The Cross-border Money Transfer Experience

Why taxis and buses are still preferred to banks

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1. Research question and approach

"Remittance flows to SADC are predominantly informal. Affordable formal options are not readily available to undocumented migrants and low-income clients wishing to send money cross-border. They continue to place their trust in informal money transfer mechanisms, either transferring money in person or using the extensive taxi and bus network (Bester et al, 2010)."

Why would a person choose to send a regional low value remittance from South Africa to any SADC country through the formal banking system in South Africa, be it through a telegraphic transfer (TT) or through the use of the Western Union or MoneyGram service now being offered by ABSA Bank, Standard Bank and Bidvest Bank, respectively, when the informal alternative is cheaper, more reliable and more convenient?[1]

This is the core problem statement that this focus note unpacks. This study explicitly set out to challenge the commonly accepted paradigm that it is safer and more efficient to make use of formal remittance channels (banks and money transfer operators). The approach was to experience the formal provider-led offerings from the customer perspective by conducting a "mystery shopping" exercise. This quickly resulted in mounting frustration at having to fill in numerous forms, produce KYC documentation and find a bank branch that actually offered the TT facility.

[1] In 2005 Truen et al estimated the size of the remittance market based on a combination of an estimate of total migration and estimates of remitting behavior by migrants. Based on a number of assumptions the authors estimated that approximately R6.1bn in cross-border remittances were made from South Africa to various SADC countries in 2005. There is no doubt that these figure are now outdated. However, the dominance of informal channels as reported by Truen *et al* does not seem to have changed much. This is supported by 2010 research conducted by Ncube and Hougaard who state that "one area where financial inclusion is particularly low, as highlighted by FinMark Trust's discussion document titled "Reviewing the policy framework for money transfers" (Bester et al, 2009), is cross- border money transfers from South Africa to the rest of SADC. The available literature suggests that the bulk of money transfers from South Africa to other SADC countries are done informally (e.g. by people carrying cash or sending cash with a bus or cross-border taxi) due to restrictions within the formal financial sector (Ncube and Hougaard, 2010)."

This focus note highlights our experience as "mystery shoppers", presents pricing data collected from banks, the Post Office and SWIFT, highlights various process flows and seeks to document South Africa's performance from the customer's perspective against the 2007 Committee on Payment and Settlement Systems / World Bank *General Principles for International Remittance Services*.[2]

We would like to thank the South African Reserve Bank, South Africa's Commercial Banks, the South African Post Office and SWIFT for providing us with additional information, data and comments on earlier presentations covering this subject matter. We further extend our thanks to Brendan Pearce (FinMark Trust) and Christine Hougaard (Cenfri) for providing their support and guidance during this study.

2. The first mile

Dressed in jeans, t-shirts and sneakers, with our wallets full of money we were ready to start sending money to five people who had agreed to participate in the remittance exercise. Each beneficiary had provided us with his or her personal, banking and mobile phone details in advance. In sending the money to beneficiaries in Botswana, Malawi, Mozambique, Zambia and Zimbabwe we were faced with the following questions, steps and challenges:

Where to go – what the preliminary internet search revealed

The first challenge we faced was finding out where we could go to remit our money through formal channels. Preliminary internet research (not that such is necessarily available to the target market) revealed that at this moment in time, cross-border remittances could only be facilitated through a limited number of institutions/mechanisms. Whilst there has been considerable innovation by banks and other Remittance Service Providers

[2] Committee on Payment and Settlement Systems /World Bank, 2007. *General Principles for International Remittance Services*. Online. Available at:
http://siteresources.worldbank.org/INTPAYMENTREMMITTANCE/Resources/New_Remittance_Report.pdf

(RSPs) on the domestic front (person-to-person transfers within the borders of South Africa) the options for regional remittances remain limited.[3] Our options appeared to be limited to the following:

- Telegraphic transfer (ABSA, FNB, Nedbank, Standard Bank, Bidvest Bank)
- Bank draft (ABSA, FNB, Nedbank, Standard Bank, Bidvest Bank)
- MoneyGram (Standard Bank, Bidvest Bank)
- Western Union (ABSA, Tower, American Express Foreign Exchange, FXA, Travelex, Master Currency)
- Money order (Post Office)
- Postal order (Post Office)

The information provided on these service providers' websites was sufficient with respect to the service offering but it was lacking in a number of respects, most importantly pricing information. We found that the only way to ascertain how much it was going to cost us to send R100, R1, 000 and R3, 000 was to actually request a quotation in branch: from the teller in the case of MoneyGram and Western Union and from the foreign exchange officer in the case of TTs.[4] It is also important to note

[3] Numerous options are available for domestic remittances. These include *inter alia* e-Wallet (FNB); Cash Send (ABSA); Ukash (Capitec/Shoprite); Shoprite Money Transfer (Capitec/Shoprite); M-Pesa (Nedbank/Vodacom.

[4] One Money Gram agent was in fact unable to provide us with a quotation as the system is apparently unable to generate such. We were therefore required to actually remit money in order to ascertain the price of the transaction.

that TTs can only be sent from branches that have foreign exchange facilities. This is restricted to a few large branches in almost all cases. This information was not clearly stated on any of the banks' websites and caused considerable frustration, as we had to drive half way across Johannesburg to find a branch able to process our TT. This would be even more frustrating and costly for those who rely on public transport and do not have large amounts of disposable income – or time – to spend on transport from one bank branch to another.

What if the sender doesn't have internet access?

If you do not have internet access, you would need to rely on advertising, word of mouth, or visual presence to know where to go. In countries such as Kenya, the branding of RSPs is prominent.

The case is markedly different in South Africa. As MoneyGram and Western Union are required to offer their services through banking and bureau de change agents, their branding is not prominent if present at all. In most cases, the RSP branding on the outside of the branch/bureau de change is limited to a sticker on the glass door and a poster inside the branch. We did spot the occasional fluorescent sign advertising Western Union but these were few and far between. As noted above, one has no way of knowing whether a particular bank branch will be able to process a TT without actually enquiring at the enquiries counter. In contrast, the Post Office was more easily accessible and easy to find albeit restricted to limited business hours. Advertising for money transfer services does appear in the local press from time to time but the marketing campaign does not seem to be overly aggressive.

What is my bank's SWIFT code?

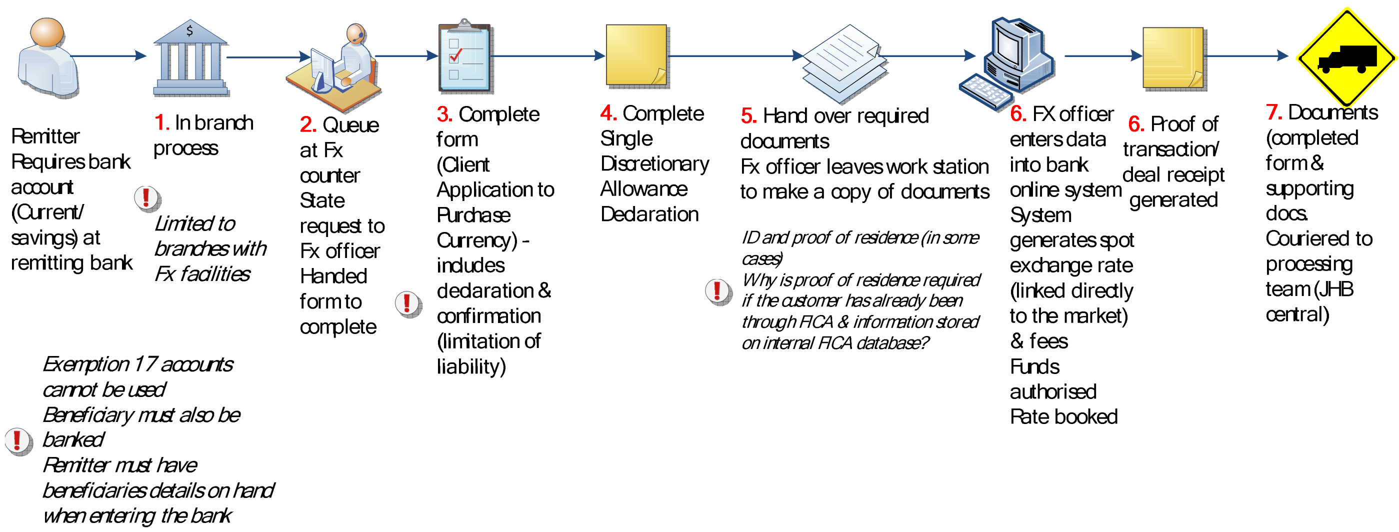
Our beneficiaries were located in Botswana, Malawi, Mozambique, Zambia and Zimbabwe. A number of individuals had no idea what their bank's SWIFT code, routing number or IBAN numbers were and had difficulty in acquiring this information from their local bank in-country. This information is required when remitting money through a telegraphic transfer as both the sender and beneficiary must be banked – a barrier to participation in the process itself.

