G20 GERMANY 2017
HAMBURG

G20 National Remittance Plan

UNITED KINGDOM

GPFI
Global Partnership for Financial Inclusion

COUNTRY PLAN FOR REDUCING REMITTANCE TRANSFER COSTS
UNITED KINGDOM

Background

[Provide a summary of the current remittances sector in your country and region, such as key emerging issues and/or challenges, e.g. number and types of providers, main corridors, costs (including how much they have fallen and why), legislative and regulatory overview. Where possible include the latest available data for the following: remittances sent and/or received as percentage of national GDP, total remittance inflows and/or outflows by region, percentage of total remittances (sent and/or received) for your country as a share of total regional remittance flows, and size of the migrant population within your country.]

The UK is committed to helping reduce the global average cost of transferring remittances, as agreed by G20 leaders and under the Sustainable Development Goals target (SDG 10) and achieving secure, transparent and accessible remittance corridors to developing countries. 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. Remittance flows to low and middle income countries exceeded $430bn in 2015, vastly exceeding international aid. Of this, an estimated $6.4bn[1] was sent in the form of remittances from the UK to Africa, roughly on a par with UK Aid to Africa, demonstrating the commitment of the UK diaspora to help their friends and family overseas out of poverty. Significant remittance corridors for the UK include India, Nigeria, Pakistan, Poland and Bangladesh, reflecting many of the migrant communities in the UK.

Payment institutions (all of which transmit or convert money and so 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 2017. Her Majesty's Revenue and Customs (HMRC) is responsible for anti-money laundering/counter terrorist financing (AML/CTF) supervision of MSBs which are not subject to FCA supervision (typically, non-bank MSBs).

MSBs are also subject to UK regulations on consumer protection and competition/anti-trust law. The former seeks to ensure MSBs provide clear information to consumers on their rights; for example, whether they can cancel their purchase, warnings of fraud scams, and perhaps most importantly, fees and charges.

The UK is characterised by a competitive remittances market and the UK remains one of the easiest locations from which to remit money for a number of reasons, including:

- There are no capital controls in the UK, including no exchange controls that prevent or limit the buying and selling of the national currency at the market rate. There are also no limits on the amount of money a private citizen is allowed to remove from the country;
- The UK has a vibrant financial technology (FinTech) industry, widespread adoption of internet and mobile payment services and is welcoming of new entrants;
- There is substantial protection for consumers and transparent pricing structures for remittances.

However, high transaction costs of sending money to developing countries remain a challenge. There are two key drivers keeping remittance costs high. Firstly, as part of a wider international trend known as "de-risking", banks have opted to reduce their exposure to remittance companies and have withdrawn correspondent banking relationships in some developing countries. This can make it more difficult for people to send money, put pressure on costs, and increase the use of informal networks. This is supported by recent research by the FCA which found evidence of payment institutions having

[1] http://www.fsdafrica.org/wp-content/uploads/2017/06/Scaling-up-Remittances-15.06.2017_Final.pdf

difficulties securing bank accounts. The FCA research[2] found that some banks are closing accounts for money transmission services, pawnbrokers, FinTech companies and charities operating in geographical regions perceived to present greater ML/TF risks. The research found that de-risking is the result of a complex set of drivers, including profitability, reputational risk, lower risk appetites, AML/CTF concerns, increasing numbers of sanctions regimes and regulatory requirements. The research suggested possible ways to address the issue, including:

- Improving the way in which firms identify money laundering risk;
- Taking steps to foster innovation and reduce cost in AML compliance;
- Encouraging better communication between banks and their customers when exiting or rejecting banking relationships and to see what more can be done to assist customers;
- Continuing to improving the effectiveness of AML supervision across all regulated sectors.

Despite these challenges, through UK Government supervision of payment institutions we know that UK remittances continue to flow through a variety of means, for example via European banks, and the overall impact of de-risking on the sector remains unclear.

