

# Understanding the last mile in cross-border money transfers from South Africa to Zambia

Prepared for: FinMark Trust



Author: Sarah Langan, ExactConsult

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## Focus note: Zambia Last Mile

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## Acronyms

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|               |   |
|---------------|---|
| <b>ATM</b>    | Automated teller machine                    |
| <b>BFSA</b>   | Banking and Financial Services Act          |
| <b>BoZ</b>    | Bank of Zambia                              |
| <b>CDD</b>    | Customer due diligence                      |
| <b>CPSS</b>   | Committee on Payment and Settlement Systems |
| <b>DDACC</b>  | Direct Debit and Credit Clearing            |
| <b>KYC</b>    | Know your customer                          |
| <b>MICR</b>   | Magnetic ink character recognition          |
| <b>MTCN</b>   | Money Transfer Control Number               |
| <b>NRC</b>    | National registration card                  |
| <b>PIC</b>    | Physical Interchange Clearing               |
| <b>RTGS</b>   | Real Time Gross Settlement                  |
| <b>RSP</b>    | Remittance service provider                 |
| <b>SARB</b>   | South African Reserve Bank                  |
| <b>SMS</b>    | Short message service                       |
| <b>TT</b>     | Telegraphic transfer                        |
| <b>USD</b>    | United States Dollar                        |
| <b>ZANACO</b> | Zambia National Commercial Bank             |
| <b>ZAR</b>    | South African Rand                          |
| <b>ZECHL</b>  | Zambia Electronic Clearing House Limited    |
| <b>ZIPS</b>   | Zambian Interbank Payment and Settlement    |
| <b>ZMK</b>    | Zambian Kwacha                              |

## 1. Research question and approach

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Any cross-border remittance transaction has a first mile (sending end) and last mile (recipient end) component. The “last mile” refers to access to a financial “touch point” at which a consumer can withdraw cash sent (Porteous, 2006) <sup>1</sup>.

How easy, and more importantly, how expensive is it for a Zambian beneficiary of a remittance, sent from Johannesburg, South Africa to cash out his/her money in Lusaka, Zambia? This was the question we sought to answer when we started on our journey in Johannesburg, South Africa by sending 11 remittances of ZAR 500 each to a number of Zambian nationals. “Let’s actually follow the money”. That’s how it all started. A simple statement that led to a journey of more than 1,000km from Johannesburg, South Africa to Lusaka, Zambia,<sup>2</sup> where the beneficiaries cashed out their remittances from various Western Union and MoneyGram Agents, withdrew funds sent via telegraphic transfer<sup>3</sup> (TTs) from ATM’s and attempted to cash out a money order at the post office, Zampost. By accompanying them, I was able to experience the “last mile challenge” first hand. The focus note that follows is intended to be read in conjunction with the first focus note *The Cross-Border Money Transfer Experience – Why Buses and Taxis are Preferable to Banks* (Langhan and Kilfoil, 2011) and highlights our last mile experiences as a “mystery shoppers” in Zambia.

I would like to express my appreciation to the following stakeholders for giving of their time and valuable information during my in-country visit: the Bank of Zambia, Zambia National

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<sup>1</sup> Porteous, D., 2006. Banking and the Last Mile: Technology and the Distribution of Financial Services In Developing Countries. World Bank/Brookings Conference. Available at: [in-fo.worldbank.org/etools/.../Porteous\\_BankLastMile\\_Presentation-final.ppt](http://info.worldbank.org/etools/.../Porteous_BankLastMile_Presentation-final.ppt)

<sup>2</sup> 743 air miles equates to 1196 km or 646 nm. See <http://www.timeanddate.com/worldclock/distances.html?n=111>

<sup>3</sup> A banking term commonly called "T/T," meaning a cable message from one bank to another in order to effect the transfer of money.

Commercial Bank (ZANACO), Stanbic Bank, Standard Chartered Bank, the Zambian Institute of Banking and Financial Services, the Bankers Association of Zambia, various Western Union Agents and Zampost. I further extend my thanks to our five Zambian beneficiaries Morris Chibwe, Nathan DeAssis, Alex Valeta, Chanda Chanda and Judith Kandiwo, as well as to Christine Hougaard (Cenfri), Juliet Munro, Morris Chibwe and Brendan Pearce of Finmark Trust for providing support and guidance during this study.



## 2. Introduction

### 2.1 What the 2010 remittance data tells us

In 2010 over a 12-month period, 232,570 remittances with a total value of ZMK 306,039,263,785, equivalent to USD 612,600,22 were sent from various originating countries to Zambia. (See table 1 below).

**Table 1: 2010 Remittance Data**

|                  | LOCAL REMITTANCES 2010 |                        | REMITTANCES INTO THE COUNTRY |                        | REMITTANCES OUT OF THE COUNTRY |                        |
|------------------|------------------------|------------------------|------------------------------|------------------------|--------------------------------|------------------------|
|                  | Volume                 | Value (Kwacha)         | Volume                       | Value (Kwacha)         | Volume                         | Value (Kwacha)         |
| <b>January</b>   | 82,876                 | 26,503,485,910         | 18,048                       | 24,453,452,934         | 9,288                          | 17,423,150,796         |
| <b>February</b>  | 89,313                 | 26,657,389,614         | 17,879                       | 22,765,661,879         | 9,845                          | 17,675,151,780         |
| <b>March</b>     | 100,551                | 28,120,145,100         | 20,408                       | 26,546,960,007         | 11,529                         | 21,038,265,762         |
| <b>April</b>     | 78,257                 | 24,686,597,481         | 18,117                       | 24,662,251,951         | 10,355                         | 19,715,667,922         |
| <b>May</b>       | 89,605                 | 28,740,600,439         | 19,488                       | 28,671,157,128         | 10,990                         | 20,925,517,137         |
| <b>June</b>      | 101,820                | 29,981,878,153         | 17,850                       | 26,904,533,810         | 11,455                         | 21,824,216,390         |
| <b>July</b>      | 102,122                | 30,667,102,496         | 19,050                       | 25,020,013,390         | 11,951                         | 23,800,960,836         |
| <b>August</b>    | 104,238                | 31,559,791,744         | 17,724                       | 22,672,145,808         | 11,012                         | 21,840,644,488         |
| <b>September</b> | 99,911                 | 33,299,847,668         | 20,769                       | 26,985,891,975         | 13,111                         | 25,423,083,792         |
| <b>October</b>   | 109,366                | 34,758,481,464         | 20,018                       | 24,870,411,796         | 12,513                         | 23,835,022,406         |
| <b>November</b>  | 117,735                | 36,803,867,400         | 19,596                       | 23,874,025,790         | 13,488                         | 25,156,795,157         |
| <b>December</b>  | 115,938                | 37,342,795,709         | 23,623                       | 28,612,757,315         | 14,617                         | 27,285,645,366         |
| <b>Total</b>     | <b>1,191,732</b>       | <b>369,121,983,178</b> | <b>232,570</b>               | <b>306,039,263,785</b> | <b>140,154</b>                 | <b>265,944,121,831</b> |

The Kwacha amount represents inflows from many countries and does not distinguish between low and high value remittances. It is therefore difficult to estimate the volume and value of low-value remittances, as much of this may represent commercial/trade flows. The data is however interesting in that it shows that the highest volume (in-flow) was during December and that there is a net inflow into Zambia. Although it is not possible to see how much of this originated in South Africa, the Bank of Zambia confirms that there is also a net inflow from South Africa.

## 2.2 Designated payment system participants and payment system businesses

The first step in determining where we could send our remittances to was to establish the market participants in the cross-border money transfer space in Zambia. In terms of the Zambian regulatory framework, we needed to find both designated payment system *participants* (to act as receiving banks for the TTs sent from South Africa) and designated payment system *businesses* (designated MoneyGram and Western Union agents). The National Payment Systems Act, passed in 2007, distinguishes between designated payment systems, designated payment system participants and designated payment system businesses.<sup>4</sup> The Act is comprehensive and covers payment systems regulation (Part II); the regulation, designation and restrictions on payment system business (Part III); presentment and electronic transmission of cheques (Part IV); settlements (Part V); and general and enforcement provisions (Part VI.)

As indicated in table 2 below, there are currently 17 designated payment systems *participants* (all banks), all of which are designated to participate in Physical Interchange Clearing (PIC)<sup>5</sup>, Direct Debit and Credit Clearing (DDACC)<sup>6</sup>, Zambian Interbank Payment and Settlement (ZIPS)<sup>7</sup> and Real Time Gross Settlement (RTGS). The Bank of Zambia prescribes a number of requirements that applicants wishing to apply to become designated payment system participants must meet.<sup>8</sup> Four of

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<sup>4</sup> The National Payment System Act 2007 defines a Participant as “a member of a payment system” and a Payment System is defined as “a clearing and settlement system operating under clearing house rules”.

<sup>5</sup> Products and services currently offered by Zambia Electronic Clearing House Limited (ZECHL) include (PIC), a paper-based magnetic ink character recognition (MICR) which uses encoded cheques.

<sup>6</sup> DDACC was introduced in October 2001 and has allowed banks to manage their debit positions more effectively as information is provided to banks, in advance, through the system.

<sup>7</sup> (ZIPSS) is an electronic payment system in which processing of transactions for settlement takes place continuously on transaction by transaction in real time. ZIPSS was developed to improve the management of payment risks related to high-value payments.

<sup>8</sup> See Bank of Zambia. Requirements for Designating a Participant in a Payment System. [Online]. Available at: <http://www.boz.zm/PaymentSystemsForms/Requirements%20for%20designating%20a%20Participant%20in%20a%20Payment%20System.pdf>

these designated payment system participants were randomly selected as receiving banks for the TT's sent from South Africa.

**Table 2: Designated payment system participants**

|    | Name of designated payment system participant | When designated |
|----|---|-----------------|
| 1  | Access Bank                                   | Oct-08          |
| 2  | African Banking Cooperation                   | Apr-08          |
| 3  | Bank of china                                 | Apr-08          |
| 4  | Barclays Bank                                 | Apr-08          |
| 5  | Cavmont Capital                               | Apr-08          |
| 6  | Citibank                                      | Apr-08          |
| 7  | Ecobank                                       | -               |
| 8  | Finance Bank                                  | Apr-08          |
| 9  | First Alliance Bank                           | Apr-08          |
| 10 | First National Bank                           | Jun-09          |
| 11 | Indo Zambia Bank                              | Apr-08          |
| 12 | Intermarket Banking Corp.                     | Apr-08          |
| 13 | Investrust Bank                               | Apr-08          |
| 14 | Stanbic Bank                                  | Apr-08          |
| 15 | Standard Chartered Bank                       | Apr-08          |
| 16 | United Bank for Africa                        | Mar-10          |
| 17 | ZANACO  | Apr-08          |

*Source: Bank of Zambia (2010)*

As per data available on the Bank of Zambia website, in 2010 there were 27 designated payment system *businesses* operating in Zambia. (See table 3 below). The National Payment System Act 2007 defines a Payment System Business as “the business of providing money transfer or transmission services or any other business the Bank of Zambia may prescribe as a payments system business”. All persons wishing to operate a new payment system business are required to apply to the Bank of Zambia for designation by completing an application form and providing details on *inter alia*: the type of service to be offered; if licensed under the Banking and Financial Services Act (BFSA), the license number obtained from the Bank of Zambia; details of risk sharing, management and control mechanisms that have been put in place; details of the businesses provision of adequate mechanisms to address operational, financial soundness and other matters pertaining to systemic risk management together with details on the payment

system business failure to settle arrangements which are subject to approval by the Bank of Zambia.<sup>9</sup> Applicants who are not already licensed under the BFA are required to provide additional information including *inter alia*: Director's questionnaires for all the Directors of the company; certified copies of the Articles of Association; business plan with a three year projected financial statement; and where the applicant is an established business, audited financial statements for the previous two years.<sup>10</sup>

### Table 3: Designated payment system businesses

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<sup>9</sup> See Bank of Zambia. Requirements for Designating a Payment System Business. [Online]. Available at: <http://www.boz.zm/PaymentSystemsForms/Requirements%20for%20designating%20a%20Payment%20System%20Business.pdf>

<sup>10</sup> Bank of Zambia also acquires the following additional information: any negative data from the Credit Reference Bureau; information on whether the promoters have been paying all their tax obligations in their past business dealings to the Zambia Revenue Authority; for foreign promoters who indicate that they are subject to oversight by a foreign supervisor in the country of origin, an inquiry will be made to the supervisory authority in the country of origin to establish whether the promoters would be eligible to set up a payment system in the country of origin.