In the sections below we highlight our actual experiences and challenges with respect to: (i) sending money through a standard TT offered by the banking sector; (ii) remitting money through MoneyGram and Western Union; and (iii) remitting money by making use of a Money Order offered by the Post Office.

2.1 First mile – bank-to-bank (account-to-account): standard TT

The customer experience of the TT process is depicted in diagram 1 below. Reference points 1to 7 (as they are reflected in the diagram) are discussed in the General Observations section that follows.

Diagram 1: First mile – bank-to-bank (account-to-account): standard TT



General observations

Reference points one and two:

Specialised forex department / section within the bank

After standing in the queue for 45 minutes at the first branch with foreign exchange facilities we were informed by the teller that we actually had to go to the forex department to facilitate our TT. Within this particular branch, the forex team was located on a different floor in a separate wing of the bank. Two flights of stairs and a pleasant conversation with the receptionist later, we arrived at the forex section.

ⓘ ....

In order to remit money through a TT, both the remitter and

The remitter and beneficiary must be banked:

beneficiary must be banked. In most cases this required the remitter to actually hold their bank account (current/savings) at the institution from which the TT was initiated. Exemption 17 accounts have a lower KYC/FICA requirement (no proof of address requirement) and are governed by transaction limits, namely, R5 000 per day and not exceeding R25 000 per monthly cycle[5]. Exemption 17 accounts such as the Mzansi account cannot, however, be used to initiate TT transactions as they are subject to the following limitations: 1) The account holder may not transfer funds to any destination outside South Africa; 2) only a South African citizen or resident is entitled to open this type of account.[6] Therefore those wishing to send money cross-border must have "full compliance" accounts.

Reference points three and four:

Information requested:

The forms that had to be filled in at each bank ranged from 2 to 4 pages in length. This variation had nothing to do with the information requested but was rather a direct result of the size of the font and the spacing used on the forms. In all cases we were required to complete the form, which in this particular case was titled "Client Application to Purchase Currency" and to sign an additional form Single Discretionary Allowance Declaration form.[7]

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[5] As per the requirements of Exemption 17, promulgated by the Minister of Finance in November 2004, in terms of the Financial Intelligence Centre Act, 2001

[6] For an example of how the South African Banks inform their customers of the restrictions on Exemption 17 accounts, see Standard Bank's publication, *Pricing 2011 Mzansi BlueAccount.* [Online]. Available at: http://www.standardbank.co.za/pdfs/pricing2011/Mzanzi.pdf

[7] As a result of the further steps in the liberalization of South African Exchange Controls announced by the Minister of Finance in the 2010 Medium Term Budget Policy Statement, the Financial Surveillance Department

In all cases were we required to provide the following information:

- Surname/name
- Date of birth
- ID/Passport number
- Full residential address
- RSA resident (Y or N)
- Telephone number, email address
- Currency/ZAR equivalent
- Beneficiary banking details (name of bank, branch, SWIFT code/routing number, account number, IBAN number
- Beneficiary details (name and address)
- Details of / reason for payment: 501 (gift)[8]
- Details of charges: Shared; Beneficiary: Our
- Remitter's bank details
- Method of payment: debit account; cheque; FEC

Reference point five:

Documentation required

In all cases, as South African citizens we were required to provide 1) RSA ID book and 2) Proof of residence for FICA/KYC purposes. The question must be asked as to whether this is really necessary

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(previously Foreign Exchange) implemented the following amendments to exchange control limits and policy: Natural persons who are 18 years and older are permitted to avail a single discretionary allowance within an overall limit of ZAR1 million per individual per calendar year. The single discretionary allowance may be apportioned as follows: a) Donations to Missionaries – a letter from an official or recognized religious body is required; b) Maintenance Transfers – to immediate family who are in necessitous circumstances; c) Monetary Gifts and Loans – to non-resident individuals or to resident individuals who are temporarily abroad; d) Travel Allowance – Children under 18 limited to ZAR200 000 per calendar year and e) Study Allowance – Individuals may take up to ZAR10 000 in South African Reserve Bank notes with when proceeding on visits abroad.

[8] Most banks used code 501 (Gifts). It has since been ascertained from SARB that this is in fact the incorrect code to use for a remittance.

given the fact that all banked individuals that qualify must have already been through the FICA process as is required by law. In most cases the forex officer was required to leave their desk to make a photocopy of the documents in a back room. This process took between 5 and 15 minutes.

Foreigners are required to produce 1) their Passport; 2) work permit; and 3) employment contract.[9] Exchange control distinguishes between residents and non-residents, temporary residents, immigrants and emigrants. Temporary residents (including contract workers) require a valid work permit issued by the Department of Home Affairs when purchasing foreign exchange. The current workers remittance category code requires the presentation of documentation, e.g. employment contracts, foreign national declaration etc. It is important to note that in addition to exchange control requirements, S. 45 of the Immigration Act, read with its regulations, requires financial institutions to ascertain the legal status of foreigners before dealing with them and to report those without a legal permit (Bester et al, 2010). The ultimate result of this is that undocumented migrants will face an absolute barrier to accessing formal channels. As will any person without proof of residence.

Reference point six:

The exchange rate used by all the banks was that generated by

[9] Exchange Control Regulations define temporary residents as "foreign nationals of countries outside the CMA who have taken up temporary residence in the Republic excluding those who are purely on temporary visits". This includes contract workers who must provide the authorised dealer with an original and valid work permit Issued by the Department of Home Affairs in order to be allowed to purchase foreign exchange (i.e. to remit funds cross-border) (Bester et al, 2009)".

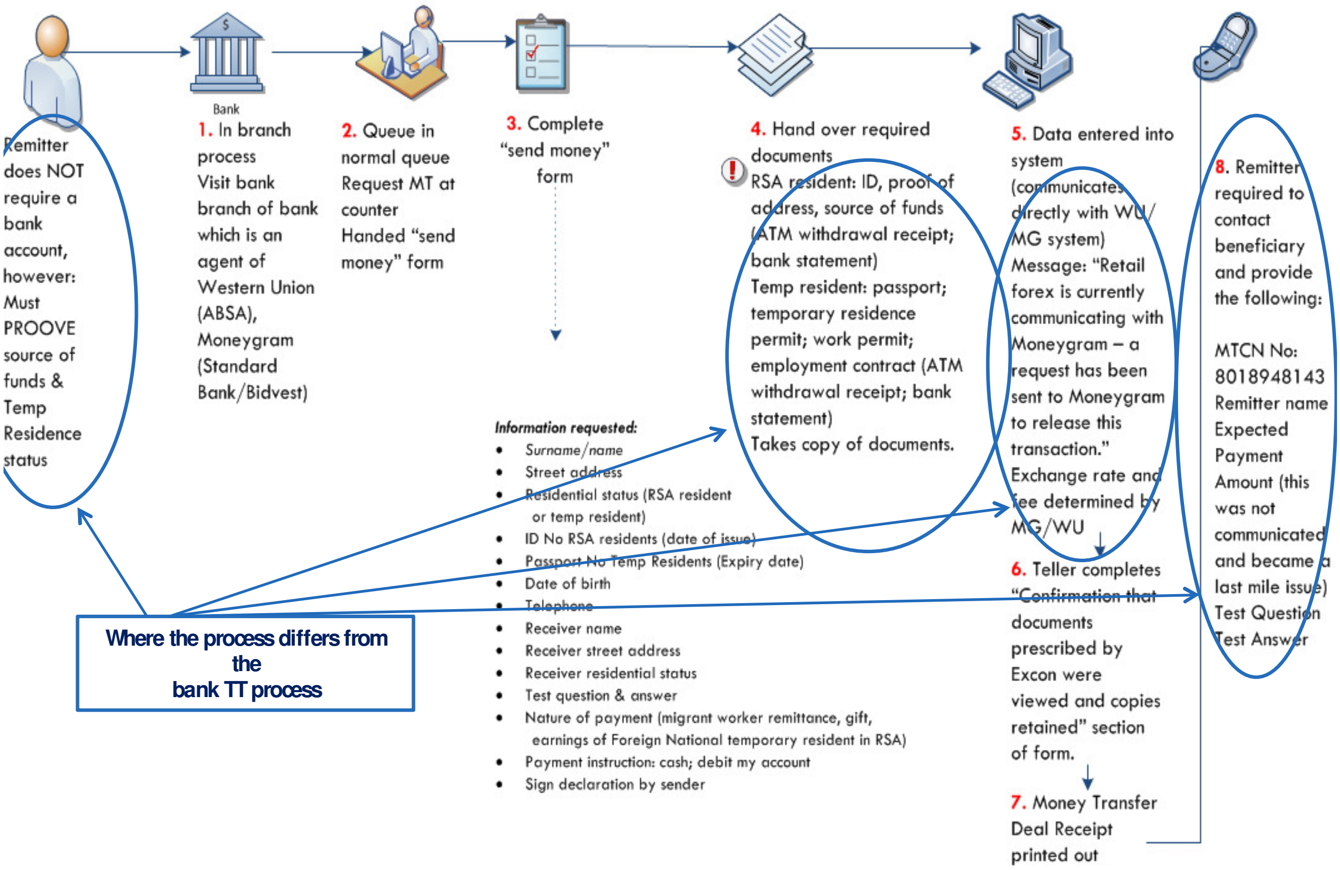
Exchange rate

their Retail Forex System. This rate is a spot exchange rate and is linked directly to the market rate.