Secondly, cash continues to dominate the industry in the UK. Cash is more expensive and inefficient than using digital channels such as on-line or mobile money. Over 90% of transfers from the UK to Africa are in cash and cost on average 9.4% versus 5.8% for digital transactions[3]. Follow-up research is being conducted, funded by the UK Government, to investigate why cash is predominantly used.

Call to Action on Remittances

[Insert your countries' 2014 Call to Action on Remittances and provide any updates/outcomes since the commitment was made, including the 2016 G20 commitment towards achieving the Sustainable Development Goals under the United Nations 2030 Agenda and the Addis Ababa Action Agenda. Updates should also include where possible, a summary of changes in remittance flows and costs since the 2014 Call to Action (comparing remittance figures from your 2015 National Remittance Plan with the figures requested above in the Background section).]

UK 2014 Call to Action on Remittances: 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 investment in successful business models. The UK is 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 has established an Action Group on Cross Border Remittances[4] comprised 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 and how to manage it in the remittance sector and an initiative on the UK-Somalia remittance corridor to improve the safety and functioning of that corridor.

Most recently, the UK Government has:

- **Payment services legislation.** Introduced the new Payment Services Regulations 2017 which implement the second European Payment Services Directive (PSD2) which comes into force in the UK in January 2018. Credit institutions will be required to provide payment service providers

[2] https://www.fca.org.uk/news/news-stories/fca-research-issue-de-risking
[3] http://www.fsdafrica.org/wp-content/uploads/2017/06/Scaling-up-Remittances-15.06.2017_Final.pdf
[4] Action Group on Cross Border Remittances

(PSPs) with access to payment accounts on a proportionate, objective and non-discriminatory basis, and report instances where access has been denied to the UK Financial Conduct Authority. This will help to ensure fair access to payment systems and payment account services.

- **Money Laundering Regulations.** Introduced the new 2017 Money Laundering Regulations, which extend the fit and proper requirements on MSB principals to MSB agents. Agents are largely responsible for the retail delivery of MSB to consumers, so strengthening supervision is expected to raise standards in the sector, by excluding those individuals who are unfit, for example by virtue of criminal convictions, from owning or managing such businesses. The Fund Transfer Regulation (EU 2015/847) also took effect on 26 June 2017, which removed the 1,000 euro limit at which payment providers must verify information on cash transfers, so they are now required to verify all cash transfers.

- **MSB guidance.** Refreshed interim HMRC guidance[5] for the MSB sector to support implementation of the 2017 Money Laundering Regulations. Previously HMRC also produced industry-led guidance on how banks can manage the risks of having an MSB as a customer, to enable effective and proportionate management of money laundering and terrorist financing risk in the sector.

- **MSB supervision.** Embarked upon greater levels of supervisory engagement including increased visits by HMRC to MSBs, in order to foster greater levels of trust between MSBs and banking sector, and raise compliance standards as necessary.

- **Banking supervision.** Issued an FCA statement[6] to banks that aims to provide greater certainty around their regulatory requirements, encourages them to consider their relationships with MSBs on a case-by-case basis and not engage in wholesale de-risking.

- **Research.** Commissioned research that considers the possible role that technology can play in improving remittances markets, cutting costs and scaling up UK to Africa remittances[7]. The report analyses the current challenges in the remittances market and makes a series of recommendations for money transfer operators and other stakeholders. The FCA also conducted research described above regarding payment institutions' access to bank accounts.

- **Technical assistance.** Supported increased supervisory standards in destination jurisdictions through the Department of International Development (DFID)'s capacity building programmes in developing countries, including Somalia, Palestine, and Southern Africa.

- **Promoting competition.** Engaged in broader work with regulators to promote competition in the financial services sector (see below).

The UK uses the World Bank's Remittance Prices Worldwide database to monitor remittance prices. The UK average has seen a slight increase from 7.25% in Q2 2016 to 7.55% in Q2 2017. For the first time since 2013, the UK average rose marginally above the G20 average (7.38% in Q2 2017).

