
RESEARCH FINDINGS ON CROSS BORDER REMITTANCES FROM SA TO THE REST OF SADC 2020



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FINMARK TRUST AND REMITTANCES

FMT supports the SADC Secretariat and other stakeholders (notably the South African Reserve Bank) on the objective to increase the usage of affordable and convenient formal cross border remittance products by reducing the pricing, and increasing convenience and safety of cross border remittance products. This will be achieved through five key strategic objectives:

- Provide relevant data to ensure that the market is monitored on an ongoing basis;
- Develop product strategies and engage with the regulators and potential partners to increase the usage of formal products in more

SA to SADC (Zimbabwe, Malawi, Eswatini, Mozambique, and Zambia) corridors;

- Provide improved information and data on SA-SADC corridors, and engage regulators and potential partners to help develop new ideas and products;
- Support regulators to better understand and avoid the potential risk of AML/CFT measures impacting negatively on the growth of low-value cross border remittances; and
- Support the implementation of the SADC automated clearing house (SADC ACH).

CROSS BORDER REMITTANCES

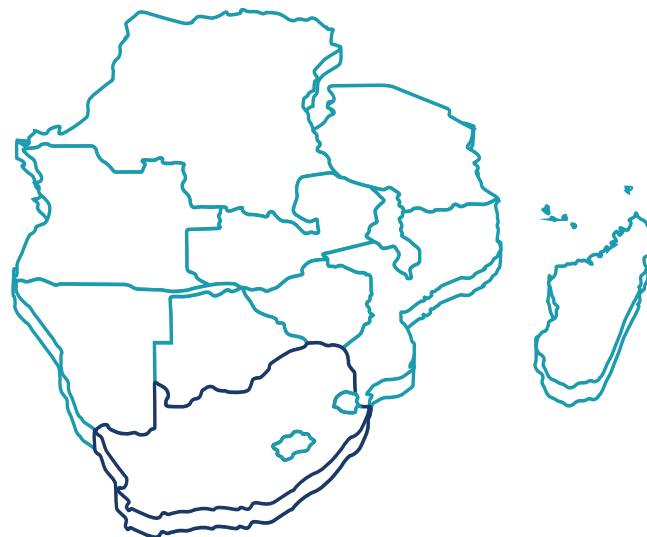
COUNTRY AND REGIONAL POLICY POSITIONS: SA TO THE REST OF SADC

Background

In 2013, the SADC Secretariat and the European Union formed a partnership to support regional integration in the SADC region through selected interventions which included cross border remittances.

Modernisation and harmonising of payments, as well as clearing systems within the region, are key objectives to be achieved through the following:

- Facilitating the adoption of the domestic Real Time Gross Settlement (RTGS) by all SADC Member States;
- Facilitating the implementation of a SADC Integrated Regional Electronic Settlement System (SIRESS);
- Harmonising the regional legal and regulatory frameworks to facilitate regional clearing and settlement; and
- Reducing the costs of workers remittances within the SADC region.



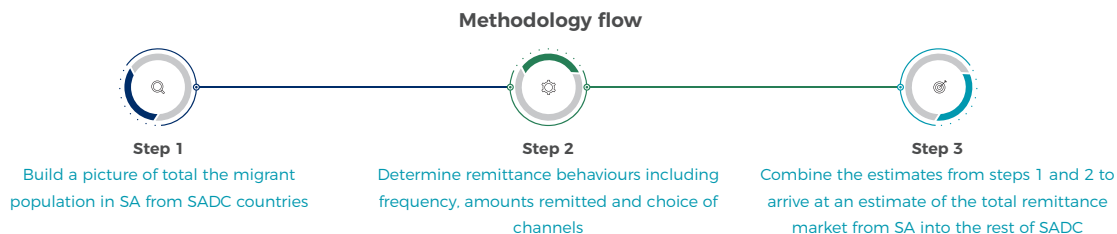
METHODOLOGY

The central methodology underpinning the analysis is based on the assumption that the primary determinant of the volume of remittances is the stock of migrants – the more people migrate, the more money is sent. As such, it was fundamental to the analysis to estimate the likely stock of migrants from each SADC country currently residing in South Africa. Estimates of migrant numbers were then combined, with assumptions based on the available data on remittance patterns and volumes at the individual level, in order to derive an overall estimate of the remittance market size.