2.2 First mile – bank as agent of RSP (Western Union / Moneygram)

In general the process was not dissimilar to that of the bank TT (see diagram 2 below). The important differences and salient observations are however discussed in the section that follows.

Diagram 2: First mile – bank as agent of RSP (Western Union / Moneygram)



Differences to TT channel and salient issues

Reference point three: The following information had to be filled in on the "send money" form:

Information requested:

- Surname/name
- Street address

- Residential status (RSA resident or temp resident)
- ID Number of RSA residents and date of issue of passports
- Passport Number of Temporary Residents and Expiry date
- Date of birth
- Telephone number
- Receiver name
- Receiver street address (differs from TT)
- Receiver residential status
- Test question and answer (differs from TT)
- Nature of payment (migrant worker remittance, gift, earnings of Foreign National temporary resident in RSA)
- Payment instruction: cash; debit my account
- Sign declaration by sender

Reference point four:

Remitter does not require a bank account but must prove source of funds and provide other documentation

The remitter making use of MoneyGram or Western Union does not require a bank account. When making use of the Western Union service through an ABSA branch, if the remitter is not an ABSA bank account holder, the bank creates what is known as a "Western Union Profile at ABSA." In order to create this profile the remitter must provide his/her proof of address. Once the profile is created it is used every time a money transfer is undertaken. Profiles are not created in the case of a MoneyGram remittance.

For both Western Union and MoneyGram, remitters must also prove the source of funds being remitted and their immigration and residential status. Taking Western Union as an example: it is noted in the ABSA/Western Union brochure that "under South African Law, you may be required to provide proof of funds when sending a transaction from South Africa". Examples of such may be any of the following: a) an ATM slip indicating at least the matching Rand value of the amount being sent; b) a bank statement that shows source of funds; c) latest pay slip indicating payment received from the customer's employment; d) proof of purchase of Rands at a Foreign Exchange Bureau to show foreign exchange being converted to the South African Rand value."[10] The same brochure provides a useful breakdown of the documents needed when sending or receiving a Western Union Transaction. (See table 1 below).

Table 1: Documents needed (Western Union)

Who	Proof of Address	South Africa Green Bar Coded ID	A valid Passport	Temporary Residence Permit	Work Permit	Allowed to send money?	Allowed to receive money?
South African citizen	Yes	Either a green bar-coded ID book or valid passport with a valid permanent residence permit		N/A	N/A	Yes	Yes
Non-resident (short-term visitor)	N/A	N/A	Yes	Yes	N/A	Depends	Yes
Foreign National temporarily residing in SA	Yes	N/A	Yes	Either a valid work permit if working or a temporary residence permit		Yes	Yes
Refugee	Either a valid maroon refugee ID or a confirmation of authenticity in writing from the Department of Home Affairs.					Yes	Yes

Source: http://www.westernunion.co.za/web-inf/za/pdf/zabrochure_sendfrom_113009.pdf?pid=ZA_SendFrom_1209

Commission and exchange rate determined by MG/WU

Each teller that we interacted with confirmed that MoneyGram

[10] The brochure is available online at: http://www.westernunion.co.za/web-inf/za/pdf/zabrochure_sendfrom_113009.pdf?pid=ZA_SendFrom_1209

and Western Union calculate the commission and exchange rate per transaction. Therefore no single, consistent exchange rate was applied such as the spot exchange rate used by TT transactions (as discussed above). In one case there was a considerable delay while the system communicated directly with MoneyGram To "release the transaction".

Remitter required to contact the beneficiary and provide information

In contrast to the TT process where no communication is required between the remitter and the beneficiary post transaction, in the case of Western Union and MoneyGram the remitter is required to contact the beneficiary and provide him/her with a number of details which the beneficiary is required to present to receive payment in their country. These details include: the Money Transfer Control Number (MTCN No), for example "8018948143"; remitter name; expected amount which the beneficiary was to receive; test question and test answer. In some cases the teller did not inform us which information was to be communicated to the beneficiary, leaving us guessing and having to find receipts days later and communicate additional information with the beneficiary via a mobile phone as he/she attempted to cash out the remittance. In particular, the teller did not inform us that we were required to provide the beneficiary with the amount that he was to receive. As a result, our beneficiary was unable to collect the money on that particular day, as he was unable to reach us by mobile phone to confirm the amount.

2.3 First mile issues – the Post Office

The Money Order – Limited to certain recipient countries

Section 46 of the Postal Act of 1958 allows for the Post Office to remit money outside the country via money order, postal order "or [an] other document authorised to be used for the purpose of remitting money. " However, as is stated on the Money Order form, one cannot send money through a Money Order to Zimbabwe, Mozambique or Malawi. Post Office remittances are not reported via the SARB's reporting system as reporting is done on a manual basis (spreadsheets), not electronically. A ceiling of R2, 000.00 is applied per transaction but the volume of such remittances is not stipulated. The Post Office process was in the most part similar to that of Western Union and MoneyGram. The only salient difference was that we were not required to prove the source of funds being remitted.

3. Process flows

3.1 SWIFT (TT) process flow

Diagram 3 below is a stylised representation of a SWIFT (TT) transfer[11], processed via a forex outlet of a bank. The transfer takes place between correspondent banks to facilitate the

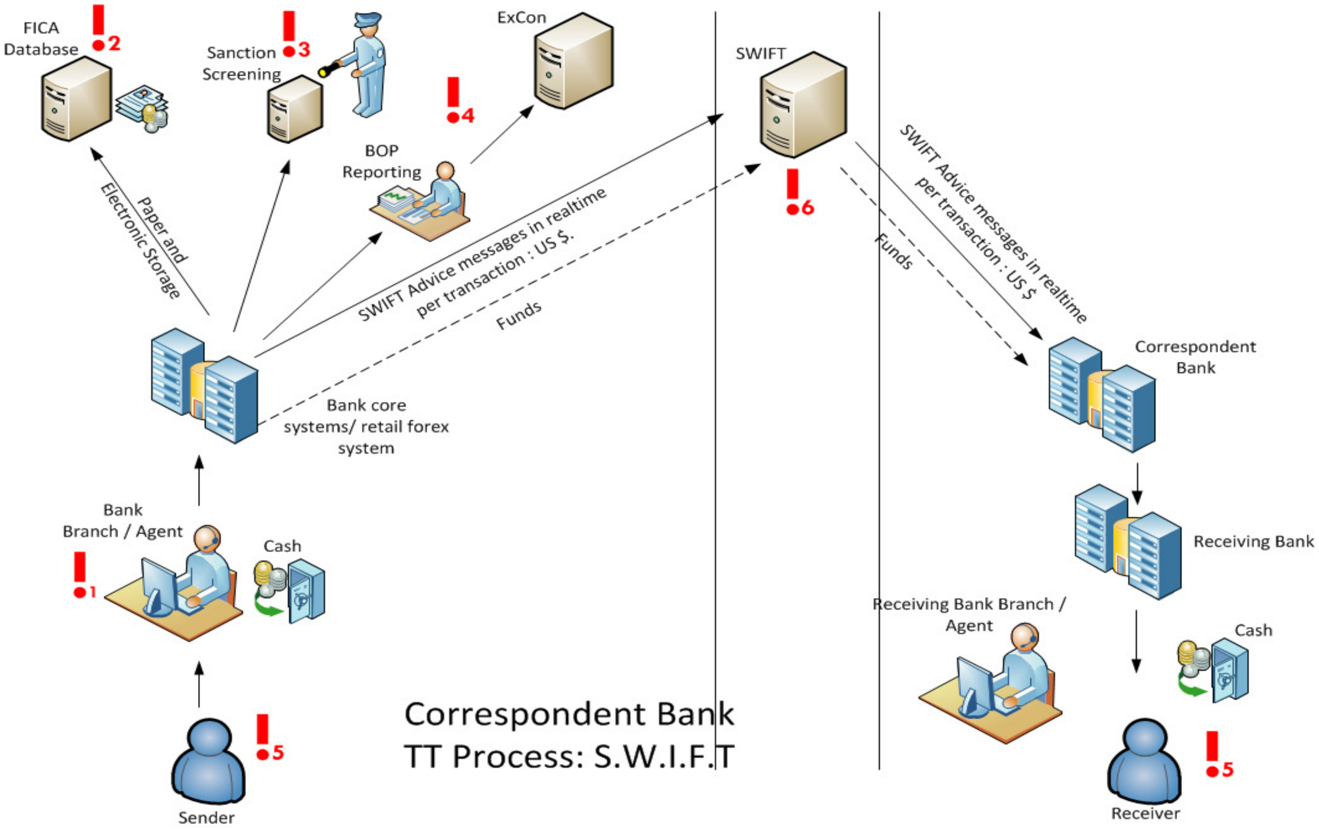
[11] It is important to acknowledge the enabling role of SWIFT in the cross-border money transfer process. SWIFT provides banks and other financial institutions in SADC an international payment messaging network and in particular an international Person-to-Person service framework also available on mobile channel that can help the banks in the implementation and the roll-out of financial services and remittances (SWIFT email communication, 2011).

