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The South African National Remittance Stakeholder Network

Assessing the impact of South Africa's greylisting on RSPs and recommendations on how to respond

30 March 2023

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South African regulatory and remittance landscape

South Africa is a large remittance sending market, with regulations encouraging innovation

A regional hub for remittances

- SA is home to around **2.9 million** migrants and is the **largest remittance send-market** in Africa
- As of 2020, 91% of adults were **included in the formal financial sector**
- Despite being a regional hub, **high remittance costs** and **CDD documentation** requirements act as **barriers** to the use of formal remittances – especially for migrants

Regulation conducive to innovation

- RSPs are **encouraged** to use the **risk-based approach** (RBA) to apply risk-appropriate KYC and CDD (Guidance Note 7)
- RSPs may determine their customer identification and verification processes based on the **findings from their risk assessment.**
- However, government-issued or controlled sources are still **preferred.**
- Despite the innovative environment, **barriers to remittances persist**. Some contradictory regulations may also **stunt innovation** in the non-bank remittance space.

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ReliefWeb (2021); RemitSCOPE (2023); FIC (2017); Treasury (2020); SARB (2023)

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Insights from the regulatory synthesis

Barriers to remittances were recently picked up from an AML-CFT perspective

The Mutual Evaluation Report (MER) (2021) found that SA was **inadequately compliant** with half of FATF's recommendations

Key findings from the MER include, among others:

- Understanding of **terrorist financing (TF)** risks is underdeveloped and risks are not adequately addressed
- **Non-profit organisations** are not sufficiently aware of the risks posed by TF
- Understanding of the scale of the threat of **fraud** and channels to launder the proceeds is limited
- **Risk-based approach** implementation focused on inputs, not outcomes
- **Financial inclusion** objectives should be balanced with the implementation of AML-CFT measures.

Since the MER, South Africa has developed AML-CFT policies to address higher risks and amended its legal framework

However, this progress was insufficient to address the key recommendations of the MER, and SA was placed on the FATF list for jurisdictions under increased monitoring (the "**greylist**") in February 2023

8 key action areas from the FATF greylisting

1. Increase outbound **Mutual Legal assistance** requests
2. Improve **risk-based supervision**
3. Ensure timely access to **beneficial ownership** information
4. Increase law enforcement agencies' requests for **financial intelligence**
5. Increase **investigations** and **prosecutions** of money laundering and terrorist financing
6. Enhance identification, seizure, and confiscation of the **proceeds from predicate crimes**
7. Update the **terrorist financing risk assessment**
8. Implement **targeted financial sanctions**

Sources: FATF (2023)

Risks associated with staying on the greylist

Greylisting could have a significant impact on South Africa

Risking economic development

- Undue targeting and/or de-risking of the **NPO sector**, known **economic development catalysts**
- Lower export demand
- Reduced access to international lending and donor funding
- Weaker investment prospects

Risking financial exclusion

- **NPO sector** to seek informal or shadow funding if de-risked
- **Higher** remittance transaction **costs** driven by enhanced monitoring
- **Decreased remittance flows** due to cost and reduced formal regional flows
- **Adverse impact** on the poor and marginalized

Risking operations for RSPs

- **Higher compliance, admin and related costs** associated with increased monitoring and scrutiny
- Potential for less effective outcomes from **an increased focus on compliance evidence**
- **Processing delays** in remittances and trade flows
- Poorer **correspondent banking** relationships

Risks associated with staying on the greylist

Greylisting could have significant impact on RSPs

Increased reporting requirements

- As a greylisted country, all transactions involving South Africa will be subject to **enhanced scrutiny**.
- RSPs may be expected to **complete additional forms** and provide **detailed evidence** on financial dealings, including source of funds, the end beneficiary, etc.
- This additional information will be **reviewed**, and every transaction may be **investigated** resulting in **significant time delays** for outbound transactions.

Increased operational costs

- Enhanced levels of monitoring may result in **higher** transaction, compliance, admin and audit **costs**, especially for cross-border payments.
- These higher costs may affect RSPs the most, and can also **decrease remittance flows** from South Africa, potentially preventing remittances from reaching the poor and marginalized.

