



INTEROPERABILITY OF CROSS-BORDER REMITTANCE SYSTEMS IN THE EECA REGION



SPECIAL REPORT

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Disclaimer:

While the authors have made every effort to ensure the accuracy of the material contained in the study, the AFI members in ECAP do not assume responsibility for any inaccuracy, error, or inaction, action, or suggestions based on the information presented in this report.

INTRODUCTION

Payments are a steppingstone to other financial services and are essentially the first step toward financial inclusion. Central banks worldwide are placing increasing emphasis on retail payment systems, partly due to their importance in financial inclusion and their role in enhancing the oversight function for managing risks and fostering the development of payment systems infrastructure that are efficient and safe.

According to the report Payment System Oversight and Interoperability by ITU-T Focus Group Digital Financial Services (2016), the development of an effective and secure payment systems infrastructure is one of the strategic objectives of payment systems supervision. Likewise, the interoperability of payment systems is critical for oversight because it generates efficiencies by allowing two or more proprietary payment platforms to be connected seamlessly, allowing users to conduct electronic payment transactions with any other user in an easy, economical, rapid, and secure manner. The main goals of payment system supervision are to control risks in payment systems, service development, and to promote payment infrastructure.¹

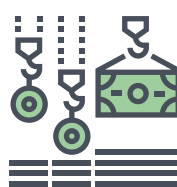
According to the Insight Report on Connecting Digital Economies: Policy Recommendations for Cross-Border Payments by World Economic Forum (June 2020), digital payments have had a resurgence due to technological advancements and legal reforms. While the emergence of new payment providers and technologies has resulted in innovation and increased competition, it has also resulted in a more complicated set of systems with considerable regional differences in standards, making cross-border payments more challenging. While many of these new technologies are beneficial to customers, achieving interoperability across them is becoming increasingly difficult.²

Cross-border remittances play a critical role in closing the gap in financial inclusion and reducing poverty. They are a revenue stream for the financial sector and encourage the development of the economic infrastructure of home countries. Given the potential and positive impact of cross-border remittances on financial inclusion, policymakers across the globe have

started exploring better mechanisms for scaling up successful policy models and mechanisms for regional coordination on interoperable cross-border payment systems.

According to the article COVID's Impact on Cross-Border Remittances and the Rise in Digital Payments by CompareRemit (September 2020), cross-border remittance inflows are the lifeline of many households and countries. In 2019, the World Bank estimated that USD 715 billion was sent by the global migrant community to their families and friends in their home countries. Of this amount, 77 percent was sent to low and middle-income countries (LMICs), supporting over 800 million households, with India, Mexico, and the Philippines topping the list of highest cross-border remittance-receiving countries. However, the World Bank predicts that we will see one of the sharpest declines of cross-border remittance flows in recent history, largely due to the economic crisis caused by the COVID-19 pandemic and lockdowns.³

The Eastern Europe and Central Asia Policy Initiative (ECAPI) was launched at the 10th Global Policy Forum (GPF) in Sochi, Russia, in September 2018 by AFI. ECAPI aims to resolve regional challenges and elevate the voice of Eastern European and Central Asian (EECA) nations on key financial inclusion policy issues.



AFI members in ECAPI work closely to improve the availability and quality of financial services across the region, protect consumer rights and financial markets, and strengthen financial literacy.

Members exchange best practices and harmonize approaches in the areas of digital financial services (DFS), financial technology (FinTech), consumer protection, financial literacy, and education.

1 ITU-T. 2016. Payment System Oversight and Interoperability. Focus Group Technical Report.
2 World Economic Forum. June 2020. Connecting Digital Economies: Policy Recommendations for Cross-Border Payments.
3 CompareRemit. 2020. COVID's impact on cross-border remittances and the rise in digital payments, (blog), September. <https://www.compareremit.com/money-transfer-guide/covids-impact-on-cross-border-remittances-and-the-rise-in-digital-payments/>

ECAPI currently comprises the following seven AFI member institutions:

- > Central Bank of Armenia (CBA)
- > National Bank of the Republic of Belarus (NBRB)
- > National Bank of the Republic of Kazakhstan (NBK)
- > Central Bank of the Russian Federation (CBR)
- > National Bank of O
- > Central Bank of the Republic of Uzbekistan
- > Financial Regulatory Commission of Mongolia

Evidence suggests an increasing inter-regional migration in the EECA region and a corresponding demand for fast, cheap, safe, and convenient cross-border remittances. Improving the efficiency of cross-border payments in the EECA region and increasing the interoperability of the regional payment market have become important objectives of the ECAPI initiative. These objectives can be achieved by national regulators and market participants working in close cooperation to create a reliable, safe, and affordable payment infrastructure.

The rise of new communication and information technologies and innovative mechanisms for delivering financial services and products are creating new opportunities for cross-border transfers to get money into the hands, and ideally, into the accounts of those who need it most.⁴



Read more Innovative Cross-Border Remittance Services: Experiences from AFI Members in ECAPI

[> View here](#)

The information in this report has been gathered and compiled based on extensive desk research⁵ and information from AFI members in ECAPI.⁶ It presents a broad overview of the cross-border markets and interoperability of cross-border remittance systems both from a global and regional perspective and presents insights into the issues, root causes and challenges currently associated with interoperability of cross-border remittance systems of AFI members in ECAPI. The report also highlights the initiatives already underway in ECAPI to address the challenges that are identified and presented here. The insights and challenges are then analyzed to draw the report's recommendations.



The report aims to encourage and enable AFI members in ECAPI to deepen their collective understanding of the challenges that persist in their own countries as well as the region in order to collaborate systematically on an efficient interoperable cross-border remittance system.

⁴ AFI. 2018. Innovative Cross-Border Remittance Services: Experiences from AFI Members in ECAPI

⁵ The report has been drafted based on the information received from the Central Bank of the Russian Federation, the Central Bank of the Republic of Uzbekistan, the National Bank of Tajikistan and the Central Bank of Armenia. Information regarding the market of cross-border transfers of the Republic of Belarus, Mongolia and the Republic of Kazakhstan was prepared on the basis of available public information on the internet.

⁶ For the purpose of this report, the AFI members in ECAPI are Armenia, Belarus, Kazakhstan, Russia, Tajikistan, Uzbekistan and Mongolia.