transfer of the remitter's funds to a beneficiary in another country. The internal systems used by the banks are the Core Banking System and the Retail Forex System. The banking parties involved are the Sending Bank and Receiving Bank. Where the Receiving Bank is not a partner, the transaction is processed via a Correspondent Bank that in turn forwards it on to the Receiving Bank. Each transaction is subject to sanction screening.[12] Messaging and funds are sent together. Funds are transferred via SWIFT and settled via the Nostro/Vostro[13]/ZAPS or SAMOS settlement processes. Two messages are generally sent, MT103 - Customer Transfer, implying a direct bank-to-bank transfer and MT202 - Cover Payment or MT205 depending on the currency and or the correspondent banking relationship. Transaction settlement is done at a transaction level and Excon does not allow netting. The banks are required to undertake Balance of Payments (Bop) reporting and to FICA every customer and cash transactions over a certain threshold.

[12] Sanctions and Politically Exposed Persons (PEP) screening, enables financial institutions to comply with major national and international regulations, avoid regulatory sanction and protect business reputation and viability. The sanctions, PEP and foreign and corrupt practice lists that a typical global institution must monitor and have increased in number and size to in recent years, typically 30-40% growth year-on-year.

[13] Nostro and Vostro (Italian for ours and yours) are accounting terms used to distinguish an account you hold for another entity from an account another entity holds for you. A Nostro is our account of our money, held by you. A Vostro is our account of your money, held by us.

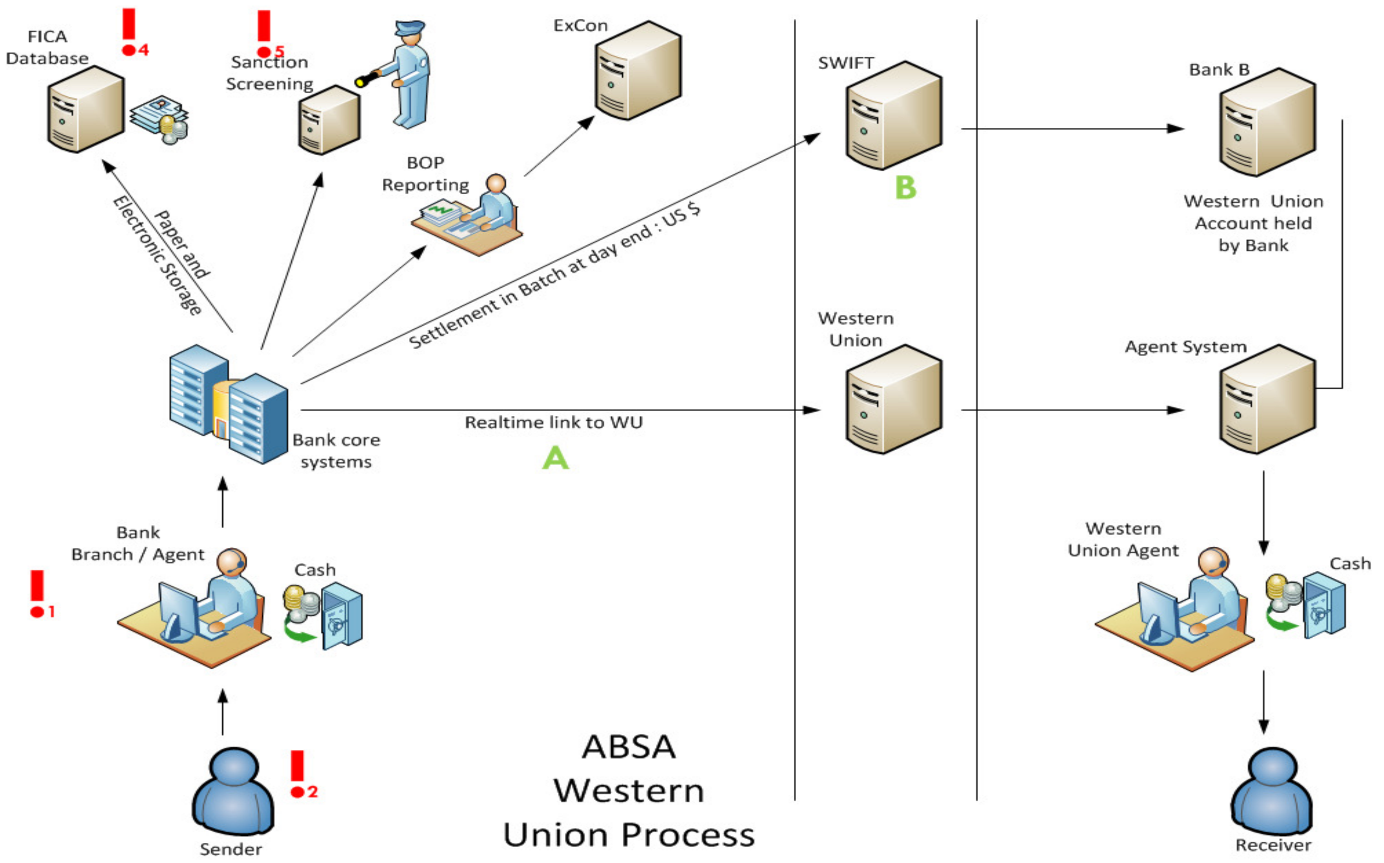
Diagram 3: Correspondent bank TT process using SWIFT as the payment system/carrier



3.2 Western Union/ MoneyGram process flow

Diagram 4 below represents a remittance made through Western Union, processed by a bank acting as an agent of Western Union. (Whilst the diagram describes the Western Union process, MoneyGram operates in a similar way). The internal systems used by the bank are the Core Banking System and the Retail Forex System. The payment system/carrier is Western Union and MoneyGram itself. The parties involved are the initiating bank, Western Union/MoneyGram and the Western Union/MoneyGram Agent at the other end of the transaction. Messages are not sent but rather the bank uses Western Union/MoneyGram protocols via a secure network. After the transaction has been released the funds can be delivered within 10 minutes depending on time zones and agent operating hours. Settlement is facilitated in gross end of day via SWIFT.

Diagram 4: Western Union / Money Gram process



4. Pricing

The original approach in the mystery shopping exercise was to send R100 (one hundred Rand) to our beneficiaries using the standard TT, MoneyGram, Western Union and Post Office (Money Order). Of the eight remittances indicated in table 2 below we actually sent money through a few that were most affordable (if one considers a commission/sending fee of R101.06 to send R100 affordable). For the rest, where it would cost us between R160 and R650 in commission and fees to send R100 via TT, we elected not to pay the amount and asked the banks to provide us with a quotation instead of actually remitting money.

SWIFT fees charged by the banks to send R100 ranged from R60 to R450 and Commission/Sending Fees from R100 to R200. SWIFT fees are not charged directly as a disclosed item to the customer when using Western Union, MoneyGram or the Post Office.

