Background

The UK is committed to helping reduce the global average cost of transferring remittances, as agreed by G20 leaders at the 2014 Brisbane Summit, and keeping remittance channels secure and legitimate. Remittances are an important source of financing for food, housing, health, education and sometimes investments, and could be transformational for developing countries and those living in poverty. Remittances sent by migrants from the UK back to their home countries were an estimated $22 billion in 2013 (World Bank 2014), driving the demand for money transfer services. Significant corridors for the UK include India, Nigeria, Pakistan, Poland and Bangladesh, reflecting many of the migrant communities in the UK. The UK’s remittance plan focuses on two priority areas: supporting the development of technology enabled payments infrastructure in developing countries, and improving competitiveness in the UK remittances market.

The UK is characterised by a competitive remittances market. According to the UK Treasury (HMT) as of April 2015, there were 164 fully Authorised Payment Institutions (API) registered in the UK. By comparison, in 2013 there were around 568 APIs in the European Union as a whole; indeed many of Europe’s Payment Institutions have their head office in the UK.

Payment institutions more broadly (that is, APIs and Small Payment Institutions (SPIs), all of which are Money Service Businesses (MSBs)), are regulated by the UK Financial Conduct Authority (FCA) under the UK's Payment Services Regulations 2009 and the Money Laundering Regulations 2007. Her Majesty’s Revenue and Customs (HMRC) acts as anti-money laundering/counter terrorist financing supervisor of these MSBs.

Separate to this financial services regulation, MSBs are also subject to UK regulations on consumer protection and competition/anti-trust law. The former seek to ensure that MSBs provide clear information to consumers on their rights; for example, whether they can cancel their purchase, warnings of fraud scams (which can be common with MSBs), and perhaps most importantly, fees and charges. UK competition law is derived from EU law. This limits the ability of MSBs or banks to enter into exclusive agreements (restricting for example a bank from banking more than one MSB) and behaviour of MSBs towards their agents.

The UK uses the World Bank’s Remittance Prices Worldwide database to monitor remittance prices: https://remittanceprices.worldbank.org/en. The cost of sending remittances from the UK at 7.2% (end June 2015) is consistently below the average global costs reported by the World Bank. These numbers include high cost bank transfers. In practice, migrants in the UK often pay less than 5% to send money to a developing country. We anticipate some increases in remittance costs, particularly

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where there are niche providers for fragile States which are affected by the withdrawal of bank accounts.

The UK remains one of the easiest locations from which to remit money from for a number of reasons:

a. No capital controls in the UK including no exchange controls that prevent or limit the buying and selling of a national currency at the market rate. No limits on the amount of money a private citizen is allowed to remove from the country;

b. UK commercial banks do not have widespread exclusivity arrangements with MSBs;

c. The UK has a vibrant FinTech industry, widespread adoption of internet and mobile payment services and is welcoming of new entrants;

d. There are remittance comparison websites in operation such as fxcompared.com and www.tawipay.com;

e. There is greater protection for consumers and transparent pricing structures for remittances.

The UK Government is particularly concerned about the trend of banks withdrawing banking facilities from remittance service providers and charities (alongside the withdrawal from other customer groups and sectors for instance correspondent banking relationships). If this trend continues it could lead to fewer market players remaining in the market, which could lead to a decrease in competition resulting in an increase in prices.

Given the global nature of the causes and impacts of this widespread de-risking, the UK has sought to raise the profile of this issue internationally, in particular to G20 members, and through the Financial Action Task Force (FATF) and the Financial Stability Board. As we are witnessing a global trend we would anticipate other countries raising this in their action plans.

The second European Payment Services Directive will come into effect in the UK in 2017. This acknowledges that in order for payment service providers (PSPs), including MSBs, to be able to provide payment services, it is vital that they have access to accounts with credit institutions. The Directive requires European Member States to ensure that credit institutions provide PSPs with non-discriminatory and proportionate access to payment accounts, and are obliged to provide reasons to the UK Financial Conduct Authority for rejecting an application. This will help prevent banks denying payment accounts across specific industry sectors.
The UK committed to reducing the cost of remittances through supporting the development of technology enabled payments infrastructure in developing countries. This included support for regulatory and policy reform, development of payments infrastructure and scale up through investment of successful business models. The UK committed to ensuring remittances continue to flow through secure, accessible and formal channels following the global withdrawal of banks from the sector. The UK Government established an Action Group on Cross Border Remittances comprising of private sector, regulators, government and civil society to identify actions to improve guidance for banks and remittance service providers on risk, improve understanding of risk in the remittance sector and development of a safer corridor for UK-Somalia remittances.

