G:ENESIS

African Families, African Money
Bridging the Money Transfer Divide

A study on the South African money transfer environment for FinMark Trust
April 2003

Executive Summary

Introduction

For many years South Africa's urban areas have provided employment for migrants and immigrants from other parts of South and Southern Africa. Money transfers from these migrants & immigrants constitute an important source of income to their families and relatives in other parts of the country and continent. This study considers the availability and features of the range of money transfer services available in South Africa. In particular the study compares the costs and benefits of the various products provided by formal providers to the informal money transfer services often used by low income individuals. As money transfers are one of the most important financial services required by low income individuals, the formal sector's ability to provide products that are competitive with respect to informal products is an important requirement for financial deepening.

Method

The money transfer environment is divided in two ways:

- *Formal and informal services.* Many individuals use informal money transfer mechanisms – relying on a friend or taxi driver to act as courier to a rural recipient. Formal services are divided into bank services, post office and specialist money agent services (i.e.: Western Union & Money Gram).

- *Domestic and Cross border services.* Transfers across borders face substantially different technical, legal and political environments. Whereas governments are broadly supportive of attempts to formalise domestic transfer services, the same cannot be said for cross border transfers. Cross-border transfers, involve people who do not vote, provide opportunity for cross border money laundering, could violate exchange controls and might even encourage illegal migration.

Some 'products' are presented to the market as complete and independent money transfer products (i.e.: postal orders) and other's are offered only in conjunction with other services i.e.: a bank account can be used for person to person ("P2P") transfers but this is only part of a bundle of services provided. The report "unbundled" such services to understand only the costs and features required to affect P2P transfers.

Domestic product / services

The Terms of Reference for this report did not include a formal investigation into the scale and range of informal products used by different income groups, however, anecdotal evidence was used to describe the two informal products that seem to predominate in South Africa: using friends and taxi drivers as money carriers.

Postal products include postal orders, telegraphic money orders and the new PIN money order which provides an on-line immediate funds transfer service to any post office.

Banks offer two basic transfer products: by electronic transfer, if both the sender and the recipient have a bank account, and by direct cash deposit, if only the recipient has a bank account. Both products require that both parties have access to banking facilities. More specifically, the recipient must actually be banked *and* have access to the bank's distribution network and the sender must have his/her own bank account *or* have access to a branch of the recipients bank (although by special arrangement some banks do accept cash deposits on behalf of clients of other banks, this is not widespread practice). In this report banking services are categorised as:

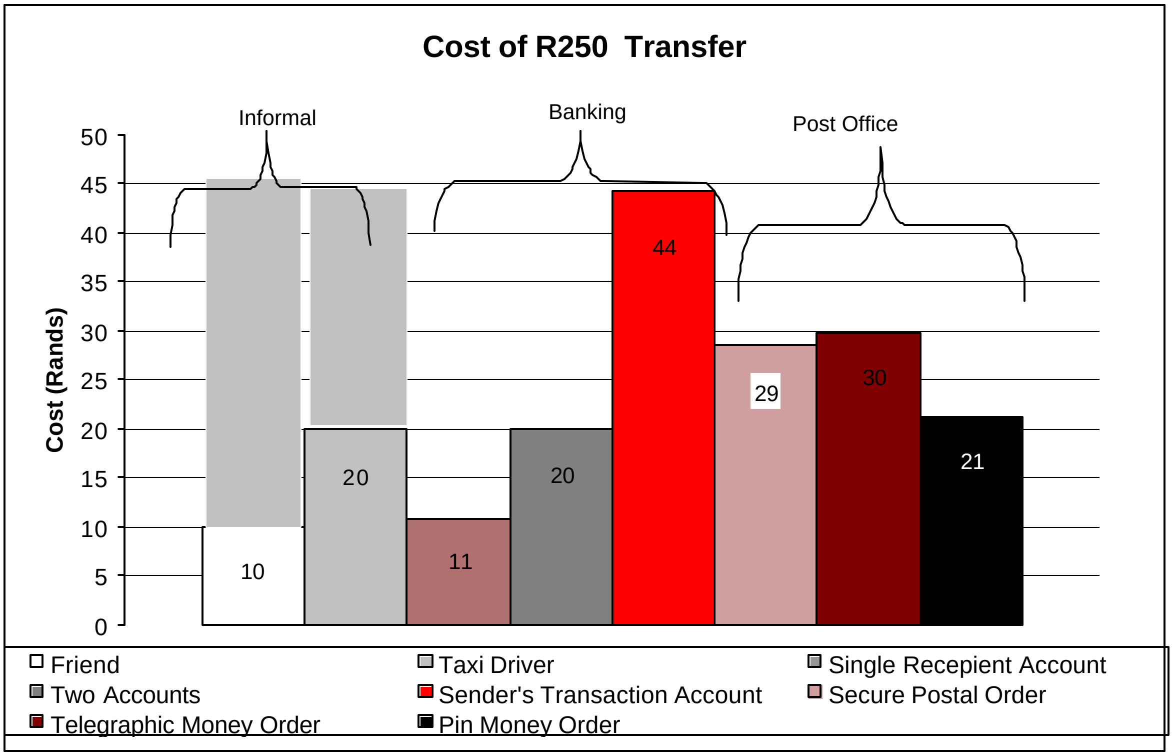
- *Single recipient account*: only the recipient has an account and the sender deposits into a branch of the recipient's bank. Whereas the banks offer this simple deposit account product, interviews with frontline staff in several of the major banks indicated that in reality they did not encourage customers who do not receive a regular payroll generated salary.

- *Two accounts:* both parties have accounts that are used exclusively to affect transfers.

- *Sender's transaction account:* The sender uses the account to process wages and the recipient uses his account only to accept transfers. Strictly speaking, this makes it incomparable to other money transfer products because it includes additional services to transfers. It is included for sake of completeness and because it is probably more realistic then the latter two.

The graph below compares the derived cost to the user of each of the products/services identified. The shaded blocks shown against the informal channels depict the real, but un-quantified risk of a loss of funds when using these channels.

Comparison of the cost to transfer R250 using different products/channels
Source: Genesis Analytics



Findings: Domestic market

- The average cost (across the three bank products identified) for a monthly bank based transaction account is probably in the order of R30, though this does not capture the utility that the account holder derives from other banking services
- The new Post Office PIN product, at R21, is cheaper then the average cost of a bank based product. Moreover, funds are available within minutes across a network that reaches many of the less developed parts of the country.
- For amounts above R250, bank based transfer methods become increasingly competitive, as the fees are fixed.

The product that scores most highly on general accessibility is the PIN money order. This new product may seriously rival banking products, because:

- no start up costs or monthly fees are required

- of the rural and nationwide reach of the post office
- of the products simplicity
- of the instant availability of the funds to recipient

Bank offerings are relatively less attractive from the perspective of overall accessibility given the poorer coverage of the banks in rural areas.

Overall it seems that the ability to transfer funds around the country is less of a constraint than is sometimes thought. Utilising either the banks (recipient banked) or the post offices (both parties unbanked) low-income individuals can make R250 transfers for between R10 and R30. Compared to informal products, these are at least as attractive on price, present far lower risk, and, with the new PIN money order, compete on accessibility.

In our analysis we have assumed the sole benefit to a recipient of having a bank account is to receive transfers. It seems likely that with a bank account and a growing need to make payments (for mobile recharge, utility payments etc) or receive state transfer payments, as well as to save, more and more people will reap the benefits of having a bank account & would be able to make payments at the very low cost associated with inter-account transactions. Thus providing a low cost money transfer solution for the poor may be resolved by an overall drive to provide bank accounts and *possibly* a requirement that banks accept deposits on behalf of other banks. The Post Office PIN product does to some extent disintermediate the banks, and this could create a problem for any market entrant that wishes to provide a money transfer service as part of a core banking product.

International products/services

The report considers four categories of cross border transfer:

- Informal transfers – relying on friends and taxi drivers as couriers
- Post office products – money orders
- Bank products – the banks are able to effect P2P transfers between banked individuals & execute bank drafts where the bank sends a cheque to the recipient
- Money transfer agents – the product/service provided by Money Gram and Western Union

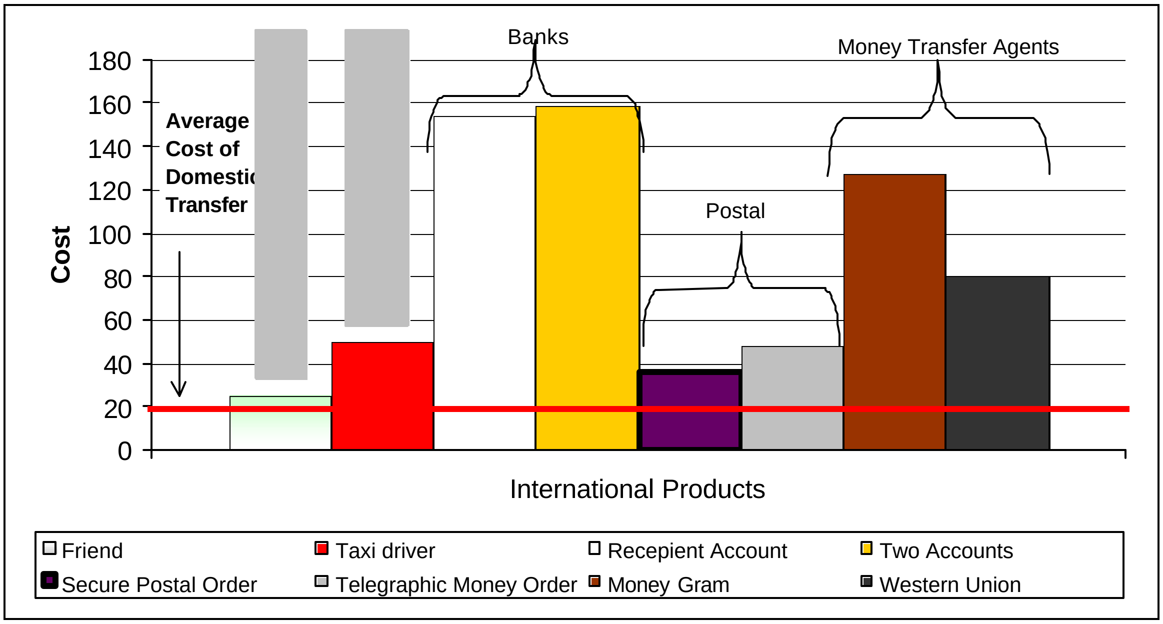
All providers of formal money transfer products are required to be at least a limited authority authorised dealer in foreign exchange (as defined in the Exchange Control Act) and to act, comply and enforce an increasing array of regulations, ensuring:

- That, the appropriate tax has been paid on funds to be transmitted
- That the sender has the appropriate residency, immigration or work documents authorising the sender to earn Rands
- That the sender is neither in breach of exchange controls nor has exceeded their limit for the category of funds to be transmitted
- That the funds to be transmitted are the result of *bone fide* income generating activities and are not the proceeds of crime

Faced with this task, most institutions either discourage transfers from low income individuals whose *bone fide* may be more difficult to ascertain or, alternatively, have a strong incentive not to comply with these regulations.

Formal cross border payments are also considerably more costly than their domestic counterparts. The graph compares the price of the products identified in this study.

Cost of completing a R250 international transfer
Source: Genesis Analytics



Findings: International Market

- Formal cross border products are considerably more expensive than local transfers and are prohibitively expensive for small amounts

- Given the cost of formal products it is no surprise that informal products remain important for countries that border South Africa. In some instances informal products are the only viable means of affecting a cross border transfer given the lower likelihood of the recipient having a bank account in the receiving country. In the case of Zimbabwe the huge gulf between the black market and official exchange rate impose a terrible penalty on anybody that utilises formal products. Unfortunately informal mechanisms expose the sender/recipients to considerable degrees of risk if the courier becomes the victim of theft.

- Although cross border Post Office products are competitive priced they are not competitive when it comes to speed of transfer and security. The quality and efficiency of the post office in the receiving country may vary and there may or may not be links between the South African Post Office and the post office in the receiving country.

- Bank products (P2P transfers and bank drafts) cost around R150 per transaction. This is because the banks continue to charge a SWIFT fee and commission on each transaction, even when funds are transferred to subsidiaries of the same bank in other countries, and even if these countries are in the CMA, e.g.: Standard Bank of Lesotho or Swaziland

- The money transfer products of Western Union and Money Gram are cheaper than bank products (R100 per transaction) and have the advantage of large networks in recipient countries and that the funds are available immediately. Western Union is currently not operating in South Africa. As Western Union provides one of the only means of transfer for sending money to unbanked recipients the report investigated the circumstances surrounding Western Unions withdrawal from South Africa in December 2001.

Western Union in South Africa

Western Union is the world largest money transfer company with a 24% market share and 150,000 locations worldwide. Migrant communities all around the world use Western Union to affect money transfers to family and friends living in their country of origin.

In 1995, Western Union initiated operations in South Africa through Union African Money Transfers. In the course of their operations, UAMT developed a network of retail outlets, which at its peak numbered over 150 points of representation.

It seems that the burden of enforcing compliance with exchange controls in South Africa proved too much for the UAMT management, and this did not go unnoticed by the Reserve Bank. Matters came to a head with the implementation of new balance of payments reporting requirements. In early 2001, the SARB reduced the time period that was allowed to lapse before a financial transaction was reported to them from 1 week to within 24 hours. The cost of implementing a system that could support this level of reporting made many of UAMT's outlets unprofitable with the result that UAMT reduced its network to 17 outlets. These outlets became increasingly overburdened as the business of over 150 outlets converged on these 17 sites. As a result, service quality and speed of service dramatically decreased.

In addition, although the exact nature of the regulator's concerns with the Western Union operation are confidential, there seems to be a reasonably widespread view that UAMT not only struggled to implement appropriate systems, but were not overly committed to observing the spirit and the letter of exchange controls. Matters were complicated further with the Reserve Bank's circular of October 2001 that indicated its desire to improve the enforcement of exchange controls including a prohibition on the net settlement of foreign exchange transactions.

Net settling means that agents (UAMT) and Western Union only settle with one another after a specified period, at which point only "net" balances are actually paid between agents and WU. With net settlement, UAMT was able to use funds collected in SA for outward transfers to pay SA recipients of inward transfers. With the enforcement of the net settlement prohibition, UAMT was no longer able to pay money out to local recipients from money that was coming in from local senders who were remitting overseas—they were made to wait until the actual funds destined for local recipients had arrived. This compromised the Western Union product that guarantees the immediate availability of funds to recipients. To sustain the relationship Western Union would have had to increase its credit exposure to the agent. It is believed that the deterioration in service quality and speed, the rising cost of exchange control compliance and poor execution by UAMT, as well as increased and increasing credit exposure, led Western Union to end its relationship with UAMT and suspend operations in South Africa.

