



WORKING PAPER

Paving the Way for Digital Financial Services in Jordan

Market and regulatory assessment of payments and remittances

June 2017

This report was written by Nana Yaa Boakye-Adjei, Gemma Robson, and Leon Isaacs from DMA Global. The research was overseen by CGAP (Nadine Chehade, Mayada El-Zoghbi, Antoine Navarro) and GIZ (Katharina Braun Botão and Rainer Schliwa). It has benefitted from invaluable input from Maha Bahou and Amr Ahmad of the Central Bank of Jordan and from Alaa Abbassi of Abbassi Law Office and legal adviser to all parties. The team is grateful to reviewers Stefan Staschen (CGAP); Ilka Funke, independent consultant (GIZ); and Harish Natarajan (World Bank) for their valuable comments and suggestions during the peer review process.

This report was funded by the German Government through GIZ. The project "Improving Access to Remittances and other Financial Services through Digital Solutions in Jordan" (Digi#ances) is part of the special initiative, "Tackling the Root Causes of Displacement, Reintegrating Refugees," initiated by the German Federal Ministry for Economic Cooperation and Development (BMZ) in 2014 as a means to provide short-term support to refugees and their host communities.

The Digi#ances project is jointly implemented by GIZ and the Central Bank of Jordan, with whom CGAP partnered to conduct a comprehensive baseline study of digital person-to-person remittances.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	xvi
INTRODUCTION	1
PART 1: JORDAN DOMESTIC PAYMENTS MARKET	2
1. Jordan Domestic Payments Market.....	2
1.1. Market Players: Bank and Nonbank Financial Institutions.....	2
1.1.1. Banks	2
1.1.2. Exchange Houses	2
1.1.3. Jordan Post Company (JPC) and Jordan Postal Savings fund (JPSF)	4
1.1.4. Mobile Payments Services Providers.....	4
1.2. Access Points to the Payments Ecosystem in Jordan	6
1.3. Supporting Payments Infrastructure	7
1.4. Ongoing and Future Projects.....	7
1.4.1. JoMoPay—Software Upgrade.....	7
1.4.2. eFAWATEERcom	7
1.4.3. Mobile Payments Acceptance.....	7
1.4.4. Planned and Ongoing Pilots.....	9
1.5. Concluding Remarks	9
2. Domestic Payments Regulatory Overview.....	10
2.1. Regulatory Neutrality and Proportionality.....	11
2.2. Risk Management.....	12
2.3. Protection of Customer Funds	12
2.4. Financial Customer Protection.....	13
2.5. Financial Integrity.....	15
2.6. Concluding Remarks	17

PART 2: JORDAN INTERNATIONAL REMITTANCES MARKET.....	18
1. Demographics of Jordan: Immigration and Emigration Stocks.....	18
2. International Remittances Market.....	20
2.1. Approach to Researching and Improving International Remittances Markets.....	20
2.2. Market Size.....	22
2.3. Market Players: Exchange Houses, IMTOs, and Banks.....	24
2.4. Overall Remittances Market Assessment.....	25
2.4.1. Market structure and competition.....	26
2.4.2. International Remittances Infrastructure.....	27
3. International Remittances Regulatory Assessment.....	29
3.1. AML and CFT.....	30
3.2. Licensing Processes.....	31
3.3. Prudential Requirements.....	31
3.4. Consumer Protection.....	32
3.5. Transparency.....	33
3.6. Concluding Remarks.....	34
4. Selected Corridors: Volume, Value, and Transaction Sizes.....	34
4.1. Selected Corridors Features.....	36
4.2. Inbound Corridors.....	38
4.2.1. UAE-Jordan.....	38
4.2.2. Qatar-Jordan.....	38
4.2.3. Saudi Arabia-Jordan.....	39
4.2.4. Germany- and USA-Jordan.....	39
4.3. Comparing the Inbound Markets.....	39
4.4. Outbound Corridors.....	42
4.4.1. Jordan-Egypt.....	42
4.4.2. Jordan-Palestine.....	42
4.4.3. Jordan-Philippines.....	42
4.5. Comparing the Outbound Markets.....	43
4.6. Concluding Remarks.....	43
4.6.1. Inbound corridors.....	43
4.6.2. Outbound corridors.....	43

PART 3: MAIN FINDINGS, REMAINING CHALLENGES, AND RECOMMENDATIONS	49
1. Main Findings.....	49
1.1. Domestic Payments	49
1.1.1. Cash continues to dominate domestic payments	49
1.1.2. A concerted drive to transition away from cash – from both a consumer and service provider perspective – is required.....	49
1.1.3. In general, the regulatory environment for e-money issuance in Jordan is sound, proportionate and robust.....	49
1.1.4. Consumer protection and transparency present gaps in the regulatory environment for domestic payments.....	50
1.2. International Remittances.....	50
1.2.1. While Jordan is a net receive market, it is also a significant send market for international remittances	50
1.2.2. There is a highly-segmented client base for sending and receiving international remittances.....	50
1.3. Findings Related to the International Remittance General Principles.....	50
1.3.1. Market Structure and Competition.....	50
1.3.2. Payment System Infrastructure	51
1.3.3. Legal and Regulatory Environment.....	51
1.3.4. Transparency and Consumer Protection	52
2. Scenarios for Connecting International Remittances to the Domestic Digital Payments Infrastructure	52
2.1. Scenario One: exchange houses becomes licensed as MPSPs	52
2.2. Scenario Two: exchange houses become agents of licensed MPSPs ...	54
2.3. Scenario Three: MPSPs create their own digital international remittances services, linking into IMTOs or hubs.....	55
2.4. Scenario Four: JoMoPay links directly with international remittances hubs and aggregators.....	56
2.5. Concluding Remarks	56
3. Remaining Challenges and Recommendation.....	57
3.1. Challenges to Digitizing Domestic Payments	57
3.2. Challenges to Digitizing International Payments	59
ANNEXES	61
1. Regulatory Comparison – EU Directives and Jordan	61
2. Mystery shopping Methodology.....	71

LIST OF TABLES, FIGURES, AND BOXES

Table 1. Corridors Selected for Review	1
Table 2. Total Assets of Banks in Jordan 2015.....	3
Table 3. Licensed MPSPs in Jordan.....	5
Table 4. Overview of Domestic Payment infrastructure in Jordan	8
Table 5. Planned Mobile Money Ecosystem.....	9
Table 6. Migration Stocks 2015, Selected Arab Countries.....	19
Table 7. Migrant Stocks, Selected Corridors of Analysis	19
Table 8. Largest Remittance Corridors Inbound and Outbound, Jordan, 2015.....	22
Table 9. Volume, Value and Average Transaction Size (from Market Interviews)	35
Table 10. Corridor Readiness for a Digital Pilot (inbound corridors)	46
Table 11. Corridor Readiness for a Digital Pilot (outbound corridors)	47
Table 12. High-level Overview of Value Chains by Relevant Corridor for P2P Transactions and Readiness for a Digital Pilot.....	48
Figure 1. Number of Access Points to the Payments Ecosystem in Jordan	6
Figure 2. Interoperability of Payment Systems in Jordan.....	10
Figure 3. Total Inbound and Outbound Remittances, Jordan (USD Millions)	23
Figure 4. Market Size (Value) by Selected Corridor, 2015 (USD Millions)	24
Figure 5. Remittances Services Providers, by Corridor (inbound corridors).....	24
Figure 6. Remittances Services Providers, by Corridor (outbound corridors).....	25
Figure 7. Global Value Chain for P2P transactions	28
Figure 8. Value Chain for P2P Remittances in Jordan (inbound and outbound).....	28
Figure 9. Average Transaction Size (Maximum and Minimum) and Estimated Volume per Year, by Selected Corridor	37
Figure 10. Type of Remittances Services Providers (inbound corridors)	39
Figure 11. Payment Instrument (inbound corridors).....	40
Figure 12. Foreign Exchange Margin, Minimum and Maximum (inbound corridors).....	40
Figure 13. Speed of Service (inbound corridors)	41
Figure 14. Cost of Services, % of Send Amount (inbound corridors)	41
Figure 15. Cost of Services, % of Send Amount (outbound corridors)	45
Figure 16. Payment Channel (outbound corridors).....	45

Box 1. Key Facts about Exchange Houses in Jordan.....	3
Box 2. eFAWATEERcom.....	5
Box 3. Data Privacy and Protection in Mobile Money: A Global Overview	15
Box 4. Mobile Tax in Jordan.....	16
Box 5. Estimating Remittances to and from Syria	21
Box 6. The General Principles of International Remittances.....	26
Box 7. Super and Subagents in the Remittance Value Chain in Jordan.....	29
Box 8. Sending Habits of Filipino Staff at a Major Hotel in Amman.....	44

CURRENCY EQUIVALENTS

As of 30.03.2017

US\$1 = 0.71 JOD

US\$1 = 0.93 EUR

ACRONYMS

ACH	Automated Clearing House
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
API	Application Program Interface
B2P	Business to Person
CBJ	Central Bank of Jordan
CDD	Customer Due Diligence
CPSS	Committee on Payment and Settlement Systems
DFS	Digital Financial Services
ECCH	Electronic Cheque Clearing House
EMP	Emerging Markets Payments
EMI	Electronic Money Institution
EUR	Euros
FI	Financial Institutions
FX	Foreign Exchange
G2P	Government to Person
HSW	Household Service Worker
IMTO	International Money Transfer Organization
JOD	Jordanian Dinar
JoMoPay	Jordan Mobile Payments
JPC	Jordan Post Company
JPSF	Jordan Postal Savings Fund
JWD	Jordan Workforce Development Project
KYC	Know Your Customer
OFW	Oversees Filipino Worker

MENA	Middle East and North Africa
MEPS	Middle East Payment Services
MFI	Microfinance Institution
MNO	Mobile Network Operator
MOU	Memorandum of Understanding
MPSP	Mobile Payments Services Provider
NGO	Nongovernmental Organization
P2P	Person to Person
P2B	Person to Business
POS	Point of Sale
PSP	Payment Services Provider
RSP	Remittance Services Provider
SWIFT	Society for the Worldwide Interbank Financial Telecommunication
RTGS	Real Time Gross Settlement
UAE	United Arab Emirates
UNHCR	United Nations High Commissioner for Refugees
USSD	Unstructured Supplementary Service Data

GLOSSARY

Agent-level interoperability	Refers to agents of one service provider offering services to customers of another service provider.
Application Program Interface (API)	Functions and procedures that allow the creation of applications that access the features or data of an operating system, application, or other service.
Automated Clearing House (ACH)	An electronic clearing system in which payment orders are exchanged among financial institutions, primarily via magnetic media or telecommunications networks, and then cleared among the participants. A data processing center handles all operations.
Bank Guarantee	A promise from a bank or other lending institution to pay a sum of money to a beneficiary in case the opposing party does not fulfill a future engagement or an obligation.
Cash-In ¹	Cash exchanged for e-money.
Cash-Out ¹	E-money exchanged for cash.
Clearing ²	The process of transmitting, reconciling and, in some cases, confirming transfer orders before settlement, potentially including the netting of orders and the establishment of final positions for settlement.
Cross-Platform Level interoperability	Refers to the customers' ability to undertake money transfers between two accounts held with different commercially and technically independent services providers participating within different platforms (e.g., mobile wallet to bank account).
Digital Financial Services	The broad range of financial services accessed and delivered through digital instruments, including payments, credit, savings, remittances, and insurance. For this report, a financial service is not classified as digital where agents or third-party intermediaries (such as banks and international money transfer organizations) exchange electronic messages, but the financial service is accessed and delivered through a nondigital instrument.
Digital Payment	A form of digital financial service where the financial service is a payment. For this report, this definition includes payments where either the payer or the payee uses a digital instrument, but does not include payments that are initiated and collected in cash (e.g., cash to cash services), even where the agent transacts electronically.

Derisking ³	Derisking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.
E-money ¹	A type of monetary value electronically recorded. It is generally understood that e-money: (i) is issued upon receipt of funds in an amount no less in value than the value of the e-money issued; (ii) is stored on an electronic device (e.g., a chip, prepaid card, mobile phone, or computer system); (iii) accepted as a means of payment by parties other than the issuer; and (iv) convertible into cash.
E-money issuer ¹	An entity that issues e-money against receipt of funds. Also called electronic money institution. See also Mobile Payment Services Provider.
E-wallet	An e-money product, where the record of funds is stored on a device, typically in an integrated circuit chip on a card or mobile phone. See also mobile wallet.
Exchange House	Usually refers to a type of business unique to the Middle East. These businesses are licensed as money changers and are often family owned. Many have expanded to provide a wide variety of payment services, particularly cross-border, and form a vital part of the remittance market. Although traditionally focused on regional trade and payments, many exchange houses now collaborate with international money transfer operators to facilitate international remittances into and from Jordan. Also, called money exchange companies.
Hub Service	In the context of this report, a hub is a common connection point for payment services providers to connect to, allowing them to access multiple channels and products through one application program interface (API).
Informal Remittances	Refer to transactions that are unrecorded, meaning they do not appear in official government statistics. This is either because the flows are sent through channels where there is no record of the transaction or because the government has decided not to collect the data in a systematic way. This includes cash carried by businesses, friends and relatives, or oneself as well as transactions that include practices such as “netting off” and therefore might not be included in official balance sheets.

International Money Transfer Organization (IMTO)	Broadly defined as a company that offers cross-border money transfer services. For this report, it is important to note that unlike exchange houses, in most cases IMTOs do not hold a license in Jordan to offer foreign exchange conversion or cross-border payment services, but partner with banks and exchange houses that hold the license and act as agents.
Issuer	The financial institution that issues a payment card to a consumer or business.
Know Your Customer (KYC) ¹	A set of due diligence measures undertaken by a financial institution to identify a customer and the motivations behind his or her financial activities. KYC is a key component of anti-money laundering and combating the financing of terrorism regime.
Mobile Financial Services	A form of digital financial service in which the financial service is accessed through a mobile phone (both smartphones and feature phones). For this report, mobile financial services do not include the use of a mobile phone to access banking services and execute financial transactions through banks outside of the JoMoPay National Switch (i.e. mobile banking). See also Mobile Payment.
Mobile App	Refers to application software available on a mobile device and requires a smart phone for use.
Mobile Money	A form of e-money, accessed through a mobile phone.
Mobile Network Operator (MNO)	A company that has a government issued license to provide telecommunications services through mobile devices.
Mobile Payment	A form of mobile financial services in which payments are initiated through a mobile phone (both smartphones and digital feature phones). For this report, this does not include the use of a mobile phone to execute payments through banks outside of JoMoPay (i. e. mobile banking).
Mobile Payments Services Providers (MPSP)	Terminology specific to Jordan in this report. An MPSP is an e-money issuer licensed by the Central Bank of Jordan to issue e-money and connect to the JoMoPay national payment switch. Also referred to as a payments services provider.
Mobile Wallet	A type of e-wallet which is accessed through a mobile phone. Often used synonymously with mobile money account.

Payment Acquirer	The financial institution that is responsible for processing the card transaction.
Payments Channel	See Payment Instrument
Payments Instrument	The product (service) used by the consumer at the point of payment (e.g., cash, debit card, mobile wallet). Often used interchangeably with payment product and payment channel.
Payments Processors	Third-party services providers that handle the details of processing card transactions between merchants, issuing banks, and the merchants' bank (also called acquiring bank).
Payments Services Provider (PSP) ¹	An entity providing services that enable funds to be deposited into an account and withdrawn from an account; payment transactions (transfer of funds between, into, or from accounts); issuance and/or acquisition of payment instruments that enable the user to transfer funds (e.g., checks, e-money, credit cards, and debit cards); and money remittances and other services central to the transfer of money.
Platform-Level Interoperability	Refers to the customers' ability to undertake money transfers between two accounts held with different commercially and technically independent service providers participating within a platform.
Prepaid Card	A payment card in which money can be preloaded and stored
Real-Time Gross Settlement (RTGS)	The continuous settlement of interbank payments on a real-time (instant) basis. Usually through accounts held in central banks and used for large-value interbank funds transfers.
Remittances	A person-to-person international payment of relatively low value.
Remittance Services Provider (RSP)	An entity, operating as a business, that provides a remittance service for a price to end users, either directly or through agents.
Safeguarding Customer Funds ⁴	Measures aimed at ensuring that funds are available to meet customer demand for cashing out e-money.
Scheme (or Payment Scheme) ⁵	A body that sets the rules and technical standards for the execution of payment transactions using the underlying payment infrastructure.

Settlement Account	Refers to the bank account in which a licensed MPSP must place JOD 1 for every 1 e-money unit issued. Often used interchangeably with pooled account, float account, escrow account, and trust account (depending on the legal status). Can also be referred to as a mobile phone account (terminology specific to Jordan).
Society for the Worldwide Interbank Financial Telecommunication (SWIFT)	A messaging service for financial messages, such as letters of credit, payments, and securities transactions, between member banks worldwide. SWIFT remains the primary means for interbank communications cross-border. Note that SWIFT does not provide settlement and clearing for bank transfers.
Subagent	Refers to an entity that offers the services of an IMTO by signing an agreement with a super-agent, rather than directly with the IMTO. The revenue share is then split between the subagent and the super-agent. In Jordan, MPSPs can also have subagents.
Super-Agent	Entities that are licensed directly with an IMTO (e.g., Western Union, MoneyGram), and then sign a network of subagents, generally offering back-office support, such as training, advertising, and reporting support, as well as revenue share. In Jordan, MPSPs can also have super-agents. Also, referred to as a master agent.
Switch	A computer-based software system where transactions are routed. Generally, this occurs for the transaction to be rerouted to a different PSP and/or product, enabling interoperability. In Jordan, transactions by the same mobile services providers are also routed through the JoMoPay switch.
Unstructured Supplementary Service Data (USSD)	A global system for mobile communication technology that is used to send text between a mobile phone and an application program in the network. Applications may include prepaid roaming or mobile chatting.

NOTES

- 1 Adapted from AFI, “*Guideline Note Mobile Financial Services: Basic Terminology*”. <http://www.afi-global.org/sites/default/files/publications/MFSWG%20Guideline%20Note%20on%20Terminology.pdf>
- 2 Adapted from European Central Bank, “*Payments and Markets Glossary*”. <https://www.ecb.europa.eu/home/glossary/html/act6c.en.html#313>
- 3 Adapted from World Bank, Data Gathering Efforts: “*De-risking? Key Findings and Recommendations*”; <http://pubdocs.worldbank.org/en/953551457638381169/remittances-GRWG-Corazza-De-risking-Presentation-Jan2016.pdf>
- 4 Adapted from CGAP, “*Nonbank E-money Issuers: Regulatory Approaches to Protecting Customer Funds*.” <https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Nonbank-E-Money-Issuers-Regulatory-Approaches-to-Protecting-Customer-Funds-Jul-2010.pdf>
- 5 Adapted from Payments UK. <http://www.accesstopaymentsystems.co.uk/introduction-payment-systems/what-payment-scheme>

EXECUTIVE SUMMARY

CGAP engaged DMA to research the Jordanian remittances market to inform development interventions and pilots aimed at improving access to financial services for low-income Jordanians and Syrian refugees living in Jordan, leveraging international remittance flows into and out of the Kingdom.

Research took place between April and September 2016 and focused on assessing the supply of services for both the domestic and international payments market. Using the Committee on Payment and Settlement Systems (CPSS)-World Bank General Principles for International Remittances, a general assessment was completed on the market structure, regulatory and competitive environment, transparency and consumer protection. A detailed analysis of eight corridors, selected based on their size and potential for digitization, was also completed to assess the viability of launching a digital pilot in one of these corridors to test an end-to-end digital solution for international remittances. The five inbound corridors were from the UAE, Saudi Arabia, Qatar, the United States, and Germany to Jordan; three outbound corridors were from Jordan to Egypt, Palestine, and the Philippines.

The main findings are as follows. In the domestic market, the innovative new payments system of JoMoPay sits alongside a highly cash-based society. While the infrastructure and regulatory framework are sound and offer the potential for the rapid uptake of mobile payments, a concerted effort is needed to drive this uptake, both from a consumer and a service provider perspective. Consumer protection also needs to be addressed in the near term.

In terms of digitizing international remittances, JoMoPay offers a unique opportunity to connect into the international payments system, which is highly competitive, but also cash dominated, with few digital options available. To be effective and achieve scale, this would require creating a nondiscriminatory and sound market, without losing the benefits of the already competitive market Jordan holds. This would mean ensuring that exchange houses become part of the ecosystem, and also ensuring that areas such as transaction limits and consumer protection are addressed for international remittances.

1. Jordan's Domestic Payments Market

Despite a stable and profitable financial sector, Jordan has low levels of financial inclusion and cash remains prevalent. According to Findex, 25 percent of the adult population in Jordan has access to some form of account, and 6.4 percent use debit cards for payments. There remains a lack of trust in financial institutions, and this fuels the ongoing growth in use of cash as a payment instrument, with electronic payments (e-payments) mechanisms remaining relatively stagnant.

Attempts to introduce mobile payments previously failed, but an innovative and ambitious regulatory environment alongside some equally innovative private sector actors has resulted in a renewed focus on the area, presenting new opportunities for growth in digital financial services use throughout Jordan. The Central Bank of Jordan (CBJ) has recently embarked on a national strategy to try to increase financial inclusion across the country.

JoMoPay, the Jordanian national mobile payments switch, is a unique payments system that has created cross-platform and platform level interoperability for multiple digital payments instruments in Jordan. This includes interoperability between the five licensed mobile payments services providers (MPSPs), as well as interoperability between mobile wallets, bank accounts, and prepaid cards. This type of system, and the levels of interoperability, is highly unique and is yet to be seen elsewhere in the world.

The ongoing dominance of cash leads to a disconnect that needs to be overcome between the new and innovative digital payments infrastructure and how domestic payments are being made. "Cash is king" in Jordan, and, as yet, rapid uptake of mobile wallets has not been seen. Barriers on the digital supply side, including a limited agent and acceptance network, also contribute to the slow uptake. As for the domestic remittances market, exchange houses, who have well-developed branch networks around the country, are preferred by consumers. They facilitate cash-based domestic money transfers for individuals, bypassing the e-payments system.

However, the *mobile payments services instructions*, and corresponding operational guidelines released in 2013, have formed a solid foundation for the development of e-money in Jordan. The regulations that allow both nonbanks and banks to apply to become e-money issuers are particularly important. Although the initial capital requirement to become an MPSP is relatively high, it is not considered a barrier to entry, and it protects the integrity of JoMoPay. There are also safeguards in place for the protection of consumer funds, including in the event of an MPSP's insolvency.

CBJ will address concerns regarding consumer protection regulation, including gaps in transparency and data protection, and risks over the loss of customer funds in the event of bank failure.

Key Recommendations to Support the Digitization of the Domestic Payments Market

Conduct national above and below the line marketing campaigns to encourage the transition from cash, avoiding the message that new mobile payments solutions are "for the poor" or financially excluded, instead focusing on the innovative, safe, and exciting service mobile money offers, notably for small payments.

Support the development of the agent network across Jordan for mobile financial services (MFS), including encouraging the upgrade of automatic teller machines (ATMs) to facilitate the cash-in and cash-out of mobile payments at agent locations.

Support the development of an acceptance network to create a fully digital ecosystem to increase use cases available for consumers and therefore the convenience of digital payments solutions.

Support the digitization of large-volume transactions to help drive volume in mobile payments. This includes raising awareness of mobile wallets with key institutions—specifically government-related payments and the seamless introduction of value-added services, such as eFAWATEERcom, a central payments platform that allows users to view and pay bills electronically.

Ensure that exchange houses become part of the domestic digital payments ecosystem. Exchange houses have a network of 256 branches across Jordan, and demand-side research for this project found them to be trusted by the consumer for both domestic and international payments. However, they are not yet part of the new digital ecosystem, either as agents or licensed MPSPs, and they continue to largely operate in cash.

Address areas of concern with consumer protection. CBJ needs to ensure effective legislation is rapidly developed to guarantee consumers protection. This is particularly important given the ambitious plans to scale services quickly and the reticence and lack of trust observed among the consumer base for digital payments.

2. Jordan's International Remittances Market

Migrant trends to and from Jordan have created well-established corridors for both inbound and outbound remittance flows. In the latest census, 30.6 percent of the 9.5 million population were non-Jordanians. The vast majority is made up of refugees fleeing the protracted conflict in neighboring Syria, and there also is a large Iraqi and Palestinian refugee population. Jordan is increasingly becoming a destination for economic migrants originating from South East Asia, South Asia, and Africa. However, emigration from Jordan has also established a large Jordanian diaspora, particularly in the Gulf Cooperation Council (GCC), Europe, and the United States. This has made Jordan a unique international remittances market.

The Jordanian market predominately receives remittances, although outbound flows remain significant. Services providers estimate that 75 percent of the total value of remittances flow into Jordan, and 25 percent flow out. The size of the market for receiving remittances was US\$4 billion (JOD 2.4 billion) in 2015, according to CBJ.