The research team carried out focus group discussions (FGDs) with remitters from three SADC countries based in South Africa. The FGDs targeted remitters from three migrant communities, namely DRC, Eswatini and Mozambique.

The objectives of the FGDs were to improve understanding of SADC remittance markets, and specifically:

- The factors influencing the choice between formal and informal remittance channels;
- The proportion of remitters using formal versus informal channels to estimate total remittances; and
- The cost of informal remittance channels.

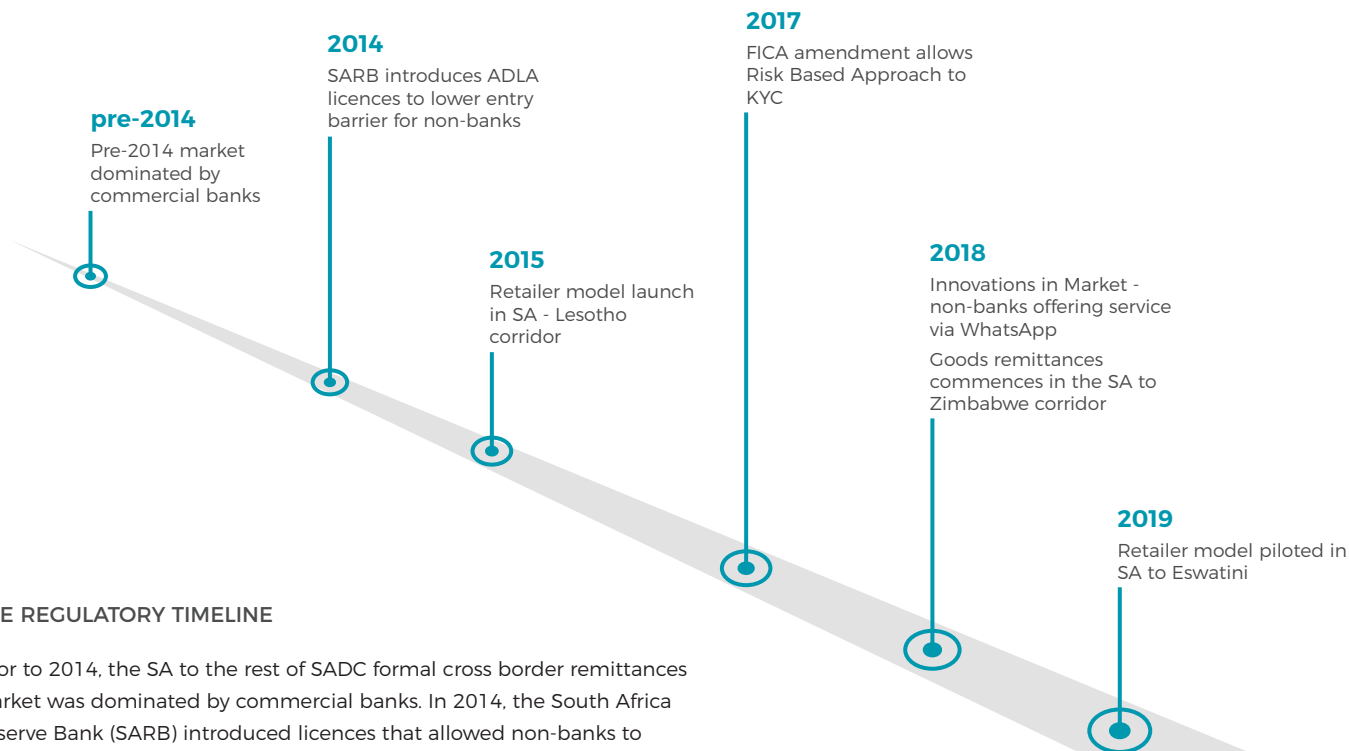


THE DATASET

The dataset provided on a per-country basis, 2016 through 2018, covering four balance of payments components, as follows:

- BOP category 401 – Gifts;
- BOP category 416 – Migrant worker remittances (excluding compensation);
- BOP category 417 – Foreign national contract worker remittances (excluding compensation);
- Cross border bank card transactions by individuals;
- We suspect some ‘noise’ in card payments (South Africans travelling within SADC and withdrawing cash). Therefore, we:
 - » Adjusted Botswana, Mauritius, Namibia and Eswatini down 30%;
 - » Adjusted Seychelles down 75%;
- Adjusted for transactions via Shoprite Money Transfer to Lesotho;
- Adjusted for deferred pay for mineworkers to Lesotho and to Mozambique.