## Focus note: Zambia Last Mile

| Name of designated payment system business        | Type of business designated to operate        | When designated |
|---|---|-----------------|
| <b>A: MOBILE PAYMENT SYSTEMS</b>                  |   |                 |
| 1 Celpay Zambia Limited                           | Proprietary Mobile Payments                   | May-08          |
| 2 Mobile Payment Solutions                        | Proprietary Mobile Payments                   | Jul-09          |
| 3 ZMP Limited                                     | Proprietary Mobile Payments                   | Apr-10          |
| 4 Mobile Transactions Zambia Ltd                  | Proprietary Mobile Payments                   | Oct-09          |
| <b>B: MONEY TRANSFER SERVICES</b>                 |   |                 |
| 5 Mobile Transactions Zambia Ltd                  | Proprietary Local Money Transfers             | Oct-09          |
| 6 Celpay Zambia Limited                           | Proprietary Local Money Transfers             | Dec-09          |
| 7 National Savings and Credit Bank                | Proprietary Local Money Transfer              | Jul-09          |
| 8 Money Express Limited                           | Cash4Africa Local Money transfer              | Oct-08          |
| 9 Zampost   | Cash4Africa Local Money Transfer              | Dec-09          |
| 10 NECOR Transtech                                | Cash4Africa Local Money Transfer              | Jul-08          |
| 11 Runnymede Money Transfer                       | Coinster International Money transfer         | Sep-08          |
| 12 Bayport  | Payments Solutions (MPS) Local Money Transfer | Dec-09          |
| 13 United Bank for Africa                         | MoneyGram International Money transfer        | Dec-09          |
| 14 Finance Bank Zambia                            | Money Gram International Money transfer       | Sep-08          |
| 15 Stanbic bank                                   | MoneyGram International Money transfer        | Jan-09          |
| 16 ZANACO   | MoneyGram International Money transfer        | Sep-08          |
| 17 Investrust bank                                | MoneyGram International Money transfer        | Jul-09          |
| 18 CFB Money Transfer Limited                     | MoneyGram International Money transfer        | Dec-09          |
| 19 Money Link Zambia Limited                      | MoneyLine UK International Money transfer     | Dec-09          |
| 20 Ecobank  | Western Union International Money transfer    | Dec-09          |
| 21 PostDotNet                                     | Western Union International Money transfer    | Oct-09          |
| 22 Fredex   | Western Union International Money transfer    | Dec-09          |
| 23 Cactus Financial Services                      | Western Union International Money transfer    | Sep-08          |
| 24 Zampost  | Western Union International Money transfer    | Sep-08          |
| 25 Standard Chartered Bank                        | Western Union International Money transfer    | Oct-08          |
| 26 Access Bank                                    | Western Union International Money transfer    | Jul-09          |
| 27 Brookfield Limited T/ A Genesis Global Finance | World Link International Money transfer       | Oct-08          |

Source: Bank of Zambia (2010). Note: the black box indicates those active in international money transfers.

Currently, payment system businesses are designated to operate a number of different payment system types including proprietary mobile payment businesses, proprietary local money transfer businesses, Western Union international money transfer businesses (as agents of Western Union) and MoneyGram international money transfer businesses (as agents of MoneyGram). It is interesting to note that those designated as MoneyGram agents are all banks, whereas, in comparison to the South African situation, Western Union agents in Zambia include PostDotNet, Fredex, Cactus Financial Services and Zampost. It appears that the Zambian market is significantly more open than the South African market. This was confirmed during a number of stakeholder interviews; as long as applicants meet the requirements for designation as a

Payment System Business, they are likely to be granted a licence by the Bank of Zambia and there is no requirement that they must be a bank or operate in partnership with a bank.

## 2.3 Access infrastructure

As our “mystery shopping” exercise was limited to the capital city, Lusaka, we were not constrained by a lack of branches or ATM’s at which to cash out the remittances sent through the standard TT channel.<sup>11</sup> However, this will not be the case everywhere in Zambia. Below we consider the reach of banks, the Post Office and remittance service provider (RSP) agents, respectively:

**Banks:** Despite the fact that 17 Banks are listed on the Bank of Zambia website as designated payment system participants, it was ascertained during the in-country presentation to the Bank of Zambia that there are in fact 18 designated payment system participants with a branch network of 283 branches in Zambia.<sup>12</sup> However, the 2007 OPM/ PMTC report *Supply Side Study*

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<sup>11</sup> The Zambian payments system has been considerably modernised, allowing for greater interoperability. In line with its overall commitment to reforming the payment system and investing in core transaction, clearing and settlement infrastructure, in 2008, the Zambia Electronic Clearing House Limited (ZECHL) decided to purchase a national switch which would comply with existing international standards and optimise interoperability. The national switch would have connected transaction acquiring points such as ATM’s, POS devices and mobile phones to different end points including banks and international card processing organisations. Unfortunately, the project has been delayed for a number of years and Zambia is still without a National Switch. As such, most stakeholders interviewed sighted the lack of interoperability as a significant barrier to expanding access to the formal financial system across the country. The South African Reserve Bank define interoperability as “the ability of different types of computers, networks, operating systems, applications and other infrastructure of different banks and relevant stakeholders to interlink and work in partnership effectively, without interruption, explicit communication or translation prior to each event, in order to enhance the efficiency of the payment system (SARB, 2011).”

<sup>12</sup> See the Bank of Zambia website

<http://www.boz.zm/publishing/FinancialStatements/BranchNetworkOfCommercialBanks.pdf> where Bank Supervision present statistics on the branch network of Commercial Banks in Zambia. Access Bank Zambia Limited (5 branches); African Banking Cooperation (3 branches); Bank of China Zambia Limited (1 branch); Barclays Bank Zambia Plc (55 branches); Cavmont Bank Limited (15 branches); Citibank Zambia Limited (2

*of the Inclusiveness of Zambia's Financial System* notes that “half of the poorer, less densely populated districts have no financial institution outlet at all.” This statement was confirmed by many stakeholders interviewed whilst conducting this study and it is clear that most banks in Zambia have concentrated their physical branch expansion programmes in the already served (banked) districts of the country. As noted by one stakeholder, “for its part, the Zambian Government has tried to address the problem of low financial intermediation through the implementation of a financial sector development plan. With 67 percent of the population having no access to financial services, effective financial intermediation is inhibited. There are a number of factors that can be attributed to this, including high transaction costs associated with opening bank accounts and low outreach by existing financial institutions, especially in rural areas. As there are very few banks outside urban areas, most people in rural areas have limited access to finance” (Fundanga, 2011).

The high costs associated with building a brick and mortar branch in rural settings with no or limited surrounding/supporting infrastructure was confirmed by the Bankers Association of Zambia, which estimates that it costs approximately \$355,000 to build a branch in a rural area. It is encouraging to note that the Bankers Association have been active in advocating for a change with respect to the current Bank of Zambia requirements as to what constitutes a “branch” and that the banking community are currently setting up a banking infrastructure fund geared towards the building of branches as part of a social investment strategy. Though all players are expanding their footprint, they recognise that innovative approaches are needed to reach people who cannot afford to travel to a banking outlet. This highlights the need for new

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branches); Ecobank Zambia Limited (5 branches); Finance Bank Zambia Limited (50 branches); First Alliance Bank (Z) Limited (5 branches); First National Bank Zambia Limited (7 branches); Indo-Zambia Bank Limited (15 branches); Intermarket Banking Cooperation (Z) Ltd (4 branches); International Commercial Bank (Z) Limited (1 branch); Investruct Bank Plc (17 branches); Stanbic Bank Zambia Limited (17 branches); Standard Chartered Bank Zambia Plc (20 branches); United Bank for Zambia Limited (4 branches); Zambia National Commercial Bank Plc (57 branches).

ways of extending the formal sector's reach through, for example, agent relationships or retailer distribution (Hougaard, Bester and Chamberlain, 2008).

**Post Office:** In comparison to the limited reach of banks in rural areas, the Zambian Postal Services Corporation (Zampost) has an extensive footprint across the country. With 122 post offices and 50 postal agencies (these are however prohibited from offering electronic money transfer services), Zampost has the most extensive distribution network in Zambia. Zampost currently offers three money transfer services. Swiftcash, (the domestic money transfer service) and Western Union (the international money transfer service) are available at most post offices and are extensively used. As noted by Hougaard et al (2008), "the largest domestic money transfer operator is Zampost's Swiftcash. Zampost is estimated to have at least 80% of the domestic formal money transfer market. Swiftcash averages 70 000 fairly low-value payments a month averaging between ZMK50 000 (about USD 14) and ZMK100 000 (about USD 27)". Zampost also offers a traditional money order product, but as we discovered during our mystery shopping exercise, money orders can only be cashed out at the central post office.

**RSP agents:** The RSP agent network overlaps to some extent with that of the banks and the Post Office:

- There are currently 121 locations in Zambia (spread across 6 agents, all of them banks) where one can cash out a remittance sent through **MoneyGram**. Whilst the majority of these are in Lusaka, the MoneyGram footprint reaches to most cities.
- There is an extensive network of **Western Union** agents in Zambia. With over 50 in Lusaka alone, and several spread across most larger rural towns, Western Union currently dominates



## Focus note: Zambia Last Mile

the international remittances market. Its pervasiveness is boosted to a large extent by the fact that Zampost is a Western Union agent<sup>13</sup>.