**2015 Plan for Reducing Remittance Transfer Costs**

1. **Increase Remittance Market Competitiveness**

The UK is committed to ensuring remittances continue to flow through secure, accessible and formal channels in light of the withdrawal of banking services from some remittance service providers. The UK Government established an independent Action Group on Cross Border Remittances, which has brought together participants from industry, government, regulators, civil society and international partners, to maintain continued cross-sector dialogue on the withdrawal of banking services from the MSB sector while also rebuilding trust in the sector and enabling remittances to continue to flow.

The Action Group has undertaken a number of initiatives to improve standards, trust and transparency in the sector, such as developing revised guidance for the MSB sector and for those banking MSBs to promote best practice in complying with anti-money laundering obligations. This guidance was approved by the UK’s Treasury which provides operators with some legal defence to regulatory action in the UK if they can demonstrate compliance with the guidance.

Other activity has included improving understanding of risk in the remittance sector and development of a safer corridor initiative for UK-Somalia remittances.

Priority areas of work for 2015 include:

a. Continuing understanding of risk in the remittance sector. It is important to maintain an ongoing dialogue with the sector and identify new and evolving risks so that they can be addressed early.

b. Providing a forum via the Action Group for regular dialogue between the remittance industry (AUKPI, IAMTN), regulators, civil society, international partners and the UK Government.

c. Monitoring the trend of banks withdrawing banking facilities from remittance service providers, which has had a particularly acute impact on MSBs operating in the UK-Somalia corridor. The ‘safer corridor’ initiative
funded by DFID and implemented by the World Bank aims to develop and implement special measures to support this corridor. The UK has now agreed to fund World Bank work on new legislation and improved risk and controls in Somalia, through the use of a Trusted Agent under the Somalia Central Bank and support new Somali banks in improving their compliance. The Somali Government is leading and has set up a Remittance Action Task Force.

The UK will continue to raise the issue of banking services being withdrawn from money service providers, and other customer groups in international fora. We are looking forward to receipt of more concrete data via the FATF and World Bank Group surveys on the issue. We believe that it is important that AML/CTF regulatory action remains proportionate and risk-based.

The UK regulator, the Financial Conduct Authority, issued a statement on 27 April 2015 in response to the trend of de-risking. The statement can be found on the FCA’s webpage: https://www.fca.org.uk/about/what/enforcing/money-laundering/derisking.

We believe that industry action within the MSB sector could be helpful; for example, the creation of a voluntary “gold standard” for AML/CTF compliance by MSBs, adherence to which could then be audited by reputable companies as a signal of greater assurance to those providing banking services to the sector.

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

The UK is committed to reducing the cost of remittances through supporting the development of technology enabled payments infrastructure in developing countries. This includes support for regulatory and policy reform, development of payments infrastructure and scale up through the UK investing in successful business models. It does this by supporting programmes with the World Bank Group, (which works globally), and its network of Financial Sector Deepening Entities across Africa.

Support via Programme Funding

The UK continues to support the use of technology to reduce the global average costs of remittances. We supported this work through an £8.5 million commitment to the Consultative Group to Assist the Poor (CGAP) Technology Programme, co-funded by the Gates Foundation and the MasterCard Foundation. The Harnessing Innovation for Financial Inclusion programme which works through the World Bank Group, aims to deliver more branchless banking services and modernised government, retail and remittance payment systems. It will support development of the broader mobile banking markets with integrated support for development of national payments infrastructure and work to strengthen the enabling and regulatory environment. Mobile money does not solve the need for banks as an intermediary in the middle, but helps at the sender and recipient end in reducing costs, and hence helping reduce overall costs.

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2 http://devtracker.dfid.gov.uk/projects/GB-1-201808/documents/
In addition the UK funds eight Financial Sector Deepening Entities across Africa\(^3\), that work with both technology but also on improving regulations and payment systems; e.g. FinMark Trust\(^4\) has been working in South Africa on remittance issues, in particular:

a. Advocating for policy and legislative changes through its regular engagement with the South African (SA) Treasury, SA Reserve Bank and SA Financial Intelligence Centre;

b. Influencing the private sector, e.g. South Africa’s First National Bank (FNB), to design new and improved remittance products at lower transfer costs;

c. Innovating with the private sector, as well as regulators in both South Africa and Lesotho, which has led to the successful launch of a cross-border remittances pilot using ShopRite (a retailer). Efforts are also underway to develop a mobile product with MTN (a mobile network) for the South Africa to Swaziland corridor, which if successful, will be the first mobile-to-mobile cross border remittance product in the Southern Africa region.

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\(^3\) [http://www.fsdAfrica.org/](http://www.fsdAfrica.org/) - FSD Africa website lists all the FSD programmes