ZAR 100	Comm Fee	Min	Max	Foreign Bank Charge	Amount sent	Commission charged	SWIFT Fee charged	VAT	Total Debited	Fees & charges (inc. VAT)	% Fees to amount sent
Bank A: TT	0.50%	ZAR 200.00	-	Unknown	ZAR 100.00	ZAR 200.00	ZAR 450.00	ZAR 91.00	ZAR 841.00	ZAR 741.00	741.00%
Bank B: TT	0.50%	ZAR 125.00	ZAR 660.00	Unknown	ZAR 100.00	ZAR 125.00	ZAR 100.00	Inc.	ZAR 325.00	ZAR 225.00	225.00%
Bank C: TT	0.45%	ZAR 130.00	ZAR 610.00	Unknown	ZAR 100.00	ZAR 130.00	ZAR 90.00	Inc.	ZAR 320.00	ZAR 220.00	220.00%
Bank D: TT	0.48%	ZAR 110.00	ZAR 600.00	Unknown	ZAR 100.00	ZAR 110.00	ZAR 100.00	Inc.	ZAR 310.00	ZAR 210.00	210.00%
Bank E: TT	0.40%	ZAR 100.00	ZAR 500.00	Unknown	ZAR 100.00	ZAR 100.00	ZAR 60.00	ZAR 21.00	ZAR 281.00	ZAR 181.00	181.00%
MG agent			-	None	ZAR 100.00	ZAR 101.06	-	Inc.	ZAR 201.06	ZAR 101.06	101.06%
Post Office			-	None	ZAR 100.00	ZAR 57.40	-	Inc.	ZAR 157.40	ZAR 57.40	57.40%
WU agent			-	None	ZAR 100.00	ZAR 36.45	-	ZAR 5.10	ZAR 141.55	ZAR 41.55	41.55%

Table 2: Pricing table (sending R100.00)

4.1 General observations – sending R100.00

Minimum and maximum fees for TTs

Each one of the banks applies minimum and maximum commission fees to each transaction. Maximum fees ranged from R500 to R660, noting that we could not ascertain whether a maximum commission fee was applicable in the case of one bank. 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. As represented in table 3 below, in the case of one example bank, the percentage based charging structure commences only when remitters remit R25, 000 or more and in the case of another example bank, R40, 000 or more.

Table 3: Percentage based charging structure

Bank E	Sending Amount	Minimum Comm.	% Based Charge
0.40%	ZAR 100	ZAR 100.00	ZAR 0.40
	ZAR 500	ZAR 100.00	ZAR 2.00
	ZAR 1 000	ZAR 100.00	ZAR 4.00
	ZAR 5 000	ZAR 100.00	ZAR 20.00
	ZAR 10 000	ZAR 100.00	ZAR 40.00
	ZAR 15 000	ZAR 100.00	ZAR 60.00
	ZAR 20 000	ZAR 100.00	ZAR 80.00
	ZAR 25 000	–	ZAR 100.00
	ZAR 26 000	–	ZAR 104.00
	ZAR 27 000	–	ZAR 108.00
	ZAR 28 000	–	ZAR 112.00
	ZAR 29 000	–	ZAR 116.00
	ZAR 30 000	–	ZAR 120.00

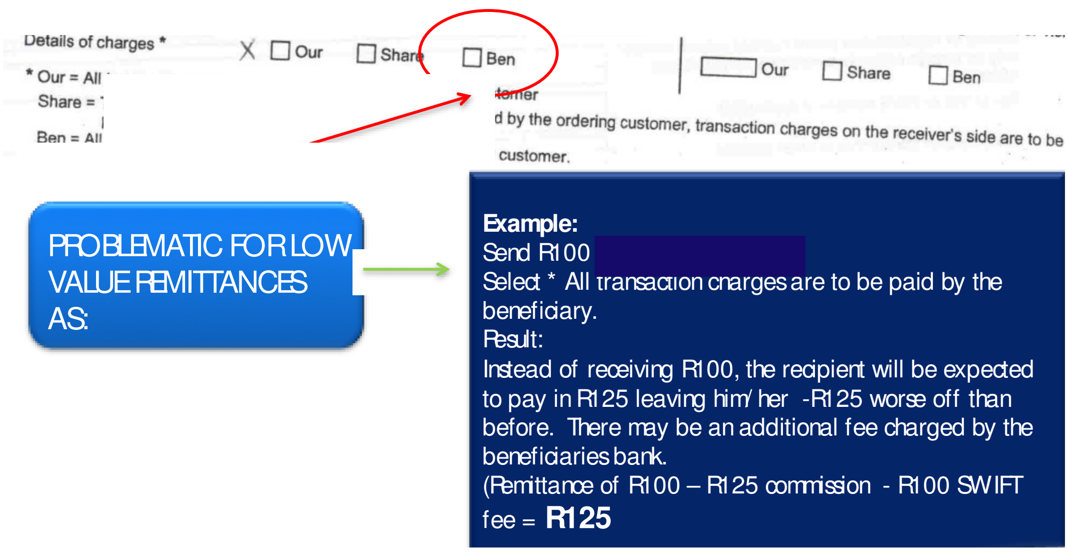
Bank A	Sending Amount	Minimum Comm	% Based Charge
0.50%	ZAR 100	ZAR 200.00	ZAR 1.00
	ZAR 500	ZAR 200.00	ZAR 2.50
	ZAR 1 000	ZAR 200.00	ZAR 5.00
	ZAR 5 000	ZAR 200.00	ZAR 25.00
	ZAR 10 000	ZAR 200.00	ZAR 50.00
	ZAR 15 000	ZAR 200.00	ZAR 75.00
	ZAR 20 000	ZAR 200.00	ZAR 100.00
	ZAR 25 000	ZAR 200.00	ZAR 125.00
	ZAR 30 000		ZAR 150.00
	ZAR 35 000		ZAR 175.00
	ZAR 40 000		ZAR 200.00
	ZAR 41 000		ZAR 205.00
	ZAR 42 000		ZAR 210.00

In the case of sending very low value remittances, the minimum commission fee charged significantly skews the percentage cost outcome as the minimum commission fee was in one case equal to the amount sent (R100) but in all other cases significantly more than the actual amount sent. It was comforting to know that the maximum amount a bank would charge for TT was capped at on average of R600.

Who pays the charges/fees?

When completing the TT form, the remitter is offered the option of carrying all the charges/fees, sharing these with the beneficiary, or allocating all charges/fees to the beneficiary. As represented by diagram 5 below, the latter option is potentially problematic as, when sending very low values, the beneficiary may end up paying out more in fees and charges than they receive. When the remitter selects “Our”, the additional charges/fees charged by the receiving bank are in some cases debited from the remitters’ bank account a few days later.

Diagram 5: Selecting the beneficiary to pay all transaction charges



VAT

In some cases our receipts indicated VAT as a separate line item, in other cases VAT was already included. It appears, however, that the 14% VAT is charged on the commission and claimed SWIFT fee only.

SWIFT/ Telecommunication Fees

As mentioned, SWIFT fees (as itemised by the banks as a service fee to customers, not to be confused with the actual cost of the bank using the SWIFT service) to send R100 ranged from R60 to R450 and Commission/Sending Fees from R100 to R200. SWIFT fees are not charged directly to the customer when using Western Union, MoneyGram or the Post Office. Upon further investigation and with the cooperation of SWIFT we discovered that the cost to exchange a FIN message between two SWIFT users in a many-to-many environment, Standardised Corporate Environment (SCORE), or a Member-Administered Closed User Group (MA-CUG) is in fact only a few Euro Cents, not hundreds of Rands. SWIFT applies different pricing to each bank depending on their Global Tier. (See table 4 below). Whilst there is a correlation between SWIFT fees charged to the customer, cheapest to most expensive, and the particular bank's Global Tier (Absa for example being at Tier 13 and Bidvest at Tier 1) a SWIFT fee of R450 to send R100 cannot be justified on the basis of the actual cost of the SWIFT messages as paid by the bank to the SWIFT network provider.

Table 4: SWIFT live traffic fees charged by SWIFT to RSA banks

RSA Bank	Global Tier	Non-reporting traffic fees (euro cents per chargeable unit) Domestic Inter-Institution	International Inter-institution	Reporting & Intra-institution traffic fees (euro cents per chargeable unit)
Bidvest	Tier 1	5.55	18.4	4.32
	Tier 2	5.30	13.96	4.01
Nedbank	Tier 3	5.09	10.52	3.71
FirstRand	Tier 4	4.89	9.12	3.43
	Tier 5	4.72	8.24	3.19
	Tier 6	4.67	7.59	3.00
Standard	Tier 7	4.44	6.94	2.83
	Tier 8	4.32	6.46	2.69
	Tier 9	4.22	6.07	2.59
	Tier 10	4.13	5.77	2.48
	Tier 11	4.05	5.51	2.40
	Tier 12	3.97	5.31	2.31
ABSA	Tier 13	3.91	5.16	2.24
	Tier 14	3.85	5.02	2.17
	Tier 15	3.80	4.88	2.13
	Tier 16	3.75	4.75	2.09
	Tier 17	3.71	4.62	2.05
	Tier 18	3.67	4.53	2.02
	Tier 19	3.63	4.44	1.99
	Tier 20	3.59	4.35	1.96

Foreign Exchange transactions do however carry inherent risks and need exchange control specialists within the bank to provide the TT service, including reviewing individual foreign exchange control limits applicable to a client. These man hour-linked operational issues were sighted as a cost driver by the banks when questioned as to the differential between the input costs of SWIFT compared to the fees charged. No clear costing of the related costs could however be given to justify the very high SWIFT fees charged to customers.