The large and established inbound remittances market in Jordan predominately consists of high-value payments to middle- and higher-income Jordanians from oil-rich and western countries (particularly Saudi Arabia, UAE, Qatar, Kuwait, Libya, the United States, Germany, and Canada, as per the World Bank Bilateral Remittance Matrix).¹

1 Palestine is also a large inbound corridor.

There is also a large and growing outbound market, largely from traditional economic migrants and increasingly refugees arriving in Jordan. These refugees are mostly from neighbouring countries, while economic migrants tend to be from South East Asia. These outbound remittances tend to be lower-value transactions that are sent more frequently. The largest corridors for outbound remittances are to Egypt, followed by Palestine, Syria, China, Iraq, Sri Lanka, India, and other South Asian countries (Indonesia, Philippines, Bangladesh, and Pakistan).

The remittances market in Jordan is predominantly cash-based, with limited end-to-end digital options available for both inbound and outbound services. Anecdotal evidence from services providers suggests that cash accounts for about 80 percent of cross-border transfers, reaching up to 90 percent in some corridors (e.g., Jordan to Egypt). Exchange houses, which make up a large proportion of the market for international remittances, offer almost exclusively cash-cash services, although some larger ones offer SWIFT direct-to-bank services. The introduction of the automated clearing house (ACH) may mean that international money transfer organizations (IMTOs) will offer more direct-to-bank account services, using the improved domestic infrastructure.

There is a prevalence of netting-off processes between exchange houses for both inbound and outbound payments within the region, with limited settlement as and when it is required. This means formal settlement infrastructures such as RTGS in Jordan are often completely bypassed.

The regulatory environment for remittances in Jordan is sound and nondiscriminatory and has created a competitive market structure. As of December 2016, there were 140 exchange houses operating in Jordan. These exchange houses act as IMTO agents and offer their own remittance services through partnerships with other exchange houses and/or banks. They are an integral part of the international remittance market in Jordan.

The licensing process and regulatory framework for international remittances in Jordan reflects the unique role played by exchange houses. In effect, Jordan has a specialist law developed to license and regulate exchange houses (the Money Exchange Law). It allows exchange houses to offer international remittance services, as well as other services such as foreign exchange conversion, under the supervision of the Exchange House Department of CBJ.²

Pricing in all eight corridors covered in this study reflects its competitive environment. The costs in all outbound corridors were below the global average cost of 7.60 percent to send US\$200 (as of Q2 2016). The total cost to send US\$200 from Jordan to Egypt and to the Philippines was almost half the global average for sending international remittances.³ For inbound corridors, all except Germany-to-Jordan were cheaper than the global average to send US\$200.⁴

² Money Exchange Supervision Department when translated literally.

³ For sending remittances from Jordan to the Philippines, the average total cost to send US\$200 was 4 percent in Q3 2016, and for Jordan to Egypt, the cost was even lower at 3 percent.

⁴ For sending remittances from the UAE, Qatar, or Saudi Arabia to Jordan, the average total cost to send US\$200 was 5 percent, from the United States to Jordan it was 7 percent, and from Germany to Jordan it was 10 percent (as of Q3 2016).

As with domestic payments, considerable gaps remain in regulation for consumer protection and transparency. Reports that Jordanian banks, in line with global derisking practices, are refusing to facilitate cash deposits or bank guarantees to some exchange houses raises concerns about the protection of customer funds. The fear is that this behavior has the potential to erode the buffer that existing regulations created to protect customer funds in the event of insolvency.

Key Recommendations to Support the Digitization of the International Remittances Market

Connect international remittances to the JoMoPay system. The JoMoPay system is unique, innovative, and interoperable. It is recommended that international remittances be digitized and connected to this system. CBJ is keen for this to happen, particularly once there is evidence of domestic uptake.

Encourage cooperation between the Payments System Department and Exchange Houses Department. These two CBJ departments typically work independently of each other. An attempt to bridge this gap and encourage cooperation, particularly in terms of licensing and supervision, would allow for a more streamlined payments system.

Re-evaluate exchange house law revisions, and introduce consumer protection laws, with a focus on safeguarding customer funds. There are still gaps in the regulatory environment for international remittances, particularly relating to safeguarding customer funds.

Further research partnerships in pilot receive markets. The Philippines and Egypt are suggested for a pilot on market scoping. Both could be a complete digital solution, but further investigation into potential partnerships, costs, and consumers' needs in these countries would be required before developing a product.

INTRODUCTION

The objective of this study is to assess the supply of payments services in Jordan to identify the best approach for digitizing the international and domestic remittances market. Identifying where an international pilot might be possible is also an integral part of the research.

In Part I, the report provides an overview of the domestic payments market in Jordan, including an overview of the payments infrastructure and the regulatory environment. Part I begins with an analysis of the domestic payments offering, followed by an analysis of the infrastructure for domestic payments, and finally, a regulatory overview. Part I forms the basis for the recommendations for digitization of domestic payments.

Part II analyzes the international remittance market both into and out of Jordan, with an overview on pricing, market dynamics, and products available, and where possible, improving our understanding of the underlying business models for facilitating remittances. This includes a review of the formal (recorded) and informal (unrecorded) approaches to completing low-value cross-border person-to-person (P2P) transactions. The review of the international market was

performed according to the 2008 CPSS-World Bank General Principles for International Remittances.⁵ The international remittances review also included a deep-dive analysis of eight selected corridors (see Table 1).

Part II focuses on international remittances. It provides an analysis of the international remittances offering and the international remittances infrastructure. It then provides a regulatory assessment of the international payments market. Next, the report explores the eight chosen corridors in detail, focusing on which products and business models are available in each corridor, as well as average transactions sizes, current prices, and speed of service, with the aim of understanding which markets hold the greatest potential to digitalize remittance flows.

Part III brings together the analysis and provides recommendations for the digitization of domestic payments and for the potential of a digital international remittances pilot. Part III outlines the main findings, challenges, and recommendations, which include how uptake of e-payments should be encouraged domestically and internationally.

TABLE 1. Corridors Selected for Review

Inbound corridors	Outbound corridors
United Arab Emirates (UAE) → Jordan	Jordan → Egypt
Saudi Arabia → Jordan	Jordan → Palestine
Qatar → Jordan	Jordan → Philippines
United States → Jordan	
Germany → Jordan	

⁵ See <http://www.bis.org/cpmi/publ/d76.pdf> for the full report.

PART 1. JORDAN DOMESTIC PAYMENTS MARKET

The following is an overview of the domestic payments ecosystem in Jordan. It reviews access points, services providers, available channels, and the supporting payments infrastructure. The research methodology used included desk-based research and information garnered from interviews with key stakeholders, including services providers, regulators, and associated bodies. The section forms the foundation for exploring the potential to digitize the domestic market, and how the international remittances market might connect with the domestic market.

- Despite having a stable and profitable financial sector, Jordan remains a highly cash-based society with low levels of financial inclusion.
- Use of checks and cash continues to grow while use of e-payments mechanisms has remained relatively stagnant.
- Given the low level of bank account ownership and card penetration (25 percent of the population over 15 have an account, and 6.4 percent use a debit card according to Findex), CBJ has placed financial inclusion high on its agenda, and is leading the development and implementation of a National Financial Inclusion Strategy. It has also embarked on a comprehensive reform process to increase access to financial services and to enhance the safety and efficiency of the domestic payments system.
- As part of this reform, CBJ's Payments System Department is driving the development of MFS, with the aim to further encourage and facilitate use of digital payments.

- As it stands, the main stakeholders in the Jordanian domestic payments market are banks, exchange houses, MPSPs, and payments processors.

1. Jordan Domestic Payments Market

1.1. Market Players: Bank and Nonbank Financial Institutions

1.1.1. Banks

As of December 2016, there were 25 banks operating in Jordan, of which 16 are Jordanian and nine are foreign.⁶ Total domestic bank assets amounted to US\$59.8 billion (JOD 42.5 billion) in 2015, with assets of foreign banks totaling US\$6.6 billion (JOD 4.7 billion) in 2015 (see *Table 2*).⁷

1.1.2. Exchange Houses

Exchange houses form the largest group of nonbank financial institutions in Jordan. They play a central role in domestic and international payments, supporting trade-related and personal payments (see *Box 1*).

The 140 exchange houses in Jordan are licensed by CBJ to practice money exchange under the money exchange business law. The majority are family-owned businesses that have developed multiple revenue streams related to the movement of money.

Although exchange houses traditionally focus on regional trade and payments, many now collaborate with international money transfer operators (IMTOs) to facilitate international remittances into and out of Jordan. Interviews with services providers suggest that

6 http://www.cbj.gov.jo/uploads/jordan_figures2016.pdf

7 http://www.cbj.gov.jo/uploads/jordan_figures2016.pdf

TABLE 2. Total Assets of Banks in Jordan 2015

Banks	Total Assets (JOD billion)	Total Assets (US\$ billion)	Market share in assets (%)	Number of branches (incl. offices)	Market share in number of branches (%)
Arab Bank	17.8	25.0	37.8	119	13.7
The Housing Bank for Trade and Finance	7.9	11.1	16.8	126	14.4
Jordan Islamic Bank	3.8	5.3	8.0	73	8.4
Jordan Kuwait Bank	2.8	4.0	6.0	56	6.4
Cairo Amman Bank	2.5	3.6	5.4	85	9.8
Jordan Ahli Bank	2.5	3.5	5.3	51	5.9
Other banks	9.8	13.8	20.7	361	41.4
Total	47.1	66.4	100.0	871	100.0

Source: Individual bank reports and CBJ report.

cash-to-cash service for domestic transfers is a highly competitive market. The biggest exchange houses can facilitate up to 13,000 transactions per month. Smaller and mid-sized exchange houses report 400–3,000 transactions a month.

The average transaction size for domestic transactions is thought to be around US\$2,800 (JOD 2,000)—although it is common for larger transactions (around US\$5,600 [JOD 4,000]) to be processed.⁸ Services providers assume

BOX 1. Key Facts about Exchange Houses in Jordan

1. The Exchange House Department of CBJ regulates exchange houses.
2. The sector has developed its own association.
3. Multiple revenue streams exist within the sector. These are driven by strategic partnerships with other exchange houses across the Arab world and/or by becoming an agent for an IMTO.
4. Cash is king—a clear majority of transactions are initiated and terminated using this channel. Select exchange houses also offer SWIFT service, which allows clients to deposit cash directly into bank accounts.
5. The marketplace is highly competitive—both domestically and internationally—with many exchange houses offering similar pricing to their competitors.
6. Due in large part to the ongoing conflict in Syria and the resulting destruction of trade routes, many of the smaller exchange houses, particularly those located along borders, are struggling to remain profitable.
7. According to the exchange house association, approximately 75 percent of exchange houses are based in Amman.

⁸ Based on services providers consultations in April and June 2016.

that a proportion of these transactions may be for trade rather than personal reasons. However, as these are recorded in the same way, it is not possible to determine exact figures on this.

1.1.3. *Jordan Post Company and Jordan Postal Savings fund*

The Jordan Post Company (JPC) has over 310 branches in its network. With good coverage, particularly in rural areas, there is a strong focus on using this network to improve access to financial services for the poor and other excluded groups. In line with this, the Jordan Postal Savings fund (JPSF) and JPC have had in place an agreement by which JPSF uses JPC and its branches to conduct its operations. JPSF has 50,000 active savings accounts, and a customer can open an account with a minimum balance of US\$14 (JOD 10), maintaining a minimum balance of US\$35 (JOD 25).

JPC is distributing national aid funds to 98,000 families across Jordan amounting to US\$13 million (JOD 9 million) per month. Recently, JPC has begun broadening its focus on financial services. It now acts as a key distribution point for select government payments; it also offers CBJ-endorsed bill payment services (see Box 2 on eFAWATEERcom) for private and public services (such as municipalities, universities, telecommunication companies, utility companies, and government entities).

JPC has agreements with two of the four licensed MPSPs⁹, Motamayezah (Zain Cash) and Al Hulool (Mahfazati), to act as agents for its mobile money services. Although the network is strong, a great deal of investment is required if all branches are to be able to facilitate access to digital financial services.

It is unclear where that investment will come from.

1.1.4. *Mobile Payments Services Providers*

In 2014, as part of its commitment to improving access to financial services for all, the Central Bank embarked on an ambitious program to introduce MFS to Jordan. The approach built on lessons learned from earlier experiments, and from the experiences of other countries around the world. It has several core principles:

1. The regulatory framework for MFS would provide room for banks and nonbanks such as mobile network operators (MNOs) to issue e-money—allowing multiple types of institutions to become licensed as MPSPs.
2. The customer experience would be as seamless as possible to encourage uptake and use. Central to this was to create a system that was completely interoperable, allowing cross-provider transactions at the outset.
3. To create an infrastructure for mobile payments that was fully integrated into the broader digital payments ecosystem of the country, allowing customers to not only make mobile payments, but to also make and receive payments to bank accounts and prepaid cards and to pay bills via eFAWATEERcom (see Box 2).

To achieve this, CBJ created a central mobile payments switch, JoMoPay. All mobile payments providers licensed within Jordan are mandated to connect to this switch and CBJ's Payments Department have been working to ensure

9 Following this assessment, it was announced that two initial licences were granted to two additional MPSP.

BOX 2. eFAWATEERcom

eFAWATEERcom is a central payments platform that allows users to review and pay bills electronically. Introduced by CBJ in 2014, it links public and private institutions, such as government services, utility companies, transport companies, educational institutions, and telecommunication companies, on one side with banks and payment services providers on the other.

The platform can be accessed by banked clients (online or through a mobile app linked to a bank account) and unbanked customers (through the Post Office, with money deposited in cash). Currently eFAWATEERcom is connected to the new mobile payments switch, JoMoPay, allowing the platform to be accessed through a mobile wallet. So far, the service has been well-received. US\$23 billion (JOD 16 billion) in person-to-government payments were made in 2015, according to CBJ.

that JoMoPay can be fully integrated into the existing and future e-payments infrastructure of the Kingdom. JoMoPay is fully owned and operated by CBJ, but there are plans to privatize it.¹⁰

At the time of finishing the assessment, four MPSPs were licensed to offer MFS. All of them were authorized to operate in 2016 (see Table 3). These MPSPs appear to be focused on building their agent

TABLE 3. Licensed MPSPs in Jordan

Mobile Wallet	Licensed Entity	Ownership Details
Mahfazati ("my wallet" in Arabic)	Al Hulool	A consortium of companies contributed to the paid-up capital to become licensed. The following companies own a share of the Al Hulool holding company: <ul style="list-style-type: none"> • Umniah (MNO, 96% owned by Bahrein-based Batelco) • Emerging Market Payments (EMP) (card processor and acquirer) • Cairo Amman Bank (bank) • Arab Jordan Investment Bank (bank) • Al Etihad Bank (bank) • Bank of Jordan (bank) • Microfund for Women (MFI) • Jordan Ahli bank (bank) • Housing Bank for Trade and Finance (bank)
Dinarak ("your dinar" in Arabic)	Motakameleh	Several individual investors and technology providers established a third-party provider of mobile payments.
Aya	Aya	Several individual investors and technology providers established a third-party provider of mobile payments.
Zain Cash	Motamayezah	A subsidiary of the larger Kuwait-based Zain MNO.

¹⁰ Following this assessment, it was announced that a newly established MPSP will own the retail payments and settlement systems, including the JoMoPay switch. CBJ and all licensed banks are founding shareholders.

networks, apps, and unstructured supplementary service data (USSD) based services, as well as their market entry approaches—most of which is focused on identifying key use cases that can be leveraged to capture and convert customers quickly. Use cases include work with transport, government, microfinance institution (MFI), and nongovernmental organization (NGO) payments. There were more than 72,000 users in March 2017, but the sector is still too young to analyze use and uptake.

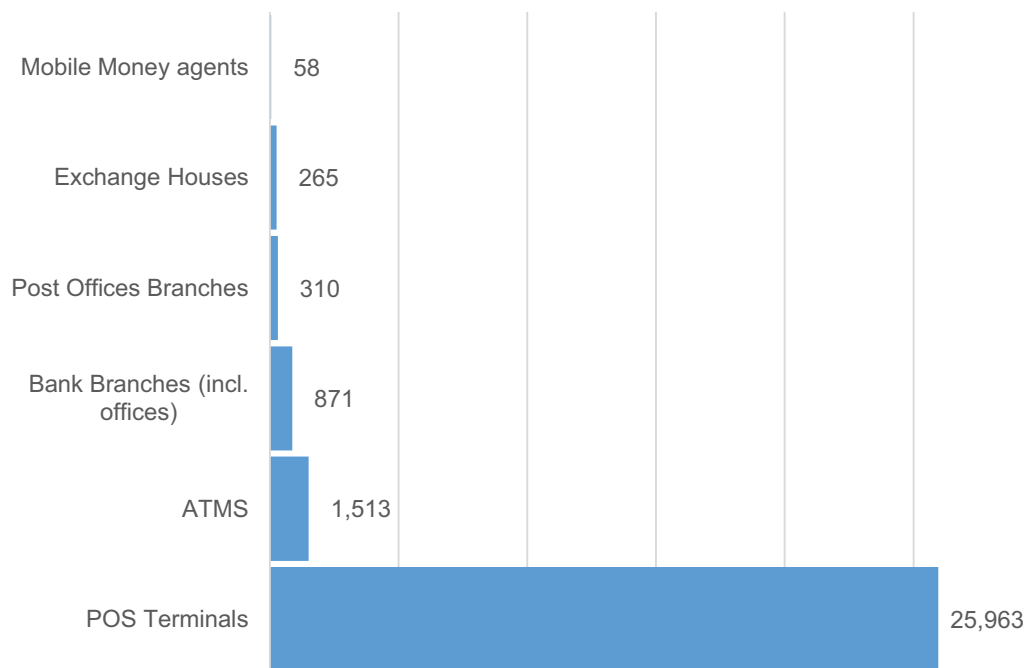
1.2. Access Points to the Payments Ecosystem

Jordanians can access the domestic payments system (see Figure 1) using several different methods. However, most approaches require access to a bank account

and/or payment card. Point of sale (POS) terminals are the most widely available point of access. These are provided by the largest payments processors, namely Emerging Market Payments (EMP), Middle East Payments Services (MEPS), and National Express. POS terminals are used only by Jordanians who have a credit, debit, or prepaid card.¹¹ Similarly, while there are 1,513 ATMs in Jordan, most of them can be used only by banked customers and those with some form of payment card.¹² Given the low levels of bank account and card use in Jordan, these access points are not readily used.

Exchange houses are one of the most accessible nonbank financial institutions for those without a bank account or payment card. As of December 2016, the 140 exchange houses had 265 branches

FIGURE 1. Number of Access Points to the Payments Ecosystem in Jordan



Source: CBJ and JPC. Date: 09/2016

11 There are plans to link POS terminals to iris-scanning technology and the mobile money ecosystem. However, both require significant investment, which has yet to be made on a large scale. As of October 2016, the mobile money ecosystem has been linked to prepaid cards.

12 Iris scanning technology also allows refugees to receive cash assistance through some of Cairo Amman bank's network of ATMs.

across the Kingdom. They are a vital part of the domestic and international payments ecosystem. However, there is a level of disconnect between their activities and the financial infrastructure more broadly, as discussed later in this report.

Mobile money agents and the post office are two other points of access for those without a bank account. While there are relatively few mobile money agents, service providers suggest that the number of agents will increase rapidly over the next two years. Agents have the potential to be another important access point for previously underserved communities. Post office branches also provide access to financial services in rural areas.

1.3. Supporting Payments Infrastructure

Cashless payments are processed through eight main interconnected systems. These systems form the foundation for the infrastructure that supports the domestic payments system in Jordan (see Table 4).

All commercial banks in Jordan have access to ACH, ECC, and RTGS-Jo systems. All ATMs and banks are connected to the Jo-Net switch for full interoperability and this is operated by the leading payments acquirer in Jordan—EMP. In addition to Jo-Net, EMP manages its own member-based switching and card-acquiring system. Key market players, such as MEPS, MasterCard, and Visa, run other systems.

An important development is the launch of Jordan’s automated clearing house (ACH). The long-planned ACH became operational in December 2016, after extensive testing. ACH is an electronic funds-transfer system that handles payroll, direct deposit, tax refunds, consumer bills, tax payments, and many other payments services. It connects

all banks licensed in Jordan, thereby increasing the efficiency and timeliness of government and business transactions, which were previously conducted through SWIFT—a system usually reserved for international payments. In most countries, ACH oversees more than 90 percent of the total value of all e-payments transactions. It should have a significant impact on the growth of Jordan’s e-payment market over time.

1.4. Ongoing and Future Projects

1.4.1. JoMoPay Software Upgrade

The plan is to fully integrate Jo-NET and JoMoPay, so that mobile wallets can be cashed out (and to a lesser extent, cashed in) through the ATM network. While system operator EMP has agreed to this, individual banks would need to invest in upgrades to their software systems to allow them to accept mobile payments, as well as upgrades to their hardware systems, for cash-in transactions. For this reason, timing for when this might happen is unclear. With that said, two banks, Jordan Kuwait Bank and Cairo Amman Bank, have already upgraded their software systems to allow them to accept mobile payments through their ATM networks.

1.4.2. eFAWATEERcom

Over the next 12 months, customers will be able to use any wallet within the ecosystem to pay bills via eFAWATEERcom, to make and receive payments to or from any bank account or prepaid card in Jordan, and to use either the app-based or USSD-based service on their phone.

1.4.3. Mobile Payments Acceptance

Many licensed MPSPs are working with retailers to improve user experience and the acceptance of mobile payments across the country. MPSPs and retailers are partnering to facilitate mobile

TABLE 4. Overview of Domestic Payment Infrastructure in Jordan 2015

Name of System	System Operator	Type of Transfer	Lead Overseer/ Regulator	Annual Value	Annual Transactions
Real-Time Gross Settlement System (RTGS-Jo)	CBJ	All bank settlements	CBJ	US\$2.4 trillion (JOD 1.7 trillion)	705 million
Automated Clearing House (ACH)	CBJ	Low-value bank-to-bank transfers	CBJ	Not available (launched in December 2016)	Not available (launched in December 2016)
Electronic Cheque Clearing (ECC)	CBJ	Check clearing	CBJ	US\$120 billion (JOD 85.2 billion)	22.5 million
Jo-Net	EMP	Bank account to ATM (and vice-versa in approximately 30% of ATMs)	—	US\$11.4 billion (JOD 8.1 billion) (in and out)	42 million (cash-out only)
JoMoPay	CBJ (being spun off)	Mobile wallet to mobile wallet Mobile wallet to prepaid card Bank account to mobile wallet (and vice-versa) ¹³	CBJ	Minimal	Minimal
SWIFT	SWIFT	Interbank transfers—domestic and cross-border	National Bank of Belgium (NBB) and G10 Central Banks	—	—
MEPS Switch	MEPS	Retail payments	CBJ	—	—
EMP Switch	EMP	Retail payments	CBJ	—	—

13 Through five banks: Cairo Amman Bank, Arab Bank, Bank of Jordan, Housing Bank, and Commercial Bank.

payments in hyper-supermarkets (e.g., Safeway), with car parks and petrol stations to shortly follow. Mobile payments through NFC are already possible on select bus routes to universities.

1.4.4. Planned and On-Going Pilots

CBJ is also working with other government departments, universities, and PSPs to test several use cases on different customer segments, including the following:

- NFC-enabled mobile payments for bus services to the main universities in Jordan, as part of a broader program for encouraging “cashless universities.” Pilots have already begun.
- For specific streams of the military that are unbanked, salaries are being disbursed to mobile wallets and linked to prepaid cards, in partnership with the Credit Military Fund.

Once planned and ongoing projects are completed JoMoPay should be one of the most advanced MFS ecosystems in the world (see Table 5. and Figure 2).

