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Remittance Market in Kyrgyzstan

Analysis of Barriers and Opportunities for Digital Remittance Adoption

This diagnostic and comprehensive market assessment has been conducted within the framework of the project "Strengthening the Remittance Ecosystem in Kyrgyzstan," under the REMIT PRIME Central Asia programme, implemented by the International Fund for Agricultural Development (IFAD) and co-financed by the European Union. The assessment is intended to contribute to the strengthening of the remittance ecosystem and to the expansion of access to modern financial services.

3.5 BN USD Remittance volume in 2025	**+64%** Growth compared to **2023**	**~15.4%** Share of GDP
~90% Remittances from Russia	**64%** Ready for stablecoins	**52.6%** Market share of Astrasend

Bishkek, February 2026

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GLOSSARY

This glossary contains definitions of key terms and abbreviations used in the report.

Term	Definition
AML/KYC	Anti-Money Laundering / Know Your Customer — measures to combat money laundering and identify customers
API	Application Programming Interface - an application programming interface for systems integration
NBKR	The National Bank of the Kyrgyz Republic is the central bank and regulator of the financial sector.
PO	A payment organization is a financial institution that provides payment services, including electronic wallets.
AML/CFT	Combating money laundering and terrorist financing
MPA	Mobile payment application
SFIS	State Financial Intelligence Service
State Financial Supervision Service	State Financial Supervision Service
EAEU	Eurasian Economic Union
Stablecoin	A cryptocurrency pegged to a stable asset (e.g., the US dollar), such as USDC, USDT
Data Residency	Requirement to store personal data within the country
Hawala	A traditional informal system of remittances through a network of brokers without physically moving money across borders
Remittances / Money Transfers	Cross-border money transfers of individuals through specialized systems (Western Union, MoneyGram, Astrasend, etc.)
Digital Identification	Remote identification of clients without physical presence at a bank branch
MTO	Money Transfer Operator - operator monetary transfers (Western Union, MoneyGram and etc.)

Aggregator	A platform that integrates several payment systems and transfer operators
SWIFT	Society for Worldwide Interbank Financial Telecommunications - international system interbank translations
P2P	Peer-to-Peer — direct transfers between individuals
USDT	Tether is a stablecoin pegged to the US dollar and one of the most popular stablecoins.
USDC	USD Coin is a stablecoin pegged to the US dollar used in the Visa + KICB pilot project.
Blockchain	A distributed database used to record transactions in cryptocurrencies
VASP	A virtual asset service provider is a cryptocurrency exchange or crypto service provider
E-wallet	A digital tool for storing and transferring money without the need for a bank account
Mobile Banking	Banking services through the bank's mobile application
Visa Direct	Visa service for instant transfers to Visa cards
Mastercard Send	Mastercard service for instant transfers to Mastercard cards
Financial Literacy	Knowledge and skills in personal finance management, use of banking products and payment security
Compliance	Compliance of the organization's activities with legal requirements and internal standards
Regulatory Sandbox	A special regulatory framework allowing innovative financial products to be tested under regulator supervision

1. RESEARCH SUMMARY

Kyrgyzstan's remittance market has shown a strong recovery following the severe crisis of 2023 (a 47.6% decline to 133.9 billion soms). In 2024, volume reached 219.6 billion soms (+64%), and in the first half of 2025, growth was 61% year-on-year. Remittances remain a critical element of the economy, accounting for 14-18% of GDP, with approximately 90% of flows coming from Russia, creating significant dependence on the geopolitical situation and sanctions pressure.

The study identified five interconnected barriers hindering the development of the Remittances ecosystem. Regulatory uncertainty remains a key impediment to development: only 29% of market participants fully understand the NBKR's requirements in various aspects, forcing businesses to avoid innovation in order to minimize risks. Sanctions pressure and tightened compliance procedures are leading to increased costs for AML checks and mass deviations transactions international payment systems, pushing clients into the informal sector— hawala , Telegram channels, and P2P cryptocurrency transactions. Despite these barriers, the market demonstrates a high readiness for technological innovation: 64% of organizations stated their willingness to work with stablecoins if clearly regulated, although only 7% possess the necessary expertise in virtual assets. Technological dependence on international systems remains critical: 79% of respondents use Astrasend , Western Union, and MoneyGram , while 64% note significant difficulties with API integration due to the lack of unified standards and outdated monolithic banking system architectures. Notably, transfer economics are more important to clients than interface convenience: even a 0.5% difference in exchange rates can completely redirect flows from one provider to another, explaining the persistent preference for offline channels for subsequent currency exchange at a more favorable rate. To overcome the identified barriers, the study proposes a comprehensive action plan across eight areas. Simplifying and standardizing regulatory requirements to improve their understanding by market participants is critical, as is reviewing current remote identification limits to account for inflation and the real needs of migrants. Creating a regulatory sandbox will allow safely test innovative solutions, including Stablecoins and blockchain technologies are already in high market demand. The development of unified API integration standards for Remittances will lower barriers to digitalization and reduce the onboarding time for new participants from the current 6+ months to an acceptable level.

Additional priorities include easing restrictions on the use of cloud technologies while ensuring data security, strengthening measures to counter the growth of the informal sector by reducing regulatory and commission barriers, and supporting financial literacy programs (which are already being implemented by 93% of organizations).

2. INTRODUCTION AND CONTEXT

Remittances in Kyrgyzstan are more than just a financial service; they are a fundamental macroeconomic anchor, ensuring social stability and foreign exchange liquidity. The market is highly concentrated: approximately 90% of all incoming transfers come from Russia, making the sector extremely sensitive to geopolitical conditions and sanctions.

World Bank data confirms this dynamic .

Results of the high-frequency telephone listening survey to the Kyrgyz Republic (L2KGZ) survey, implemented by the World Bank since December 2021, confirms the enduring importance of remittances for household well-being in the Kyrgyz Republic. The survey consistently finds that remittances remain an important source of income for a significant portion of households, including those with lower incomes, and play a key role in maintaining consumption and food security.

L2KGZ data for 2023 indicate the continued reliance of vulnerable groups on cross-border remittances, especially given the volatility of domestic income sources. The survey briefs emphasize that household income dynamics are closely linked to changes in the volume and stability of incoming remittances.

Furthermore, the L2KGZ results indicate a decline in household migration intentions: throughout 2024, a consistent decline was observed in the proportion of respondents declaring intentions to migrate internationally. This trend may reflect both changes in economic conditions in destination countries and households' adaptation to current income levels, including income from remittances.

Source : World Bank (2025). *Listening to the Kyrgyz Republic* — April 2025 Brief. Available at: https://thedocs.worldbank.org/en/doc/a6e3576f10c2b7f587bad52770545d58-0080012025/original/L2KGZ-Brief-April-2025-en.pdf Survey microdata (2021–2025) are available through the World Bank Microdata Library: https://microdata.worldbank.org/index.php/catalog/6523

Although the short-term effects of migration remittances often manifest themselves in the form of increased consumption and imports, their long-term impact on the host country's economy is linked to changes in the structure of human capital, which is consistent with Romer's growth theory (Romer, 1986) **.** According to this theory, sustainable economic growth is determined not only by the accumulation of physical capital but also by investments in human capital, knowledge, and innovation, which create positive externalities for the entire economy.

Countries with high levels of incoming remittances (as a share of GDP) experience increased investment in education, healthcare, and improving household quality of life, which in the long term contributes to increased labor productivity and economic competitiveness. Kyrgyzstan, where remittances account for 14~~25~~–18~~30~~% of GDP, exhibits a similar dynamic: migrants' funds, in addition to meeting basic needs, are gradually being used to:

- Construction and improvement of housing, which stimulates the construction sector and creates a multiplier effect for related industries;
- Paying for children's education, including higher education and vocational courses, which contributes to the development of a skilled workforce;
- Development of small businesses, especially in the service, trade and agriculture sectors, which creates new jobs and diversifies household income sources;
- Private services in education and medicine, increasing access to quality education and healthcare for a wider segment of the population.

However, realizing this long-term potential critically depends on the availability of efficient, accessible, and secure channels for receiving transfers. High fees, lengthy processing times, complex identification requirements, and opaque service terms reduce the real value of transfers for households and force clients to use informal channels that lack legal protection and transparency. Therefore, the digital transformation of the Remittances market goes beyond the technological modernization of a specific sector and is becoming a strategic priority for ensuring long-term economic growth and social stability in Kyrgyzstan.

In the context of global change, digital market transformation is no longer a matter of convenience but a prerequisite for survival and sustainability. Without the creation of accessible, fast, and transparent digital channels, financial flows will inevitably migrate into the gray zone— hawala , Telegram channels, and P2P cryptocurrency transactions— which

poses risks for the country's entire financial system .

3. GOALS AND OBJECTIVES OF THE RESEARCH

The main objective of the study is to gain a comprehensive understanding of the key barriers and opportunities for the development of digital transfers in Kyrgyzstan, as well as to assess the readiness of current regulation and supervision for the integration of new financial technologies, including solutions based on virtual assets.

The study focuses on four interrelated objectives that determine the structure of data collection and analysis. The first objective is to identify key barriers hindering the development of digital remittances, categorizing them into four categories: customer issues, regulatory barriers, difficulties finding partners, and technological barriers. The second objective focuses on understanding market participants' perceptions of regulatory requirements in three critical areas: AML/KYC (customer identification and verification procedures, anti-money laundering), licensing and supervision (requirements for transfer operators, regulatory reporting), and cybersecurity (personal data protection, data residency requirements , transaction security). The third objective aims to identify successful cases and initiatives that have already been implemented by individual market participants and can be scaled up across the industry, including pilot projects using stablecoins , the implementation of transparent transfer cost calculators, the development of user-friendly mobile interfaces for remote identification, and the creation of effective financial literacy programs. The fourth task is to collect concrete proposals for improving regulation and infrastructure , including the creation of regulatory sandboxes for the safe testing of innovations, the development of unified API standards to reduce integration barriers, the revision of outdated limits, and the introduction of incentives for market participants investing in digitalization .

4. RESEARCH METHODOLOGY

4.1. Study design

The study is based on a mixed-methods approach, combining quantitative and qualitative data collection and analysis. This approach allows for a comprehensive understanding of the market: statistical data describes the scale and dynamics of phenomena, while qualitative methods reveal cause-and-effect relationships, barriers, and participant motivations. The quantitative basis of the study is formed by an analysis of 10 quarterly reports from the National Bank of the Kyrgyz Republic on the state of the remittances market (from the first quarter of 2023 to the second quarter). The reports contain detailed statistics on the volume of incoming and outgoing transfers, their structure by country, currency structure, distribution by operator, and average transaction value dynamics. Additionally, the authors analyzed NBKR regulations governing the activities of payment organizations, remote identification procedures, and virtual asset management, as well as relevant laws of the Kyrgyz Republic (on personal data, anti-money laundering, and payment systems). The desk research also included a review of public reports from international organizations (IOM, ICMPD, and the World Bank) on migration flows and remittances in the Central Asian region.

9.2. Online survey of market participants and in-depth interviews

To quantitatively assess perceptions of barriers and readiness for innovation, a structured online survey was conducted among 14 organizations, including 10 commercial banks, three payment institutions, and one fintech company. The sample was selected using a purposive sampling method and covers key players accounting for over 80% of the remittances market in Kyrgyzstan.

The questionnaire included 28 questions, grouped into five thematic blocks: (1) characteristics organizations And level digitalization, (2) used systems transfers and connection models, (3) regulatory barriers and understanding of the NBKR requirements, (4) technological barriers And readiness infrastructure, (5) attitude To innovations (virtual assets, stablecoins , blockchain) and the availability of relevant expertise. Closed-ended multiple-choice questions and Likert scales were used to assess the level of agreement with

statements. The survey was conducted in October–November 2025, with responses guaranteed to be confidential. The qualitative portion of the study was conducted through a series of 11 in-depth, semi-structured interviews with representatives of commercial banks (6 interviews), payment organizations and fintech companies (3 interviews), and international remittances systems (2 interviews). The interviews were conducted in November–December 2025 through in-person meetings and video conferences, lasting from 45 to 90 minutes each. The interview guide included open-ended questions on six thematic areas: (1) the impact of sanctions and geopolitics on transfer volumes and routes, (2) the migration of clients to alternative channels (informal systems, virtual assets), (3) the current status of digital transfers and barriers to their development, (4) current limits and regulatory requirements, (5) an assessment of the prospects for using stablecoins and blockchain technologies, and (6) issues of data quality and statistics. The semi-structured interview format allowed respondents to freely develop topics most relevant to their experience, ensuring depth of insights. All interviews were recorded (with the respondents' consent), transcribed, and subjected to thematic analysis. Participants' quotes are used in this report in an anonymized form, with only the organization type (bank, payment organization, or payment system) indicated. A complete table of respondents' anonymized responses is presented in Appendix 2.

9.3. Limitations of the study

The study has a number of methodological limitations that are important to consider when interpreting the results. Firstly, the official statistics of the National Bank of the Kyrgyz Republic The report primarily records transactions processed through licensed banks and payment institutions and may not fully account for digital P2P transfers, card transactions, and direct bank-to-bank integrations, which are not always classified as Remittances. Interview respondents repeatedly noted that the real picture of digital flows is more complex than reflected in the reports. Secondly, the informal sector **(** Hawala systems , Telegram channels, P2P crypto exchangers) By definition remains outside fields official accounting. Ratings The volume of informal transfers is based solely on qualitative observations of respondents And Not can be verified quantitatively. This creates "blind zone" in the full picture of the market. Third, the online survey sample, although it covers major players, is

relatively small (15 organizations) and does not claim to be statistically representative in the strict sense. The survey results should be viewed as expert assessments of key participants, not as statistically validated characteristics of the general population of all financial institutions in the Kyrgyz Republic.

9.4. Data sources

- NBKR Quarterly Reports: 10 quarterly reports (Q1 2023 - Q2 2025), Section 2.4 "Money Transfers" [1]
- Regulatory and legal acts of the NBKR: Resolutions of the Board of the NBKR, regulations on payment systems, licensing, AML/KYC
- State Financial Supervision Service reports: Data on the virtual asset market, licensed VASPs, and transaction volumes [2]
- International studies: IOM Migration Situation Report 2024, ICMPD Migration Outlook 2025, GFRID 2025

5. MARKET DYNAMICS

5.1. Volumes of the Remittances

Period	Characteristic	Volume (billion soms)	Change
2023	**Crisis**	133.9	**-47.6%**
2024	**Recovery**	219.6	**+64.0%**
January 1, 2025	**Height**	150.0	**+61.0%**

[1] Link to data source: NBKR data
[2] Link to data source: State Financial Supervision Service Reports

The significant reduction in the volume and quantity of incoming remittances in 2023, recorded in the statistics of the National Bank of the Kyrgyz Republic, was complex in nature and was caused by a combination of external and institutional factors.

1) Firstly, increased sanctions pressure had a significant impact on the Russian Federation's financial system, which remains a key source of cross-border transfers to Kyrgyzstan. In 2022–2023, international sanctions limited Russian banks' access to correspondent accounts, payment infrastructure, and international settlement systems. This increased compliance risks for intermediary banks in countries in the region, including Kyrgyzstan, and complicated cross-border transactions through traditional banking and payment channels.
2) Secondly, during this period, we observed stricter AML/CFT requirements from international payment systems and correspondent banks. Enhanced transaction checks related to the origin of funds and sanctions risks led to an increase in the number of delays and transaction rejections, longer transfer processing times, and higher transaction costs. As a result, some users may have temporarily reduced their use of official remittances channels.
3) Third, the decline in remittances could be related to the adaptation behavior of migrants and their households. Amid uncertainty in the payment infrastructure and financial constraints, some senders may have switched to alternative or informal methods of transferring funds that are not reflected in the official NBKR statistics. This led to a temporary decline in the volume of transfers recorded through banks and remittances systems.
4) Fourth, macroeconomic factors in the remittance-receiving country had an impact. In 2023, economic uncertainty, inflationary pressure, and fluctuations in the income of migrant workers in Russia could have limited their ability to regularly send funds at the same levels, further exacerbating the downward trend in officially recorded remittances.

2024 marked a strong recovery. The volume of transfers increased to 219.6 billion soms (+64.0% compared to 2023), practically returning to pre-crisis levels.

2025: In the second quarter, the volume of incoming transfers reached 82 billion soms (+61.7% compared to the second quarter of 2024), and in the first half of the year, the total

volume amounted to 150 billion soms – the growth rate not only did not slow down, but even accelerated compared to the previous year.

The adaptation of financial institutions and payment infrastructure to the sanctions environment played a key role in restoring transfer volumes. Banks and money transfer system operators adjusted compliance procedures, built new correspondent and settlement chains, and expanded the use of alternative payment routes. This allowed cross-border transactions to resume amid ongoing restrictions and reduced operational delays typical of 2023.

5.2. Average remittances sizes and currencies

The average transfer size in the first quarter of 2023 was 23,800 soms, and in the fourth quarter it increased to 26,500 soms, demonstrating a gradual increase in the average size against the backdrop of a decrease in the number of transfers, but a smaller decline in volumes.

In 2024, the average transfer size is expected to recover and grow. In the first quarter, the average transfer was 27,400 soms, 7% higher than in the first quarter of 2023, despite a slight decrease in the number of transactions. In the fourth quarter, it was 20,700 soms, reflecting a sharp increase in the number of transactions (by 66.2%) but a relatively moderate increase in the overall volume.

In 2025, the average transfer size trend demonstrates accelerating growth. In the first quarter, the average transfer was 24,100 soms, with the number of transactions increasing 1.8-fold compared to the first quarter of 2024, and the volume increasing 1.6-fold. In the second quarter of 2025, the average transfer size increased to 28,500 soms, driven by a 61.7% increase in the total volume and a 73.1% increase in the number of transactions. Overall, the average transfer size fluctuated between 24,000 and 31,000 soms, with the growth in transfer volume outpacing the growth in the number of transactions in early 2025, indicating a trend toward increasing large transfers through international systems.

