Review of Financial Transfers and Remittance mechanisms in Ghana

A study under the ACP-EU Framework

Developing Markets Associates (DMAG) 2018
Background

Ghana - the 2\textsuperscript{nd} largest recipient of remittances in Sub-Saharan Africa, flows through official channels have increased from 117.6 million USD in 2007 to an estimated 3.8 billion USD in 2018 equating to 7.4\% of GDP.

Flows account for almost three times of official development assistance (ODA) received and provides the Government of Ghana with a vital source of foreign exchange.

It is estimated that if monitored, remittances sent through informal channels could increase total flows by as much as 50\%.

Project objective: To harness remittances for productive investment

Partners – Diaspora Affairs Office - Office of the President, Ministry of Foreign Affairs - Diaspora Affairs Bureau, IOM, and European Union
Research Approach

• Review Ghana’s financial markets and legislative frameworks governing international financial transfers and remittances, as well as remittance initiatives that are part of the ACP-EU Framework

• Provision concrete recommendations for the introduction of regulated, reliable and efficient financial services and products that would increase remittance receiving households’ access to financial literacy, savings education and affordable insurance programmes
Size and Scope of Remittances Market in Ghana

Ghana’s Remittance Inflows 2008 – 2018

Ghana’s Remittance Outflows 2007 – 2017

Source: World Bank, 2018
The US, Nigeria and the UK are the main send and receive corridors for Ghana.

Remittance Inflows from Ghana's Main Send Markets - 2018

Top 10 Countries of Ghana’s Migrant Stocks - 2017

Source: World Bank, 2018
Ghana’s Remittance Pricing Trends

Pricing Over Time 2012 – 2018

Average Cost per Product Type – 2018

Source: Remittance Prices Worldwide, 2018
Ghana Remittances Compared

Average Cost to Send 200 USD

Source: Remittance Prices Worldwide, 2018
Policy Environment – Remittance and Financial Sector Development

**Policies**
- Financial Inclusion Strategy
- Digital Financial Services Policy
- National Diaspora Policy

**Institutions**
- Diaspora Affairs Office, Office of the President
- Ministry of Foreign Affairs, Diaspora Affairs Bureau
- Bank of Ghana
- Ministry of Finance
57% of the Population have Access to a Financial Service in Ghana

Volume and value of transactions for major non-cash retail payment streams - 2017

Source: Bank of Ghana Payment Systems Report, 2017
Access in Rural Areas has been a significant driver financial inclusion across the country.