AN OVERVIEW OF CROSS-BORDER RETAIL PAYMENTS AND REMITTANCES - A GLOBAL PERSPECTIVE

The total value of cross-border payments was anticipated to increase by 5.6 percent per year from USD 22 trillion in 2016 to USD 30 trillion in 2022 across both retail and corporate payments.⁷

The KPMG report, Cross-Border Interbank Payments and Settlements, indicates that while new business models for cross-border payments for the retail industry are emerging, active correspondent banks are on the decline globally. Cross-border payments will become a priority for enterprises, commercial banks, and regulators as a result of these conflicting trends, which affect cross-border payment transactions across marketplaces around the world.⁸

Due to the increasing growth of e-commerce, international trade, and migration, cross-border payments are becoming more frequent for both businesses and consumers. Payments that are rapid, efficient, and available from anywhere in the world are in great demand at the same time. Cross-border payments, on the other hand, are still more complicated than domestic payments.

Because the payment must go via numerous intermediaries and financial institutions to accomplish currency conversion and fund settlement, cross-border transfers often have higher transaction costs and longer processing time than domestic payments. In addition, divergence in regulatory approaches among jurisdictions adds to the challenges of building a safe, efficient, and inclusive international system.

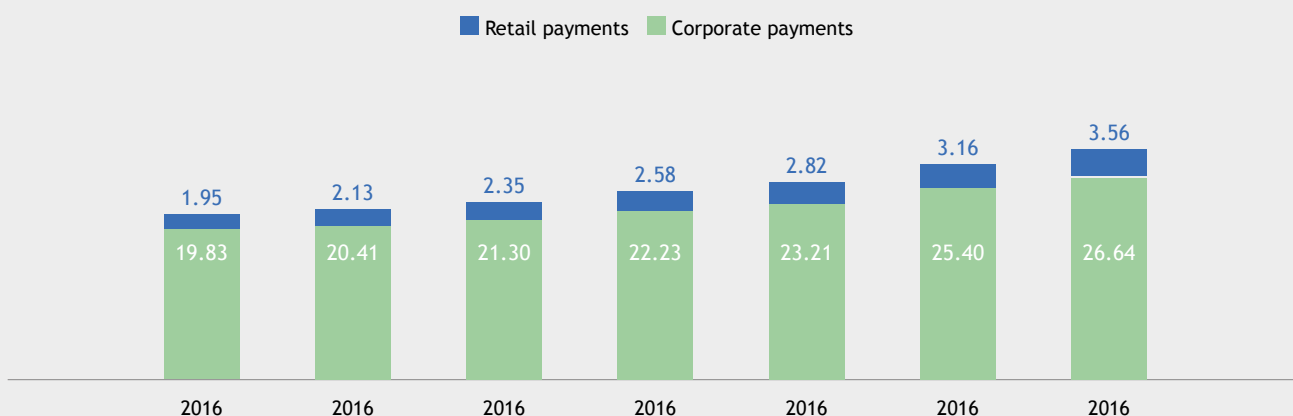
According to the report, Cross-Border Retail Payments by CPMI-Bank for International Settlements (February 2018), standardization and interoperability are essential factors for increasing efficiency and attaining economies of scale and network effects in cross-border retail payments. Cross-border payments entail more than just technological and operational considerations. The contracts, legislation, and regulations that provide a framework for processing, clearing, and settling cross-border retail payments span the front and back ends of the transaction. If different cross-border payment system providers (PSPs) enter into agreements, this can be on a bilateral basis or in the form of a multilateral arrangement (a "scheme" i.e. a set of business and operational rules and agreed technical standards by PSPs. Furthermore, payment infrastructures can interlink on a cross-border level.⁹

7 Accenture. 2017. International Payments in a Digital World.

8 KPMG. 2018. Cross-Border Interbank Payments and Settlements Emerging Opportunities for Digital Transformation.

9 CPMI-Bank for International Settlements . February 2018. Cross-border Retail Payments.

FIGURE 1: GLOBAL DEVELOPMENT OF CROSS-BORDER PAYMENTS VALUE (2016-2022, \$ TRILLIONS)



Source: Accenture. International Payments in a Digital World.

INITIATIVES FOR BREGIONAL INTEGRATION IN CROSS-BORDER RETAIL PAYMENTS

In general, payment infrastructure integration tries to address cross-border payment concerns such as cost, speed, accessibility, and transparency. The regulatory, supervisory and oversight frameworks are often aligned across jurisdictions to accomplish integration.

THE FOLLOWING ARE THREE EXAMPLES OF CROSS-BORDER INTEGRATION OF PAYMENT INFRASTRUCTURES:

I. THE ESTABLISHMENT OF A TECHNICAL COOPERATION FORUM TO ENABLE CROSS-LEARNING AMONG THE PARTICIPATING COUNTRIES AND TO RESOLVE SPECIFIC ISSUES IN CROSS-BORDER PAYMENTS:

The European Automated Clearing House Association (EACHA) is the technical cooperation forum of European ACHs. The association, which is made up of 26 institutions, meets twice a year to examine European advancements in retail payments.

EACHA aspires to provide a platform where members may share knowledge and express their opinions on topics of common interest. EACHA also intends to address specific concerns, such as developing common clearing and settlement guidelines for Single Euro Payments Area (SEPA) payments.¹⁰



II. THE CREATION OF EFFICIENT BILATERAL INTERBANK MECHANISMS TO PROCESS PAYMENTS BETWEEN TWO COUNTRIES:

Research indicates that one of the key benefits of a cross-border partnership or bilateral interbank mechanism is the cost of sending remittances, which is lower than a traditional remittance platform and informal means. Directo a Mexico is an example of a cross-border payment platform that allows money to be transferred from a bank account in the US to any bank account in Mexico.¹¹ The platform requires both the sender and receiver to have a bank account, resulting in an increasing number of people in Mexico accessing formal financial services. The other benefits of the platform include accelerated clearing time, the certainty of clearing and settlement, and competitive foreign exchange rates, among others.