1.5. Summary—Jordan’s Domestic Payments Markets

Although CBJ has been committed to continually upgrading and supporting

the underlying e-payments infrastructure, particularly where financial inclusion may be facilitated, Jordan remains a highly cash-based society, important developments have been made:

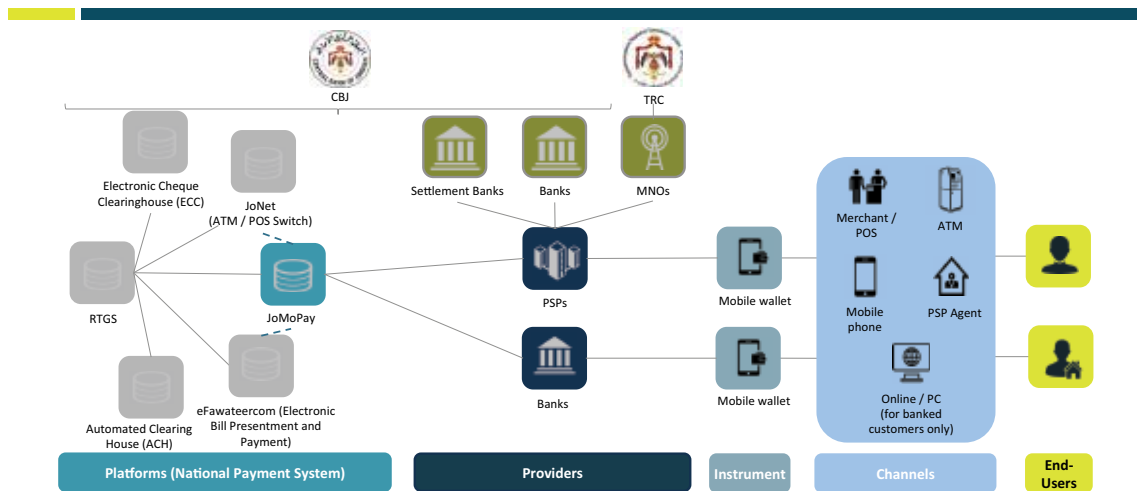
- ACH has filled a significant gap in the payments infrastructure, making it quicker and cheaper for low-value transactions to move between Jordan’s 25 licensed banks. In principle, banks should be able to offer very low-cost domestic payments services that compete directly with the cash-based services offered by exchange houses, which dominate the domestic payments market.
- The ecosystem that is being developed for mobile payments has the potential to improve access to and use of digital financial services. However, consumers and service providers need to make a concerted effort to transition away from cash. This transition will lean on financial education more broadly and a targeted marketing campaign that emphasizes the innovative and exciting nature of digital financial services for small payments rather than on the concept that the new products are “for the poor.”
- Partnerships will be essential to the growth of noncash-based

TABLE 5. Planned Mobile Money Ecosystem

Cash-in and Cash-out points	Channels options—P2P	Other digital channel options
<ul style="list-style-type: none"> – MPSPs branches – Banks – Exchange houses* – Post office branches* – ATMs – MPSP agents* 	<ul style="list-style-type: none"> – Mobile-to-mobile – Mobile-to-prepaid card – Mobile-to-bank account (and vice versa) 	<ul style="list-style-type: none"> – Use at any merchant who has an upgraded POS or a mobile wallet to accept payments* – Pay bills through eFAWATEERcom – Pay for public transport, car parking, and retail purchases*

*Planned

FIGURE 2. Interoperability of Payment Systems in Jordan



Source: CBJ and Enclude.

payments services. Creating a collaborative environment for the different segments of the payments market will be important. Partnerships between MPSPs and exchange houses—given their prominent role as domestic and international payments providers—could help to build consumer trust by demonstrating that new and unfamiliar services are safe and effective. Both MPSPs and exchange houses need to feel that partnerships will advance their business models (including exchange houses as agents for domestic remittances and PSPs as agents for international remittances) and revenue streams.

- Targeting specific use cases on transport, government, microfinance, and NGO payments will be essential to gaining a critical mass of users and to achieving scale.

2. Domestic Payments Regulatory Overview

The regulatory framework is a critical element of any payments environment.

To offer efficient, safe, and accessible payments services, a proportionate, non-discriminatory, and sound regulatory framework is required. This is particularly the case where improving financial inclusion and access to the financial system for low-income communities is a priority, as it is in Jordan. Indeed, according to the Payment Aspects of Financial Inclusion (PAFI) report, “the legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.”¹⁴

The following is an overview of the regulatory environment of domestic payments. Four areas in the regulatory environment are important to achieve financial inclusion:

- Regulatory neutrality and proportionality
- Risk management
- Consumer protection
- Financial integrity

¹⁴ Guiding Principle 2. The World Bank Payment Systems Development Group. April 2016. <http://www.worldbank.org/en/topic/paymentssystemsrremittances/brief/pafi-task-force-and-report>

Rather than review the complete regulatory framework for domestic payments in Jordan, the report has focused on e-money issuance and other areas that directly impact the potential of launching a digital pilot and/or improving access to financial services for unbanked or underbanked Jordanians. A comparison against the Electronic Money Directive (EMD) Directive 2009/110/EC, the Payment Service Directive 2 (PSD2) Directive (EU) 2015/2366, and other relevant regulations within the European Economic Area (EEA) will be undertaken. These are regularly cited as examples of good practice for establishing an enabling environment for e-money issuance. While EMD and PSD 2 are not necessarily the gold standard and some features of the directive may not be wholly applicable to the Jordanian example, the comparison helps to identify opportunities to improve the market environment and to better support financial inclusion efforts and access to e-payments services.

CBJ is responsible for regulating and overseeing the financial sector in Jordan. The following three departments oversee various aspects of the regulatory framework that governs domestic payments:

- The Payments Department oversees the development of the payments infrastructure. Its mandate is the development and oversight of e-payments, including establishing the framework for issuing e-money.
- The Exchange House Department of CBJ oversees licensed exchange houses. Its mandate covers both domestic and international payments facilitated by exchange houses.
- The Anti-Money Laundering Unit is an autonomous entity. It is responsible for AML/CFT policy and legislation for all organizations throughout Jordan and for adherence to FATF recommendations.

2.1. Regulatory Neutrality and Proportionality

Technological innovations in business models tend to be driven by new types of PSPs. Managing and understanding the risks associated with new models and new actors in this space can be challenging for any regulator. Finding the balance between addressing potential risks to the prevailing financial system and consumers, and encouraging innovation and competition is critical to achieve financial inclusion goals.

According to the PAFI report (p. 25), “the challenge is therefore to design a legal and regulatory framework that is fair and balanced for all stakeholders, addresses risks and promotes innovation. This requires that the framework be risk-based, provider- and instrument-neutral, and forward-looking.”

An unbiased and proportionate environment is essential to fostering competition in the marketplace and creating space for innovation in payments services and business models. Balanced prudential requirements, particularly capital requirements, are a major element in this regard. Annex I.I provides a detailed overview of the initial capital requirements for e-money issuance in Jordan and EEA.

Although the operating environment and financial inclusion needs of Jordan and EEA are considerably different, a comparison offers useful insights. On initial assessment, the capital requirement for MPSPs in Jordan, when compared with those of PSPs in EEA, appears to be very high—almost four times the amount required in Europe. An initial capital requirement that is too high can be a barrier to entry. In a country such as Jordan, where e-money issuance has been identified as a key pillar of the financial inclusion strategy, a high capital requirement level may limit the number of potential new entrants into

the market and, therefore, the number of services available to excluded groups.

However, capital requirements present a trade-off between allowing businesses to enter the market, versus allowing in companies that might not be strong enough to operate in a way that satisfies the regulator's requirement of sound risk management and business development. CBJ appears to have chosen to focus on the importance of preventing the latter. From this perspective, the initial capital requirement of JOD 1.5 million (US\$2.1 million) may not necessarily be a nonproportional requirement. With that said, it will be interesting to observe the impact of this choice on the level of services provision within the market and financial inclusion over the coming years.

Theoretically, the licensing process for MPSP in Jordan is nondiscriminatory. CBJ provides room for banks and nonbanks to obtain a license to become e-money issuers. However, the challenges facing exchange houses in applying for an e-money license suggest that there may still be obstacles to ensuring the licensing framework is nondiscriminatory in practice.

2.2. Risk Management

Retail payments systems are vulnerable to many risks, including operational, liquidity, reputational, business, and fraud risks. The licensing processes implemented by the regulator should be robust enough to ensure that effective systems and controls are in place within each licensed business to effectively manage these risks, thus protecting consumers and the financial system.

The PAFI report states that striking the right balance in the licensing and regulatory process requires the following:

- Correctly identifying the risks
- Designing right-sized risk management requirements

- Strengthening the capacity of stakeholders to effectively implement such measures

- Ensuring ongoing compliance with the framework

Six risk areas should be assessed at the licensing stage for any PSP:

- IT security/fraud
- Reliability and business continuity
- Business risk
- Contractual relations and enforceability
- Use of third-party agents
- Credit and liquidity risks to customers as account holders

The processes developed by CBJ to license MPSPs appear to cover all the critical areas identified (see Annex I.II). Given that this is a relatively new sector within Jordan, the effectiveness of ongoing supervision of licensed MPSPs is difficult to assess. The Payment Systems Department has maintained open communication with all licensed entities to ensure that the capacity of private-sector stakeholders is high and that a culture of ongoing consultation is developed. These softer elements of the regulatory environment are very important for risk management and for ensuring financial inclusion.

2.3. Protection of Customer Funds

Risks presented when e-money is issued against funds stored in a pooled account held on behalf of customers need to be effectively mitigated, as with traditional sight deposits. Risks include the risk of misuse or loss of consumer funds, the risk of the PSP becoming insolvent, and the risk of the financial institution holding the underlying funds facing bankruptcy. Financial authorities are paying more attention to these risks globally and are working to ensure

a regulatory environment where risks are mitigated and funds held on behalf of customers are always safeguarded (PAFI report, p. 26).

Annex I.3 provides an overview of the approach to safeguarding customer funds under the e-money directive governing EEA and regulations adopted in Jordan. All MPSPs (whether a bank or nonbank) must place a cash deposit of 100 percent of the amount of e-money it plans to issue in a settlement account held in escrow at a licensed bank.

Nonbank MPSPs were previously also required to submit to CBJ an irrevocable and unconditional bank guarantee for the amount of e-money they planned to issue. This was intended to ensure customer funds were protected in the case of MPSP insolvency. However, newly released CBJ instructions cancelled this requirement. This was possible due to the latest changes in Article (50) of the CBJ Law, which instructed that customer funds are automatically protected from creditors when the funds are placed in escrow at the settlement account. The additional safeguard of a bank guarantee is therefore no longer required.

However, the settlement account will still be at risk if the settlement bank fails. Although Jordan has a deposit protection scheme—the Jordan Deposit Insurance Corporation (JODIC)—the funds held in the settlement account are treated as a single account for insurance. Thus, individual consumer funds held in mobile wallets are not fully protected once the overall settlement account value becomes larger than the amount insured (JOD 50,000 [US\$70,000]).

To mitigate this risk, regulations should specify that customer funds be pooled in multiple accounts with multiple settlement banks, spreading MPSPs' (and ultimately the consumer's) exposure in the event of bank failure. CBJ is also

amending the rules that apply to the deposit protection scheme to extend the deposit protection to individual account balances held within in a pooled account up to JOD 50,000 per wallet. This process should be supported because it would help to safeguard customer funds in the event of bank failure.

2.4. Financial Customer Protection

Effective financial inclusion also requires that consumer rights are upheld by service providers and that the information about the services rendered is accurate and transparent. This is further supported by sound financial literacy of the consumer base—ensuring consumers understand the services available to them and their rights as consumers.

There is no general legislation relating to consumer protection in Jordan and no specific financial consumer protection regulations. Customers who hold bank accounts are covered by the 2012 Instructions on Dealing with Customers Fairly and Transparently (no.56/2012), which mandates activities such as transparency of fees and interest rates, disclosure of terms and agreements before the client enters into a relationship with the bank, and the establishment of a consumer complaints procedure. Articles (73), (74), and (75) of the Banking Law (no.28/2000) provides for data protection and privacy. However, MPSP clients who use MFS in Jordan are not covered by these regulations. Annex 1.4 provides further detail.

Because of this, the JoMoPay *Mobile Payments Service Instructions* and the accompanying *Mobile Payment Service Operational Framework* provides for consumer protection and include the following:

- **Consumer complaints procedure.** The MPSPs policy for handling customer service and customer complaints is required to be outlined

as part of the license application procedure.¹⁵ The *Mobile Payment Service Instructions* also contains minimum standards for ensuring customers are aware of the complaints procedure in place and the handling of the procedure itself. This includes announcing the complaint center’s address, email, and phone numbers; recording the complaint/suggestion when it is received; and addressing the complaint or looking into the suggestion within three days and informing the customer of the result.¹⁶ If the complaint is not settled, CBJ has the right to form a committee to look into the situation and make a decision on the complaint.¹⁷

- **Data protection and privacy.** MPSPs must provide information on their security and protection policy as part of the license application procedure.¹⁸ The *Mobile Payment Service Operational Framework* also includes instructions to create and “periodically test” MPSPs’ back-up infrastructure.¹⁹
 - **Protection of consumer funds.** The *Mobile Payment Service Instructions* ensures consumer funds are protected by requiring MPSPs to deposit 100 percent of e-money issued into a pooled account held at a licensed bank.²⁰
 - **Fraud prevention.** The *Mobile Payment Service Instructions* requires MPSPs to be able to “track and verify the validity and reliability of customer transactions” and “seek to develop special controls to monitor activities to be performed by the agent.”²¹
- However, the consumer protection framework still has gaps that could create risks to consumers using MFS. These risks include the following:
- **Risk of consumer’s private data being improperly released.** Jordan has no general legislation on data protection and privacy, besides those within the banking law that cover banked customers. The lack of regulation within the e-money ecosystem as to who can access data and where exceptions exist creates concerns that consumer’s data may be improperly used. There is also no penalty in place should this occur. **Box 3** presents a more detailed overview of key considerations related to data privacy in mobile money.
 - **Risk of fraud.** MPSPs are not required to provide a full policy on how to recognize, manage, and minimize fraud as part of the licensing procedure. This could result in a lack of strong internal controls to recognize and manage fraud. It also does not encourage mechanisms such as consumer education and due diligence on staff and agents to minimize fraud.
 - **Risk of consumers being unable to make informed choices.** There are no instructions in place for full disclosure of terms and conditions to consumers before they open a mobile wallet, or full disclosure of fees before they make a transaction. There are also no guidelines that require consumers be given adequate time to respond before any changes to fees or terms and conditions come in effect.

15 Article (5) *Mobile Payments Services Instructions*.

16 Article (35) *Mobile Payments Services Instructions*.

17 Article (36) *Mobile Payments Services Instructions*.

18 Article (5) *Mobile Payments Services Instructions*.

19 Section 6.b *Mobile Payments Services Operational Framework*.

20 Article (8) *Mobile Payments Services Instructions*.

21 Article (4) *Mobile Payments Services Instructions*.

BOX 3. Data Privacy and Protection in Mobile Money: A Global Overview

Data privacy and protection is a growing concern among mobile money consumers and regulators. According to a recent GSMA study, approximately 80 percent of mobile users want their personal data to be private. The lack of data protection presents risks that consumer accounts can be illegally accessed to steal funds or to conduct illicit activities and that consumers may be subject to identity theft, blackmail, or in extreme cases, intimidation and harassment. There are also broader concerns over consumers' rights to privacy, particularly in markets where digital footprints are being created for the first time. Only recently has there been discussions on how best to protect consumer privacy in digital financial services (DFS), while also recognizing the benefits of data sharing for creating a credit history, generating business cases, and promoting AML/CFT efforts.

Some countries have general data privacy laws that protect personal data. For example, most European Union countries have implemented the European Union data protection Directive 95/46/EC—a principles-based, technology-neutral directive that ensures data collection and processing are done in a way that protects the privacy rights of consumers. Although DFS is not specifically mentioned in the directive, it is covered within the framework. Outside of Europe, Canada also has laws around the collection, use, and disclosure of personal information based broadly on the principles in the European Union data protection directive.

In countries where there are no general data privacy laws, specific mention of data privacy protection can sometimes be found in the framework of DFS regulations. In Kenya, for example, NPS Act 2014, which is specifically related to PSPs, states that the sharing of consumer data is prohibited except in specific circumstances and that a fine will be assessed if these requirements are not met. This is in line with the Jordanian law on consumer privacy in banking. In other countries, such as Rwanda, outlining data privacy and security is part of the licensing procedure for MPSP. The introduction of data privacy and protection within the framework of DFS regulation is still in early stages, and remains highly debated among stakeholders.

Sources: Kenya Subsidiary Legislation, 2014 713; EU data protection Directive 95/46/EC; Norton Rose Fullbright (2014) *Global data privacy directory*; CGAP (2014) *Do Mobile Money Clients Need More Protection?*

- **Risk of consumers losing funds if their bank failures.** As noted, there are no provisions to ensure individual funds held in mobile wallets are protected in the event of bank failure. However, CBJ is working to mitigate this risk.

CBJ plans to release consumer protection by-laws that will address many of these issues. It is also in the process of establishing a dedicated department for consumer protection.

2.5. Financial Integrity

Ensuring the integrity of the financial system sometimes can conflict with financial inclusion efforts. One example is the ongoing challenge of balancing risk while at the same time improving access to financial services for a greater proportion of a country's population. Specific challenges include protecting the system from money laundering and terrorist financing abuses, while also facilitating access to financial services for

those who may not have the identification documents required to access regulated financial services.

In light of this challenge, FATF supports a risk-based approach to implementing its recommendations. However, this approach is not always possible given the extent of the AML/CFT, and related know-your-customer (KYC) challenges in many emerging markets. Following an assessment of Jordan's AML/CFT regime in 2009, FATF made specific recommendations for improvements and put Jordan on a regular follow-up process list. CBJ responded by making extensive changes, and in 2013 Jordan was removed from the FATF list. Annex 1.5 provides an overview of the approaches adopted in Jordan and EEA.

Although some countries use a tiered KYC approach, based on the identification documents available to clients, for opening a mobile wallet account and subsequent limits on transaction sizes, this approach is not used in Jordan.

The high penetration of national IDs for Jordanians, combined with the decision to recognize UNHCR cards for refugees and passports for non-Jordanians, could mean that a large majority of consumers will be able to open a wallet account.²²

Due to this, some stakeholders do not think that transaction size limits and monthly limits on the amount that can be held in a mobile wallet are an accurate reflection of the risk in the Jordanian market. Currently, an unbanked customer can transfer up to 100 JOD (USD 140) to another unbanked customer, and has a monthly balance limit of 1000 JOD.²³ However, CBJ has acknowledged this and is engaging with services providers to discuss increasing transaction limits. Mobile tax is another matter that may require adaptation or clarification as highlighted in **Box 4**).

Note that all MPSPs are required to be connected to the national payments switch (JoMoPay), and to have a national ID number, passport number, or UNHCR

BOX 4. Mobile Tax in Jordan

A 2015 GSMA report found that Jordan has one of the highest levels of mobile-specific taxation worldwide. The same report found that the mobile industry paid almost US\$500 million in recurring taxes and fees in 2013—equivalent to over 50 percent of mobile industry revenues in Jordan during the same period.

In terms of taxes on MFS, interviews with services providers found that some were confused about the current tax rates. Providers sought clarification on whether mobile money services would be exempt from sales tax, as banking services in Jordan are. Providers also were confused about how MPSPs were classified to determine the level of income tax they are required to pay, given that income tax for FinTech companies is 5 percent, while income tax for financial services is 35 percent.

Source: GSMA (2015). *Digital inclusion and mobile sector taxation in Jordan*.

²² At the time of the assessment, UNHCR cards were not accepted as a form of ID for opening a mobile wallet. However, there are plans to release an instruction enabling this.

²³ Transaction sizes limits and monthly limits vary by unbanked and banked customer, and type of transfer. Annex 1.5 provides further detail.

card linked to their transactions. In turn, all transactions are recorded and limits are automatically adhered to, thus ensuring the financial integrity of JoMoPay.

2.6. Concluding Remarks

Overall the regulatory environment for issuing e-money in Jordan is sound. The recent amendment to the CBJ law (article 50) and the issuance of the 2017 instructions requiring settlement accounts to be held in escrow and the subsequent cancelling of the bank guarantee mean that protection of customer funds is proportionate and robust. However, there remains some risk to the safety of consumer funds in the event of bank failure, given the scope of the country's deposit protection scheme and the lack of settlement account diversification rules.

Consumer protection and transparency present big challenges, and adherence to international standards of consumer protection is very important, particularly for lower-income groups that have low levels of financial literacy. While CBJ has identified consumer protection as an area that requires attention, effective legislation must be developed in the short term to ensure that consumers are protected as soon as possible. It also is important to recognize that consumer protection is a broader issue throughout Jordan and that it is not limited to e-money issuance or payments services.

As the sector continues to grow and use increases, it will be important to ensure robust ongoing oversight of the sector, and CBJ must continue to foster an environment of open dialogue and consultation with industry players.

PART 2. JORDAN INTERNATIONAL REMITTANCES MARKET

The following is an overview of current and historic migration flows in Jordan. The overview is designed to provide context for remittance flows, both to and from Jordan, including values, volumes, and average transaction sizes.

1. Demographics: Immigration and Emigration Stocks

According to the latest population census (2015), 9.5 million people live in Jordan, of which 2.9 million or 30.6 percent of the overall population are non-Jordanians.²⁴ This was a significant increase from the previous census in 2004, where only 349,933 or 7 percent of the population were non-Jordanians.²⁵ In 2015 699,719 Jordanian citizens were living abroad, according to United Nations migration data.²⁶

When compared with other countries in the region, the volume of both in and out migration is relatively high, an indicator of Jordan's position as a trade and migration center (see Table 6).

Table 7 outlines the migration history of the selected corridors analyzed for this report. Historically, the largest destination for Jordanian migrants has been the GCC countries, with Saudi Arabia and UAE each hosting more than 150,000 Jordanian migrants in 2015, according to United Nations international migrant data.²⁷ Interviews suggest that a large proportion of these migrants are high-income "white collar" workers;

only a small proportion work informally or in temporary, low-paid positions. This is in line with the migration policy center's (2013) overview of Jordan, which showed that, in 2006, 43.2 percent of Jordanian emigrants had a tertiary education, and 39.8 percent had completed secondary education.²⁸ While similar demographics have been suggested for Jordanian migrants in the United States and Germany, less information regarding the demographics of Jordanians living in these countries was able to be gained through interviews during research for this project.

Palestinians remain the largest migrant community living in Jordan, with over 2 million registered Palestine refugees in 2015 according to UNRWA.²⁹ The majority of Palestinians living in Jordan have full Jordanian citizenship. However, according to the 2015 national census data, 634,182 Palestinians (6.65 percent of the population of Jordan) do not have a national ID.

According to the United Nations, 138,939 Egyptians were living in Jordan in 2015. However, some argue that this number vastly underestimates the number of Egyptians who work and live in Jordan. Several key stakeholders have suggested that 400,000–600,000 Egyptians live in Jordan—an estimate that is more in line with the 2015 national census data, which estimates the number to be 636,270 (6.68 percent of the population).³⁰ Some believe

24 <http://www.jordantimes.com/news/local/population-stands-around-95-million-including-29-million-guests>

25 The Preliminary Results of the Population and Housing Census 2004, accessed at JOR_2004_PHC_Result_EN.pdf

26 United Nations, Department of Economic and Social Affairs (2015). Trends in International Migrant Stock: Migrants by Destination and Origin (United Nations database, POP/DB/MIG/Stock/Rev.2015).

27 United Nations estimates are based on population censuses. Population registers and nationally representative surveys. International migrants have been equated with the foreign-born population whenever this information is available.

28 http://www.migrationpolicycentre.eu/docs/fact_sheets/Factsheet%20Jordan.pdf. This is in sharp comparison with inward migration, where in 2004 only 7.5 percent had a tertiary education.

29 <http://www.unrwa.org/where-we-work/jordan>

30 <http://www.jordantimes.com/news/local/population-stands-around-95-million-including-29-million-guests>

TABLE 6. Migration Stocks 2015, Selected Arab Countries

Country	Immigrants Stock (inbound)	Emigrants Stock (outbound)	Total Resident Population	% of Total Population Immigrants	% of Total Population Emigrants
Saudi Arabia	10,185,945	270,029	31,540,000	32	1
UAE	8,095,126	36,557	9,157,000	88	0
Jordan	3,112,026	699,719	7,595,000	41	9
Turkey	2,964,916	3,114,471	78,666,000	4	4
Kuwait	2,866,136	187,871	3,892,000	74	5
Lebanon	1,997,776	798,140	5,851,000	34	14
Oman	1,844,978	21,333	4,491,000	41	0
Qatar	1,687,640	25,681	2,235,000	76	1
Syria	875,189	3,718,001	18,502,000	5	20
Bahrain	704,137	55,964	1,377,000	51	4
Iraq	353,881	1,479,966	36,423,000	1	4
Yemen	344,131	1,012,889	26,832,000	1	4

Source: Emigrant and Immigrant stock: United Nations, Department of Economic and Social Affairs (2015). Trends in International Migrant Stock: Migrants by Destination and Origin (United Nations database, POP/DB/MIG/Stock/Rev.2015).

Total population: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, DVD Edition.

that the United Nations estimate is low because many Egyptians may be informally and/or temporarily employed and may not have residency and/or work permits.

The number of Filipino migrants in Jordan is also likely to be much higher than

United Nations migrant data suggest. According to the Philippines department of labor, there are about 25,000 overseas Filipino workers (OFWs) in Jordan—4.2 percent of all migrant workers.³¹ Many OFWs are household services workers (HSWs), many of whom are in Jordan illegally and are undocumented. In 2010,

TABLE 7. Migrant Stocks, Selected Corridors of Analysis

Host Country	Country of Origin	Official Migrant Stocks 1990	Official Migrant Stocks 2015	Undocumented Migrants
Saudi Arabia	Jordan	90,278	182,152	low
UAE	Jordan	26,078	167,585	low
United States	Jordan	31,871	64,868	low
Qatar	Jordan	10,999	55,709	low
Germany	Jordan	12,527	12,663	low
Jordan	Egypt	171,413	138,939	400,000–600,000
Jordan	Palestine	851,880	2,142,755	low
Jordan	Philippines	2,245	4,056	25,000

Source: United Nations, Department of Economic and Social Affairs (2015). Trends in International Migrant Stock: Migrants by Destination and Origin (United Nations database, POP/DB/MIG/Stock/Rev.2015).

