



Reducing Transfer Costs of Migrant Remittances

*Designing and Implementing Policy Reforms and
Monitoring of Data*

Payment Systems Development Group

The World Bank



Agenda

- World Bank approach to designing and implementing policy reforms for international remittances – Kai Martin Schmitz
- ECA Trends and country cases – Hemant Baijal
- Monitoring tools – RPW and the national remittance price databases – Marco Nicoli

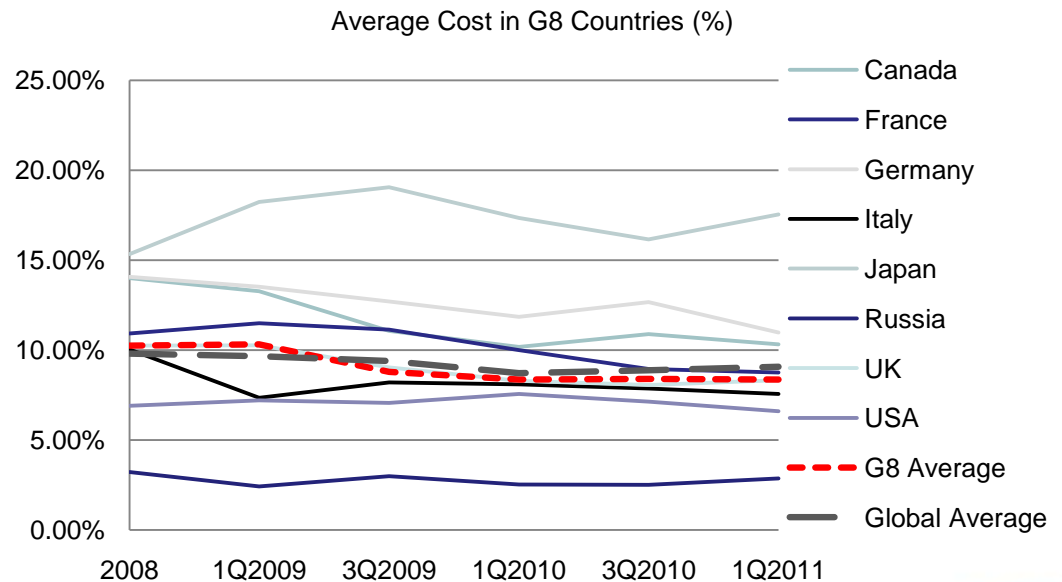
Remittance Unit of the Payment Systems Development Group

Inefficient Remittance Markets Cause High Cost

Remittance systems are still characterized by cash transactions, inefficient manual processes, fragmentation of the delivery chains, and poor compliance. Often more than three parties are involved in the processing of a transfer.

Regulation in many countries creates high barriers for banks and non-bank financial institutions to offer remittance services and other financial products to migrants and their families.

As a result, migrants still pay money transfer fees of up to 20% of the amount they send and a large portion of remittances is sent through non-regulated channels, increasing risk and reducing benefits of remittances.



International Agenda for Remittances

- A reduction in the cost of remittance services would generate a net increase in income for migrants and their families in the developing world, estimated at US\$15 billion.
- In July 2009, at L'Aquila summit, the G8 endorsed made a pledge “to achieve in particular the objective of a reduction of the global average costs of transferring remittances from 10% to 5% in 5 years (5x5 Objective).
- The World Bank was asked to create the Global Remittances Working Group to facilitate and coordinate international efforts to make remittance markets more efficient and reduce the cost.
- In 2008 the World Bank began to survey and publish the prices of remittances worldwide through the Remittance Prices Worldwide database (RPW).
- In 2010 the G20 committed to a “significant reduction in the cost of remittance services” and established a Development Action for Remittances.

WB-BIS The General Principles

The General Principles for International Remittance Services were established by the World Bank and the BIS with consultation of Central Banks and International Organizations around the world.