## 2.4 Banks, RSPs and post offices selected for the “mystery shopping” exercise

Eleven remittances were sent from South Africa to Zambia. Three of these were sent through Western Union, two through MoneyGram and five through bank-to-bank telegraphic transfers. In addition, one money order was sent through the post office. Table 4 below shows the pairing of sending and receiving banks, remittance service providers (RSP agents) and the post office. As we have decided not to directly name sending and receiving banks and Western Union/MoneyGram agents, each has been given a generic alphabetical title. Please note that the designation “Bank A”/“Agent A” as represented as “Bank A”/“Agent A” in table 4 below is consistently applied throughout this document. Furthermore note that two TT’s were sent to “Bank B (Zambia)” for the purposes of comparing the effect on pricing/cost when the sender selects “share cost” or “applicant to pay all”.

**Table 4: Pairing of banks, RSP agents and post offices**

| Sending             | Organisational Type               | BOP Category | Product       | Cash Out @             | Organisational Type |
|---------------------|-----------------------------------|--------------|---------------|------------------------|---------------------|
| Agent A (RSA)       | Bureau de Change Agent of WU      | 501 GIFT     | Western Union | Agent B (Zambia)       | WU Agent            |
| Agent C (RSA)       | Bureau de Change/Bank Agent of MG | 501 GIFT     | MoneyGram     | Agent D (Zambia)       | MG Agent            |
| Agent E (RSA)       | Bank Agent of MG                  | 501 GIFT     | MoneyGram     | Agent F (Zambia)       | MG Agent            |
| Agent G (RSA)       | Bureau de Change Agent of WU      | 501 GIFT     | Western Union | Agent H (Zambia)       | WU Agent            |
| Agent I (RSA)       | Bank Agent of WU                  | 501 GIFT     | Western Union | Agent J (Zambia)       | WU Agent            |
| Bank A (RSA)        | Bank                              | 501 GIFT     | TT            | Bank B (Zambia)        | Bank                |
| Bank C (RSA)        | Bank                              | 501 GIFT     | TT            | Bank D (Zambia)        | Bank                |
| Bank E (RSA)        | Bank                              | 501 GIFT     | TT            | Bank F (Zambia)        | Bank                |
| Bank G (RSA)        | Bank                              | 501 GIFT     | TT            | Bank B (Zambia)        | Bank                |
| Bank H (RSA)        | Bank                              | 501 GIFT     | TT            | Bank J (Zambia)        | Bank                |
| Post Office A (RSA) | Post Office                       | NA           | MO            | Post Office B (Zambia) | Post Office         |

*Note:* BOP Category denotes “Balance of Payments” category for South African foreign exchange reporting purposes.

<sup>13</sup> See <https://westernunion.via.infonow.net/locator/NewSearch.do> for an overview of the agent footprint

It was noted in the first mile focus note that “banks always charge the customer the set minimum commission fee if the amount sent falls below the point where the percentage based charging structure exceeds the set minimum. In the case of one bank, the percentage based charging structure commences only when remitters remit ZAR 25, 000 or more and in the case of another bank ZAR 40, 000 or more (Langhan and Kilfoil, 2011).” In light of this finding, it was decided to send 11 remittances of ZAR 500 each as sending higher amounts would not have any effect on the explicit charges/fees charged to the sender. Despite the fact that it was also noted in the first mile focus note that “sending larger amounts did have a drastic effect on the fee to amount sent ratio” it was decided to send the standard amount of ZAR 500 through Money Gram and Western Union for the purposes of this particular comparative exercise.

In the next section, we consider the “last mile” experience in cashing out these remittances – in terms of convenience/ease of access, time spent and pricing.

### 3. The last mile - Zambia

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Early on Tuesday 31<sup>st</sup> May, 2011, local co-worker for the project, Morris Chibwe, and I met to discuss our plans for the day. As we had six remittances to cash out through Western Union, MoneyGram and Zampost Agents and wanted to experience cash out through bank agents and smaller agents, we decided to head out to the outskirts of Lusaka and work our way towards Cairo Road (the centre of the business district, where most banks are located). The objective was to compare the experience of cashing out a remittance through the formal bank branch infrastructure verses the experience of using smaller agents. In the afternoon, we met with our other beneficiaries<sup>14</sup> and accompanied them to their bank branches to enquire as to whether the

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<sup>14</sup>We had to work with beneficiaries who were bank account holders at all the various banks selected.

TT sent to them from South Africa had arrived yet, and if so, to observe the cash out process over the counter. In the sections that follow, our experiences are highlighted.

### 3.1 Last mile – remittance service providers: Western Union and MoneyGram

In general, the cash out experience at Western Union and MoneyGram Agents was not dissimilar. What was however apparent was the differences in the physical infrastructure offered by bank agents and that on offer at the smaller Western Union agents. Bank branches were in the most part lavishly appointed, complete with revolving doors and marble floors. In comparison, two Western Union agents visited consisted of a sparsely appointed small room, painted yellow with staff serving customers from behind a glass and wood partition. As the move towards branchless banking and the servicing of customers in remote areas gains momentum, one wonders whether expensive branch infrastructure is really necessary to take remittance services to the currently un-banked and under-banked.

The customer experience of cashing out a remittance sent through Western Union or MoneyGram is depicted in figure 1 below. General Reference points 1–7 (as they are reflected in the diagram), together with some additional observations are discussed in the General Observations section that follows.

Figure 1: The last mile – Western Union and MoneyGram agents



## Observations

### Reference point one:

*Sender/remitter required to provide receiver/beneficiary with information*

The uptake of mobile phones and the availability of pay as you go airtime have made this step in the remittance chain much easier. After completing the forms in South Africa and being issued with a receipt, the following information was sent via SMS to our beneficiaries in Zambia:

- Sender's full name
- Amount sent (i.e. the expected payout amount in Kwacha)
- Money Transfer Control Number (MTCN), a 10 digit transaction number provided by Western Union after sender finishes the transaction, or the reference number in the case of MoneyGram

## Focus note: Zambia Last Mile

- Test question and test answer selected by the sender
- Instructions to the beneficiary to take their National Registration Card (NRC) with them to the agent where they choose to cash out the remittance
- Instructions to the beneficiary to provide the cash out agent with their residential address (it is important that this address matched the address provided by the sender on the sending side).

## Reference point two:

*Access/national footprint and visible branding*

As noted in the access section above, in Lusaka one is spoilt for choice as to where to go to cash out a remittance sent through Western Union and MoneyGram. One has a choice between using a bank agent (Western Union and MoneyGram) or a smaller agent (Western Union).

*Visible branding*

As noted in the first mile focus note<sup>15</sup>, in South Africa the RSP branding on the outside of the branch/bureau de change is limited to a sticker on the glass door or a poster inside the branch (Langhan and Kilfoil, 2011). This is



definitely not the case in Zambia. Section 9 of the Bank of Zambia's Money Transmission Service Guidelines reads, "the operations of a Money Transmission Service shall be conducted in offices or premises that are clearly identified as such by way of sign post." (Please see section 5

<sup>15</sup> Langhan, S & Kilfoil, C., 2011. The Cross-border Money Transfer Experience: Why taxis and buses are still preferred to banks. Report prepared for FinMark Trust.

below for a comprehensive discussion of the Bank of Zambia's Money Transmission Service Guidelines).

As depicted in the photographs to the left, Western Union branding is very prominent, both on the outside of agent premises (large signs, billboards, stickers on the doors) and within the premises (yellow branded flags, yellow walls and posters on the walls). MoneyGram branding was less prominent. However, in most cases, bank branches offering the MoneyGram service did have prominent MoneyGram branding on their front doors/wall. It is interesting to note that some of the smaller Western Union agents (Cactus Financial Services, Fredex etc) do not display their own branding on their Western Union outlets, making it near impossible to determine (without enquiring) as to what company a particular agent was from.

*In most cases agents were able to complete the transaction*

In most cases the agents that we selected were able to process the transaction. However, in one particular case when attempting to cash out one of the remittances sent through MoneyGram at a bank branch on the outskirts of Lusaka, we were informed that the service was not available at that particular branch and that we would have to go to the main branch in town if we wanted to use the particular bank as an agent. When enquiring further as to why this was, we were informed that the MoneyGram system is separate from the bank's system and that this particular branch was "still waiting for the people to come from Johannesburg to install the software."

**Reference points three and four:**  
*Process*

In general, the cash-out process was simple, efficient and fast. The longest queue that we observed was not for Western Union or MoneyGram, but rather for the domestic money transfer service, Swiftcash, offered by Zampost. The

time taken from when we entered various agents to when we left with cash in hand was on average only 10 minutes. Each agency (be it a bank branch or smaller agent) had a dedicated Western Union/MoneyGram counter and a person from behind a glass partition always served us. In some agencies there was a visible security presence, while in others there was none.

In some cases, our beneficiaries were asked to hand over their National Registration Card (NRC), but in others they were simply asked to provide the agent with their NRC number. When enquiring as to what would happen if the beneficiary did not have an NRC, we were informed that the following identification documents would also suffice: SADC drivers license, passport, government issued ID or Commonwealth Alien Card<sup>16</sup>. The beneficiary was required to provide the information as set out in reference point one above.

**Reference point five:**

*Automated process/ system problems*

The agent entered the relevant information provided by the beneficiary into the system. In most cases, the system was online and transactions were processed speedily and with little hassle in plus minus 5 minutes. However, as with any exercise of this nature one always encounters the exception to the rule. Two interesting observations in this regard are presented below.

- 1) At a particular bank branch we visited we were told to try another agent, as the system was offline. This is apparently not an isolated case (please see customer comments below).

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<sup>16</sup> At a subsequent interview with a Western Union agent, we were informed that the sender could actually decide if proof of ID is necessary or not. We found this rather strange, as it appears to be in contravention with s 6(1) of Bank of Zambia Anti Money Laundering Directives, 2004, as one would assume that receiving a remittance amounts to “conducting a business transaction.”

2) We arrived at another bank branch at approximately 14:15 and joined a queue of people waiting to be served by a single MoneyGram officer. As the minutes ticked by (the processing time per transaction at this particular branch was much longer than anywhere else) we began to wonder whether we should try another agent. Just as we were about to leave the processing time appeared to speed up and when we eventually got to the front of the queue the officer informed us that she had to quickly process our transaction as the “cut-off” time was at 15:30h. When enquiring as to what the “cut-off” time meant she informed us that the MoneyGram system actually shuts down at 15:30h every day.

**Reference point  
six:**

*Receipts issued*

Section 10 of the Money Transmission Service Guidelines reads “for each electronic or wire transfer transaction, Money Transmission Service shall provide a written receipt to the client and the institution must keep a copy. The written receipt must document the client’s name, client’s address, date of money transfer, amount of payment or collection, type of currency, exchange rates, and fees charged.” In every case, a receipt containing this information was provided for every transaction, however, it must be noted that in some cases the Terms and Conditions of the transaction were printed on the back of the “receive money form” and in others they were not.



**Reference point seven:** For a full discussion on the pricing/cost elements of remittances sent through Western Union and MoneyGram, please refer to section 4 below.<sup>17</sup>

*Full cash value received in most cases*

**Additional comments**

*Customer service feedback from the Zambian public*

In general the Western Union/MoneyGram agent staff and bank tellers we dealt with were efficient and friendly. There do however appear to be exceptions to this rule. When conducting background research for this report we came across an interesting Zambian blog that provides a platform for Zambian consumers to air their opinions about services in Zambia.<sup>18</sup> Appendix A contains a few quotes from the blog regarding money transfer services.