31 http://www.dole.gov.ph/ro_polo_updates/view/293

Jordan and the Philippines signed a Memorandum of Understanding on labor cooperation, which paved the way for the “Principles and Controls” protocol, in an attempt to document Filipino migrants and, in doing so, reduce the number of incidents of abuse. This is an ongoing process, and reports of abuse and struggles with documentation continue.³²

There are a number of challenges in estimating remittances to and from Syria given the protracted conflict. **Box 5** presents further detail.

2. International Remittances Market

Overview

- The use of the domestic payments infrastructure for international remittances, for both digital and non-digital payments, is low in Jordan. A majority of payments are received or sent in cash through the network of exchange houses, which are the most prevalent RSPs in the market.
- Cash is the dominant channel for sending remittances from Jordan. While there are more options for inbound services from the send side, including a higher use of bank accounts services by those sending from the GCC and Europe, the dominant receive channel is cash.
- There is a well-developed market for both outbound and inbound remittances, particularly with regard to market competition.
- The Exchange House Department of CBJ is doing an extensive review of the regulatory framework for this market segment. The review is focused on reducing opacity in the

market and better safeguarding customer funds.

2.1. Approach to Researching and Improving International Remittances Markets

The World Bank and the Bank for International Settlements (BIS) developed a set of general principles to guide policy makers who want to improve the market for remittance transfers (see Box 6). For this specific assessment, the general principles have been used to assess the overall market. However, given that this assessment focuses on establishing a digital pilot, a deep dive analysis of specific corridors was also undertaken (while still adhering to the five main principles). This deep-dive analysis will enable opportunities for an intervention to support the digitization of remittances in specific corridors to be drawn out.

The following is an overview of the market against the framework of the general principles. An assessment of eight specific corridors is then provided. (The five inbound corridors were from the UAE, Saudi Arabia, Qatar, the United States, and Germany to Jordan; three outbound corridors were from Jordan to Egypt, Palestine, and the Philippines.) The corridors were selected because of their size (see Table 8, those selected are in bold), market dynamics, and the authors’ initial assessment of their suitability for piloting a digital solution; “suitability” included digital readiness in the corresponding market.

For each of the corridors, this section will detail market dynamics identified from interviews, desk-based research, and mystery shopping of services providers conducted in the first and second quarters of 2016.

³² See, e.g., <https://www.migrant-rights.org/2013/05/115-stranded-filipinas-in-jordan-plea-for-repatriation> and <http://www.thenational.ae/news/world/asia-pacific/abuse-of-maids-in-jordan-continues-despite-efforts-to-protect-them>.

BOX 5. Estimating Remittances to and from Syria

Before the conflict, in 2010, the flow of remittances to Syria was estimated to be US\$2,079 billion (JOD 1,476 billion). The top sending countries were broadly in line with where Syrians had developed well-established communities, including Jordan, Saudi Arabia, the United States, Kuwait, and Germany (see tables B5-1 and B5-2). While a proportion of this flow is still destined for Syria, it is believed that new corridors are being established to the main host countries for Syrian refugees, predominantly Lebanon, Turkey, and Jordan.

Interviews with remittances services providers (RSPs) in Jordan have yielded a mixed set of results on the proportion of current inflows to Jordan that are destined for Syrian refugees residing in the country. Very little is known about this consumer group; this is in large part due to the sensitive nature of the data, and the AML/CFT challenges this group faces when attempting to receive remittances through formal channels. Many RSPs cannot accept UNHCR IDs as valid identification for the collection of remittances. However, the official ID cards for Syrians issued by Jordan's Ministry of Interior are accepted. It has been suggested that, even with these challenges, this market is relatively buoyant and growing.

Although several questions about the dynamics of this market segment remain unanswered, it is highly likely that inbound remittances to Jordan (both formal and informal) are directed to this specific group. A better understanding of the source of these funds and the extent to which they are being sent to Jordan is needed to understand how these transactions might be digitized to aid financial inclusion of this community.

TABLE B5-1. Top 10 Remittances Corridors to Syria, 2015

Sending Country	Estimated Remittance Received to Syria 2010 USD Million (JOD million)	% of Total Remittances Received
Jordan	518 (368)	25
Kuwait	353 (251)	17
Saudi Arabia	255 (181)	12
United States	186 (132)	9
Germany	105 (75)	5
Palestine	61 (43)	3
Libya	58 (41)	3
Canada	57 (40)	3
Sweden	51 (36)	2
France	41 (29)	2
Other	394 (279)	19
TOTAL	2,079 (1,476)	100

Source: World Bank Bilateral Remittance Data, accessed 09/2016.

TABLE B5-2. Top 10 Countries Receiving Syrian Migrants, 2015

Host Country	Official Migrant Stocks 1990	Official Migrant Stocks 2015
Turkey	5,247	1,568,494
Lebanon	25,553	1,255,494
Jordan	51,557	700,266
Saudi Arabia	305,838	623,247
Iraq	0	246,556
Egypt	1,359	146,837
United States	36,782	69,459
Sweden	38,795	69,199
Germany	15,330	53,099
Libya	15,014	27,762

Source: United Nations, Department of Economic and Social Affairs (2015). Trends in International Migrant Stock: Migrants by Destination and Origin (United Nations database, POP/DB/MIG/Stock/Rev.2015).

2.2. Market Size

In the Arab world, Jordan is a relatively large remittance market. One IMTO referred to it as the fifth most important market for IMTOs in the region. Its position as a sending and receiving market for both person-to-person and trade-related international payments is

reflected in a relatively large number of RSPs conducting remittances transactions to and from the country.

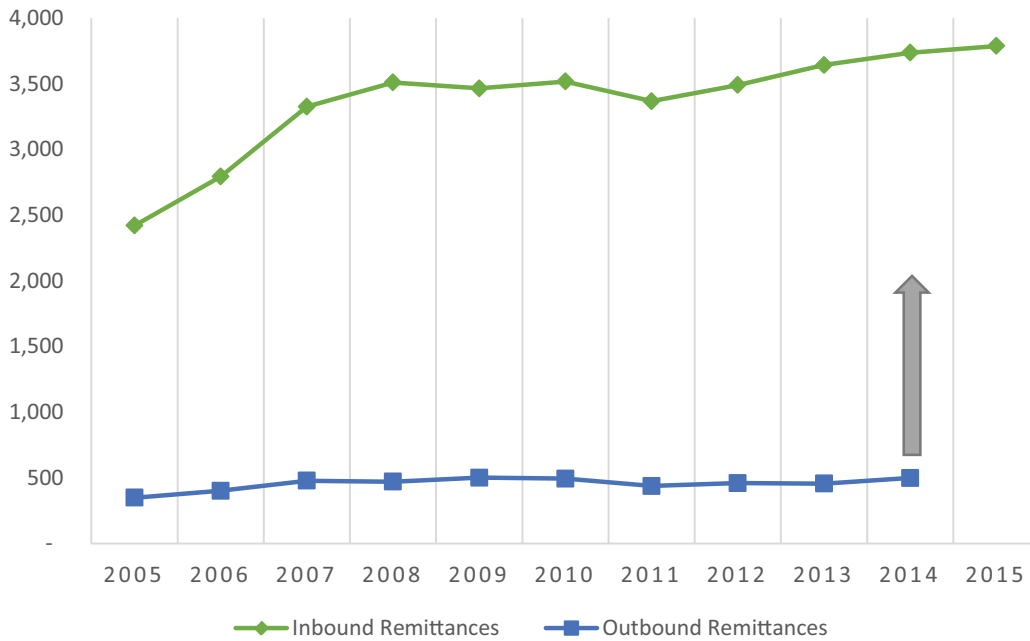
Some believe that 75 percent of the total value of formal remittances are directed into the country from Jordanians who are living overseas. The World Bank estimates that Jordan received

TABLE 8. Largest Remittance Corridors Inbound and Outbound, Jordan, 2015

	Remittances Inbound	Size of corridor USD Millions (JOD Millions)	Remittances outbound	Size of corridor USD Millions (JOD Millions)
1	Saudi Arabia	1,468 (1,000)	Egypt	1,293 (920)
2	UAE	716 (510)	Palestine	1,074 (760)
3	United States	376 (270)	Syria	254 (180)
4	Palestine	220 (160)	China	45 (32)
5	Qatar	207 (150)	Iraq	43 (30)
6	Kuwait	198 (140)	Sri Lanka	35 (25)
7	Libya	82 (58)	India	19 (14)
8	Germany	65 (46)	Indonesia	18 (13)
9	Bahrain	60 (43)	Bangladesh	16 (11)
10	Oman	47 (33)	Lebanon	13 (9.2)
11	Canada	42 (30)	Philippines	12 (8.5)

Source: World Bank Bilateral Remittance Data. Accessed 09/2016.

FIGURE 3. Total Inbound and Outbound Remittances, Jordan (USD Millions)



Source: World Bank Annual Remittance Data. Accessed 09/2016.

over US\$3.8 billion (JOD 2.7 billion) in 2015³³—the equivalent of 10.4 percent of the Kingdom’s gross domestic product (GDP) over the same period. Outbound remittances were estimated to be far lower—close to US\$500 million (JOD 360 million) in 2015—although services providers would say this figure is much larger (see Figure 3—this will be discussed later in this paper).

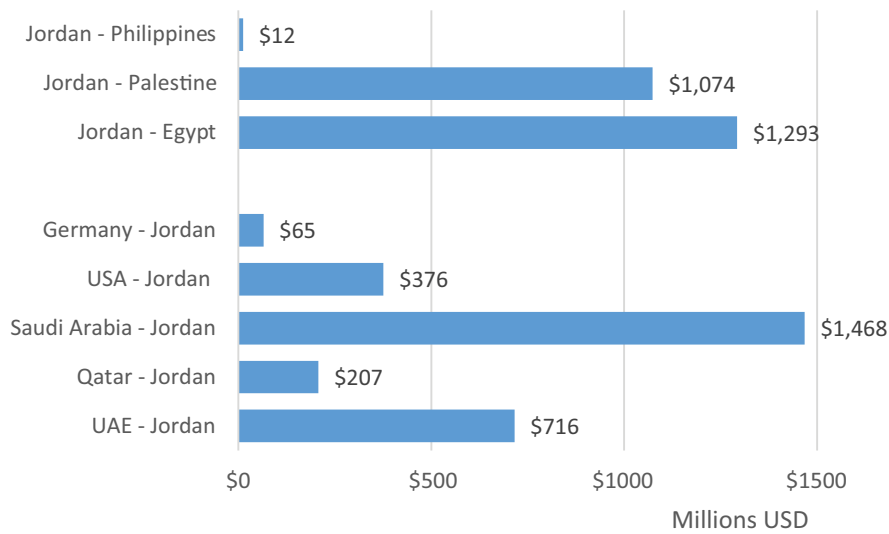
Not surprisingly, given Jordan’s migration profile, GCC countries, specifically Saudi Arabia, UAE, and Qatar are the largest send markets to Jordan. The United States, Libya, and Germany follow these. The largest corridors for outbound remittances are also to countries in the region: Egypt, followed by Palestine and Syria. However, increasing volumes are being sent to the wider Asia region as migrant communities in the region continue to grow in population. Key corridors in this region include China, India, Indonesia, Philippines, Bangladesh, and Pakistan.

Figure 4 provides an overview of the eight selected remittances corridors to and from Jordan. The value (based on World Bank bilateral remittances estimates) of the Jordan-to-Egypt corridor is higher than the total estimate for outbound flows from Jordan (see Figure 3). This disparity highlights the challenge in obtaining consistent data on remittances markets, which are complex and at times fragmented. Anecdotal evidence obtained from interviews puts the outbound market from Jordan closer to US\$2 billion (JOD 1.4 billion) in 2015—roughly four times the size of the official reported figure—and closer to the 25 percent figure of total remittances suggested by key stakeholders.

Challenges with sizing remittances markets persist for several reasons, including the way transactions are settled in specific corridors, the scale of informality in a given market, and the volume of irregular migration. These factors affect various Jordanian corridors to some extent. The impact they have on market

³³ The size of the receive remittance market was US\$3.4 billion (JOD 2.4 billion) in 2015, according to CBJ.

FIGURE 4. Market Size (Value) by Selected Corridor, 2015 (USD Millions)



Source: World Bank Bilateral Remittance Data. Accessed 09/2016.

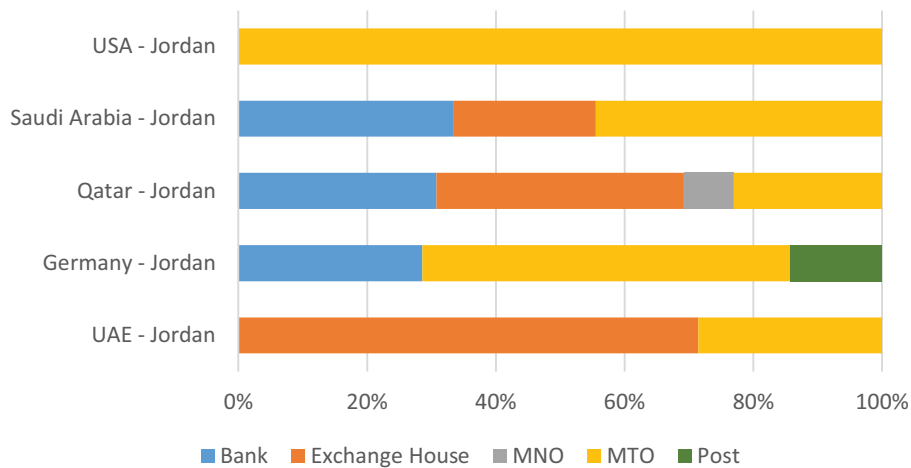
dynamics will be explored in subsequent sections of this report.

2.3. Market Players: Exchange Houses, IMTOs, and Banks

There are several financial institutions in the remittance market, and these fall within three main groups: exchange houses, IMTOs, and banks (see Figure 5 and 6). The postal network also plays a role in selected corridors.

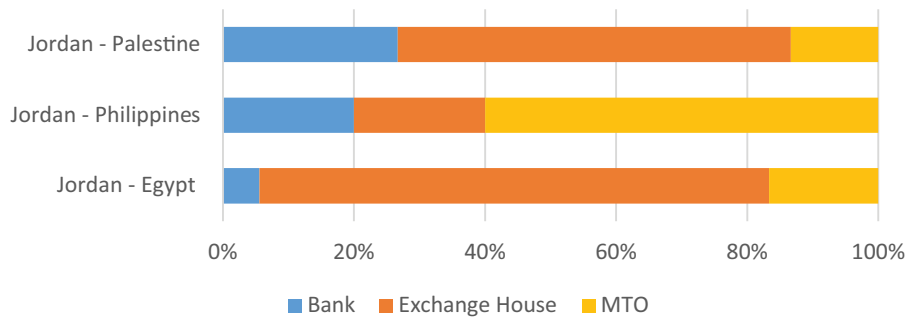
Exchange Houses. As is typical for the region, exchange houses dominate the market as the principal customer-facing entity. Depending on the corridor, an exchange house can offer up to three or four different channels for sending funds (e.g., cash-to-cash or cash-to-bank account). Transactions are usually driven by partnerships designed to facilitate the transaction and/or the underlying business model that is used for moving money internationally.

FIGURE 5. Remittances Services Providers, by Corridor (inbound corridors)



Source: Mystery shopping, Q1–Q2 2016.

FIGURE 6. Remittances Services Providers, by Corridor (outbound corridors)



Source: Mystery shopping, Q1–Q2 2016.

Exchange houses occupy a variety of positions within the market. For remittances, they operate in two ways:

1. As an agent for the principle service provider, usually an IMTO such as Western Union, Express Money, and MoneyGram,³⁴ paying out or initiating remittances transactions for customers and receiving a revenue share derived from the fee and foreign exchange margin charged to the customer. While IMTOs hold a share of the market for remittances intra-regionally, their presence is greatest in corridors to Asia or from the United States and Germany.
2. As the partner of another exchange house or bank in another country. In this case, the bilateral partnership allows for the settlement of transactions on behalf of customers (individuals and businesses), without moving money internationally. Instead balances are “netted-off” against each other over a period of time. This model is usually used only within the Arab world, where there is also a high incidence of trade-related payments, alongside P2P remittances. The “two-way” traffic that is created generates enough volume within a given corridor for this model to persist.

IMTOs. Given that exchange houses assume a client-facing role, IMTOs tend to operate in a “wholesale” position, and are represented by their agents in country. The three main IMTOs serving Jordanian corridors (Western Union, MoneyGram, and Express Money) are not regulated in Jordan, instead they partner with regulated entities in the market.

Banks. Banks are also in the marketplace. They operate as agents of IMTOs and they offer international transfers from bank accounts for customers who want to send money overseas.

2.4. Overall Remittances Market Assessment

The Jordanian remittances market is unique in that there is a significant demand for both sending and receiving remittances. While there are similarities in the challenges and opportunities seen in both market places, the direction of funds and the different customer segments served has also resulted in significant differences. This report will provide an overview of the Jordanian remittance market, against the assessment framework derived from the General Principles for International Remittances (see **Box 6**). In addition to the assessment approach, a comparison

³⁴ Interviews with services providers suggest these are the three largest IMTOs operating in Jordan.

BOX 6. The General Principles of International Remittances

Transparency and Consumer Protection (GP1): The market for remittance services should be transparent and have adequate consumer protection.

Payment System Infrastructure (GP2): Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and Regulatory Environment (GP3): Remittance services should be supported by a sound, predictable, nondiscriminatory, and proportionate legal and regulatory framework in relevant jurisdictions.

Market Structure and Competition (GP4): Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

Governance and Risk Management (GP5): Remittance services should be supported by appropriate governance and risk management practices.

Roles of Remittance Services Providers and Public Authorities

- A. Role of remittance services providers. Remittance services providers should participate implementing the general principles.
- B. Role of public authorities. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

Source: World Bank (2007) General Principles for International Remittance Services, p. 1.

to relevant regulations governing the international remittances space in the EEA will be provided as well as a detailed look at the inbound and outbound markets, focusing on specific corridors of interest within each.

2.4.1. Market structure and competition (GP4)

“Exclusivity conditions are where an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittances service. The difficulty with such conditions is that, by restricting choice, they

create an increased likelihood of de facto local monopolies. Exclusivity conditions can thus be particularly undesirable in receiving countries.”³⁵

In terms of price, the international remittance market in Jordan is one of the most competitive in the world. Pricing for outbound corridors covered in this study, with the exception of Jordan-Palestine, are almost half the global average price for sending international remittances, which stood at 7.40 percent as of Q4 2016. Any DFS that launches in this market would need to compete with existing low-priced services.

³⁵ CPSS/World Bank, General Principles for Remittances, January 2007, p. 18.

However, there are still concerns about anti-competitive practices. In particular, interviews suggested that exclusivity conditions are still prevalent in the Jordanian market. Several exchange houses remarked that they were limited in the number of new partnerships they could undertake for fear of losing existing partnerships.

The impact of exclusivity agreements on price has been difficult to observe. Because IMTOs are less prevalent in the main corridors to Jordan (i.e. from the GCC sending markets to Jordan) the impact on price for inbound remittances has not been excessive. Similarly, the price for outbound corridors has not been as affected as we would have expected, because exclusivity conditions have tended to be in contracts that pre-date the establishment of the outbound corridors. In other words, agreements were written with the intent that Jordan would be the receiving market, not the sending market, so for outbound flows exclusivity is not a major issue. The corridor-specific analysis highlights some of pricing trends observed from the mystery shopping exercises.

As mentioned, an additional concern related to anti-competitiveness in the marketplace is the derisking of exchange houses, which affects the ability of exchange houses to compete on a level playing field, even with each other. Some exchange houses (usually the larger or more well-known exchange houses, which are considered less “risky”) are able to access the domestic payments systems, while others are not. The introduction of ACH is likely to exacerbate this situation, by allowing some exchange houses to use the system and offer straight to/from bank account services, while others will be unable to do so.

2.4.2. *International Remittances Infrastructure (GP2)*

“Remittance services, except perhaps those that are entirely cash-based depend at some stage on the domestic payments infrastructure for settlement. In some countries, such infrastructure remains under developed. For example, noncash payment services may be available only in urban locations.”³⁶

“RSPs need to be able to use the domestic payment systems. In most countries only banks can be direct participants in such systems. Nonbanks have access to the systems directly as customers of banks.”³⁷

In Jordan, as in most countries, only banks have direct access to the payments settlement systems (RTGS-JO and ACH). However, as exchange houses are derisked and lose access to a bank account and banking services, their ability to access these systems, even indirectly, has become increasingly difficult. This needs to be addressed by the regulator.

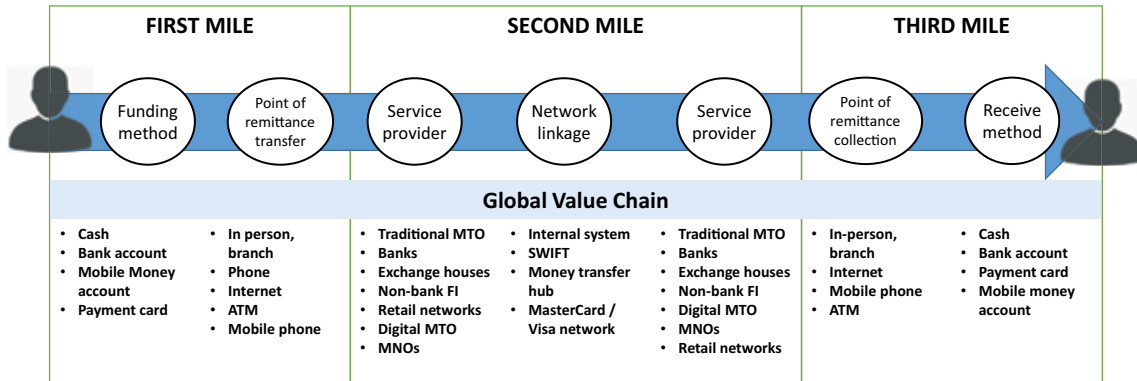
International remittances transactions within the region tend to not go through standard international payments processes (SWIFT and correspondent banking). Instead, netting-off processes are often used, with limited settlement as and when is required. Therefore, many cross-border payments made through exchange houses bypass the domestic settlements system infrastructure entirely.

Furthermore, from a cross-border standpoint, there is limited interconnectivity of payments systems for facilitating transactions in Jordan. Figure 7 and 8 provide an overview of the remittances value chain (i.e., the various funding and receiving channels and how the first and

36 CPSS/World bank, General Principles for Remittances, p. 22.

37 CPSS/World bank General Principles for Remittances, p. 18.

FIGURE 7. Global Value Chain for P2P transactions



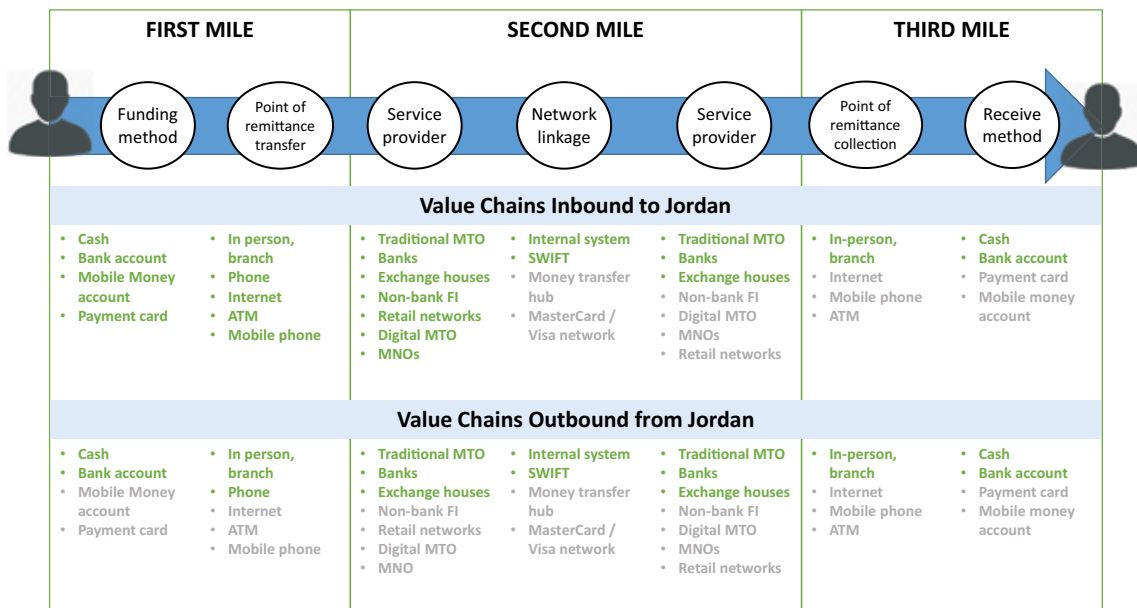
Note: This schematic has been adapted from MasterCard Send™ presentations, 2015.

third mile of a transaction link into the international payments infrastructure). Figure 7 outlines the various channels available globally for remitting money. Figure 8 highlights the options available in Jordan, for both outbound remittances and inbound remittances; options that are live in Jordan are highlighted in green.