III. THE DEVELOPMENT OF A CENTRALIZED MULTI-CURRENCY PAYMENT PLATFORM:

Buna is a cross-border payment platform created by the Arab Monetary Fund (AMF)¹² for a regional payment market infrastructure with the goal of delivering innovative, secure and efficient payment solutions to financial institutions and their diverse client base throughout the region and regardless of geographical or technical barriers.

One of the main objectives of Buna, which has the support of the region's central banks, is to accelerate the growth and integration of Arab economies. Buna provides participants with cutting-edge payment solutions that adhere to international standards and regulations.



¹⁰ <https://www.eacha.org/>

¹¹ <http://www.directoamexico.com/>

¹² Arab Monetary Fund. 2020. Press Release, 23 February.

OVERVIEW OF CROSS-BORDER MONEY TRANSFERS MARKET IN EECA REGION

Many countries of the EECA region enjoy stable cooperation in several areas due to their common economic, political and, most importantly, historical and cultural backgrounds. These shared national characteristics lead to close relationships among state governments, their respective populations, and also among economic agents in the region.



A Mongolian goat herder using a smartphone while sitting on the top of a hill. (Photo by Daniel Pollard/Shutterstock)

According to the International Organization for Migration's World Migration Report 2020, the Russian Federation is the most popular destination in the EECA region for migrants (and one of the most significant in the world).

The Russian Federation hosted around 11.6 million foreign migrants in the year 2019, the majority of which were from neighboring countries, particularly the Commonwealth of Independent States. Immigrants from Ukraine comprised the largest foreign-born population in the Russian Federation (over three million people), followed by Kazakhstan (around 2.5 million) and Uzbekistan (1.1 million).

The Russian Federation's huge population of foreign migrants, many of whom are labor migrants,¹³ makes it one of the world's biggest sources of cross-border remittances. Due to the slow but steady recovery of the Russian Federation's economy which continues to attract labor migrants, cross-border remittances from the Russian Federation totaled USD 21 billion in 2018. In 2019, Ukraine had a population of about five million migrants, the majority of which came from Belarus, Kazakhstan, Moldova, the Russian Federation, and Uzbekistan.¹⁴

As shown in the table below, the pattern of cross-border transfers from 2015-2020e has been uneven but can be understood as trending upwards until 2020, when cross-border remittances were presumably curtailed by COVID-19 restrictions.

-14%

According to estimates published in a World Bank Migration and Development Brief (prepared with Global Knowledge Partnership on Migration and Development (KNOMD)),¹⁵ the volume of cross-border remittances by labor migrants is expected to decline 14 percent globally in 2021 compared to pre-COVID-19 levels in 2019.

According to the data, the inflow of remittances to all AFI members in ECAP is expected to see a decrease from 2019 to 2020e.

Due to their close ties, the need for cross-border remittances by AFI members in ECAP is expected to be high. The dynamics of cross-border remittances from one country to another can be influenced by many factors.

In 2020, the volume of cross-border remittances was significantly affected by the COVID-19 pandemic and the restrictions associated with it. For example, the outflow of citizens from Tajikistan to labor migration in the first half of 2020 decreased by 57 percent, which undoubtedly affected the volume of money transfers to the country.¹⁶



Although a reasonable growth was expected in the overall value of cross-border retail payments, the ongoing economic crisis resulting from the COVID-19 pandemic presents a declining growth trend.

An overview of some of the main laws and statutes on cross-border remittances in AFI members in ECAP is provided in Annex - I.

13 The International Organization for Migration (IOM) differentiates economic migrants from labor migrants. It defines several subgroups of migrant worker, including business travelers, contract migrant workers, established migrant workers, highly skilled migrant workers, immigrating investors, project-tied workers, seasonal migrant workers, and temporary migrant workers. "Labor migrants" are defined as those who move for the purpose of employment. "Economic migrants" form a potentially broader group that includes people entering a state to perform economic activities, such as investors or business travelers, but can be understood also in a narrower sense similar to the category of "labor migrants".

14 IOM. 2020. World Migration Report 2020.

15 KNOMAD. 2020. Phase II: COVID-19 Crisis through a Migration Lens. Migration and Development Brief 33.

16 Information taken from the Internet news magazine of the Republic of Tajikistan 'Sputnik': <https://tj.sputniknews.ru/infographics/20200806/1031689706/koronavirus-vliyanie-trudovaya-migratsia-tajikistan.html>

TABLE 1: REMITTANCE INFLOWS (USD, MILLION)¹⁷

		2016	2017	2018	2019	2020e
RUSSIA	6,903	6,689	8,235	9,287	10,432	8,782
ARMENIA	1,491	1,382	1,539	1,488	1,528	1,143
BELARUS	932	977	1,254	1,446	1,419	1,312
UZBEKISTAN	3,062	2,462	3,374	3,689	4,150	3,320
KAZAKHSTAN	294	384	560	618	506	458
TAJIKISTAN	2,259	1,867	2,237	2,183	2,322	2,066
MONGOLIA	261	260	273	441	561	536

TABLE 2: REMITTANCE OUTFLOWS (USD MILLION)

	2016	2017	2018	2019	2020e
RUSSIA	19,689	16,244	20,610	22,308	22,217
ARMENIA	364	358	367	341	363
BELARUS	162	124	138	160	186
UZBEKISTAN	150	159	174	244	274
KAZAKHSTAN	3,181	2,396	2,691	2,680	2,660
TAJIKISTAN	165	87	216	252	190
MONGOLIA	228	171	183	217	233



Womens committee, Almaty, Kazakhstan. (Photo by Lensw0rld/Shutterstock)

THE MAIN CHANNELS OR METHODS USED FOR MAKING CROSS-BORDER PAYMENTS AND REMITTANCES AMONGST AFI MEMBERS IN ECAPI

Cross-border remittance channels generally comprise payment interfaces used by intermediaries in both sender and recipient countries.

Methods of sending cross-border remittances are chosen depending on the locations of money transfer offices in ECAPI countries and abroad, the currency of the fund transfer, the amount of fees charged, and the time for receipt of funds, taking into account different time zones of the origin and destination locations and different operating hours of partner banking institutions. The below provides a broad overview of cross-border remittance channels across the globe.



I. BANK TRANSFERS

Transfers from one's own bank account to another bank account with a different financial institution in a foreign country (through a visit to a bank or other financial institution's office or via remote banking services, internet services or mobile banking).