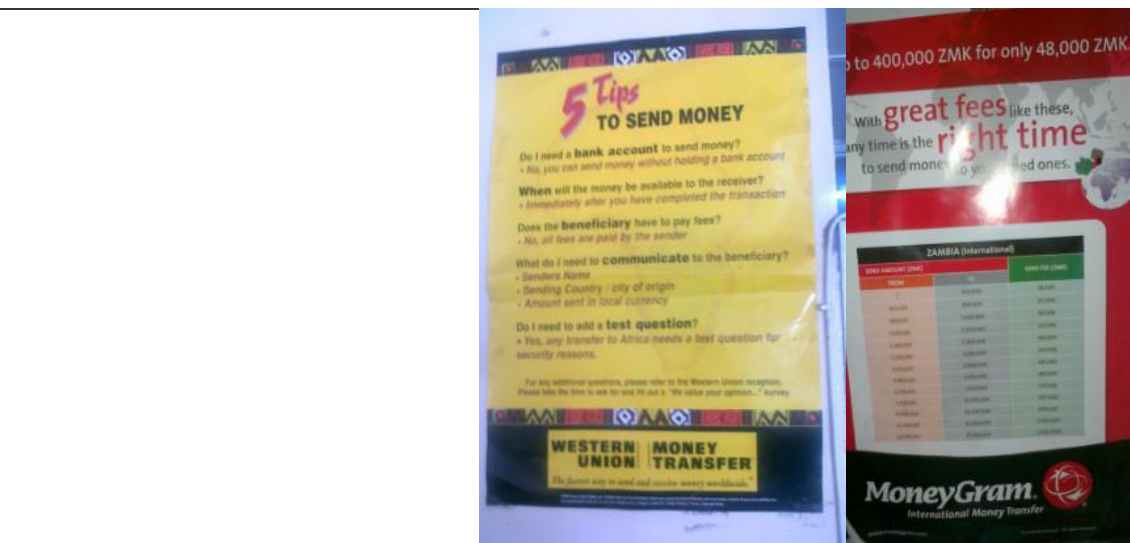
*Information available to the customer*

It was encouraging to note that the Western Union and MoneyGram agents we visited all complied with section 8(1) of the Money Transmission Services Guidelines which requires that a designation certificate or a true certified copy be displayed in a conspicuous place on every premises where it conducts business. As depicted in the photographs below, in the case of Western Union, several posters setting out “tips to send money” were prominently displayed, and in the case of MoneyGram, pricing posters showing fixed fees in a range were posted in most MoneyGram agents.

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<sup>17</sup> It is worth noting that in three cases, the agent retained a few Kwacha cents. Whilst this is not significant as it pertains to a single transaction, amounts would accumulate over a long period of time and be retained by the agents as breakage (profit).

<sup>18</sup> See <http://www.zambia.co.zm/dearzambia/viewtopic.php?f=5&t=2200>



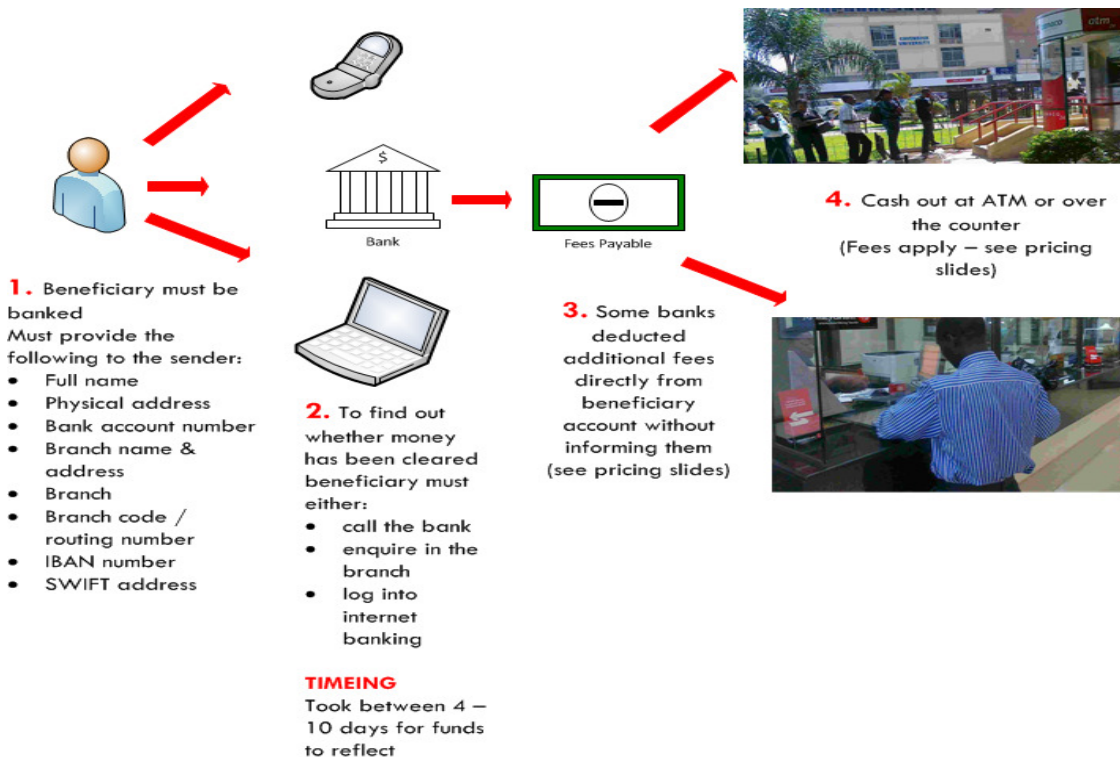
*complaints*

most agents, it must be noted that we did not see a consumer complaints policy or procedure visibly displayed. It was also not clear where complaints should be addressed to as no number is recorded on the customer receipt. When asking one agent what the complaints procedure was, we were informed that customers must go to the agent that the money was sent from to lodge a complaint. The agent will forward the complaint to the customer service centre in Lusaka, which in turn will contact the Western Union regional head office in Costa Rica if the matter is related to a transaction payment. The customer service centre is able to make simple changes in the system (correct names, addresses etc). Operational cost shared between Costa Rica and the agent.

### 3.2 Last mile –account-to-account: bank Telegraphic Transfer (TT)

The customer experience of receiving a remittance through the standard TT is depicted in figure 2 below. Reference points 1–4 (as they are reflected in the diagram), together with some additional observations are discussed in the General Observations section that follows.

**Figure 2: Last mile – bank-to-bank (account-to-account): standard TT**



### Observations

**Reference point one:** Unlike in the case of a remittance sent through Western Union, MoneyGram or the Post Office where the sender and receiver do not need to be banked, *The remitter and* in the case of making use of the standard TT, both the remitter and the

*beneficiary must be banked* beneficiary must be banked. In order for the remitter to complete the forms required by South Africa's banks, the beneficiary must provide the following information to the remitter in advance:

- Full name
- Physical address
- Bank account number
- Branch name and address
- Branch code/routing number
- IBAN number
- SWIFT address

In most cases, it took our beneficiaries two to three days to provide the information requested, either by email or SMS.

**Reference point two:** In comparison to South Africa, where one has to complete various forms at certain banks when receiving payment from abroad, in Zambia the processing of a transaction from abroad is handled solely by the bank and requires no input from the beneficiary.

*Beneficiary not required to complete any forms – no exchange control*

Therefore, the customer will only discover that he/she has been paid when looking at his/her bank statement or calling up his/her branch.

**Time** It took between 4 to 10 days for funds to reflect in our beneficiaries' accounts.

**Reference point three:** The additional recipient fees deducted are the primary issue with respect to the TT (See pricing section below). It is however encouraging to note that the Bank of Zambia regularly publishes comparative pricing tables on its *Hidden fees and*

*costs*

website. As shown in table 5 below, the cost of an outward TT is shown, but fees and charges charged to the beneficiary when receiving an inward TT are not.

**Table 5: Bank fees and charges**

| Bank  | Account Opening Balance | Withdrawal Over Counter                          | ATM Withdrawal   | TT (Outward)   | TT (Inward) |
|---|-------------------------|--|------------------|--|-------------|
| 1 Access Bank Zambia Limited                      | ZMK 150,000             | ZMK 30,000 below 9m                              | ZMK 2,500        | 1% min 150,000 max 1,250,000   | ??          |
| 2 African Banking corporation Zambia Limited      | ZMK 500,000             | ZMK cash free, US\$1.5% min \$30                 | NA               | 0.5% min \$30 max \$250  | ??          |
| 3 Bank of China Zambia Limited                    | ZMK 0                   | NA   | NA               | 0.8% min \$30 max \$250  | ??          |
| 4 Barclays Bank Zambia Plc                        | Various                 | ZMK 100,000                                      | Various          | 1% min \$30 max \$250  | ??          |
| 5 Cavmont Capital Bank Limited (Ordinary Retail)  | ZMK 1,000,000           | ZMK 0  | NA               | 1% min \$25 max \$100  | ??          |
| Cavmont Capital Bank Limited (Community)          | ZMK 200,000             | ZMK 0  | NA               | 1% min \$25 max \$101  | ??          |
| 6 City Bank Zambia Limited                        | ZMK 0                   | ZMK - NILFCY - 1.5% min \$15                     | NA               | Manual fee 0.75% min \$30 max \$250<br>Electronic fee 0.75% min \$20 max \$100 | ??          |
| 7 Eco Bank Zambia Limited                         | Various                 | ZMK 0  | ZMK 2,500        | 0.75% min \$30 max \$250   | ??          |
| 8 Finance Bank Zambia Limited                     | ZMK 500,000             | ZMK 10,000                                       | ZMK 2,000        | NA   | ??          |
| 9 First Alliance Bank Zambia Limited              | ZMK 0                   | ZMK 0  | NA               | 0.5% min \$60 max \$250  | ??          |
| 10 First National Bank Zambia Limited             | ZMK 100,000             | ZMK 20,000 + 0.5% of value                       | Various          | 1% min \$35 +\$150   | ??          |
| 11 Indo Zambia Bank Limited                       | ZMK 150,000             | ZMK - NILFCY - min \$5                           | ZMK 2,000        | 0.6% min \$10 max \$250  | ??          |
| 12 Intermarket Banking Cooperation Zambia Limited | ZMK 100,000             | ZMK 0  | ZMK 2,500        | min \$50 max \$250   | ??          |
| 13 Investrust Bank Plc                            | ZMK 500,000             | ZMK 5,000  | ZMK 3,000        | \$75   | ??          |
| 14 Stanbic Bank Zambia Limited                    | NA                      | ZMK 60,000                                       | ZMK 3,500        | 1% min \$30 max \$50   | ??          |
| 15 Standard Chartered Bank Zambia Plc             | ZMK 750,000             | ZMK 50,000                                       | ZMK 3,000        | 1% min   | ??          |
| 16 United Bank for Africa Zambia Limited          | ZMK 150,000             | ZMK 30,000 on transactions less than ZMK 650,000 | ZMK 3,500        | 10   | ??          |
| 17 Zambian National Commercial Bank Plc           | NA                      | ZMK 285,000 per 25m, +0.5% above                 | 3000, 5500, 7000 | NA   | ??          |

*Source: Bank of Zambia website*

**Reference point four:**

Should the beneficiary wish to access the money sent through the standard TT, they may do so by withdrawing the cash from an ATM or withdrawing it over the counter. (See figure 2 above).