Part of Western Unions problems seem to have been a structural mismatch in the business model between an increasingly sophisticated exchange control compliance and reporting regime, in which the Reserve Bank would prefer only banks to act as authorised dealers, and the entrepreneur operator which was originally appointed by Western Union in South Africa.

Overall Recommendations

Domestic

The main challenge with respect to domestic transfers relates to network density and complimentarily[1]. The banks provide safe and cost effective money transfers providing, that at least the recipient is banked, and have good distribution in urban areas but not necessarily in the rural areas where recipients are most likely to be located. If banks were to accept deposits on behalf of each other this would allow those institutions that focus on rural distribution to compete more effectively and would significantly increase network density from the perspective of the sender who wishes to support a rural recipient, who at best, has access to a branch or ATM of a single bank.

Thus, allowing the unbanked sender to deposit money into a recipients account at any bank branch would significantly increase network complementarity: it would reduce the access constraint for the sender *and so allow the recipient to open an account with institutions that have rural but not urban distribution.*

[1] Density refers to quantity of access points and complementarity refers to the extent of the interconnection between different bank's networks.

An equally important challenge in the domestic money transfer business is to increase the desire of the banks to provide transfer services or maintain accounts for low income individuals. The costs of providing these services are directly related to the level and extent of regulation governing account opening and the acceptance of deposits. The implementation of the regulations governing these activities under the new FICA legislation would make the provision of these services considerably more costly and thus less attractive to the banks. These regulations should be reviewed and appropriate exemptions made.

International

There remain considerable obstacles to the provision of cost effective cross border money transfer services for immigrants wishing to remit small amounts or to make remittances to non-banked recipients. These obstacles present a challenge to the authorities and to the banks.

Firstly, the cross-border integration of the banking systems between Lesotho and Swaziland is an area where regulatory reforms should dramatically reduce the costs that individuals incur to transfer funds across the border. There seems no reasonable explanation why a transfer to Ladybrand (SA side of the border) and Maseru should differ in cost by a factor of 7.

Secondly, money transfer product providers (for instance Western Union) do offer an important service to poor people in that they:

- Have good distribution in all countries that are important to SA based migrants.
- Provide instant transfers (the recipient can collect as soon as they receive the information).
- Had established distribution infrastructure in SA which was more closely aligned with the needs of the target market than traditional banking infrastructure.

There is no obvious alternative but to encourage the development of a commercial money transfer services in South Africa, of which Western Union is the most obvious. The regulators need to explore ways of allowing money transfer companies to operate profitably in South Africa. This is however made very much more difficult by the increasing burden of compliance that falls on an authorised dealer. Furthermore if the implementation of netting agreements were the cause of Western Unions exit, these regulations should be reviewed. This regulation probably unnecessarily increases the cost of doing business in South Africa and should be an early candidate for further exchange control relaxation. Alternatively, in light of the important social need to provide migrants with a safe and reliable mechanism for cross border money transmissions, the authorities should at least consider an exemption for Western Union, or another credible mass market money transfer agent.

Making a money transfer for a non-banked person is uneconomical from the bank's perspective given the number of regulatory checks they are required to undertake, even though the limits set (by exchange control regulations) for the amount that can be transferred as a "gift" seem more than adequate. Once again if the level of disclosure currently proposed under FICA regulations were to be implemented this would make it even more costly for any bank or authorised dealer to provide unbanked money transfers and be an impediment to the further formalisation of the cross border transfer market.

If the poor's access to money transfer services is not to be severely reduced by new approaches to monitoring and compliance of cross border transfers it is critically important that the regulators increasingly conduct smart regulation that effectively capture large volume suspicious transactions, while reducing the costs and barriers to entry for providers seeking to service the low income market.

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1 Introduction

Genesis was commissioned by the FinMark Trust to research aspects of the environment of money transfers in South Africa.

1.1 Mandate

The Project Mandate included the following:

- A Comprehensive review of all current money transfer products and services, both intra-country and cross border in the SA market, including a comparison of product attributes.
- Identification of the barriers to the development of products appropriate to the low end market, and to entry to this market, including the impact of money laundering legislation and exchange controls.
- A case study which clearly outlines the factors behind the entry and exit of Western Union in SA, identifying which are particular to Western Union's model and which are general to the market.
- An identification of a list of options and recommendations for addressing the barriers.

The mandate excluded any attempt to quantify the number and legal status of migrants in South Africa, the size of the transfers, or their impact on the sending or receiving economy.

1.2 Methodology

As background research, Genesis investigated the range of money transfer systems operating internationally and reviewed academic articles on money remittances. This yielded rich insights into a diverse field that spans many countries and many products, of differing levels of formalisation, that all attempt to provide one of the most basic banking needs – the need for a breadwinner in one country to remit funds to relatives in another. It also highlighted how cross border money transfers face a range of unique problems related to the issues of immigration and illegal earnings of one sort or another.

In-depth interviews were conducted to gain both high level insights into the industry and a thorough description of available products, processes and most importantly attitudes. Information on different products, pricing and marketing strategies were distilled from a range of contacts with different financial institutions – ranging from interaction with front line staff, collection of brochures and published documents (paper and internet) as well as key decision makers in different organisations. Institutions that participated in this process included:

- SARB
- SA Migrancy Project
- Western Union, Rennies Bank (exclusive agent of Money Gram)
- ABSA, Nedcor, Peoples Bank, FNB, Standard Bank
- Post Office/Bank

Furthermore, anecdotal evidence on how the poor transfer money was gathered through staff interviews of domestic workers, gardeners, car guards and Genesis cleaning staff.

1.3 Report structure

The report, including this introductory section, is structured in 6 parts. Part 2 introduces the relevant issues. Part 3 investigates the status quo on domestic money transfers and part 4 does the same for cross-border money transfers. This distinction is necessitated by the substantially different political/ legal environment faced in these two segments of the transfer industry. In both parts, products and services are divided between informal services, formal bank services and formal non-bank services. The international section incorporates a discussion on Western Union in South Africa. Part 5 concludes with recommendations and potential solutions. Part 6 is the annexure.

2 South African money transfer markets

With South Africa's highly mobile domestic and regional labour force, a large numbers of workers make regular or sporadic money transfers to dependents living in different parts of South and Southern Africa. The dependents are usually the "very poor" (receive less then R400pm) and the transfers are often informal in nature, making use of communal and/or informal transportation networks.

The purpose of this report is to illuminate some of the issues pertaining to achieving *more efficient domestic and cross border* money transfers that are considered to be an important unmet service need of low income individuals in South Africa, although no empirical investigation of this assumption was undertaken.

So long as the poor rely on non-bank channels for money transmission services (in many instances their most important financial transaction) their need for, and use of, banking products and services may decline to the point of non-entry. This has further consequences as savings and other banking activities are then also conducted outside of the financial sector – probably in equally inefficient and risky ways.

The question to which this report tries to provide answers is whether or not the formal economy can meet the poor's demand in a way that is feasible for both the potential suppliers ***and*** their potential customers.

2.1 The playing field: two distinctions in the market

The industry for money transfer services is diverse. The first distinction to be drawn is between domestic and cross border transfers. Although, technologically, little separates these two segments of the market, they face substantially different legal and political environments. Whereas the government aims to encourage the former, the same cannot be said about the latter. Domestic transfers are considered a social need and can be linked to other financial access and expansion goals. Cross-border transfers, on the other hand:

- often involve people who do not vote,
- constitute a demand for foreign currency which South African authorities continue to view as a scarce resource to be rationed,
- provide opportunity for cross border money laundering and,

- might encourage illegal migration.

These issues, which might cause governments to restrict rather then encourage cross border money transfers, are more fully explored in section 4.

The second distinction to be drawn is between informal and formal services operating in both market segments:

- Informal Money Transmission Systems (IMTS) include taxi systems, communal hand-to-hand networks and agency-based systems like “hawala”.

- Formal channels can be divided into bank and non-bank systems. The banking systems offer various products that utilise the National Payments System for deposits, withdrawals and electronic transfers. Non-bank institutions, like the Post Office, make use of existing and established network infrastructure; alternatively non-bank institutions like Western Union and Money Gram utilise agency-based networks established on a contractual basis.

2.2 The rules of the game

What determines the transfer system used by poor people? As with other economic goods, two key dynamics are responsible: consumer demand and producer supply. Architects of money transfer systems must understand the “rules of the game” that underlie these dynamics.

Customer’s choice is explicitly or implicitly based on:

1. Price of product
2. Transaction: cost of *physically* or *electronically* accessing and using the product
3. Cultural factors

The producer decision to supply a service is based on the nature of the business case.

2.2.1 (Specific) price of product

We compared various products. On the domestic front this included two informal “products”, three banking products and three post office products. On the international front, three informal products, two banking products, two post office products and two “money transfer agency” products are explored. To compare the costs of the product a full description of variable fees, monthly fees, commissions, exchange rate premiums, taxes and other regulatory charges were considered.

2.2.2 Transaction costs

Transaction costs, or shoe leather costs, are not captured directly in the price of the product. Perhaps the key transaction costs are those associated with transportation. Many formal products are only available at formal distribution points of the relevant institution. The greater the distance to a facility, the greater the hidden transportation costs of the associated product.

How important are transportation costs to money transfer products? A distinction between rural and urban parties needs to be drawn. When thinking of money transfers among the poor, one generally conceives of the sender as being from urban or peri- urban areas, and the recipient as being from rural areas. This assumption has been maintained throughout this report.

For the urban sender, it seems that there will be similar transportation costs no matter which transmission channel is used. This includes whether use is made of the post office, a bank, a money transfer agent, a friend or the taxi system. In urban areas, these services are generally all located within short distances of one another, thus removing any advantage based on distance. Moreover, trips to get access to money transfer products will often be used to fulfil other demands of the individual, like shopping or visiting friends[2]. Thus, for the urban sender, the cost of transportation probably plays an insignificant role in the choice of transfer products, though using institutions that are linked to the rural areas is critical.

Regarding rural recipients, the issues are more complicated. Using friends implies little or no transport costs on the side of the rural recipient, as the friend will usually deliver the money directly to the recipient. Using taxis is also likely to be cheap for the rural recipient, as the taxi driver will also usually deliver the money to the recipient's residence. However, both these processes then needs to be checked by phone call from the sender (but this has social utility as well). The transportation costs of using a post office, bank or money transfer agent, on the other hand, will depend on how far the relevant withdrawal facilities are located from the rural recipient. As with the urban sender, if the post office, bank or agency location is near other utilities the cost of transport can be put to double use – i.e.: a trip to collect money and to spend it at the appropriate places. In other cases, one would expect that a trip to the post office, bank or money agent will serve only that purpose, and this represents a pure transaction cost.

[2] If Internet or telephone is used to affect the transfer, then transportation costs are replaced by telecommunications costs. This is relevant for product D and E in section 3.2.2 and 3.2.3 respectively

2.2.3 Cultural factors

Cultural factors impact on product choice, yet are not revealed from standard product analysis (price and shoe leather costs). Judging from anecdotal evidence such factors seem to play a significant role in the money transfer industry in South Africa:

- A lack of trust in formal institutions by persons who still fall largely outside the formal economy;
- Illiteracy or financial illiteracy;
- Privacy concerns;
- Feeling intimidated in bank branches;
- Lack of product knowledge;
- A general *consumer* inertia—people do it one way because that's the way they have always done it.

For example, many lower income urban workers have bank accounts because of the payment system requirements of their employers. One interviewee, for example, indicated that she *and her recipient* actually had a bank account, but that for money transfer purposes, she used an informal taxi-based method as opposed to an electronic transfer. This highlights two issues – a lack of marketing from or desire of banks to encourage use of additional banking product (above mere savings and withdraws) as well as the need for transfer parties to have the knowledge and confidence to use banking products, even once they have an account.

This highlights the importance of adequate *marketing.* A failure for banks to promote inter-account transfers for low-income bank customers may be because the inter-account process for the non-internet user, remains paper based, manual and thus costly for the banks. No doubt low-income customers also find the combination of recipient details required confusing (bank account – a very long string of numbers, bank name, sort code).

2.2.4 Business case

Historically, the banking industry has tended to focus largely on the white, middle-income market, mostly in urban areas. Expansion into lower income segments, where evident, has tended to take place through a combination of payroll and low cost electronic delivery systems (ATM's) leaving credit and to some extent transmission services to other players. There are good business reasons to do this; high cost branches can become crowded with low value customers while low cost products could potentially be adopted by high income individuals, resulting in a general decline in income (product cannibalisation). Banks, is sum, have focused attention on the profitable middle market.

Potential mass-market solutions must thus address the twin issues of cultural inertia among the target market and path dependency on the part of banks. Moreover, South Africa faces the added challenge of a wildly skewed distribution of infrastructure. It is for this reason that increasing the utilisation of formal money transmission services by low-income customers will probably require market entry by players that are not so encumbered. Namely the post office, new entrant banks and money transfer services.

The international experience on increasing access through government initiative

Internationally there has been an explicit policy drive to increase access for the currently under serviced. Attention has focused on three areas:

1. the opening of a basic bank account,
2. the launching of smart card systems, and,
3. the use of non-bank institutions like retailers and post offices.

For example, banks in the UK are now all required to have a basic money transmission account. The UK is also planning a universal banking service through the post office to begin in April of 2003.

Smart cards have been widely adopted in pension/ benefit payout systems. However, when the overarching policy goal is increasing actual and potential access to general financial services, the focus has been on the opening of accounts.

The drive to get the unbanked banked and the partially banked more fully banked, has come up against various obstacles already mentioned: cultural inertia on the part of the unbanked, product path dependency on the part of the private sector and the need for cross-subsidies in government based solutions.

In the USA, where estimates of the unbanked approach 40 million, the Treasury initiated the:

- Electronic Funds Account and First Accounts program designed to incentivise financial institutions to offer low cost electronic banking to federal recipients and other unbanked persons.
- The Electronic Benefit Transfer (EBT) converted traditional food stamp systems, to the use of debit card and ID number at point of sale devices and ATMs'.

According to a recent report, however, customer uptake has been limited and bank involvement minimal. The treasury's failure to incentivise banks is cited as the main reason. The "Treasury realised that for the unbanked to become a commercially viable market, new accounts, marketing strategies, community-partnerships, and financial education campaigns had to be targeted to all unbanked families and not just those who receive government cheques."

3 Transfer within South Africa—the status quo

South Africa is traditionally a nation with a highly mobile labour force, making remittances to family members who live in other areas an essential demand in this society. Informal, bank and non-bank products are currently available to fulfil this demand.

3.1 Informal Products

Many poor people are thought to rely on informal money transfer systems (IMTS). Such systems have been prevalent throughout the world and for many centuries. Sometimes underground, often above, IMTSs have been referred to as the "poor man's banking system." In the domestic market benefits include:

- Cheap service for transfer of small amounts, relative to the banking industry that charges high minimum fees.
- No monthly charges or start up costs
- Based on familiar communal networks (cultural inertia)
- Free from official eyes

Different products are used in different countries and cultures for diverse reasons. We have not explored the range of informal mechanisms used in Southern Africa. The analysis focused on the most obvious mechanisms and those that are thought to be most widely used:

- Friends – acting as a courier
- Taxi drivers

The information on informal products in this section is not intended to be statistically established but is provided by way of contrast for the precisely described formal products that follow.