The facilities for making cross-border remittances via bank transfer are being continuously developed and improving. Many Russian banking institutions are actively introducing services for instant card-to-card transfers to the Commonwealth of Independent States (CIS) member countries and neighboring countries using the recipient's phone number and name.

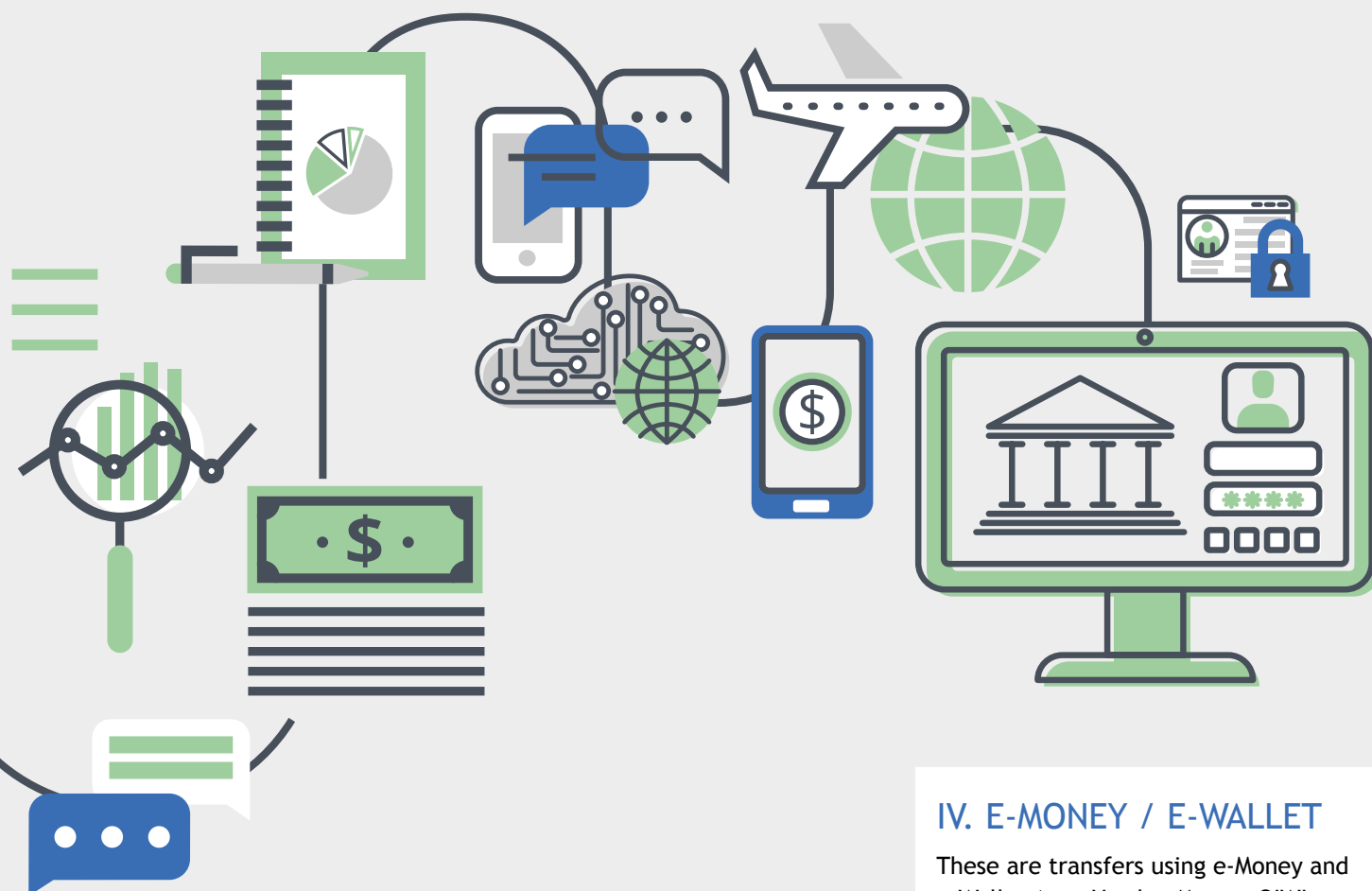
As more people gain access to bank accounts yearly, the functionality of bank cards continues improving to meet consumer expectations. The countries of the EECA region are considering integrating their national payment cards schemes, so bank account transfers are becoming ever more popular.

II. TRANSFERS VIA MONEY TRANSFER COMPANY (MTO)

These are transfers without opening a bank account through MTOs (e.g. Golden Crown Online Money Transfer Service – KoronaPay,¹⁸ Unistream Money Transfer,¹⁹ CONTACT Payment System²⁰ Western Union,²¹ MoneyGram,²² BLIZKO,²³ Ria²⁴). This method is popular in many countries because it allows any individual to send money to another person using only a passport.

III. INTERNATIONAL POSTAL TRANSFERS

Postal orders can currently be sent and received as cash and cashless payments (funds are credited to the recipient's bank account). The cost of a postal order is usually between 1.5 and 5.0 percent of the transfer amount. Information on tariffs, terms and conditions for international postal transfers can usually be found on the websites of postal operators.



IV. E-MONEY / E-WALLET

These are transfers using e-Money and e-Wallet (e.g. Yandex.Money, QIWI, PayPal, WebMoney).

18 Golden Crown's Online Money Transfer Service - KoronaPay

19 Unistream Money Transfer

20 CONTACT Payment System

21 Western Union

22 MoneyGram

23 BLIZKO

24 Ria

THE AVERAGE COST OF CROSS-BORDER PAYMENTS AND REMITTANCES IN THE EECA REGION

The cost of sending a cross-border remittance can vary widely and is influenced by several factors, including administrative costs, remittance amount, method or mechanism of transfer, financial infrastructure in the receiving country, exchange rate, and the level of competition in host and home countries.

According to the World Bank's Migration and Development Brief (October 2020), The cost of transferring USD 200 to the ECA region decreased slightly to 6.5 percent on an average in the third quarter of 2020 compared to 6.6 percent for the same period a year ago. For the same period, the average cost declined from 7.0 percent to 6.9 percent, excluding Russia. Although Russia remained the cheapest sender of cross-border remittances globally, the total cost of remitting from the country climbed from 1.54 percent to 1.94 percent owing to higher costs of sending money to Armenia and Tajikistan.

