Background

Facilitating cross-border remittances is a key objective from a policy and regulatory perspective in South Africa. South Africa is home to a significant number of migrant workers and the beneficial effect of worker remittances is substantial in a number of corridors, especially for some member countries of the Southern African Development Community (SADC). Our policies and actions are aimed at ensuring that money remitted is done in a safe and efficient way and at reasonable cost, whilst still appropriately mitigating the risks inherent in money transfer operations.

Competition in the cross-border remittance service sector has historically been limited, mainly as a result of regulatory requirements. This has resulted in high cost-to-user for the remittance corridors from South Africa into the other countries of the SADC, where most workers’ remittances are destined. The high costs as well as the operating environment for cross-border remitters further resulted in the substantial use of informal remittance channels and services. South Africa’s development of the remittance market addresses these concerns directly.

The imperatives for South Africa are therefore:

- increasing competition in an orderly and structured way, with the objectives of both reducing cost and increasing access
- harnessing technology and infrastructure to increase efficiencies and reduce end-user costs
- increasing the use of formal remittance services vis-à-vis informal services, thereby decreasing the integrity risk and improving consumer protection
- improving awareness of the services that are available and the costs and risks associated with such risks through the incorporation of remittances in the National Consumer Financial Education Strategy.

2014 Call to Action on Remittances

South Africa responded to the G20 Call to Action with a commitment to:

- Actively take the regulatory framework for Authorised Dealers with Limited Authority (ADLA’s) forward, with the aim of increasing competition and reducing the cost of remittance service provisioning.
- Take a proposal to adjust the AML/CFT requirements for low-value transactions forward, with the aim to both lower costs and making remittance more accessible, whilst still limiting risk.
– Support a process with the aim of establishing a person-to-person transfer system, making use of available settlement and technological infrastructure.

Good progress has been made on these commitments and further developments are reflected in the country plan below. In addition, the positive results of increasing consumer awareness on the appropriate use of remittance services, as highlighted in the peer review sessions, has prompted South Africa to incorporate remittances in the Financial Education Strategy.

2015 Country plan for reducing remittance transfer costs

1. Increase Remittance Market Competitiveness

a. The policies and interventions being pursued in the South African remittance market are based on a **regular assessment of remittance services and the issues in the market**. Apart from market surveys and service provider interactions that have informed the plans being taken forward, the World Bank also conducted a review of the market for remittances in South Africa on the basis of the CPSS-World Bank General Principles for International Remittance Services. The World Bank is finalising the report containing the outcome of this review, but this study has already been used to identify focus areas for action.

b. As reported previously, the **competition in South African remittance market is being increased** by the lifting of the ownership restrictions on foreign participation for ADLAs. The regulatory framework has been published (Exchange Control Circular No. 16/2013) and the SARB has authorised four ADLAs to date and is currently considering six further applications. It is anticipated that the participation of ADLAs in cross-border remittances as standalone entities will help foster competition and thereby reduce the cost of remittances in South Africa.

c. In order to **reduce costs in dealing with relatively low-value and low-risk cross-border remittances and to improve access to remittance services**, an exemption in terms of the Financial Intelligence Centre (FICA) Act has been approved by the Minister of Finance and implemented on 1 July 2015. The exemption allows a person with a South African ID or official foreign identification to send remittances up to the value of R3,000 per day, and up to the value of R10,000 per month, without having to necessarily provide proof of address or source of funds (currently required in terms of the Act). It is anticipated that this will reduce costs for service providers (and consequently for end users) and enable some of the current users of informal remittance services to access and use formal service providers.

d. The remittance market and the effect of the already implemented and planned changes on end users are being **monitored on a regular basis** to ascertain to what extent the desired impacts materialise. Any possible
corrective action will be jointly decided on between policy makers, regulators and appropriate interaction with service providers.

2. Improve Financial System Infrastructure and Pursue Policies Conducive to Harnessing Emerging Technologies

a. The increasing regional cooperation in the SADC region has led to discussions on a regional person-to-person remittance service. Progress has been made to take the establishment of such a service forward by the National Payment System Department of the South African Reserve Bank (SARB) in association with the South Africa Development Community Bankers Association. The private sector has been engaged and it is the intention to use the recently established Southern African Integrated Regional Electronic Settlement System to facilitate settlement, thereby further reducing processing cost. It is foreseen that the use of specifically mobile technology to improve access and reduce costs will be a key component of the solution, whilst still taking consideration of the large base of bank account use in South Africa. This is an example of a planned improvement in the financial system infrastructure and the harnessing of emerging technologies.

3. Improve Transparency and Consumer Protection of Remittance Transfers

a. South Africa has developed and is in the process of implementing a National Consumer Financial Education Strategy. Although the scope certainly does not exclude the remittance market, the positive feedback from other countries on the beneficial effect of increased consumer awareness on the informed and appropriate use of remittance services will be taken forward through a specific focus on cross-border remittances in this strategy. This will be done in two phases, with the inclusion of the target groups in the scope of the strategy and by incorporating oversight of the strategy implementation in the mandate of the soon-to-be-formed Financial Services Conduct Authority.