Broken down by region, Bishkek consistently ranks among the leaders in remittance volumes in the Kyrgyz Republic. The capital's share of incoming remittances will average 30 to 35

percent of the total from 2023 to 2025. This demonstrates that Bishkek is not only the country's main financial center but also the primary hub for sending remittances to other regions and abroad.

At the same time, the gradual increase in Osh's incoming transfer activity in the second and third quarters of 2024—approximately 30 percent—indicates that the country's southern regions are gradually developing their own financial infrastructure and becoming significant participants in the remittance market.

Thus, Bishkek maintains its role as a central financial hub, particularly for outgoing transfers, while regional centers such as Osh are showing increased activity and are gradually beginning to influence the distribution of money flows across the country.

5.3. Key players

Incoming transfers — TOP-3 systems by volume

System	Transactions	Volume	Wed translation	Market share
Astrasend	2,226,000	43.1 billion	19,370	**52.6%**
Golden Crown (Zolotaya Korona)	278,800	16.3 billion	58,470	**19.9%**
MoneyGram	37,000	2.7 billion	72,970	**3.3%**
Other systems	—	19.9 billion	—	24.2%
TOTAL incoming	—	**82.0 billion**	28,500	**100%**

Astrasend undoubtedly dominates on market, controlling 52.6% everyone incoming transfers (43.1 billion soms out of 82 billion soms in Q2 2025). Notably, the system processes the largest number of transactions (2.226 million), but with a comparatively low average transaction value (19,370 soms), confirming its focus on the mass segment of migrant workers.

Zolotaya Korona experienced a dramatic decline in its market share: from 59% in Q1 2023 to 20% in Q4 2024 and 19.9% in Q2 2025. However, the system retains second place in terms of volume (16.3 billion soms) and serves a segment with a significantly higher average bill (58,470 soms), indicating a focus on a more affluent client base.

6. KEY BARRIERS BASED ON IN-DEPTH INTERVIEWS

In November and December 2025, in-depth interviews were conducted with 11 key participants in the Kyrgyz remittances market: commercial banks, payment institutions, international transfer system operators, and global payment systems. The findings are summarized below, without identifying specific organizations.

6.1. Geopolitical Risks

The intensification of sanctions pressure in recent years has significantly complicated the operations of financial institutions in the region and has had a direct impact on the structure of cross-border financial flows. Restrictions imposed on individual jurisdictions and financial institutions have resulted in some official financial flows being pushed outside the formal banking sector and shifted to less transparent and regulated channels.

With limited access to traditional international financial infrastructure, Russian banks and associated market participants are increasingly using intermediary payment organizations and financial structures in third countries, including Tajikistan, Kyrgyzstan, and Middle Eastern financial centers such as Dubai. These mechanisms allow for the formal circumvention of sanctions restrictions, but they lead to complex multi-layered transaction chains, reducing the transparency of transactions and complicating their monitoring by regulators and banks. At the same time, some clients are migrating to the so-called "gray zone" of financial services. Individuals and businesses are actively seeking alternative methods of transferring funds, using informal channels, including Telegram channels, unofficial intermediary networks (hawala), and cryptocurrency instruments. Such solutions are often perceived by users as faster and more accessible, but they carry increased risks in terms of consumer protection, money laundering, and the financing of illicit activities.

This situation poses a strategic dilemma for the banking sector. On the one hand, working with clients and payment flows related to the Russian Federation remains economically significant. On the other hand, participating in such transactions significantly increases sanctions and compliance risks, which could negatively impact banks' ability to integrate with the global financial infrastructure, including international payment systems (Visa, Mastercard) and correspondent banking relationships with Western banks.

As a result, banks are forced to exercise increased caution when working with clients connected to the Russian Federation, including Russian citizens and companies with Russian capital. This translates into stricter due diligence procedures, refusals to open accounts, and restrictions on access to certain financial services. Such caution, while justified from a risk management perspective, simultaneously creates barriers to legitimate financial transactions and further contributes to the diversion of some flows into the informal sector.

> ***"Sanctions have had a significant impact on transaction volumes. It is now crucial to balance strict compliance with service accessibility to prevent clients from being pushed into the grey market."***
>
> — Respondent, Commercial Bank

6.2. Problems on the Client Side

6.2.1. The Economy of Choice: Exchange Rates Are More Important Than Convenience

A client's choice of transfer channel is determined not so much by the quality of the interface or ease of use, but by the overall economics of the transaction**:** the actual exchange rate + visible and hidden fees + the speed of receiving funds + the level of trust in the channel. Research has shown extremely high sensitivity to price parameters: a difference in the exchange rate of just 0.5% can completely redirect flows from one provider to another, regardless of the quality of the digital interface or the brand of the transfer system.

This sensitivity explains the persistent preference for offline channels of receipt. Even when sending money online. The typical transaction model is as follows: the sender initiates a transfer through a digital channel (mobile app, website), and the recipient collects the funds in cash at the bank's teller , then exchanges them at an independent exchange office at a more favorable rate. The exchange rate difference between official banking channels and street exchange offices can range from 0.3% to 1.5%, which, with an average transfer amount of

28,000–30,000 soms, translates into a savings of 100–400 soms per transaction—a significant amount for low-income households.

> ***"Commissions and exchange rate arbitrage are critical. Any increase in fees in official channels quickly drives clients toward the informal sector and grey-market schemes."***
>
> ***"Clients continue to favor offline channels: receiving cash and exchanging it at currency bureaus. Even a 0.5% difference in the exchange rate influences channel choice more than app convenience."***
>
> — Respondent, Commercial Bank

6.2.2. The problem of hidden rates and non-transparent fees

One of the most pressing barriers to trust in digital channels is the lack of transparency in the final transfer cost**.** In many systems, the exchange rate is baked into the commission structure in such a way that the client cannot calculate in advance the final amount received by the sender or recipient. While the commission may be stated as low (for example, 1–2%), the actual margin is derived through a less favorable exchange rate than the market rate.

Typical problems noted in interviews:

- The lack of a full cost calculator at the transfer initiation stage means the client only sees the nominal fee, not the final amount received.
- A dynamic rate that changes throughout the day without notifying the client, creating a sense of unpredictability and risk.

This lack of transparency undermines trust and forces clients to conduct a "manual comparison"—calling several banks and systems to find out the actual amount they'll receive. In a climate of intense competition for each client, providers that provide full cost transparency before confirming a transaction gain a significant competitive advantage.

As a result, online transfers are perceived as less profitable compared to offline scenarios in which clients receive a transfer in foreign currency; independently exchange funds at

exchange offices or on the foreign exchange market; visually see the rate and the amount they receive in hand.

This experience creates a belief among customers that offline transfers and cash transactions are more transparent and cost-effective, even if this is not always the case in reality.

> ***"Simple onboarding, multilingual support, and clear pricing with no hidden fees are essential for encouraging large-scale client migration to digital channels."***
>
> — Respondent, Commercial Bank

6.2.3. Fear of fraud and low trust in digital channels

Mistrust of digital transfers is exacerbated by the prevalence of fraudulent schemes, especially in regions with low levels of financial literacy. Typical scenarios that lead to negative experiences include:

- The "mistransfer " scheme: a scammer transfers a small amount to the victim's account, then calls, posing as a bank employee, and asks for a refund, supposedly sent by mistake. During the "refund" process, the victim provides confirmation codes or card details, allowing the scammers to withdraw all the funds.
- Phishing via SMS and instant messaging : fake notifications about account blocking or the need to confirm a transaction, leading to fake websites or requiring access codes.
- Social engineering : calls from relatives asking to urgently transfer money to a "new number" or "temporary card."
- Fake apps and websites : clones of popular banking apps distributed through unofficial sources.

In the regions (regional centers and rural areas), awareness of such schemes is extremely low. Clients who fall victim to fraud typically completely lose trust not only in the specific service but also in digital channels in general, returning to cash transactions and offline transfers.

6.2.4. Opacity of the process

One of the key factors behind customer distrust of digital remittances is the lack of transparency throughout the process, especially in unusual situations. When delays, errors, or transaction rejections occur, users often find it difficult to understand at what stage the problem arose and who is responsible—the sending bank, the receiving bank, or the payment system. Furthermore, initiating a refund or obtaining a clear timeline for its completion can be challenging.

The lack of transparent and understandable information in such cases creates a feeling of loss of control over money, which increases reluctance to use online channels and encourages customers to prefer traditional offline transactions. Ultimately, this leads to decreased trust in digital and cross-border transfers, a reduced perceived value of online services, an increase in complaints and inquiries when problems arise, and maintains the habit of using cash and offline channels even when digital alternatives are available.

6.2.5. Low financial literacy and lack of understanding of regulatory mechanisms

A significant portion of clients—migrant workers and remittance recipients in the regions—demonstrate low levels of digital financial literacy. This manifests itself in several critical gaps:

- Misunderstanding the difference between simplified (remote) and full identification: Clients don't realize that remote identification (taking a photo of a document via an app) has significant limits (30,000 soms per month for photo ID, up to 200,000 soms for video ID), and they attempt to conduct transactions in amounts exceeding these limits, leading to blockages and dissatisfaction. They also don't understand that lifting these restrictions requires full identification by physically visiting the bank, which is impossible for migrants abroad.
- Lack of understanding of the commission structure: clients do not distinguish between the transfer operator's commission, the recipient bank's commission, and the exchange rate margin, making it impossible to rationally choose the most profitable channel.
- Lack of understanding of security risks: customers easily provide verification codes, PINs, and CVVs over the phone, believing that they are calling from bank

representatives; they do not verify website addresses; and they install apps from untrusted sources.

Although 93% of organizations offer financial literacy programs , their reach remains insufficient, and training formats (brochures, lectures) often fail to meet the real needs of the target audience. Simpler, more visual, and interactive training formats integrated directly into the use of digital services (contextual prompts, training videos, transaction simulators) are needed.

> ***"Clients frequently struggle to distinguish between online and offline identification. They are confused by limits and wonder why large transactions cannot be completed without visiting a branch, expecting that 'everything is already digital."***
>
> — Respondent, Commercial Bank

6.2.6. Hybrid models and flow into informal channels

High fees charged by official remittances channels, opaque exchange rates, complex compliance procedures, and ongoing sanctions restrictions create a strong incentive for clients to seek alternative means of transferring funds. As a result, some migrants and recipients of funds turn to informal systems, where processes are simpler, faster, and cheaper. One of the most widespread such channels is the hawala system—an informal remittances network based on trusting relationships between hawaladars (brokers). This system is widely used in the Middle East, Africa, and Asian countries, including Kyrgyzstan.

The hawala system works quite simply: the sender transfers money to a local broker in the host country (for example, Russia) and receives a unique secret code. This broker contacts its partner in Kyrgyzstan. The recipient visits the local broker, provides the code, and receives the funds. There is no physical movement of money across borders: all settlements are conducted through mutual settlements between brokers, making the system fast and relatively secure from external restrictions.

With the advancement of technology, new alternative channels have emerged. P2P transfers via messaging apps like Telegram or WhatsApp allow you to send money almost instantly, bypassing banks, with minimal fees, and without officially registering an account. Cryptocurrency exchanges and stablecoins have opened up an even more flexible route: low fees, 24/7 operation, and independence from bank correspondents. However, such transfers require basic knowledge of digital assets and remain in a legal gray area.

Even unofficial MTOs and local brokers operating alongside legitimate systems offer clients convenience: speed, simplicity, and accessibility in regions where banks are unavailable. However, such channels carry increased risks, from fraud to complete lack of exchange rate transparency.

All these alternative methods work because official channels don't yet meet customer expectations. Migrants value speed, low fees, and simplicity—these three factors drive the use of hawala, P2P transfers, and crypto services. Until banks and payment processors can offer a similar level of convenience and transparency, customers will migrate to the "gray" sector, creating risks for the financial system: decreased transparency of money flows, lost tax revenue, and difficulties in monitoring cross-border transactions.

6.3. REGULATORY BARRIERS

6.3.1. Remote identification limits

It's important to understand that migrant workers send transfers from abroad through foreign bank apps (e.g., Russian, Kazakh, Turkish), where they undergo local identification in accordance with the requirements of that jurisdiction and can send transfers of any amount without restrictions from the Kyrgyz regulator.

The issue of simplified identification limits critically affects transfer recipients in Kyrgyzstan. — families of migrants, relatives, business partners. If the recipient opened an account or e-wallet with a remote identification (photo-ID or video-ID), he faces severe restrictions on receiving and using funds.

According to the IOM report "Mapping the Kyrgyz Diaspora, Compatriots and Migrants Abroad" (2021/2022), 3which is the latest major study of the diaspora:

about 43.3%	**send up to 10,000 soms per month,**
approximately 45.4%	**send from 10,000 to 50,000 soms per month**
about 6.4%	**send from 50,000 to 100,000 soms**
almost 2%	**send more than 100,000 soms per month.**

Regulatory framework

The procedures for remote (simplified) identification are regulated by the NBKR Regulation "On the procedure for identifying and verifying clients and beneficial owners for AML/CFT purposes" approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic [1]. According to paragraph 6 of this Regulation, the following limits are established for simplified identification:

Photo identification (photo of document via app)

Translation type	Maximum per transaction	Monthly limit
Between residents	**15,000 soms**	**30,000 soms**
With the participation of a non-resident	**15,000 soms**	**30,000 soms**

Video identification (video call with document verification)

Translation type	Maximum per transaction	Monthly limit
Between residents	**100,000 soms**	**200,000 soms**
With the participation of a non-resident	**100,000 soms**	**200,000 soms**

[3]Mapping report of the Kyrgyz diaspora, compatriots and migrants abroad https://publications.iom.int/system/files/pdf/Report-Mapping-of-Kyrgyz-Diaspora-Abroad.pdf?utm_source=chatgpt.com

Full identification: requires the client's physical presence at a bank branch in Kyrgyzstan and presentation of an original identification document. Only after full identification is completed are transaction volume restrictions lifted.

1) Scenario 1: Recipient with photo identification (limit 30,000 soms/month)
    - Problem #1 **:** Exceeding the limit with one transfer: With an average transfer size of 28,500 soms **,** even one incoming transfer practically exhausts the monthly turnover limit. A second transfer in the same month will be blocked until the beginning of the next calendar month.
    - Problem #2 **–** Inability to withdraw: If the recipient wants to withdraw the 28,500 soms received in cash from an ATM or at the bank's teller, this transaction is also subject to the 30,000 soms/month turnover limit . This means that after receiving the 28,500 soms, the client can withdraw no more than 1,500 soms in cash during the current month; the remaining funds are "frozen" in the account until the following month.
    - A typical situation: A family receives a transfer from a migrant in the middle of the month (28,500 soms). At the end of the month, a second transfer (30,000 soms) arrives, but it is blocked. The family is unable to access critical funds and is forced to seek alternatives (asking the migrant to send money through a different system, opening additional accounts at other banks, or using hawala).
    - Consequences: Recipients are forced to either open multiple accounts in different banks/software (to distribute receipts and not exceed the limit for each), or immediately undergo full identification at a bank branch, which takes time (queues, a trip to the regional center for residents of remote areas) and can be difficult for elderly or disabled citizens.

2) Scenario 2: Recipient with video identification (limit 200,000 soms/month)
    - This is sufficient for typical households (if a migrant sends 30-60 thousand soms/month, the limit allows for 6-7 transfers), but for active recipients (families with several working migrants), the limit may be exhausted with intensive use.
    - Tech literacy: Video identification requires a smartphone with a decent camera, a stable internet connection, and basic app skills. This may be a barrier for elderly recipients or those living in remote areas with poor internet coverage.

- The Tunduk Digital Passport Problem: Kyrgyzstan is actively implementing the Tunduk government app, which allows citizens to obtain a digital passport (electronic ID). Many citizens, especially the younger generation and tech-savvy users, are abandoning their physical passports in favor of a digital format. However, the video identification procedure at most banks and payment institutions requires the mandatory presentation of a physical passport: the client must hold the document in front of the camera so that the operator or automatic verification system can verify holograms, watermarks, and match the face with the document's photograph. The digital passport from the Tunduk app is not accepted for this procedure, as the technical regulations for video identification have not been updated to accommodate the emergence of digital IDs. The result: citizens with digital passports are physically unable to undergo video identification and are forced to either renew their physical passport (which takes time, requires paying a state fee, and visiting the immigration service) or go directly to a bank branch for full identification, which undermines the entire idea of remote access to financial services. This conflict between the digitalization of public services (Tunduk) and the conservative demands of the financial sector creates a situation: the state is promoting the elimination of physical documents, and banks are refusing to serve those who follow this.

3) Scenario 3: Recipient without identification or with expired limit
   - A migrant sent money from Russia (and paid a 3-5% commission). The funds were debited from his account, but his family in Kyrgyzstan can't receive them without visiting the bank because the limit has been reached. If the relatives live in remote areas (for example, in the Batken or Naryn regions), the nearest bank branch may be 50-100 km away. The trip takes a full day, which is especially critical for families with small children, the elderly, or working recipients who cannot take a day off.
   - These situations create an extremely negative user experience: the migrant believes the money is "lost /stuck," the family panics, and the bank is unable to resolve the issue quickly. The result is a shift to informal channels (hawala, Telegram transfers), where this doesn't happen.

- Interview respondents noted that clients are starting to use "account chaining"—opening wallets/accounts in the names of different family members (wife, husband, adult children, parents) to spread out incoming transfers and avoid reaching limits. This creates additional complexity for banks (multiple accounts for the same family) and for clients (the need to manage multiple accounts).