The most expensive cross-border remittances were sent from Turkey to Bulgaria, while the least expensive remittances were sent from Russia to Azerbaijan.²⁵



The tariff policy of payment market participants is formed independently (on a contractual basis, taking into account the economic efficiency of existing costs and the competitive environment), and interbank commissions are set by international payment systems in cooperation with banks.

COMMUNICATION AND COOPERATION AMONG REGULATORY AUTHORITIES OF AFI MEMBERS IN ECAPI

Communication and cooperation among regulatory authorities in ECAPI largely follow the guidance provided by the Technical Committee of the International Organization of Security Commissions (IOSCO) on the responsibilities (particularly Responsibility E) of central banks, market regulators, and other relevant authorities for the financial market as part of the Principles for Financial Market Infrastructures (PFMI)²⁶ by the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS).

Some examples of cooperation among authorities in ECAPI are:

- i. Cooperation based on the agreements under which the parties exchange information on the payment systems of their respective jurisdictions. The authorities discuss current issues in the supervision and monitoring of payment systems and cooperate on developing the payment services market and payment infrastructure, promoting competition, improving the quality of payment services, protecting the rights of payment services consumers, and counteracting fraud in payments (e.g. the Bank of Russia has concluded bilateral agreements for international cooperation on supervision with the regulators of Armenia, Belarus and Kazakhstan). According to the agreements, countries communicate statistics and key changes in their payment markets on an annual basis, and regulators can send single information requests to one another, such as regarding particular situations or participants on other countries' payment markets.
- ii. The Bank of Russia, Central Bank of the Republic of Armenia, National Bank of the Republic of Belarus, National Bank of the Republic of Kazakhstan, National Bank of the Kyrgyz Republic and National Bank of Tajikistan have signed the Memorandum on

²⁵ KNOMAD. 2020. Phase II: COVID-19 Crisis through a Migration Lens. Migration and Development Brief 33.

²⁶ Bank for International Settlements and International Organization of Securities Commissions. 2012. Principles for Financial Market Infrastructures

recommendations for ensuring transparency of the remittance services market and consumer protection for financial institutions providing remittance services on behalf of individuals without opening a bank account.²⁷

According to the memorandum, the signatories make efforts to implement the recommendations and share their experiences. In order to execute the memorandum, the Bank of Russia, for example, is taking substantial measures to ensure the transparency of cross-border remittances. Its Methodological Recommendations No. 10-MR,, On Increasing Transparency and Ensuring the Availability of Information on Fund Transfers Without Opening Bank Accounts²⁸ aims to ensure that banking institutions that provide cross-border remittance services furnish their customers with comprehensive information on the procedure for transferring funds (options, terms, timeframes, etc.)

iii. The following areas are currently being developed by the Bank of Russia, the central banks of the Eurasian Economic Union (EAEU) member states and the Eurasian Economic Commission, within the framework of the Working Group on the National Development of Payment Systems of the EAEU²⁹ (WG EAEU):

- > Interaction of national payment card systems
- > Interaction of systems for transferring financial messages and settlements

- > Implementation of ISO 20022
- > Interaction of fast payment systems
- > Interaction in the field of financial technologies
- > Ensuring cybersecurity with secure cross-border information exchange via trusted third-party service providers (TPPs) in the common financial market of the EAEU

In 2020, the main tasks of WG EAEU for the common financial market were as follows:

- > Ensuring the readiness of national payment card systems of EAEU countries to work on common interoperable cross-border remittance payment standards and with one another
- > Creating rules for information exchange via trusted TPPs in the financial markets
- > Taking organizational and technical measures to support the creation of a trustworthy financial market environment.

27 Available for viewing in Russian on the official website of the Bank of Russia: http://www.cbr.ru/Content/Document/File/93974/mem_in89.pdf

28 Methodological recommendations are posted on the official website of the Bank Russia and are available for viewing in Russian Language : <https://www.cbr.ru/StaticHtml/File/59420/10-mr.pdf>

29 In December 2015, at the initiative of the Bank of Russia, the National Bank of the Republic of Belarus and the National Bank of the Republic of Kazakhstan agreed to establish a working group to coordinate the development of their national payment systems. In 2016, the Central Bank of the Republic of Armenia and the National Bank of the Kyrgyz Republic became signatories to this agreement.



Perfume seller, Sheikh Mansur market, Dushanbe, Tajikistan. (Photo by B.O'Kane/Alamy Stock Photo)

CURRENT PROJECTS IN THE ECAP1 REGION TO IMPROVE THE EFFICIENCY OF INTEROPERABLE CROSS-BORDER REMITTANCES PAYMENT SYSTEMS

The following projects have been or are in the process of being implemented by the authorities in the ECAP1 region:

1. By virtue of the cooperation of the central banks in ensuring the interoperability of their respective national payment infrastructures, cards of the MIR Russian payment system³⁰ are now accepted in Armenia, Belarus, Tajikistan, Uzbekistan, and Kazakhstan.
2. Since November 2018, the Bank of Russia has been working to ensure the readiness of foreign organizations to connect with its Financial Messaging System (FMS). The National Bank of the Republic of Belarus has already connected its payment system operator, JSC BMRC, to the FMS while the Central Bank of the Republic of Armenia and the National Bank of the Republic of Kazakhstan are considering doing the same. Some credit institutions of Armenia and Kazakhstan have joined FMS.

FMS was created as an alternative channel for interbank communication to ensure a reliable and uninterrupted flow of information for settlements via the reciprocal correspondent accounts of the parties to a transaction.

3. The Bank of Russia has outlined plans to integrate faster payment systems with a number of AFI members in ECAP1.
4. The Central Bank of Armenia initiated the set-up of the national money transfer system called STAK to strengthen the country's financial stability, expand access to financial services, and provide more convenient and high-quality fund transfer services. Armenian and foreign banks, money transfer organizations, as well as foreign money transfer systems, are welcome to join STAK. The system will be launched in 2021.
5. The national payment card system BELKART³¹ has been operating under the National Bank of the Republic of Belarus since 1994. In January 2020, Belarusian banks started to issue a new type of card called BELCARD, which allows its users to perform transactions in the jurisdiction of Belarus and in-network of the Russian payment system and its partners.