They were adopted by the G8 in 2008 and the G20 in 2009 and form the basis for the G8 5x5 Objective and the Development Initiative for Remittances of the G20.

General Principle 1. Transparency and consumer protection

The market for remittance services should be transparent and have adequate consumer protection.

General Principle 2. Payment system infrastructure

Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

WB-BIS The General Principles (continued)

General Principle 3. Legal and regulatory environment

Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

General Principle 4. Market structure and competition

Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

General Principle 5. Governance and risk management

Remittance services should be supported by appropriate governance and risk management practices.

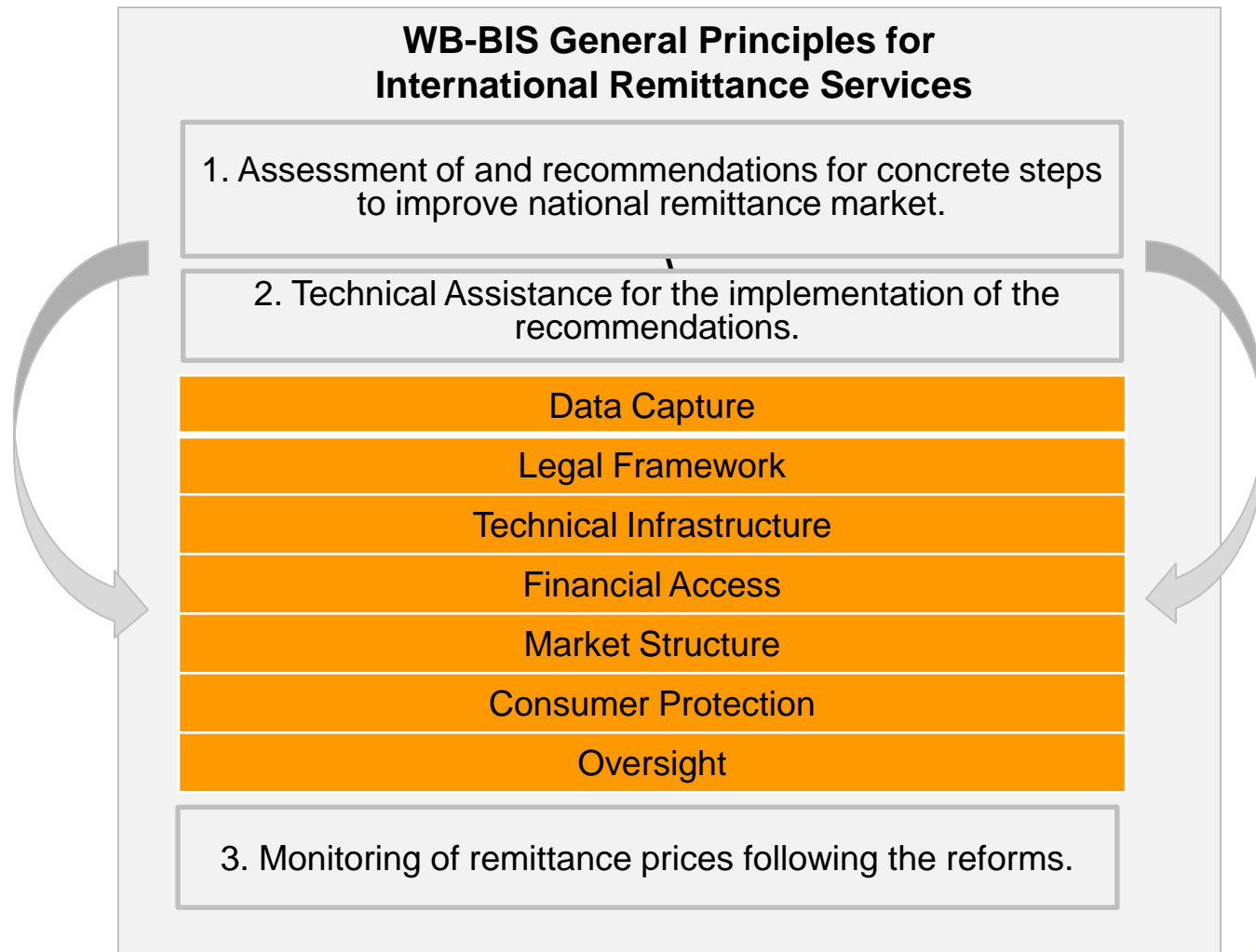
A. Role of remittance service providers.