Growth in rural accounts in Ghana between 2011 and 2017

Source: FINDEX, 2017
## Regulatory Environment – Overview

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Description</th>
<th>Updates / Developments</th>
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<tbody>
<tr>
<td>Bank of Ghana Act, 2002, Act 612</td>
<td>Gives BoG authority to oversee the payment and settlement system in Ghana. Specifically 'The promotion, regulation, and supervision of payment and settlement systems; and the facilitation of the clearing of cheques and other credit instruments for banking institutions.</td>
<td></td>
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<td>The Payment Systems Act, 2003, Act 662*</td>
<td>Further empowers BoG to 'establish, operate, promote and supervise payment, funds transfer, clearing and settlement systems subject to such rules as it may publish and to designate any other payment, funds transfer, clearing and settlement systems operating in the country, which the Bank considers to be in public interest'.</td>
<td>The new Payment Systems Bill 2017 is currently being ratified by Parliament</td>
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<td>Banking Act, 2004, Act 673</td>
<td>To provide one act that consolidates all laws relating to banking, to regulate institutions, which carry on banking business and to provide for other related matters.</td>
<td></td>
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<td>Foreign Exchange Act 2006, Act 723</td>
<td>An Act to provide for the exchange of foreign currency, for international payment transactions and foreign exchange transfers; to regulate foreign exchange business and to provide for related matters.</td>
<td></td>
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<td>Banking (Amendment) Act, 2007 Act 738</td>
<td>An amendment of the Banking Act 2004, Act 673. Facilitates the establishment of international financial services centre that seeks to attract foreign direct investment, income from license fees payable in foreign currencies, create employment enhance local skills and knowledge, strengthen the financial sector through use of investment banking’.</td>
<td></td>
</tr>
<tr>
<td>Anti - Money Laundering Act 2008, Act 749</td>
<td>Outlines money laundering definitions and offences, as well as providing an overview of the establishment of the Financial Intelligence Centre. Covers issues pertaining to suspicious transaction reporting. The Act also outlines accountable institutions, including those that trade in foreign exchange, currency market instruments or transferable securities.</td>
<td></td>
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<td>Electronic Transactions Act 2008, Act 772</td>
<td>An act to provide for the regulation of electronic communications and related transactions and to provide for connected purposes.</td>
<td></td>
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<td>Non-Bank Financial Institutions Act 2008, Act 774</td>
<td>The act applies to non-bank financial institutions (including Leasing operations, mortgage finance operations, money transfer services, non deposit taking microfinance services and credit union operations ) and outlines the application and licensing procedures, as well as supervisions and reporting requirements</td>
<td></td>
</tr>
<tr>
<td>Requirements for Non-Bank Financial Institutions Licenses, 2009</td>
<td>Covers the licensing of a range of non-bank financial institutions including; Leasing operations, mortgage finance operations, money transfer services, non deposit taking microfinance services and credit union operations</td>
<td></td>
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<tr>
<td>Guidelines for E-Money Issuers in Ghana, 2015</td>
<td>The guidelines promote the availability and acceptance of electronic money as a retail payment medium with the potential to increase financial inclusion and specify necessary safeguards and controls to mitigate the risks associated with e-money business and ensure consumer protection safeguards.</td>
<td>These guidelines replace ‘the previous Guidelines for Branchless Banking, including the requirement for a many -to -many model and the applicability only to deposit taking financial institutions’</td>
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# Regulatory Environment – Overview

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<td>Agent Guidelines, 2015</td>
<td>Guidelines refer to financial institutions licensed under the Banking Act, 673 and the e-money issuers authorized or licensed under the guidelines for e-Money issuers. The aim of the guidelines is to contribute to creating an enabling environment for safe retail payments, to promote the use of agents as a channel for delivery of financial services.</td>
<td></td>
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<tr>
<td>Banks and Specialized deposit taking institutions Act, 2016 Act 930</td>
<td>relates to deposit-taking institutions; regulating institutions which carry out deposit taking business. It applies to banks, specialized deposit-taking institutions, financial holding companies, and affiliate of banks, specialized deposit taking institutions and financial holding companies.</td>
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</table>
Ideal Remittance Receive Market Environment to support full digital remittance termination

1. **Interoperable** – across Financial Institution and instrument

2. **Multiple digital channel** – covering the full range available in Ghana currently

3. **Digital ecosystem supported by interoperable access points** – to collect / cash out your remittances

4. **Value added services for remittance beneficiaries**

5. **Targeted and extensive financial education** – for a range of remittance beneficiaries with differing levels of digital literacy

6. **An enabling regulatory Environment for Digitising Remittances**

7. **Effective Policy environment with strong governmental support**
Interoperable Payment Systems in Ghana

BANK OF GHANA

GHANA INTERBANK SETTLEMENT (GIS)

GhIPSS

e-zwich
ccc
gh-link
gach

MTN

GiP
Remittance Receive Channels integrated into a well established digital ecosystem

- Competitive digital payments sector in Ghana comprised of aggregators, payment processors, mobile money providers and banks

- Bank of Ghana agenda to capitalize on role Fintechs play in promoting and accelerating financial inclusion

- Increased adoption of payment gateway models based on integration of multiple service providers, enabling payments to multiple destinations including bill payment, airtime top up, merchant payment and P2P transfers

- In 2017, over 981 million Mobile Money transactions were completed and the value of transactions totalled more than 155 billion GHS

- Mobile Money Payment Interoperability System was launched in Ghana on 10th May 2018
  - Most advanced electronic payments system in Africa
  - Allows transactions between any mobile money wallets or bank account regardless of mobile network provider or financial institution

- ATM and POS transactions through Gh-link have grown consistently
  - Volumes going from 1.9 million transactions in 2015 to over 2.3 million in 2017
  - Values increasing from 305 million GHS in 2015 to 603 million GHS in 2017
The total number of access points growing – exclusively driven by mobile money

Access to Financial Services in Ghana, per 100,000 people

Coverage must be developed in rural areas

Locations, population and number of locations per 10,000 by region

- Ghana’s significant growth in access to financial services has not been seen in rural areas.
- Access remains limited in the North-Eastern regions.
- These regions remain below national median for the ratio of number of financial access points per 10,000 inhabitants.