*Cash out through a number of channels*

## What the banks had to say

Below, comments received from a number of Zambia's commercial banks on a number of telegraphic transfer related topics are presented to provide a flavour for how the telegraphic transfer system works:<sup>19</sup>

| Question   | Response   |
|--|--|
| <i>How are TT's facilitated between South African and Zambian banks?</i>         | "Through correspondent banking and SWIFT."   |
| <i>Is the correspondent banking model appropriate for low value remittances?</i> | "Correspondent bank fees are problematic for those sending low value remittances. What is needed is a cost effective solution."  |
| <i>Is SWIFT appropriately priced?</i>  | "SWIFT is the dominant channel. The costs are high from 3 <sup>rd</sup> world countries (costs high on both sides). The SWIFT annual fee is high and drives pricing. This may account for the additional fee on the beneficiary side."                         |
| <i>Are there specialized branches that have foreign exchange facilities?</i>     | "Unlike South Africa where only certain bank branches may deal with Forex, in Zambia, each branch can process these transactions. Each branch has someone that deals with Forex."  |
| <i>Please share your thoughts on automation, manual processing and timing?</i>   | "Over the last 1-2 years we have centralized things. Therefore, foreign exchange instructions are received at a centralized processing centre. From here, individual accounts are credited. All branches of this bank are now on-line connected. From the time |

<sup>19</sup> Please be advised that these comments do not represent the views of the writer or FinMark Trust, but are recorded with the objective of facilitating debate.

funds are received on the Zambian side, to the time they reflect in the customers account is (24–48 hours). When transactions fall into repair (if information is incorrect, such as the wrong bank account details), this requires manual intervention. Before automation there used to be lots of manual processes. Now things are automated, however, the fees are still high.”

In contrast to the statement, the Bankers Association stated that “most of banks not using straight through processing – mostly manual (even banks which are automated – transaction from non domiciled branch – need fax and phone call)”.

***Are the Know Your Customer (KYC) requirements appropriate?***

“KYC is still a contentious issue and compliance is difficult in Africa. A better way of identifying customers and conducting Customer Due Diligence (CDD) needs to be found, thereby ensuring that people have access to the banking system.”

***Are banks free to price their products as they wish?***

“Zambia has a competitive but regulated market. As such, banks are free to price products and services based on inputs. The cost of technology is high and drives pricing to the consumer.”

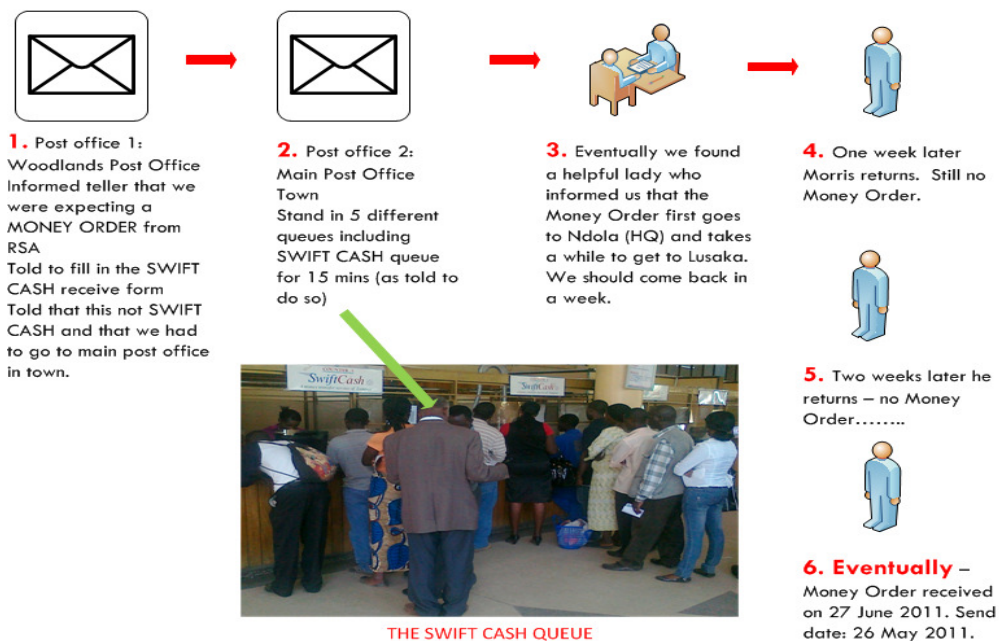
***Are low value remittances a core product offering of your bank?***

“No, international remittances are only attractive to MoneyGram and Western Union as this is their core business and they dominate the market.”

### 3.2 Last mile – the post office

As noted above, Zampost has the most extensive distribution footprint in Zambia and offers domestic (Swiftcash) and international (Western Union) money transfer services. Whilst it was relatively easy to cash out a Western Union remittance at a Zampost post office, our experience with respect to cashing out an electronic money order sent from the South African post office was by far the most frustrating, time consuming and inefficient process experienced. The customer experience of receiving a remittance sent as a money order through the postal service is depicted in figure 3 below. Reference points 1–6 (as they are reflected in the diagram), together with additional observations are discussed in the General Observations section that follows.

**Figure 3: Last mile – the conventional money order**





## Observations

**Reference point one:** *Where to go?* Our first attempt to cash out the money order was a failure. After enquiring of the post office clerk in the Woodlands post office stationed behind the Western Union counter as to whether we could cash out the money order in this particular post office, we were informed that we could but that we would have to fill in the Swiftcash receive form. After duly completing the form and standing in the Swiftcash queue, we were told by the post office clerk at this counter that she was unable to process a money order. She instructed us to proceed to the main post office in town and assured us that they would be able to assist us.

**Reference point two and three:** *Experience in the main post office* After driving all the way to town, from the time we entered the main post office to the time we left (without any cash) was approximately 1 hour. We were shifted from queue to queue and once we got to the front of the queue were told by the post office clerk to stand in another queue. Eventually we managed to track down a helpful lady who informed us after looking in a book (this appeared to be a journal of some sort) that the money order had not been received in Lusaka yet as it is first sent to headquarters in Ndola and dispersed to Lusaka thereafter.

**Reference points four, five and six** *4 weeks* After several return trips to the post office, the money order was eventually received 4 weeks after the date on which it was sent. Not only was this inconvenient for our beneficiary, it was also expensive as each return journey cost him his lunch hour and several Kwacha in taxi fares.

### What Zampost had to say

Unfortunately, Zampost could not explain to us why the Money Order had taken so long to process, save to say that this type of remittance currently requires substantial manual intervention. It was encouraging to hear that Zampost is currently in the process of automating its back office functions, having recently acquired software to this purpose. With its extensive footprint across the country, Zampost is well placed to play a key role in both the domestic and international remittance market. It is however clear that the Money Order may not be the most appropriate remittance product to use at this time.

## 4. Pricing

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*“Transactions between individual payment service providers along the transfer chain involve bilateral arrangements that stack the fees of all service provider institutions from the settlement system operators to end user payment service providers. This applies to both the sending and receiving legs of the transaction, and includes service fees charged to both sides by the operator of the cross-border linking mechanism. End users are charged fees that cover the cost of the stacked intermediate service fees along the chain, which include profit mark-ups for each of the service providers. Consequently, the more organisations involved in a transfer, and the lower the volume of payments over that particular channel in a given sender-receiver corridor, the higher the end-to-end user costs are likely to be (Global Remittance Working Group, 2011).”*

In the section that follows we present the findings of the end-to-end “mystery shopping” exercise highlighting the explicit charges/fees and implicit costs involved in sending and receiving a cross-border remittance. First we consider the first and last mile costs (section 4.1 and 4.2 respectively) of sending money through a remittance service provider, followed by the same analysis (first mile section 4.3, last mile section 4.4) of doing the transaction through a

bank-based telegraphic transfer. As noted above, eleven remittances, to the value of R500 each were sent from South Africa to Zambia.<sup>20</sup>

#### 4.1 Pricing – additional first mile findings for RSPs (Western Union and MoneyGram)

As an extensive analysis of fees/charges charged by RSP's to send money from South Africa to other SADC countries was presented in the "first mile" focus note these will not be dealt with extensively in "last mile" focus note. Some additional findings are presented below:

**Table 6: Sending R500 through Western Union and MoneyGram**

| Sending Institution | Transaction Detail |               |              |            |             |           |                              | Fees and Charges      |           |           |            | Ratio     |
|---------------------|--------------------|---------------|--------------|------------|-------------|-----------|------------------------------|-----------------------|-----------|-----------|------------|-----------|
|                     | Cash In @          | BOP Category  | Type/Product | Date Sent  | Amount Sent | Ccy       | Quoted Amt Sent<br>USD / ZMK | Quoted ER<br>ZAR/ USD | Comm      | Fee       | VAT        | RSA Total |
| Agent A (RSA)       | 501 GIFT           | Western Union | 26/05/2011   | ZAR 501.37 | USD         | USD 70.00 | 7.1624                       | ZAR 45.00             | ZAR 57.16 | ZAR 6.30  | ZAR 609.83 | 21.63%    |
| Agent C (RSA)       | 502 GIFT           | MoneyGram     | 26/05/2011   | ZAR 500.00 | USD         | USD 68.79 | 7.2685                       | ZAR 87.22             | -         | ZAR 12.21 | ZAR 599.40 | 19.89%    |
| Agent E (RSA)       | 503 GIFT           | MoneyGram     | 26/05/2011   | ZAR 500.00 | USD         | USD 69.17 | 7.2287                       | ZAR 98.88             | -         | -         | ZAR 598.88 | 19.78%    |
| Agent G (RSA)       | 501 GIFT           | Western Union | 27/05/2011   | ZAR 500.00 | USD         | USD 69.56 | 7.1876                       | ZAR 71.88             | -         | ZAR 10.06 | ZAR 581.94 | 16.39%    |
| Agent I (RSA)       | 501 GIFT           | Western Union | 26/05/2011   | ZAR 500.00 | USD         | USD 70.11 | 7.1320                       | ZAR 49.90             | -         | ZAR 7.00  | ZAR 556.90 | 11.38%    |

Banks and Bureau de Change agents were randomly selected for this exercise. Commission was charged by both banks and bureau agents and ranged from R45 to R98.88. An additional "fee" was charged by Agent A, making it the most expensive option. The exchange rate quoted varied across agents despite the fact that four of the five remittances were sent on the same day and within hours of each other. It therefore appears that these rates are not centrally determined/set by MoneyGram or Western Union. As a result, the corresponding USD amount

<sup>20</sup> R500 was chosen for comparative purposes. Minimum commission fees ranged from R100 to R200. What this means is that banks will always charge the customer the set minimum commission fee if the amount sent falls below the point where the percentage based charging structure exceeds the set minimum. In the case of one of the banks, the percentage based charging structure commences only when remitters remit R25, 000 or more and in the case of another bank, R40, 000 or more (Langhan and Kilfoil, 2011). It was therefore felt that send R500 from each of the selected banks would be sufficient to gather representative pricing data. It must however be noted that using a larger amount would substantially impact the ratio (percentage cost), if not the absolute fees. It was however felt that for the purposes of the last mile study that sending R500 consistently would provide data that could be used for the purposes of undertaking a comparative review of the pricing data.

sent also varied across agents despite each having been told to send the exact equivalent of ZAR500. All transactions are first changed into USD and then ZMK. This leads to substantial foreign exchange losses for the beneficiary. The amount sent to fee ratio ranged from 11.38% (Agent I) to 21.63% (Agent A).