Consequences for clients

The main problem is that remote identification limits no longer take into account the real economics of remittances. A typical migrant sends 30,000–60,000 soms per month (one to three transfers of 28,000–30,000 soms each), but a recipient with photo ID hits the limit after the first transfer. To lift the restrictions, the family must either wait until the beginning of the new month (which is unacceptable if they urgently need funds) or visit a bank branch for full identification.

For city residents (Bishkek, Osh), this is relatively accessible (although time-consuming), but for residents of remote areas —Batken, Naryn, and Talas regions—a trip to the nearest bank branch can take a full day and cost significant resources (transportation and lost work time). Elderly recipients, people with limited mobility, or families with small children face the physical impossibility of quickly resolving the issue.

The result is continued use of offline channels (bank tellers), as a visit to a bank office is always necessary, or a shift to informal channels. Hawala systems require no identification, operate 24/7, and allow for unlimited withdrawals. Telegram transfers require a phone number. P2P crypto exchanges offer anonymity and instant transfers. Thus, a regulatory measure initially aimed at controlling AML/CFT risks paradoxically pushes these flows into a zone of complete lack of control and transparency **.**

6.3.2. Lack of remote KYC for citizens abroad: Excluding the core audience

The key problem is that Kyrgyz citizens residing abroad (including migrant workers, the main senders of remittances) are effectively deprived of legal remote access to Kyrgyzstan's financial services **.** This creates a situation where the main remitters (migrants) are unable to open bank accounts in the recipient country (Kyrgyzstan), despite being its citizens.

Regulatory framework and application practice

Client identification procedures are regulated by the following regulations:

- **The NBKR Regulation "On the procedure for identifying and verifying clients and beneficial owners for AML/CFT purposes"** (approved by the Resolution of the NBKR Board) sets limits for simplified identification (photo ID: 30,000 soms/month; video ID: 200,000 soms/month) and requires full identification with physical presence to lift the limits. [1]
- **Kyrgyz Government Resolution No. 606 of December 25, 2018** , regulates the interaction of personal data operators (including banks) with state information systems of the Kyrgyz Republic for identity verification. [4] Access to these systems is limited to the territory of the Kyrgyz Republic.
- **Application practice:** In the current version of regulatory acts, remote identification is actually applied only to citizens of the Kyrgyz Republic, located in Kyrgyzstan . Kyrgyz citizens abroad cannot undergo remote identification to open accounts/wallets because:
    - The procedures require access to state information systems of the Kyrgyz Republic (passport system, GRS), the use of which outside the country is not technically provided for;
    - AML/CFT risk control and management mechanisms are designed for the jurisdiction of the Kyrgyz Republic;
    - Banking processes (SMS verification, geolocation, technical checks) are oriented towards the infrastructure of Kyrgyz telecom operators;
    - The lack of a legally established remote identification mechanism for Kyrgyz citizens outside the country creates regulatory uncertainty for banks.

Technical and compliance limitations: two different migrant cases

It is important to distinguish between two categories of Kyrgyz labor migrants **who** face different barriers when attempting to open an account/wallet in a Kyrgyz bank from abroad:

1) Case 1: Migrants are citizens of Kyrgyzstan (hold a Kyrgyz passport)

This category makes up the majority of labor migrants from the Kyrgyz Republic (especially in Russia, Kazakhstan, and Turkey). They hold a valid Kyrgyz Republic passport, which can

technically be verified through the State Registration System (SRS) and the Kyrgyz Republic's passport system, even from abroad. However, in practice, they face the following barriers .

According to the NBKR Regulation on the procedure for identification and verification (clause 8, subclause 3), digital identification and verification of the client is not completed in the following case: " *The international country code in the mobile phone number of the client, a citizen of the Kyrgyz Republic, does not correspond to the national code, and his IP address is located outside the Kyrgyz Republic. "*

This means a direct ban on remote identification for citizens of the Kyrgyz Republic if the phone number does not have the code +996 (Kyrgyzstan's code) - foreign numbers (Russian +7, Kazakh +7, Turkish +90, etc.) are automatically blocked by the system; and/or the client's IP address is located outside the Kyrgyz Republic (determined automatically during registration).

Even if a migrant has retained a Kyrgyz number (+996), receiving SMS messages while roaming creates problems: delays in SMS delivery while roaming (from several minutes to no delivery at all); additional roaming costs (especially critical with multiple registration attempts); many migrants disconnect their Kyrgyz SIM cards after leaving due to lack of need and high roaming rates.

Some banking and payment apps check a user's geolocation during registration. If the system detects that the client is located outside of Kyrgyzstan (via IP address or GPS), the remote identification procedure may be automatically blocked for compliance reasons (preventing registration from "high-risk" jurisdictions).

Although the migrant physically holds a Kyrgyz Republic citizen's passport, bank verification procedures rely on integration with the Kyrgyz Republic's state registration system (SRS). Access to such state systems is typically through closed and secure channels and may be restricted in cross-border scenarios due to technical and information security requirements. To mitigate cyber risks, banks generally do not allow direct access to SRS systems from external or uncontrolled network boundaries, which can create additional difficulties in remotely identifying clients located outside the country, as well as difficulties in ensuring comprehensive AML/CFT monitoring in cross-border scenarios.

Kyrgyz citizens can technically be verified through the State Registration Service (GRS), but a

combination of practical limitations—the use of SMS confirmations, roaming, geolocation restrictions, and internal bank policies—makes remote account opening from abroad impossible or extremely difficult in most cases.

2) Case 2: Migrants who have accepted citizenship of another country (former citizens of the Kyrgyz Republic)

These are migrants who have acquired Russian, Kazakh, or other citizenship and lost their Kyrgyz citizenship. They hold a passport from another country (for example, a Russian passport), but maintain family and economic ties to Kyrgyzstan (they regularly send money to relatives).

- Remote account opening is completely impossible: Kyrgyz banks can serve foreign citizens, but remote identification procedures do not apply to them **.** Physical presence at a bank branch in the Kyrgyz Republic is required to present a passport, undergo full identification, and open an account.
- Document verification barrier **:** Kyrgyzstan's banking systems are not integrated with the immigration and passport systems of other countries (Russia, Kazakhstan, etc.), so verifying a foreign passport through government systems is impossible . The bank can only verify the document visually in the client's physical presence.

Former Kyrgyz citizens with foreign citizenship are completely excluded from remote access. access to financial services of the Kyrgyz Republic and can open an account only upon a physical visit to Kyrgyzstan.

Consequences for migrant clients

Migrant workers from Kyrgyzstan, located in Russia, Kazakhstan, and other countries, constitute the main recipient of remittances (over 90% of flows come from Russia). However, it is precisely this category of clients that is effectively denied access to legal digital financial services in Kyrgyzstan **:**

- They cannot open a bank account or e-wallet in a Kyrgyz bank while abroad.
- If the account was opened before departure with simplified identification, once the limits are exhausted (30 thousand soms for photo ID), the account is blocked, and the block can only be removed by physically visiting the branch.

- To receive transfers, they are forced to use accounts/wallets of relatives in Kyrgyzstan (which creates risks to trust relationships) or switch entirely to informal channels.

The complexity of the situation lies in the fact that the main money senders cannot legally use the digital services of the recipient country **,** which makes investments in the digitalization of transfers for this segment pointless.

6.3.3. Uncertainty in the regulation of virtual assets

Cryptocurrencies (primarily the USDT and USDC stablecoins) are becoming an increasingly popular remittance tool among Kyrgyz migrant workers working in Russia, Kazakhstan, and other countries. The use of crypto transfers has grown three- to four-fold between 2023 and 2024, driven by the obvious advantages of this channel over traditional remittances: speed (15-30 minutes vs. 1-2 days), low cost (1-2% vs. 3-5%), and 24/7 availability. In practice, a significant portion of cross-border transfers are made through the USDT stablecoin using P2P platforms. A typical scenario is as follows: a migrant in Russia purchases USDT for rubles through a P2P service of a major crypto exchange, then transfers the acquired tokens to the recipient's crypto wallet in Kyrgyzstan. The transaction takes just a few minutes, and the blockchain fee is typically around $1–2, depending on the network chosen. The recipient then sells the USDT for som (KGS) through a local P2P platform, receiving the funds on a bank card or e-wallet. The entire process typically takes 15–30 minutes.

From a user perspective, this scheme is perceived as a faster and more cost-effective alternative to traditional remittances systems. Total costs, including network fees and exchange rate spreads on the P2P market, often amount to around 1–2 percent, which is lower than the average 3–5 percent in official channels, taking into account fees and currency conversion.

However, this model is associated with a number of barriers and risks. It requires basic digital literacy, a smartphone, and an understanding of crypto exchanges and wallets. Users face the risk of fraud in P2P transactions, account suspensions during compliance checks, as well as market risks associated with spreads and possible deviations of the stablecoin from its dollar peg. Furthermore, such transactions are often conducted outside of regulated jurisdictions, limiting the legal protections of participants.

In this regard, a key development direction could be the creation of a licensed and transparent market that would allow the integration of such instruments into the regulated financial system. Providing banks and other market participants with legal mechanisms for working with virtual assets could create safe and regulated alternatives for migrants and entrepreneurs, reducing the share of informal schemes and increasing customer protection.

The virtual asset market in Kyrgyzstan

According to the Financial Market Regulation and Supervision Service under the Ministry of Economy and Commerce of the Kyrgyz Republic, the turnover of virtual assets in 2024 amounted to 587 billion soms (~$6.7 billion), [4]which is more than 2 times higher than in 2023. More than 130 crypto exchange services (VASPs) and 8 licensed crypto exchanges are registered in the country.

As of November 2025, the virtual asset market continues to demonstrate significant growth. The total turnover of virtual asset service providers reached 1,784.18 billion soms (~$20.4 billion), which is more than 3 times higher than in 2024. 185 licenses have been issued to virtual asset exchange operators, 13 licenses to trading operators, and 10 mining certificates. The amount of taxes paid by VASPs and mining companies amounted to 2,041.7 million soms.

Current state of regulation

At the time of the study (October–December 2025), the legal status of virtual assets (VA) and the procedure for their use in cross-border remittances remain uncertain. There is a licensing system for virtual asset service providers (VASPs)—crypto exchanges and exchanges—which must obtain a license from the National Bank of the Kyrgyz Republic (as of November 2025, 185 crypto exchanges and 13 crypto exchanges were registered), and AML/KYC requirements for VASPs are similar to those for banks.

However, there are no clear rules for using stablecoins (USDT, USDC, etc.) directly for remittances through banks and payment organizations.

[4] Link to data source: State Financial Supervision Service Reports

The study found that 64% of organizations said they were willing to work with stablecoins if there was clear regulation, but only 7% of organizations had specialists with blockchain expertise.

The problem is exacerbated by the lack of regulatory guidance: banks will not invest in staff training until there is clarity on the legal status of crypto services. This creates a vicious circle: no regulation → no investment in skills → no opportunity to launch services → no pressure on regulators to create rules. Additional barriers to the development of remittances using virtual assets:

- Difficulty in identifying counterparties: if a bank client sends USDT to an external wallet, the bank doesn't know who owns that wallet (an individual, a legal entity, or a criminal organization). Traditional KYC (know your customer) only works at the bank's client level, not across the entire blockchain transaction chain;
- Risk of receiving "tainted" cryptocurrencies: a bank client may receive USDT that was previously used for illegal activities (money laundering, drug trafficking, terrorist financing). Even if the client was unaware of this, the bank could come under regulatory scrutiny;
- FATF Travel Rule: The Financial Action Task Force (FATF) requires that transfers over $1,000 include information about the sender and recipient (name, address, account number). This information isn't automatically transmitted on blockchain—banks need to implement additional systems (Travel Rule solutions), which are expensive and not all crypto exchanges/counterparties support them.
- Risk of sanctions from international partners: If a Kyrgyz bank operates with cryptocurrencies without proper AML/CFT controls, its foreign partners (correspondent banks, Visa/Mastercard payment systems) may terminate their relationships due to sanctions risks. This is especially critical in the current environment, as sanctions pressure on the region intensifies (see Section 5.2).
- Cost of AML/CFT control solutions: Blockchain analytics systems (Chainalysis, Elliptic) cost $50,000–$200,000/year , but even they don't guarantee complete control . These systems can only track known addresses (sanctions lists, criminal groups), but if the address hasn't previously been involved in illegal activity, the system won't block it.

> ***"Regulatory clarity in this area would help us develop this direction more actively. Currently, we operate in a grey zone, which slows down investment."***
>
> — Respondent, Commercial Bank

Customer distrust and the need for large-scale information campaigns

Low public awareness of cryptocurrencies and a high level of mistrust due to associations with fraud, volatility, and the "dark web" create an additional barrier to the adoption of crypto services. The problem of cryptocurrency acceptance in the Kyrgyz Republic is largely due to events in recent years. In 2021–2022, crypto pyramid schemes such as MMM-2021 and Finiko were active in the country, leading to significant financial losses among the population. These incidents cemented a persistent association of cryptocurrencies with fraud and financial pyramids in the public consciousness, fueling general skepticism and wariness among the general population.

An additional factor is the fear of volatility. Many clients lack a clear distinction between stablecoins like USDT, which is firmly pegged to the US dollar, and volatile cryptocurrencies like Bitcoin, whose price can fluctuate significantly over short periods of time. Fear of losing funds due to sudden exchange rate fluctuations increases mistrust and reduces willingness to try new financial instruments.

The technological aspect further complicates the situation. The concepts of "blockchain," "crypto wallet," and "private key" remain complex and abstract for a significant portion of the population, especially older people. A lack of understanding of the technology's mechanics translates into a general sense of risk and distrust of the tool as a whole.

Under these circumstances, promoting crypto services will require banks to invest significantly in information and educational campaigns. Clear explanations are needed in the form of infographics, videos, webinars, and in- branch consultations. However, there remains a risk that even with active educational efforts, mass demand for crypto services may fall short of expectations, increasing the uncertainty of the return on such investments.

6.4 CHALLENGES OF ESTABLISHING PARTNERSHIPS

Banks and payment institutions in the Kyrgyz Republic face significant structural constraints when building partnerships with foreign financial institutions and payment and technology service providers. This problem manifests itself both in the traditional correspondent banking infrastructure and when connecting to modern digital and payment services.

6.4.1. Correspondent accounts and international banking relations

Opening and maintaining correspondent accounts with foreign banks remains a key challenge. Since 2022, the international financial environment has become significantly more sensitive to sanctions and compliance risks. International banks have strengthened their compliance checks with US, EU, and UN sanctions regimes, while financial institutions in countries actively involved with Russia are considered more risk-sensitive. Given that a significant share of cross-border transfers to Kyrgyzstan are linked to Russia, this automatically increases the level of due diligence required of potential correspondents.

Due diligence procedures have become more in-depth and lengthy. These reviews can take six to twelve months and include an analysis of the bank's ownership structure, capital sources, internal AML/CFT procedures, client profile, and the nature of its international transactions. Even after providing a complete set of documents, correspondent banks often request additional clarifications, which delays the process and increases administrative and legal costs. Preparing and supporting such procedures can cost Kyrgyz banks tens of thousands of US dollars, depending on the requirements of the individual correspondent.

An additional factor is the requirement for increased transparency of transaction flows, particularly those related to Russia. International banks may request detailed process flows, confirmation of the absence of transactions with individuals on sanction lists, and the implementation of specialized sanctions screening systems. Even if a correspondent account is successfully opened, restrictions on the volume or type of transactions are often imposed, including limits on transaction amounts or restrictions on certain jurisdictions.

In some cases, a de-risking strategy is used—refusing to cooperate with banks in regions perceived as high-risk, regardless of the individual bank's profile. Decisions to close or refuse to open correspondent accounts are often made without detailed public justification, which increases uncertainty and complicates strategic planning.

> ***"It is difficult to find partners outside the CIS (e.g., Vietnam, Europe). Limited awareness of Kyrgyz banks makes it challenging to establish direct correspondent accounts and partnerships."***
>
> — Respondent, Commercial Bank

An additional consequence of geopolitical changes was the reduction of direct correspondent relationships with a number of Russian banks, forcing Kyrgyz banks to transition to multi-tiered settlement chains through third-country banks. This led to higher transaction costs, longer payment processing times, and increased operational risks.

Thus, restrictions in the sphere of correspondent relations are systemic and directly impact the cost, speed, and stability of international settlements, as well as the ability to connect to global financial and technological services.

6.4.2. Low awareness of the Kyrgyz market among international providers

An additional barrier A limited understanding of local market specifics by international partners is a barrier to the development of digital financial services. Many global cloud service and fintech solution providers:

- are insufficiently aware of the regulatory environment and the role of the National Bank of the Kyrgyz Republic;
- underestimate the level of maturity and readiness of local banks to implement modern technologies;
- do not see the Kyrgyz market as a priority due to its small size;
- do not take into account the specifics of cross-border money flows, where up to 90% of transfers come from Russia, and a significant portion of transactions take place through the informal sector.

These factors significantly reduce the incentive for international companies to invest in adapting their products, launching pilot projects, and establishing long-term partnerships with Kyrgyz banks. As a result, banks are forced to compromise between access to modern technologies and compliance with local requirements, which slows the adoption of innovations and increases the costs of digitalization.

6.4.3. Limitations related to cloud technologies and data residency

In the context of digitalization of the financial sector, a significant portion of international payment and fintech providers offer solutions built on cloud infrastructure, with data hosted in global data centers outside the Kyrgyz Republic.

The Kyrgyz Republic's regulatory framework, including the Law "On Personal Information" (2008), government bylaws, and regulations of the National Bank of the Kyrgyz Republic, establishes requirements for personal data protection, control over critical IT functions, outsourcing, and ensuring regulatory access to information. Formally, the current regulations do not explicitly prohibit the use of cloud technologies or foreign providers. However, the combination of requirements—regulatory oversight, storage of financial data for a specified period (usually at least five years), and control over critical infrastructure—effectively makes the use of foreign cloud solutions legally and compliance-sensitive.