Source: http://finclusionlab.org/blog/ghana-one-country-two-realities
Product development for remittance beneficiaries

A number of receive partners exploring ways to use technology to offer a broader suite of services to remittance recipients.

- A lot of development here has been catalysed by the Remittances Grant Facility (RGF)

- Most are in development phase, planning to go live in 2019

Areas of innovation include:

- Credit Scoring – micro credit products
- Cross Border Bill Payment
- Directing Diaspora Portfolio Investments
- Porting Pensions
- (Diaspora paid for) Remittance Beneficiary Insurance (Health and Life)
Financial Education/Literacy

Financial literacy / education is a critical component to introducing remittance beneficiaries to broader financial services and tools for productive investments.

The private sector have a critical role to play here – in Ghana, banks are particularly well placed to convert remittance beneficiaries into banked customers.

<table>
<thead>
<tr>
<th>Financial Inclusion of Remittance Receivers Results</th>
<th>Phase I</th>
<th>Phase II</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tajikistan</td>
<td>Kyrgyz Rep.</td>
<td>Armenia</td>
</tr>
<tr>
<td>Number of People Provided with a Consultation</td>
<td>43,851</td>
<td>25,822</td>
<td>26,982</td>
</tr>
<tr>
<td>Number of Bank Account Opened as a Result of the Consultation</td>
<td>2,746</td>
<td>2,196</td>
<td>11,275</td>
</tr>
<tr>
<td>Amount of Money Deposited in those Accounts at the End of the First Month (USD equivalent)</td>
<td>5,128,882</td>
<td>1,893,167</td>
<td>4,641,987</td>
</tr>
<tr>
<td>% Savings Accounts Opened</td>
<td>70%</td>
<td>43%</td>
<td>20%</td>
</tr>
</tbody>
</table>
SUMMARY OF FINDINGS & RECOMMENDATIONS
Findings – Ghana Remittances Market could be fully digital by 2025

MARKET EFFICIENCY: DIGITAL TERMINATION IS GROWING RAPIDLY; THE NEXT STAGE OF MARKET DEVELOPMENT MUST BE IN PRODUCT DESIGN TARGETING REMITTANCE BENEFICIARIES

• Digital Remittances is a fast-growing use case

• Digital channels generally cheaper for the remitter than cash-based products

• Strong fintech participation in the market – looking at innovating at the last mile of the transaction;
  • Bill payment / medical payments / pension payments
  • Developing credit rating using aggregated inbound data

• There is still a major role played by banks in the market – particularly those with a strong digital agenda. They have some of the largest market share

• For some of the largest players in key corridors – digital termination has overtaken cash payout in terms of volume of transactions
  • These tend to be more regular and of lower value
  • Cash termination is greater when looking at total inbound value given the high average transaction size
Findings – Ghana Remittances Market could be fully digital by 2025

PRICING: PRICES ARE CONTINUING TO COME DOWN BUT MORE CAN BE DONE AT THE SENDING AND RECEIVING SIDE OF TRANSACTION

• The value chain for inbound is quite complex (given the multiple routes IMTOs can take to terminate) importantly this isn’t causing prices to increase.

• For the digital remittances there are opportunities for further cost reduction of the sending fee (when you consider current revenue sharing models)

• Percentage of total cost charged to consumers that is attributed to digital termination players is not that high (0.9 USD/TXN), we need to start accounting for the cost of cashing out from digital channels to understand true cost to customers (1%)

AML / CFT: FRAUDULENT ACTIVITY IS UNDERMINING THE CASH TERMINATION BUSINESS, LESSONS FROM NIGERIA ON HOW TO BETTER MANAGE FRAUD IN THE SYSTEM

• Fraudulent activity with cash pay-out on the increase and a significant problem for many

• Ghana Card rollout with biometrics etc. – could provide the basis for launching a Ghanaian Biometric Verification Number