#### 4.2 Pricing – last mile RSPs (Western Union and MoneyGram)

The analysis which follows, as presented in table 7 below, is based upon the spot rate (bank buying TT) rate for 26/05/2011<sup>21</sup>. It compares the cost, had the day's spot exchange rate been used, to the actual cost incurred to calculate the implicit exchange rate mark-up. It is important to note that the exchange rate used by Western Union and MoneyGram agents is never revealed to the sender. Transparency concerns in this regard have been expressed by the Committee on Payment and Settlement Systems (CPSS)/World Bank. In a 2007 publication CPSS/World Bank state that:

“[In] practice, RSPs typically charge senders an exchange rate that includes a margin above the current interbank or wholesale market rate. In part, the margin may reflect the uncertainty the RSP faces. Many RSPs trade only relatively small amounts of foreign currency and have to ask a bank or foreign exchange intermediary to obtain the currency on their behalf. Therefore the RSP may not know the exchange rate it will face when it forwards the funds, and a margin gives it some protection if exchange rates move adversely. However, this protection could come from an explicit fee rather than a margin. So the margin is essentially another form of fee – one which is not easily visible to the sender who is unlikely to know what the current interbank market rate is (CPSS/World Bank, 2007).”

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<sup>21</sup> Source: drawn from the Standard Bank website for the specified date.

**Table 7: Last mile (explicit fees and implicit costs)**

| Cash In @        | Cash Out @          | Quoted ER USD/ZMK | Payout Amount  | Spot Rate ZAR/USD | Spot Rate ZMK/ZAR | Value Based on Spot Rate | Difference to Actual | Variance/Currency |
|------------------|---------------------|-------------------|----------------|-------------------|-------------------|--------------------------|----------------------|-------------------|
| WU Agent A (RSA) | WU Agent B (Zambia) | ZMK 4,635.40      | ZMK 324,478.00 | ZAR 6.80          | ZMK 706.31        | ZMK 354,124.70           | ZMK 29,646.70        | 9.14%             |
| MG Agent C (RSA) | MG Agent D (Zambia) | ZMK 4,671.08      | ZMK 321,323.42 | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 31,833.63        | 9.91%             |
| MG Agent E (RSA) | MG Agent F (Zambia) | None              | ZMK 322,757.25 | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 30,399.80        | 9.42%             |
| WU Agent G (RSA) | WU Agent H (Zambia) | ZMK 4,645.20      | ZMK 323,121.00 | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 30,036.05        | 9.30%             |
| WU Agent I (RSA) | WU Agent J (Zambia) | ZMK 4,635.40      | ZMK 324,988.00 | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 28,169.05        | 8.67%             |

As our mystery shopping exercise showed, the “payout amount” is the actual amount that the beneficiary received and varies from ZMK 321,323.42 (sent from Agent C in RSA and cashed out at Agent D in Zambia) to ZMK 324,988 (sent through Agent I in RSA and cashed out at Agent J in Zambia). If one compares this to the value of the R500 based on the day’s spot rate, the amount paid out is significantly lower. The difference between the two amounts was as high as ZMK 31,833.63 (ZAR45.07) and represents the difference between the value of the currency at the day’s spot rate and amount actually received by the beneficiary. The currency variance is calculated by dividing the difference to actual by the amount actually paid out and ranges from 8.67% to 9.91%. This represents a loss to the beneficiary and is effectively an implicit cost or, based upon the CPSS/World Bank quotation above, an additional “form of fee”.

The possible solution to this problem is presented by CPSS/World Bank, 2007as:

“[the] industry could be encouraged to agree on a common reference exchange rate (e.g. the interbank market rate at a certain time of day) to be used as a basis for calculating the price of the remittance service). [...] Senders could then be quoted a total price that includes the explicit fees/costs and the effect of any differences between the reference exchange rate and the actual exchange rate applied by the RSP. [...] This would make it easier for senders to compare services (CPSS/World Bank, 2007).”

### 4.3 Pricing – additional first mile findings bank-to-bank (standard TT)

Five TT's to the value of R 500 were sent from five different remitting banks in South Africa to four recipient banks in Zambia (see table 8 below). The following additional findings are noted on the first mile (South African end of the transaction) over and above those contained in the first mile focus note (Langhan & Kilfoil, 2011):

**Table 8: First mile – additional findings bank-to-bank (standard TT)**

| Transaction Detail  |              |      |            |             |         |                            | Fees and Charges  |                |            |               |           |           |              | Ratio                |                     |
|---------------------|--------------|------|------------|-------------|---------|----------------------------|-------------------|----------------|------------|---------------|-----------|-----------|--------------|----------------------|---------------------|
| Sending Bank        | BOP Category | Type | Date Sent  | Amount Sent | Ccy     | Quoted Amt Sent USD or ZMK | Quoted ER ZAR/ZMK | Fx Bank Charge | Comm       | Fee (Inc VAT) | VAT       | Admin Fee | RSA Total    | Total Fees & Charges | Amt Sent/ Fee Ratio |
| Bank A (RSA)        | 501 GIFT     | TT   | 26/05/2011 | ZAR 500.00  | USD     | USD 69.86                  | Unknown           | -              | ZAR 200.00 | ZAR 450.00    | ZAR 98.56 | ZAR 54.00 | ZAR 1,302.56 | ZAR 802.56           | 160.51%             |
| Bank C (RSA)        | 501 GIFT     | TT   | 27/05/2011 | ZAR 500.00  | ZMK     | N/A                        | ZMK 612.49        | ZAR 159.65     | ZAR 125.00 | ZAR 100.00    | -         | -         | ZAR 884.65   | ZAR 384.65           | 76.93%              |
| Bank E (RSA)        | 501 GIFT     | TT   | 27/05/2011 | ZAR 500.00  | USD     | Unknown                    | Unknown           | ZAR 222.30     | -          | -             | -         | -         | ZAR 722.30   | ZAR 222.30           | 44.46%              |
| Bank G (RSA)        | 501 GIFT     | TT   | 27/05/2011 | ZAR 500.00  | ZMK     | ZMK 329,473                | ZMK 658.95        | -              | ZAR 130.00 | ZAR 90.00     | -         | -         | ZAR 720.00   | ZAR 220.00           | 44.00%              |
| Bank H (RSA)        | 501 GIFT     | TT   | 30/05/2011 | ZAR 500.00  | Unknown | Unknown                    | Unknown           | ZAR 210.00     | -          | -             | -         | -         | ZAR 710.00   | ZAR 210.00           | 42.00%              |
| Post Office A (RSA) | NA           | MO   | 26/05/2011 | ZAR 500.00  | ZMK     | ZMK 344,881.84             | ZMK 689.76        | -              | -          | ZAR 69.40     | -         | -         | ZAR 569.40   | ZAR 69.40            | 13.88%              |

All five banks were asked to accept cash as the means of funding the TT. Three of the five banks accepted cash. Two banks insisted on us providing them with a bank account number and selecting one of the following options:

- 1) debit the principle amount to account;
- 2) debit bank charges to account;
- 3) debit overseas bank charges to account.

The charges/fees were only debited from our accounts several days later with the description "Fx Bank Charge". Bank A (RSA) charged an additional "administration fee" of ZAR54.00 raising its amount sent/fee ratio to 160.51%. At Bank C (RSA) we elected to pay cash and mistakenly filled in a bank account number next to the description "you are hereby authorised to debit my account". The corresponding box was not ticked and the account number subsequently scratched out. "Other" was then ticked and the words "cash" inserted next to this line item.

However, it is interesting to note that without our express authorisation, an additional fee of ZAR159.65 was debited from the account with the description “Forex Forex Feds” on 20/06/2011.

Before conducting the TT transactions at the respective banks, it was decided to select the “applicant to pay all” option for allocation of fees. The other options are: share (each party to pay own) and beneficiary to pay all. Bank A, like the other four banks, were also given this instruction. It was only after returning home that it was discovered that the teller had, despite charging us ZAR 802.56 in commission/SWIFT fees/admin charges and VAT, ticked the “share charges option”. This resulted in the Zambian beneficiary being charged an additional ZMK 47,000.00 (ZAR66.54) in fees by Bank B (Zambia). In comparison, the TT sent from Bank G to Bank B only attracted a beneficiary fee of ZMK 18,000.00 (ZAR25.48). The perception of the sender in electing to pay all charges is so that the receiver is not encumbered by charges and receives exactly what they were sent. Not in one instance did the beneficiary receive what was sent, however, due to fees, hidden charges and variances.

#### 4.4 Pricing – last mile explicit fees and charges bank-to-bank (standard TT)

Pricing table 9 below presents the last mile (Zambian end) explicit fees and charges findings:

**Table 9: Last mile explicit fees and charges**

| <b>Sending Bank</b> | <b>Receiving Bank</b> | <b>Additional Fees Charged</b> | <b>Payout Amount</b> | <b>Actual Take Home Amount</b> |
|---------------------|-----------------------|--------------------------------|----------------------|--------------------------------|
| Bank A (FSA)        | Bank B (Zambia)       | ZMK 47,000.00                  | ZMK 327,294.00       | ZMK 280,294.00                 |
| Bank C (FSA)        | Bank D (Zambia)       | ZMK 0.00                       | ZMK 306,244.00       | ZMK 306,244.00                 |
| Bank E (FSA)        | Bank F (Zambia)       | ZMK 56,040.00                  | ZMK 331,663.40       | ZMK 275,623.40                 |
| Bank G (FSA)        | Bank B (Zambia)       | ZMK 18,000.00                  | ZMK 329,473.00       | ZMK 311,473.00                 |
| Bank H (FSA)        | Bank J (Zambia)       | ZMK 0.00                       | ZMK 336,300.00       | ZMK 336,300.00                 |

Banks D and J were the only banks that did not deduct charges/fees directly from the beneficiary's account, despite the explicit instruction on the sending side that the sender would pay all fees. Bank B deducted ZMK47, 000 for a transaction where the charge instruction was erroneously recorded by the teller at Bank A (RSA) as "share", and ZMK18, 000 where the instruction was "applicant [sender] to pay all". The Bank E/Bank F transaction attracted the highest beneficiary fee of ZMK56,040, despite the instruction (applicant to pay all) having been accurately captured in this case. Thus there seems to be no consistent "recipe" for determining what fees are charged at what end and no way for the sender to know what amount the recipient will actually receive.