In practice, banks are forced to host key information systems and client data archives in the Kyrgyz Republic or use local data centers and cloud solutions over which they have full operational and regulatory control. This limits the choice of technology partners and reduces the flexibility of digital transformation.

Additional complications arise from the limited willingness of international providers to adapt their solutions to data localization requirements. Using local data centers often increases the cost of implementing and maintaining IT systems and may also be inferior to global cloud platforms in terms of fault tolerance, scalability, and the speed of implementing new services. As a result, banks face rising costs and a slowdown in innovation. At the same time, legal risks remain when working with foreign cloud providers, including potential regulatory claims in the event of non-compliance with access and control requirements.

Examples of cloud-native solutions:

- **AWS (Amazon Web Services)** offers a wide range of cloud services for data storage, analytics, and application management, but its standard data centers are located overseas, requiring adaptation to local requirements for storing personal and financial data.

- **Microsoft Azure** is an enterprise cloud platform often used for core banking, CRM, and analytics; the solution may require choosing a regional data center or using Azure Stack for on-premises hosting.
- **Google Cloud Platform (GCP)** – services for scalable applications and machine learning; foreign data storage creates risks regarding regulatory oversight and the storage of financial information in the Kyrgyz Republic.
- **Stripe, Adyen, and PayPal** are international payment gateways that operate through their global data centers; use of these services may be subject to data residency and regulatory access restrictions.

6.4.4. Speed of integrations

Technical integration difficulties are compounded by the fact that each operator uses its own protocols —Western Union, MoneyGram, Zolotaya Korona, Astrasend, and correspondent banks all have their own data formats, authentication methods, and error handling schemes. Due to this diversity and the often monolithic nature of ABS systems, integrations take 6+ months **.** Even if a bank is ready to connect to a new transfer operator, it must develop a unique connector from scratch: study the documentation (often incomplete), write adapter code, test it in an isolated environment, agree on security requirements, and obtain certification. A monolithic ABS complicates this process—there is no ready-made modular API layer through which to quickly connect a new system. Each integration requires direct intervention into the ABS core or the development of intermediate middleware, which creates additional points of failure and increases technical debt. As a result, banks are forced to choose between speed and reliability: either quickly connect using hacky solutions with a high risk of failure, or conduct a full-fledged integration with a months-long development and testing cycle. Both options are ineffective: the first leads to technical issues in production, the second to missed opportunities and falling behind competitors.

> ***"The issue is not API complexity, but the diversity and absence of standards. Each operator uses proprietary protocols, and combined with often monolithic core banking systems, integrations can take over six months."***
>
> — Respondent, Commercial Bank

6.4.5. High cost of international payment and technology services

When attempting to connect to international payment, processing, or fintech services, Kyrgyz banks face economic infeasibility due to tariffs that are disproportionate to the scale of the local market. The tariff models of most international providers are initially designed for large jurisdictions with high turnover and a significant number of transactions. The cost of licenses for using payment platforms and related solutions can range from $100,000 to $500,000 per year, significantly exceeding the potential profitability of the payments business of the average bank in the country. The architectural specifics of modern financial technologies complicate the situation. A significant portion of innovative services—including machine-learning-based anti-fraud monitoring systems, real-time sanctions and AML screening, eKYC solutions, open banking API platforms, and tools for processing cross-border instant payments—are developed as cloud-native products. Their effectiveness is achieved through a distributed cloud infrastructure, scalability, centralized algorithm updates, and global databases. Given restrictions or cautious approaches to using foreign cloud services, banks are forced to consider on-premise implementation, which significantly increases capital and operating expenses. Deploying solutions within an in-house infrastructure requires purchasing server equipment, creating backup data centers, ensuring fault tolerance, cybersecurity, and business continuity, as well as building a qualified IT team for ongoing system maintenance and updates. This not only increases the total cost of ownership but also slows down the adoption of innovation. As a result, connecting to international technology ecosystems becomes economically challenging for small and medium-sized Kyrgyz banks, limiting their competitiveness and clients' access to modern financial services.

Consequences for Kyrgyz banks:

Taken together, these factors seriously limit the capabilities of Kyrgyz banks and payment institutions. They have limited access to modern international payment and digital services, incur increased costs when working with foreign partners—related to compliance, licensing, and product adaptation—and implement innovations more slowly than banks in larger, more integrated markets. Furthermore, financial institutions remain dependent on a narrow circle of correspondent and technology partners, creating concentration risks. As a result, banks are unable to offer clients competitive products, including fast, affordable, and convenient cross-border transfers. This hinders the development of digital financial services and market competition, creating a direct incentive for clients to use informal channels—hawala, Telegram transfers, or P2P crypto exchanges—where such restrictions are not imposed.

7. RECOMMENDATIONS AND ROAD MAP

The study identified systemic barriers hindering the digital transformation of the Remittances market. The market is already demonstrating high growth rates (+64% in 2024, +61% in the first half of 2025), but the quality of this growth will determine its long-term sustainability. Without addressing the identified barriers, there is a high risk that a significant portion of the market will remain in a gray zone or will depend on single providers and external corridors vulnerable to sanctions pressure. The proposed roadmap is based on the principle of sequential stages: first, critical barriers are removed and regulatory clarity is created (0-6 months), then pilots are conducted and expertise is built (6-18 months), and only then can solutions be scaled up (18-36 months). The key principle: without regulatory reform, technological and market initiatives will be ineffective.

7.1. IMPROVING CUSTOMER EXPERIENCE

7.1.1. Customer priorities when choosing a Remittances channel

Understanding customer priorities is critical to developing effective recommendations for transforming the Remittances market. Research shows that customers are driven by six key

factors. when choosing a channel for sending and receiving funds. These factors should form the basis of a strategy for developing digital channels and competing with the informal sector.

No.	Priority	Key data	What is important for clients	Implications for recommendations
1	**Reliability and safety**	**46% of users** name this as the main selection criterion *(NAFI, Russia, 2024)* This is especially critical for low-income clients	• Confidence that money will not be lost • Protection of personal data • Provider stability • Money-back guarantees in case of failures • Licensing and supervision	• Visible security certificates (PCI DSS, ISO 27001) • Transaction insurance and money-back guarantees • Transparent information on NBKR licenses • Push notifications at every stage of the transfer • Emphasizing the advantages of legal channels in marketing
2	**Ease of use**	**The main driver** of repeat use and loyalty *(Western Union "Global Money Transfer Index", 2023)*	• Intuitive interface • Minimum steps to complete the transaction • No need to re-enter data • Easy navigation • Saved recipients	• "Send again" function in 1–2 clicks • Saving a list of recipients with clear names • Registration and first transfer in ≤5 minutes • Biometric authorization (Face ID, Touch ID) • Pre-filled forms
3	**Total Cost**	A difference of **0.5–1%** in the final cost forces clients to change the transfer channel. Includes: commission + exchange rate spread + hidden fees.	• Transparency of all cost components • Comparison with competitors • Predictability of the final amount • No hidden fees • Competitive rates	• Mandatory full cost calculator (Recommendation 2.1) • Breakdown of all cost components • In-app comparison feature with competitors • Loyalty programs for regular customers

No.	Priority	Key data	What is important for clients	Implications for recommendations
4	**Channel availability**	Two dimensions: • **Physical** – branches/agents for cash • **Digital** – completing the entire transaction remotely Physical accessibility is critical for the elderly, rural residents, and customers with low digital literacy	• Possibility to receive cash close to home • Choice of channel depending on the situation • Hybrid models (send online, receive cash)	• Remote identification for migrants (Recommendation 1.1.2) • Expansion of the agent network through microfinance organizations, post offices, and stores (Recommendation 4.3) • Full digital life cycle of the operation • Optimization of hybrid models
6	**Transparency of conditions**	Clients react extremely negatively to: • Unexpected additional fees • Changes in the exchange rate during the transaction • Hidden restrictions on shares • Non-transparent conditions	• See all transaction parameters before confirmation • Fixed exchange rate and fees • Clear language without technical jargon • Advance notification of changes	• WYSIWYG principle (What You See Is What You Get) • Fixation of the final amount for 15 minutes after calculation • Clear indication of all restrictions and conditions of promotions • Announcement of tariff changes ≥7 days in advance • Transparency as a competitive advantage over the informal sector

The identified factors form a comprehensive system of requirements for an ideal remittances channel. Providers that can achieve high levels across all factors simultaneously will gain a sustainable competitive advantage over both other legal operators and the informal sector. It is critical to understand that clients evaluate channels based on a combination of factors , not a single parameter: even the lowest fees do not compensate for unreliability or interface

inconvenience. All recommendations presented in this section should be developed and implemented with these six priorities in mind.

7.1.2. Lack of transparency in rates and fees undermines customer trust

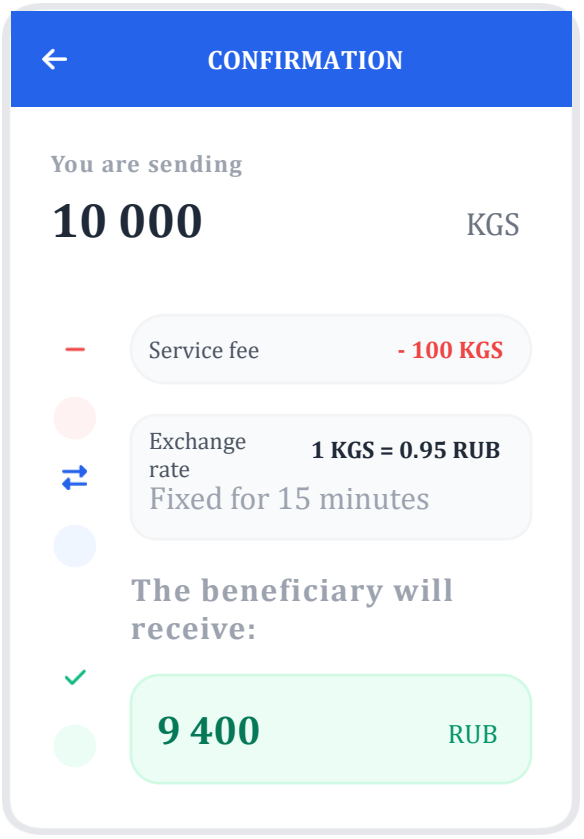
One of the most critical barriers to digitalization of the translation market remains the lack of transparency final cost operations. Clients Not can in advance calculate, what amount actually will receive destination, because exchange well And commissions often are hidden until the very last moment of transaction confirmation. The result is a lack of trust in digital channels And forced practice "manual comparisons" — clients They call several banks trying to find the most favorable conditions, which turns a simple operation into V multistage quest. This problem especially sharp For labor low-income migrants, for whom saving even 100–200 soms on an operation is significant.

Recommendation: Implementation of the Total Cost of Remittance calculator

All remittances service providers are required to integrate a transparent cost calculator into their digital channels (mobile apps, web interfaces) that displays the following elements to the client at the transfer initiation stage, before confirmation: the exact amount the recipient will receive in the receiving currency; the applied exchange rate, with a clear indication of any deviation from the market rate (e.g., the National Bank of the Kyrgyz Republic or international exchange rates); all fees, broken down into separate lines—transfer operator fees, sending bank fees, receiving bank fees, and other charges; estimated crediting time; and, if multiple transfer channels are available within the app, an interactive comparison of options, indicating the difference in the final cost.

This calculator should become a mandatory element of the user interface for all digital transactions involving international transfers. During the first stage (0-6 months), the NBKR may launch a voluntary initiative, whereby banks and payment organizations implement the calculator competitively as a differentiating element. During the second stage (6-12 months), full cost transparency will become a regulatory requirement for all licensed operators.

An example of a recommended UX pattern for confirmation screens



7.1.3. Rising fraud undermines trust in digital channels

Height fraudulent schemes, exploiting low financial literacy population and insufficient security of digital channels, poses a critical threat to trust To legal financial system. Each successful fraud case not only results in financial losses for a specific client but also erodes trust in all digital channels as a whole: victims return to offline transactions or switch to informal channels.

Recommendation: Strengthen fraud prevention and customer protection systems

Banks and payment institutions must implement a multi-layered fraud protection system based on modern artificial intelligence technologies. A key element is the implementation of AI fraud monitoring systems that analyze transaction patterns in real time and automatically block suspicious transactions for additional verification (for example, a transfer to a new account with an unusually large amount). sum, multiple operations V short interval time, geographically anomalous activity). Before committing operations With new recipient client You should definitely see a pop-up warning with a brief description of typical fraudulent schemes and recommendations for verification.

A critical feature is the ability to "cancel a transfer" within 15-30 minutes of sending, while the funds have not yet been fully credited to the recipient. This creates a window of opportunity to correct errors or prevent a fraudulent transaction after the fraud is realized. Additionally, it is necessary to create a shared database (blacklist) of phone numbers, accounts, and identifiers associated with confirmed fraud cases, with automatic verification, for all market participants. blocking operations With such counterparties. It is recommended to publish quarterly statistics on fraud and protection measures taken, which will create transparency for consumers and allow them to evaluate the reliability of providers.

7.2. INCREASING FINANCIAL LITERACY AND PROTECTION

7.2.1. Low financial literacy and lack of understanding of identification mechanisms

Low financial literacy of clients remains a serious barrier to transition to digital remittances channels. Most clients don't understand the fundamental difference between simplified (photo ID, limit of 30,000 soms/month) and full (video ID or physical bank visit, limit of 200,000 soms/month) identification. What leads To regular blockages accounts at excess Limits and, as a result, a loss of trust in digital channels. Clients also don't understand how the final transfer cost (rate + fees) is determined and what alternative methods of sending funds exist. Although 93% of organizations reported implementing financial literacy programs, their reach remains insufficient to achieve a systemic effect, and the formats are often not adapted to the lifestyle and language preferences of the target audience—migrant workers.

Recommendation: Digital and financial literacy program with a focus on migrants

Necessary development complex, multi-format programs increases Financial literacy tailored to the specifics of the target audience. Key formats include: 5-10-minute micro-courses in the form of short videos, embedded directly into mobile apps for contextual training upon first-time use of a new feature (e.g., first transfer, first exceeding the simplified identification limit); infographics and step-by-step checklists in Kyrgyz and Russian in printed and digital formats, distributed through bank branches, payment institutions, and Kyrgyz consulates abroad; regular webinars and in-person seminars in the regions of Kyrgyzstan and in countries with a large Kyrgyz diaspora (Russia, Kazakhstan, Turkey); interactive transaction

simulators, allowing clients to practice transferring simulated amounts without the risk of losing real money; and mandatory modules on recognizing typical fraudulent schemes with specific examples and protection instructions.

7.3. REGULATORY REFORMS

7.3.1. Remote Identification Limits

Current remote identification limits—30,000 soms per month for photo identification and 200,000 soms for video identification—no longer meet the real needs of the target audience for remittances. The average transfer size makes up 28 500 soms, A typical labor migrant sends from 30 000 to 60,000 soms per month. The result is a loss of active users. offline and informal channels .

Recommendation: Review limits using a risk-based approach. It is recommended to initiate changes. V Position "ABOUT in order conducting identification And verification clients" with the aim of increasing the limits on remote identification to a level that corresponds to the real needs of the market.

- **Differentiated Limits**: In addition to simply increasing absolute limits, it is recommended to implement a differentiated limit mechanism based on the client's history with the financial institution. Clients who demonstrate long-term account use without violating compliance requirements (e.g., more than 12 months without suspicious transactions) can receive progressively higher limits—for example, a 50% increase after a year of flawless use. This risk-based approach allows for a balance between the goals of financial inclusion and AML/CFT risk control: verified clients receive more freedom, while new users remain under stricter monitoring.
- **Transparency of cumulative limits.** One of the main reasons for customer dissatisfaction is the lack of clear information about how monthly limits are calculated and spent. Many users don't understand that the limit is cumulative and is spent on all transactions—payments, transfers, and cash withdrawals. Unexpected account blocking when attempting a transaction that is within the limit but exhausts the monthly accumulated spending undermines trust in digital channels.

It is recommended that all financial institutions implement a mechanism for displaying the "remaining limit" directly in the mobile app and web banking interface. Before confirming any transaction, clients should be able to see: (1) the current limit used for the current month, (2) the remaining balance until the limit is exhausted, and (3) the limit that will be used after the current transaction is completed. Additionally, a clear explanation is needed that the limit applies to everything — remittances, services, purchases, and other payments —and this should be included in financial literacy training programs.

This measure will significantly reduce the number of unexpected blockings and customer complaints, increase the transparency of the system, and foster trust in legitimate financial channels. Implementation requires only changes to the user interface and does not involve any additional regulatory barriers.

Implementing this measure will require the formation of a working group comprising representatives of commercial banks, payment institutions, and regulatory authorities to assess the risks of limit increases. The working group must model the impact of the new limits on suspicious transaction volumes, analyze historical data on account blocking due to limit exhaustion, and calculate optimal thresholds for different client categories.

7.3.2. Identification of citizens abroad

Currently, approximately 90% of remittance flows come from Russia, where hundreds of thousands of migrant workers are located. However, these people are effectively deprived of the opportunity to legally open an account or e-wallet at a Kyrgyz financial institution.

Recommendation: Develop a remote identification mechanism for Kyrgyz citizens abroad.

In parallel with revising the limits, it is necessary to address the inaccessibility of remote identification procedures for Kyrgyz citizens physically located outside the country. It is recommended to amend the Regulation “On the procedure for identifying and verifying clients” to legalize full remote identification of Kyrgyz citizens abroad. Possible options for implementing the new procedure:

- **Video identification with a live operator** is a video call with an employee of a financial institution or the Kyrgyz Republic consulate, during which the original identity document is verified and liveness detection is performed.