The term "product" is used liberally in this report. It refers to any complete system for transferring money.

3.1.1 Product A: Friend

The poor often transfer funds through friends who are travelling to the location where recipients reside. Many of these transfers are provided for free, but where fees occur they can be quite considerable. Consider Felicity, employed as a cleaner in Johannesburg, who sends R200-R250, roughly 10 times a year to her Aunt and Grandmother in Mafekeng. She indicates that, although her trusted friends sometimes do it for free, at other times she pays R10 or R15 (independent of how much is in the carrying envelope).

Several problems and implicit costs are involved. Firstly, there needs to be a coincidence of circumstances between the sender and the friend—that is, a friend has to be visiting the recipient's area in order for the sender to effect the transfer. Secondly, the sender needs to pay the transportation costs to get to the friend, although these could be subsumed in the social utility of visiting a friend.

3.1.2 Product B—Taxi driver

Senders utilize taxi drivers who ply the route to their hometown and are known both to the recipient and the sender. In order to effect the transfer, the sender must deliver the funds to the taxi driver and therefore pay associated transportation costs. Significantly, it appears that the taxi driver will (often) deliver funds directly to the residence of the recipient.

It seems that taxi drivers sometimes carry substantial amounts of money (as much as R29,000). With this level of cash taxi drivers sometimes make mistakes and can be the victims of crime.

The table below summarises the key points regarding informal products. All tables that follow incorporate information in the following format:

- Price
- Benefits
- Transaction costs (which incorporate transportation and telephone costs necessitated by differences in *geographical access/ proximity,)*
- Product characteristics which include
    - Speed
    - Availability (is the product available regularly or only sporadically, how often?
- Safety (lack of transfer risk)
- Accessibility**:** which incorporates all of the above, *except price*. Accessibility is given a

relative ranking of either: poor, low, medium, high, or excellent.

- Note that issues like cultural inertia and product path dependency are **not** included in total accessibility. It is perhaps these factors that account for the low usage of products that otherwise have good accessibility.

Table 1. Informal products
Source: Genesis Analytics Interviews

PRODUCT	Costs (R250 transfer)	Benefits	Transaction costs	Product Characteristics: Speed and availability.	Safety	Accessibility High, Medium or Low **
Friend Product A (Transfer through friend)	Free to R10	Easy to understand. Relies on established communal networks and kinship ties.	Sender and recipient must pay transport costs of getting to friend. Telephone costs of confirmation of transfer.	Friend needs to be travelling to recipient in order to affect a transfer.	Chance of money going missing, which yields a probability-based cost.	Poor- Low
Taxi driver Product B (Transfer through taxi-driver)	R15-R25	Easy to understand. Relies on reputation effects. System already in place.	Transportation costs of getting to Taxi driver. Phoning costs of informing recipient of transfer. Phoning costs of confirming that transfer has taken place.	Taxi drivers often make trips.	Chance of money going missing, which yields a probability-based cost.	Low - Med

3.2 Banking channels

From the low-income customer's perspective, the banking system can appear confusing with many products being available but not marketed, or marketed under different names (telegraphic transfers, inter-bank payments etc), or marketed but not available (we were informed that a product existed in the brochure but was not in-fact made available to customers). In what follows, three basic money transfer services are identified and their associated costs explored.

The major South African banks no longer offer basic telegraphic transfer services if recipients do not hold banking accounts. Only for special clients and under exceptional circumstances, will a transfer be arranged for collection, upon identification, by a recipient whom does not hold an account. However, this is not a standard product offered and is not one currently available for the target market. Consequently, **the essential requirement for transferring money via the banking system is that the *recipient* has a bank account.**

Thus, when conceiving of money transfers as occurring principally between an urban sender and a rural recipient, it is the rural party's access to the banking system that is of utmost importance. However, it is precisely the rural party that will have the most difficulty in gaining such access. In rural areas, the rules of the game (shoe leather costs, product path dependency, historically skewed infrastructure, cultural inertia and literacy constraints) are loaded against formal access.

When the sender does not have an account, they may still "transfer" money to a recipient who does have an account by depositing money into that recipient's account. For domestic transfer, the deposit must be made at a branch of the recipient's bank, unless a special arrangement exists between the bank and the relevant institutions. This is explored in Product C below. The requirements of this product are that the sender has physical access to a branch of the recipient's bank and that the recipient has access to withdrawal facilities (branch, ATM, debit card). A variant of the above would be when the recipient and the sender have access to the same bank and both carry debit cards off the same account, allowing the sender to credit the account (either electronically or by making a deposit) and the recipient to withdraw funds. This is not widely used at present although it is technically very simple.

If both the sender and recipient have an account, then an electronic transfer can be affected so long as both banks participate in the electronic payment stream of the National Payments System, or are sponsored by banks that do. Such transfers can be initiated 'over the counter,' by internet, telephone, "self assist" terminals or ATM's. The relevant requirement is that the sender has access to one of these channels and that the recipient has access to withdrawal facilities (as above).

The banking system thus presents two central money transfer 'products' for South Africans:

The sender remains un-banked but the recipient gets banked. The sender deposits money into the recipients account. The 'deposit, which is in effect the 'transfer' is made at a branch of the recipients bank. The recipient pays the costs of maintaining a bank account and the costs of the deposit. The institutions that provide this product are banks that accept cash deposits for their customers and that are connected to SASWITCH systems thus allowing expanded withdrawal facilities.

Both sender and recipient get banked. The transfer is affected by electronic format. Both recipient and sender pay costs of maintaining a bank account and the sender pays costs of electronic transfer. Only Standard Bank, ABSA Bank, First National Bank, Nedbank qualify as offering this product to a mass market. Although Post Bank provides basic savings facilities; these do not extend to electronic money transfers. TEBA Bank has two basic accounts: the mining account and the "growth for life" account (the mining account provides a free remittance facility but is only available to miners.) TEBA Bank will on 7 April 2003 become part of the National Payments System and begin rollout of a debit card product that would give the recipient access to funds in the senders account –creating an effective money transfer product. (Investec and other specialist banks, which cater to niche markets, fall outside the relevant space.)

Genesis investigated the charge structure of the most basic bank accounts that can affect money transfers. To understand the costs of using the above general products, they have been divided into three specific transfer products—labelled products C, D, E. The fees associated with *running* these basic accounts (including maintenance, withdrawal and deposits) and the fees associated with *affecting a transfer* from them are described.

We have assumed that a person's sole concern is to choose a product that will affect money transfers. If they chose the banking system, then they have to bear whatever additional expenses are associated with it. Therefore, services that banks provide but are not necessary for transfers (including statements, balance inquiries, stop and debit orders) are excluded. This is essential in order to compare like with like: in this case a comparison of different money transfer products. In product E, however, we relax this assumption to explore a more realistic scenario in which the sender uses the account to manage his or her personal income. Still, only very basic services are considered. Annex 6.1 summarises the primary data used to describe the costs of the banking products. The table below highlights some of that data.

Table 2. Associated costs of holding an account
Source: Primary data gathered from banks

Institution	Name of Account and cost to open.	Monthly Fees	Own ATM withdrawal
Standard Bank	**E-plan.** To open: need R50. R20 to keep account open.	R 5.50	R 4.15
First National Bank	**Smart Account.** To open: need R30	R 4.50	R2.35 for first R100 and R0.90 for every R100 thereafter
ABSA	**Flexisave** To open, need R50.	R 4.20	R2.20 for first R100, and R0.90 for every R100 thereafter
Nedbank	**Savings Account** *Will usually recommend going to People'sBbank if you have anything under R3000 to open.*	If balance less then R799, monthly fee is R14.25. If balance between R800 and R1499 monthly fee is R9.12. If balance above R3000, no monthly fee	R2.28 plus R0.85 per R100. If balance above R3000, drop the basic (R2.28) fee
Peoples Bank	**Peoples Card Account.**	R4.00	R3.84
Post Bank*	**Flexi Card.** To open, need R10	2.28	Not available

*Post bank is included in this section because of the fact that it is linked to other banks by SASWITCH and meets the other requirements of product C to follow.

3.2.1 *Product C: "Single recipient account"*

Description:

The sender stays unbanked and the recipient gets (or is) banked at a mass-market bank. The sender then deposits at a branch of the recipient's bank and the recipient uses his account <u>only</u> to withdraw the transfers sent by the sender.

Requirements:

- The recipient must have access to bank withdrawal facilities.
- The sender must have access to a branch of the recipient's bank.

At present banks do not normally accept deposits for account holders at other banks. The joint choice of bank for a pair of senders and receivers would have to ensure congruency in the above requirements: the recipient must have access to withdrawal facilities of a bank that has a branch to which the sender has access. For this reason, TEBA bank will be excluded in the following analysis, as it does not have sufficient branches in urban non-mining areas, thus failing to meet the access requirements of the sender (on a mass market level). We also exclude Nedbank, but include People's bank, which promotes Nedcor's mass-market product.

Assumptions:

- The recipient has an equal chance of being banked at any of the banks in the table above (except Nedbank)
- No "over the counter" withdraws are made as wherever there is a counter, there is usually an ATM terminal which is cheaper.
- The recipient has an equal chance of withdrawing from an own-bank ATM or a SASWITCH ATM.

  This creates an upward estimate of cost because the recipient would probably choose a bank that has the closest withdrawal facilities and use those exclusively. Nevertheless, with this assumption access to general withdrawal facilities represents the overarching constraint in this product.
- The transfer amount is R250 per month. (This approximation is maintained throughout)

Fees:

- An average **monthly fee** of R4.10
- A **minimum balance** which represents a one off cost (therefore ignored)
- **Free deposits**

The Post bank accepts deposits for free.

Standard bank accepts deposits of less then R250 for free.

People's Banks accept the first two deposits of every charge cycle for free

ABSA bank accepts deposits less the R500 for free.

It is justifiable, then, to conclude that for the low deposits of the kind we are considering, the banking system actually provides the service for free, or else for a very low charge.)

An average of R6.78 for a single **withdrawal** of R250. This is on the assumption that recipient withdraws on SASWITCH with same frequency as own-bank ATM[3].

Total price of product:

The "single recipient account" (product C), requires **R10.88 per month** in order to transfer R250 per month. This cost is born exclusively by the recipient. It also requires a once off 'commitment' fee to cover the minimum balance. The key constraint is the sender's physical access to a branch of the recipient's bank and the recipient's access to withdrawals facilities of that bank. Hidden costs therefore include transport to appropriate facilities.

[3] In the case of Post Bank, only SASWITCH fee was taken into account.

3.2.2 Product D: "Two accounts"

Description:

Both the sender and recipient get banked. The sender initiates an electronic money transfer to the recipients account. Recipient withdraws money at available facility. **Both persons, however, do not use their accounts for any other reason then to effect the transfer.**

Requirements:

- The recipient must have access to bank withdrawal facilities.
- The sender must have access to a branch of his bank or special ATMs[4].

Compared to the "single recipient account" the sender is not limited to the physical branches of the recipient's bank. He can use branches at his bank as well as own-bank, special ATMs (but not SASWITCH or ordinary ATMs)[5].

Assumptions:

The same assumption are used as with the "single recipient account" except, here, only the fees of FNB, ABSA and Standard Bank are used because they are the only institutions that provide this product on a mass-market level. People's Bank and Post Bank do not, according to our understanding, facilitate electronic transfers from their accounts, although People Bank do allow inward transfers.

Primary transfer data relevant to the fees of product D and E can be found in Annex 6.2. This data yields the follow average results for the fees of product D.

[4] Not all Automated Teller Machines offer the same services: 1) Own-bank ATM's typically allow withdraws and deposits, 2) Not your own Bank SASWITCH linked ATM's, allow only withdraws and balance enquiries. 3) Special, own-bank ATM's which allow withdrawals, deposits and other transactions (payments, transfers)

[5] Given, the limited use the sender makes of his account, he must first deposit money into his account and then transfer it. For this reason he must still have access to a branch or special ATM to make deposits. Thereafter he may use internet or telephone to make transfers. As explained in product E below, this option makes little difference to the specific price although it does change access costs and requirements.

Fees:

- An average **monthly fee** of R4.73 *per account*
- A **minimum balance** which represents a one off cost (therefore ignored as above)
- **Free deposits** (as above)
- Special ATM **electronic transfers** cost an average of R3.18, regardless of the amount. FNB and Standard bank provide internet and telephone banking for free, and charge the same as their ATM transfer, R3.18. ABSA charges a monthly rental for Internet and telephone banking as specified in Table 2 (this is ignored.)
- Recipient's **withdrawal** comes to an average of R7.38, on the assumption that recipient withdraws on SASWITCH with same frequency as own-bank ATM

Total price of the product

Product D, the "two accounts" product thus costs an average of **R20.01.** The benefits over product C are the senders expanded access to transfer facilities. ATM transfers have a constant fee unrelated to amount transferred. Especially significant, is the free telephone and Internet banking provided by FNB and Standard Bank, however, these would obviously include additional telecommunications costs and would also face an additional educational constraint. The transport costs incurred by the need of the recipient to access withdrawal facilities are, again, hidden costs not included here

3.2.3 Product E: "Sender's transaction account"

Description

In this product, the sender's use of the account is expanded. Strictly speaking, this makes it incomparable to other money transfer products that do not provide those services, however, in cognisance of the literature around the deepening of financial access, the report now describes the scenario that once banked, the person's income is paid or deposited into his account. Nevertheless, only very basic uses of the account are included so as not to venture too far from this project's specified terrain.

Requirements:

- The recipient must have access to bank withdrawal facilities.
- The sender must have access to one of the following: a branch, a special ATM, a telephone, a cell phone or the Internet.

Assumptions:

- Same as with the "two accounts" product D above.
- Sender gets money paid directly into account (no charge on account holder)[6].
- Sender makes an average of three (R500) withdrawals.
- No statement, balance enquiries are requested.
- No debit or stop orders are used.

Fees:

Considering only the three main banks, below are the costs for maintaining and withdrawing from an account that contains the holder's monthly income.

- An average **monthly fee** of R4.73 per account
- A **minimum balance** which represents a one off cost (therefore ignored as above)
- **Free deposits** (as above)
- Special ATM **electronic transfers** cost an average of R3.18, regardless of the amount. FNB and Standard bank provide internet and telephone banking for free, and charge the same as their ATM transfer, R3.18. ABSA charges a monthly rental for Internet and telephone banking as specified in Table 2 (this is ignored.)

[6] This assumption is made here for simplicity. Alternatively, deposits could be used to get money into account. This would probably be accompanied by a reduction in at least one withdrawal, which, given low cost or free deposits would potentially make direct costs of banking even cheaper, although it would be more inconvenient and time consuming.