It was also ascertained from SWIFT that they offer what is known as the SWIFT: Workers Remittance Live Service. For this service, clearing and settlement messages have been tailored for key flows and cheaper pricing per message applied.[14] The actual SWIFT cost carried by a Tier 1 Financial Institution would

[14] Workers' Remittances: Messaging standards: subsets of the ISO 20022 XML payments clearing and settlement messages. SWIFT charges an annual recurring fee of EUR 1,000 to each SWIFT user that participates in the Workers' Remittances live service (swift.remit.fast).

involve a payment instruction and 3 status messages giving a total of Euro 0.0788 (approximately R0.74) per transaction. See the table below. Whilst SWIFT: Workers' Remittances (the community within SWIFT) is available to the South African Banks, it is not being utilised by any of them at present.

Table 5: Pricing and invoicing (extract from SWIFT price list) for the workers remittance live service

Tier	RSA Bank Tiers	Euro cents per transaction sent	
		Per transaction in pacs 008.001.01 and pacs 004.001.01	Per transaction in pacs 002.001.02
1	Bidvest	7.64	0.08
2		6.27	0.06
3	Nedbank	5.22	0.05
4	First Rand	4.58	0.05
5		4.13	0.04
6		3.82	0.04
7	Standard Bank	3.64	0.04
8		3.47	0.03
9		3.36	0.03
10		3.27	0.03
11		3.17	0.03
12		3.11	0.03
13	ABSA	3.05	0.03
14		2.99	0.03
15		2.93	0.03
16		2.87	0.03
17		2.82	0.03
18		2.76	0.03
19		2.71	0.03
20		2.68	0.03

4.2 Testing our findings – sending larger amounts

Sending larger amounts

Recognising that sending only R100 may have skewed the resulting percentage cost to the value sent in our initial mystery shopping exercise, FinMark Trust requested that we conduct the mystery shopping exercise again, but this time that we send between R1000 and R3000 to our beneficiaries so as to ascertain if a more reasonable percentage cost might be applicable. The outcome of this additional exercise is presented in table 6 below. Whilst the percentage fees to amount sent reduced drastically as the minimum commission fee was applied by all five banks, the fee to amount sent ratio on sending R3, 000.00 (24.77% in the case of the most expensive bank and a range of between 5.91% and 7.50% in the case of the other four banks) remains high. It must however be noted that with the exception of the most expensive bank, whose pricing heavily skews the overall average, the fee to amount sent ratio is lower than the international average which is said to be 10.2% and 12.4% among banks.[15] Incidentally, it is interesting to note that the SWIFT fee quoted by one bank for this transaction was R50 whereas a fee of R60 was quoted by a different branch on a different day during the first mystery shopping exercise.

Table 6: Pricing table (sending between R1000 and R3000)

R1,000 to R3,000	Comm Fee	Min	Max	Foreign Bank Charge	Amount sent	Commission charged	SWIFT Fee charged	VAT	Total Debited	Fees & charges (inc. VAT)	% Fees to amount sent
Bank A: TT	0.50%	ZAR200.00	-	Unknown	ZAR1 000.00	ZAR200.00	ZAR225.00	59.5	ZAR1 484.50	ZAR484.50	48.45%
Bank A: TT, branch 2	0.50%	ZAR200.00	-	Unknown	ZAR2 991.13	ZAR200.00	ZAR450.00	91	ZAR3 732.13	ZAR741.00	24.77%
Bank C: TT	0.45%	ZAR130.00	ZAR610.00	Unknown	ZAR1 000.00	ZAR130.00	ZAR90.00	Inc.	ZAR1 220.00	ZAR220.00	22.00%
MG agent	-	-	-	None	ZAR1 000.00	ZAR123.41	-	Inc.	ZAR1 123.41	ZAR123.41	12.34%
Bank B: TT	0.50%	ZAR125.00	ZAR660.00	Unknown	ZAR3 000.00	ZAR125.00	ZAR100.00	Inc.	ZAR3 225.00	ZAR225.00	7.50%
Bank C: TT, branch 2	0.45%	ZAR130.00	ZAR610.00	Unknown	ZAR3 000.00	ZAR130.00	ZAR90.00	Inc.	ZAR3 220.00	ZAR220.00	7.33%
Bank D: TT	0.48%	ZAR110.00	ZAR600.00	Unknown	ZAR3 000.00	ZAR110.00	ZAR100.00	Inc.	ZAR3 210.00	ZAR210.00	7.00%
Bank E: TT	0.40%	ZAR100.00	ZAR500.00	Unknown	ZAR3 000.00	ZAR100.00	ZAR50.00	27.3	ZAR3 177.30	ZAR177.30	5.91%
WU agent	-	-	-	None	ZAR2 856.02	ZAR126.43	-	17.7	ZAR3 000.15	ZAR144.13	5.05%

[15] In an article published in 2009, Beck and Peria present their analysis of the World Bank Payment Systems Group data on remittance fees across 119 corridors from 13 sending to 60 receiving countries. The authors note that "across all corridors and all providers, remittance costs average 10.2%. At 12.4%, the average cost among banks is higher than the average for money transfer operators, which equals 8.8%. Across money transfer operators, costs for Western Union, a leading participant in the remittance market, exceed those for other money transfer operators. In particular, costs average 10.8% for Western Union, while they average 8.8% among all money transfer operators combined (Beck and Peria, 2009)."

Sending more costs you less – comparing two money transfer agent transactions

As presented in diagram 6 and table 7 below, sending a larger amount through a money transfer agent did have a drastic effect on the fees to amount sent ratio. This reduced from 101.06% in the case of sending R100 to 12.34% when sending R1, 000.

Diagram 6: Percentage commission to amount sent

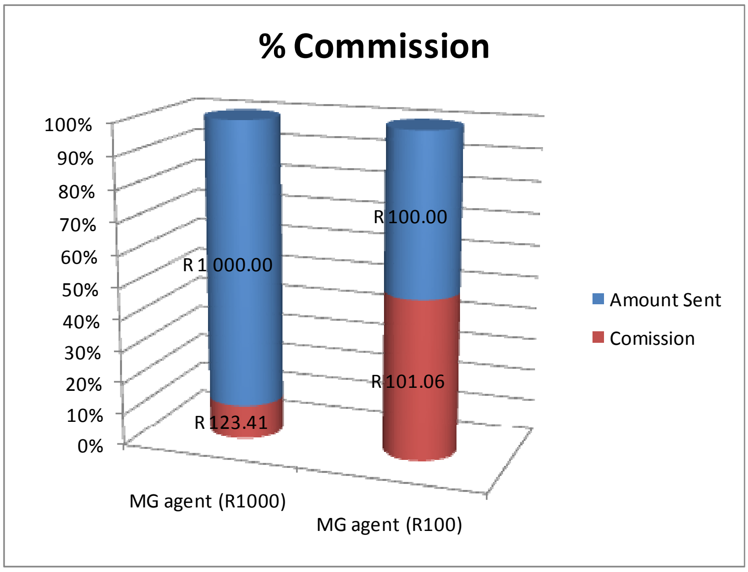


Table 7: Comparing the cost of sending R100 v R1000 through a money transfer agent

R100	Amount sent	Commission	SWIFT Fee	VAT	Total Debited	% Fees to amount sent
MG agent (R1000)	ZAR 1 000.00	ZAR 123.41	-	Inc.	ZAR 1 123.41	12.34%
MG agent (R100)	ZAR 100.00	ZAR 101.06	-	Inc.	ZAR 201.06	101.06%

A curious case

The results indicate that a TT through one bank is the most expensive option available in South Africa. However, it is worth noting that at one particular branch, the SWIFT fee was negotiable. After complaining about the SWIFT fee of R450 to send R1, 000 the teller kindly called the branch manager who decided to use her override powers and reduced the standard fee of R450 to R225 for us by entering the new amount into the system. (See the result of this in table 8 below). Even with this reduced SWIFT fee, the TT from this bank was still R205 more expensive than the fees charged by another bank to perform the same transaction.

