GPFI

Global Partnership for Financial Inclusion

G20 National Remittance Plan 2019

United Kingdom

Background

The UK is committed to helping reduce the global average cost of transferring remittances, as agreed by G20 leaders and under the SDG 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 are expected to reach $550bn in 2019, more than either foreign direct investment or official development assistance. It is estimated that in 2017 around $7bn was sent in the form of remittances from the UK 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 China, reflecting many of the migrant communities in the UK.

- Payment institutions (all of which transmit or convert money and so are MSBs), are regulated by the FCA under the UK's Payment Services Regulations 2017 and the Money Laundering Regulations 2017. HMRC is responsible for 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, maximum execution times for payment transactions, and 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 FinTech industry, widespread adoption of internet and mobile payment services and low barriers to entry for new businesses; and
  - 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 and two key drivers keep remittance costs high. 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. 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.

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 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.

Since the UK's commitment in relation to the 2014 Call to Action on Remittances was made, in addition to the actions on the 2017 National Remittances Plan (as described above), the following progress has been made:

- MSB guidance. Refreshed interim HMRC guidance (https://www.gov.uk/government/publications/anti-money-laundering-guidance-for-money-service-businesses) 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 (https://www.fca.org.uk/firms/money-laundering/derisking-managing-risk) 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. In 2016 the FCA published research into de-risking (https://www.fca.org.uk/news/news-stories/fca-research-issue-de-risking), following this the FCA worked with with banks to encourage better communication with customers when exiting or rejecting banking relationships and to see what more can be done to assist customers, a set of principles was published by UK Finance in June 2019 (https://www.ukfinance.org.uk/uk-finance-principles-exiting-customer).
- In July 2019, UK Finance published their Good Practice Guidelines for Access to Payment Account Services (https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/access-to-payment-account-services). The guidelines are aimed at both credit institutions providing access to payment account services and applicants seeking access to such an account within the UK. The guidelines aim to bring together the most relevant guidance around access to payment account services for applicants and credit institutions in such a way that it focuses on the responsibilities of both parties. The document was developed by UK Finance and its members with the input and co-operation of the Association of Foreign Exchange and Payment Companies (AFEP), the Emerging Payments Association (EPA) and the Electronic Money Association (EMA).

2019 Country plan for reducing remittance transfer costs

1. Increase remittance market competitiveness, including through improvements to the regulatory environment

- The UK Government will continue to convene regular meetings of government, supervisors and representatives of the banking and MSB sectors to address issues around remittance flows, costs, and de-risking. It will be important to maintain an ongoing dialogue with the sector, to monitor and identify risks in the remittances sector so that they can be addressed in a timely way. And the UK Government will continue to monitor the access that remittances service providers have to banking facilities.

- DFID's 'Prosperity Fund Global Finance Programme' will continue to engage with the UK financial services industry to help developing countries access the expertise, innovation and capital of London. One element of this programme will engage with financial technology firms, regulators, and investors, with the aim of increasing investment for financially inclusive start-ups, strengthening regulation and encouraging competition, including in the remittance market.
- FCA and PSR will continue to monitor banks' compliance with their PSRs 2017 obligations to grant payment account access on a proportionate, objective and non-discriminatory basis, taking enforcement action where necessary.

2. Improve financial system infrastructure and pursue policies conducive to supporting innovation and harnessing emerging technologies.

- DFID's Harnessing Innovation and Financial Inclusion programme (referenced above) is continuing to support the implementation of technology enable remittance services in sub-Saharan Africa and South Asia, and aims to reach 14 million people with access to cheaper and more secure technology-enabled remittance services by 2021. This programme supports improved supervisory standards in developing countries including Palestine, Somalia and South Africa, among others.
- The UK is providing grant funding to innovative financial technology solutions in the remittances market through the Global Innovation Fund and the Business Partnerships Fund. Among others, DFID is working with:
  - Afrimarkets, a women-led SME that offers for-purpose remittance services, enabling African diaspora to directly purchase goods and services (such as school fees, construction materials and household goods) for recipients at home. A million remittance orders are projected to be dispatched during 2018-2022, benefiting over 5.6 million people; and
  - LafargeHolcim, to put in place a remittance mechanism for affordable and environmentally friendly housing in Malawi and Kenya, offering both pay-as-you-go and one-off payment options.
- In addition, DFID's network of Financial Sector Deepening (FSD) entities across Africa work with technology, while also aiming to improve the financial sector more broadly. For example, FSD Africa's 'Risk, Remittances and Integrity' programme (referenced above) continues to work on addressing cross-border payment challenges in sub-Saharan Africa, including reducing the costs of sending remittances.
- Further, FinMark Trust, supported by DFID, continues to work on high-cost remittance corridors to enable mobile and other credit transactions such as remittances through the SADC Integrated Regional Electronic Settlement System (SIRESS), and to advise on reducing regulatory and other barriers to formal cross-border remittances (this work is also referenced above). Remittance initiatives particularly benefit women, who account for the majority of recipients.
- The UK is also funding the Caribbean Financial Action Task Force to support countries in the region to improve their anti-money laundering supervision of banks MTOs, other FIs, and DNFBPs, with the aim of improving risk mitigation among Caribbean FIs and reducing the cost of remittances to the region.

3. Improve transparency and consumer protection of remittance transfers.

- The UK continues to provide funding to the World Bank, for the Remittance Prices Worldwide database. The total number of corridors is now 365. This database 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.
- The UK continues to fund research into the costs of and barriers to remittance service provision from the UK to developing countries, including fragile states, and between developing countries. The most recent example is research into barriers to remittances in sub-Saharan Africa being conducted by CENFRI (referenced above). German development cooperation runs in partnership with the partners financial capability measures in a variety of partner countries to train remittances recipients in responsibly using remittances services and further financial services.