30 More information in English about MIR is available on the website of the National Payment Card System: <http://nspk.com/card-mir/>

31 Official website of BELKART: <https://belkart.by/cards>



Using smart phone. Bukhara, Uzbekistan. (Photo by Rini Kools/Shutterstock)

6. In December 2018, Tajikistan and Russia signed a mutual cooperation agreement on the Republic of Tajikistan's Korti Milli national payment system and the Russian payment system, MIR. The aim was to facilitate and encourage cross-border payments in national currencies, as well as develop economic cooperation between the two countries.
7. On November 27, 2019, the National Bank of Tajikistan adopted a procedure for cross-border money transfers and the payment systems used for such transfers. According to the new procedure, all operators of international payment systems must integrate with its National Process Center for Remittances (NPCR).



The main goal of the NPCR is to improve the efficiency of the money transfer system, ensure transparency of operations and reduce transaction risks.

The NPCR is a system platform comprising a set of hardware and software tools designed to provide settlements for cross-border money transfers via the correspondent accounts of participants (credit organizations and payment systems) opened with the National Bank of Tajikistan. The priorities of the NPCR are to ensure fast, safe and uninterrupted cross-border money transfers in non-cash form between the participants.

8. Uzbekistan is taking measures to increase the interoperability of payment systems for cross-border money transfers and payments. The following projects are worth noting:
 - > Integration of several of the country's commercial banks with Sberbank, a Russian bank which allows the cardholders of these banks to make cross-border transfers to the Russian Federation
 - > Russia's payment system MIR has launched cross-border transfers to Uzbekistan as part of the next stage of a project to create a common payment platform for CIS countries
 - > Uzbekistan's commercial banks have begun integrating their processes with international money transfer systems as Visa, Money send, KoronaPay Money Transfers, etc
 - > Eighteen payment organizations are implementing projects on cross-border transfers and payments in cooperation with commercial banks

KEY ISSUES IN THE INTEROPERABILITY OF CROSS-BORDER MONEY TRANSFERS FOR AFI MEMBERS IN ECAPI AND THEIR CHALLENGES FOR ECAPI AUTHORITIES

Despite the extensive development of the cross-border remittance market in the region, there remain obstacles to the interoperability of cross-border money transfers.

LACK OF A CENTRALIZED MECHANISM FOR CROSS-BORDER REMITTANCES AND SETTLEMENTS

AFI members in ECAPI have different cross-border payment procedures and lack a centralized mechanism for cross-border remittances and settlements (such as TARGET2³² by the Eurosystem). To comply with supervisory requirements in several jurisdictions, payment system operators and other payment market participants often have to undergo separate admissions procedures for each jurisdiction. This creates additional obstacles that lead to a conflict of laws and complicate the international expansion of businesses.

SETTLEMENT RISKS

Cross-border remittances in the region often involve a lengthy chain of correspondent banks, inevitably affecting the speed and cost of transfers due to a large number of participants. In addition, such transfers may be accompanied by double currency conversion, which also increases the final cost of the transfer for customers as well as settlement risks. However, the number of correspondent banks is decreasing (due to liquidation, bankruptcy or revocation of banking licenses by regulators) which also affects the region's cross-border remittance market through the temporary decrease in the number of entities and restricted access to international banking.

LACK OF TRANSPARENCY

Lack of transparency in tracking payments between countries is another important aspect that makes it difficult to analyze cross-border remittances. For example, the lack of comparable data on cross-border payments due to the absence of a unified methodology for collecting customer data (for identification purposes) and the lack of coordinated, large-scale data collection.

32 An interbank payment system built on the basis of the international SWIFT system and created to improve the efficiency of payments between the European Union member states and facilitate the implementation of a unified monetary policy by the European Central Bank. The system unifies the technological infrastructure of 27 central banks of the European Union member states and provides for real-time international settlements between them.

DIFFERENCES IN IDENTIFICATION RULES OF CROSS-BORDER REMITTANCES

Differences in identification rules of cross-border remittances made for the purpose of money laundering and terrorist financing, as well as illegal withdrawal of funds from abroad, and participation of entrepreneurs evading taxes in the shadow turnover of funds.

INFORMATION SECURITY

Information security is widely discussed by participants in the global payment market, and appropriate preventive measures are being implemented, such as ongoing monitoring for countering cyber threats that use innovative financial technologies.

In addition, a number of regulatory barriers and restrictions need to be overcome to create a cross-border space of trust between AFI members in ECAPI while ensuring the security of financial information in cross-border exchange, protecting the rights and legitimate interests of financial consumers, analyzing cyber threats and responding to cybersecurity incidents, including identifying and preventing unauthorized transactions.

LACK OF COORDINATION BETWEEN REGULATORS AND PUBLIC AUTHORITIES

Lack of coordination between regulators and public authorities hinders improvements in payment infrastructure interoperability and access to payment services. There may exist multiple conditions, procedures, and situations for cross-border remittances, as well as different regulatory approaches to such transactions. For example, one jurisdiction could have strict legal requirements for customer identification but another might require minimal customer identification information to effect a money transfer.) In short, it is difficult to integrate payment systems with different data transfer rules.



Moreover, the payment system infrastructures of different countries are at different stages of development and their high costs of access are a barrier to interoperability and the effective coordination of payment and money remittance systems.

INSUFFICIENT FINANCIAL INCLUSION

- > In some countries, parts of the population still lack a bank account, which is associated with a low level of financial literacy and a lack of technological

capacity to provide the population with access to new payment products.



According to the Global Findex database,³³ the number of bank account holders in the world increased by 1.2 billion between 2011 and 2017 but 1.7 billion adults worldwide remained unbanked.

Out of this number, 116 million live in Eastern Europe and Central Asia, mainly in the Republic of Tajikistan, the Kyrgyz Republic and other countries). This affects the ability of individuals to use digital payment services.