[5] https://www.gov.uk/government/publications/anti-money-laundering-guidance-for-money-service-businesses
[6] https://www.fca.org.uk/firms/money-laundering/derisking-managing-risk
[7] http://www.fsdafrica.org/uktoafricaremittances/?ct=t(Disseminating_research_as_a_Network_Cred11_8_2016)

2017 Country plan for reducing remittance transfer costs

[Outline how your country will take additional steps to help reduce the cost of transferring remittances and improve the availability of remittance services, while ensuring quality of remittances services and service delivery. Provide specific actions taken domestically and internationally, and timeframes for when commitments will be implemented drawing from the optional policy levers outlined below. These policy options were considered and agreed by G20 Sherpas in 2014 and agreed by leaders as part of the G20 Plan to Facilitate Remittance Flows that was annexed to the Brisbane Leaders Communique. Members can choose their potential actions, as appropriate, using these or other options including objectives and metrics if desired.]

UK efforts to reduce remittance costs include a focus on three strategic areas to achieve secure, transparent and accessible remittance corridors to developing countries:

i. Strengthen the global and national regulatory environment;
ii. Support innovative financial technology solutions which can open up distribution channels to underserved populations;
iii. Improve transparency and raise UK and recipient country consumer awareness of digitalisation.

Actions across these three strategic areas will help to drive competition in the remittance market, facilitate sustainable market-led solutions, and support well-informed and protected consumers. Examples of UK Government supported activities that contribute to progressing these areas are set out below.

INCREASE REMITTANCE MARKET COMPETITIVENESS

- The Government is working with regulators, including the FCA, Payment Systems Regulator (PSR) and Bank of England to create a more competitive financial services system. This includes: PSR's work on broadening indirect access to payment systems; legislation to allow direct access to payment systems for non-bank payment service providers (PSPs); and FCA sandbox and Project Innovate initiatives to encourage innovative new firms (e.g. digital) to enter the market.

- We will continue to monitor the trend of banks withdrawing banking facilities from remittance service providers and other customer groups and raise the issue in international fora. The UK is supporting the international work to address the decline of correspondent banking relationships under the FSB-coordinated Action Plan.

- As part of this work, Her Majesty's Treasury (HMT) is chairing the FSB's Remittances Task Force, on which Germany (and the UK) will also represent the G20 Global Partnership for Financial Inclusion (GPFI).

- We will continue to provide support at the country level to specific remittance corridors. This includes the Somalia Safer Corridor initiative, a DFID funded World Bank programme, which aims to address the structural issues impacting UK-Somalia remittances flows in general. This programme is working with the Federal Government of Somalia and Central Bank of Somalia to build a robust financial architecture in the country. The focus is on tackling deficiencies in Somalia where we believe the greatest impact can be made to provide greater assurance to international financial institutions of the transparency and accountability of the sector in Somalia.

- DFID is currently scoping a programme of work which will engage the UK financial services industry to help developing countries access the expertise, innovation and capital of London. One of the aims of the programme will be to engage with financial technology firms, notably on the remittance digitalisation agenda, with the aim of increasing remittance market competitiveness.

IMPROVE FINANCIAL SYSTEM INFRASTRUCTURE AND PURSUE POLICIES CONDUCIVE TO HARNESSING EMERGING TECHNOLOGIES

- DFID is working in partnership with the World Bank Group to support the development of modernised national payments systems in developing countries and strengthening the enabling regulatory environment to overcome the unintended consequences of regulation which inhibit remittance flows. Assistance is delivered through DFID's 'Harnessing Innovation and Financial Inclusion' Programme[8] which supports implementation of technology enabled remittances services in Sub-Saharan Africa (SSA) and South Asia and aims to reach 14m people with access to cheaper and more secure technology-enabled international remittance services by 2021. This programme supports improved supervisory standards in developing countries including in Somalia, Palestine and Southern Africa, amongst others.