- **Integration with international identification services** —recognition of identification results from trusted international partners (GovTech systems), such as the Unified Identification and Authentication System and Gosuslugi in Russia; the national digital ID system egov.kz in Kazakhstan; and the state electronic identification system e-Devlet in Turkey for the mutual recognition of digital ID cards.
- **Mutual Recognition Agreements for Electronic Digital Signatures (EDS)** – the conclusion of bilateral and multilateral agreements on the recognition of electronic digital signatures (EDS) within the Eurasian Economic Union (EAEU), the Shanghai Cooperation Organization (SCO), and other regional associations. This will allow documents signed with the digital signatures of foreign states to be accepted as legitimate for account opening.

The introduction of dynamic limits can help mitigate the risks associated with implementing this option for migrants . New clients who complete remote identification initially receive limited access to transactions—for example, a limit of 50,000 soms per month. This approach allows the bank to monitor client behavior and identify potentially suspicious transactions early. As the legitimacy of transactions is confirmed (no suspicious transfers for 3-6 months and proof of source of funds is provided), the limit automatically increases to 200,000 soms, and then to 500,000 soms and higher for clients with an impeccable history of more than 12 months. This graduated scheme simultaneously maintains security and does not hinder the development of relationships with reliable clients.

Furthermore, it is important to limit high-risk transactions for new remotely identified clients. These include:

- P2P transfers to new cards not linked to verified bank accounts;
- Transfers to third-party accounts without proof of kinship or business relationship.

These measures reduce the system's vulnerability to potential abuse while maintaining the ability to service clients remotely. Combined with dynamic limits and continuous transaction monitoring, this creates a balanced and flexible risk management system where legitimate users can fully utilize digital services, and risky transactions are controlled at an early stage.

Successful international cases

- **Estonia: e-Residency.** Since 2014, Estonia has offered an e-Residency program, which allows citizens of any country to obtain an Estonian digital identity card and open accounts with Estonian banks entirely online, without having to physically be present in the country. The process involves submitting an online application, video verification, document review, and collecting a digitally signed smart card at a police station or Estonian embassy.
- **Philippines (RemitHome):** Bank partnerships with overseas agents (Western Union, Palawan Pawnshop) for KYC of Filipino migrants in 50+ countries.
- **Mexico (BBVA Bancomer):** Cross-border KYC through the BBVA network in the US and Spain – Mexican migrants undergo identification at BBVA branches abroad, and an account is opened in Mexico.

Implementation of this measure will require the creation of an interdepartmental working group involving the National Bank of the Kyrgyz Republic, the Ministry of Foreign Affairs, the State Financial Supervision Service, and the State Financial Intelligence Service. The group will develop a regulatory framework (amending the KYC Regulation and approving the consular identification procedure), technical specifications for the creation of an IT platform, and training regulations for consular officers.

7.3.3. Uncertainty in virtual asset regulation blocks innovation

A survey of market participants revealed the following situation: 64% of organizations stated their willingness to work with stablecoins if there was clear regulation. However, in practice, all existing initiatives are stuck in the experimental stage due to the lack of a clear regulatory framework. At the same time, there is unmet demand from clients: according to expert estimates from interviews, the use of cryptocurrencies for remittances has grown three- to fourfold over the period 2023-2024, but all of this demand is being served by exclusively through informal P2P platforms And Telegram exchangers are not regulated by the regulator and do not provide consumer protection.

The lack of regulatory clarity creates a double negative effect. On the one hand, legitimate financial institutions cannot scale up pilot projects for fear of sanctions. with sides NBKR for violation unclear or absent requirements. At this is only 7% organizations possess internal

expertise in virtual assets areas blockchain , and without a clear regulatory signal about the prospects of virtual assets in the company's financial sector, they are not going to invest extension of these competencies. At another hands, significant part ofexisting market demand is diverted into illegal channels where there is no taxation, no AML/CFT controls, and no consumer protection from fraud or technical failures.

Recommendation 1. Developing internal expertise in virtual assets and blockchain technologies. According to the survey, only 7% of organizations possess in-house blockchain expertise. Meanwhile, 64% stated their readiness to work with stablecoins if regulated—however, this readiness is impossible without qualified personnel. It is recommended to create working groups of compliance, IT, and business unit specialists to systematically study the regulatory framework (the Law on Virtual Assets, the requirements of the Financial Supervision Authority, the RUNEXKG platform) and distributed ledger technologies. Estimated costs: training a team of 3–5 specialists: $5,000–$15,000. Trained personnel will become a key resource for the bank as new regulatory opportunities in the virtual asset sector emerge.

Recommendation 2. Implement KYT/AML procedures to monitor digital transactions. The development of digital transfers will require banks to develop fundamentally new competencies in KYT (Know Your Transaction)—a technology for tracking and analyzing transactions on the blockchain. Unlike traditional KYC, KYT enables real-time risk assessment of each transaction: identifying links to illegal addresses, tracking suspicious patterns, and ensuring compliance with AML/CFT requirements in the digital environment. Recommended measures include training compliance officers in blockchain analytics tools (Chainalysis, Elliptic, Crystal); developing internal regulations for monitoring cryptocurrency transactions; and integrating with the state-owned RUNEXKG platform, launched in December 2024 to monitor and analyze the activities of all 208 licensed VASPs in Kyrgyzstan.

Recommendation 3. Conduct an analysis of customer demand for digital channels for migrant remittances. Interviews revealed that a significant portion of remittances is processed through informal P2P platforms and Telegram exchangers, which do not provide consumer protection and are not subject to regulatory oversight. Banks need to quantify "lost" demand among existing clients and identify the segments most receptive to the transition to legal digital channels. Key parameters include transfer frequency, average order value, key currency bands, and preferred channels. The analysis results will allow banks to invest intelligently in developing the digital services most in demand by migrant clients.

Recommendation 4. Pilot projects using the national stablecoins KGST and USDKG. Two state-owned stablecoin projects are being developed in parallel in Kyrgyzstan, providing banks with unique opportunities to facilitate digital transfers for migrants:

KGST (a stablecoin pegged 1:1 to the Kyrgyz som) is registered with the Financial Supervision Authority (Finnadzor), issued by KGSToken LLC, and is powered by the BNB Chain platform. It

is designed for internal settlements and integration with the banking system. KGST creates an infrastructure for instant internal transfers, depositing migrants' funds into bank accounts without conversion losses, and expanding access to financial services in remote regions.

USDKG (a stablecoin pegged 1:1 to the US dollar, backed by gold) was registered on October 31, 2025, and issued by Virtual Asset Issuer OJSC (the sole founder is the Ministry of Finance of the Kyrgyz Republic). It is focused on international settlements, value storage, and cross-border transfers.

Recommended: partnership with KGST and USDKG issuers to test digital transfer corridors; API integration with existing bank mobile apps; a limited pilot of 500–1,000 clients to evaluate transfer efficiency, speed, and cost. Potential to reduce fees for migrants: from the current 1.5–3% to 0.3–0.8%.

Recommendation 5. Developing an agency model for interaction with licensed VASPs. Instead of obtaining their own VASP license, banks can act as agents or partners of already licensed operators. According to the Financial Supervision Authority (Finnadzor), there are 208 licensed VASPs operating in the market, including 75 exchange operators and 7 trading operators, with a combined turnover of 1,784 billion soms (~$20.4 billion). The agency model allows for rapid entry into the digital transfer market (3-6 months); minimizes regulatory risks; and utilizes the partner's existing infrastructure for converting virtual assets and fiat currencies. Implementation requires coordination of the interaction model with the National Bank of the Kyrgyz Republic and the Financial Supervision Authority (Finnadzor).

Recommendation 6. Monitor regulatory changes and prepare for new opportunities. The regulatory framework for virtual assets in Kyrgyzstan is rapidly evolving. Key amendments were adopted in 2025: Law No. 137 of July 10, 2025, on the Tamchy special financial investment territory with a special legal regime; amendments to the Law "On Banks and Banking Activities" regarding the opening of a digital wallet and transactions with virtual assets (letter of the National Bank of the Kyrgyz Republic dated July 25, 2025, No. 2025-iskh-40-07/6796). Banks are encouraged to monitor these initiatives, as they may open up new opportunities—from permitting the storage of clients' virtual assets to full-fledged transactions with digital financial instruments under a banking license. Early preparation (personnel, KYT/AML procedures, technological infrastructure) will provide a competitive advantage to those banks that are ready to act when the regulatory green light appears.

Implementing these recommendations will enable Kyrgyzstan's commercial banks to transform the current situation—where 64% of organizations are ready but unable to act due to regulatory uncertainty, and migrant demand for digital transfers is diverted to unregulated channels—into a strategic advantage. Investments in staff training and KYC/AML competencies today will lay the foundation for scaling digital services tomorrow.

7.3.4. Data Residency Requirements

Localization data blocks usage cloud solutions; Pilots are delayed for months; infrastructure costs are 3-5 times higher.

Recommendation: Revisiting Data Residency Requirements with a Balance of Security and Innovation

To eliminate legal uncertainty and reduce barriers to the adoption of modern technologies, it is advisable to formally define permissible formats for using cloud infrastructure in the banking sector. The key objective is to eliminate the existing regulatory gray area by clearly delineating critical and non-critical functions.

Critical functions and data—including customer personal data, transaction information, account information, and identification data—must be stored within the Kyrgyz Republic or use a hybrid model with a mandatory local database. This will ensure full regulatory oversight and compliance with legal requirements.

At the same time, non-critical and auxiliary services— front-end applications, analytical tools, marketing platforms, CRM systems, development and testing environments—can be hosted in public clouds, provided that encryption and information security standards are strictly adhered to.

Cloud Services" hybrid model appears optimal. Within this framework, the local core (Core Banking System), including the automated banking system, client database, and transaction processing, remains in the Kyrgyz Republic. Cloud infrastructure is used for mobile applications, web interfaces, AI/ML analytics, fraud monitoring, backup, and disaster recovery solutions . Recovery) in certified global clouds (AWS, Azure, GCP). The boundaries must be clear: client databases must be kept strictly within the country, and only aggregated and anonymized data is transferred to the cloud for analytical purposes.

An additional mechanism for ensuring control could be the implementation of the BYOK (Bring Your Own Key) principle. Cloud data encryption keys must be stored in a local key management system (KMS) within the Kyrgyz Republic. Even when using public cloud

infrastructure, the provider does not have access to unencrypted data without the key, which is controlled by the bank and regulator. This allows for the benefits of global scalability while maintaining data sovereignty.

To regulate cross-border data exchange, it is advisable to use legal instruments similar to international practice. In particular, the use of standard contractual clauses (Standard Contractual Clauses) Clauses) will ensure the legality of data transfer while providing guarantees for its protection. Agreements with cloud providers should include obligations to comply with Kyrgyz law, grant the National Bank the right to audit and access data upon request, and require backup copies of critical data to be localized within the country.

Comprehensive implementation of these measures will simultaneously ensure data protection and regulatory control, reduce bank costs, expand access to international technological solutions, and accelerate the digital transformation of the financial sector in the Kyrgyz Republic.

An example of a hybrid data storage model:

M -Pesa, Kenya.

M -Pesa combines -Safaricom's local data centers and AWS cloud services for analytics, AI/ML, and scalable APIs. Critical customer data is stored on Safaricom's infrastructure, and the cloud is used to support the frontend, fraud detection, and integration with banks. Encryption keys remain under -Safaricom's control, ensuring security and regulatory compliance. M -Pesa is integrated with more than 30 commercial banks via an API for transfers between M -Pesa accounts and banking systems. (safaricom.co.ke)

UPI, India.

In UPI, transaction data remains with banks, and the NPCI central switch routes transactions in real time. Front-end -applications (Google Pay, PhonePe, Paytm) run in the cloud, without access to bank databases. Anonymized metadata is used for analytics and scalability, while security is ensured by encryption, card tokenization, and two-factor authentication. (geeksforgeeks.org)

7.4. ESTABLISHING PARTNERSHIPS

7.4.1. Correspondent accounts and international banking relations

A significant number of refusals by international banks and fintech providers to collaborate with Kyrgyz financial institutions are related not so much to objective risks as to the lack of structured and understandable information about the country's banking sector. International partners operate within strict compliance models and standardized risk assessment procedures. If information about the country and the specific bank isn't presented in a familiar format, the default decision is often conservative—refusal or deferred review.

The problem isn't a lack of content, but rather the way it's presented. International compliance officers expect to see data structured by familiar risk categories—the AML/CFT framework, sanctions. screening, KYC/CDD/EDD procedures, IT governance, data protection In the absence of such standardization, Kyrgyzstan is perceived as a jurisdiction with an uncertain risk profile, which automatically increases verification requirements and reduces the attractiveness of cooperation.

Recommendation: Preparation of a single data package (Country Risk Profile)

In this regard, it is advisable to initiate the development of a unified national data package—a Country Risk Profile—coordinated by the NBKR in conjunction with the banking community. This document should systematically and in English present to international partners the Kyrgyz Republic's regulatory environment, the role and powers of the NBKR, the AML/CFT framework and supervisory practices with an emphasis on compliance with FATF recommendations, the maturity level of the banking sector's IT infrastructure, the economic parameters of the cross-border remittances market (including a volume of approximately $3.7–3.8 billion in 2025), and legislative mechanisms for personal data protection.

Documentation must be prepared using international terminology and reporting formats familiar to global banks and fintech companies, including Wolfsberg standards. Questionnaire, the SWIFT KYC Registry , and other recognized information disclosure tools. This will reduce transaction costs for initial verification and reduce the perception of regulatory uncertainty.

At the same time, each bank interested in international partnerships must have its own standardized profile. This profile must disclose the ownership structure and sources of capital, the corporate governance system, detail AML/CFT and sanctions screening procedures, staff training programs, demonstrate the presence of international certifications (ISO 27001, PCI DSS, SOC 2), compliance with Basel III requirements, and confirm technical readiness for integration (API, SWIFT, instant) payments, cloud infrastructure). If there are successful cases of cooperation with international partners, these should also be systematically presented.

Creating a transparent and standardized information package will shift the focus of assessments from risk assumptions to objective data. This will reduce the number of formal refusals and speed up due diligence processes. diligence and will increase the competitiveness of Kyrgyz banks in the international financial system.

7.4.2. Integration Speed

The open banking concept, already adopted by the National Bank of the Kyrgyz Republic, creates a unique window of opportunity for the structural modernization of the remittance's infrastructure. However, without including the cross-border transfer segment in the API standardization process, its potential will only be partially realized.

As part of the implementation of the NBKR Open Banking Concept, it is advisable to:

- develop a unified technical API standard for remittances operations;
- secure required minimum kit methods (for example: initiate_transfer, confirm_transfer , cancel_transfer , check_status , get_rates);
- define unified data formats (REST/JSON), standardized error codes and documentation requirements (OpenAPI / Swagger).

This approach will allow us to replace dozens of unique integrations with the "one standard – many participants" model.

Addressing the problem of fragmented integration requires synchronizing regulatory policy and bank architectural transformation. Otherwise, the market will continue to operate with costly individual connections, which will hinder digitalization and reduce the competitiveness of Kyrgyzstan's financial sector.

7.5. COMPETITION WITH THE INFORMAL SECTOR

7.5.1. 20-40% of flows are shifting to the informal sector due to price, speed, and lack of KYC

The informal money transfer sector – hawala systems, P2P exchangers on Telegram and cryptocurrency translations — successfully competes with official channels, Offering clients the best conditions across all three critical selection criteria. Official transfers cost clients 3-5% of the transfer amount (including explicit and hidden fees), while informal channels operate with a margin of 1-2%. Official transfers take several hours (at best) or 1-2 days (typically) to credit, while hawala and cryptocurrency ensure instant crediting within minutes. Official channels require KYC procedures with the provision of documents and

limited limits, while informal channels operate completely anonymously. The result is a diversion of 20-40% of flows (according to expert estimates) into the shadow economy, which creates risks for the financial system, complicates anti-money laundering efforts, and deprives the state of tax revenue.

Recommendation: Competitive strategy through increasing the value of official channels

Combating the informal sector through bans and sanctions is doomed to failure, as it is impossible to physically control distributed P2P transactions and Telegram channels. The only viable approach is to make official channels competitive, offering comparable terms in price and speed while adding the added value of legality, consumer protection, and reliability.

Banks and payment institutions must thoroughly optimize transfer processing processes, automate compliance checks to reduce manual labor, and negotiate with international transfer systems to reduce fees for operators processing significant volumes. The target is an average commission of 1.5–2%. corresponds level informal sectors.

Recommendation : Expanding geographic coverage

To compete with hawala , which has agents even in the most remote settlements, official channels must develop agent networks in partnership with local microfinance organizations, post offices, and even grocery stores willing to act as agents for transfer payments. In particularly hard-to-reach areas, mobile service points can be used—specialists with tablets who visit rural areas on a scheduled basis to identify clients and issue cash.

Recommendation: Information campaign on the risks of the informal sector

In parallel with increasing the competitiveness of official channels, systematic work is needed to inform the public about the risks of informal transfers: a complete lack of legal protection in the event of fraud or loss of funds, a high risk of sanctions for the sender and recipient, and the volatility of cryptocurrency rates. risk thefts personal data. Simultaneously follows actively Promote the advantages of legal channels—refund guarantees in case of errors, legally compliant personal data protection, 24/7 customer support, and the ability to dispute unauthorized charges. Informational materials should be distributed through social media, messaging apps, and Kyrgyz consulates abroad .

8. ROAD MAP: A STEP-BY-STEP APPROACH

The implementation of the roadmap is structured into four phases, taking into account the dependencies between measures:

Horizon 1: Foundation (0–6 months)

Objective: to prepare the market and participants for the transition to digital channels.