- Sender pays R5.30 per R500 of own-bank ATM **withdrawals** and R10.80 per R500 SASWITCH withdrawals. Thus, average withdrawal costs R8.05 on usual assumption of equal use of SASWITHC and own-bank ATM.

- Recipient' Recipient's **withdrawal** comes to an average of R7.38, on the assumption that recipient withdraws on SASWITCH with same frequency as own-bank ATM

Total price of product:

Given these fees and assumptions, the product will cost on average R33.61 per month before any transfers (and recipient withdrawals) have been made. With a transfer of R250 per month, the cost is **R44.17.**

The table below provides a summary of the three banking products explored above.

Table 3. Banking products compared
Source: Genesis Analytics

PRODUCT	Costs (R250 transfer)	Benefits	Transaction Costs	Product Characterises: Speed and availability	Safety	Accessibility High, Medium or Low
Single recipient account **Product C**	R10.88	Safe and consistent.		Deposit cleared within a few days Recipient can withdraw 24 hours a day at any SASWITCH ATM	Very safe. But sender must still deal in cash	Med
Two accounts **Product D**	R20.01	No contact is needed	Transportation costs of parties getting to bank facilities. Telephone call costs incurred to inform of transfer or, alternatively, cost of balance statement to check if transfer has come through.	As above **Sender must have access to live branch to make deposits.**	Very safe. Sender never has to deal in cash	Med
Sender's income account **Product E**	R44.17	As above Can use telephone, cell phone or internet		As above. Sender may also use telephone or Internet. May be free services of bank, but they come with additional telecommunications costs.		Med - High .

TEBA Bank: A Distribution Solution?

Given its origins TEBA Bank is very focused on rural distribution of funds often in the form of intra-household remittances between a urban or mine worker and rural dependants. TEBA has developed a very low cost solution to providing card-based cash distribution in rural areas (involving issue, authentication & transacting with cards using nothing more than a GSM linked modified POS device) and dual card accounts. The low cost of the device and the low cost of transacting indicates the extent to which distribution in low income areas can be "solved" through the innovative use of technology. The new TEBA development is encouraging: it wants to expand access to rural areas based on a business case, not reluctantly because of political pressure. To succeed in building its customer base TEBA Bank needs to overcome several challenges:

- As in any retail project; profitability requires huge volumes and a big increase in account holders, beyond the current target market of mine workers
- If the product is to be used beyond the current market, then senders need to be able to easily credit a TEBA account. TEBA however does not have an urban distribution to match that of the major banks. Currently Banks do not accept deposits for other banks, unless a special arrangement exits. Thus unless a sender has their own account and knows how to make an inter-account transfer– or can find a TEBA bank branch it will be difficult to extend the market reach from the senders perspective even if the rural roll-out is successful.
- The deployment of the POS devices to appropriate retailers has not yet started. The success of this operation will determine the extent to which TEBA can extend reach into the rural areas.

3.3 Post office

Post offices utilize their extensive postal network to offer money transfers for a fee. With offices in most towns and cities, this network comprises of over 1241 SAPO owned offices. The network expands to 2700 locations when including the agents of SAPO. These agents fulfil an array of postal services depending on the need of the location. Several hundred of these agents offer full services and are on-line. By nature, the post office products are well defined and therefore no simplifying assumptions need to be made about their use. Each product is described with relevant requirements, fees and total price.

3.3.1 Product F: Postal Orders

Description

The post office can be used to effect domestic money transfer without any maintenance charges and without requiring identification. Sender pays the post office the transfer amount plus fees and fills in an easy form. The post office will deliver a postal slip to the recipient who must then go to the post office to collect the money, which will be given if the recipient produces appropriate identification.

Requirements

- Recipient and sender must have access to SAPO branch or agency.
- The maximum value that can be sent is R2000, but you can send as many orders as you want.

Fees

- The sender has to buy an envelope that costs R1.70 at the post office.
- Sender will be encouraged to use registered mail for an extra R10.65 (Order will be guaranteed if sent by registered post)
- The table below describes the fee structure

Table 4. Postal orders within South Africa
Source: Post Office

Postal orders	Charge
>R50	R 9.00
R50 - R100	R 10.80
R100-R150	R 13.00
R150-R250	R 16.20
R250-R500	R 20.00
R500-R1000	R 24.00
R1000-R2000	R 27.50

Total price of product:

The cost to send an unguaranteed postal order is R17.90. The cost to send a *secure* money transfer by postal order is R28.55.

3.3.2 Product G: (Local) Telegraphic Money Orders

Description:

Sender pays the post office the transfer amount plus fees. The sender must fill in a relatively easy form at the post office. It is the sender's responsibility to inform the recipient of the Money Order number and amount. Upon collection, recipient must produce identification. The Post Office uses a country-wide network of Telkom telegraphs to send information regarding money transfers instantaneously. In the near future, however, clients are likely to migrate toward the PIN money order, explored below.

Requirements:

- Recipient and sender must have access to SAPO branch or agency.
- The maximum value that can be sent is R2000, but you can send as many orders as you want.

Fees:

- Local money orders cost R22.25 plus 3% of the amount.

Total price of the product

Given the above, a R250 domestic telegraphic order thus costs **R29.75.**

3.3.3 Product H: PIN Money Orders

Description:

The Post Office has recently launched an exciting transfer product. This service is (currently) only available within the RSA and can only be issued at Post Offices with on-line (Post Link) facilities. Of the 1241 offices owned by SAPO, 1000 are currently on line with the rest expected to come on line within 3 months.

Sender fills in a form, pays relevant amount, and telephones recipient with PIN. The recipient can then access the funds at any online SAPO branch or agency.

Requirements:

- Recipient and sender must have access to SAPO branch or agency, that is on line
- Recipient and sender must have access to a telephone or cell phone to communicate PIN.

Fees:

- If you transfer money by PIN money order, it costs R14.00 plus 3% on the amount.

Total price of product:

A R250 domestic PIN money order thus costs **R21.50.**

Table 5 below compares the postal products above.

Table 5. Postal products compared
Source: Genesis Analytics

Product	Costs (R250)	Benefits	Transaction Costs	Product Characterises Speed and Availability	Safety	Accessibility
Postal Order Product F	R17.90	No maintenance fee. Many access points. No contact between parties is needed.	Transportation costs of parties getting to post office.	Long waits for delivery Cost of money going missing Confirming by telephone	Unsafe	**Poor-Low**
Secure Postal Order Product F1	R28.55 with guarantee	As above		Long waits for delivery Confirming by telephone	Safe	**Low-Medium**
Local Telegraphic Order Product G	R29.75	As above Very quick.		Sender and receiver getting to post office. Confirming by telephone.	Safe	**Med**
PIN Money Order Product H	R21.20	As above. Can access at any Post Office.		Sender and receiver getting to post office. Informing by telephone.	Very safe	**High to excellent**

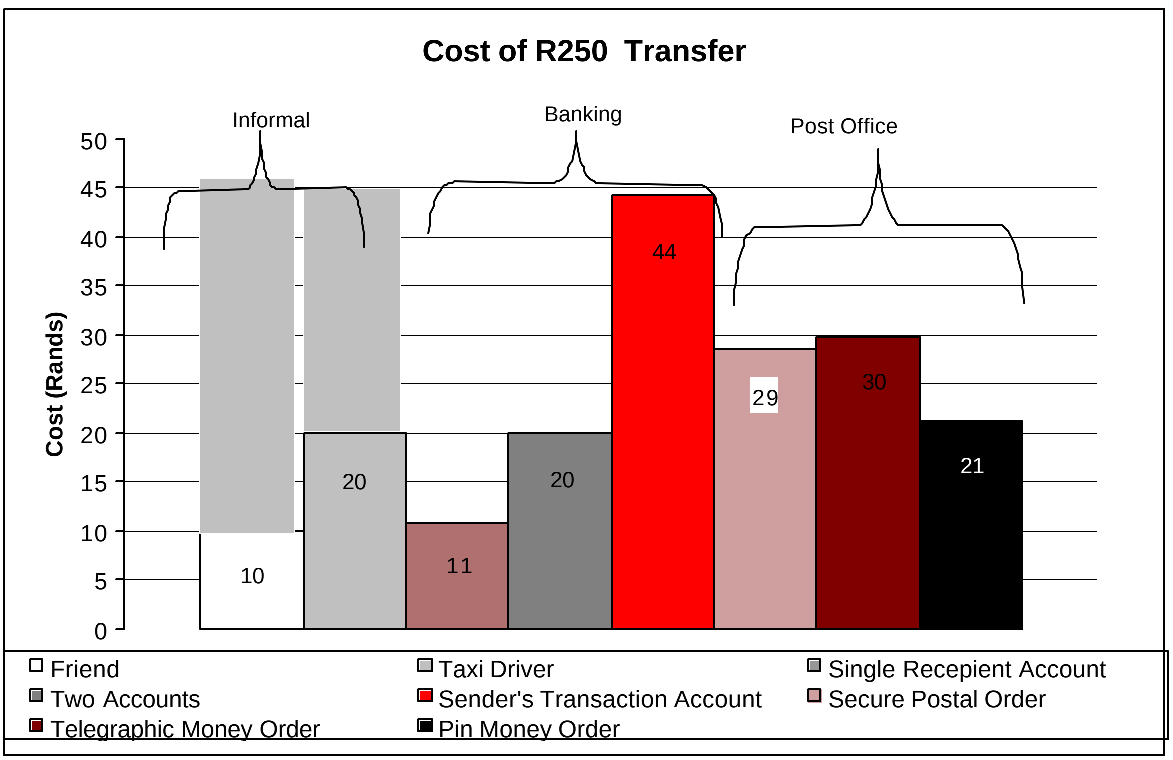
3.4 Conclusions on domestic transfers

This report has identified three main categories of domestic money transfers:

- Informal (friend as courier and taxi driver as courier)
- Banking products (recipient only account, sender only account and both parties with accounts)
- Post office (telegraphic transfer, PIN money transfer and postal order)

Importantly the banks do not currently make transfers for individuals who do not have a bank account and the bank products therefore involve deposits into an account (and withdrawals) or inter-account transfers. In the graph below the costs associated with each of these products/channels are compared. The shaded blocks depict the real but un-quantified risk of a loss of funds when informal channels are used.

Figure 1. Comparison of the cost to transfer R250 using different channels
Source: Genesis Analytics

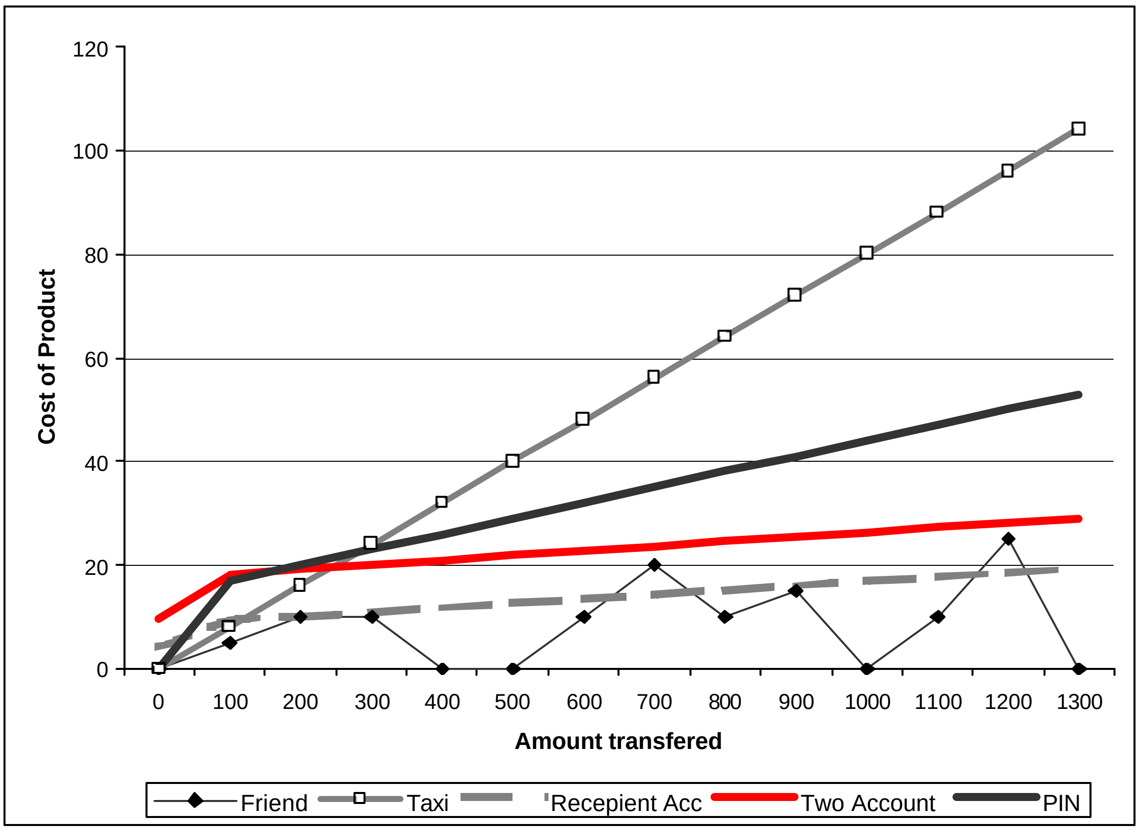


It is clear that the costs of using formal mechanisms are probably lower or in line with the informal mechanisms, on a risk adjusted perspective.

Does the story highlighted above hold if the amount transferred varies? The graph below tracks the cost of different domestic products as the amount transferred increases.

- The taxi product was worked out by inferring an 8% commission. This is probably an over estimate but is in line with the anecdotal evidence.
- The friend product assumes a random distribution, with the friend sometimes charging a token amount, other times doing it for free. *For this reason the line is shown as erratic.*
- The new PIN money order is shown as opposed to the telegraphic postal order (because there is likely to be an overwhelming migration to the former product).
- Of the banking products, product E ("sender's transaction account") has been excluded for simplicity.

Figure 2. Domestic products as transfer varies
Source: Genesis Analytics



Implications

1. Taxi drivers are cost effective for amounts less then R250. Friends are always competitive, but erratic. But the hidden costs are stolen/lost money, and the need for a coincidence of circumstances, etc.

2. The PIN money order is the most expensive formal product for amounts higher then R250, but is competitive for amounts lower then this.

3. Importantly formal products seem to be priced competitively with respect to informal products and would appear to be reasonably affordable, even for relatively small amounts.

4. Besides the erratic friendship product, the “recipient account” is the cheapest for all amounts.

There are however other aspects of access other than affordability. The “recipient account,” for example, faces critical access constraints, considering the lack of banking infrastructure in rural areas, cultural inertia on the part of customers, and a product path dependency that may cause banks to shy away from lower end customer, their stated policy notwithstanding.