As shown in Figure 7, digital remittance options available globally include remittances received onto a mobile wallet or payment card and into a bank

account that can be accessed online or through a mobile app. The second mile for digital solutions—the “settlement” or “network linkage”—can be handled bilaterally (e.g., one MPSP connecting to another MPSP) or through hubs. Hubs can facilitate the connections between several digital instruments, services providers, and corridors, by allowing one provider to “switch on” multiple corridors and instruments through one connection. Hubs themselves are not client-facing, but they allow two client-facing services providers to connect to each

FIGURE 8. Value Chain for P2P Remittances in Jordan (inbound and outbound)



Note: This schematic has been adapted from MasterCard Send™ presentations, 2015. Options that are live in Jordan are highlighted in green

other, thereby facilitating a business-to-business transaction.³⁸

However, as Figure 8 shows, very few value chain innovations, particularly those for outbound payments, exist in Jordan. Cash and bank accounts are the only mechanisms for sending money across borders. SWIFT and internal system settlements, including netting off, remain the principle second-mile approach. There also appears to be limited access to aggregator-based services or hubs that facilitate transactions to Jordan. Pre-paid payment cards and mobile wallets receive remittances in a limited number of countries (e.g., the Philippines), but it is not possible to send remittances from Jordan using a mobile wallet or prepaid card. One major card scheme is exploring the opportunity to leverage its infrastructure to serve remittances corridors from GCC to Jordan.

There have been several innovations in the first mile for inbound payments from countries such as the United States, Germany, and Qatar. These include online payments, payments through ATM and mobile app payments. There is one

option to send remittances to Jordan from Qatar using a mobile wallet.

The introduction of ACH should also have an impact on the variety of services offered by IMTOs for international remittances. IMTOs can now, in principle, offer a cheap direct-to-bank account service to all Jordanian banks at a lower cost. Previously IMTOs needed a direct relationship with a bank to which they wished to offer direct-to-bank account services. Whilst this was possible, the RTGS would have been used. Given that the RTGS is reserved for high value interbank transactions, such a service would have been expensive for low value payments. The introduction of an ACH significantly reduces the cost of the transaction and may well result in an increase in IMTOs offering a direct to bank account services to remittance customers.

3. International Remittances Regulatory Assessment (GP3)

“Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework” (GP3, p. 23).

BOX 7. Super and Subagents in the Remittance Value Chain in Jordan

Breaking down the value chains further reveals the added complexity of the culture of sub- and super-agents. The super-agent is the entity that has the relationship with the IMTO, and in turn has a relationship with a network of subagents with whom it works to facilitate transactions. The super-agent and subagent split the revenue from foreign exchange and transaction fees.

Anecdotal evidence suggests that the 33 percent of the total revenue for a transaction that is taken in at the first mile is further split to approximately 10 percent to the super-agent and 23 percent to the subagent. Thirty-three percent of total revenue plus the foreign exchange margin then goes to the second mile, and 33 percent to the third mile.

³⁸ MFS Africa, for example, claims on its website to connect to over 100 million mobile money recipients across all major networks in Africa. Connecting to MFS Africa would therefore give a mobile PSP the ability to rapidly expand their pay-out network cross-border. Another example of a hub is HomeSend, which enables clients to connect to mobile wallets, payment cards, bank accounts or cash outlets in multiple markets.

In GP3, “sound” refers to the minimization of risk to RSPs and customers through a well-understood regulatory framework. Predictability is reflected in the consistency in enforcement and through a limit to the frequency for which regulations are modified. Nondiscriminatory focuses on creating a level playing field between different RSPs to foster healthy market competition. A proportionate regulatory framework is one that is not overly restrictive or burdensome, but instead is appropriate for the level of risk presented to the financial system and customers using the services.

In the following, PSD2—the directive under which PSPs in Europe are licensed to provide payments services, including international remittances services—is compared to the Money Exchange Laws in Jordan.³⁹ Other relevant regulation, including directives relating to AML/CFT for cross-border payments, will also be assessed. This will allow for the assessment of market conditions for international remittances and improvements that could be made to ensure the market best serves the needs of senders and beneficiaries of remittances. Applying the general principles to the Jordanian context to ensure a robust and thorough assessment will also be addressed.

The following are areas of the legal and regulatory framework relevant to international remittances:

- AML/CFT
- Licensing and supervision

- Prudential requirements
- Consumer protection

As with most jurisdictions, CBJ is responsible for regulating and overseeing the remittances market. The Exchange House Department of CBJ is responsible for licensing and supervising exchange houses in Jordan, the principle providers of remittances services in the Kingdom. The Anti-Money Laundering Unit develops and implements all regulation relating to money laundering and terrorist financing for the entire financial services sector in Jordan.

3.1. AML/CFT

Adherence to AML/CFT regulations, including know-your-customer procedures and recording/reporting individual transactions, is a key responsibility of any licensed RSP. These regulations require RSPs to implement policies and controls to ensure that their transfer systems are not used for moving illicit funds.

The Jordanian AML/CFT regime is based on the 2007 Anti-Money Laundering and Counter Terrorist Financing Law (no.46/2007), which established an independent anti-money laundering unit, and criminalized money laundering, and later terrorist financing.⁴⁰ The law applies to banks, money transfer companies, foreign exchange companies, and other financial companies, including MPSPs.⁴¹ As mentioned, a 2008 FATF review found several deficiencies in Jordan’s AML/CFT regime, and Jordan was put on the regular follow-up list.⁴² Consequently,

39 The Jordanian Money Exchange Business Law (no. 44/2015) clarified that licenced exchange houses are permitted to send and receive financial transfers (article 16). In reality, exchange houses had been undertaking international remittance services based on the 1992 money Exchange Business Law (no. 26/1992), although it was not explicitly permitted.

40 Following the amendment of the law in 2010.

41 For a full list, see article (13) law (no. 46/2007). Although the law was written before JoMoPay was introduced and MPSPs were licensed, it includes entities providing payments and collection services and issuing and administrating payments and credit instruments.

42 For more information on the mutual evaluation reports, see MENAFATF (2009) Mutual Evaluation Report Anti-Money Laundering and Combating the Financing of Terrorism at http://www.menafatf.org/images/UploadFiles/MER_Hashemite_Kingdom_of_Jordan.pdf and MENAFATF (2013) *Mutual Evaluation Report Third Follow-Up Report for Jordan* at http://www.menafatf.org/MER/JordanFUR3_E.pdf.

the Anti-Money Laundering and Counter Terrorist Financing Law was amended in 2010, and several related instructions and guidelines were issued. These included instructions on customer due diligence (CDD), internal controls, and reporting requirements, which were issued to money exchange companies and banks separately (see Annex 1, Table 6, for more detail).

Following the extensive changes undertaken by CBJ, the 2013 FATF review approved Jordan's application to be removed from the regular follow-up to the biennial update. The review recognized the considerable improvements to Jordan's AML/CFT regime.

In Jordan, below 700 JOD, CDD is not required, except in specific circumstances (e.g. sending money to a high-risk country). Compared with many other sending markets around the world, including many countries within the European Union, Jordan's AML/CFT requirements are less stringent. It remains to be seen whether the regulator in Jordan, like that in many other countries in the region, will issue guidance that requires licensed RSPs to document identification for all international remittances transactions, irrespective of the amount sent.

As a receiving market, Jordan requires that beneficiaries present identification documents (IDs) before remittances are paid out. According to services providers, there appears to be some confusion over the definition of CDD as well as the transaction limits at which CDD is required. According to the Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies (no. 2/2010), it is both below JOD 700,

and below JOD 10,000 (US\$990 and US\$14,000).

3.2. Licensing Processes

Exchange houses are the principle providers of international remittances—a role that they play in other parts of the region. As mentioned, IMTOs, such as Western Union and MoneyGram, operate as wholesale providers of transfer services. Thus, instead of being licensed in the country in question, they partner with exchange houses, who operate as agents, offering their international remittances services (for both sending and receiving).

To offer international remittances services in Jordan, an entity must obtain either a banking or a money exchange license.⁴³ While banks can offer international remittances services, exchange houses are not permitted to offer other types of banking services. In effect, the money exchange license is a specialist license developed in part for the international payments business.⁴⁴

Many of the banks interviewed did not recognize the international remittances market as a strategic focus for their business. For these banks, a partnership with an international money transfers service such as Western Union was the extent of their involvement in this sector. Many banks saw operations within the international remittances market as a risk to the bank more broadly, given the challenges they face regarding de-risking and correspondent banking relationships.

3.3. Prudential Requirements

Prudential requirements are usually put in place to manage systemic risk

⁴³ Jordan Postal Service also offers international money transfers to several countries that have postal networks.

⁴⁴ Jordan Post is also allowed to operate as an IMTO agent.

related to the failure of a major financial institution. Prudential requirements usually include capital adequacy and/or liquidity rules. Given the size of transactions of RSPs, the systemic risk presented by these types of institutions is minimal and so prudential requirements, in principle, should reflect this. However, this is not always the case, and in some countries, only banks can provide remittances services because they are regulated for prudential reasons.

Depending on where they are located, exchange houses have an initial capital requirement of 350,000–1 million JOD (US\$490,000 and US\$1.4 million, respectively). The value of upfront capital required is defined by the type of company and location.⁴⁵ However, this requirement is under review, and it has been proposed that the initial capital requirement be set at JOD 300,000 to JOD 3 million (US\$420,000–4.2 million). According to article 17/b of the Money Exchange Business Law (no. 44/2015) instructions will be developed relating to the ratios of soundness of money exchange houses, financial position, and limits. According to ongoing capital requirements, exchange houses either maintain a cash deposit of 30 percent of their paid-up capital or obtain a bank guarantee of JOD 100,000 (US\$140,000), whichever is greater.⁴⁶

When compared with EEA (which requires an upfront capital requirement of EUR 20,000 (US\$21,000) to offer a money remittances service) the upfront capital requirements in Jordan

appear to be high, given the nature of the business of exchange houses. This is particularly the case for larger providers who potentially will have to meet an upfront capital requirement of JOD 3 million and an ongoing capital requirement of JOD 1 million once the new by-laws are introduced. A scaled approach based on volume and value of anticipated transactions (revenue), as is observed within EEA, may be a more effective way of managing risk in this area.

3.4. Consumer Protection (GP1)

Consumers of remittances services “should have adequate rights as consumers of remittances services.”

As per the General Principles for International Remittance services, consumer protection is usually viewed in the context of error resolution and protection of customer funds. Consumer protection in this industry should be covered by sufficient complaints procedures within RSPs themselves, and this should be further supported with alternative dispute mechanisms and clear recourse processes at a national level that consumers can access should no resolution be reached with RSP. Safeguarding customer funds legislation should ensure that every licensed RSP has the internal processes in place to protect consumers’ money.

As with domestic payments, although there is no general legislation on consumer protection, banked customers are covered by the 2012 Instructions on Dealing with Customers Fairly and

45 For all money exchange business conducted outside Amman, the paid-up capital is JOD 100,000 (US\$140,000). Within Amman, the amount of paid-up capital depends on the type of company registered. For general partnership companies, JOD 250,000 (US\$350,000) is required; for limited and shareholding partnership; JOD 500,000 (US\$700,000) is required; and for other companies, JOD 1 million (US\$1.4 million), according to Article (7), The Money Exchange Business Law (no. 26/1992) at http://www.cbj.gov.jo/pages.php?menu_id=121.

46 Article (8) Money Exchange Business law (no. 26/1992) at http://www.cbj.gov.jo/pages.php?menu_id=121.

Transparently (no. 56/2012) and Articles 73, 74, and 75 of the Banking Law (no. 28/2000) relating to data protection. However, these laws do not cover customers of exchange houses.

The main laws relating to the operation of exchange houses are the Money Exchange Business Law (no. 26/1992) and the revised Money Exchange Business Law (no. 44/2015). Both laws contain limited provisions for consumer protection including safeguarding of customer funds. The cash deposit of no less than 30 percent of the paid-up capital, or a bank guarantee of JOD 100,000 (US\$140,000), is considered to be a buffer to protect customer funds in the event of insolvency.

There are several concerns regarding the safeguarding funds of exchange houses in Jordan, including the following:

- **Risk of loss of funds from the remittance float.** Customer funds are not required to be held in a segregated account from the operations account of the exchange house. This creates a risk should the exchange house become insolvent or should it use these funds for other purposes.
- **Risk of loss of funds in the case of bank failure.** The bank guarantee or cash deposit is held with a single account, creating a risk should the bank fail.
- **Risk of exchange houses being unable to hold the necessary paid-up capital in bank.** It has been reported that gaining access to a bank account has become difficult for exchange houses, because banks consider exchange house business too risky in terms of AML/CFT compliance, and therefore subject them to derisking. This, in turn, creates security risks, because some exchange houses are unable to hold their cash deposit in

a bank account or get a bank guarantee. Indeed, many exchange houses must hold the funds in cash in their branches—which is a security risk to them, their business, and the customers they serve.

As outlined in the regulatory section on domestic payments, general legislation focused on consumer protection across financial services is required in Jordan.

3.5. Transparency

“The market for remittance service should be transparent and have adequate consumer protection” (GP1).

Transparent prices and services features are crucial to allow consumers to make informed decisions about the remittances services they should use. Such information should include the total price (i.e., fees at both ends; foreign exchange rates, including the margins applied on them; and other costs to the user), the time it will take the funds to reach the receiver, and the locations of the RSP’s access points in both sending and receiving countries (General Principles, p. 21).

Although Jordan has no legislation to mandate RSPs to provide transparent information about their services, most providers do so anyway. As part of this study, mystery shopping exercises were conducted (details and findings are provided later in the report; the methodology is outlined in Annex 2) with many of the exchange houses that offer send and receive international remittances services. We found that many services providers were transparent—they provided clear information on the fee charged for the service, the foreign exchange rate, the speed of service, and pay-out locations in the receiving market. This information was provided for each product (or channel) type. However, there are still some problems. It was not always

clear whether a fee would be charged to the sender or to the beneficiary at the other end of the transaction.

3.6. Concluding Remarks

While the regulatory framework in Jordan is strong in some areas, there are important gaps.

The 2013 FATF report on Jordan's AML/CFT environment provided the regulator with useful recommendations for improvements. FATF's decision to remove Jordan from its monitoring list is a significant endorsement of the regulator's improvements.

The licensing regime for international remittances providers has been developed to take into account the specific role of exchange houses in Jordan, allowing them to become licensed, monitored and supervised by CBJ. However, when compared with other jurisdictions, some of the prudential requirements appear to be disproportionate, given the risk presented to the financial system by international remittances.

The opposite is true for consumer protection and transparency where considerable gaps remain. Areas that still need to be addressed include mandating procedures in the case of fraud and disputes (including access to an alternative dispute resolution mechanism), protecting customers' personal data, mandating that consumers have access to transparent information on the services offered, and adequately protecting customer funds.

Jordanian banks, like many banks around the world, are refusing to facilitate the deposit of cash or to provide bank guarantees to some exchange houses. This behavior has the potential to erode the buffer provided by existing regulations to protect customer funds in the event of insolvency. Furthermore, no regulation

stipulates that customer funds must be held in a segregated account.

4. Selected Corridors: Volume, Value, and Transaction Sizes

Data analysis will help to inform our conclusions as to where and how digitization might occur. Knowing the scale of the market helps to determine whether digitizing remittances is viable. Where scale is achieved, costs associated with digital channels can be drastically reduced, and providers may have opportunities to pass on these savings to consumers. Where scale is not possible, the costs to services providers can be higher than that of cash, thus reducing the appetite for introducing digital services.

As mentioned, remittances markets by their very nature are fragmented and notoriously difficult to assess, given the lack of official data on volume of transactions, value of flows, and average transaction sizes. A series of interviews with over 45 service providers in the Jordanian market provided valuable insights into transaction values and volume in the corridors studied. The main findings have been aggregated where possible and presented against the various business models employed (see Table 9). These have been separated where possible, as evidence suggests very different remittance patterns between the business models, particularly in the size of transaction and use by corridor. While the dataset is not robust enough for sizing complete corridors, it does indicate the scale of operations for some of the main providers serving Jordanian corridors.

Although such data are by their very nature approximate values that are not directly comparable, they nonetheless corroborate important findings. First, the average transaction sizes tend to be significantly lower for outbound

TABLE 9. Volume, Value and Average Transaction Size (from Market Interviews)

Country	Direction	Business Model	Volume (per month/ operator)	Value (per month/operator)	Average Transaction Size
UAE	Inbound	IMTO	Unknown	US\$26,000 (JOD 18,000)	US\$600–1,200 (JOD 430–JOD 850)
		Corresponding exchange houses and banks	5,000	US\$8.5 M–21.5 M (JOD 6 M–15 M)	US\$1,700–4,300 (JOD 1,200–3,000)
Qatar	Inbound	IMTO	Unknown	US\$20,000 (JOD 14,000)	US\$600–700 (JOD 430–500)
		Corresponding exchange houses and banks	Unknown	US\$4.2 M–8.5 M (JOD 3 M–6 M)	US\$7,000–14,000 (JOD 5,000–10,000)
Saudi Arabia	Inbound	IMTO	Unknown	US\$95,220 (JOD 68,000)	US\$600–700 (JOD 430–500)
		Corresponding exchange houses and banks	9,000–20,000	US\$30 M–90 M (JOD 21 M–64 M)	US\$1,500–14,000 (JOD 1,000–10,000)
United States	Inbound	IMTO	Unknown	US\$78,000 (JOD 55,000)	US\$325* (JOD 230)
		IMTO	Unknown	Unknown	US\$325* (JOD 230)
Egypt	Outbound	Corresponding exchange Houses and Banks	3,000–15,000	US\$1.5 M–7.5 M (JOD 1 M–5.3 M)	US\$500 (JOD 350)
		IMTO	Unknown	US\$27,000 (JOD 19,000)	US\$325* (JOD 230)
Palestine	Outbound	IMTO	Unknown	Unknown	US\$325* (JOD 230)
		Corresponding exchange houses	Unknown	Unknown	Unknown
Philippines	Outbound	IMTO	2,000	US\$500,000–1.4 M (JOD 360,000–1 M)	US\$250–700 (JOD 180–500)

*Average figure based on an approximation for all inbound and outbound corridors, given by a significant services provider in the market. Used as a proxy where value is unknown.

Note: Where figures were given in JOD, they have been converted to 2 significant figures, and vice versa.

services than that of inbound services—particularly for correspondent relationships. Second, the outbound corridor to the Philippines has significant volume through IMTOs, which is greater than World Bank bilateral remittance data would suggest. Finally, for three of the eight corridors—namely Germany, Palestine, and the United States—either little is known about volume, value, and average transaction size, or providers are not inclined to share information, making it challenging to analyze the potential for digitization in these corridors.⁴⁷

The main findings on average transaction sizes have been aggregated and divided by the value of transactions given by the World Bank bilateral remittance matrix to estimate the yearly volume of transactions by analyzed corridor (see Figure 9). While Jordan as a whole is a net receive market for international remittances, it has a significant outbound market that is underestimated. For the purposes of this study and the corridors analyzed, Jordan is a sending market by volume of transactions; this is an important finding in terms of the potential digital pilot. The finding holds true both when using the maximum average transaction size and the minimum average transaction size provided by service providers. As mentioned, it is thought that data for the Philippines and Egypt may significantly underestimate the true size of the remittance market, given the extent of informal migration in these corridors. Therefore, the volume transaction is likely greater than estimated in these figures.

4.1. Selected Corridors Features

The uptake and use of digital instruments for international payments services are driven by several factors. These include consumer education and comfort with

digital products, the supporting infrastructure to deliver funds efficiently, and the opportunity to achieve scale so that costs for providing such services are kept low. Specific features within a given corridor can also influence the use of digital solutions for payments.

The previous sections in this paper outlined estimates of the value and volume of remittances flows in these selected corridors, to assess the potential for achieving scale. In this section, we assess other market dynamics to help determine whether the digitization of remittances flows to and from Jordan is feasible.

Evidence includes interviews with service providers and two mystery shopping exercises conducted over the course of the research period. The methodology used to undertake mystery shopping is based on that developed by the Payment Systems Development Group of the World Bank and is outlined in detail in Annex 2. Key features of the approach included calling or visiting provider locations, as a customer, to obtain information on the following:

1. Fees charged for the service.
2. Foreign exchange rate, where relevant.
3. The speed of the transfer, i.e., when funds would be available for collection.

This information was collected for two sending amounts: the JOD equivalent of US\$200 (JOD 140) and US\$500 (JOD 350).⁴⁸

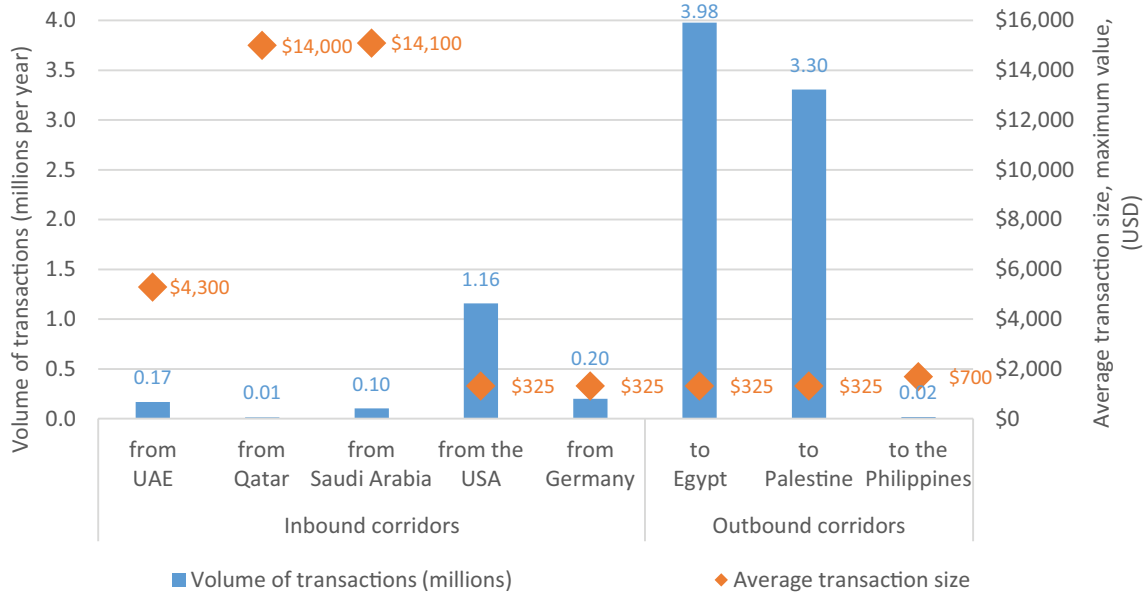
The sample for the mystery shopping was defined with the aim of covering at least 80 percent of the market (in terms of total value of a given corridor). This means that while not all service providers are included, the largest

⁴⁷ In contrast, the main IMTOs in Germany and the United States are already offering online-based services.

⁴⁸ Actual value: JOD 355. Rounded down for ease of reporting.

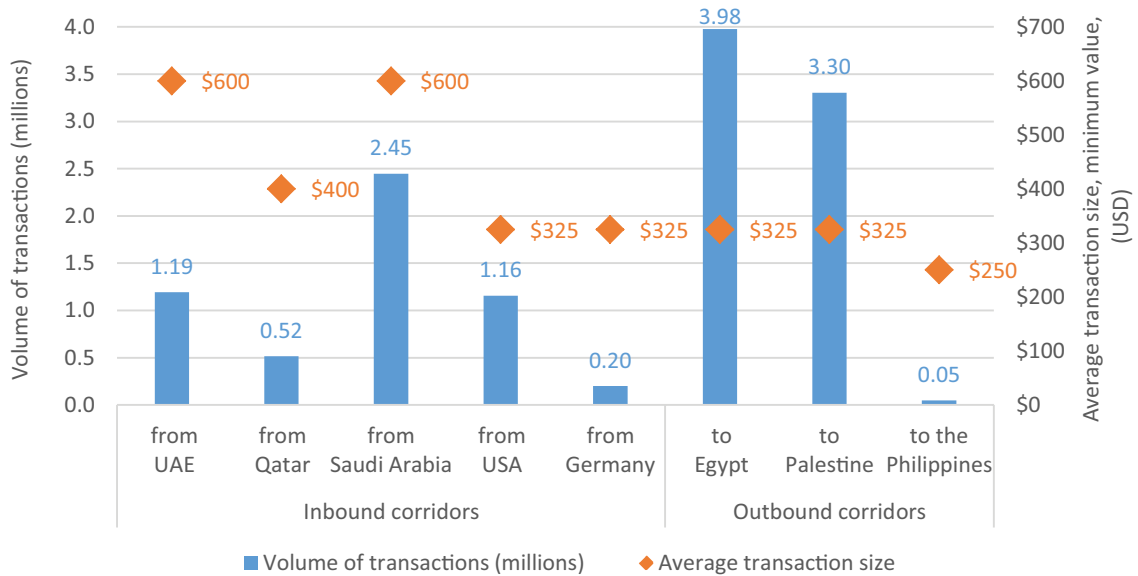
FIGURE 9. Average Transaction Size (Maximum and Minimum) and Estimated Volume per Year, by Selected Corridor

Maximum Size



Source: Research team’s calculation, based on interviews with RSPs and World Bank Bilateral Remittance Data, 2015 (accessed 09/2016).