REGULATORY TIMELINE AND INTERVENTIONS



THE REGULATORY TIMELINE

Prior to 2014, the SA to the rest of SADC formal cross border remittances market was dominated by commercial banks. In 2014, the South Africa Reserve Bank (SARB) introduced licences that allowed non-banks to enter the market to increase competition. This led to lower pricing and increased usage of formal platforms.

ESTIMATE OF SADC MIGRANTS IN SOUTH AFRICA (FROM SELECTED COUNTRIES THAT MAKE UP 90% OF THE TOTAL)

Country	Total migrants	% with no right to work
Zimbabwe	1 680 770	85,4%
Mozambique	983 078	74,4%
Lesotho	402 015	64,4%
Malawi	216 515	96,7%
Eswatini	90 943	92,0%

3,7 million migrants living in South Africa.

80,4% work in informal jobs.

6 million household members who rely on remittances potentially affected.

Customer Due Diligence regulation in using formal financial services essentially renders these migrants to use mostly informal cross border remittances services.

OVERALL MARKET SIZE

MARKET ESTIMATE (FORMAL AND INFORMAL) ZAR millions

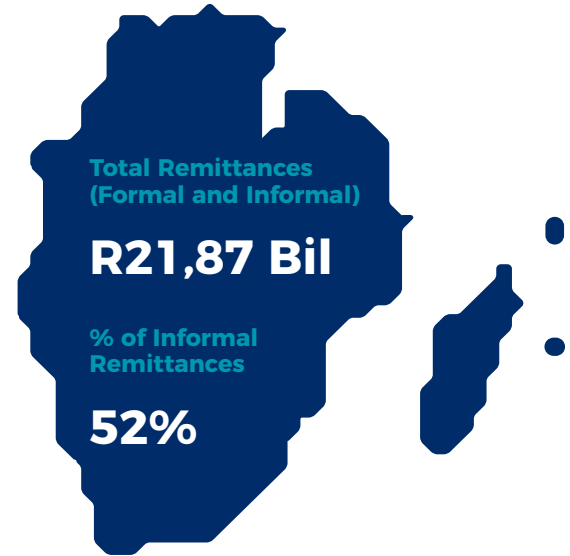
REMITTANCE MARKET INDICATES

Remittance through formal channels increased by 159% to R10,56 billion between 2016 and 2018.

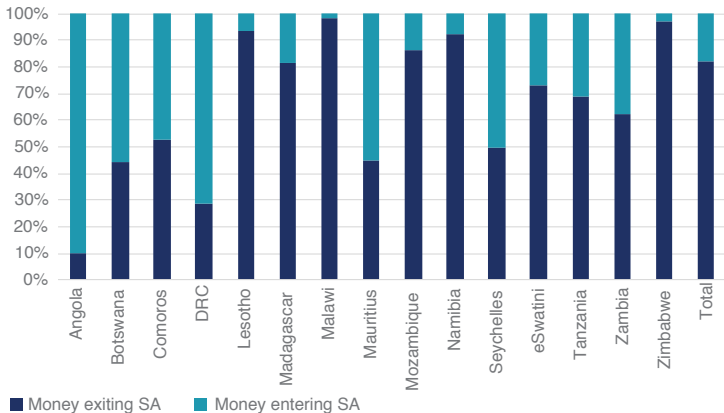
Remittances through informal channels was estimated to have decreased by 24% to R11,3 billion in 2018.

The estimated total market size was R16.6 billion in 2016 vs R21.87 billion in 2018.

This indicates a 31% increase in total market size.