• Given the cross-border nature of the fraud – both sending and receiving regulators must address the issue
Findings – Ghana Remittances Market could be fully digital by 2025

REGULATION: OVERALL THE REGULATORY ENVIRONMENT IS ENABLING FOR LEVERAGING REMITTANCES – WHERE CHALLENGES REMAIN, THEY ARE LIKELY TO BE ADDRESSED WITH THE PASSING OF THE PAYMENT'S SYSTEMS BILL

• Requirement that remittances must be paid out by a bank
  • Under new payments bill IMTOs allowed to partner with banks and NBFI

• Currently remittances market supervised across a range of departments within the BoG – depending on the termination partner
  • New remittances unit to be set up as a branch of payment systems department. Will work cross collaboratively in issuing licenses, but will be the central point of contact and will aggregate all data on remittance flows
    • Including by termination channel

• Challenges with approvals in the market – timeframes don’t always align with what is outlined in relevant legislation.
  • One IMTO has been awaiting approval with their partner institution for almost 4 years.
  • The delays in the passing of the payment systems bill seems to have had an impact on when authorizations are being granted.

• Ghana Post plays a role in the remittances market
  • Ghana Post Regulatory Authority supervises, it is not clear what formal agreements exist between BoG and the authority for overseeing the remittances market.
Findings – Ghana Remittances Market could be fully digital by 2025

FOREIGN EXCHANGE REGIME: A LOT OF INTEREST FROM RSPs TO OFFER OUTBOUND REMITTANCES AND/OR REGIONAL PAYMENTS - LOW APPETITE FOR THIS FROM THE REGULATOR

- Banks and mobile money providers wanting to diversify product range
  - Banks want to extent existing offerings for outbound payments – leveraging technology to reach a larger base of customers
  - Mobile money providers keen to offer intra-network cross border services
RECOMMENDATIONS

AML / CFT

• Upper limit for receiving IMT onto a wallet should be reviewed to encourage larger value transactions to be terminated into a mobile wallet – to help address cash out fraud issues.

• Ghana should learn from the experience in Nigeria with the BVN – incredibly successful in addressing issues with fraudulent accounts etc.

• Bank of Ghana and regulator in main send markets (Financial Conduct Authority in the UK, Relevant state regulators in the US – likely Maryland, and Central Bank of Nigeria) should collaborate to address issues of fraud in the market

REGULATION

• In addition to allowing NBFIs to partner directly with IMTOs, consider opening the market to non financial institutions such as supermarkets. This will allow for further diversification of product at the retail level

• An MoU should be reached between Postal Regulatory Authority and BoG on Post remittances, and Ghana Post should report to the soon to be established remittances unit
RECOMMENDATIONS

PRODUCT DEVELOPMENT
• IMTOs should work more closely with fintechs to leverage inbound remittances as a tool for financial inclusion
  • increasing revenue generating opportunities through product innovation in the receive market environment will help to drive down cost of remitting
• To better support diaspora finance and the ability to innovate here, BoG, DAO and banks should develop a campaign around ‘banking their diaspora’
  • diaspora accounts will open up the market to channel more productive investment
• Product development should be accompanied by extensive financial education of remittances beneficiaries.
  • this should be administered by private sector as a public good
• BoG should work with private sector partners to pilot potential models for regional payments and/or outbound remittances
  • exploring digital outbound remittances in collaboration with a Bank/MMO provider to assess demand and identify true risks to the system
  • Look at prefunding models to help mitigate settlement risk
RECOMMENDATIONS

CROSS INDUSTRY

- Improve data collection to help inform innovation in the market and encourage product design
  - Remittance inflows
  - Outflows
  - Usage
  - Regional breakdowns of where remittances are going
  - More engagement with the diaspora – understanding consumer perceptions of the market. Get a better sense of the types of products and services the diaspora may be interested in

- Establish informal working group between industry and central bank to discuss IMT market issues
  - E.g. opening the market for regional payments – how can BoG concerns around risks be mitigated.

POLICY AND INSTITUTIONAL

- Finalize the diaspora policy
- Ensure remittances are recognized as a tool for financial inclusion in the FI strategy and digital financial services policy documents
- Improved coordination across government stakeholders, namely BoG, MoF, DAO, MoFA.