1. **Regulatory support and education of participants**
    - Support the National Bank of the Kyrgyz Republic in publishing methodological recommendations on AML/KYC, remote identification, and virtual assets.
    - Create, in collaboration with the National Bank of the Kyrgyz Republic, a unified portal with FAQs, standard cases, and feedback for banks, MTOs, and fintechs.
    - Organize a series of open consultations and working groups with market participants to identify and remove barriers.
2. **Development of participants' competencies**
    - Launch training programs on digital payments, blockchain technologies, and stablecoins.
    - Facilitate the certification of compliance specialists, with a focus on AML/KYC for remotely identified clients.
    - Create an industry register of best risk management practices.

🧪 Horizon 2: Pilots and Sandboxes (6–12 months)

Objective: To test new tools and channels for secure and transparent digitalization.

Recommendations for IFAD

1. **Regulatory sandboxes and test projects**

    - Maintain a sandbox with digital identification of clients abroad (biometrics, video verification).
2. **Diversification of corridors**

    - To promote the development of new geographic areas (Kazakhstan, Türkiye, UAE, EAEU countries) through simplified licensing.

    - Support the integration of fintech platforms into the official ecosystem with access to settlement infrastructure.
3. **Working with the informal sector**

    - Promote programs for the voluntary legalization of hawala operators and P2P platforms.

- Promote the creation of analytical systems for monitoring informal channels without repressive pressure.

🚀 Horizon 3: Scaling (12–24 months)

Goal: To promote widespread adoption of secure digital channels and enhance transparency.

Recommendations for IFAD:

- Promote international agreements on AML/KYC harmonization and recognition of identification procedures.
- Implement a system for monitoring and publishing metrics: share of digital transfers, average cost, processing speed, and bounce rate.

KEY FINDINGS

System stability and vulnerability

Kyrgyzstan's remittance market has demonstrated high resilience: the 2023 downturn (a ~30% decline in volume) served as a true stress test for the system, and by 2025, volume had recovered to pre-crisis levels. Remittances remain critically important for the economy (~20% of GDP). However, resilience is primarily ensured by the adaptability of users—migrants quickly find alternative channels when barriers arise—rather than by the institutional strength of regulation.

Structural concentration and external risks

The system is critically dependent on the Russian corridor, which accounts for the majority of incoming flows. Any shock in the source country immediately impacts Kyrgyzstan's macroeconomy. The geography of labor migration limits opportunities for diversification, so risk mitigation requires the development of alternative financial instruments rather than a reconsideration of migration flows.

Lagging behind in digitalization

The share of fully digital transfers remains low, despite global trends. The main obstacles are outdated limits, a ban on remote identification for citizens abroad, a lack of unified technical standards, and uncertainty in the regulation of virtual assets. This increases transaction costs and leads to fragmented innovation outside the banking sector.

User behavior

The choice of channel is determined primarily by economic benefit, speed, and convenience, rather than the operator's formal status. Even minimal differences in exchange rates, speed, or complexity of the procedure become decisive. The growth of alternative channels is explained by their speed, cost, and simplicity. Legal mechanisms will only be able to strengthen their position if competition exists across all three parameters simultaneously.

Virtual assets and blockchain

Virtual asset and blockchain technologies already have the potential to radically reduce costs and speed up transfers. Their adoption is hampered by regulatory uncertainty and bank caution. In practice, a significant portion of migrant transactions occurs outside the traditional financial system. Clear rules and institutional support could improve transparency, speed up settlements, and reduce costs.

Lack of coordination

The main problem is not a lack of demand or technology, but a lack of coordinated action among market participants. Neither the regulator, nor banks, nor fintech companies alone can ensure a systemic transition to a digital model. A coordinated policy is needed: modernizing the regulatory framework, creating a common infrastructure, and investing in competencies. Only coordinated action will reduce costs and increase resilience.

Structural choice point

The market is at a crossroads: it can either limit itself to gradual adaptation while maintaining vulnerability, or pursue active institutional modernization. Existing risks represent a window of opportunity for technological modernization of the financial system.

Knowledge and skills gap

A survey of market participants revealed a critical gap between interest and actual readiness for innovation: only 29% fully understand the National Bank of the Kyrgyz Republic's requirements, 64% are ready to implement stablecoins if there is clear regulation, but only 7% have the expertise to work with virtual assets. Market concentration exacerbates these risks: for example, Astrasend holds 52.6% of the market, creating a monopoly.

Macroeconomic consequences and social role

With remittances accounting for 25–30% of GDP, any disruptions immediately impact social stability. Migrant funds provide foreign exchange liquidity and finance consumption, education, healthcare, construction, and small businesses. The sustainability of the remittance system is directly linked to the sustainability of a significant portion of the economy.

Sanctions risks and de-risking

Transaction rejections by international payment systems are creating operational collapse. Rising AML/KYC costs are reducing business margins and making legal channels less competitive. "Deriving" by correspondent banks is pushing transactions into informal systems—hawala, Telegram transfers, and P2P crypto exchanges—exacerbating risks for the economy and clients.

9. APPENDICES:

- Appendix 1: Detailed survey results.
- Appendix 2: Summary of individual interviews.
- Appendix 3: Research Methodology.
- Appendix 4: Online Survey Questionnaire.
- Appendix 5: Guide for in-depth interviews.

APPENDIX 1: DETAILED SURVEY RESULTS WITH VISUALIZATION

Survey overview

As part of a study of the remittances market in the Kyrgyz Republic, an online survey of market participants was conducted. The survey covered 14 organizations, including commercial banks, payment organizations, and other financial institutions.

Survey objectives

- Assessment of the current state of the remittances market
- Analysis of barriers to the development of digital translations
- Determining the level of understanding of regulatory requirements
- Exploring Interest in Virtual Assets and Innovation
- Evaluation of financial literacy programs

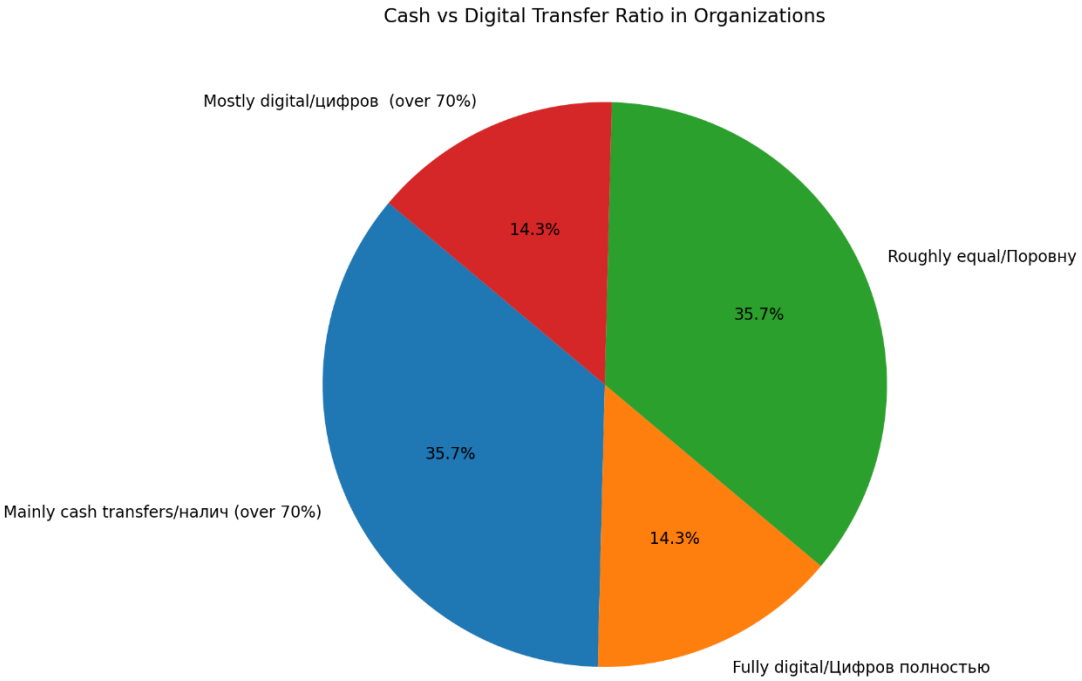
Respondents' profile

- Commercial Banks: 10 organizations (71%)
- Payment Organizations: 3 organizations (21%)
- Other Organizations: 1 organization (8%)
- Respondent level: 79% — Money remittances/business department heads

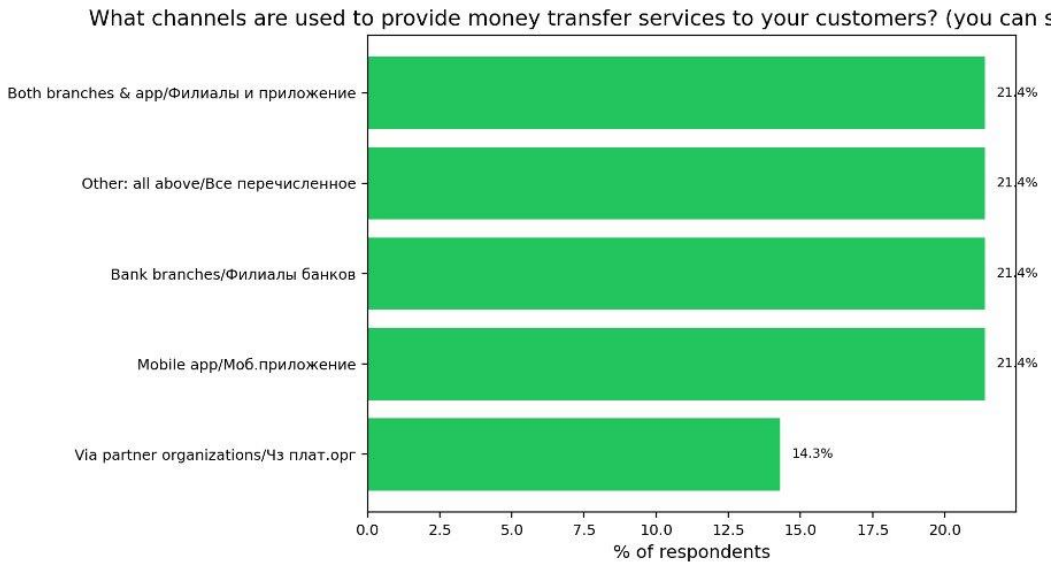
Key findings from the survey

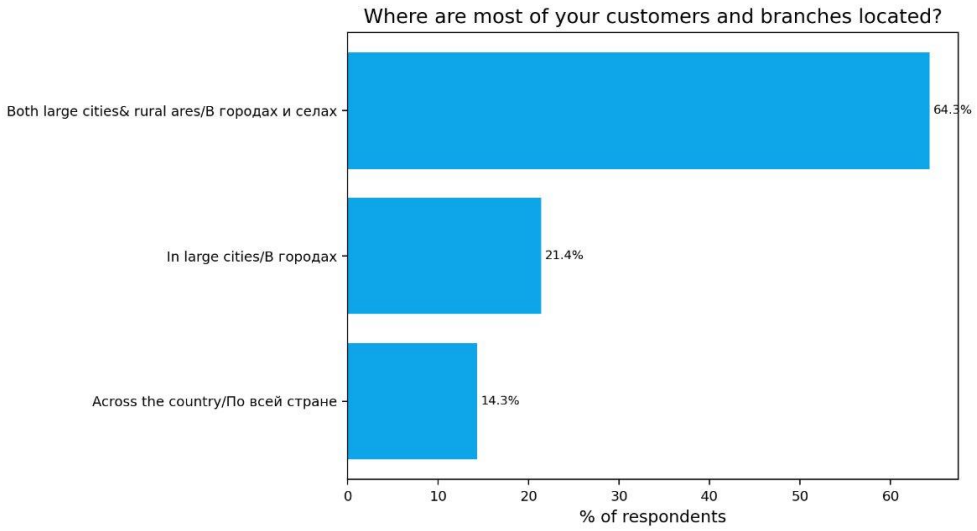
Digital Maturity

- The persistence of cash-preferred and hybrid models (totaling 70%) highlights a significant opportunity. High cash intensity indicates that a large portion of the ecosystem has yet to fully migrate to digital rails, driven by infrastructure gaps and client habits.



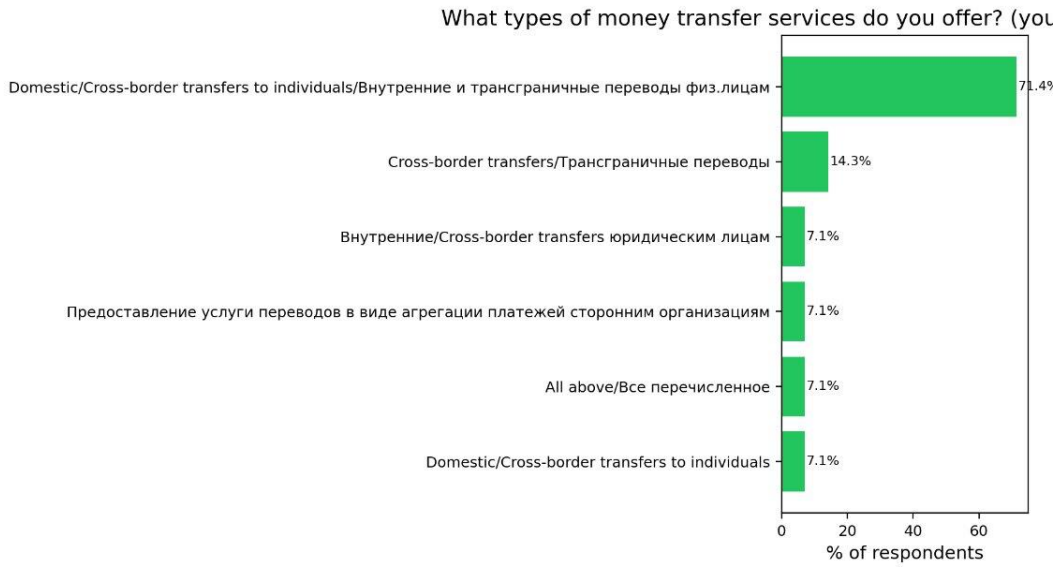
- While digital channels are growing, physical branch presence remains critical, especially in regions where trust in digital tools is lower and cash-out needs are high. With nearly a third of the market operating in a hybrid mode, organizations must maintain dual infrastructures—physical branches for cash handling and digital platforms for growth—increasing operational complexity.
- Money transfer channels are evenly distributed: 21% of providers use mobile apps, 21% rely on branches, and 21% use both channels. Additionally, 14% deliver transfers through partner organizations, while 21% offer all available channels, indicating a strong trend toward multi-channel service delivery.

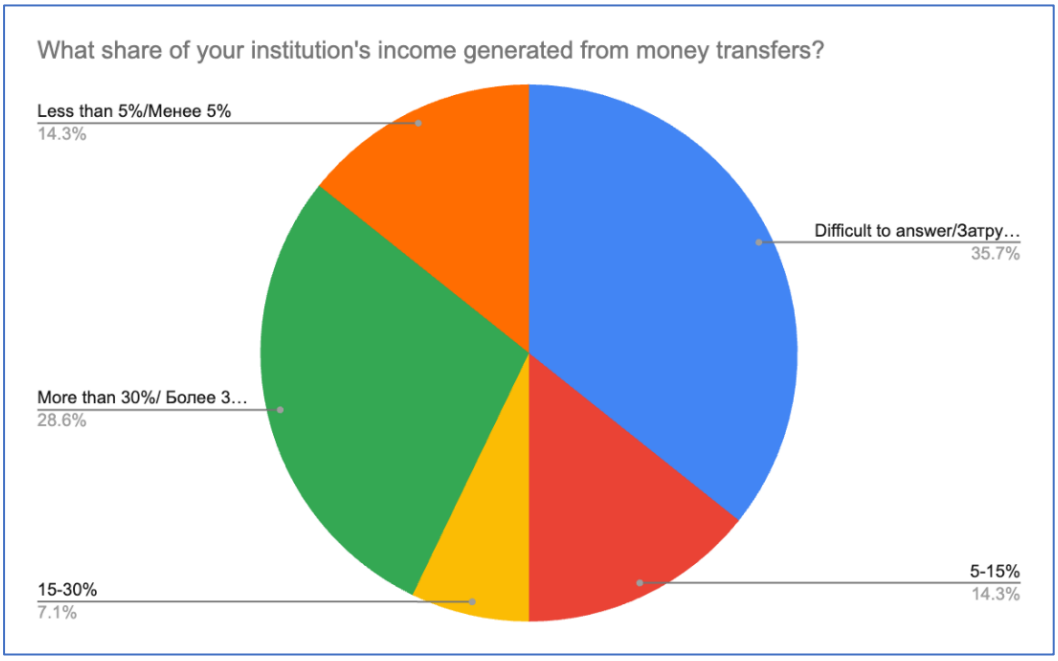




Main services:

- Most providers (71%) offer both domestic and cross-border transfers to individuals, while 7% serve legal entities with similar services. A smaller share (14%) focuses only on cross-border transfers. For 29% of providers, money transfers generate more than 30% of their total income, highlighting the importance of this service in their business model.