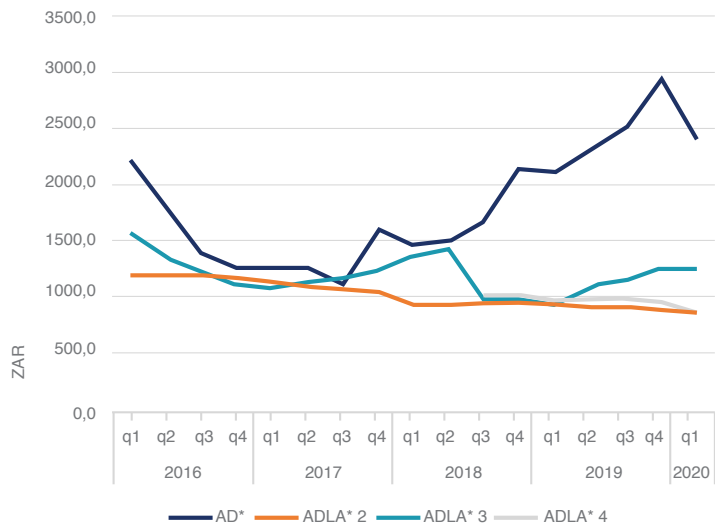
NET OUTFLOW COUNTRIES - INDICATIVE OF ECONOMIC DEPENDENCY ON SOUTH AFRICA



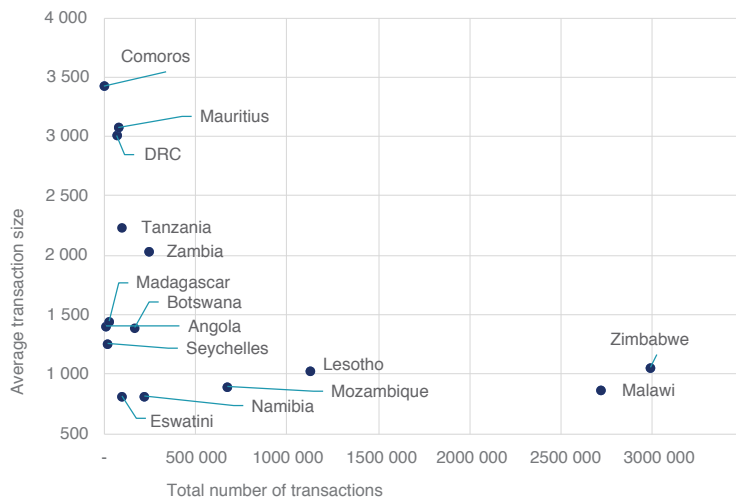
REGIONAL TRANSACTION SIZE

The average transaction values for 2018 are higher for banks compared to non-banks. However, there could be variations at a monthly or quarterly level.

AVERAGE TRANSACTION SIZE 2016 - 2020

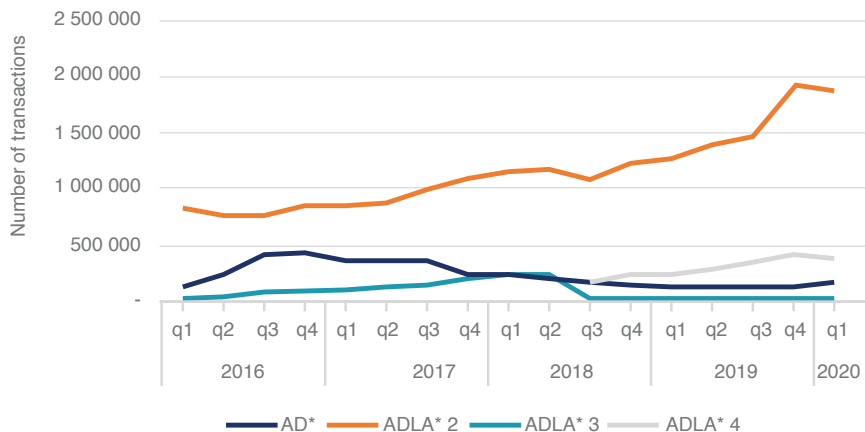


AVERAGE TRANSACTION SIZE 2018



*Authorised Dealer (AD) = Commercial Bank | Authorised Dealer with Limited Authority (ADLA) = Non-Bank

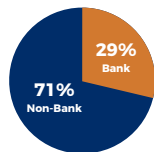
SA-SADC VOLUMES 2016 - 2020 (UNADJUSTED)



VOLUMES AS OF 2018 – ACROSS BANK AND NON-BANKS LICENCE CATEGORIES

Non-banks drive the usage of formal remittances. Of the total formal remittances, it is estimated that at least 83% are cash transactions according to SARB data.