The next table introduces some additional dimensions, namely: the physical access for both the sender and recipient, the speed with which money is transmitted, and the availability of the product/channel (how often and how consistently is the product available, e.g.: a taxi driver may not be travelling when the sender or the recipient need to transact). Each dimension is ranked on a relative scale of 0-4, with different size moons representing these scores.

It is usually the case that the recipient and not the sender has access constraints and thus it is the rural recipient’s access that is often of critical importance. This report has not been able to precisely investigate the distributional reach of the post office and the traditional banks and other service providers. In the following, however, it is assumed that the post office has considerable rural reach relative to the other providers.

Table 6. Accessibility dimensions
Source: Genesis Analytics

Products	Sender's physical access	Recipient's physical access	Product characteristics: speed and availability.	Safety (lack of risk)	Total accessibility
Friend*					
Taxi driver**					
Single Recipient Account+					
Two accounts++					
Sender's transaction account+++					
Postal Order^					
Guaranteed Postal Order^ ^					
Telegraphic money order^ ^ ^					
Pin money order^ ^ ^ ^					

* The "friendship" product has low accessibility for all dimensions (1).
** The "taxi driver" product is superior to the friendship product on sender's geographical access (2) as well as on speed and availability. Taxis travel more regularly to rural areas then would any specific friend.
+ The "single recipient account" is superior to the taxi product on speed and availability: deposits clear often within two days anywhere across the country and senders can make deposits 6 days a week. However, this product scores a very low (0) on rural geographical access because of the sparse banking infrastructure in the rural areas. Furthermore, we consider the senders geographical access to be the same as for taxis and post offices (2). This is because with the single recipient account, the sender must have access to a branch of the recipient's bank. A specific bank with associated branches and post offices are likely to provide *broadly* similar access points in urban areas.
++ The "two accounts" is superior to the "single recipient account" on senders geographical access to banking facilities because with this product the sender can chose any bank to open an account and then effect transfers and is not limited to depositing in a branch of the recipients bank.
+++ The 'senders transaction account" provides perfect senders geographical access as with this product, the telephone, cell phone and internet become access points to the sender (and telecommunication cost replace transportation costs).
^ The Post office products are considered to provide the same rank of geographical access to urban senders as does the single recipient account and taxis. The postal order provides low rural geographical access, because they require that the rural recipient have a postal address. Product characteristics (specifically speed), and safety are poor
^^ The guaranteed postal order registered mail improves on the regular postal order's safety ^^^ The telegraphic postal order improves on product characteristics of postal orders.
^^^^ The PIN money order improves on rural geographical access because the recipient does not need an address and can collect from any post office or SAPO agency. Furthermore, speed, & safety are high. Availability is also good (product will be at all post offices within three months and is usable within office hours).

Note that *cultural inertial* and the effects of *product path dependency* have not been included in this accessibility table. It is likely that these are the factors that cause informal products to be more widely used the formal products, despite the inferior "accessibility", as defined here.

The critical impact of rural recipient access, not visually depicted in total accessibility, will be discussed below.

The product that scores most highly on accessibility is the PIN money order. Although the PIN money order is R10 more expensive than the recipient account, the new product may seriously rival banking products, if not on price directly then because:

- no start up costs are required
- no monthly fee is required
- of the rural and nationwide reach
- of the products simplicity
- of the instant availability of the funds to recipient
- on small transfers it is relatively competitive with banking products on price.

The key problem with the banking products, considering the critical requirement that the recipient be banked, is the low or non-existent rural recipient access. Importantly, if an unbanked sender was allowed to deposit money into a recipients account at any bank branch, this would significantly change the distribution constraint for the sender *and allow the recipient to open an account with institutions that have rural but not urban distribution.*

Overall it seems that the ability to transfer funds around the country is less of a constraint than is sometimes thought. Utilising either the banks (recipient party banked) or the post offices (both party unbanked) low-income individuals can make R250 transfers for between R10 and R20. Compared to informal products, these are at least as attractive on price, present far lower risk, and, with the new PIN money order, may even compete on accessibility.

In our analysis we have assumed the sole benefit to a recipient of having a bank account is to cheaply receive deposits. It seems likely that with a bank account and a growing need to make payments (for mobile recharge, utility payments etc), as well as to save, more and more people would be able to make payments at the very low cost associated with inter-account low transactions. **Thus providing a low cost money transfer solution for the poor may be resolved by an overall drive to provide bank accounts to the poor and *possibly* a requirement that banks accept deposits on behalf of other banks.**

4 Cross border transfers, from South Africa

Cross border money transfers (remittances) occur in a substantially different environment compared to that of domestic transfers:

- Firstly, cross border transfers are primarily made by persons who originate from outside of South Africa. As the legal *and social* status of migrants differs from permanent residents they have different incentives to utilise formal and informal channels and have different access to these channels.

- Secondly cross border flows are heavily regulated by exchange controls that limit the export of Rands and place costly requirements on agents engaged in the sale of foreign currency

- Finally there is currently considerably international attention on the prevention of money laundering and the need to regulation and control the flow of funds across international borders

This section will first explore some high level insights into the cross border money transfer industry, before moving to describe the available transfer products, including:

- Informal products

- Formal banking products

- Money Transfer Agency products

- Post Office products

4.1 Issues in cross border remittances

Internationally, the market for remittances is estimated at \$100-\$300 billion per year,[7] a large proportion of which is channelled through informal money transfer systems (IMTS). The market is unique in that although the cross border transfer of funds is one of the oldest functions of the banking system, the formal segment of the retail market is dominated by non-bank financial intermediaries, specifically Western Union.

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[7] Buencamino, L., Gorbunov, S. (2002) Informal Money Transfer Systems: Opportunities and Challenges for Development Finance. DESA Discussion Paper No.26 United Nations

Some writers claim that cultural inertia has been the reason why the international market is dominated by IMTS. Cultural inertia, as explored in section 2.2.3, describes a dynamic in which people use a product for reasons other then its price and quality. The development challenge is to engage with these cultural issues and to ensure that the continued use of inefficient products is not a result of excessive regulation or overly complicated and restrictive licensing frameworks that create barriers to the use of formal products.

Technical and institutional incongruities existing between formal organisations in different countries present further obstacles to the formalisation of the international remittances industry. Whereas inter-bank transfers using SWIFT are well established they are very costly when used to effect individual micro-transfers. Even South African banks that have representation across the border in high recipient countries make use of a SWIFT transfer.

Branding is equally a challenge. Western Union has succeeded by building an international brand in both sending and recipient countries. This has not been the case for South African banks in the rest of Africa. ABSA operates under the name of the acquired bank in each country, Standard Bank as Stanbic etc.

Whereas Governments around the world have often tried to encourage an efficient domestic funds transfer business this is seldom the case in cross-border flows. Firstly, cross-border money transfers are probably made by non-citizens, who do not have voting power and thus do not possess the political weight necessary to inspire government action. Secondly, pressure to increase bank account holdings has often arisen to improve the efficiency in grant benefit payment systems, which creates opportunities for domestic money transfers as seen in the previous section but does nothing for cross-border flows. The third problem with cross-border money transfers is that they are complicated by highly politicised instances of abuse, with money laundering, exchange control violation and stimulation of illegal migration being the most prevalent (it is argued that if an illegal immigrant finds work but cannot send funds home this may reduce the desire to enter a country and seek work). In essence, these realities encourage government to restrict rather then promote the proliferation of competitive formal cross border systems: excessive regulation leads to the exclusion of even legal migrant workers from formal transfer systems.

4.1.1 Immigration: the legal environment

Sending remittances back home is a perfectly legitimate activity for foreigners legally working in the country. Money transfer systems, however, tend to create opportunities for both legal and illegal migrants. Further, money transfers from illegal immigrants technically violate a host of regulations (exchange control regulations - because according to those regulations, illegal migrants are not amongst those who may legally sell South African Rands, tax laws – funds to be remitted from South Africa need to have been appropriately taxed, entry permits – only certain temporary resident permits allow the holder to legally earn Rand which can be remitted).

Which type of *non*-SA citizens would be *legally* entitled to remit funds from South Africa?

- Permanent SA residents who are originally from other countries. In this category would fall the 150 000 SADC immigrants that recently were granted residency under an amnesty provision.

- Temporary SA residents who have a work permit and who can show evidence of the source of their salary. As will be described in the section on exchange controls, temporary residents are considered permanent residents for the purposes of exchange control regulations, *unless their temporary residency is held for a purely temporary visit*

Table 7. Number of legal temporary entrants into South Africa
Source: SAMP Migrant Policy Brief No 3[8]

Purpose of Entry	1998	1999
Business	676 521	576 401
Study	51 737	50 130
Work	81 442	74 129
Contract Work	84 755	61 443
Border Passes	110 608	113 053
Tourist	4 893 473	5 150 930
Total	5 898 236	6 026 086

Temporary residence is granted to foreigners who qualify for an appropriate permit. Most of the categories of permit are only available to skilled workers who would normally be expected to utilise the formal banking sector for money transfers. Annex 6.3 contains a table summating the different permits that are currently available.

Based on this analysis as well as our discussion with SAMP, it is apparent that it has become increasingly difficult for low income individuals to enter and stay in South Africa legally. Moreover, even if one can enter legally, it is extremely difficult to work in the country legally unless you bring capital (business permit) or fall in the upper end of labour market (other work permits).

[8] Crush, J., Wiliams, V (Eds). Making up the Numbers: Measuring “Illegal Immigration” to South Africa, Southern African Migration Project

The upshot of this is that many foreigners simply enter, stay and work *illegally*. Since 1990, the South African government has deported 900,000 migrants (80% of which come from Mozambique[9]. Perspectives and opinions on illegal immigration often differ dramatically. We avoid this debate. The table below indicates what avenues are open to both illegal and legal migrants. Clearly the level of enforcement will determine the extent of use & abuse of different channels.

Table 8. Migrant Access to different transmission channels.
Source: Genesis

Transmission Channels	Legal Migrant Workers	Illegal Migrant Works
Banking System.	Yes, but exceptionally difficult. Given the increasing regulatory burden faced by the banks it appears that many foreigners who are working legitimately encounter great difficulty in opening a bank account. Besides the regulatory burden, basic perception issues still hamper account opening.	No, because if you are not a South African (with ID), you need a work permit (or refugee papers) to open a bank account. Illegal immigrants cannot open either a resident or non-resident account.
Post Office	Yes, but limited to R2000 per month.	No, but enforcement might not be as good as it could be.
Informal Mechanisms	Yes	Yes
Western Union, Money Gram	Yes	Yes, if control not properly applied.

Authorities might thus be prejudiced toward informal channels and non-bank channels that cannot or tend not to implement the letter of the law. This is especially the case when matters of exchange control and money laundering come to the fore.

[9] Crush, J., Wilaims, V. Making up the Numbers: Measuring "Illegal Immigration to South Africa Migration Policy brief No. 3. Southern African Migrant Project.

4.1.2 Exchange controls

South Africa has probably the most extensive and comprehensive system of exchange controls of any middle-income country. The money transfers covered in this analysis would be classified as "transfer payments," also known as "gifts." Transfer payments are considered, for exchange control purposes, as unilateral transfers—payments that are not made for or in expectation of receiving goods and or services. Transfer payments can legally be made by SA residents and temporary residents upon identification of source of earnings.

Gift category. South Africans may make transfer payments of up to R30 000 per year to persons who are normally residents of countries outside the CMA. There are no restrictions on payments within the CMA. In lieu of money transfers they may also transfer parcels containing goods other than gold or gold jewellery. Residents wishing to transfer money or goods in excess of their limit of R30 000, must make application to the Exchange Control (Department).

There are very few immigrants in this target market who would be in a position to remit more than the current limit of R30,000 per annum.

Maintenance category. In special circumstances where a non-resident family member is in need of money, an Authorised Dealer may execute a transfer, not exceeding R 9000 per receiving family per month although the compliance requirements are arduous. Annex 6.4 lists the Authorised Dealers that are currently licensed.

Foreign nationals are, for exchange control purposes, natural persons of countries outside the CMA who have taken up temporary residence in the Republic excluding those who are purely on temporary visits. This therefore includes all foreigners who have qualified for any of the categories of temporary permits (except the visitors permit). Foreign nationals temporarily resident in South Africa are regarded under Exchange Control Regulations as residents.

"The norm applied by Exchange Control is that contract workers should, while they are in the RSA, be treated more or less like residents in order to avoid unnecessary administrative procedures which would have resulted from treating them as non-residents. That implies, for example, that they can keep bank accounts or obtain funds from financial institutions for the purchase of a house in the same way as a resident."

Authorised Dealers may permit such foreign nationals:

(a) to conduct their banking on a resident basis

(b) to simultaneously conduct resident as well as non-resident banking accounts[10]; and

(c) to transfer abroad funds accumulated during their stay in South Africa provided the individuals can substantiate the source of such funds and that the value of such funds is reasonable in relation to their income generating activities in the Republic during the period.

In the absence of money laundering legislation, exchange controls have been used to control and limit suspicious transactions and more importantly, authorised dealers assume a key role in the implementation, not just of exchange controls (as they pertain to the various limits on different categories of transaction) but of immigration & increasingly tax law. Their responsibilities will be further increased with the introduction of money laundering legislation. Currently there is considerable overlap between issues that relate to immigration and money laundering that our captured under existing exchange control regulations and new rules emanating from the Financial Intelligence Centre Act (FICA).

4.1.3 Money laundering

The attacks on the World Trade Centre in September 2001 have heightened awareness of avenues that can be used to finance international terrorism. Money transfers utilising informal and agency-based systems have become the focus of increasing attention.

South Africa is in the process of introducing money laundering legislation. The key concept behind the legislation is to ensure that:

- dirty money does not enter the banking system
- all high value low volume cash based transaction are scrutinised
- all institutions are covered by the legislation but exemptions will be granted providing the institution does not deal in cash

[10] Non-resident accounts are the accounts of persons resident, domiciled or registered outside the CMA, but are now temporarily resident in South Africa. Non-resident accounts may be credited by authorized payments from resident accounts, or pay payments from other non-resident accounts.

The legislation as currently drafted places a huge additional burden of compliance on accountable institutions (primarily banks and authorised dealers).

The two most important provisions of the new FICA Act that have a bearing on this project are sections 21 and 22. Section 21 prescribes the duties being placed on accountable institutions to establish and verify the identity of a client. Section 22 requires banks to keep records of the identity of the client as well as of all the transactions that they have with the client. Section 21(1) provides that:

"An accountable institution may not establish a business relationship or conclude a single transaction with a client unless the accountable institution has taken the prescribed steps to establish and verify the identity of the client …"

Transactions are not defined and should thus be interpreted in the widest form of the word within a commercial and banking context. It would certainly include deposits and money transfers. The prescribed steps are further set out in the regulations. These regulations, highlighted in the box below, will come into force on 30 June 2003.

