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Payments services

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Payments cover a range of financial products and services – at the retail end, from point of sale systems, to online payments gateways, remittance services, mobile money transactions, bill payments, wire transfers, credit and debit cards, and electronic funds transfers. On the commercial side, business to business transactions, inter-bank payments and treasury services all cross borders. Payments services encompass all the services needed to transact a payment – including processing, clearing and settlement. Although cash remains the most commonly used payments system, digital and electronic payments are being used more and more across the continent. Cross-border payments are almost exclusively digital.

The African Continental Free Trade Area agreement (AfCFTA) can contribute to the development of sound, effective and efficient payments systems and payments services in several ways. Services will be better able to proliferate across the continent if barriers to cross-border operation are reduced via the AfCFTA, while greater integration can be achieved via the regulatory commitments in the AfCFTA. At the same time, increased trade because of the AfCFTA will create greater demand for payments services, and thus could provide the impetus for improving existing infrastructure. Commitments made under the African Continental Free Trade Area agreement (AfCFTA) will also shape national policy. This is particularly the case for services, where countries often lack coherent policy. The commitments made at the continental level can set the direction of national policy, or provide the political impetus for changes.

Barriers to the expansion of payments services and cross-border payments

Payments providers can have difficulty providing services cross-border for several reasons. There can be trade barriers that manifest in domestic regulation, such as discriminatory treatment of foreign providers, the requirement for local incorporation, prohibitions on cross-border services or limitations on the movement of capital. There are also infrastructure barriers – the actual transmission of money from one country to another may be difficult either because of the cross-border connection or the payments system in either country.

The most troublesome barriers to the greater integration of payments systems and the expanded provision of payments services are the regulatory barriers including licensing and capital requirements.

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Historically, payments have been associated with banks, but as financial services are disaggregated, and new technology has enabled more granular and specific services, some of the current regulatory settings are inappropriate. For example, a remittance provider processing low-value payments is unlikely to present a systemic risk, and therefore is unlikely to need to be prudentially regulated, but there are still some consumer risks to consider and regulate for. Under regulation is also a problem. Without some level of regulatory certainty, firms can be hesitant to enter markets due to financial instability, or lack of an even playing field. A lack of regulation also undermines consumer trust. Transparency and clarity of regulation are also essential. It is essential for new entrants to be able to understand the regulatory requirements that they need to meet. If the regulations are drafted in a way that allows for a large amount of regulatory discretion, or ambiguously, it can be difficult for new entrants to meet the requirements. Local businesses often also have an advantage of having an existing relationship with the regulator.

Regulatory divergence can also present a challenge. The mere fact of multiple, different regulatory regimes – even if each individually is well-calibrated can be a barrier to doing business across borders – especially for smaller enterprises.

The role for trade agreements

17 African countries have made commitments on payments services under the GATS, and only 6 of those have made specific commitments on cross-border payments services. Most payments commitments are for payments services provided via commercial presence, however, there are often conditions attached, including local incorporation, local headquartering and licensing as a bank.

Members have expanded access beyond commitments made under the GATS within RECs. Given that members of the African Union have agreed to expand upon their General Agreement on Trade in Services ('GATS') commitments in the AfCFTA services schedule, the RECs commitments could be a good starting point. However, countries should be working to not just lock in current levels of access such as that committed regionally, but to work towards domestic changes that will genuinely encourage and enable new entrants. It will also be important for commitments in the AfCFTA to accommodate *new kinds* of services.

Commitments for access to markets and non-discrimination in AfCFTA services schedules will not, however, be enough to encourage payments services providers to access other markets on the continent. As well as directly addressing any trade barriers to payments, providing for the free movement of capital is important for all trade, and enabling this, with appropriate safeguards in place, will reduce friction on cross-border payments.

Except for cash payments, all cross-border payments require electronic messaging and thus, the cross-border flow of data is essential to the functioning of cross-border payments. Payments systems and services rely upon telecommunications, so to the extent the AfCFTA can create conditions for improved telecommunications infrastructure, this will also support the development of payments systems and services.

Along with guaranteed access for payments services providers, countries should commit to guaranteed access to payments infrastructure – including national payments services, clearing and settlement systems, ATM networks and credit or debit card schemes, in a non-discriminatory way. This is particularly important where, as often is the case, the system proprietary to one or a group of providers. This would allow a payments provider from one country to provide payments services seamlessly in another African country. This goes beyond market access commitments and may require countries to make commitments on self-regulatory organisations or licensing requirements.

The AfCFTA regulatory framework for financial services should encourage member-states' payments services regulation to converge towards international regulatory standards, such as those proposed by the Financial Action Taskforce on anti-money laundering and countering the financing of terrorism and the CPMI-World Bank General Principles for International Remittance Services. A genuine commitment to mutual recognition of regulatory regimes will also alleviate some of the challenges of regulatory divergence.

Opening access and recognising as equivalent the regulatory regimes of other countries can come with risks. To ensure this does not compromise regulatory integrity or introduce risks for consumers, expanding access should be combined with reciprocal enforcement arrangements (such as Memoranda of Understanding between regulators, mutual legal assistance agreements and a mandate for regulators to assist the regulators of other jurisdictions). These enable regulators and law enforcement to access information and enforce compliance across jurisdictions.

There are already various regional payments systems in place in the RECS – including the East Africa Payment System (EAPS) and the SADC Regional Integrated Settlement System. These systems are designed to make cross-border payments easier, and less reliant on correspondent banking arrangements which can be slow and costly. The Africa Export-Import Bank is developing a Pan-African Payment and Settlement Platform in an attempt to eliminate the need for transactions in a third currency when payments are made cross-border. Importantly, this platform is targeting small scale traders. The AfCFTA regulatory framework can emphasise the need to integrate and build on these systems.

References & Further reading

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