Table 8: The SWIFT fee appears to be negotiable at one bank

R1,000	Comm Fee	Min	Max	Foreign Bank Charge	Amount sent	Commission charged	SWIFT Fee charged	VAT	Total Debited	Fees & charges (inc. VAT)	% Fees to amount sent
Bank C TT	0.45%	ZAR 130.00	ZAR 610.00	Unknown	ZAR 1 000.00	ZAR 130.00	ZAR 90.00	Inc.	ZAR 1 220.00	ZAR 220.00	22.00%
Bank A TT	0.50%	ZAR 200.00	-	Unknown	ZAR 1 000.00	ZAR 200.00	ZAR 225.00	ZAR 59.50	ZAR 1 484.50	ZAR 484.50	48.45%

Additional fee charged to recipient

It was ascertained that in most cases the receiving bank charged an additional fee, namely an incoming TT fee, to the recipient. None of the banks at which the transaction originated could tell us what the fee would be. Our beneficiary in Zambia to whom we had sent R1, 000 reported back to us that she received $116 and that her bank had then deducted an additional $7.00 in charges. The net effect is illustrated below:

Amount sent	ZAR 1,000.00
Commission	ZAR 130.00
SWIFT	ZAR 90.00
Amount received (USD)	USD 116.00
Exchange rate	ZAR 8.62
Fee paid by beneficiary (ZAR equivalent)	ZAR 60.34
Total cost (remitter & beneficiary) to send and receive R1000	**ZAR 280.34**
Beneficiary ultimately received (after fees/charges)	**ZAR 939.66**

4.3 Where does this leave the man on the street wanting to send money home?

Our first hand experience shows that sending money cross border becomes much cheaper the larger the amount sent. As a result, at smaller values, a disincentive to use formal channels exists. Simply put, the remitter is penalized heavily by way of minimum fees for sending small values to neighboring countries. If the remitter wishes to send R100, R500 or even R1, 000, it is likely to be simply too expensive (added to the fact that it is cumbersome) to use the formal system. In contrast, as for example noted by Kerzner (2009), informal service providers such as bus and taxi drivers usually charge R20 per R100 sent, but some remitters, depending on the level of personal relationship with the bus/taxi driver, pay as little as R10 to remit R100 (Kerzner, 2009). It is therefore our submission that the reasonable person does not use the banks but takes advantage of the lower percentage cost of informal remittance providers, unless they are in the position to save up over several amounts to the point that it will actually be worth their while to send money formally. Even then, certain doorstep, access and documentation requirement barriers may apply.

There is no authoritative "typical value" of remittances sent from South Africa to the rest of SADC, but various sources have made estimates for specific corridors based on survey and anecdotal evidence. Taking Zimbabwe as an example: the MARS Survey results as analysed by Pendleton et al (2006) estimate that the median annual amount sent from South Africa to Zimbabwe is R1, 093. This seems to be contradicted by a later research survey (Makina, 2007) of Zimbabweans in South Africa. This survey found that, on a weighted average basis, survey respondents each remitted R290 per month, equivalent to R3, 480 per year (quoted in Kerzner, 2009).

The current frequency of remittances is also difficult to determine without new market research being conducted. However, based upon the data presented in the MARS survey, about 80% of migrants say they send cash remittances at least once every three months (Pendleton et al, 2006) and most Zimbabweans interviewed informally by Kerzner (2009) tended to send between R500 and R1, 000 home once every one to three months.

Based on the survey results and evidence from informal interviews quoted above, it would thus be reasonable to argue that people tend to save up to send around R1, 000 a few times a year. These values are significantly lower than the average formal remittance of R5, 000 reported by the Commercial Banks during our consultations. We can reasonably deduce that the current formal remittance pricing structure serves as a disincentive to those wishing to send smaller amounts through formal channels, hence remitters only start using formal remittance services when they have thousands and not hundreds of Rands to send. Apart from affordability, prospective senders also need the time and resources to find a forex branch and may face doorstep barriers in conducting the transaction. Lastly, affordability and accessibility considerations aside, the regulatory requirements for the remitter to prove their legal immigration and earning status would by definition exclude those persons working in South Africa without the requisite work permit.

4.4 Cost drivers as presented by the banks

What drives the high costs indicated above? In an attempt to ascertain what the cost drivers are and whether there is any direct relationship between fees charged by the banks and the actual cost of the SWIFT transaction we asked each bank to provide us with a list of cost drivers and to apportion these across each step of the transaction as indicated in the process flow. It is interesting to note that whilst most banks were happy to provide us with pricing information they were unable to apportion cost and had no idea what each contributing cost center actually was in Rands and Cents.

Furthermore, it must be emphasised that pricing information is not obvious to the man on the street, which required investigation by us and still did not reflect the total cost (additional charges to the beneficiary were not openly disclosed). In addition, what is and isn't allowed from a regulatory compliance perspective seems to be disparate across institutions in the same country. Whilst the banks were willing to share actual process flows and areas that might attract input costs, obtaining reliable costs associated with each activity was not possible. Below we present direct feedback received from the banks as to the main cost drivers of a standard TT transaction and our brief comments thereon.

1. **Branch central processing costs**: only bank branches with Foreign Exchange facilities may process TTs; normal branches of ABSA/Bidvest/Standard Bank may be used for Western Union/ Money Gram transactions. Many banks sighted the cost of branch infrastructure including secure premises, signage, specialist hardware, stationary and furniture as a cost driver for low value remittances. It could be argued that this is a sunk cost as the branch infrastructure is already accounted for and is used for existing banking activities not just TTs and remittances through Western Union/Money Gram.

2. **FICA compliance**: apparently has a high manual cost component and is highly restrictive to the market wishing to remit money. Formal documentation is often absent. TTs require that the customer is already banked which either; makes it an inappropriate product; or FICA costs should not apply as it has already been performed. The Western Union / Money Gram service does not require the remitter be banked, however, FICA must still be performed and documents pertaining to the source of funds and the immigration and residential status of the remitter processed.

3. **Human resources**: only forex exchange control specialists through a bank that has been authorised to act as an Authorised Dealer in foreign exchange may process TT. These staff are more skilled than teller staff and must be trained accordingly, implying higher costs. Normal tellers, however, may process Western Union / Money Gram transactions.

4. **Sanction screening (country and individual)**: this appears to be automated, but it is claimed that the updating of the screening data is manual and people intensive. As is the case with branch central processing costs, one could argue that this should be considered a sunk cost by the bank as such is required for all transactional behaviour.

5. **Balance of Payments Reporting and Exchange Control (Excon)**: per transaction reporting has been raised as a high cost. While transaction notification to Excon (a cost in itself) could be entirely automated, currently every transaction is screened manually before being reported electronically. This cost, unlike many of the others quoted, is directly related to the transaction.

6. **SWIFT costs**: as noted above, the actual cost of a SWIFT message needed for a TT has no direct relationship to the SWIFT fee charged to customers and the banks were not in a position to state what the labour costs per SWIFT transaction would be to justify the discrepancy. This is rather misleading to the general public.

7. **Other cost drivers (TT)**: these additional cost drivers were cited by a number of banks: treasury costs; system costs; back office processing costs; and account arrangements – Nostro costs.

8. **Other cost drivers (Western Union / Money Gram)**: the fee is split between the initiating bank, Western Union / MoneyGram and Paying Agent. Therefore there are three links in the chain that need to be remunerated, adding cost.

4.5 Is there something more appropriate than TT for cross-border remittances?

The TT is expensive, time consuming for the remitter to execute and takes anything up to 7 working days for the funds to reflect in the beneficiary's bank account. Admittedly the Banks indicated that the customer segment that uses TT the most is businesses. Money Gram or Western Union transfers are likewise relatively expensive and onerous for the client. Could there be a feasible formal alternative? During the course of our research, one interesting example emerged:

Whilst technically not a remittance in the traditional sense, the *Mineworkers Transactional Account – Linked Account Transfer* offered by ubank (previously Teba Bank) provides an example of how cheap it can be sending money cross-border through formal channels.[16] A linked-account is simply the use of a normal bank account where the remitter informs the bank that an account held in the recipient country shall be the beneficiary of remittances.

Making use of a linked account facility, the remitter authorizes a transfer between the linked accounts at a cost of R2.10 per transaction together with a 2% forex conversion fee. At a cost of R20.75 the beneficiary is able to withdraw his/her cash at ubank/Teba Ltd agencies in their receiving countries.[17] Account fees do however apply and it is a prerequisite that both parties have an account with ubank.

Table 9: The cost of a ubank linked account transfer

Linked Account Transfer - Mineworkers Transactional Account

	U-Bank
Amount sent	R 100.00
Linked account transfer (in the branch)	R 2.10
Cash withdrawal at ubank agencies (Teba Ltd agencies)	R 20.75
Forex conversion fee (amount sent)	R 2.00
TOTAL	R 124.85
Fees	**R 24.85**

5. General principles – how South Africa measures up

In 2007 the Committee on Payment and Settlement Systems CPSS / 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. A seasoned academic will tell you that putting theory into practice is often harder than it seems. In an attempt to take reality back to theory (in somewhat of an academic fashion) the following

[16] Ubank has traditionally serviced mining workers around South Africa and has a client base of 500 000, who hold deposits worth about R3 billion. It has 90 branches, 52 agencies and 80 ATM's countrywide (I-Net-Bridge, 2010).

[17] ubank operates in Southern Africa (South Africa and on a limited basis through ubank Ltd agencies in Mozambique, Lesotho and Swaziland). The bank has a strong presence and customer accessibility, mainly in selected mining and rural communities in South Africa.

section discusses the five principles (theory) and compares such to the reality of our mystery shopping experience. At the same time, it concludes on the state of the market and regulatory framework as emerged from the consultations and mystery shopping exercise, and as indicated in the analysis above:

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 is 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 should be given.

Reality: The South African Experience

Overall, we found there to be a lack of transparency in the market. This was particularly so with respect to pricing. It was generally difficult to ascertain the actual fees charged and the customer must therefore resort to asking for a quotation to ascertain what the transaction would cost.