Minimum Size



Source: Research team’s calculation, based on interviews with RSPs and World Bank Bilateral Remittance Data, 2015 (accessed 09/2016).

providers by markets share are. This ensures that data is collected for services that are mostly used by consumers sending money within a specific corridor.

4.2. Inbound Corridors

4.2.1. UAE-Jordan

1. UAE is one of the most competitive remittances markets in the world. In the UAE-Jordan corridor, exchange houses, banks, and IMTOs play a significant role. As well as being a buoyant remittances corridor, it is also a well-established trading route that has influenced the types of services and providers active in the market place. Many of the exchange houses in Jordan have multiple partners in this corridor, and some of the larger UAE-based exchange houses have developed specific remittances solutions that dominate the market. UAE Exchange, Al Ansari, and Al Fardan Exchange, which are UAE-based, all partner with a range of exchange houses and banks in Jordan. UAE Exchange is also a registered exchange house in Jordan. It operates several branches across the Kingdom.
2. While there are several cash-based solutions for sending funds from UAE to Jordan, several service providers (exchange houses and IMTOs) described the typical Jordanian remitter in UAE as white collar, highly skilled, and highly paid, who relies on bank account services.
3. It has been suggested that trade make up at least half of transactions undertaken in this corridor. Although remittances flow in one direction from UAE to Jordan, trade-related payments are multidirectional. If many of the Jordanians residing in UAE are sending funds via a bank

account, it may be that the exchange houses and a lot of the cash-based services are predominantly used for trade related payments.

4. Innovation in the remittances market is being championed by the UAE regulator. The result is an increase in the number of channels available for sending. Door delivery, remittance cards, and mobile account credit use is growing as the focus on innovation and technology within finance increases.⁴⁹ One such example is Express Money, which has partnered with MTN to allow cash-to-mobile remittances between UAE and Ghana. This example shows that a lot of the innovation happening is focused on lower-skilled workers who are remitting to Asia and Africa.

4.2.2. Qatar-Jordan

1. There appear to be two dominant providers in the Qatar-Jordan remittances corridor: both are exchange houses that have developed remittance-specific products. In Qatar, unlike in UAE, there are fewer trade-related payments and funds tend to flow only from Qatar to Jordan, and mostly for P2P transactions.
2. Profiles of senders in Qatar seem to be similar to those of senders in UAE, i.e., white-collared workers.
3. The Qatar-Jordan corridor is the only market surveyed where there is a mobile-based service (a mobile phone is used at the sending end of the transaction) provided by MoneyGram, in partnership with Ooredoo. Similarly, MoneyGram also offers mobile-wallet-to-mobile-wallet remittances services to destinations such as Kenya and the Philippines, both via Vodafone.

⁴⁹ <https://www.linkedin.com/pulse/burgeoning-uae-remittance-industry-sudhesh-giriyan>

4.2.3. Saudi Arabia-Jordan

1. Banks dominate the financial services market in Saudi Arabia. To offer remittances services, a firm either must be a bank or enter into a partnership with one. Similarly, for other digital channels, such as mobile and online payments, a bank-led approach has been adopted, which can be a barrier to entry for some providers.
2. The major IMTOs are partnering with banks to offer remittances services. This means that they can initiate transactions via a mobile banking app or online.
3. One of the major commercial banks operating within this corridor suggested that there is a significant flow of P2P transactions done via bank accounts. These tend to be high-value transactions, with the bank receiving between US\$1.4 million to 4.2 million (JOD 1 million–3 million) per day in transactions from Jordanian individuals sending to accounts in Jordan.⁵⁰

4.2.4. Germany- and United States-Jordan

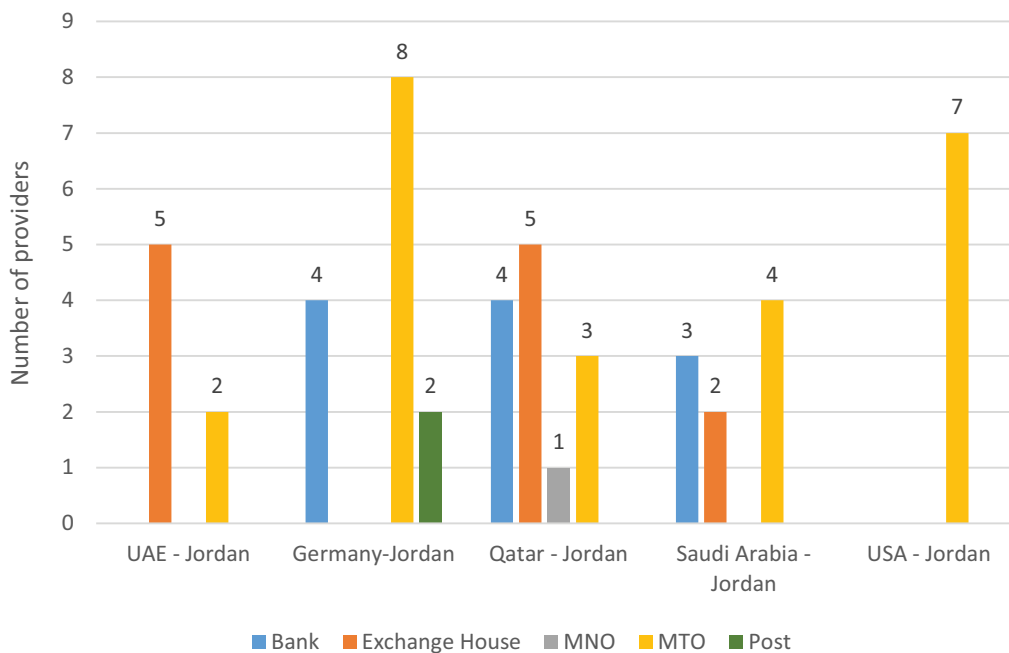
1. For these corridors, providers had very limited insights into the market because almost all transactions come through an IMTO in the form of bulk transactions from multiple send markets around the world to Jordan.
2. However, the prevalence of exclusivity agreements is important to note. Super-agents and subagents are unable to work with more than one IMTO given specific clauses in their contracts. For many markets around the world this practice is illegal. Although the issue has been raised with the regulator, the practice persists in several corridors.

4.3. Comparing inbound Markets

For inbound corridors, there is a larger set of RSPs operating in the market (Figure 10).

“Niche” operators include the post office in Germany and an MNO in Qatar.

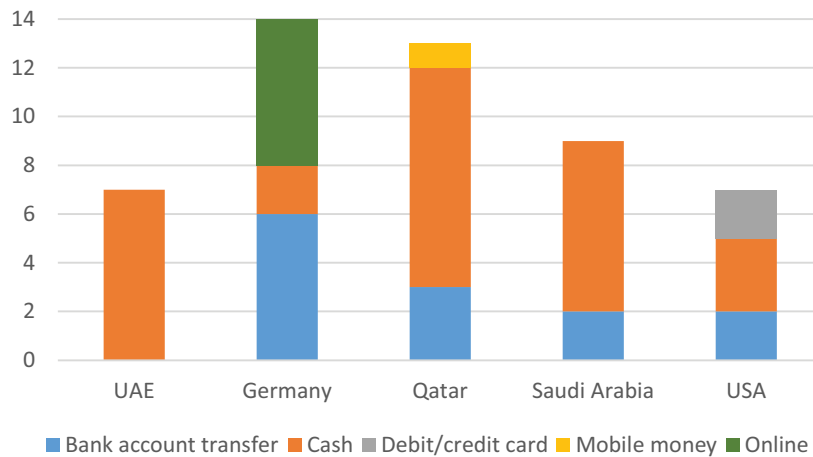
FIGURE 10. Type of Remittances Services Providers (inbound corridors)



Source: Mystery shopping, Q3 2016.

⁵⁰ In this case, it was suggested these large amounts were often from migrants who have been saving over several years and sending money back for investments, or if they planned to return to Jordan, rather than the more frequent remittances seen in other corridors.

FIGURE 11. Payment Instrument (inbound corridors)



Source: Mystery shopping, Q3 2016.

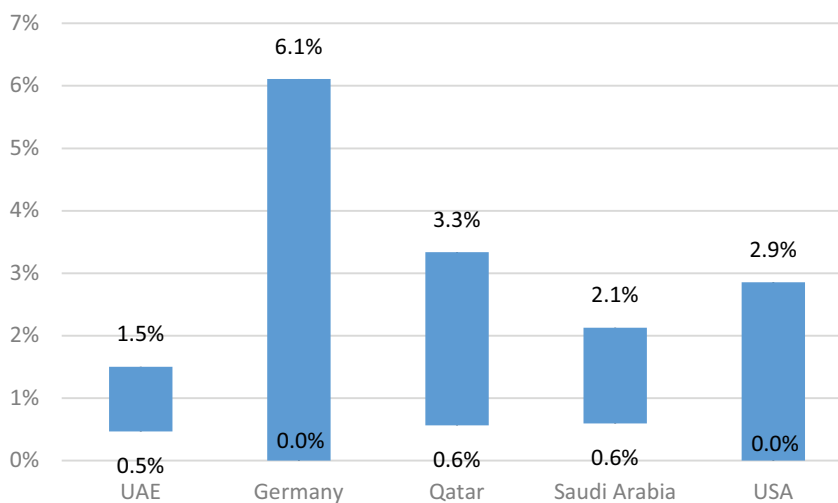
Similarly, online and card-based services are also available. They offer digital solutions for those remitting to Jordan. These services are provided mainly by Western Union and MoneyGram, who appear to be the main providers when sending from the United States and Germany. Exchange houses were present only in GCC send markets included in the sample, as these are unique to the region.

With digital channels gaining traction in markets such as the United States, it will be

interesting to observe how this segment of the market grows in comparison to other payment instruments—particularly as digital is introduced into the domestic market in Jordan (see Figure 11).

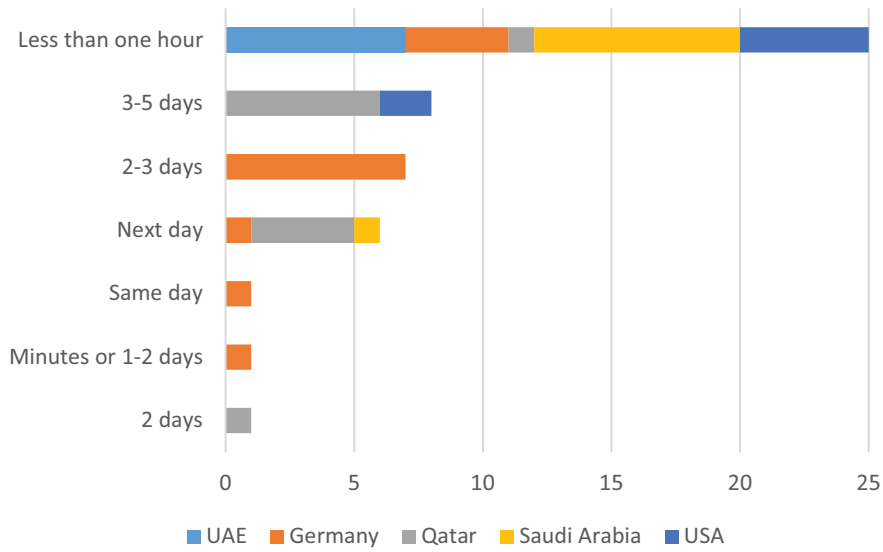
Foreign exchange fees appear to make up a large proportion of the total cost for inbound corridors. This is particularly the case in the Germany-Jordan corridor, which has a minimum and maximum foreign exchange margin of 0 percent and 6.11 percent, respectively (see Figure 12).

FIGURE 12. Foreign Exchange Margin, Minimum and Maximum (inbound corridors)



Source: Mystery shopping, Q3 2016.

FIGURE 13. Speed of Service (inbound corridors)



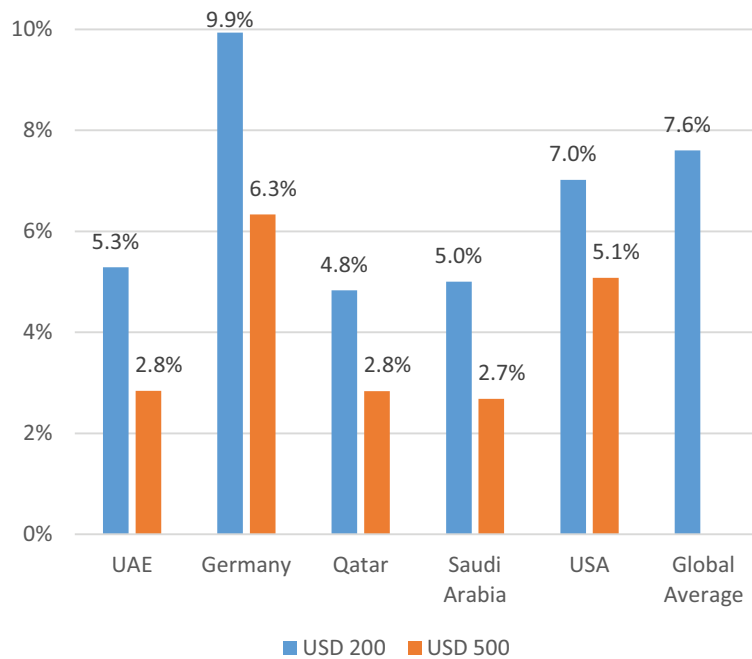
Source: Mystery shopping, Q3 2016.

A majority of services are very quick: beneficiaries are able to collect funds within one hour of the remittance being sent (see Figure 13).

As expected, Figure 14 reflects that UAE, Saudi Arabia, and Qatar were the cheapest markets for sending both US\$200

(JOD 140) and US\$500 (JOD 350). However, outbound corridors from Jordan have proven to be the cheapest markets across the eight corridors analyzed, for both US\$200 and US\$500, illustrating competitiveness of Jordan’s outbound remittances market relative to others in the region.

FIGURE 14. Cost of Services, % of Send Amount (inbound corridors)



Source: Mystery shopping, Q3 2016.

4.4. Outbound Corridors

4.4.1. Jordan-Egypt⁵¹

1. It is estimated that over 90 percent of formal remittances flows from Jordan to Egypt move from exchange houses to corresponding banks. The corridor is relatively fragmented with several exchange houses offering their services, however one corridor specialist appears to dominate the market, with a few smaller houses acting as subagents on its behalf.
2. It has been suggested that “netting-off” of balances is the predominant business model in this corridor. However, the actual extent of this practice is difficult to analyze; its very nature makes reporting and documenting a challenge.
3. IMTOs also offer services, but they struggle to compete because of their limited coverage in Egypt.
4. Anecdotal evidence suggests that the informal remittances market to Egypt is significant and potentially larger than the formal market. While there are close to 140,000 Egyptians living in Jordan under a regularized status, at least twice that number is working illegally and cannot use formal services to send money home. Furthermore, it has also been suggested that there is a general culture for sending money home with friends and family when they travel, with people saving their remittances and sending larger amounts when someone is traveling home.
5. While cash services dominate, there is a push in Egypt to transition from cash-based payments services to

digital channels, particularly mobile payments. The Central Bank of Egypt has allowed inbound remittances to be received in mobile wallets. A potential pilot for digitizing remittances from Jordan would link JoMoPay with the Egyptian mobile wallet platform, allowing for mobile-to-mobile international remittances.

4.4.2. Jordan-Palestine

1. Like Egypt, it is believed that over 90 percent of this corridor is served by bilateral partnerships, in this instance between exchange houses in Jordan and their counterparts in Palestine. It has been suggested that there is minimal movement of funds across borders, with “netting-off” of balances being the preferred operating method.
2. Cash-to-cash is the dominant channel like many of the other corridors outbound from Jordan.
3. The market appears to be relatively opaque with services providers, who are less inclined to discuss business models within this corridor.
4. The regulatory authority in Palestine is also exploring the potential for digital payments. However, opportunities for establishing a pilot in this corridor depends on the appetite of the two central banks.

4.4.3. Jordan-Philippines

1. IMTOs dominate in this corridor; exchange houses operate as agents or subagents in the value chain. Western Union and Express Money appear to be in direct competition for market share; however, it is difficult to ascertain who the market leader is.

⁵¹ Until the Egyptian pound floated in November 2016, almost all the flows to Egypt were done in U.S. dollars. Customer preference for dollar services was extremely high given the disparity between the official and parallel market for foreign exchange. Egypt had suffered a shortage of dollars in its foreign currency reserve, meaning that many of its partner banks were unable to pay out U.S. dollar remittance receipts on behalf of their exchange house partners. Some exchange houses reported up to a 40 percent decrease in transaction volume because of this, even though services in the Egyptian pound were still operational.

2. There are several direct-to-bank account services being offered; however, cash-to-cash services are the most prevalent.
3. The Philippines is one of the largest remittances receiving countries in the world. The government has developed a well-structured enabling market for receiving remittances, which includes supporting the uptake and distribution of digital channels, such as mobile wallets. The Philippines also has a strong focus on financial education of overseas Filipino workers to encourage financial inclusion. For these reasons a pilot in this corridor would be highly feasible. **Box 8** presents the findings of a focus group discussion with Filipino workers in Jordan.

4.5. Comparing the Outbound Markets

The cost of sending remittances from Jordan is low (see Figure 15). This is typical for most of the region, with send markets such as UAE and Qatar being among the cheapest send markets in the world. Based on the relatively high average send amount estimates provided, most customers within these corridors pay 2–3 percent of the value of the transaction. It would cost about US\$10–15 (JOD 7–10.5) per transaction to send US\$500 (JOD 350) from Jordan.⁵² Of the three corridors surveyed, Jordan-Palestine was the most expensive. With no foreign exchange margin for almost all the services surveyed, the relatively high total costs stem from the service fee only, which was US\$7–21 (5–15 JOD or 4–11 percent) for sending US\$200 (JOD 140 equivalent).⁵³ Most services can deliver funds to the beneficiary within 24 hours of completing the transaction.

⁵² Approximate exchange rate at time of data collection.

⁵³ Approximate exchange rate at time of data collection.

Given the dominance of cash channels within the sample (Palestine, 73 percent; Egypt, 94 percent; and Philippines, 80 percent) this is not surprising (see Figure 16).

4.6. Concluding Remarks

4.6.1. Inbound corridors

Several of the inbound corridors that were assessed are significant remittance corridors, in terms of value of remittances sent. Also, digital services prevail in the send market. These two factors suggest an environment ripe for a digital pilot.

However, research also found that remittances sent in these corridors (particularly from GCC countries) tend to be from highly skilled and highly paid middle- and high-income workers, and transaction sizes are large. A digital pilot in these corridors, therefore, is unlikely to be the best way to leverage remittances to facilitate digital payments for low-income Jordanians. The estimated transaction sizes are also outside the current transaction limits for mobile payments, although these are under review.

For Germany and the United States, more research is required to assess the potential of a pilot. It was challenging to obtain information on transaction sizes and migration trends from IMTOs.

Table 10 summarizes the readiness of inbound remittances corridors for a digital pilot.

4.6.2. Outbound corridors

Research on the outbound corridors covered in this study shows that transaction sizes tend to be lower and remittances sent more frequently than seen with inbound corridors. Also, those remitting

BOX 8. Sending Habits of Filipino Staff at a Major Hotel in Amman

The research team held a short focus group with four Filipina waitresses who worked at the Marriott hotel in Amman. The brief discussion resulted in several key findings, including the following:

1. The waitresses were recruited directly from the Philippines by the hotel. When they arrived in Amman, a bank account was set up to receive their wages. They have a two-year work permit, after which they will return to the Philippines.
2. They travel to 2nd circle (an area of Amman) every month with cash to remit money home, predominately to family members in the Philippines.
3. On average, they were sending US\$280–420 (JOD 200–300) per month.
4. In addition to their bank accounts in Amman, three of the four also had savings accounts with Banco de Ora (BDO), which is based in the Philippines, and remitted approximately half of the amount they sent directly into this account.
5. They appeared to prefer Express Money. This preference was driven by Express Money network coverage across the Philippines, particularly outside of Manila, where Western Union was described as having a relatively more limited network.
6. After network coverage in the Philippines, speed of service was a key consideration for choosing a services provider.
7. The consensus was that the fee for sending money home was approximately US\$5 (JOD 4) (1–2 percent) across all services providers. Because the pricing was perceived as being the same, price was not a factor in deciding which service to use.
8. Their choice for services was driven by the principal IMTO, and its agent network in the Philippines, as opposed to the exchange house in Jordan.

Openness to Digital

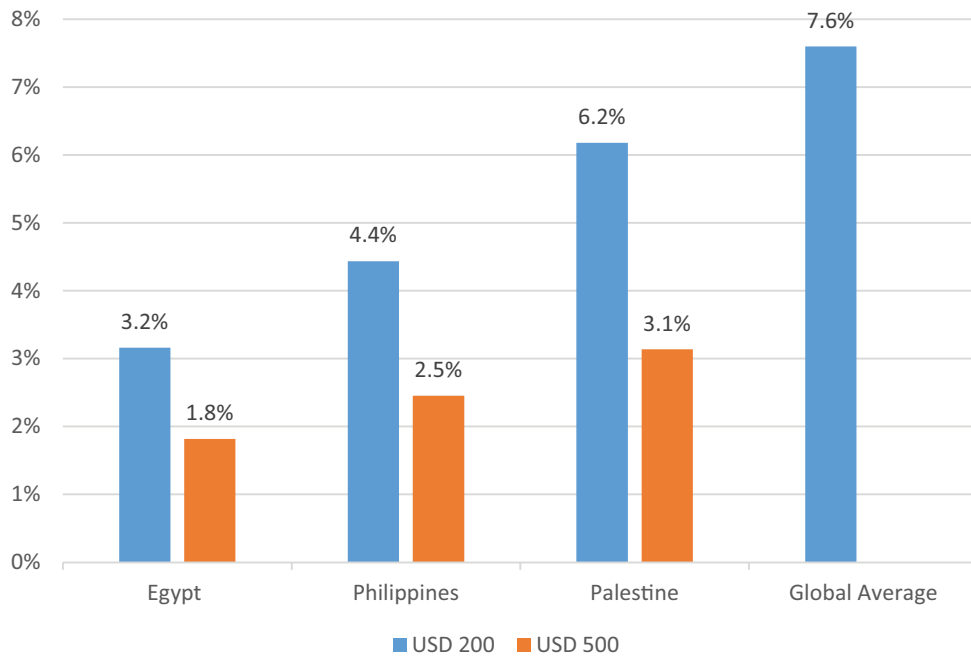
There was a high level of understanding of app-based services, and three of the four women stated that, if the opportunity presented itself, they would prefer to send their remittances via an application on their mobile phone. They cited convenience and safety as the main reasons for using digital instead of cash, if given the option. There was a view, however, that mobile payments coverage across the Philippines was low and beneficiaries would have to be able to collect funds in cash for such a service to work.

are likely to be lower income economic migrants. The World Bank's estimated corridor value underestimates the size of these corridors, partly because of the high levels of informal migration and informal transfers (particularly from

Egypt), which suggest a much higher volume of potential transfers to be captured.

However, based on interviews and the mystery shopping exercises, customers

FIGURE 15. Cost of Services, % of Send Amount (outbound corridors)



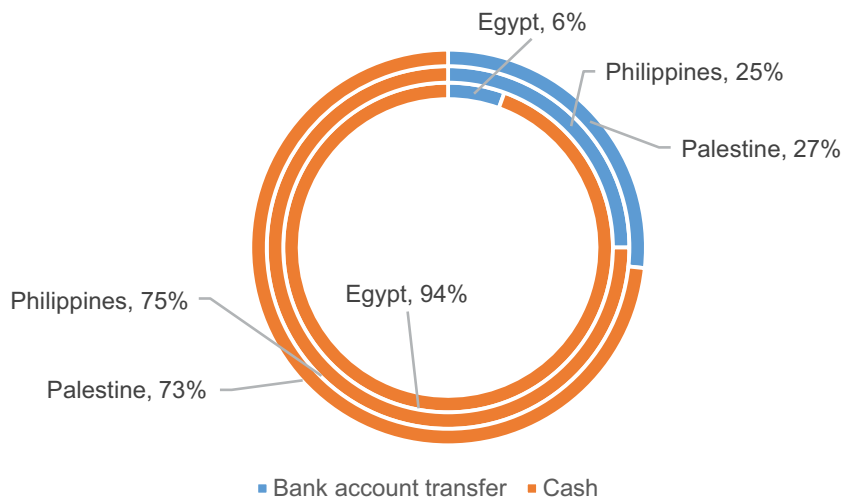
Source: Mystery shopping, Q3 2016.

are receiving relatively cheap and fast services for sending money home within the three outbound corridors included in the study. If a digital channel were to be launched, it would have to be just as competitive and convenient as the services currently offered to achieve scale. In addition, specific market features

such as extensive pay-out networks in the receive market should be provided.