- > Inadequate capacity for the provision of financial services due to the size and geography of the region, as well as the concentration of facilities in urban centers. It should be noted that a number of payment systems provide non-location-bound payment services, with cross-border remittance recipients being able to choose any convenient facility for cash withdrawal.
- > Political factors, such as sanctions imposed by countries to which cross-border remittances are made or regional restrictions and other such requirements on foreign payment systems established by national regulators, impede cross-border remittances and may also adversely affect the development of interoperable payment systems and infrastructures.
- > Costs (such as high commission fees due to the multi-stage process of transferring funds)³⁴ and speed of transfer (which can vary from 10 minutes to seven days), as well as different levels of information security and cybersecurity (because of the absence of a unified system of security assessment and audit) are also factors that adversely affect the development of interoperable payment systems and infrastructures. It should be noted that cross-border remittances to popular destination countries are promptly affected (within one business day) but their exact date of receipt depends on the destination country.

33 The Global Findex database is available at: www.globalfindex.worldbank.org.

34 The fees for money transfers within the ECAP region are low in comparison with fees in other regions) but need to be reduced to make money transfers more accessible for individuals.

This date is unpredictable because the funds may be held up indefinitely at one of many stages of transfer due to numerous participants in the transmission chain of cross-border remittance data; a disruption at any stage significantly impacts the entire process. Delays may also be due to the chosen method of receiving funds (such as an account or post office not being immediately accessible to the recipient), as well as time zone differences between origin and destination countries.

- Cryptocurrencies (including stablecoins), while not currently circulated in certain countries, can have great advantages in terms of faster fund transfers and lower fees. This may lead to significantly more efficient cross-border payments and remittance systems due to the highly competitive market for such technology solutions. However, because there is no uniform worldwide approach to the regulation of stablecoins and monitoring of suspicious transactions, regulators and supervisory authorities should coordinate their efforts in this field, taking into account the borderless nature of new crypto payment methods and the risks inherent to them.



At the same time, it is worth mentioning that many financial sector regulators across the globe have begun exploring practical policy and technology considerations for a central bank digital currency (CBDC), a digital fiat currency that represents the liability of a central bank and can be used to make payments.

Innovations in financial services and technology and disruption by COVID-19 have further sparked growing interest in CBDC. According to the Bank for International Settlements, CBDC has the potential to create a new payment mechanism that is interoperable by default, promote competition among private sector intermediaries, and establish a high standard for safety and risk management provided it is appropriately designed.³⁵

³⁵ Bank for International Settlements. 2020. Annual Economic Report. Available at www.bis.org/publ/arpdf/ar2020e.pdf



Digital payment in a cafe, Russia. (Photo by fizkes/iStock)

RECOMMENDATIONS FOR IMPROVING THE INTEROPERABILITY OF CROSS-BORDER MONEY TRANSFERS AMONG AFI MEMBERS IN ECAP

To improve the interoperability of the regional payments market, the central banks of the Eastern European and Central Asian countries should cooperate on a coordinated policy in this area with the support of their national regulators.

The following recommendations have been deduced based on the state of practice and analysis of identified challenges facing AFI members in ECAP:

No.	Objectives/measures	Timeline for implementation
1	<p>Improve the accessibility and transparency of information on cross-border remittances, such as by:</p> <ul style="list-style-type: none"> > implementing in all the AFI members in ECAP the recommendations for ensuring the transparency of the cross-border remittance services market and consumer protection that apply to financial institutions providing cross-border remittance services on behalf of individuals that do not require the opening of a bank account. > developing uniform disclosure templates on tariffs, fees and other minimum information on services for consumers, and making available educational resources that allow consumers to obtain further information on the same, including on how to calculate the cost of a transfer depending on its character, destination and method. 	Medium term
2	<p>Develop cooperative oversight and cross-border supervision³⁶ to ensure the timely exchange of information among central banks for the supervision of payment market participants and for central banks to consider the possibility of extra-territorial recognition of one another's decisions, such as granting market access to licensed cross-border remittance service providers of other jurisdictions, provided that maximum protection and minimum risks to information security are observed. It is important to ensure that the cross-border supervisory process is in harmony with other cooperation agreements between AFI members in ECAP.</p>	Medium term
3	<p>Reduce obstacles to and restrictions on interoperability, improve reliability and maintain the smooth functioning of cross-border remittance systems, and identify fraudulent practices and players in the cross-border remittance market.</p>	Medium term

36 European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA). 2019. Report on Cross-Border Supervision of Retail Financial Services. Available at: <https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2551996/ab0d0bdd-2c9d-4441-a8d9-6d599291be90/Final%20Report%20on%20cross-border%20supervision%20of%20retail%20financial%20services.pdf?retry=1>. The IOSCO report Good Practices on Processes for Deference, which examines the processes currently applied by jurisdictions in deciding whether to rely on the regulatory and supervisory opinions of foreign regulators. Available at: www.iosco.org/library/pubdocs/pdf/IOSCOPD659.pdf

No.	Objectives/measures	Timeline for implementation
4	Create appropriate conditions for the development of the payment market infrastructure, including for digital payment services , taking into account the experience of COVID-19 lockdowns as well as the development of remote infrastructure for additional financial services facilities, such as by financial institutions engaging more bank payment agents to minimize operating costs and increase the volume of cross-border remittances.	Medium term
5	Improve mechanisms for tracking the movement of funds and develop measures to accelerate funds transfers , as well as enable the final recipient to accurately predict time frames for the receipt of a cross-border remittance.	Long term
6	Formulate approaches to the creation of a mechanism for mutual recognition of the results of external security audits and a unified system of trust between AFI members in ECAPL.	Medium term
7	Create conditions for prompt cooperation in analyzing cyber threats and for responding to cybersecurity incidents.	Medium term
8	Exchange experiences of innovative payment technologies and develop regulation and oversight of the usage of cryptocurrencies for cross-border remittances.	Medium term
9	Increase the level of integration between national payment systems and develop faster payment systems	Medium term
10	Indicate the approaches , requirements and rules for cross-border remittances between countries that could be unified (including those on information security and data integrity for cross-border remittances and customer identification); coordinate data collection methodology for cross-border remittances, harmonize legislation, including those relevant for cross-border remittance reporting, in order to obtain comparable data prepared by different regulatory authorities. (For this purpose, the number of indicators used in cross-border remittance reporting can be increased.)	Medium term
11	Create regional payment systems and enable settlements in the national currencies of AFI members in ECAPL.	Long term

AFI members in ECAPL, with the support of AFI, are taking the initiative to improve the interoperability of the region's cross-border payments market based on the recommendations above, while continuously identifying and resolving new challenges as they arise. AFI continues to play a critical role as a platform for knowledge exchange and providing international best practices on financial inclusion, including payment services.