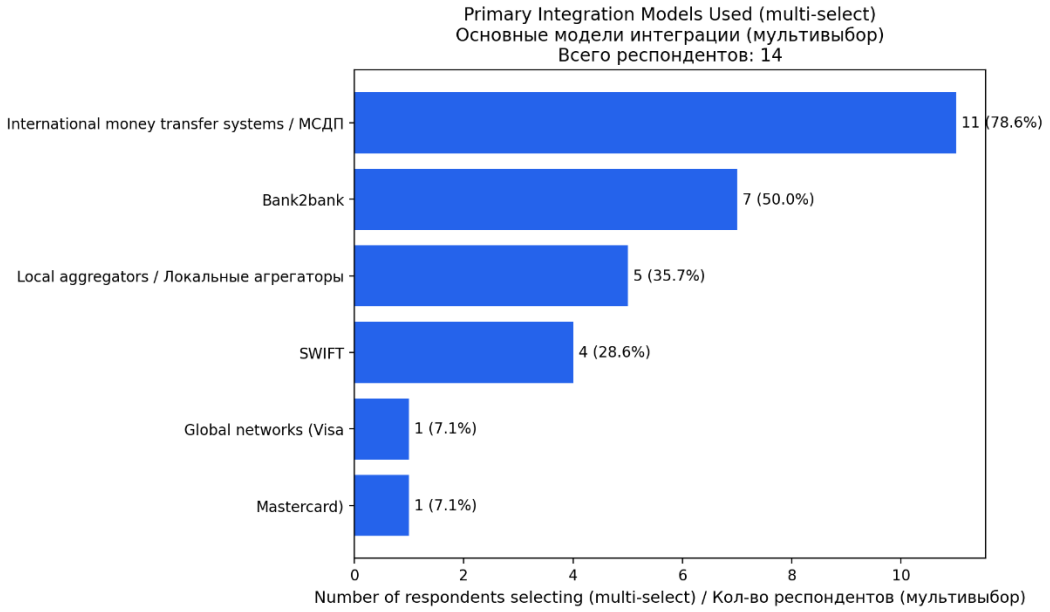


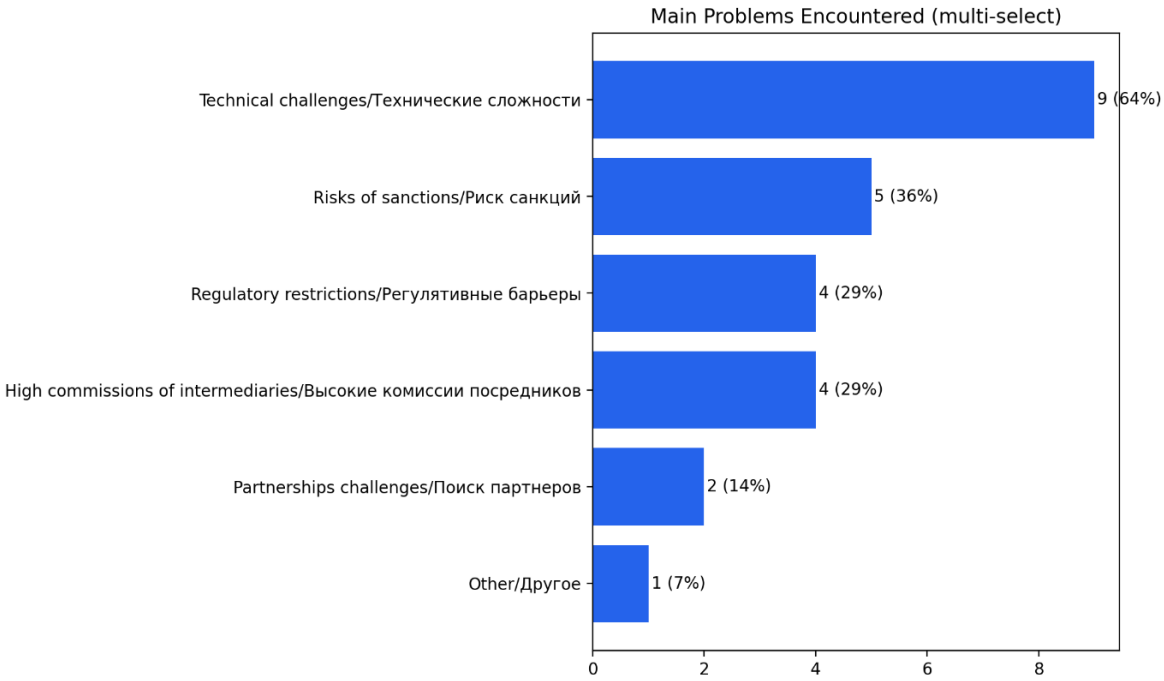


Key models:

- 79% of organizations rely primarily on international money transfer systems like Astrasend and MoneyGram. About half complement this with local aggregators and direct bank-to-bank integrations. A smaller group combines these with SWIFT transfers for broader international reach, while global networks like Visa Direct or Mastercard Send remain uncommon. Overall, the trend shows a core reliance on established transfer systems, often enhanced with multiple integration channels for flexibility.

While 64% note significant difficulties with API integration due to the lack of unified standards and outdated monolithic banking system architectures

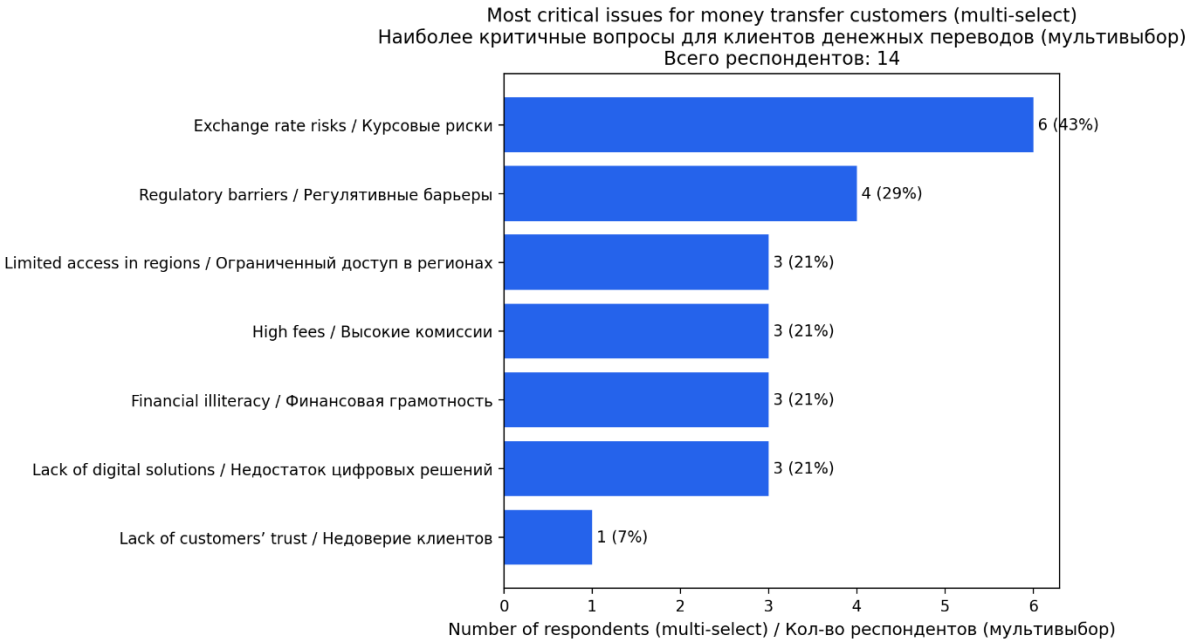




Key challenges for customers:

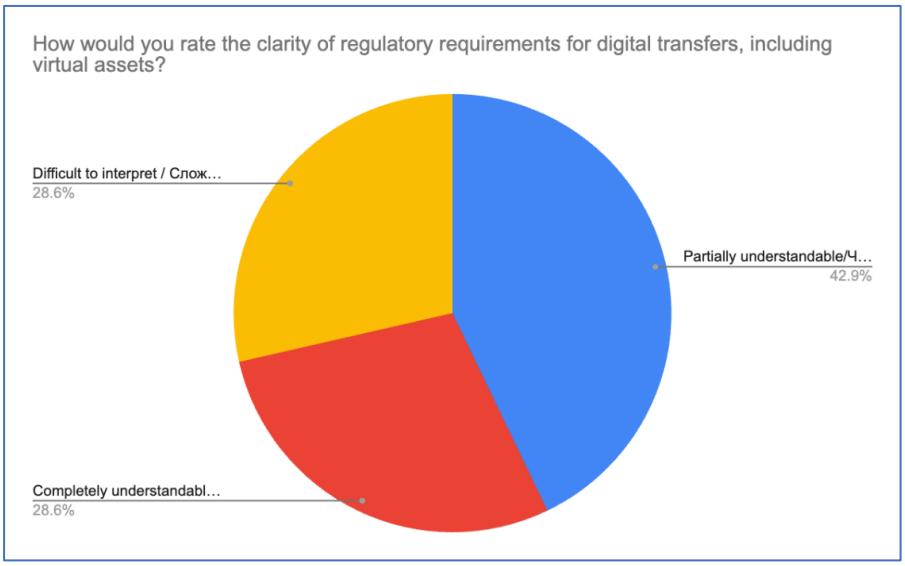
- The results show that exchange rate risks are the main concern for money transfer customers (43%), followed by regulatory barriers (29%). Other issues—limited regional

access, high fees, financial illiteracy, and lack of digital solutions—were each mentioned by 21% of respondents. Lack of customer trust was reported least frequently (7%)



Understanding regulatory requirements

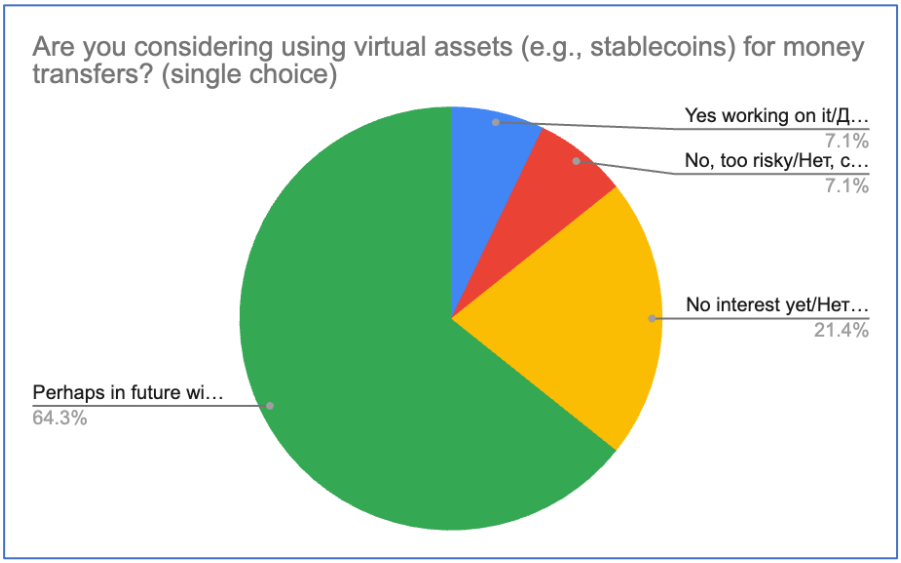
- 29% fully understand the regulator's requirements
- 43% understand partially or consider the requirements contradictory
- 29% find the requirements difficult to interpret



Interest in virtual assets

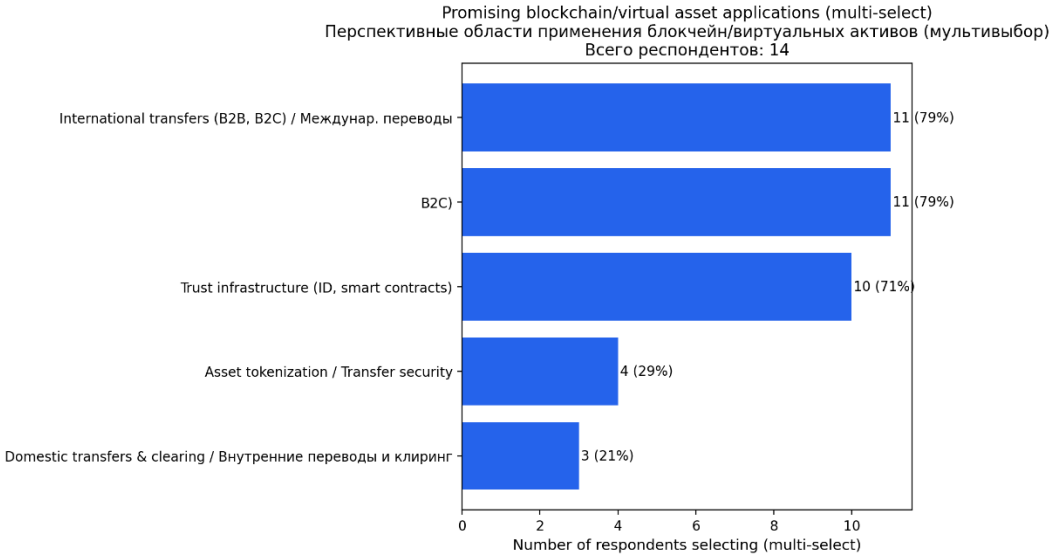
- 64% of organizations are willing to consider using stablecoins if there is clear regulation.

- 7% are actively working on this issue
- 29% are not yet interested or consider it risky



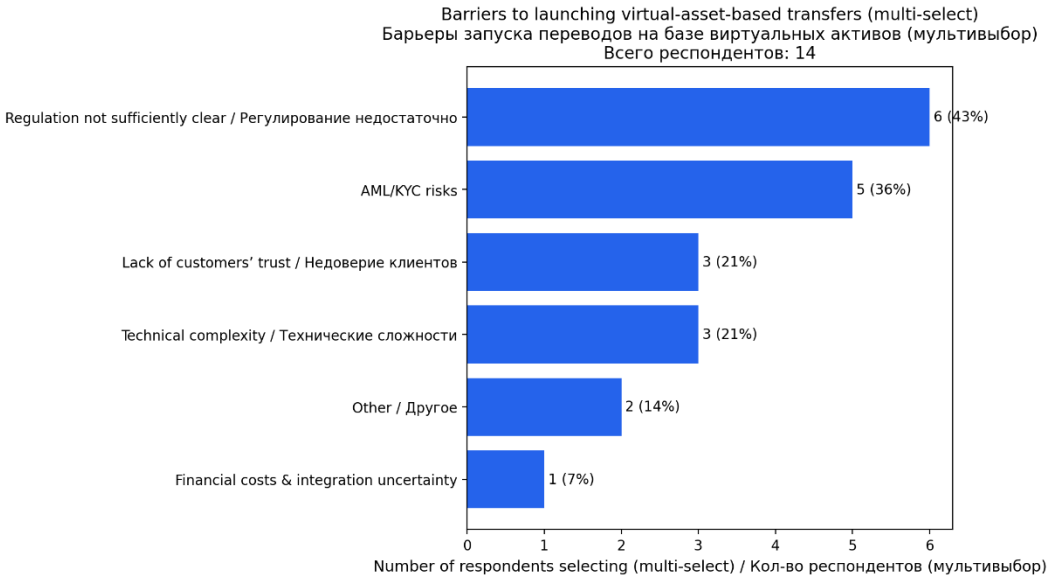
Areas of application for virtual assets:

- The respondents stated that that the most promising applications of blockchain and virtual assets for their organizations are international transfers (B2B, B2C) and B2C payments, each selected by 79% of respondents. Trust infrastructure solutions, such as digital ID and smart contracts, also received strong support (71%). Less frequently mentioned areas include asset tokenization and transfer security (29%) and domestic transfers and clearing (21%). Additionally, 54% of respondents indicated they are ready to participate in pilot projects if supported by the regulator, highlighting openness to experimentation under a clear regulatory framework



Key barriers for using virtual assets for money remittances:

- The most significant barrier is unclear regulation (43%), followed by AML/KYC risks (36%). Technical complexity (21%) and lack of customer trust (21%) also present notable challenges. Less frequently mentioned barriers include other issues (14.3%) and financial/integration uncertainty (7%).



Blockchain expertise

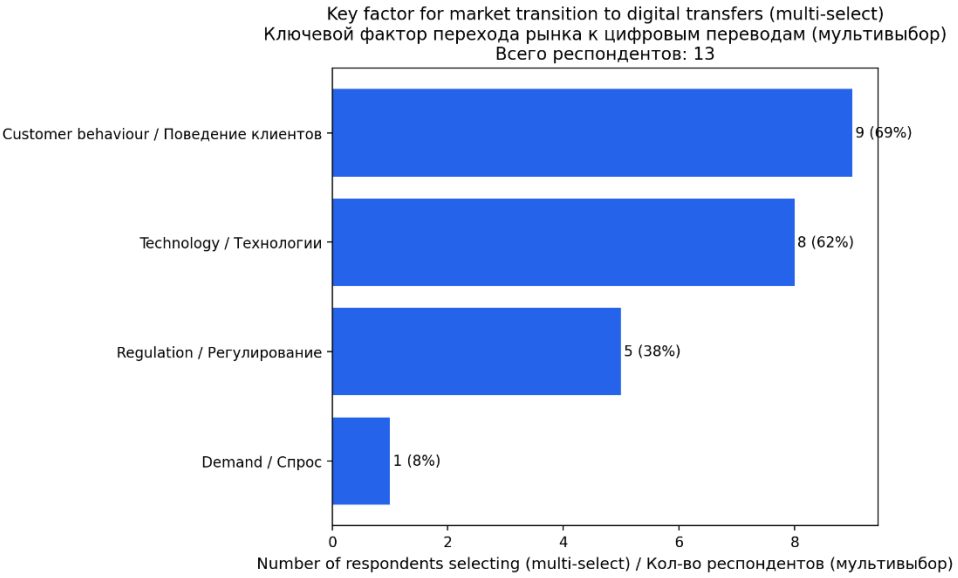
- 7% of organizations have blockchain and virtual asset experts
- 47% plan to train specialists
- 47% do not have and do not plan to have such experts

Financial literacy

- 93% of organizations conduct programs to improve the financial literacy of clients
- Main formats: educational articles, informational brochures, online courses
- Key topics: transfer security, using banking products, financial management

Key factors for market transition to digital transfers

- The transition to digital transfers will be primarily driven by changes in customer behavior (69%) and technological development (61%). Regulation is also an important factor, cited by 38% of respondents, while market demand was mentioned less frequently (7%). Overall, the shift appears to be mainly influenced by users' adoption and technological readiness



APPENDIX 2: SUMMARY OF INDIVIDUAL INTERVIEWS

ANONYMOUS TABLE OF RESPONDENTS' ANSWERS

Below are the anonymized responses of respondents to in-depth interviews covering the key thematic areas of the study. Each respondent is represented by a separate section with answers to six questions.