Table 11 summarizes the readiness of outbound remittances corridors for a digital pilot. Table 12 puts both inbound and outbound corridors into perspective with their respective estimated market shares.

FIGURE 16. Payment Channel (outbound corridors)



Source: Mystery shopping, Q3 2016.

TABLE 10. Corridor Readiness for a Digital Pilot (inbound corridors)

Send country (to Jordan)	Digital services in send market	Size of remittance flow, 2015 ^a	Conclusion: Readiness for digital pilot	Summary
UAE	High	US\$716 million (JOD 510 million)	Low	A large corridor with regulators in UAE championing innovation in the remittances market. However, high transaction sizes and the dominance of highly skilled and highly paid workers may not make this a target market for digitization through mobile wallets.
Qatar	High	US\$207 million (JOD 150 million)	Medium	One of only two countries in this sample to already offer a mobile-to-mobile service cross-border. However, as in other GCC countries high transaction sizes and the dominance of white-collar, highly skilled, and highly paid workers may not make the Qatar-Jordan market a target for a pilot.
United States	High	US\$376 million (JOD 270 million)	Medium/high (more research needed)	A large corridor with online services already offered. However, more research is needed on the send side to understand the potential for a digital pilot cross-border.
Germany	High	US\$65 million (JOD 46 million)	Medium/high (more research needed)	Interviews suggest this to be a growing corridor, particularly in terms of Syrian refugees sending money to Jordan. However, more investigation is needed on the send side to understand the potential for a digital cross-border product.
Saudi Arabia	Low	US\$1,468 million (JOD 1,000 million)	Medium	Largest corridor inbound, but high transaction sizes and competitive pricing. Regulation for digital financial products may be a challenge. As in the other GCC countries the dominance of white-collar, highly skilled, and highly paid workers may not make this corridor a target market for a pilot.

a. World Bank bilateral remittance database, 2015.

TABLE 11. Corridor Readiness for a Digital Pilot (outbound corridors)

Receiving country (from Jordan)	Digital services in receive market	Size of remittance flow, 2015 ^a	Conclusion: Readiness for digital pilot	Justification: Summary
Egypt	High	US\$1,293 million (JOD 920 million)	High, but with several challenges	The largest outbound corridor, with relatively low transaction sizes and large flow by volume. The Egyptian Central Bank is very open to digital products, and there are active mobile wallets in the market. However, ID/CDD may be an issue for opening a mobile wallet in Jordan for Egyptian migrants, in light of the reported practice of employers keeping passports and the high incidence of irregular migration among this community. Competition from other providers is fierce and pricing is very low.
Palestine	Medium	US\$1,074 million (JOD 760 million)	Medium	A large corridor, with mobile payment services providers in Jordan already looking to enter this space. However, the current remittances market is opaque making it difficult to understand the nature of remittances habits and the potential market for a pilot. Also, there is no live MFS in Palestine.
Philippines	High	US\$12 million (JOD 9 million)	High	Several mobile money services are already operating, including cross-border. Although it is one of the smallest markets in the sample per World Bank data, research suggests significant volumes and relatively low transaction sizes. Because prices are very low, it would require scale to be interesting for a provider.

a. World Bank bilateral remittance database, 2015.

TABLE 12. High-level Overview of Value Chains by Relevant Corridor for P2P Transactions and Readiness for a Digital Pilot

Corridor	Exchange House Estimated market share, volume (%)	IMTOs Estimated market share, volume (%)	Bank to Bank Estimated market share, volume (%)	Level of informality in market (e.g., cash carrying) (%)	Readiness for digital pilot
Saudi Arabia- Jordan	40	20	30	<10	Medium
Qatar-Jordan	40	20	30	<10	Medium
UAE-Jordan	40	20	30	<10	Low
United States- Jordan	<1	70	20	<10	Medium/ High
Germany- Jordan	<1	70	20	<10	Medium/ High
Jordan- Palestine	90	5	5	Unknown	Medium
Jordan-Egypt	60	5	5	30 ^a	High
Jordan- Philippines	<1	>70	10	<10	High

a. The level of informality—particularly cash carrying—increased dramatically when banks were no longer able to pay-out U.S. dollars at the beginning of 2016, and would likely have been > 60 percent. The 30 percent, however, is an estimate excluding this period.

PART 3. MAIN FINDINGS, REMAINING CHALLENGES, AND RECOMMENDATIONS

The objective of this research was to assess the supply of payments services in Jordan to identify the best approach for digitizing the international and domestic remittances market. Identifying where an international pilot might be possible was also an integral part of the research.

As a remittances market, Jordan is unique. Its position as both a send and receive environment for migrant remittances presents both opportunities and challenges to digitizing the ecosystem. The current approach taken to enabling MFS across the country, if successful, will establish Jordan as a “best in class” example for how payments systems can be developed to improve financial inclusion and access.

Several critical features in this marketplace should be considered when exploring how best to support the digitization of payment flows within, to, and from Jordan. Key findings and barriers and challenges to achieving the objectives of this project are addressed in the following.

1. Main Findings

1.1. Domestic Payments

1.1.1. *Cash continues to dominate domestic payments*

Although CBJ has shown itself to be committed to continually upgrading and supporting the underlying e-payments infrastructure, Jordan remains a highly cash-based society. Findex data in 2014 indicates that the use of credit cards by those over 15 was below 2 percent and use of debit cards was 6 percent. Demand-side research stemming from this project also points to the prevalence of cash—only 23 percent of low-income respondents report having an ATM card and 5 percent report having a debit card.

1.1.2. *A concerted drive to transition away from cash—from both a consumer and services provider perspective—is required.*

This effort to transition away from cash will need to include financial education and a targeted marketing campaign. Partnerships will also be essential, particularly with exchange houses, given their prominent role as both domestic and international payments providers.

Finally, specific use cases, including those involving microfinance, government payments, NGO, or humanitarian organizations payments and transport, will need to be targeted. This will be essential to gaining a critical mass of users to support the business case for further investment that will ultimately allow MPSPs to reach scale.

1.1.3. *In general, Jordan’s regulatory environment for e-money issuance is sound, proportionate, and robust*

The licensing process for MPSP is robust. It covers all the critical areas in terms of risk management, apart from certain areas of consumer protection. It is also non-discriminatory, given that any institution (bank or nonbank) can apply. However, challenges that exchange houses face when they apply for an e-money license suggest that there are still obstacles to ensuring the licensing framework is nondiscriminatory in practice.

Although the initial capital requirement in Jordan may be perceived as a barrier to entry for some, it can also be seen to reflect CBJ’s requirement for sound risk management and business development—and thus is not necessarily a nonproportional response. However, it is an area to monitor, particularly if it is to impact financial inclusion in the long run.

1.1.4. Consumer protection and transparency present gaps in the regulatory environment for domestic payments

Although the *Mobile Payments Service Instructions* contains basic consumer protection regulation, there are several gaps, including lack of access to an alternative dispute mechanism for consumers, lack of data privacy regulation, and risk of consumers losing their funds in the event of bank failure.

Exchange houses that make domestic payments are not covered by either the *Mobile Payments Service Instructions* or the instructions on treating customers fairly and transparently. This creates significant gaps in the consumer protection and transparency framework.

1.2. International Remittances

1.2.1. While Jordan is a net receive market, it is also a significant send market for international remittances

It has been suggested that approximately 75 percent of the value of formal remittances are directed inbound from Jordanians who live overseas. The World Bank estimates that Jordan received over US\$3.8 billion (JOD 2.7 billion) in 2015. Outbound remittances were estimated to be far lower—close to US\$500 million (JOD 360 million) in 2015. However, research indicates that the actual value of outbound remittances is likely far greater than formal estimates suggest.

Furthermore, research on send markets covered in this study indicates that Jordan is probably a net send market, in terms of the volume of transactions. Research found that the average transaction sizes

were lower for outbound services than for inbound services and that the size of the outbound remittance flows was probably underestimated.

1.2.2. There is a highly segmented client base for sending and receiving international remittances

Research strongly suggests that Jordanians who receive international remittances, in large part, do not have low incomes. This is supported by the project’s research that indicates that only 4 percent of low-income Jordanians report receiving remittances. Rather, recipients of remittances are family members of middle- to high-income skilled workers. Typical transaction sizes of US\$1,100–5,600 (JOD 800–4,000) further supports this assertion. Most of those amounts fall outside of the current mobile wallet transaction and balance limits.⁵⁴

If low-income groups are to be brought into the formal financial sector, leveraging international remittances as the access point, the likely beneficiary would be from one of the migrant communities residing in Jordan and less Jordanian remittance receivers themselves.

1.3. Findings Related to the International Remittance General Principles

1.3.1. Market Structure and Competition (GP4)

Jordan’s international and domestic remittances market is one of the most competitive in the world

The pricing for the outbound corridors in this study, except for Jordan-Palestine, is almost half the average global price for

⁵⁴ In the demand-side survey of this project, low-income Jordanians reported receiving an average remittance of US\$334 (240 JOD), which falls within the current limits but does not represent a volume that is large enough to make a business case.

sending international remittances. Any digital financial service to be launched in this market would be competing with these low-priced services. To compete, scale will be critical.

Exchange houses face difficulties when trying to access the domestic payments system

In Jordan, as in most countries, only banks have direct access to payment settlement systems (RTGS-JO and ACH). Furthermore, as exchange houses get derisked, their ability to access these systems indirectly has become increasingly difficult. This affects the ability of exchange houses to compete on a level playing field, even with each other. It also encourages practices such as netting-off and third-party settlement (see GP2 “access to payment infrastructure”).

Anti-competitive practices prevail in Jordan’s remittances market

Several exchange houses in this study indicated that they were limited in the number of partnerships they could undertake because they did not want to lose existing partnerships. Apparently, this issue has been raised with the relevant ministries within the government, however, no decisions have been made yet to ban exclusive relationships in the market.

1.3.2. Payments System Infrastructure (GP2)

The use of the domestic payments infrastructure for international remittances is low in Jordan

Most international remittances transactions inbound and outbound to/from Jordan are not processed through standard international payments processes (SWIFT and correspondent banking). Instead, netting-off processes are often used, with limited settlements processes used only as required. Therefore, many

cross-border payments through exchange houses bypass the domestic settlements system infrastructure entirely.

Furthermore, from a cross-border standpoint, there is limited interconnectivity of payments systems for facilitating transactions. There also appears to be limited access to aggregator-based services or hubs that facilitate transactions to Jordan. The introduction of an ACH may mean that IMTOs will offer more direct-to-bank account services, using the improved domestic infrastructure. However, as it stands, these options remain very limited. Cash-based services, of significant amount and likely bypassing the domestic payments system entirely, dominate.

1.3.3. Legal and Regulatory Environment (GP3)

While Jordan’s regulatory framework for international payments is strong in some areas, there remain considerable gaps

The licensing regime for international remittances is specific enough to reflect the specialist nature of RSPs. However, when compared with other jurisdictions, some of the prudential requirements appear to be disproportionate, given the risk presented to the financial system by international remittances.

The gap between the regulations for the two actors of the domestic payments markets, exchange houses, and mobile payments providers, including the disconnect between the two supervising departments, is an ongoing concern. Addressing these gaps will likely become a greater challenge should e-money issuers become licensed to make international transfers, particularly in terms of supervision and reporting.

As for AML/CFT regulations, the 2013 FATF report on the AML/CFT environment in Jordan provided useful recommendations to the regulator on where

improvements can be made. The recent decision to remove Jordan from the FATF monitoring list is a significant endorsement of the regulator’s improvements in this area.

1.3.4. *Transparency and Consumer Protection (GP1)*

Consumer protection and transparency are areas of concern in international remittance

As with domestic payments, consumer protection and transparency are areas of concern. General legislation focused on consumer protection across financial services is required in Jordan.

Exchange houses are not covered by the provisions for consumer protection contained in the 2012 Instructions on Dealing with Customers Fairly and Transparently, which only covers banked clients. Specific risks include risk of fraud, lack of alternative dispute mechanism, risk of consumer’s private data being improperly released, and lack of regulation around disclosure of fees and terms and conditions. There are also concerns about multiple risks to safeguarding customer funds.

2. Scenarios for Connecting International Remittances to the Domestic Digital Payments Infrastructure

This section outlines four potential scenarios for digitizing international remittances in the Jordanian market. The scenarios focus on several critical areas, based on key findings from the study’s supply-side assessment:

- Linking the current international remittances market, which is dominated by exchange houses and is cash-based, into the domestic payments infrastructure.

- Ensuring that a sound, predictable, nondiscriminatory, and proportionate regulatory environment is created while protecting the security and credibility of the digital payments infrastructure.
- Digitizing the market without eroding current positive aspects of the remittances market, including low average total costs for international money transfers services.
- Adhering to the general principles of international remittances, with a specific focus on ensuring a competitive market structure while also achieving scale.

Results from the assessment suggest that, in terms of volume of remittances, Jordan is a significant send market. Inbound remittances have large average transaction sizes, are usually made by white-collar workers, and are often sent through bank accounts in the send market. However, outbound remittances tend to have a lower average value and be made in cash through exchange houses. For these reasons, the scenarios are based on the objective of digitizing outbound P2P payments—where this report has found the potential and need to be greater. They are not ranked in any specific order.

These scenarios describe the operational process for digitizing international remittances. The user experience would be a much simpler process, with consumers simply initiating the transaction on a mobile money app, in a similar way to if they were initiating a domestic mobile money transfer.

2.1. Scenario 1: Exchange Houses Become Licensed as MPSPs

This scenario focuses on assessing the viability of digitizing remittances through exchange houses by establishing new

legal entities that are licensed MPSPs that can issue e-money.

Overview

The new entity can create its own branded mobile wallet and connect to JoMoPay to offer international remittances services. A service agreement between the original exchange house and the new legal entity would have to be created so that the new entity can leverage the partnerships and experience of the original exchange house.

Main features

1. The first mile of the transaction would be handled by the new entity as a domestic transaction.
 - a. The payment would be initiated by consumers through their mobile wallet.
 - b. The transaction would pass through JoMoPay to be received by the exchange house from the new entity into its own mobile wallet or bank account, as a P2B transaction.
2. The second mile of the transaction would be handled as a traditional money transfer.
 - a. The transaction is facilitated by a bilateral relationship with an IMTO or through a direct partnership with a receive network in the recipient's country.
 - b. The exchange house will settle and clear the transaction via:
 - i. A direct partnership with a pay-out network in the receive countries. In such cases, the exchange house will usually prefund the anticipated volume of remittances to be paid out in the receive market over a given period.

- ii. A direct partnership with an IMTO. Here the exchange house will settle funds into the allocated bank account of the IMTO.

3. The third or last mile of the transaction will be paid out via the chosen payment instrument, cash, mobile wallet, bank account, card, or any other instrument able to receive remittances in the country in question. The pay-out partner will do this.

Where exchange houses can meet the minimum requirements for becoming an MPSP, the licensing application process will take time. This is therefore a medium- to long-term solution.

Advantages

- Exchange houses are currently allowed to apply to set up new legal entities to become MPSPs and so no change in regulation would be required.
- Consumers would be able to access the services of the exchange house's new entity through their mobile phones, with exchange house's often well-known and trusted brand appearing on the app.
- A well-trusted brand that offers mobile payments may increase scale and uptake of mobile payments generally, but will increase the likelihood of digitizing international remittances, specifically.
- The market structure created would be both competitive and nondiscriminatory, with exchange houses able to compete directly with MPSPs, particularly if implemented in conjunction with Scenario 3.
- The security and credibility of JoMoPay will not be jeopardized, because each exchange house would have

to meet the minimum licensing requirements to become an e-money issuer. Also, the international part of the transaction would not pass through the JoMoPay switch.

Areas of potential concern

- Exchange houses will need to meet licensing requirements to become an MPSP in Jordan, including minimum capital requirements. While this ensures the credibility of JoMoPay, it will mean that only a few exchange houses will have the financial strength to apply.
- Smaller and niche exchange houses, which dominate certain corridors, would almost certainly be excluded from the process. This could result in only particular corridors having a digital option for international remittances.

Actions needed from the Central Bank of Jordan

- Ensure exchange houses are aware they can apply for a license to become an MPSP.
- Clarify whether this scenario is possible under existing regulations, and release instructions detailing the process, including whether the domestic part of the transaction would be classified as P2B or P2P, as this will affect transaction limits applied.
- Close coordination between the Exchange House Department and the Payments System Department, including clear guidance and instructions in areas such as transaction sizes, AML/CFT, and monitoring and reporting for international payments. This guidance should be required for all MPSPs that want to make international payments (Scenario 3).

2.2. Scenario 2: Licensed MPSPs Become Agents of Exchange Houses

Rather than exchange houses becoming licensed MPSPs, MPSPs would become an agent of an exchange house.

Overview

The main tenets of the value chain would be as is outlined in Scenario 1, with the only difference being an additional stakeholder (the MPSP), who is responsible for facilitating the first mile of the transaction through the JoMoPay system.

Advantages

- As with Scenario 1, there would be no regulatory changes required to operationalize this scenario.
- Consumers will be able to access the exchange houses and their international and domestic pay-out locations through their mobile phone, with a known and trusted brand appearing on the app. This could increase scale and uptake for digital international remittances, thus rapidly leveraging trust already built between consumers and exchange houses.
- Shorter time frame than Scenario 1. Exchange houses will not be required to apply for a license and meet the minimum standards for an MPSP.
- Smaller exchange houses could participate, thus increasing competition and widening the scope for outbound corridors, particularly with smaller, niche exchange houses.

Areas of potential concern

- Creates an additional stakeholder in the value chain, which could increase costs to consumers.

- Multiple wallets could be confusing for consumers and may also be costly for MPSPs.

Actions needed from the Central Bank of Jordan

- Confirm that this scenario is possible under existing regulations.
- Like Scenario 1, release instructions detailing the process, including whether the domestic part of the transaction would be classified as P2B or P2P.
- Close coordination between the Exchange House Department and the Payments System Department would be required, particularly in terms of supervision and monitoring.

2.3. Scenario 3: MPSPs Create Their Own Digital International Remittances Services, Linking into IMTOs or Hubs

Overview

Licensed MPSPs create their own bilateral relationships with pay-out networks in receive markets, and/or become IMTO agents, and/or connect to payments hubs to offer their own international remittances services from their existing wallets.

Advantages

- Increase the number of service provider types that offer international remittances services so that consumers have more choice. As mentioned, currently, there are limited payments options for international remittances outbound from Jordan, with services almost exclusively offered by exchange houses, and banks playing a small role.
- The indirect costs of international remittances can be significantly

reduced by enabling mobile wallets to facilitate international remittances. These costs include travel time, risk of loss or theft of funds.

- If done in conjunction with scenarios 1 and 2, this scenario would create a competitive and neutral market structure that allows MPSPs to compete with exchange houses in the international remittance market, while also working with them, where it is to their benefit.

Areas of potential concern

- This scenario could perpetuate the disconnect between the digital payments infrastructure and the international remittances market. As this research has demonstrated, exchange houses play a dominant role in the international remittances market in Jordan, particularly for outbound payments. While enabling MPSPs to offer international remittance services will invariably increase choice, it might not go far enough in digitizing current flows. Exchange houses have the benefit of being trusted by consumers, of offering cheap and fast money transfer services. Thus, to truly digitize the consumer base, it is our view that the predominant service provider must be digitized also.

- As mentioned, excluding exchange houses would make achieving scale difficult, given both the volume of remittances, which are handled by exchange houses, and the trust consumers have in them.

Actions needed from the Central Bank of Jordan

- The Payments Systems Department will need to allow MPSPs to make international remittances transactions, under their existing licenses. The department would need to issue

an instruction that should also include clarification on issues such as transaction sizes, AML/CFT and monitoring and reporting for international payments for MPSPs.

2.4. Scenario 4: JoMoPay Links Directly with International Remittances Hubs and Aggregators

Overview

JoMoPay would link directly to a select number of hubs (e.g., TerraPay, HomeSend, TransferTo etc.) that meet minimum reporting, supervision, and technical standards. This would be the first example of a national mobile payments switch integrating with a private international remittances hub, to facilitate international remittances transactions.

Main features of the scenario

- The first mile of the transaction would be initiated on any international remittances enabled wallet, passing from the MPSP to JoMoPay.
- JoMoPay would settle with the hub directly at the second mile of the transaction. It is likely that JoMoPay would have to prefund its settlement account with the hub, anticipating estimated total transaction value over a set period.
- While on an aggregate level prefunding the hubs would be done via JoMoPay, funds would be provided by the individual MPSPs that choose to offer international remittances services.
- The hub will be responsible for clearing and settling the transaction with the appropriate pay-out network integrated at the third mile of the transaction, for funds to be collected by the beneficiary in the last mile.

Advantages

- The Payments System Department could potentially monitor all international transactions through the JoMoPay System.
- Each licensed MPSP would have equal access to hubs, and therefore to the hubs' international pay-out networks.
- It would be easy to “switch on” Jordan for inbound remittances and transmit lower-value transactions directly into a wallet.

Areas of potential concern

- If this scenario is not done in conjunction with scenarios 1 and 2, exchange houses would be excluded from the digital payments ecosystem, which would minimize the percentage of remittance volumes migrating to a digital channel.
- If JoMoPay links with a limited number of hubs, it would be easier to monitor; however, this would effectively create a monopoly or oligopoly, whereby only one or two hubs control access to JoMoPay and MPSP wallets.

Actions needed from the Central Bank of Jordan

- This scenario requires significant actions by CBJ (or private owner of JoMoPay), including forming partnerships with hubs (e.g., setting minimum standards for integration) and developing the technical interface itself (usually done through an application program interface).

2.5. Concluding Remarks

Each of these scenarios is not exclusive. Different scenarios need to take place at the same time to create and maintain an open and competitive marketplace. Giving exchange houses the chance to

become MPSPs, where possible (and agents where not), and allowing MPSPs the opportunity to create their own networks would create a competitive and nondiscriminatory market structure. This in turn would benefit consumers, not just through a lower price, but also through the use of the network of exchange houses, which offers a large, trusted, and known brand for pay-out options internationally.

However, these scenarios have limitations. Regulating and supervising exchange houses as MPSPs and agents of MPSPs will require close cooperation between the Exchange House Department and the Payments Systems Department. Careful consideration will need to be given to how best this could be executed.

3. Challenges and Recommendations

While there is a clear opportunity for digitizing domestic and international remittances several barriers need to be overcome. The following addresses some of these challenges and provides recommendations for each.

For each recommendation, an approximate timeline has been provided, as shown in the following:

- Level 1—Short (<12 months to implement)
- Level 2—Medium (1–3 years to implement)
- Level 3—Long (>3 years to implement)

3.1. Challenges to Digitizing Domestic Payments

Challenge 1: Addressing Demand-Side Challenges and the Continuing Cash Culture

The ongoing preference, and culture, of cash and limited trust in financial services is a real barrier to introducing new nonbank, nonexchange house financial institutions into the market. It continues to create a gap between innovative new payments infrastructures and how payments are actually being made.

Recommendations

Conduct above- and below-the-line marketing campaigns	Timeframe: Medium
--	--------------------------

There needs to be a national marketing campaign for JoMoPay, and for digital payments in general. Marketing will be critical. The marketing message about DFS’s role in the marketplace should emphasize the innovative approach to “small payments for all and not just for the poor or excluded.” In addition, more targeted financial literacy campaigns should be launched. These should focus on using DFS and its benefits, should target specific market segments, particularly low-income Jordanians, Syrian refugees, and other migrant groups.

Support the digitization of large-volume transactions	Timeframe: Short
--	-------------------------

It is important to encourage and support digitization and use of high-volume payments (e.g., transport, NGO, government, MFI) to drive volume in mobile payments. Key institutions need to be made aware of the benefits of mobile wallets and value-added services, such as eFAWATEERcom, need to be seamlessly integrated into the marketplace.

Support the development of an acceptance network	Timeframe: Medium
---	--------------------------

Building acceptance of DFS for the purchase of goods and services throughout Jordan is a significant milestone that must be achieved for uptake to reach its full potential. However, to create a fully digital ecosystem, and to reduce the use of cash, investments in expanding and enabling the acceptance network for mobile payments is required.

Challenge 2: Developing an agent network with significant national coverage

In view of the relatively new nature of MFS, developing and supporting an extensive agent network and agent training will be critical. The problem agents face in maintaining liquidity during the launch of a new MFS product needs to be solved, because agent liquidity is closely connected to consumer trust in and use of a service.

Recommendations

Supporting ATM network upgrades

Timeframe: Medium

In Jordan, access to ATM networks for cash-in and cash-out will be an innovative way to manage liquidity in the ecosystem. However, this requires significant investments from banks, which is unlikely unless there is a compelling business case for how this will positively impact their bottom-line. Therefore, short-term donor funding may be needed to launch the Jo-Net (the ATM network) and JoMoPay connection.