To mitigate these risks, RSPs will be required to **enhance their risk assessment frameworks**. RSPs should better understand the risks facing their remittance business and amend their processes to improve their operations in a risk-controlled manner.

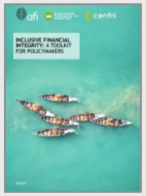
Considerations for RSPs

Developing appropriate responses for more effective risk mitigation

Inclusive financial integrity: a toolkit for policymakers:

In 2020, Cenfri and the Alliance for Financial Inclusion (AFI) developed the inclusive financial integrity toolkit to align financial inclusion and AML-CFT. Guidance around implementing **risk-based supervision (RBS)** forms an integral part of the toolkit.

There is potential for Cenfri to develop **a new toolkit for retail financial services**, which bridges the RBS toolkit with practical and effective implementation needs of banks and RSPs.



Read the full version here

Potential recommendations based on the toolkit:

- **Improve the understanding of risks.** A better understanding of risk management would benefit all financial institutions. This will facilitate the move away from a sole focus on compliance to effective holistic mitigation of ML-TF risks which institutions are often left vulnerable to.
- **Align RBA with RBS for institutions.** To align with the RBS, RSPs should consider focusing on all elements that will be under the supervisors' review, including the RBA framework & process, due diligence, monitoring, reporting, training, record keeping and compliance.
- **Implement enhanced risk assessment and mitigation.** Examples include enhanced risk measurement, risk analytics, deconflating risk, and more appropriate risk-engineering of products.
- **Refrain from adopting blanket approaches for all clients.** RSPs may consider risk-proportionate processes for KYC & CDD which enhance financial inclusion.

Overview of the Remittance Access Initiative

Enhancing remittance access in Africa

Background of the programme

- Since 2020, IFAD through the FFR conducted remittances diagnostic studies in seven countries: Kenya, Uganda, South Africa, the Gambia, Ghana, Morocco and Senegal.
- The diagnostics revealed that Know Your Customer (KYC) and Customer Due Diligence (CDD) was unintentionally acting as impediments to remittance access, specifically for low-income, rural households and women

Objective of initiative

- **Primary Objective:** Enhance remittance access opportunities for low-income, rural households, and women.
- **Method:** Enhance the KYC and CDD frameworks of remittance service providers (RSPs) by providing technical assistance and capacity building

Key activities in South Africa

- **Conducted a regulatory synthesis** to gain a comprehensive understanding of the regulatory environment
- **Partnered with two remittance service providers (RSPs)** to enhance remittance access

Key takeaways and emerging opportunities

South Africa's regulatory environment is **conducive to innovation,** but barriers persist

RSPs face operational risks with the greylisted status, and should focus on more effective **risk analytics** and **mitigation**

RSPs should explore **innovative** verification methods and analytics with **existing data** to aid risk mitigation and improve offerings

There is an opportunity to broaden the learnings.
Cenfri encourages RSPs to collaborate and engage on programmes that address the issues covered in this presentation and to voice their needs.

Thank you

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About Cenfri
Cenfri is a global independent economic impact agency and non-profit enterprise that bridges the gap between insights and impact in the financial sector. It collaborates with its partners to foster economic growth and sustainable development in emerging and developing markets in Africa and beyond. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About IFAD's Financing Facility for Remittances
Since 2006, IFAD's multi-donor Financing Facility for Remittances (FFR) aims to maximise the impact of remittances on development, and to promote migrants' engagement in their countries of origin. Through the financing of almost 70 projects in over 40 countries, the FFR is successfully increasing the impact of remittances on development by promoting innovative investments and transfer modalities; supporting financially inclusive mechanisms; enhancing competition; empowering migrants and their families through financial education and inclusion; and encouraging migrant investment and entrepreneurship. The FFR is cofinanced by IFAD, the European Union, the Grand-Duchy of Luxembourg, the Ministry of Foreign Affairs of Spain and the Swedish International Development Cooperation Agency (Sida).

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