Know Your Client regulations (KYC)

Regulation 3 puts the obligation on the accountable institution to obtain the following from a prospective client:

- Full names
- Date of birth
- ID number
- Income tax registration number
- Residential address

Regulation 4 then requires the institution to verify each bit of information so obtained

- Full names, date of birth and ID number must be verified from an ID document or another acceptable document **and** "any of these particulars (must then be compared) with information which is obtained from any other independent source, if it is believed to be reasonably necessary taking into account any guidance notes …";
- The income tax registration number must be compared "with a document issued by the SARS bearing such a number and the name of the natural person";
- The residential address must be verified by "comparing these particulars with information which can reasonably be expected to achieve such verification and is obtained by reasonably practical means".

From the above it is clear that:

- When any person, irrespective of income or likely transaction value opens a bank account, the bank must comply with the KYC requirements.
- When a person who does not have a bank account goes to a bank to deposit money in the account of a relative or other third party, the bank cannot accept that deposit unless it has complied with the KYC requirements.
- When a person wishes to transfer funds (outside of a banking relationship) the KYC rules would apply

If implemented these regulations would change the economics of the money transfer business:

1. The KYC requirements substantially increase the cost of account opening. It makes if far less attractive for banks to open accounts for low-income clients.
2. It makes the transfer of money electronically far more difficult where either the sender of receiver does not have a bank account.

4.1.4 Discussion

The brief descriptions of immigration, exchange control and the proposed KYC regulations give some indication of the burden of compliance on *any* institution that wishes to enter this market. The front line staff, of an accountable institution, have the responsibility of administering any number of regulations under several different laws – none of which are particularly well understood. The compliance and disclosure routine to be completed before a formal institution can accept funds (either through the opening of an account) or effect a money transfer, drive up the cost of utilising formal mechanisms, thereby encouraging the use of informal mechanisms with all their associated costs. Thus the introduction of the new FICA regulations would further (and dramatically) raise costs, with the implication that accountable institutions will have less and less incentive to service the lower end of the market where costs as a proportion of the funds to be transferred would become prohibitive. These hidden costs need to born in mind in the following discussion of the products that are currently available.

4.2 Informal mechanisms

On the international front, critical features of IMTS include:

- Cheap service for transfer of small amounts, relative to the banking industry that charges high minimum fees
- No monthly charges
- Based on familiar communal networks (cultural inertia)
- Avoidance of currency controls
- Avoidance of distorted exchange valuations (Zimbabwe)
- Avoidance of government taxes
- Avoidance of uncertain receiving end charges (see below).
- Non-reliance on formal infrastructure
- Non-reliance on documentation (no literacy constraints)
- Transfers from illegal persons can be facilitated

Two well known informal systems are *hawala* (originating in Pakistan) and *fei ch 'ien* (originating in China).

Hawala

In India, in 1991, it was estimated that hawalas were processing between $10 billion to $20 billion a year. In Pakistan, more than $5 billion flow annually through its hundi networks.

How the system works

A customer will go to one “hawaladar” (a broker) and give a specified amount of money to be transferred to a chosen destination. The hawaladar will contact his counterpart in the chosen destination (by telephone, fax or email) and instruct him to give the specified money to a recipient with the correct identification. The identification is a code established by the two hawalders and must be relayed by the sending customer to his recipient. Money is usually available within hours.

At then end of a specified period, after the appropriate hawaldars have cleared all transactions, in both directions, net settlement is effected by:

- sending money by banking channels
- postal orders, or
- initiating a goods swap at adjusted prices, or
- illegally through currency smuggling and invoice manipulation

Fees

A commission ranging from 0.25 per cent to 1.25 per cent is charged on the sender. Exchange rates are usually competitive.

In SA, we have not heard of any Hawala-type systems being used by low income individuals. Hawala-type systems may not have developed in Southern Africa because of the lack of commodity trading networks. In other trading regions, some experts say Hawala originated 1000’s of years ago creating significant path dependency and cultural inertia. Without a trading network, net settlement must take place with a transfer of actual funds. Our analysis thus focuses on the systems that we know exist and that are the same as in the domestic market: using a friend or a taxi-driver as a courier.

4.2.1 Product 1 and 2—Friends and Taxis

Martha, a domestic worker, sends R100-R300 every month to her children in Bulawayo. For this she usually uses friends at a cost of R10 per R100.

According to another interviewee, she sends as much as R600 per month to her children in Zimbabwe, a service for which she can pay Taxi Drivers as much as R120. Martha and other respondents also used taxis to transport food to Zimbabwe at an average price of R4 per kilogram. Informal networks tend to be especially attractive when remitting to neighbouring countries, but less so as the physical distance increases. One respondent indicates that certain “friends” drive to Zimbabwe every weekend for the explicit purpose of transporting money and food.

A perception that deserves being challenged is the notion that IMTS are dangerous and run by criminals. As argued previously, the force of reputation dynamics will quickly move to exclude operators who do not deliver:

Cheating (among hawaladars) is punished by effective excommunication and "loss of honour ", which is tantamount to an economic death sentence.

Nevertheless, IMTS face a threat from outside the system: crime. This is especially the case in Southern Africa where taxi operators are often at high risk.

Anecdotal evidence suggests that the cost of the cross-border taxi product is 20% of the amount transferred. R250 thus costs **R50.** The "friend" product is likely to cost about 10-15%, an average cost of **R25** to transfer R250. It is emphasised again that these figures are not based on adequate statistics but on anecdotal evidence.

4.3 Banking sector

The large banks in South Africa have largely neglected product development in intra-Africa remittances, a potentially lucrative product area. Why?

- The upcoming analysis of the Western Union business model suggests that to succeed the banks would need to provide a receiving (in South Africa) and distributing infrastructure (in recipient country).
- For historic reasons (apartheid isolation) the SA Banks have not had large retail branch networks in many of the countries of SADC to affect the outward leg of the transaction.
- Many of their current non-SA networks have been acquired through the purchase of existing banks that run on different systems making interaccount transfers more difficult to achieve.

There are three definable banking products currently available:

- **Product 3**: International Two Accounts. Money is sent by electronic transfer.
- **Product 4:** Single Recipient Account. Money is "deposited" into recipient's account

(perhaps first into Bank's own account). Ultimately, money is sent by electronic transfer.

- **Product 5:** Bank draft. No account is needed.

4.3.1 *Product 3. "International two accounts "*

Description:

This is the standard product offered in the banking industry. The transfer can take as little as 10 minutes to effect, but as much as 2 days to clear.

Requirements:

- Both parties have access to appropriate banking facilities.

Assumptions:

- Recipient's bank charges are the same as those faced in South Africa.
- Same assumptions as in the domestic "two accounts", product D.

Fees:

The table below describes the direct and indirect fees

Table 9. Cross border transfer fees.
Source: Genesis Analytics

PRODUCT	Swift fee	Commission	Other charges
FNB	R80	0.4%. R70 minimum R570 maximum	Double spread Charges on receiving end. Cost of physical access
Standard Bank	In commission	0.35%. R150 minimum R385 maximum	
ABSA	R50	0.35%. R75minmum. R500 maximum.	

It costs,

- R16.84 to run both accounts each month including one withdrawal on recipient side

- R141.67 to effect the transfer – comprising SWIFT fee & commission, sometimes combined as minimum charge

Total price of product:

The international two accounts costs, on average, **R158.51** to transfer R250 per month.

This is certainly an underestimate of the total cost of this transaction. On the receiving side, banks will make a retail spread on the exchange (in converting from dollars into the local currency) as well as charge sometimes substantial receiving end fees. Not only do these add to the costs of the product, but the uncertainty about these receiving end charges limits the attractiveness of using such products.

4.3.2 Product 4: Only recipient has an account

This product should not be emphasised, but is included here for completeness. Banks can technically receive funds, create a suspense account and then credit a recipient at another bank. This is however not a "normal" product and would only be offered under exceptional circumstances and is almost certainly not available in any volume to the mass market.

According to bank personnel, the sender will usually not be charged a deposit fee. Thus this product costs the same as the previous one, minus the monthly fee of a South African account. To transfer R250, would thus cost **R153.78.**

4.3.3 Product 5: Bank Draft: Both parties do not have an account

Banks provide what is called a "draft." This is essentially a bank cheque written in the currency of choice. The cheque is then usually posted by registered mail (either by sender or by bank for an additional fee) and thus takes a long time.

The fee for a draft is 0.5% of the Rand value, with a minimum of R80. Other charges include a single retail spread, receiving end charges, and postage charges. Ignoring these, the product costs **R80** to send R250

Table 10. International banking products compared
Source: Genesis Analytics

PRODUCT	Costs (R250 transfer)	Benefits	Transaction Costs	Product Characteristics: Speed and accessibility	Safety	Accessibility
Product 3 Two accounts	R158.51	Safe and consistent. No contact is needed	Transportation costs of both parties getting to banking facilities. **Receiving end fees** **Retail spread on other side.**	Fast. Critical constrain is physical and real access to banking facilities.	Safe	Low
Product 4 Recipient Account	R153.78			Not readily available.		Poor-low
Product 5 No accounts — Bank Draft.	R80.00	Parties do not need to hold bank account. But, they still need access to banking facilities.	As above plus postage. Postal inefficiencies.	Slow. Requires that both parties have access to banking facilities anyway. Require postal facilities as well		Low

4.4 Post Office

4.4.1 Product 6: Ordinary Money Order

This service is carried out through the post. The maximum amount of money orders that can be sent is R2000 per person per month. Senders are required to produce identification and, according to post office sources, this identification is stored on a database that then prevents that same person from sending more then R2000 per month, *from the post office.*

Fees:

- To send money to UK, Jersey, Northern Ireland cost R21.00 plus 3%
- To send money to Botswana, Kenya, Mauritius, Mozambique, Zambia costs R17.50 plus 3%.

For a speedier service, a telegraphic money order is used.

4.4.2 Product 7: Telegraphic Money Orders

Fees:

- To send a telegraphic money order to Lesotho, Namibia, Swaziland (no limit to number of orders) costs R30.25 plus 3%
- To send a telegraphic money to Botswana, Kenya, St Helena, Zambia costs R40 plus 3%

Table 11 on the following page summarises the post office products, contrasting the relevant features.

Table 11 International postal products compared
Source: Genesis Analytics

Product	Costs (R250)	Benefits	Transaction costs	Product Characteris es; speed and availability	Safety	Accessibility
Ordinary Money Order Product 6a	R28.50	No maintenance fee. Many access points.	Sender and receiver getting to post office.	Slow, Applicable countries : UK, Jersy, Northern Ireland	Unsafe	Poor- low
Ordinary Money Order Product 6b	R25.00			Slow. Applicable countries: Botswana, Kenya, Mauritius, Mozambique , Zambia		
Telegraphic Money Order Product 7a	R37.75	As above, but faster – recipient receives a telegram informing them that the funds have arrived	As above Telephone call to inform of number	Faster. Applicable countries: Lesotho, Namibia, Swaziland	Safer	Medium
Telegraphic Money Order Product 7b	R47.50			Faster. Applicable countries : Botswana, Kenya, St Helena, Zambia		

4.5 Money transfer agents

4.5.1 Money Gram

Rennies Bank holds the Money Gram agency for South Africa. Formerly Rennies Travel, it was an Authorised Dealer with limited authority but has since acquired a full banking licence. Rennies has been an agent of Money Gram since 1997 and Rennies now uses them to facilitate their gift transfers business.

Money Gram transfers in South Africa are predominantly inward, with only 20% of transfers leaving the country. Most inward transfers are from the UK with outward transfers mainly going to Nigeria, Senegal, United Kingdom, Zimbabwe and Mozambique. This indicates a substantial upper income bias in their target market.

On all Rennies transfers, there are essentially two charges: the commission and the exchange rate. There is a double exchange rate spread: one that Rennies makes when converting Rands into dollars, and one when the dollars are converted into the currency of the destination country. As prescribed by regulations, Rennies will facilitate transfers for any permanent resident or temporary resident (whom, as discussed, are treated as permanent residents for exchange control purposes). Residents must specify the purpose of their transfer, with a maximum of R30 000 allowed for the transfer of Gifts. If the tellers at Rennies are satisfied that the transaction falls within exchange control regulations, then they will carry it out. Transactions are on line and can be intercepted by the Reserve Bank if they are suspicious.

Requirements: Passport proving residency.
Don't seem suspicious.

Time: 10 minutes

Fee: $(0-100): $13
$(100 – 200): $15
$(200-400):$20

Other Charges: double spread
R10 transaction fee
VAT (14%)
phone call to tell friend reference number.

Thus, to transfer R250 with Money Gram costs **R127**

4.5.2 Western Union

Western Union is the world largest money transfer company with a 24% market share and 150,000 locations[11] worldwide. With Money Gram, it is the only transfer service that has wide representation in Africa. Migrant communities all around the world use Western Union to affect money transfers to family and friends living in the country of origin. The service provided is based on a worldwide agency based network. Customers can initiate and receive transfers from anywhere on this agency network including banks, currency exchanges, post offices, travel agencies, food stores, couriers, and airports. Western Union contracts network agents who have the best possible distribution in recipient countries.

Western Union's success reflects several factors:

- Franchising of agents reduces cost of expansion and enabled the creation of an internationally recognised brand and a very rapid expansion across border (190 countries in 12 years).
- This established a brand that is instantly recognised by migrants across the world.
- Established network of agents in places where large numbers of remittance senders and receivers are located.
- Instant money transfers – money is available immediately rather than after several days and lots of uncertainty.
- Guarantee of funds.
- No need to rely on networks of association (Hawala & or friends) - covers remittances for migrants who are a very long way from the country of origin and when visits "home" are infrequent or costly.
- No recurrent costs if say a bank account was maintained primarily to remit funds.

[11] Sceffel, A. (2002). Affordable Money Transmission and Basic Payment Facilities For the Low-Income And Unbanked Market Segment: The International Experience.

Although there are no Western Union products currently marketed in South Africa, an evaluation of their products in other countries suggests the following indicative pricing model.

Table 12. Western Union pricing schedule
Source: Discussions with high level Western Union representatives

Amount	Price
Below R500	R91
R1000	R137
R2000	R160

Based on these prices, that have been confirmed to be a fair representation of their model by Western Union management, the product is extremely competitive:

- For low values, rates are considerably lower than those charged by the banks
- Funds are guaranteed and available instantly

Up until 13 December 2001, Western Union provided money transfer services with South Africa. On that date, Western Union suspended all money transfers within South Africa and have since not returned. What caused this dramatic event?

The underlying cause: UAMT

In 1995, 6 years after having started their international remittance business, Western Union initiated operations in South Africa through Union African Money Transfers. UAMT Pty Ltd registered as a company for the sole purpose of representing Western Union within South Africa and obtained permission from the South African Reserve Bank to operate through one of the major Authorised Dealers, ABSA bank. In the course of their operations, UAMT developed a network of retail outlets, which at its peak numbered over 150 points of representation.