Interview 1: Commercial Bank

Participants discussed the current situation with international remittances, including traditional channels, unofficial methods, and the growing use of cryptocurrencies. Participants noted that sanctions, restrictions on remote identification, and difficulties establishing partnerships with major foreign systems are complicating banks' operations and forcing clients to seek workarounds.

A separate section of the discussion was devoted to cryptocurrencies—both the risks and opportunities for banks. A proposal was made to create a banking "sandbox" for crypto transactions.

How have sanctions affected transfer volumes?	Sanctions have limited work with major Russian banks (Sberbank, Tinkoff), with which they had direct integrations → searching for alternative partners. Ninety percent of flows come from Russia. The US and Kazakhstan occupy secondary positions.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Strengthening compliance forces flows into informal channels (Telegram, alternative services).

What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Focus on digital transfers – there are KPIs for migrating clients to digital channels
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	There is a shift of active users to mobile banking services of banks with higher limits.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	Crypto is being considered as an opportunity; the idea of participating in a sandbox for security is being explored.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	Official data is stable, but does not take into account many digital and P2P integrations.

Interview 2: Payment Organization

Participants discussed recent market changes and how remittances volumes have changed, with a significant portion now going through informal channels, primarily due to sanctions. Participants explained that many Russian banks use intermediary payment organizations registered in Tajikistan and Kyrgyzstan to facilitate transfers.

Participants discussed regulatory requirements for e-wallets, noting that remote identification limits have remained unchanged for seven years.

How have sanctions affected transfer volumes?	Russian banks use intermediaries in Tajikistan and Kyrgyzstan to bypass blocking.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	A significant share has gone into informal channels, and the “digitalization of hawala” is being discussed.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Users are switching to mobile banking due to higher limits (vs. wallets). Clients are actively comparing rates before making a purchase; a competitive rate is critical for retention.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	E-wallet limits (15k balance / 30k turnover) have not changed for 7 years and are outdated
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	Ripple/stablecoins as a cost-effective solution for cross-border payments.

What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	Observation: increase in transactions similar to card top-ups/transfers (no exact figures).

Interview 3 - International Remittances System Operator

The participant noted the decline in remittance volumes and the growing risks associated with sanctions and geopolitical instability. He also emphasized the need for better and more comprehensive statistics on money transactions in Kyrgyzstan.

How have sanctions affected transfer volumes?	A decline in official transfer volumes due to sanctions risks and clients switching to alternative channels.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Difficulties in opening accounts for non-residents (Russian Federation) due to internal risk management policies.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Mobile is growing, but offline payments dominate due to low customer awareness and trust. Hybrid schemes are common: the sender sends via an app, and the recipient receives the transfer at a bank branch.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	There is a shift of active users to mobile applications of banks offering higher limits.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	They are exploring crypto/stablecoins for international transfers, but there are no clear plans for launch yet.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	Translation statistics are not open/representative enough, especially for digital translations, due to numerous integrations and chains.

Interview 4: Commercial Bank

The meeting discussed the bank's transformation into a digital-first institution with a focus on developing mobile remittances services. One of the key goals is to ensure 24/7 transfers, primarily for migrants. The issue of SMS notifications was also discussed: the cost of SMS delivery to Russian numbers has increased from $8 to $28–35.

How have sanctions affected transfer volumes?	Geopolitics ↑ SMS cost: $8 → $28–35.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	D system is the main channel for transfers.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	They're building a digital bank: an app for 24/7 ruble transfers for migrants.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	The maximum transfer amount is 27-30 thousand rubles online, and there are no limits on the UI.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	We added the option to buy/sell VA through partners to the app.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	not discussed

Interview 5: Commercial Bank

Participants explained that banks are facing problems with unprofitable bank transfers due to regulations requiring free domestic transfers. Participants noted that banks are expanding into new international markets, including Singapore, Kazakhstan, Uzbekistan, Tajikistan, and Armenia.

How have sanctions affected transfer volumes?	Service usage is growing “despite sanctions” (as an observation)
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	A strong focus on digital channels and 24/7 offices to support translations
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Successful entry into the markets of Singapore, Armenia, Tajikistan and Uzbekistan without significant barriers. Free internal transfers make the service unprofitable given the ever-increasing infrastructure costs.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	Conflict: the laws of some countries require the deletion of data, while the legislation of the Kyrgyz Republic obliges it to be stored. Inconsistencies in personal data processing requirements make it difficult to build sustainable relationships.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	They plan to consider the possibility of participating in the National Bank of the Kyrgyz Republic's regulatory sandbox for virtual assets.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	not discussed

Interview 6: International Payment System

A significant portion of the conversation was devoted to card solutions and their associated costs. Despite the high cost of setup and maintenance, the number of banks using the system for money transfers has grown from two to ten. Sanction risks, particularly between Russia and Kyrgyzstan, were discussed, as were regulatory barriers to cloud technologies.

Finally, the topic of cryptocurrencies was touched upon, in particular the experience of one bank, which launched a pilot project for cross-border settlements using the USDC stablecoin in September 2025.

How have sanctions affected transfer volumes?	The break with Sberbank forces banks to choose sides. The risk of secondary sanctions limits cash flows.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Diversion of funds into hawala and increased risks for vulnerable groups and migrants. The elimination of domestic commissions increases the contrast with international ones, encouraging "gray" schemes.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Partner network expanded from 2 to 10 banks. Launch of phone number transfers (similar to Visa Direct).
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	Data localization blocks the use of global clouds (AWS), hindering innovation.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	Discussion of settlements in stablecoins (USDC) to bypass correspondent restrictions.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	not discussed

Interview 7: Commercial Bank

Barriers to migrant remittances and the use of digital channels were discussed. The main obstacles to digitalization are low awareness and insufficient customer trust, especially among pensioners and migrants.

The bank is introducing new mobile app features and plans to actively promote digital services early next year. Employee training and educational events for the public in the regions are planned.

Despite sanctions restrictions, the volume of transfers remains stable thanks to alternative channels.

The prospects for using virtual assets were discussed.

How have sanctions affected transfer volumes?	Volumes are stable despite sanctions; Astra is a key channel.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	The bank provides transfers primarily through offline channels.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Integration into the mobile app has been postponed until the global platform update is completed. Any technical glitches in applications (which happen to everyone) dramatically reduce customers' motivation to go online. The main barrier is a lack of awareness and trust in digital channels. Clients fear that their money will get stuck.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	Not applicable - offline channels mainly
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	Virtual assets/crypto projects at the research stage, without implementation.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	—

Interview 8: Commercial Bank

The discussion focused on changes in payment systems, particularly with regard to card transactions and remittances. The respondent highlighted the challenges of working with banks on cryptocurrency transactions and the need to carefully examine correspondent banking relationships with US banks.

How have sanctions affected transfer volumes?	Visa Blocks: Massive rejections of transactions by the Visa system due to suspicions of money laundering (AML) and sanctions risks.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Changing Flows: Channels for receiving funds from Russia have changed radically due to sanctions; the bank is restructuring its routes
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Technologies: Active implementation of card tokenization to improve the security of digital payments. Correspondent banking: Acute problem with direct US dollar accounts; seeking alternatives through Asian banks. Compliance burden: AML check costs have tripled, slowing down customer payments.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	Clear tokenization/licensing rules are needed for security.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	Cryptocurrency Interest: The bank is exploring stablecoins as an alternative for settlements with counterparties in the US, where correspondent accounts are closed.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	not discussed

Interview 9: Commercial Bank

A bank representative noted that despite the shift from offline channels to mobile apps, many clients still prefer to visit physical branches. Financial literacy, fraud prevention, and the potential of new banking products were discussed.

How have sanctions affected transfer volumes?	Sanctions hit: Customer payment volumes nearly halved due to geopolitical restrictions.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Digital transfers are in the process of being launched. Due to the launch of the new app, the launch of digital transfers has been delayed. For cross-border transactions, customers prefer live confirmation from a teller.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Revenue decline: Declining turnover makes it difficult to achieve the target commission income (15-20% of revenue). Customer inertia: Despite the launch of a user-friendly app, many customers still go to branches out of habit to make transfers. Fraud: Migrants' low financial literacy makes them vulnerable; bank strengthens training. New products: Special savings accounts for migrants to maintain liquidity.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	Internal transaction limits for money transfer systems
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	It is possible to work with assets, but there are concerns about KYC/verification issues.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	Collection of data on the reinvestment of migrants' transfers into deposits.

Interview 10: Commercial Bank

The bank is active in the remittances market, providing clients with access to leading international systems (Western Union, UPT, RIA, MoneyGram, Visa). The bank sees new partnerships with international payment systems and expanded online service functionality as priority areas for further development.

The bank emphasizes that many customers still prefer to receive transfers at physical branches, so the transition to online banking should be gradual, with an emphasis on simplicity, clarity, and trust.

How have sanctions affected transfer volumes?	Sanctions have limited work with major Russian banks (Sberbank, Tinkoff, with which there were direct integrations)
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Customers choose the cashier instead of the app due to the difference in fees.
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Active work with WU, RIA, Moneygram, Visa, despite competition Weak internet and a shortage of smartphones in the regions are slowing down digitalization. A pilot project for online transfer crediting has been launched to improve convenience.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	AML/KYC requirements and capitalization are the main barriers to development
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	There is interest in innovation, but security risks are holding back implementation
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	not discussed

Interview 11 – International Payment System

The representative noted that the company is a relatively new player in the Kyrgyz market and has not encountered any significant regulatory obstacles at this stage. The main challenge lies in the technological readiness of local banks.

How have sanctions affected transfer volumes?	Active entry into the Kyrgyz market, focusing on building a partner network from scratch.
Was there a shift to other channels? If so, where exactly (informal channels, offline, virtual assets) and why?	Focus on digital solutions for banks
What's the current status of digital transfers: mobile banking, cards, online transfers (what's working, what's holding you back)	Slow integration due to outdated/monolithic core banking systems and a lack of IT resources in banks.
What are the current limits, remote identification rules, and regulatory requirements? What creates barriers?	No significant regulatory obstacles from the NBKR are noted.
How does the respondent evaluate stablecoins/virtual assets in the context of transfers (use cases, risks, implementation conditions)?	There are no requests from banks regarding virtual assets; no discussions are ongoing.
What problems exist in translation data and statistics (quality, accessibility, accounting methods) and what are the proposals for improvement?	not discussed

Note: Responses are anonymized. Organization types are listed without reference to specific companies.

10. APPENDIX 3: RESEARCH METHODOLOGY

This appendix contains a detailed description of the methodology used in the study.

Study design

Stage	Description	Target
1. Online survey	Forms Survey Distribution , October 2025	Quantitative data on barriers and models
2. In-depth interviews	Semi-structured sessions (60–90 min), October–December 2025	Case studies and perceptions of regulation
3. Desk research	Analysis of regulatory legal acts, international standards, and 10 quarterly reports of the National Bank of the Kyrgyz Republic	Map of regulatory gaps
4. Expert analysis of VA	Assessing blockchain capabilities in collaboration with AURVA	The potential of virtual assets for transfers
5. Analytical report	Data synthesis and proposal generation	Roadmap for the Development of Digital Translations

Directions of analysis

A. Technical barriers: API integrations, lack of uniform standards, connection speed, system compatibility

B. Regulatory and legal barriers: Legal status of virtual assets, strict AML/KYC, licensing, currency control

C. Customer Experience: Mistrust of Digital Channels, Transparency of Fees, Mobile App UX, Financial Literacy

D. Market and connection models: Direct B2B integration, international networks (Visa/MC/SWIFT), aggregators, virtual assets and stablecoins

E. The Role of the Regulator: Regulatory Sandboxes, Incentives for Innovation, Reducing Costs and Risks

Expected results

- Market Barriers and Challenges Report (in English and Russian)
- Regulation matrix (what regulates, uncertainties, risks, recommendations)
- Guide for interviewers and analysts
- Recommendations for the National Stakeholder Network (6-12 month steps)
- Overview of the possibilities of virtual assets for money transfers (AURVA)

APPENDIX 4: ONLINE SURVEY QUESTIONNAIRE

Below is the complete questionnaire used in the online survey of remittances market participants.

Section 1. Organization Profile

1.1. Organization type (one choice)

Options: Commercial bank / Payment organization / Microfinance organization / Fintech company / Other (specify)

1.2. Role of the respondent

Options: Head of Translation/Business/IT/Integration/Compliance/AML/Legal Department/Other

1.3. What remittances services do you provide?

Options: Domestic transfers to individuals / Cross-border transfers to individuals / Transfers to legal entities / Payment aggregation / Cryptocurrency/VA-based / Other

1.4. Where are your clients and branches primarily located?

Options: In large cities / In rural areas / In different types of settlements / Other

1.5. What channels are used for transfers?

Options: Bank branches/cashiers / Mobile app/online banking / Payment aggregation / Other digital channels (chatbots, QR, API) / Other

1.6. Ratio of cash and digital transfers

Options: Mostly cash (>70%) / About evenly split / Mostly digital (>70%) / All digital

1.7. What share of income does remittances account for?

Options: Less than 5% / 5–15% / 15–30% / More than 30% / Don't know

Section 2. Current Barriers and Challenges

2.1. What is the most critical problem for customers?

Options: High fees / Limited access / Exchange rate risks / Financial illiteracy / Lack of digital solutions / Lack of trust in channels / Regulatory restrictions / Other

2.2. Describe a case where the implementation of a digital product encountered difficulties

Options: (text response)

2.3. What is the main connection model?

Options: Bank-to-bank / WU, MoneyGram / Aggregators / Software / Visa Direct, MC Send / SWIFT / VA / stablecoins / Other

2.4. Main problems of the model

Options: Technical difficulties / Regulatory restrictions / High commission / Difficulty finding partners / Penalties / No API standards / Other

2.5. If the regulator were to allow one innovation, what would it be?

Options: (open answer)

Section 3. Regulation and legal environment

3.1 Which regulatory requirements create the greatest challenges?

Options: AML/CFT / Licensing / Currency Control / Cybersecurity / Legal Status of the VA / Other

3.2. Clarity of requirements for digital payments

Options: Completely clear / Partially clear, some inconsistencies / Difficult to interpret

3.3. Differences in interpretation between government agencies?

Options: Yes (specify) / No

Section 4. New technologies and virtual assets

4.1. Are you considering using stablecoins?

Options: Yes, actively / Maybe in the future / Not yet / No, too risky / Other

4.2. Promising directions of blockchain/VA

Options: International transfers (B2B, B2C) / Domestic transfers and clearing / Asset tokenization / Trust infrastructure (identification, smart contracts) / Other

4.3. Do you use blockchain-based solutions?

Options: Yes / We are testing/considering / No, but we are interested / No, we are not planning

4.4. Readiness for pilot projects

Options: Yes, active / Possibly with regulator support / Not yet

4.5. Barriers to integration with blockchain solutions

Options: Lack of legal certainty / Technical limitations/lack of expertise / Customer distrust / AML/CFT risks / Other

4.6. Technologies to reduce the cost and time of translations in the next 3 years?

Options: (open answer)

4.7. Are there any blockchain and VA experts?

Options: Yes / No, but training is planned / No and not planned

Section 5. Financial Literacy

5.1 Does the organization conduct financial literacy programs?

Options: Yes / No

5.2. Formats

Options: Online courses/webinars / Publications on the website/social media / Master classes/trainings / Brochures/leaflets

5.3. Topics

Options: Financial Management / Banking Products / Online Payment Security / Other

5.4. Communication channels

Options: (social networks, instant messengers, offline, etc.)

5.5. Do you plan to include cryptocurrency training?

Options: Yes / Already ongoing / Not yet

APPENDIX 5: GUIDE TO DEPTH INTERVIEWS

Below is a guide for conducting semi-structured in-depth interviews with participants in the remittances market.

Section 1. Introduction and Context

1.1. Could you briefly describe your organization and its role in the translation industry?

Section 2. Current state of digital translations

2.1. What are the main challenges you see when clients transition from cash to digital transfers? (This could include trust, digital literacy, infrastructure, fees, etc.)

2.2. Describe a specific case where the implementation of a digital product encountered difficulties. What exactly went wrong? What lessons were learned?

Section 3. Barriers and Regulatory Environment

3.1. What regulatory or operational barriers do you most often encounter? (licenses, AML/KYC, capital requirements, API access, limits, etc.)

3.2. How do you assess the current regulatory readiness for the introduction of virtual assets (cryptocurrencies, stablecoins) in the remittance industry? What risks or opportunities do you see?

Section 4. Technologies and Innovations

4.1. What technologies can radically reduce the cost and time of transfers in the next three years? (API, blockchain, open banking, regional networks, etc.)

4.2. Are there any successful cases or pilot projects in Kyrgyzstan that are worth scaling up? What contributed to their success?

Section 5. Looking to the Future

5.1. If tomorrow the regulator approved one innovation that would simplify the process of transfers, what would it be?

5.2. What regulatory measures could help develop the market? (sandbox, API standards, tax incentives, etc.)

5.3. What changes in the market could have the greatest impact? (partners, technologies, standards)

5.4. What innovations in the field of translation are most promising in the coming years?

Section 6. Conclusion

6.1. Is there anything else important to consider for the roadmap for the development of digital transfers in Kyrgyzstan?

Prepared based on data from the National Bank of the Kyrgyz Republic and in-depth interviews with market participants

November-December 2025

Disclaimer: This report is prepared for informational purposes only and does not constitute financial or legal advice. The data is based on official NBKR statistics and expert estimates as of November-December 2025.