ANNEX-1: SOME OF THE MAIN LAWS AND STATUTES ON CROSS-BORDER REMITTANCES OF AFI MEMBERS IN ECAP

Country	Laws and statutes
Russian Federation 	<ul style="list-style-type: none"> > Federal Law No. 395-1, dated 2 December 1990, 'On banks and banks' activity'³⁷ > Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System' (the Law on the NPS)³⁸ > Federal Law No. 103-FZ, dated 3 June 2009, 'On Accepting Payments of Individuals by Payment Agents'³⁹ > Federal Law No. 176-FZ, dated 17 January 1999, 'On Postal Services'⁴⁰ <p>The procedure for carrying out currency transactions including when making cross-border transfers is regulated by Federal Law No. 173-FZ, dated December 10, 2003 'On Foreign Exchange Regulation and Foreign Exchange Control'⁴¹ and the acts issued by the competent authorities responsible for foreign exchange regulation and foreign exchange control in accordance with the said federal law.</p> <p>Requirements for the identification by banking institutions of a client, its representative, beneficiary and beneficial owner when performing money transfers, as well as the rights and obligations of banking institutions and federal postal organizations when carrying out wire transfers, including those which are relevant for cross-border transfers, are established by Federal Law No. 115-FZ, dated 7 August, 2001 'On counteracting the legalization (laundering) of criminally obtained incomes and the financing of terrorism' (AML/CFT law).⁴²</p>
Republic of Armenia 	<p>The regulation of payment services, including fund transfers, is carried out in accordance with the Laws of the Republic of Armenia, 'On Payment and Settlement Systems and Payment and Settlement Organisations', dated 24 November 2004,⁴³ and 'On Funds Transfers by Payment Orders', dated 4 December 1996,⁴⁴ as well as in accordance with the Central Bank of Armenia's regulations and other acts accepted in accordance therewith, and in accordance with the Law of the Republic of Armenia No. ZR-46, 'On Postal Communications', dated 15 January 2005, while making a postal transfer.</p>
Republic of Belarus 	<p>The procedure for providing payment services is regulated in accordance with the Banking Code of the Republic of Belarus No. 441-3, dated 25 October 2000.⁴⁵ Moreover, the draft law 'On payment systems and payment services' has been developed, adopted and approved by the Council of the Republic of Belarus.</p>

37 https://cbr.ru/content/document/file/37344/law_banks_e.pdf

38 http://www.cbr.ru/Content/Document/File/16997/161-FZ_e.pdf

39 <https://legalacts.ru/doc/federalnyi-zakon-ot-03062009-n-103-fz-o/>

40 <https://legalacts.ru/doc/federalnyi-zakon-ot-17071999-n-176-fz-o/>



41 https://legalacts.ru/doc/FZ-o-valjutnom-regulirovanii-i-valjutnom-kontrol-ot-10_12_03/

42 <http://www.cbr.ru/content/document/file/29897/115-fz.pdf>

43 http://www.parliament.am/law_docs/211204HO150eng.pdf?lang=eng

44 https://www.cba.am/EN/lalaws/Law_on_funds_transfer_by_payment_order.pdf

45 <http://law.by/document/?guid=3871&p0=Hk0000441e>

Country	Laws and statutes	
Republic of Tajikistan		Regulation on the provision of payment services in the Republic of Tajikistan in accordance with the Law of the Republic of Tajikistan No. 1397 dated 24 February 2017, 'On payment services and payment systems', ⁴⁶ determining the legal and organizational bases of functioning of payment systems and the procedure for provision of payment services in the Republic of Tajikistan, and also in accordance with Instruction No. 193 dated 23 May 2012, 'On clearing settlements in the Republic of Tajikistan'. ⁴⁷
Republic of Uzbekistan		<ul style="list-style-type: none"> > Law of the Republic of Uzbekistan No. ZRU-578, dated 7 November 2019, 'On payments and payment systems'⁴⁸ > Law of the Republic of Uzbekistan No. 841-XII, dated 7 May 1993, 'On currency regulation'⁴⁹ > Law of the Republic of Uzbekistan No. 118-II, dated 31 August 2000, 'On postal communications'⁵⁰ > Resolution of the Board of the Central Bank of the Republic of Uzbekistan No. 3231, dated 29 April 2020, 'On approval of the provision on cashless settlements in the Republic of Uzbekistan'⁵¹ > Resolution of the Board of the Central Bank of the Republic of Uzbekistan No. 3229, dated 13 April 2020, 'Rules for the issue and circulation of electronic money on the territory of the Republic of Uzbekistan'
Republic of Kazakhstan		Regulation for the procedure on providing payment services in the territory of the Republic of Uzbekistan in accordance with the Law of the Republic of Kazakhstan No. 11-VI dated 26 July 2016, 'On payments and payment systems' ⁵²
Mongolia		<ul style="list-style-type: none"> > Law dated, 31 May 2017, 'On the national payment system' > Law dated 18 May 2017, 'On non-bank financial activities' > Resolution of the Bank of Mongolia No. A-45, dated 13 February 2018, 'On electronic money' > Policy on National Payment Systems, Bank of Mongolia⁵³

46 https://nbt.tj/upload/iblock/9fd/Law%20on%20payment%20systems%20and%20services_final.pdf

47 http://www.nbt.tj/upload/iblock/dcd/ins_193_ru.pdf

48 <https://cbu.uz/ru/documents/3311/121084/>

49 http://www.base.spinform.ru/show_doc.fwx?Rgn=1045

50 <https://www.pochta.uz/en/component/k2/item/70-zakon-respubliki-uzbekistan-o-pochtovoj-svyazi.html>

51 http://fmc.uz/legisl.php?id=beznrashet_1122

52 https://kodeksy-kz.com/ka/o_platezhah_i_platezhnyh_sistemah/35.htm

53 <https://www.mongolbank.mn/documents/regulation/paymentsystem/PolicyonPaymentSystem.pdf>

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