

# The Goldfinch Report

## Cash- The Remittance Challenge

Published by *Paycre8*

Written By Peter Goldfinch

### About the Author:



Peter is one of the founders of Paycre8 and has been writing the Goldfinch Report for approximately 3 years.

He has been working in the payments industry for over 20 years and as a consultant completed assignments for clients in 20 or more developed and emerging markets.

Many would consider Peter to be a technology oriented professional but he also has a strong business background.

This report is an opinion piece and is not intended to do more than reflect Peter's views at the time of writing. The subject matter often relates to current experiences resulting from his consulting experience. The purpose is to generate debate

There is the expectation by most that when you visit a bank branch or an ATM to withdraw cash that there will be cash available. Most of us do not appreciate the size of the production and logistical exercise that takes place to ensure this expectation is met.

I participated in a workshop with the UK bank TSB about ten years ago on this very subject. I did not appreciate that while I sleep there are trucks traveling across the country (in this case the United Kingdom) collecting and redistributing cash so for the new day the process of spreading it about can be repeated. What I also did not appreciate at the time was where we withdraw cash is not where we necessarily spend it - Cash travels.

This need to redistribute cash is a contributing factor to why this payment instrument is the most expensive. Cash is perceived by the users to be both free and readily available. Recognizing that cash will remain a significant if not dominate payment instrument in their economies many central banks over the last one to two decades have taken steps to reduce the cost. The introduction of polymer notes has increased the life span of cash as well as minimized if not eliminated the counterfeits in circulation. Some countries have also withdrawn from circulation the lower value coins. The actual distribution process has also been made more efficient which has largely been achieved by outsourcing the task. Central banks are providing a 'wholesale' service to armored car/cash transit companies who have taken over the responsibility of delivering cash to bank branches and replenishing ATMs.

Fees have been introduced and the banks are increasingly passing these onto their customers as cash handling fees, ATM fees etc. Passing the true cost onto the end user is one of the means of reducing the dependency on cash, assuming there is an alternative

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through examination of current industry developments and directions. The author hopes you enjoy reading these reports.

## About *Paycre8*:

The three founders of Paycre8 have been working in the payments industry for collectively over four decades. Most of this time they have worked as consultants, designers, integrators, developers and project managers on various project internationally. They have experience in a wide range of payment channels, instruments and networks, normally working at the leading edge.

The demand and referrals from old clients plus a passion for the creative aspects of the industry motivated the three founders to build what they believe is a unique and niche consultancy practice.

## *Paycre8* - Value

### statements:

*Purpose* – to provide payment

The transporting of cash in bulk facilitates a business opportunity for those with a propensity for participating in robberies and the rewards if successful are lucrative. A speech given by the Governor of the Sveriges Riksbank, Mr Stefan Ingves in 2006 highlighted this particular issue in Sweden. He mentions not only the increase in robberies, but also more worrying the escalation in the violence and the use of explosives and heavy weapons.

Last year the GSMA, Mobile Money for the Unbanked published an article from Gunnar Camner and Emil Sjoblom from Valuable Bits and Caroline Pulver from FSD Kenya with the title, 'Learnings from MPESA in Kenya and Tanzania' that raised the issue of cash management, although this was obviously not the focus of their research. But the idea for this report was a result of reading this excellent article.

The MPESA success in Kenya compared to the lower level of success in Tanzania was contributed, at least in part, to the service in Kenya being an extension of what appears to be a more developed banking network. The article puts forward the view that MPESA is servicing the banked and this supports the views of this author in a previous report on 'Banking the Banked'. There are far fewer banked individuals in Tanzania as well as fewer bank branches, contributing factors it appears to a lower success rate.

When it comes to the production and distribution, cash can be viewed like any other product. This view will provide clarity around the issues. The Kenya banking system is delivering the product the MPESA service is selling, cash. In an operational sense MPESA is accepting a product order centrally, receiving payment and sending an instruction to the beneficiary to go to an outlet, (agent) to collect. The MPESA system assumes the agents can source and pay for the product from their local bank branch.

On September 8, 2009 Mark Pickens from CGAP published findings from a Kenya field trip. Mark states that the liquidity management is 30% of an agent's total expenses. Costs come in the form of bank charges, transport and fees to aggregators. Agents borrow to fund their cash float.

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system advisory services to an international client base. Clients who currently operate payment systems or who are investigating starting up electronic payment services.

*Vision* - By providing fast responsive, informed expertise, and consistently high quality service, *Paycrest* aims to build an international reputation for excellence.

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- Solution Evaluation and

The success or failure of many remittance schemes is built on this premise that the cash is available and inexpensive. But as these mobile remittance services gain greater market penetration the pressure will go onto the banking system to meet the cash demand.

To date we have not seen reports on the security issues in Kenya. As Agents are increasingly required to hold more cash to service the demand they will become targets for robberies. The lorries transporting cash will begin to be high jacked although it is hard to imagine this is not already occurring. The point being that maintaining the physical security of the cash and those that are handling it will become an increasing challenge.

The remittance scheme operators in all emerging economies will find they are not immune from the security challenges.

A conclusion can be drawn that building an effective agent network requires that an effective and secure cash distribution network also be built. The remittance operators must take responsibility for the delivery of their product. This is probably the most difficult task. This may be best achieved if the agents are an extension to the bank branch networks, although managed independently. Many if not all of the formal traditional remittance services rely on the banking networks.

Logic may suggest a point will be reached when there is enough cash circulating in a community that the need to supply additional cash will become unnecessary, as it will circulate back through the banking system as deposits into accounts. Evidence suggests the reality will be different as cash leaks out of communities.

Without following the cash trail it is hard to determine where it goes and therefore what the strategy should be to redirect it. The answer is not going to be known until somebody maps the flows. Cash is also hoarded as savings so in effect it exists the system.

The replacement of cash with the electronic form is payment utopia. No single country has yet to achieve this position although some have been more effective than others. So expectations of this being achieved in any

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Selection

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country is low but emerging economies who are in effect building payment services virtually from ground zero possibly have a better opportunity than the industrialized nations.

It is probably safe to assume that cash will remain the dominant payment instrument.

The Kenya MPESA scheme is reported to be moving in the direction of providing electronic payments. We also now read reports that users are leaving savings in the scheme. These types of developments will relieve the cash management issue.

The Tanzania situation of a poorly developed bank branch network is probably more typical and if the electronic remittance services are extended beyond the reaches of the bank branch network we can expect to see them having difficulty because the cash supply, the product, will not be available.

This is a constraint the traditional 'by hand' remittances services do not have as the cash travels down the delivery channel. Obviously these traditional methods still carry the issues relating to time and security, (will the beneficiary ever see the money) which make them unattractive.

The MPESA type of schemes must be a success but they also must be seen as only the first step. The introduction of integrated services that limit or reduces the dependency on cash is essential for these schemes long-term survival. If not, the cost will balloon out and only those with a propensity for participating in robberies will prosper.