- DFID's network of Financial Sector Deepening (FSD) entities across Africa work with technology and aim to improve the financial sector more broadly. For example:

  - FSD Africa's Risk, Remittances & Integrity Programme is addressing cross-border payment challenges in SSA and reducing the costs of sending remittances. Key objectives include: building an evidence base on primary UK-SSA and intra-SSA remittance corridors, equipping regulators and policymakers to develop payment systems to enable remittances, and supporting innovation among market players.

  - FinMark Trust's (DFID's FSD in Southern Africa) work in South Africa on high cost remittance corridors included work to enable mobile and other credit transactions such as remittances through the SADC Integrated Regional Electronic Settlement System (SIRESS) and advice to reduce regulatory and other barriers to formal cross border remittances. Remittance initiatives particularly benefit women, who account for the majority of recipients. Further work in the region on remittances is currently being designed to continue addressing constraints in remittance markets in Southern Africa.

IMPROVE TRANSPARENCY AND CONSUMER PROTECTION OF REMITTANCE TRANSFERS

- DFID is funding the expansion of the World Bank's Remittance Prices Worldwide database. This support is a significant contribution to monitoring a further 65 corridors, bringing the total number of corridors to 360. This expansion of the database, including additional UK remittance corridors, assists in improving transparency around costs, remittance flows and market competitors. Analysis of this data is helpful in identifying gaps in private sector provision and potential new remittance corridors for market players.

- DFID is funding research to improve understanding on the opportunities and barriers to reduce the cost of remittances. This includes recently published research that scopes ways to reduce costs and increase remittance service provision from the UK to developing countries, including

[8] https://devtracker.dfid.gov.uk/projects/GB-1-203808

fragile states, by potentially applying fintech capability to barriers in the global payments system. This research indicates that the main way to reduce the costs of remittances to Africa and build scale is to digitise the value chain. A further short piece of research is underway to understand why cash continues to dominate in the UK remittance sector and whether we can encourage a shift amongst UK and recipient country consumers to a greater use of less risky and cheaper digital services, contributing to a reduction in overall remittance costs.

- The UK has recently appointed a Minister for Financial Inclusion who will be responsible for guidance to UK consumers on money.

- The UK will be implementing the requirements of PSD2 in the UK which will be monitored and enforced by the FCA and Payment Systems Regulator (PSR) from January 2018, to ensure: (i) proportionate, objective and non-discriminatory consideration of payment account applications; (ii) clear criteria which institutions use to assess requests for access; (iii) notification to FCA of applications refused/withdrawal of services by firms, including reasons for having done so. FCA and PSR published draft guidance to industry aims to promote accountability and transparency in decisions to exit or decline banking services to payment service providers[9].

Ongoing stakeholder engagement and dialogue on the remittances agenda will be essential. The UK's Action Group on Cross Border Remittances will continue to play a valuable role, successfully bringing together government, supervisors and representatives of the banking and MSB sectors. The Action Group oversees a number of workstreams, including the Somalia 'Safer Corridor Initiative', increased supervision of MSBs, improved industry guidance and training, clarification of regulatory requirements, risk analysis and sharing of information. It will also play an important role in helping to identify new and evolving risks in the remittance sector so that they can be addressed early. We will continue to engage with both the banks and payment institutions, and are supportive of industry initiatives to establish best practice frameworks for MSBs.

[Note: Country plans should be no more than one to two pages.]

[9] https://www.psr.org.uk/sites/default/files/media/PDF/Payment-Services-Regs-2017-draft-approach.pdf and https://www.fca.org.uk/publication/consultation/cp17-11-draft-approach-document.pdf

TEMPLATE

1. INCREASE REMITTANCE MARKET COMPETITIVENESS

Potential actions include, where appropriate:

- *Address regulations that constrain competition in the remittance services provider (RSP) sector and impede a greater choice and interoperability of payout service points to consumers, especially in rural areas. Regulations that require remittance payout to occur only through banks reduce market competitiveness and restrict services for unbanked consumers.*
- *Facilitate the entrance of more RSPs into the formal remittances market. Overly lengthy wait times and cumbersome, overly costly licensing procedures can be a barrier to market entry. At the same time, appropriate authorities must ensure effective anti-money laundering/counter terrorism financing (AML/CTF) compliance programs that comply with international standards.*
- *Improve supervision of RSPs. Poor supervision acts as a barrier to entry in the RSP sector, allows illicit activities such as fraud, money laundering, or terrorist financing, and sustains de-risking driven account closures of RSPs. Therefore, national or other relevant authorities should reassess the supervisory framework and revise and strengthen it where necessary, concerning both solvency, AML/CTF and market conduct supervision, which would increase confidence in the RSP sector and protect against abuse of RSPs. Supervisory requirements should comply with international standards.*
- *Address anti-competitive pricing structures. Where exclusivity agreements have been legally prohibited but still operate, appropriate authorities should step up enforcement of competition laws. Where there is evidence that exclusivity agreements are inappropriately restricting remittance market competitiveness, authorities should evaluate such allegations and address anti-competitive practices.*

2. IMPROVE FINANCIAL SYSTEM INFRASTRUCTURE AND PURSUE POLICIES CONDUCIVE TO HARNESSING EMERGING TECHNOLOGIES.

Potential actions include, where appropriate:

- *Support modernization and interoperability of the retail payments system infrastructure and support the development of open payments platforms that are linked to countries' clearing and settlement systems and provide access to eligible banks, non-bank financial institutions, and emerging payment service providers. This would further improve interoperability and consumer choice.*
- *Promote expanded coverage of the retail payments system into all relevant geographical areas, especially rural, underserved areas. In most places, coverage is provided by the private sector, for example mobile network operators that establish cell tower coverage for their own commercial purposes, including mobile money services and data network coverage to the banking sector. In some cases, policy-makers are choosing to provide publicly supported or financed infrastructure projects, such as cell towers, making those facilities interoperable and providing greater access. If current regulatory frameworks hamper development of these services, the frameworks should be modernized, while also safeguarding compliance with international AML/CFT and solvency standards.*
- *Facilitate the use and interoperability of new technology-enabled business models (consistent with the High Level Principles on Digital Financial Inclusion), such as mobile money, prepaid payment cards, mobile point-of-sale (mPOS) systems, and card-less ATM access, to reduce costs and enhance access to remittances, particularly for low-income consumers who reside in remote areas.*
- *Propose recommendations to provide for a wider range of acceptable customer identity documents and data, which will support the efforts of regulators and service providers to facilitate more efficient customer registration and still meet their AML/CFT responsibilities.*
- *Undertake regulatory assessments to identify other unnecessary restrictions to customers' access to remittance services, such as access conditions to bank accounts (e.g. opening requirements).*

3. DISCOURAGE TAXES ON MIGRANT REMITTANCE TRANSFERS.

Potential actions include, where appropriate:

- *GPFI members will work together to assess and discourage situations where taxes on cross-border migrant remittance transfers may erode the development benefits of remittance flows — with a particular focus on taxes on low-value transfers to low-income populations.*

4. IMPROVE TRANSPARENCY AND CONSUMER PROTECTION OF REMITTANCE TRANSFERS.

Potential actions include, where appropriate:

- *Require RSPs to clearly display and disseminate up-to-date and complete information on remittance transfer costs and terms, including fees, as well as recourse mechanisms, and, where applicable, taxes and exchange rates.*
- *Enable consumers to compare transfer costs via a remittance price database or other measures that increase cost transparency and improve consumers' understanding of the terms offered by RSPs operating in the corridor.*
- *Reform consumer financial protection rules, if needed, to provide for fair cancellation and error-resolution rights, as well as for improved data protection.*
- *Encourage both public- and private-sector-led awareness building campaigns to boost financial literacy and capability of remittance consumers.*
- *Encourage increased knowledge on customer behavior and use of remittance services to improve remittance service provision, financial capability measures and awareness building campaigns.*