Worldwide, Western Union traditionally uses agents that are either banks (1/3), post offices (1/3) and entrepreneurial / retail based agencies (1/3). In South Africa they selected the latter on the basis of an introduction from an existing agent and due to concerns that the SA banks on the whole did not encourage customers from Western Union's target market (lower income migrants) – an observation that has been born out by research completed for this project.

Unfortunately, it seems that the burden of enforcing compliance with exchange controls in South Africa proved too much for the UAMT management, and this did not go unnoticed by the Reserve Bank. Matters came to a head with the implementation of new balance of payments reporting requirements that had important system implications. In early 2001, the SARB reduced the time period that was allowed to lapse before a financial transaction was reported to them from 1 week to within 24 hours. Previously, UAMT would use their Authorised Dealer, ABSA, to report their financial transactions. With the new time period, it was clear that UAMT itself would have to report the transactions, and implement a system by which these transactions could be reported (almost) as soon as they occurred. This meant that UAMT would have to upgrade its outlets to online facilities, to which the SARB would have access. The costs of implementing and complying with the new system made a large number of the outlets uneconomical and UAMT reduced its network to 17 outlets. These outlets became increasingly overburdened as WU business of over 150 outlets, converged on these 17 sites. Service quality and speed of service dramatically decreased.

In addition, although the exact nature of the regulator's concerns with the Western Union operation are confidential, there seems to be a reasonably widespread view that UAMT not only struggled to implement appropriate systems, but were not overly committed to observing the spirit and the letter of exchange controls. Anecdotal evidence suggests that large amounts could be transmitted with minimal checks and if the amount was larger than the allowance customers were encouraged to make numerous payments to overcome regulations.

Matters were complicated further with the Reserve Bank's circular of October 2001 in which the SARB indicated its desire to improve the enforcement of exchange controls. One aspect of this was to enforce a prohibition against net settlement of foreign exchange transactions.

Net settling means that agents (UAMT) and Western Union only settle with one another after a specified period, at which point only "net" balances are actually paid between agents and WU. With net settlement, UAMT did not have to wait for money to come in from Western Union before making payments to local recipients. UAMT could pay local recipients from funds collected from local senders, even if these local senders were transmitting funds abroad. With the enforcement of the net settlement prohibition, UAMT could not pay recipients as funds were accumulated locally but had to wait before they could pay them out from the allowed sources – that is, the actual international source of the recipient's funds. Clearly, this created a cashflow crisis for

UAMT. Funding UAMT's additional cashflow requirements would have increased currency and credit exposure to UAMT to levels beyond what was authorised or acceptable to the Western Union executive.

With the deterioration in service quality and speed, the rising cost of exchange control compliance and poor execution by UAMT, as well as increased and increasing credit exposure, Western Union suspended its operations in South Africa, thus ending its relationship with UAMT.

Discussion

Part of Western Unions problems seem to have been a structural mismatch in the business model between an increasingly sophisticated exchange control compliance and reporting regime, in which the Reserve Bank would prefer only banks to act as authorised dealers and the entrepreneur operator which was originally appointed by Western Union in South Africa. Whereas from a target market perspective this was no doubt the correct choice, it was at cross purposes to the approach to exchange controls that was emerging from the Reserve Bank.

Clearly if Western Union were to re-enter the market they would need to consider appointing either a bank or the post office as an agent, with the latter having the advantage of being closer to the target markets than the high street banks. Western Union would also need to modify their systems so as to achieve compliance with the new reporting environment. Indeed with the new world wide sensitivity to money laundering Western Union has established new software to enable its agents to comply with FATF regulations. These new systems, which are furthermore on line, should enable WU to meet the stringent regulations in South Africa, *the new FICA rules aside.*

Under 20% of Western Union business in South Africa consisted of *outward* flows, with the majority of *inward* flows coming from the UK and the USA. Thus the enforcement of the net settling arrangements disrupted the inward flow of funds to South Africa at a time when the currency was under considerable pressure and may have in some small way contributed to that pressure. It is also unlikely that outward transfers affected through Western Union which had an average size of R2000, were a significant source of pressure on the rand, or on the balance of payments as a whole.

4.5.3 Competing money transfer products

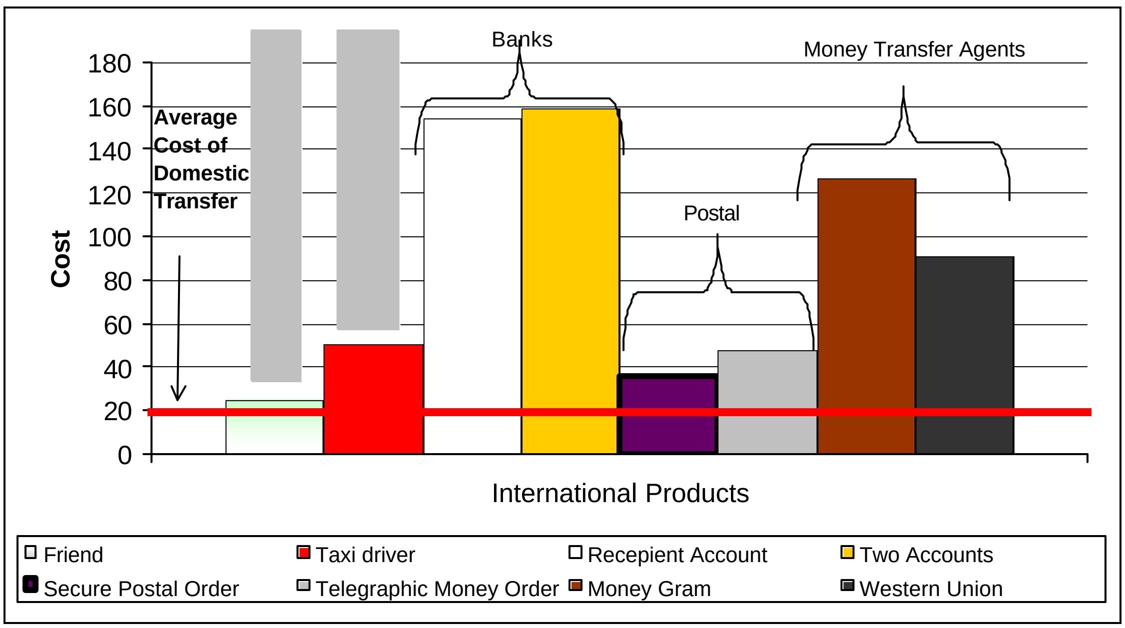
Internationally the success of Western Union's business has not gone unnoticed by the banking community and various competing products have been established. The most important (and successful) models involve the use of cross-border debit and smart cards. Funds are either loaded onto the card or into an account and then the card and the PIN are conveyed separately to the intended recipient. The recipient can then utilise the host country ATM infrastructure to withdraw funds.

The constraints to current applicability of this model in Southern Africa are immediately apparent. Firstly there is a low level of trust and efficiency in the postal systems, with the fear (real or imagined) that cards will go missing or be stolen. Secondly and most importantly there are not yet established ATM infrastructures that share the same switching environment – be it VISA or non-VISA branded – in important receiving countries.

4.6 Conclusions on international transfers

Transferring money across border utilising formal mechanisms is very much more costly than effecting domestic money transfers. This is because the banks currently charge SWIFT fees and a commission that combined average around R150 per transaction (or 7 times the cost of completing a domestic transfer). The money transfer products of Western Union and Money Gram are marginally cheaper (R100 per transaction). Post office products (telegraphic money order & secure postal order (around R40) are the cheapest but probably the least reliable (long delays, possibility of theft and low levels of efficiency in recipient country postal networks). Although informal products (using a friend or a taxi driver) are notionally cheaper, they involve other risks – primarily that the courier becomes the victim of crime, and lacks the wherewithal to reimburse the sender and the sender may or may not be able to find an appropriate courier when and where they wish to despatch funds. In the following graph the costs of utilising the different channels are compared to each other and to a domestic transfer. The grey blocks, again, visually depict the risk associated with informal transfers.

Figure 3. International products compared
Source: Genesis Analytics



Research in the section on domestic transfers indicated that an amount of R250 could be remitted for around R20 – a fee of around 8%. To pay the same percentage fee using formal channels the migrant would need to send at least R2000.

The cost of using different products changes, depending on the amount to be transferred. This is shown in the following graph.

Figure 4. International products as the transfer amount varies
Source: Genesis Analytics

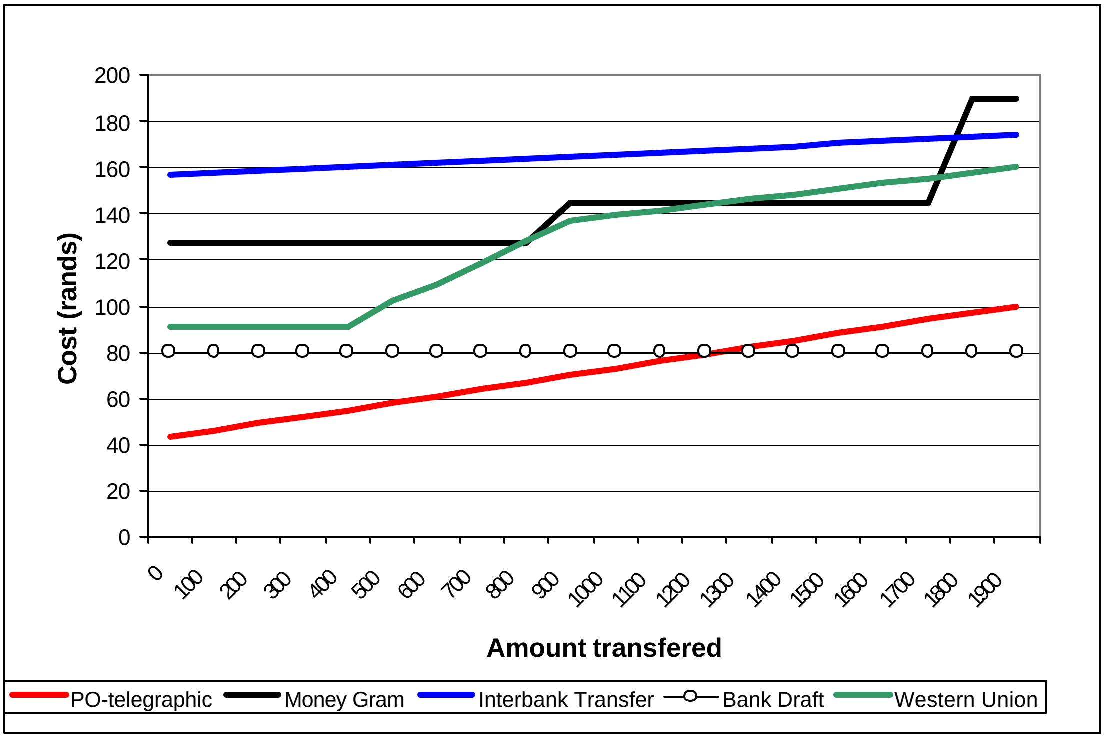


Figure 4 shows that:

1. The post office products are the cheapest for smaller transfers. For amounts under R2000, the postal order is the cheapest product available. However, it is also the most inefficient (it is not guaranteed and can take a long time for delivery). A telegraphic postal order is the second cheapest for amounts under R1300, at which point a Bank Draft becomes competitive, but a Bank Draft is also a slow and inefficient paper based mechanism – with all the risks associated with products that rely on the postal system.

2. Money transfer products are considerably cheaper than "two-account" inter-bank transfer for amounts less then R1800 per month.

3. Banking products (inter-account transfers) are only competitive for transfers of above R2000.

Importantly it should be noted that as in the case of domestic transfers these products have very different access features.

- Interbank products rely on a banked to banked relationship which is very unlikely to exist given that many migrants come from the poorer rural areas of their "home" country, and as far fewer people have access to a bank account in these countries than in South Africa.

- Postal products rely on the quality and integrity of the postal infrastructure in the recipient country, and a relationship between the SAPO and the post office in the recipient country (that in many instances does not exist).

In other markets the product list would have included a comparison of card based products (where the recipient receives a smart or debit card and a PIN number from the sender and is able to utilise the countries payment infrastructure to access the funds loaded on the account or PIN). These products have been excluded from the analysis as the appropriate infrastructure does not exist in recipient countries that are thought to be important for migrants working in South Africa.

The following table describes the different channel/payments mechanisms available within selected countries in Africa – with the highlights showing the major constraint/issue for each country:

Table 13. Money transfer environment in African countries
Source: Genesis Analytics

Country	Number of Migrants	Banking Links	Post Office	Money Transfer	Comments	Payments infrastructure
Angola	Moderate	Non	No	Western Union	Namibia/Angola links are important	Very few ATM's
Botswana	Low	FNB	Yes	Western Union	Mainly sending nation	Good - VISA ATM's
Namibia	Low	Strong	Yes	No	Part of CMA regulations, all SA banks represented, many offer inter-account transfers	Good - in line with SA (Maestro)
Malawi	High	Weak	No	Western Union	Although SA banks are increasingly represented systems are not linked, meaning that SWIFT fees apply, CBM the Western Union agent is owned by Standard Bank	Weak - a few non VISA ATM's
Mozambique	High	Strong	Yes	Western Union	ABSA now has a large retail presence across the border, but only provides inter-bank payments capability	Moderate - rapid growth in ATM's not VISA/Mastercard branded
Nigeria	Moderate	Weak	No	Yes - many banks as agents	Major flows from SA were to Nigeria	No ATM's or card brands
Swaziland	High	High	Yes	No	Despite control of the banking sector by Standard Bank and FNB and part of CMA - swift fees apply	Moderate - ATM's deployed but not VISA/Mastercard branded. No local switch
Lesotho	High	High	Yes	No	Controlled by SA Banks (Standard and Nedcor). Standard Bank system is not integrated making transfers very expensive	Moderate - ATM's deployed but not VISA/Mastercard branded. No local switch
Tanzania	Low	Moderate	No	Western Union	Low level of cross border migrancy.	Moderate - ATM's deployed but not VISA/Mastercard branded. No local switch
Zambia	Low	Moderate	Yes	Yes	Standard Bank is major player, systems not integrated	Moderate - ATM's deployed, VISA switch
Zimbabwe	Hgh	Moderate	No	Yes	Fixed exchange rate regime makes transferring officially unattractive	High - Local and VISA switch available

From the table it is clear that:

- The main receiving countries are Zimbabwe, Mozambique, Malawi and Nigeria.
- The fixed exchange rate regime in Zimbabwe as well as the relative proximity and thus frequency of friend and taxi links make informal transfers of rand or goods the rational mechanism to use.

- For Mozambique the post office would seem the best option, although the quality and integrity of the postal service in Mozambique is not known.

- For Mozambique and Malawi a money transfer product would play an important role if informal mechanisms are to be replaced, given that the alternative (bank transfers) are costly and recipients are unlikely to have bank accounts.