7,8 MILLION IN 2018 TOTAL VOLUMES BY BANK AND NON-BANK

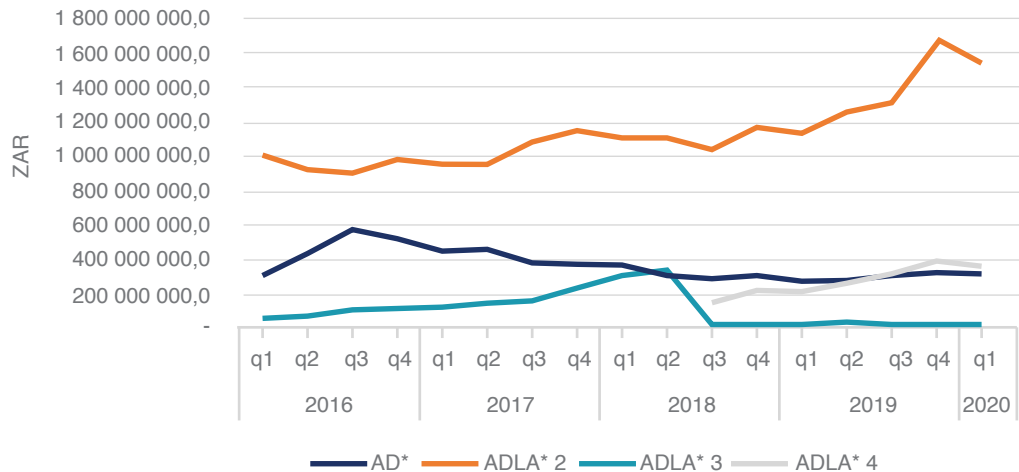


TOP 4 COUNTRIES NUMBER OF TRANSACTIONS 2018 (MILLIONS)

SADC Countries

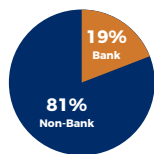
Zimbabwe	2,99
Malawi	2,72
Mozambique	0,007
Lesotho	0,006

SA-SADC VALUES 2016 - 2020 (UNADJUSTED)



VALUES AS OF 2018 – ACROSS BANK AND NON-BANKS LICENCE CATEGORIES

TOTAL VALUES BY BANK AND NON-BANK (10,5 BILLION ZAR)



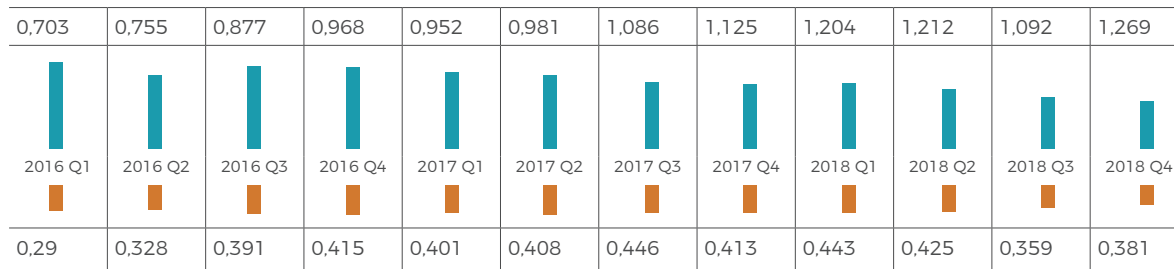
TOP 4 COUNTRY TOTAL VALUES 2018 (ZAR BILLIONS)

SADC Countries

Zimbabwe	3,17
Malawi	2,35
Lesotho	1,32
Mozambique	0,60

*Authorised Dealer (AD) = Commercial Bank | Authorised Dealer with Limited Authority (ADLA) = Non-Bank

VOLUMES PER YEARLY QUARTER BETWEEN MALE AND FEMALE (ZAR MILLIONS)



● Male ● Female

PROPORTION OF REMITTANCES SENT BY FEMALES, 2016–2018; AND AVERAGE ANNUAL NUMBER OF TRANSACTIONS BY FEMALES 2018

	% remittances sent by females		Average annual number of remit-tance transactions	
	Remittances out of SA	Remittances into SA	Remittances out of SA	Remittances into SA
Zimbabwe	31,20%	36,10%	1 176 815	8 534
Malawi	13,80%	27,10%	216 788	869
Lesotho	40,70%	37,60%	128 417	1 232

The informal market analysis highlights the percentage of SADC migrants that are not legally allowed to work, at 80.4%.