Involving exchange houses in the domestic digital payments ecosystem

Timeframe: Short/Medium

Exchange houses have a network of 256 branches throughout Jordan. The network facilitates a significant amount of domestic P2P and trade-related payments. However, the exchange houses (neither as agents nor licensed MPSPs) are not part of the new digital ecosystem, and they continue to largely operate in cash. Ensuring that exchange houses are able to become agents to MPSPs in practice (and, in the long run, licensed as MPSPs themselves, where possible) will help to create a larger and trusted agent network, and will help to bridge the gap between the number of current payments made in cash, and the new digital ecosystem that is being created.

Challenge 3: Enacting consumer protection regulation for domestic e-money issuance

Although the JoMoPay Service Instruction contains basic consumer protection rules, these lack the depth required to ensure consumer protection in complex situations, particularly if significant uptake is achieved. Gaps include mandating transparency, ensuring data protection, and mitigating risks over the loss of customer funds in the event of bank failure.

Recommendations

Supporting CBJ to ensure effective legislation is developed in the short term

Timeframe: Short

Consumers need to be protected as soon as possible; market standards and detailed practices need to be developed. This is particularly important given the ambitious plans to scale services quickly and the reticence and lack of trust observed among the consumer base for digital payments.

3.2. Challenges to Digitizing International Payments

Challenge 1: Both the inbound and outbound remittance market are almost exclusively cash-based, with limited digital options.

The remittances market in Jordan is highly cash-based, and has limited digital options for both inbound and outbound services. As with domestic payments, this is creating a gap between the payments infrastructure and how payments are actually being made. Exchange houses, which make up a large proportion of the market for international remittances, offer almost exclusively cash-to-cash services (although some larger ones offer a SWIFT direct to bank service).

The introduction of the ACH may mean that IMTOs offer more direct-to-bank account services, using the improved domestic infrastructure. However, exchange houses, particularly smaller and niche ones operating in certain corridors, may struggle to access this service because of the derisking environment and the loss of bank account access.

Recommendations

Connect international remittances to the JoMoPay system

Timeframe: Medium/Long

Given the unique, innovative, and interoperable JoMoPay system, international remittances should be digitized and integrated into the JoMoPay system. CBJ would like this to happen once there is evidence of domestic uptake. Given that the focus of this research is on facilitating financial inclusion for low-income groups and based on the analyses of customer segments, the scenarios that were developed emphasized the outbound market. As noted, several scenarios are possible. Allowing different scenarios to happen at the same time would create a competitive and nondiscriminatory market structure, in line with the General Principle of International Remittances.^a

Conduct further research into partnerships in pilot receive markets

Timeframe: Short

The two markets suggested for a pilot based on market scoping are the Philippines and Egypt. Both could have a complete digital solution, but further investigation into potential partnerships, costs, and consumers in the Philippines and Egypt, including an analysis of the scenarios mentioned and their impact, would be required to develop a product that best meets customer's needs.

Encourage cooperation between the Payments System Department and Exchange Houses Department

Timeframe: Short

The Payments System Department and Exchange Houses Department exist as two separate departments, with limited cooperation between them. An attempt to bridge this gap and to encourage cooperation, particularly in terms of licensing and supervision, would allow for a more streamlined payments system in Jordan, and would facilitate the possibility of exchange houses becoming part of the digital payments ecosystem, both for domestic and international payments.

a. See <http://www.bis.org/cpmi/publ/d76.pdf>.

Challenge 2: There remain areas of concern for the protection of consumers in international payments, particularly the safeguarding of funds

There remain some gaps in the regulatory environment for international remittances in Jordan, particularly relating to safeguarding of customer funds. This could be an area of particular concern in terms of digitizing the value chain if exchange houses become agents of IMTOs (Scenario 2). In this case, the international part of the transaction may still fall under money exchange laws, rather than JoMoPay instructions.

Recommendations

Assist with the introduction of consumer protection laws for money exchange businesses, with a focus on safeguarding customer funds

Timeframe: Short

As with domestic e-money issuance, consumers need to be protected as soon as possible and a market standard and detailed practice needs to be developed for international remittances made under the money exchange law.

Recommendation: Outlaw exclusivity in international remittance contracts

The Ministry of Industry and Trade should take steps to outlaw exclusivity clauses in international remittances contracts, allowing agents of IMTOs the opportunity to partner with multiple institutions should they wish. Such a change would be in line with international standards for international remittances markets, including, the General Principles for International Remittances.

ANNEXES

1. Regulatory Comparison— EU Directives and Jordan

The tables A-1 through A-9 provide a detailed overview of a comparison of EU directives that regulate the eMoney

issuance and payment services, including international remittances in Europe and Jordan Regulatory Environment for eMoney issuance and international remittances

TABLE A-1. Overview of the Initial Capital Requirements for E-Money Issuance in Jordan and within EEA

	Jordan	EEA
	Extracted from Mobile Payment Service Instructions	Extracted from Electronic Money Directive (EMD) (2009/110/EC)
Institution Type	Third-party payments services providers (PSPs)	Third-party e-Money Issuers (EMIs)
Number of licenses issued (as of 2016)	5	UK: 60 EU: >100
Initial capital Requirements	JOD 1.5 million (approximately US\$2.1 million) ^a	EUR 350,000 (approximately US\$370,000) ^b
On-going capital requirements (own funds)	No specific on-going capital requirements, aside from initial paid-up capital of JOD 1.5 million, which must be kept as capital on the balance sheet, but does not need to be held in cash.	Must maintain at all times own funds equal to initial capital requirements (EUR 350,000), or 2% of the value of average outstanding e-money, whichever is greater ^c

a. Article (4) Mobile Payments Services Instructions.

b. Article (4) directive 2009/110/EC of the European Parliament and of the Council (2009).

c. Article (5) directive 2009/110/EC of the European Parliament and of the Council (2009).

TABLE A-2. Comparison of Licensing Process and Agent Regulation, EEA and Jordan

	Jordan	EEA
	<p>Extracted from Mobile Payment Service Instructions</p> <p>The license should include:</p> <ol style="list-style-type: none"> 1. Name, proposed memorandum and article of association, and the company's headquarters 2. Names and nationality of each of its founders/shareholders, the nature of their activities, and the amount and percentage of their direct or indirect share in the company's capital 3. The company's authorized capital 4. A description of the nature of the services to be provided by the company and the technology it will use 5. The company's business plan and the contractual terms it will adopt with its agents 6. Information security and protection policy 7. The company's policy for handling customer service and customer complaints 8. The AML/CFT policy 9. The qualifications of the members of the board of directors, management committee, internal auditors, and external auditors 10. The settlement bank that will be contracted 11. Any other requirements as deemed appropriate by CBJ^a 	<p>Extracted from Payment Services Directive 2 (PSD2); (Directive (EU) 2015/2366)</p> <p>An application is made to the home member state financial regulator. The process should include:</p> <ol style="list-style-type: none"> 1. Description of operation 2. Business plan 3. Evidence of initial capital 4. Description of measures for safeguarding customer funds 5. Governance arrangements and internal control mechanisms 6. Description of the procedure in place to monitor, handle, and follow up a security incident 7. Process to file, monitor, track, and restrict access to sensitive data 8. Description of business continuity arrangements 9. Details of the collection of statistical data on performance, transactions, and fraud 10. Detailed risk assessment 11. Money laundering and financial crime controls 12. Structural organization, including agents and branches 13. Details of statutory auditors and audit firms 14. The applicant's legal status 15. The address of head office^b
Licensing process		
Regulations relating to agents	<p>The e-money issuer is required to regulate the relationship between it and its agents through written agreements that indicate the roles and responsibilities of each party under the agent's guidelines issued by CBJ</p> <p>The e-money issuer is also required to provide CBJ with information on its agents</p>	<p>All agents must be vetted for governance and compliance purposes. They are approved by the local regulator and published on a register.</p>

a. Article (5) Mobile Payments Services Instructions.

b. Article (5) Payments Services Directive 2 (PSD2) (Directive (EU) 2015/2366).

TABLE A-3. Comparison of Protection of Customer Funds, EEA and Jordan

	Jordan	EEA
Safeguarding consumer funds	<p>Extracted from Mobile Payment Service Instructions</p> <p>The Mobile Payment Service Instructions ensures the protection of consumer funds by requiring MPSPs to deposit 100% of e-money issued into a pooled account (settlement account) held at a licensed bank.^a</p> <p>Previously, nonbank MPSPs were also required to obtain a bank guarantee for the amount of e-money they plan to issue.^a This was intended to cover the risk of loss of customer funds in the event of an MPSP's insolvency.</p> <p>However, following amendments to Article (50) of the CBJ Law, and the issuance of the CBJ's instructions of 2017 the requirement for a bank guarantee has been revoked. Customer funds are now automatically protected from creditors when placed in escrow at the settlement account. The balance of the escrow account is required to always be equal to or exceed the e-money issued, and it is not subject to liquidation under PSP bankruptcy.</p>	<p>Extracted from Electronic Money Directive (EMD) (Directive 2009/110/EC) and Payment Services Directive (PSD2) (Directive 2015/2366/EC)</p> <p>E-money institutions must safeguard funds that have been received in exchange for e-money that has been issued to the value of EUR 1:1 Electronic EUR (or relevant currency).</p> <p>Two safeguarding options apply. An EMI can either:</p> <ol style="list-style-type: none"> (1) keep relevant funds segregated from any other funds that it holds, by: <ol style="list-style-type: none"> (a) placing them in a separate account that it holds with an authorized credit institution; (b) investing the relevant funds in secure, liquid, low-risk assets (relevant assets) and place those assets in a separate account with an authorized custodian. <p>Or</p> <ol style="list-style-type: none"> (2) ensure that any relevant funds are covered by: <ol style="list-style-type: none"> (a) an insurance policy with an authorized insurer; (b) a guarantee from an authorized insurer; or (c) a guarantee from an authorized credit institution; and the proceeds of any such insurance policy or guarantee must be payable upon an insolvency event into a separate account held by the e-money issuer.^b

a. Article (8) Mobile Payments Services Instructions

b. Article (10) Payments Services Directive 2 (PSD2) (Directive (EU) 2015/2366/)

TABLE A-4. Comparison of Consumer Protection Regulation, Jordan and EEA

	Jordan	EEA
Consumer protection	<p>There is no general law relating to consumer protection in Jordan, and no specific financial consumer protection regulations, besides the 2012 Instructions on Dealing with Customers Fairly and Transparently. These instructions, however, cover only customers with bank accounts. Basic consumer protection rules are also covered in the mobile payments services instructions. CBJ is working to create a by-law for e-payments that would include issues such as conflict resolution, dispute management, fraud protection, and redress.</p>	<p>All relevant information, including costs, account charges, and other relevant matters, must be made available before transactions. Consumers have strong rights.</p>

TABLE A-5. Comparison of Transaction Limits and AML/CFT Requirements, Jordan and EEA

	Jordan	EEA
	<p>Extracted from Mobile Payment Service Operational Framework</p>	<p>Extracted from Directive (EU) 2015/849 of the European Parliament and of the Council</p>
Transaction limits	<p>Upper limit depends on type of transfer. For example, P2P maximum transfer is JOD 200 (US\$280) for a banked client and JOD 100 (US\$140) for an unbanked client, while G2P maximum transfer is JOD 700 (US\$990) for both banked and unbanked clients. The monthly transactions limit is JOD 2,000 (US\$2,820) and the monthly balance limit for an unbanked client is JOD 1,000 (US\$1,400).^a Limits are being revised.</p>	<p>No upper limit; however, enhanced KYC requirements apply for various transaction amounts.</p>
AML/CFT requirements	<p>Nationally issued ID for Jordanians, passport for non-Jordanians. There are plans to accept the UNHCR card to open mobile wallets. The Anti-Money Laundering and Counter Terrorist Financing Law (46/2007), which established the Anti-Money Laundering and Counter Terrorist Financing Unit, also applies to MPSP. However, no specific instructions have been issued.</p>	<p>EU-wide KYC/AML rules for financial services (including e-money products) are covered by Directive (EU) 2015/849 “on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.” Under this directive, enhanced due diligence must be taken for all transactions over EUR 1,000 (US\$1,100) and cumulative of EUR 15,000 (US\$16,000).^b Some countries introduced lower limits.</p>

a. Section (7) Mobile Payments Services Operational Framework.

b. Article (2). Directive (EU) 2015/849 of the European Parliament and of the Council.

TABLE A-6. Comparison between Jordanian Regulations on Transaction Limits and AML/CFT Requirements in EEA

	Jordan	EEA
	<p>Extracted from Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies, no. 2/2010</p>	<p>Extracted from Directive (EU) 2015/849 and Regulation (EC) no. 1889/2005</p>
CDD requirements	<p>For exchange houses when transfers exceed JOD 700 (US\$987), a passport number is needed for non-Jordanians, and an ID number for Jordanians, as well as a permanent address of residence. Due diligence is also required if one exchange transaction—or several transactions that appear to be linked—exceed JOD 10,000 (US\$14,000). Enhanced due diligence is also required on customers from countries that do not have appropriate AML/CFT requirements, customers who are not residents in Jordan, politically exposed persons, and customers who are dealt with indirectly (e.g., through the internet or mobile phone)^a</p> <p>For banks, CDD is required if the value of a transaction or a number of transactions that seem to be related exceed JOD 10,000 (US\$14,000) or the equivalent thereof in foreign currency and for any electronic transfer transaction regardless of the value.^b</p>	<p>Under EU wide AML/CFT legislation, enhanced due diligence must be taken for all transactions over EUR 1,000 (US\$1,100) and cumulative of EUR 15,000 (US\$16,000).^c While not enhanced CDD, some countries have introduced lower limits e.g. the Netherlands, who require that ID be presented for all international remittances transactions, irrespective of the amount being sent. There appears to be a trend of requiring ID for all remittance transaction irrespective of amount. Similar requirements for receiving remittances within EEA (however these are mainly sending markets for low value P2P transactions).</p>
Internal controls	<p>All exchange houses are required to establish a proper internal system that includes written guidance to detect and prevent suspicious transactions related to AML/CFT, they are also required to establish an automatic system to link transactions and give indicators of suspicious transactions, and to conduct employee training regarding AML/CFT.^d However, providing information on a company's internal controls related to AML/CFT is not part of the official licensing process.</p>	<p>Member states are required to ensure that PSPs have in place policies, controls, and procedures to mitigate and manage the risks of money laundering and terrorist financing. Controls and procedures include model risk management practices, CDD, reporting, record-keeping, internal control, compliance management (including, where possible, the appointment of a compliance officer at management level), and employee screening.^e Providing information on a company's internal controls related to AML/CFT is also part of the licensing procedure.</p>

(Continued)

TABLE A-6. Comparison between Jordanian Regulations on Transaction Limits and AML/CFT Requirements in EEA (Continued)

	Jordan	EEA
	<p>Extracted from Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies, no. 2/2010</p>	<p>Extracted from Directive (EU) 2015/849 and Regulation (EC) no. 1889/2005</p>
Reporting requirements	<p>All exchange houses are required to prepare files for suspicious transactions related to AML/CFT and to hold these records for at least five years. All exchange houses must designate an employee to assume the responsibility of reporting suspicious transactions related to AML/CFT. Should this person learn of any transaction suspected of AML/CFT violations, the person is required to immediately notify the unit.^f</p>	<p>All PSPs are required to</p> <p>(a) Inform the relevant unit in country, on their own initiative, where they suspect AML/CFT violations, regardless of the amount.</p> <p>(b) Provide the relevant unit in country, directly or indirectly, at its request, with all necessary information.^g</p>
Cash carrying	<p>For those entering Jordan, the maximum limit of funds that can be carried as cash and does not require the holder to submit a declaration form is JOD 15,000 (US\$21,000). However, there is no limit on the transfer of cash on leaving Jordan.^h</p>	<p>For those entering and leaving the EU, the maximum limit of funds that can be carried as cash and does not require the holder to submit a declaration form is EUR 10,000 (US\$11,000).ⁱ</p>
	<p>a. Article (3), (4) and (5) Regulation Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies no. 2/2010.</p> <p>b. Article (3) Anti Money Laundering and Counter Terrorist Financing Instructions no. 51/2010.</p> <p>c. Article (10)-(24) Directive (EU) 2015/849. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L0849&from=EN</p> <p>d. Article (6) Regulation Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies no. 2/2010. http://www.amlu.gov.jo/Portals/0/English/03%20Anti%20Money%20Laundering%20and%20Counter.pdf</p> <p>e. Articles (45) and (46) Directive (EU) 2015/849. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L0849&from=EN</p> <p>f. Article (8) Regulation Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies no. 2/2010. http://www.amlu.gov.jo/Portals/0/English/03%20Anti%20Money%20Laundering%20and%20Counter.pdf</p> <p>g. Articles (33), (34), and (35) Directive (EU) 2015/849. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L0849&from=EN</p> <p>h. Article (3) The Cross-border Moveable Money Declaration Instructions no. 4/2011.</p> <p>i. Regulation (EC) no. 1889/2005 on controls of cash entering or leaving the community. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3A125069</p>	

TABLE A-7. Licensing Requirements under the Exchange House Law in Jordan and PSD for EEA

	Jordan	EEA
	<p>Extracted from the Money Exchange Business Law (no 44/2015)</p>	<p>Extracted from the Directive on Payment Services in the Internal Market (Directive 2015/2366/EC)</p>
	<p>The license should include:</p> <ol style="list-style-type: none"> 1. The type and location of company 2. The amount of capital and the way it is paid 3. The names and nationalities of the founding partners, stating whether any of the founding partners is an ally to another founding partner 4. Any additional information CBJ considers necessary 5. The articles of associations and statutes of the company 6. The organizational structure and business plan of the company 7. The proposed projected budget for the first three years of the company's operations and the criteria adopted for its preparation 8. Any other requirement^a 	<p>A relatively straightforward application is made to the home member state financial regulator. The application includes:</p> <ol style="list-style-type: none"> 1. Description of operation 2. Business plan 3. Initial capital, details 4. Safeguarding 5. Governance arrangements 6. Risk management 7. Internal controls 8. Money laundering and financial crime controls 9. Organization structure 10. Outsourcing 11. Qualifying holding including fit and proper testing forms for business management 12. Directors and management 13. Auditors and audit arrangements 14. Location 15. Close links, i.e., associated businesses^b

a. Article (6) the Money Exchange Business Law (no. 44/2015).

b. Article (5) Directive on Payments Services in the Internal Market (Directive 2015/2366/EC). http://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=uriserv:OJ.L_.2015.337.01.0035.01.ENG&toc=OJ.L:2015:337:TOC

TABLE A-8. Prudential Requirements for RSPs in EEA under PSD and Jordan under PSD and Jordan under the Money Exchange Business Law

	Jordan	EEA
	<p>Extracted from the Money Exchange Business law (no. 26/1992)</p>	<p>Extracted from the Directive on Payment Services in the Internal Market (Directive 2015/2366/EC)</p>
Initial capital Requirements	<p>Initial capital requirements for Money Exchange Companies are between JOD 100,000 and 1 million (US\$1400,000–1.4 million),^a depending on the location of the exchange house. However, based on the new Money Exchange Business Law of 2015, there are plans to change this to between JOD 300,000 and 3 million (US\$420,000–4.2 million), with exchange houses being categorized in accordance with their minimum start-up capital and their activities restricted accordingly.</p>	<p>To provide a money remittance service, a PSP must provide initial capital of EUR 20,000 (US\$21,000).^b</p>
On-going capital requirements	<p>For money exchange companies, a cash deposit of no less than 30% of the paid-up capital, or a bank guarantee of JOD 100,000 (US\$140,000), whichever is greater, is required. It is not clear whether this will be changed in the new law.^c</p>	<p>A scaled approach is used based on either the level of profit or the costs or revenues, as well as type of services provided. Three options are provided:</p> <ol style="list-style-type: none"> 1. At least 10% of PSPs' fixed overhead costs of the preceding year. 2. At least the sum of the following element, multiplied by 0.5 for firms providing only money remittance services: <ol style="list-style-type: none"> (a) 4.0% of the slice of payment volume (PV) up to EUR 5 million; plus (b) 2.5% of the slice of PV above EUR 5 million up to EUR 10 million; plus (c) 1% of the slice of PV above EUR 10 million up to EUR 100 million; plus (d) 0.5% of the slice of PV above EUR 100 million up to EUR 250 million; plus (e) 0.25% of the slice of PV above EUR 250 million. 3. At least the relevant indicator (defined below) multiplied by a multiplication factor based on the value of the relevant indicator of the firm, and by 0.5 for firms providing just money remittances services. <ol style="list-style-type: none"> (a) The relevant indicator is the sum of the following: <ol style="list-style-type: none"> (i) interest income (ii) interest expenses (iii) commissions and fees received (iv) other operating income

a. Article (7) Money Exchange Business law (no. 26/1992). http://www.cbj.gov.jo/pages.php?menu_id=121

b. Article (7) Directive on Payments Services in the Internal Market (Directive 2015/2366/EC). http://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=uriserv:OJ.L_.2015.337.01.ENG&toc=OJ.L:2015:337:TOL

c. Article (8) Money Exchange Business Law (no. 26/1992). http://www.cbj.gov.jo/pages.php?menu_id=121

TABLE A-9. Safeguarding of Customer Funds under the Money Exchange Business Law in Jordan and PSD in EEA

	Jordan	EEA
	<p>Extracted from the Money Exchange Business Law (no. 26/1992)</p>	<p>Extracted from the Directive on Payment Services in the Internal Market (Directive 2015/2366/EC)</p>
Consumer protection	<p>The safeguarded funds (cash deposit of no less than 30% of the paid-up capital, or JOD 10,000, whichever is greater) are considered adequate for consumer protection.</p>	<p>Relevant information, including costs, account charges, and other relevant matters, must be made available before transactions are conducted. Consumers have strong rights. Internal complaints procedures should be in place and are mandated as part of the licensing process.</p>
Safeguarding consumer funds	<p>Safeguarded funds are included in the cash deposit of no less than 30% of the paid-up capital, or the bank guarantee of JOD 100,000.</p> <p>There are no regulations stipulating customer funds must be held in a segregated account at any point in a transaction.</p>	<p>Customer funds are required to be segregated at all times in either of the following ways:</p> <p>“(a) funds shall not be commingled at any time with the funds of any natural or legal person other than payment service users on whose behalf the funds are held and, where they are still held by the payment institution and not yet delivered to the payee or transferred to another payment service provider by the end of the business day following the day when the funds have been received, they shall be deposited in a separate account in a credit institution or invested in secure, liquid low-risk assets as defined by the competent authorities of the home Member State; and they shall be insulated in accordance with national law in the interest of the payment service users against the claims of other creditors of the payment institution, in particular in the event of insolvency;</p> <p>(b) funds shall be covered by an insurance policy or some other comparable guarantee from an insurance company or a credit institution, which does not belong to the same group as the payment institution itself, for an amount equivalent to that which would have been segregated in the absence of the insurance policy or other comparable guarantee, payable in the event that the payment institution is unable to meet its financial obligations.”^a</p>

a. Article (10) Directive on Payments Services in the Internal Market (Directive 2015/2366/EC). http://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=uriserv:OJ.L_.2015.337.01.ENG&toc=OJ.L:2015:337:TOC

2. Mystery Shopping Methodology

Data collection on fees, exchange rate applied, pick-up location/method, transfer speed, and product/services was undertaken using mystery shopping techniques. Where this technique is specified in the report, the data aim to represent 80 percent of the market for total remittance value. Depending on the nature of the service(s) being offered by each RSP, the local researchers posed as customers and gathered the relevant information via a phone or a visit to the location. It is believed that this approach is the only way to obtain a true picture of the services on offer. The only cases where online research was undertaken is for online remittance products.

Definitions for the data as follows:

Date of collection: Information for each specific corridor was gathered on the same day and within as narrow a time-frame as possible to ensure the comparable accuracy and consistency of the data gathered—especially in relation to exchange rate margins. Data for a single corridor were collected within a single day. All data for the eight corridors were collected over one week.

Fee charged: The initial fee charged at the send point (excluding exchange

rate margins). Additional costs, such as commission rates etc., were added to the fee displayed to produce an accurate true cost percentage.

Exchange rate applied: The exchange rate that is offered by the relevant RSP was collected and measured against the collection day's interbank exchange rate (gathered at www.XE.com) for the relevant send and receive currencies, to produce a foreign exchange cost margin. The researchers were briefed on the importance of measuring all participants in a single corridor on the same day to ensure that RSP exchange rate margins were compared accurately and consistently.

Payment instrument: The remittance product (service) offered to the consumer at the point of remittance (e.g., a cash, bank account, online service).

Speed of service: The standardized RSP transfer speed categories developed for the World Bank RPW database (less than one hour; same day; next day; 2 days; 3–5 days; 6 days or more) were used.

Total cost: Includes both the fee charged and the exchange rate applied.

The data for each corridor were collected twice (Q2 and Q3 2016) to ensure the data's validity.