- For Nigeria and Angola, a money transfer product is required (Western Union has strong presence in both of these countries).

- The integration of the payments systems (and the banking systems) between South Africa and Swaziland and Lesotho, and between the banks that span the borders should reduce the cost of transfers. It seems extraordinary that, according to the information provided by the banks, a same bank transfer between SA and Swaziland within the same currency zone should incur a SWIFT fee (whereas it does not between SA & Namibia).

- Namibia and Botswana are well integrated with South Africa but are not major sources of migrant workers.

The above analysis suggests certain key issues in improving the access to international money transfers.

Firstly, the cross-border integration of the banking systems between Lesotho and Swaziland is an area where reform would dramatically reduce the costs that individuals incur to transfer funds across the border. There seems no reasonable explanation why a transfer to Ladybrand (SA side of the border) and Maseru should differ in cost by a factor of 7.

Secondly, money transfer products (for instance Western Union) do offer an important service to poor people in that they:

- Have good distribution in all countries that are important to SA based migrants.

- Provide instant transfers (the recipient can collect as soon as they receive the information) and do not run the risk of multiple trips to the bank to determine whether the funds have been received.

- Had established distribution infrastructure in SA which was more closely aligned with the needs of the target market than traditional banking infrastructure.

Clearly for Western Union to re-enter the market would require several changes in approach from both the regulators and Western Union:

- The regulators seem to be of the view that all authorised dealers should increasingly be banks. This seems to be driven by a concern over compliance and would, other things being equal drive up the cost of acquiring foreign currency through limiting competition. Allowing authorised dealers with limited authority to transact “gift” transactions would make it possible for money transfer companies to operate through such agents that are often in more favourable locations and open for longer hours than traditional banks.

- Restricting authorised dealerships to banks could force Western Union to re-enter the country through an agency agreement with one of the banks. Given the size of the banks this could potentially make market re-entry less attractive to Western Union or limit Western Union’s ability to enter sub-agency agreements in areas where the banks are unable to provide effective distribution.

- Importantly the Post Office provides an alternative entry strategy for Western Union as, legislation pertaining to the Post Office makes provision for the post office to provide money remittance products so long as the amount does not exceed R2000. This is an important window of opportunity and it is important that enthusiastic enforcement of exchange controls or FICA rules does not eliminate this potential important avenue for money transmission by the poor.

- Netting provisions in the exchange control regulations could be reviewed and relaxed without having a major impact on foreign exchange flows and would substantially reduce the cost of transacting in South Africa for a range of players. This could be positive for development in general as less exposure would mean that investors would deal with smaller players and increase overall investment in South Africa.

- Alternatively Western Union would need to re-enter the country with a partner who is more credit worthy and Western Union should be more willing to accept the large exposure that is necessitated by the netting rules.

- Western Union would need to demonstrate to the authorities that the concerns over the violation of foreign exchange regulations were the result of mis-conduct in the sub-agent and were not in any way sanctioned by Western Union, and ensure that any future sub-agent takes compliance more seriously.

Although the situation is changing rapidly in Southern Africa it will be a long time before cash cards can be reliably used across the region. At present they could only be used in Zimbabwe and Botswana. In Zimbabwe however the fixed exchange rate regime imposes heavy penalties on anyone wishing to use the formal system. Botswana is mainly a sending country and is thus less of a concern from a South African sending perspective. The situation is further complicated by the dominance of VISA in Africa outside of South Africa and Mastercard within SA.

5 Recommendation

For the banked and wealthy affecting a money transfer is increasingly a trivial exercise both in terms of cost and speed of execution. For the poor however the situation is very different depending on whether they have a bank account and to where they need to send money.

5.1 Domestic

In the **domestic** market making a money transfer is becoming easier with the entry of fast efficient new products (Post Office PIN product), or if at least one party to the transaction has a bank account. The main recommendations with respect to domestic money transfer products are therefore:

- The importance of becoming banked cannot be underestimated and attempts to increase the number of people with basic transaction accounts are tremendously important and may go a long way to meeting the need for a money transfer service. Models that incorporate the use of dual cards off a single account create further opportunities to reduce the cost of maintaining an account while allowing two individuals in different parts of the country to access the funds.

- An important change that the banks could implement would be to accept deposits on behalf of other banks thus dramatically increasing the reach of smaller banks that may over time assume a greater role in rural distribution. The costs and risks of doing this need to be further investigated.

- The implementation of FICA regulations as currently drafted would make the use of banking products much more expensive and would provide a real impediment to the growing use of bank products for the purposes of person to person money transfers, unless the sender has a bank account.

- The success of whatever solution is adopted will be dependant on the level of commitment and marketing of the product. Thus emphasis should be placed on supporting those institutions that see the mass market as their target, rather than their social responsibility.

- Although the Post Office PIN product would appear to provide a cost effective solution to the unbanked person to unbanked person money transfer problem, it does to some extent disintermediate the banks, as for many low income individuals a money transfer product would be an important reason for them to establish a bank account. This could create a problem for any market entrant which wishes to provide a money transfer service as part of a core banking product.

5.2 International

International transfers are dogged by a complex range of legal and regulatory issues. In resolving these issues, careful attention should be given to avoid restricting the important intra-continental money transfer industry.

Banks are not well positioned to formalise international remittances. Importantly formal bank products (inter-bank transfers) are extremely expensive for micro-transfers and may sometimes be slow and inefficient even if the sender and recipient have bank accounts. Furthermore, making a transfer for a non-banked person is uneconomical from the bank's perspective given the number of regulatory checks they are required to undertake. The banks are increasingly concerned about compliance liability both from the perspective of exchange controls and anticipated money laundering regulations, even though the limits set (by exchange control regulations) for the amount that can be transferred as a "gift" seem more than adequate. If the level of information currently proposed under FICA regulations were to be implemented this would make it even more costly for any bank or authorised dealer to provide unbanked money transfers.

The cost and lack of appetite for cross border transfers from the banks leaves individuals with several choices. In most countries those choices are reflected in the profitability of Western Union and other money transfer services. The only service currently offered in SA is via Money Gram, but this is targeted at the higher end of the market. Alternatives to money transfer agents developed in other countries involving smart cards are unlikely to succeed given the lack of appropriate infrastructure in the receiving countries.

The Post Office does not currently provide a viable alternative to the money transfer services as the systems are slow and people have a low level of trust in the postal system even for non-value items, and the post office may not have relations in the recipient country. Clearly the post offices face huge administrative challenges as they are different institutions in each country with different levels of efficiency.

It therefore seems that there is no obvious alternative than to encourage the development of a commercial money transfer services in South Africa, of which Western Union is the most obvious, and for the regulators to explore ways of allowing money transfer companies to operate profitably in South Africa:

- This would be particular important to Nigerian, Angolan, Mozambique and Malawian migrants who currently have little alternative to informal channels.

- This will require some considerable effort on the part of Western Union in rebuilding relationships with the regulators. It is however made very much more difficult by the increasing burden of compliance that falls on an authorised dealer.

Furthermore if the implementation of netting agreements were the cause of Western Unions exit, these regulations should be reviewed. As demonstrated by the Western Union example this regulation probably unnecessarily increases the cost of doing business in South Africa and should be an early candidate for further exchange control relaxation. Alternatively the authorities should at least consider an exemption for Western Union in light of the need to provide migrants with a safe and reliable mechanism for cross border money transmissions.

Regarding the banking systems contribution, an area for immediate attention would be the apparently contradictory situation that prevails in Lesotho & Swaziland where transfers (in the same bank) are treated as international transfers and incur international fees. Appropriate changes to the operation of banks that span the borders should be considered as well as changes to banking regulation within each country.

If the poor's access to money transfer services is not to be severely reduced by new approaches to monitoring and compliance of cross border transfers it is critically important that the regulators increasingly conduct smart regulation that effectively capture large volume suspicious transactions, while reducing the costs and barriers to entry for providers seeking to service the low income market.

6 Annexure

6.1 Primary data from banks

Institution	Name of Account	Monthly Fees	Own ATM withdrawal	SASWITCH Withdrawal	Counter Withdrawal	Cash Deposits
Standard Bank	E-plan. To open: R50 and ID book or work permit. (R20 to maintain account)	R 5.50	R 4.15	R 10.15	R 25.00	Beneath R 250 is free; R250 or more is R2.75 plus 0.85%
First National Bank	Smart Account. R30 and ID book or Work permit	R 4.50	R2.35 for first R100 and R0.90 for every R100 thereafter	R7.40 for first R100 and R0.90 for subsequent R100.	R16.25 plus cash handling fee (R0.55 per R100)	R1.05 per R100
ABSA	Flexisave: R50 and ID book or work permit.	R 4.20	R2.20 for first R100, plus R0.90 for every R100 thereafter	R7.20 for first R100, plus R0.90 for every R100 thereafter	R 22.00	<R500--no charge. R0.95 per R100 for amounts of R500 or more
Nedbank	Savings Account--but will usually recommend going to people's bank if you have anything under R3000	balance>R799:R 14.25 R800- R1499: R9.12; R1500-R2999: R5.70; above R3000: Free	R2.28 plus R0.85 per R100. If balance above R3000, drop the basic (R2.28) fee	R2.28 plus R4.90 plus R0.90 per R100. If balance above R3000, drop the basic (R2.28) fee	R1.00 per R100 with a minimum of R15.00. Above R6000 free	R1.00 per R100 for deposit less than or equal to R300. Greater then R300, also R1.00 per R100 but you have a minimum of R10.00
Peoples Bank	Peoples Card Account.	R4.00	R3.84	R2.28 plus R3.56 plus R0.80 per R100	R6.90 for first R100 plus R0.75 for every additional R100 or part thereof.	R1,00 per R100 or part thereof. (First two deposits per charges cycle are free.)

Post Bank*	Flexi Card. To open: R10	2.28	Not available	>R100 = R3.85; R100-R200 = R4.59; R200-R300 = R5.33; R900-R1000 = R10.62;	R4.56	free

6.2 Transfer data from banks

Institution	Name of Account	Special-ATM transfers**	Telephone Transfers	Internet Transfers	Counter Transfers
Standard Bank	E-plan.	R 4.15.	R 4.15	R 4.15	R 25.00
First National Bank	Smart Account.	R 3.00	Free subscription R3.00 [0-R500]; R6.00 [R500 - R1000]; R9.00 [>R1000]	Free subscription R3.00 [0-R500]; R6.00 [R500 - R1000]; R9.00 [>R1000]	Load it as an account payment, then show them how to do it on ATM. If sender does not have an account then, FNB will only transfer money if recipient is an FNB account holder.
ABSA	Flexisave:	R 2.40	R14 per month, free with internet R2.20	R18.5 per month R2.20	R 12.00
Nedbank	Savings account	R2.38. Free if balance above R3000	R12.00 monthly subscription. R1.65 for first R100, R0.75 for every additional R100 (max: R9.50). Transfer charges free with balance above R3000	R22.80 per month. Same as telephone charges	R3.30 for the first R100 plus R1.50 for every additional R100. Max: R19.00. Above R6000 free

6.3 Illegal immigrants table

NAME OF Permit	Duration of stay allowed	WHO APPLIES?	Description	Applicable to target Market	Can holder effect a transfer?
Visitors permit	3 months. Renewable	Individual	Must have sufficient financial resources	**Yes.**	**No**. The holder a visitor's permit may not conduct work and therefore should have no reason to effect cross-border money transfers. [Allows foreigners to work under special circumstances not relevant to this market.]
Relatives permit.	As long as can be supported by family	Individual	Must be immediate family in South Africa who will support permit holder.	**Yes**	**No, can't work**
Retired person permit.	Individual	Has a pension fund from country of origin or has a prescribed net worth	Issued if holder intends to retire in South Africa. May conduct work under prescribed conditions set by department	**Possibly**	**Yes**
Study permit	3 months	Individual	Have sufficient means to support himself. Ad hoc fee payable to department.	**Yes**	**Maybe**—student may conduct part time work for a prescribed period. However, considering the requirement to prove income and cover living expenses, it is unlikely that such a study permit holder would be legally entitled to remit in most circumstances, if any (would need further investigation)
Business permit		Individual	Invests prescribed financial capital	**No**	**Yes,**
Crew Permit. Medical treatment permit	Varies	Varies	Varies	**No**	**No, can't work**
Quota work permit	Needs to be renewed every year	Company and individual	Home Affairs has established categories of workers that are allowed in under the quota system	**Possibly**	**Yes**
The general work permit	Duration determined by length of employment	Company	It is intended to allow employers requiring workers that fall outside of the quotas to enter the country.	**No**	**Yes**

The exceptional skills work permit	Not clear, maybe indefinite	Individuals	Designed to make it easy for foreigners falling within the exceptional skills categories to enter the country	**No**	**Yes**
Exchange permit;	Varies	Individual	For participation in cultural, social or economic programmes OR for a foreigner under 25 years who has been offered employment.	**Maybe**	**Yes**
Corporate permit,	Varies	Corporate Applicant	The Corporate Permit, is aimed at not-for-gain and agricultural businesses.	**Maybe**	**Yes, might even be mandatory.**
The intra-company transfer work permit	Two years	Company	Designed to make it easier for companies to transfer workers into South Africa	**No**	**Yes**

6.4 Authorised Dealers in South Africa

The following institutions are licensed to act as Authorised Users within South Africa:

- ABN AMRO Bank N.V.
- ABSA Bank Limited
- African Merchant Bank Limited
- Bank of Baroda
- Bank of China Johannesburg Branch
- Bank of Taiwan South Africa Branch
- Barclays Bank PLC, South Africa Branch
- BOE Bank Limited
- China Construction Bank, Johannesburg Branch
- Citibank, N.A., South Africa
- Commerzbank Aktiengesellschaft
- Corpcapital Bank Limited
- Credit Agricole Indosuez
- Deutsche Bank AG, Johannesburg Branch
- FirstCorp Merchant Bank Limited
- First National Bank of Southern Africa Limited
- Gensec Bank Limited
- Habib Overseas Bank Limited
- HBZ Bank Limited
- ING Bank N.V. South Africa Branch
- Investec Bank Limited
- JPMorgan Chase Bank (Johannesburg Branch)
- MEEG Bank Limited
- Mercantile Bank Limited
- Nedcor Bank Limited
- Nedcor Investment Bank Limited
- PSG Investment Bank Limited
- Rand Merchant Bank Limited
- Real Africa Durolink Investment Bank Limited
- Regal Treasury Private Bank Limited
- Rennies Bank Limited
- Société Générale
- State Bank of India
- The South African B ank of Athens Limited
- The Standard Bank of South Africa Limited

Following institutions are Authorised Dealers in foreign exchange with limited authority to operate

- Bureaux de Change in South Africa:
- FxAfrica Foreign Exchange (Pty) Ltd
- Global Foreign Exchange (Pty) Limited
- Imali Express (Pty) Limited
- Inter Africa Bureau de Change (Pty) Limited
- Tower Bureau de Change (Pty) Limited