With 80.4% of migrants legally not allowed to work, we expect the informal market to maintain its levels until it is common knowledge that some of the non-banks have products that allow migrants not allowed to work to send money.

The need for documentation, and the struggle of undocumented migrants to come up with such paperwork, remains an ongoing reason for the use of informal channels.

Reasons for using informal channels consist of the following:

- There is a lack of awareness of formal options given perceived eligibility status;
- There are well established and popular informal systems such as the hawala-type* remittance systems which are perceived to have a higher value proposition (especially for the DRC);
- The perception of higher costs in using formal channels;
- Informal channels can also have a convenience aspect, for example if the malayitsha (transport operators in the Zimbabwe corridor) is prepared to deliver to the recipient's doorstep;
- Proximity to informal provider and trust gained over multiple uses;
- Preference for cash; and
- Level of income.

*A traditional system of transferring money used in Arab countries and South Asia, whereby the money is paid to an agent who then instructs an associate in the relevant country or area to pay the final recipient.

CROSS BORDER REMITTANCES PRICING

Methodology

To research cross border remittances pricing, a mystery shopping exercise was undertaken and the following was determined:

- The estimated remittance prices for transaction sizes of approximately US\$200 and US\$55;
- Mystery shopping: six service providers in all SADC countries;

- The exchange rate margins were estimated using daily interbank rates as a reference; and
- The weighted average price is based on the proportional share of remittance volumes across license categories.

TOP 4 CORRIDORS

US\$55 (transaction size)

	Authorised dealer*	ADLA* category 2	ADLA* category 3	ADLA* category 4	Weighted price
Mozambique	42,6%	10,5%	5,0%	9,6%	14,6%
Zimbabwe	35,6%	10,6%	6,8%	7,9%	13,6%
Malawi	34,8%	10,4%	4,8%	9,2%	9,6%
Lesotho	1,0%	10,0%			3,5%

REGIONAL AVERAGE PRICE

	US\$55	US\$200
Weighted average prices		
SADC total	11,2%	9,5%
SADC total, excluding CMA	11,9%	10,0%
CMA only	3,5%	2,9%



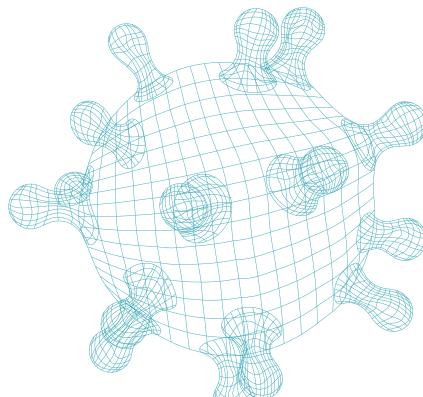
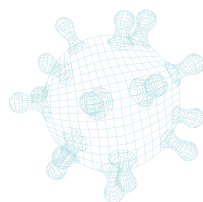
DEVELOPMENTS TO SUPPORT DIGITAL REMITTANCES

- The growing uptake of mobile phones in the region provides a new and more convenient channel for remittances;
- The introduction of flexible, risk-based KYC rules by the FIC makes it easier to on-board and serve previously unserved migrants - but requires better adoption; and
- These trends have created the opportunity for incumbent and new remittance service providers to offer digital remittance services and enable different modes of sending and receiving.