#### 4.5 Last mile – implicit costs bank-to-bank (standard TT)

The lack of exchange rate transparency (across all service providers) is the same in the case of bank-based TT transfers as for the RSP transactions. Even where explicit fees/charges were not deducted, the value of the R500, based on the day's spot rate (ZMK/ZAR) varies greatly to the amount paid out (see table 10 below). This was as high as ZMK46, 913.05 in the case of Bank D's payout. Note that the difference to actual does not include the additional fees/charges deducted from the beneficiary's account as discussed in Section 4.4:

**Table 10: Implicit costs bank-to-bank (standard TT)**

| Sending Bank | Receiving Bank  | Additional Fees Charged | Payout Amount  | Actual Take Home Amount | Spot Rate ZAR/USD | Spot Rate ZMK/ZAR | Value Based on Spot Rate | Difference to Actual | Variance / Currency |
|--------------|-----------------|-------------------------|----------------|-------------------------|-------------------|-------------------|--------------------------|----------------------|---------------------|
| Bank A (RSA) | Bank B (Zambia) | ZMK 47,000.00           | ZMK 327,294.00 | ZMK 280,294.00          | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 25,863.05        | 7.90%               |
| Bank C (RSA) | Bank D (Zambia) | ZMK 0.00                | ZMK 306,244.00 | ZMK 306,244.00          | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 46,913.05        | 15.32%              |
| Bank E (RSA) | Bank F (Zambia) | ZMK 56,040.00           | ZMK 331,663.40 | ZMK 275,623.40          | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 21,493.65        | 6.48%               |
| Bank G (RSA) | Bank B (Zambia) | ZMK 18,000.00           | ZMK 329,473.00 | ZMK 311,473.00          | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 23,684.05        | 7.19%               |
| Bank H (RSA) | Bank J (Zambia) | ZMK 0.00                | ZMK 336,300.00 | ZMK 336,300.00          | ZAR 6.80          | ZMK 706.31        | ZMK 353,157.05           | ZMK 16,857.05        | 5.01%               |

Table 10 shows that, whilst Bank D charged no explicit fee, the beneficiary only received ZMK 306,244, as opposed to a spot rate equivalent of ZMK 353,157. This was due to the exchange rate applied. The currency variance is calculated by dividing the difference to actual by the



amount actually paid out and ranges from 5.01% to 15.32%. This represents a loss to the beneficiary and is effectively an additional “fee charged”.

#### 4.6 Analysis of the end-to-end transaction - explicit fees and implicit costs

Table 11 below presents a simple analysis of each TT transaction end-to-end, indicating the explicit fees and implicit costs charged by the sending and receiving bank. For ease of interpretation, all values have been presented in South African Rand (ZAR).

**Table 11: The transaction end-to-end – explicit fees and implicit costs**

|              |                 | A                      | B                              | C              | D                     | E          | F            | G          | H          |
|--------------|-----------------|------------------------|--------------------------------|----------------|-----------------------|------------|--------------|------------|------------|
| Sending Bank | Receiving Bank  | Out (Actual Take Home) | In (Total Cost to send ZAR500) | Fees RSA (ZAR) | Zam Actual Cost (ZAR) | Total cost | Total cost % | RSA Cost % | Zam Cost % |
| Bank A (RSA) | Bank B (Zambia) | ZAR 396.84             | ZAR 1,302.56                   | ZAR 802.56     | ZAR 103.16            | ZAR 905.72 | 181.14%      | 160.51%    | 20.63%     |
| Bank C (RSA) | Bank D (Zambia) | ZAR 433.58             | ZAR 884.65                     | ZAR 384.65     | ZAR 66.42             | ZAR 451.07 | 90.21%       | 76.93%     | 13.28%     |
| Bank E (RSA) | Bank F (Zambia) | ZAR 390.23             | ZAR 722.30                     | ZAR 222.30     | ZAR 109.77            | ZAR 332.07 | 66.41%       | 44.46%     | 21.95%     |
| Bank G (RSA) | Bank B (Zambia) | ZAR 440.98             | ZAR 720.00                     | ZAR 220.00     | ZAR 59.02             | ZAR 279.02 | 55.80%       | 44.00%     | 11.80%     |
| Bank H (RSA) | Bank J (Zambia) | ZAR 476.13             | ZAR 710.00                     | ZAR 210.00     | ZAR 23.87             | ZAR 233.87 | 46.77%       | 42.00%     | 4.77%      |

The table should be read as follows:

- **Column A** represents the actual amount that beneficiaries took home.
- **Column B** is the total sending amount, inclusive of explicit costs, for sending R500 on the South African side (principle amount + commission + SWIFT + forex charge + admin fee + VAT).
- **Column C** shows the explicit fees charged directly to the sender by sending banks (that is: column B minus R500).
- **Column D** represents total cost to the beneficiary in ZAR and includes explicit fees/charges and the implicit cost associated with forex variances resulting in a reduction of the anticipated cash out amount.
- **Column E** represents the total cost of the amount sent and reflects actual fees and implicit costs on the South African and Zambian side (column C plus column D).

- **Column F** shows total cost as a percentage of the principle amount sent.
- **Columns G and H** represent explicit fees and implicit cost on the South African and Zambian side broken down into the portion attributable to each side of the border.

The results of the analysis are quite clear. Whilst explicit fees and implicit costs can be attributed to the Zambian side of the border, the majority of the explicit fees emanate from the South African side. Practically what this means is that of the 181.14% (fees/cost to amount sent ratio) in the case of the remittance sent through Bank A and received by Bank B, 160.51% can be attributed to Bank A (sending bank) and 20.63% to Bank B (receiving bank).

## 5. General principles – how Zambia measures up

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In 2007, the Committee on Payment and Settlement Systems (CPSS) and The World Bank published a publication entitled *General principles for international remittance services*. The publication set out five principles to which countries and remittance service providers should aspire. In first mile focus note (Langhan & Kilfoil, 2011), the “mystery shopping” experience in South Africa was measured against these principles. Below, for consistency sake, the Zambian last mile experience is once again measured against the same five principles.

### 5.1 General Principle 1: Transparency and consumer protection

#### Theory

The market for remittances should be transparent and have adequate consumer protection. This means that price to the remitter should be transparent. Pricing depends on: 1) the exchange rate used and 2) fees charged. Combining the two to calculate the cost of the service often difficult and often not transparent to the remitter. Remittance Service Providers should be encouraged to provide relevant information about their services in accessible and understandable forms and comparative price information

**Reality: The  
Zambian  
Experience**

should be given.

The **exchange rate** used represents a significant loss to the beneficiary (both bank TT and Western Union /MoneyGram). This is perhaps the most significant finding of this study and the possible solution as presented by CPSS/World Bank, 2007, namely, “the industry could be encouraged to agree on a common reference exchange rate (e.g. the interbank market rate at a certain time of day) to be used as a basis for calculating the price of the remittance service)” is supported. As far as explicit fees are concerned, no explicit fees were charged to the beneficiary for remittances sent through Western Union, MoneyGram and Zampost. Certain banks charged additional fees (TT) despite the sender having elected to “pay all fees”.

In terms of **transparency**, it is encouraging to note that in terms of transparency, comparative pricing information for sending a TT from Zambia is readily available on Bank of Zambia website. However, the additional explicit fees charged by banks on the receiving end are not shown. MoneyGram pricing tables were displayed on the walls of all MoneyGram agents and Western Union agents made good use of customer awareness posters.

The publication of the list of designated payment system participants and payment system businesses on the Bank of Zambia website is impressive. However, it was recently discovered that a newly designated payment system participant is not listed, showing that the data is not updated often enough.

Designation certificates were prominently displayed on the walls of banks and payment system businesses (Western Union / MoneyGram agents).

Commenting on appropriate **consumer protection**, the CPSS–World Bank

(2007) states “it is helpful if there is a set of clear, publically available and easily applicable procedures in cases of fraud and disputes. At a minimum, individual RSPs could establish their own procedures that customers could follow in the event of difficulty, and provide clear information to customers about these procedures“. As observed during the mystery shopping exercise, this element is currently lacking, leaving consumers unsure as to what to do in the event of a problem.

The **speed of service** (time taken from origination of the remittance to receipt by the beneficiary) varied. All the remittances sent through MoneyGram and Western Union were available to the beneficiary on the day they were sent. Bank TTs took 4–10 days to reflect in the beneficiary account and the post office money order took 1 month to arrive in Lusaka.

## 5.2 General Principle 2: Payment system infrastructure

**Theory** Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. Underdevelopment of domestic financial infrastructure in receiving countries is often poor, leading to unreliable delivery. Whilst the correspondent banking model is widely used it is expensive for small value payments and greater interoperability and straight through processing should be encouraged. Expansion of payment system infrastructure in under-served areas should also be actively encouraged.

**Reality: Zambian** The lack of a national switch in Zambia continues to impede interoperability,

**Experience** thereby limiting the number of access points (cash out points) at which recipients of TT's can cash out their remittances. Branch infrastructure in Lusaka is well developed, but the infrastructure is still limited in rural areas. In support of the move to encourage branchless banking initiatives in Zambia, the Bankers Association noted that the current Bank of Zambia definition of what constitutes a branch should be looked at so as to expand access to financial services to under-served areas. Branchless banking models have successfully extended domestic payment service coverage in a number of developing markets.<sup>22</sup>

The links for settling remittance transfers are, in most cases, provided by correspondent banking. Manual processing, instances where payment instructions are handled individually rather than in batches, the manual monitoring of correspondent accounts and the manual conversion from one format to another add further cost to service providers.

It is recommended that the use of alternative payment mechanisms for cross-border payments should be encouraged. The ease of opening a Xapit account (valid for domestic remittances, but not allowed to send money cross-border) is testimony to how easy it can be to “bank the unbanked”.

**Figure 4: Opening an account in less than 10 minutes (the Xapit instant banking experience)**

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<sup>22</sup> “One model that has successfully extended domestic payment service coverage is an arrangement in which accounts are held at banks and other deposit-taking institutions but access to those accounts for payment services is decentralized. For this purpose, deposit-taking institutions contract with other types of institutions such as the post office, lottery houses, drugstores and other small retailers that are willing to act as agents to provide payment services to end users (CPSS/World Bank, 2007).”

## Focus note: Zambia Last Mile

## The XAPIT experience – why can't it all be this easy, efficient and convenient?



**1. Locate Xapit street kiosk.**  
(Simple counter made out of cardboard – easily visible)



**2. Complete ZAPIT KYC Form.**

Information required:

- Name
- Occupation
- Contact No.
- Address (Home)
- Address (Work)
- Referee's Name
- Occupation
- Address (Home)
- Address (Work)
- Agent's name
- How did you hear about XAPIT
- Signature

Back of form = checklist for sales agents



**3. Make copy of passport (at store nearby)**  
Hand over copy  
Verified by sales agent.  
Other acceptable documents:

- NRC
- Driver's license
- Passport



**4. Pay ZMK 30,000.** Open pack: consists of VISA debit card, PIN mailer, user guide



**5. Sales agent activates account on her mobile (linking mobile phone number with card number)**

**6. PIN received on mobile (this PIN for XAPIT features on phone) – change at first use.**

**NOTE: address verification**

"Ensure that the referee themselves fills in their part of the application form to verify the information provided by the applicant. Note that the client is advised that the referee should be one of the following: 1) existing account holder, 2) clergy, 3) local court/lawyer, 4) headmaster; 5) market leader; 6) chief or village headman or any other recognized institution, 7) any reputable employer.

