	Exchange 4 Free	Instant transfer	✓		✓	✓	Fee varies from 2% to 6% of amount sent	Mercantile Bank ABSA Standard Bank Exchange 4 free branches
		Mobile Money				✓		
		Telegraphic			✓	✓		
	Hello Paisa	Instant transfer				✓	Cannot determine fee structure, fee is variable depending on amount sent. Users can obtain quotes from the Hello Paisa website	Pick n Pay Boxer Checkers Shoprite SPAR PEP PEP Cell Hello Store
	Mama Money	Instant transfer				✓	5% of amount sent	Agents/online
OTHER	Shoprite	Instant transfer		✓			R9.99 flat fee	Shoprite stores
	South African Post Office	Money order		✓		✓	Tiered fee structure (7 tiers) Lower tier: R15,70 to send R0.01 - R49.99 Upper tier: R48.50 to send R1,000 - R2,000	Post Office Branches

APPENDIX III: Pricing analysis – Cost to send US$500

US$500 transfer from South Africa to Zimbabwe

	World Bank (Collected 16/02/2016)				Eighty20 (Collected 02/2016)			
Firm	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)
Mama Money	$25	-0.42%	4.58%	$22.90	NA[56]	NA	NA	NA
FNB (Online Transfer)	NA	NA	NA	NA	NA[57]	NA	NA	NA
Mukuru	$50	-2%	8%	$41	$1.86	0.37%	10.11%	$50.53
Exchange4free.com	$0	0.07%	0.07%	$0.35	NA[58]	NA	NA	NA
MoneyGram	$33.97	1.88%	8.68%	$43.40	$21.30	3.69%	7.95%	$39.76
Western Union	$36.47	1.21%	8.51%	$42.55	$17.13	5.71%	9.13%	$45.67
ABSA	$35.19	1.43%	8.47%	$42.35	$22.53	0.91%	5.42%	$27.08
Standard Bank	$38.12	1.24%	8.86%	$44.30	$17	0.81%	4.19%	$20.96
Nedbank	$37.54	3.40%	10.91%	$54.55	$16	1.38%	4.58%	$22.90
FNB	$37.39	1.97%	9.45%	$47.25	$18	1.75%	5.26%	$26.30

US$500 transfer from South Africa to Mozambique

	World Bank (Collected 16/02/2016)				Eighty20 (Collected 02/2016)			
Firm	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)	Fee	Exchange Rate Margin (%)	Total Cost (%)	Total Cost (USD)
Exchange4free.com	$0	0.01%	0.01%	$0.05	NA	NA	NA	NA
FNB (Online Transfer)	NA	NA	NA	NA	NA	NA	NA	NA
MoneyGram	$33.97	1.88%	8.68%	$43.40	$28.39	3.69%	9.37%	$46.85
Western Union	$36.47	1.21%	8.51%	$42.55	$21.96	3.51%	7.90%	$39.52
ABSA	$29.62	7.49%	13.41%	$67	$22.53	0.91%	5.42%	$27.08
Standard Bank	$38.12	6.95%	14.58%	$73	$17	0.81%	4.19%	$20.96
Nedbank	$37.54	3.40%	10.91%	$54.55	$16	1.38%	4.58%	$22.90
FNB	$37.39	7.13%	14.61%	$73.05	$18	1.75%	5.26%	$26.30

US$500 transfer from South Africa to Lesotho

[56] Mama Money offers a maximum value possible is US$330
[57] FNB (Online Transfer) maximum value possible is US$100
[58] Exchange4free.com offers a maximum value possible is US$330

Pricing according to 2011 study

Firm	Amount sent (Rands)	***Amount sent (US Dollars)*** *Approximate*	SWIFT Fee charged (Rands)	Total Cost (Rands)	Total Cost (%)
Bidvest Bank	2 991.13	*414*	450	741	24.77%
FNB	3 000	*416*	100	225	7.50%
Standard Bank	3 000	*416*	90	220	7.33%
Nedbank	3 000	*416*	100	210	7.00%
ABSA	3 000	*416*	50	177.30	5.91%
MoneyGram Agent (Std Bank)	1 000	*139*	-	123.41	12.34%
Western Union Agent (ABSA)	2 856.02	*396*	-	144.13	5.05%

Comparative Figures in 2011

Note: Approximate amount sent in US Dollars based on average Rand / Dollar exchange rate in 2011

A FinMark Trust report prepared by Eighty20

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