OPPORTUNITY

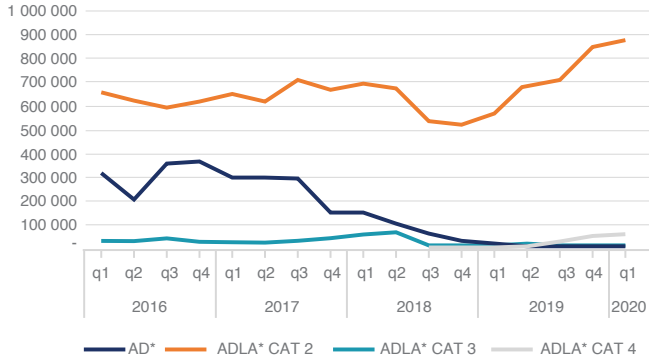
All service providers provide a digital option, aside from the retailer model that is purely cash-based in the Lesotho remittance corridor. The first and last mile of the transaction in the retailer model is cash-based. Other providers/models offer fully digital services but the uptake of fully digital transactions are low because the only formal store of value platform in South Africa is offered by commercial banks - who have the most rigid criteria for eligibility and have the most costly products outside of the CMA. This presents an opportunity to develop transactional accounts with less rigid KYC laws to expand access to a digital option in the first mile. The reduction in cash handling fees is expected to further drive down pricing in the SA to the rest of SADC market.

- Non-bank transactions are mainly cash;
- Non-banks reported that over 90% of transactions are facilitated by agents (roving or stationary);
- COVID induced lock down will limit access to agents – some of which are not regarded as essential businesses (especially the roving agents);
- Example: Estimated decline in transaction volumes:
 - » Drop in Lesotho corridor by 38% in volumes between March and April 2020;
 - » Drop in Mozambique corridor by 51% in volumes between March and April 2020;
 - » Drop in Malawi corridor by 79% in volumes between March and April 2020.
- Requires SARB data for April 2020 to get a sense of full market impact;
- COVID recovery:
 - » Migrants need access to formal digital store of value option;
 - » Risk Based Assessment already being used by non-banks but needs widespread adoption by RSPs.

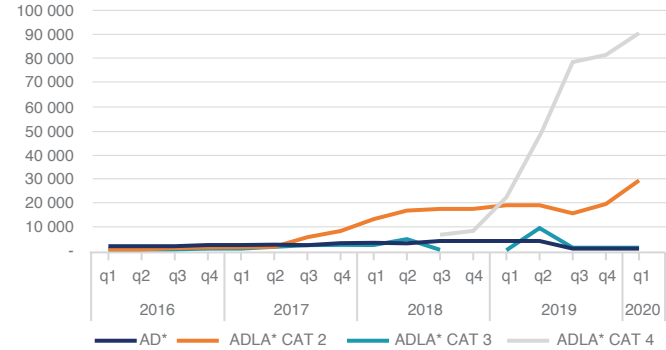


FORMAL REMITTANCE TRANSACTION VOLUMES BY LICENCE CATEGORY

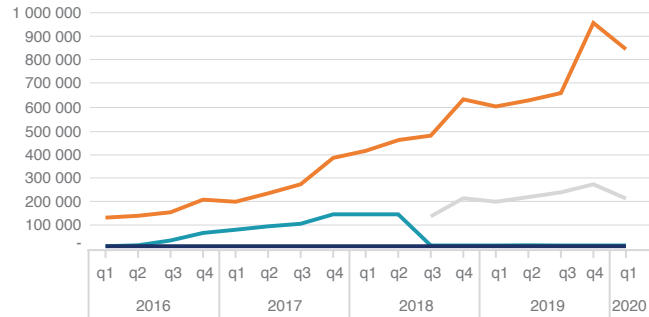
ZIMBABWE



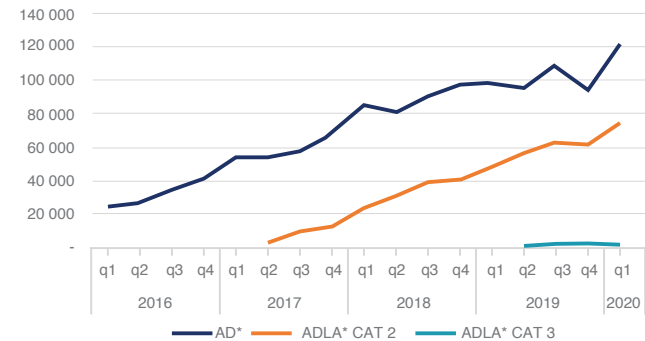
MOZAMBIQUE



MALAWI



LESOTHO



*Authorised Dealer (AD) = Commercial Bank | Authorised Dealer with Limited Authority (ADLA) = Non-Bank

PARTNER



REMITTANCES **POCKET GUIDE** | 2020

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