It must also be noted that when remitting money through a standard TT, estimating the beneficiary's cost from their particular financial institution (the receiving bank) is near impossible to do. As such, beneficiaries will seldom know how much they will actually be able to cash out if a TT is used and will need to wait until their bank has deducted its fees before being able to calculate the final amount received. At this point in time, as far as we are aware, this focus note is the only document that provides some form of comparative pricing table. The banks and remittance service providers should be encouraged to publish pricing tables that disclose both direct and indirect costs to the remitter and beneficiary. Whilst the banks were willing to share actual process flows and areas that might attract input costs, obtaining reliable costs associated with each activity / cost center was reportedly not possible.

With respect to the exchange rate used, we found that these broadly reflect the day's spot rate plus a variance. Due to different rates quoted on the same day it is clear that a commission or forex fluctuation variance fee is charged by the banks (such is not disclosed to the remitter). The speed of service was variable and the evidence suggests that although service providers were quick to promise how long it would take for the money to reach the beneficiary, these time estimates where inaccurate.

As noted in the First Mile section above, it took us considerably longer than expected in branch to perform what should be a simple transaction. For the average worker in South Africa, this would need to occur on a Saturday as ones lunch hour (during the working week) may not provide sufficient time to get to a branch that may conduct forex transactions and complete the various steps needed to send a remittance through a formal channel.

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: The South African Experience

South Africa has the most developed banking and payments system in the African continent. Despite this fact, the network of access points at which one can initiate a remittance to other SADC countries are limited to bank branches; particularly branches with forex facilities (TT); the Post Office and limited foreign exchange agencies. As noted above, access points are often not well branded (this is particularly so with respect to Western Union and MoneyGram) and are often hard to find. Finding a bank branch that offers the TT service is somewhat of a guessing game and requires one to enquire in branch as to whether the particular bank branch is authorised to provide the service or not. A further barrier to access is created by the prevalence of proprietary systems – Western Union and MoneyGram being the most obvious examples.

As far as we could ascertain, 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.

Whilst the examination of last mile issues will be the topic of further research, poor payment system infrastructure and limited access points in many SADC countries (particularly in poor rural and underserved areas) is a well known fact, perhaps contributing to the flourishing and ever expanding informal remittance system.

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 South African Experience

Many of the regulatory challenges and barriers in the remittance space have already been addressed in this focus note. However, below we summarise five of the most prevalent regulatory barriers as presented to us by all of the commercial banks and other market players with whom we met:

1) The Financial Intelligence Centre Act ("FICA") of 2002 and Protection of Constitutional Democracy Against Terrorist and Related Activities Act, Act 33 of 2004 set down stringent requirements with respect to Know Your Customer (KYC) and Customer Due Diligence (CDD). All of the Commercial Banks raised their concerns regarding these requirements in the low value remittance space, citing FICA compliance as a significant cost contributor. Whilst

Exemption 17 introduced lower KYC requirements, accounts opened in accordance with this exemption cannot be used for cross-border low value remittances.

2) Exchange control regulation distinguishes between residents and non-residents, temporary residents, immigrants and emigrants. Temporary residents (including contract workers) require a valid work permit issued by the Department of Home Affairs when purchasing foreign exchange. The current workers remittance category code requires the presentation of documentation, e.g. employment contracts, foreign national declaration, etc. This requirement serves as an absolute barrier to those who may not be in possession of these documents, potentially working in South Africa illegally, consequently forcing the remittance market underground.

3) In order to deal in foreign exchange, the institution must be in possession of an Authorised Dealer (AD) License. Whilst there are different classes of AD licences, as far as we could ascertain, these are still mostly awarded to banks. Western Union and MoneyGram are required by law to enter into partnership arrangements with prudentialy regulated financial institutions. However, exclusivity clauses may be problematic where such exist as these arrangements curtail competition and can potential lead to anti-competitive market practices. According to SARB there are a number of newcomers (participants) anticipated in the market, but they are not visible as yet.

4) Compliance with the requirements of the Financial Surveillance Reporting System (exchange control) is reported to be particularly onerous and costly.

Each authorised dealer must report every foreign exchange transaction, regardless of how small, through the SARB's Cross Border Foreign Exchange Transaction Reporting System. The data required for the domestic party includes: full names, residence permit number, address, and either an email address, phone number or fax number. For the non-resident party – full name, residence permit number, country code and if available, address. The size of the transaction, both in domestic currency and in the foreign currency must also be reported together with the purpose of the transfer. Experienced staff are required to handle foreign exchange transactions as the correct form and codes are to be used, and these specially trained staff need to be accounted for. This human resources element was sighted as a significant cost driver by all of the banks.

5) The requirement to provide proof of source of funds in order to initiate a remittance transaction is problematic for many, particularly those who are paid in cash and do not have bank accounts. Our general observation is that this requirement is not applied consistently across the market. We were required to prove the source of our funds at the ABSA branch where we made use of the Western Union service but not at the Standard Bank Branch when using MoneyGram.

The SARB and FIC have indicated that they are currently considering the regulatory challenges and issues facing cross-border remittances from South Africa.

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: The South African Experience

Apart from the restricted offering from the South African Post Office, a few South African banks are the only ones able to send formal remittances in and out of South Africa:

- Only banks are allowed to be direct participants in the national payment system. Non-banks may only access the system indirectly as customers of banks and thus are by definition ultimately prevented from competing with the banks.
- Only a few banks have been issued with foreign exchange licenses.
- Only branches of banks may offer foreign remittance services. Furthermore, not all branches have foreign exchange authorisation and it is not always clear to the customer where to find those branches that may do foreign exchange transactions.

Exclusivity conditions: An exclusivity condition is the situation where a remittance service provider (RSP) allows its agents or other RSPs to offer its remittance services only on condition that they do not offer any other remittance service. This restricts choice and creates local monopolies.

Alternative infrastructure: It is evident that South Africa, in comparison to most other SADC countries, has few remittance service offerings available to remitters. This lack of available services contrast the abundance of formal payment infrastructure which would indicate that the lack of the service has little or nothing to do with the utilities (power), telecommunications and payment system infrastructure availability. Clearly the lack of RSP's is a systemic issue and not an infrastructure problem.

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 means 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 South African Experience

For senders and receivers the risk lies in the loss of funds whilst in transit (bankruptcy or error of RSP or of the intermediary, or because of fraud). The extent of risk depends on the nature of the contract between the sender and the RSP. In some cases, the money transfer agent limits its liability through the Terms and Conditions the client signs. For RSPs, risk lies in the extent and duration of exposure to the possibility of failure by the disbursing agent.

From a national perspective, risks of money laundering, financing of terrorism or breaching of foreign exchange regulations arise out of cross-border money transfers. Considering that the majority of cross-border remittances are almost entirely informal at the moment and therefore cannot be monitored at all, almost any formal alternative would be welcomed, and should indeed be promoted, from a risk management point of view.

6. Conclusion

The findings of this study were presented to the South African Commercial Banks and the South African Reserve Bank in March 2011. Whilst it is encouraging to note that the cross-border remittance service offering becomes cheaper the more one sends, it is still worrying that when sending lower amounts remitters are faced with an absolute affordability barrier[18]. Sending R100 is admittedly an extreme example. Repeating the exercise with higher amounts yielded more encouraging figures. It must however be remembered that remittances are conducted in the most part by individuals who send low value amounts. For an individual wishing to send R100 out of the R2, 000 wage that she earns as a domestic worker in South Africa, or to save up for several months to send between R500 and R1000, the only viable and rational choice would arguably be to make use of the informal system where she would be required to pay a taxi driver between R10 and R20 to effect the remittance. Furthermore, should she not have the right documents, or the time and means of finding an appropriate forex or RPS branch, she will have no option of using the formal system.

[18] One concerning finding is the fact that a SWIFT fee which ranged from R60 to R450 is charged when the actual cost of the SWIFT service per transaction to the banks is only a couple of South African Rands.

There is indeed a challenge in the SADC region to convert informal remittances into formal remittances, but the game is not over. The South African Reserve Bank (SARB), National Treasury and FIC are currently reviewing the policy and regulatory framework for cross-border flows into SADC member states. As an input, FinMark Trust will also conduct further research focused on the last mile issues as they pertain to beneficiaries in a number of SADC states. The question going forward will be whether changes on the regulatory front will translate to pricing and other changes by the providers of remittance services. This will be a prerequisite to large-scale formalisation of remittances.

In the mean time, based on our mystery shopping experience, we can fully understand why a rational person would not choose to send a regional low value remittance through the formal system in South Africa, be it through a telegraphic transfer (TT) or through the use of the Western Union or MoneyGram service. The informal alternative is cheaper, perhaps not more reliable, but, if our mystery shopping experience is anything to go by, definitely more convenient than the formal offering.

7. References

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