My referee was non of these things and Morris entered the information of his referee himself.

**NOTES:**

- Separate PIN (PIN Mailer for ATM transactions). Could be confusing.
- System was unavailable on day that I tried to access ZAPIT instant banking to change PIN
- Deposits at Zanaco branch or agent
- ATM withdrawal at Zanaco24 ATM and any Visa Electron ATM
- Over counter withdrawal at Zanaco
- Features Mobile menu: balance enq, mobile banking transfer, bill payment, airtime purchase, transfer by account number, inter-account transfer, mini-statement, manage account

In contemplating innovative cross-border money transfer mechanisms in future, issues to be examined would include: settlement risk, liquidity risk and credit risk.

### 5.3 General Principle 3: Legal and Regulatory Environment

#### Theory

Services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions. There is a possibility that laws and regulations that are badly designed have unintended consequences, which are disproportionate to the problem that the laws and regulations were designed to address. Regulating remittances by type of entity (licensed institutions) may make regulation less effective and distort markets. National regulations should aim to create a level playing field between equivalent remittance services and not favour one type over another.

### Reality: The Zambian Experience

The remittance space in Zambia is governed by a comprehensive legislative and regulatory framework. It is the writer's opinion that this framework is indeed sound, predictable, non-discriminatory and proportionate as required by the *General Principles*.

The Bank of Zambia is responsible for implementing the National Payment Systems Act, 2007 and is tasked with the regulation and oversight of the operations of payment systems so as to ensure the integrity, effectiveness, efficiency, competitiveness and security of the system and to promote the stability and safety of the Zambian financial system. Section 5(3)(c) of the act provides the Bank of Zambia with direct powers to prescribe rules and arrangements relating to the operation of payment systems and in particular provide for (i) netting agreements; (ii) risk-sharing and risk-control mechanisms; (iii) finality of settlement and finality of payment (iv) the nature of financial arrangements between participants; (v) the operational systems and financial soundness of a clearing house; and (vi) such other matters pertaining to systematic risk.

Although a separate legal framework for remittances is not required, it is encouraging to note that the Bank of Zambia has promulgated Money Transmission Service Guidelines under the National Payment System Act, 2007. These Guidelines were issued to provide for the conduct of Money Transmission operators<sup>23</sup> and agents<sup>24</sup> in Zambia. The guidelines are comprehensive and cover *inter alia*:

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<sup>23</sup> The guidelines define a Money Transmission Services as "a financial service that accepts cash, cheques, other monetary instruments or other stores of value in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of a communication, message, transfer or through a

- the requirements for designation as a Local Money Transmission Service Provider, designation as an Agent of a designated Local Money Transmission Service Provider and designation as an Agent of a recognized International Money Transmission Service Provider;
- requirements pertaining to the mode of operation, namely: signage, receipts, displaying the length of time it takes to remit funds, displaying fees and exchange rates, rules and procedures for resolution of errors which ensure that consumer disputes are resolved within reasonable time, ensuring that funds received from consumers but not yet transmitted are not employed in an income generating manner, ensuring that it has a compliance officer, payment in local currency i.e. Kwacha and compliance with the Bank of Zambia approved over the counter limits per transactions;
- requirements governing the relationship between a Money Transmission Service Provider and a Designated Agent;
- comprehensive provisions on enforcement, suspension and revocation
- provisions covering inspections (on-site and off-site), returns, reports and records.<sup>25</sup>

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clearing network to which the money/value transfer service belongs. Transactions performed by such services can involve one or more intermediaries and a third party final payment.”

<sup>24</sup> A Money Transmission Service Agent is defined as “a person appointed by a Local or International Money Transmission Service Provider to provide Money Transmission Service s on its behalf. Money Transmission Service Agents may include: a bank or financial institution within the meaning of section 2 of the BFSAs, Cap 387 of the Laws of Zambia; a subsidiary of a bank or financial institution (the term “subsidiary” shall have the same meaning as in section 2 of the Companies Act, Cap 388 of the Laws of Zambia); a person whose business (whether or not the person carries on any other business) is that of transmission of money from one person to another.”

<sup>25</sup> As of 26 October 2009, all remittance service providers (Money Transfer Business Operators) required to submit monthly returns to the Bank of Zambia (not later than the 6<sup>th</sup> day of the following month).



Stakeholders interviewed confirmed that as long as applicants meet the requirements for Designation as a Payment System Business, they are likely to be granted a licence by the Bank of Zambia. The market therefore appears to be very open, with the regulator committed to creating a level playing field for all participants in the remittance space, without necessarily requiring remittance service providers to partner with banks.

The Zambian Anti-money Laundering Directives, 2004 require all regulated institutions to ask customers opening an account, establishing business relations or conducting business transactions, to produce a National Registration Card or valid Passport or Driver's License, as well as to verify the names and addresses of its individual customers through a number of methods. Regulated institutions are also required to maintain business transaction records for 10 years after the termination of the business transaction and copies of identification records for a period of 10 years after termination of the business transaction with the customer. (It was interesting to note that in several cases during the "mystery shopping" exercise, a copy of the beneficiary's NRC was not taken). Know Your Customer (KYC) requirements were raised by several banks as a contentious issue.

## 5.4 General Principle 4: Market Structure and Competition

### Theory

Competitive market conditions, including appropriate access to domestic payment infrastructure, should be fostered in the remittance industry. Various steps including discouraging exclusivity conditions can assist competition.

Remittance service providers without access to the domestic payment infrastructure should be able to use, on an equitable basis, the payment services provided by those that do have direct access.

Reality:  
Zambian  
Experience

Currently only banks are designated as payment system participants. However, there are also 4 designated mobile payment systems and 23 money transfer businesses (not all bank agents).

Exclusivity conditions have been sighted by a number of stakeholders as a problem. Currently, those wishing to be designated as a payment system businesses and offer remittance services through Western Union or MoneyGram are required to choose one of these international RSPs and cannot offer both Western Union and MoneyGram services.

The Bankers Association note various activities aimed at improving the market. These include: the banking community setting up a banking infrastructure fund (to roll out branches as part of social investment); a project to reform the legal and regulatory environment with the particular focus on the standardisation of documentation, and an agenda to get industry service standards in place. During an interview with the Bankers Association it was noted that the Bankers Association had planned for the banks to negotiate as a block to reduce the cost of servicing ATM's. It was later discovered that this might be deemed as collusion by the Zambian Competition Commission; hence this activity was stopped.

## 5.5 General Principle 5: Governance and Risk Management

### Theory

Appropriate governance and risk management practices should support remittance services. The small values involved in remittance transfers mean that systemic risk is unlikely. However, remittance service providers do face financial, legal, operational, fraud and reputational risks. Governance and risk management practices must be appropriate for the size and type of remittance business.

### Reality: The Zambian Experience

The Zambian regulatory framework contains extensive provisions relating to designated payment system businesses' governance and risk management obligations. All designated payment systems businesses must, when applying for designation, provide details of:

- the risk-sharing, management and control mechanisms that have been or will be put in place;
- the business's provision of adequate mechanisms to address operational, financial soundness as well as other matters pertaining to systemic risk management; and
- the payment system business failure to settle arrangements.

These details are subject to approval by the Bank of Zambia.

All money transmission service providers are required to submit monthly returns and appoint a compliance officer who is required to ensure that there are adequate internal policies, guidelines and training programmes for personnel to ensure adherence to stipulated regulations.

## 6. Conclusion

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How easy is it for a Zambian beneficiary of a remittance, sent from Johannesburg, South Africa to cash out his/her money in Lusaka, Zambia and how much will it cost him/her? This is the question that this focus note sought to answer. Overall, the last mile “mystery shopping” exercise was a very pleasant experience. This is probably due in the most part to the fact that our geographic area of focus was limited to Lusaka, the capital, with good financial services infrastructure and many RSP agents currently operating. Whilst issues have been raised regarding “hidden costs” and losses to the beneficiary through the application of exchange rate margins, it is clear that the first mile (the South African side of the transaction) is the main cost driver. In addition, the legislative and regulatory framework that governs the remittance space in Zambia is sound, predictable, non-discriminatory and proportionate.

The findings of this study were presented to the Bank of Zambia and the South African Reserve Bank at a workshop convened by the Bank of Zambia in Lusaka on the 18<sup>th</sup> July 2011. It is encouraging to note that these two central banks are currently engaged in consultations with a view to facilitating measures to reduce infrastructural barriers. It remains to be seen whether any regulatory changes (particularly on the South African side) will actually translate into a reduction in price/cost for both senders and receivers of remittance sent from South Africa to Zambia through the formal financial system.

## Appendix A: Extracts from Zambian consumer blog<sup>26</sup>

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On the 24<sup>th</sup> February 2011, the following four entries dealing with the service at Western Union Agencies, were posted:

*"I am appalled at the lack of seriousness by Western Union Agents in Lusaka. On Wednesday February 23 2011, I went to ZamPost at Woodlands Post office to receive some cash from abroad. The teller at the Post office was so unreceptive; she did not even have the courtesy to greet me. When I asked her about the receive forms, she was quick to tell me that there was no network and that I should try the main post office in town. The customer service at this post office is pathetic. The tellers behave as if they are doing a customer favors when in fact it is the other way round. As if that was not enough, I moved to Post net at Cross roads Shopping mall. I found all the teller counters abandoned. When I enquired from one lady who appeared at the scene about the service, she flatly told me that the money I was expecting was too much (equivalent of \$300) to be paid out and I should try else where. I nearly uttered some unprintable but restrained myself. I finally moved to Post Net at Kabulonga shopping centre and expecting the same attitude, I was amazed to find a very pleasant and polite lady who served me in no time. I recommend Post Net Kabulonga to any one expecting to receive some money. Western Union should check on these agents as they are tarnishing the brand name. These agents are so unprofessional and discourteous and behave as if they are doing customers favors when in fact the relationship is mutual as they get commission from these transactions. I personally paid K100, 000 as commission on \$300!"*

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<sup>26</sup> See Dear Zambia....blog at: <http://www.zambia.co.zm/dearzambia/viewtopic.php?f=5&t=2200>

*"Lye! Talk about Western Union Stalilo in Chainama, it's like that girl just skyrocketed from neighboring Chainama hospital into that office! I'll never return! And it's the same network story everywhere."*

*"I went once and never again. I needed to send some money to the border to my clearing agent to clear something in Livingstone. I was told their quota for the day is finished and they do not accept anymore money for sending. Eventually I found one where they agreed to accept my money. But when I was told how much the commission is, I was disgusted. Following day I send my worker to Livingston by bus, gave him money for hotel and food and it cost me 30% of what they wanted to charge me. Criminals!"*

*"I think I've dealt with the same lady and she's rude and very SILLY! They go for lunch and knock off at 16. Very unserious with work those chaps! I think they use money and lie that there is no network because they wont have enough to pay out! Silly lady that one @ woodlands post office!"*

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