Remittance service providers should participate actively in the implementation of the General Principles.

B. Role of public authorities.

Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

PSDG Remittance Unit Methodology



General Principles for International Remittance Services - A Multilateral Effort to Address a Global Challenge



Assessments:

El Salvador (September 2006)
Morocco (November 2006)
Honduras (April 2007)
Haiti (September 2007)
Nigeria (February, 2008)
Uganda (April 2008)
Guatemala (April 2008)
Czech Republic (May 2008)
U.A.E (January 2009)
Brazil (April 2009)
T&T (October 2009)
Peru (October 2009)
Rwanda (November 2010)
Panama (December 2010)
Sri Lanka (May 2010)

Global Remittance Working Group

The Global Remittances Working Group (GRWG) was created on initiative of the G8 as an international forum to coordinate international remittance initiatives.

In 2010 the G20 asked the GRWG to coordinate the G20's Development Action for Remittances and support G20 and other countries with their remittance markets.

The Group today provides technical assistance to many countries and International Organizations.



Impact Thus Far and Road Ahead

2006

Remittance costs from some G8 countries reach up to 20% of the amount sent.

WB begins work with G8.

2008

G8 commits to reduce remittance costs; G20 endorses this commitment.

WB-BIS General Principles.

2009

PSDG creates Remittance Unit

Global Remittances Working Group

Remittance Prices Worldwide Database

2009/2010

Japan and EU initiate major reforms.

Several African countries ban exclusivity.

Regulatory reforms in India, and Brazil

Requests from G20, African Union, and various countries across the world for technical assistance with remittance reforms.

Ongoing Initiatives

- *G20 DWG*: Lead the G20 action on international remittances and provide guidance for countries and International Organizations for the implementation of the General Principles.
- *United Postal Union*: Supporting post offices in West Africa with the implementation of the UPU remittance system (training for operators in cash management, design of new products and help with partnership agreements with MTOs and bank).
- *Global Remittances Working Group*: Continue work to reduce remittance costs in accordance with 5x5 objective.
- *African Institute for Remittances*: Support African Union in the establishment of the institute and support various African countries with remittance reforms. Set up remittance price database for Africa (coming soon in July 11!!!).
- *Rome Laboratory*: Help countries to establish standards and the regulatory framework for new remittance services such as mobile payments.
- *Remittance Prices Worldwide Database*: Keep monitoring prices of remittance services and ensure that the high cost of remittances stays on the policy agenda.
- *CEMLA*: Technical support for countries in Latin America for the CEMLA Remittance Initiative.

ECA Trends and country cases

ECA Region Trends

- *ECA region cost averaged around 7.55 percent in 2011, compared to the global average of 9.08 percent*
- *Regional costs lower as high volume results in intense competition between RSPs in corridors originating within CIS countries*
 - *Within CIS average costs range between 2-4%*
 - *Between CIS and other regions average costs are approximately 8-9%*
- *Within CIS, same currency money transfers (in Ruble, Euro or USD)*
- *Certain corridors also seeing innovative products (e.g. Visa Money Transfer) and account to account products that allow retention of funds in banking system*
- *Two of World's top 5 recipients in this region – Tajikistan (1) and Moldova (4)*

Tajikistan Market Characteristics

- *World's top ranked recipient of migrant remittances in 2011*
- *USD 2.1 billion which is 35% of the GDP*
- *Top 5 source countries – Russia, Kazakhstan, Germany, USA and China*
- *Over 90% of remittances come from Russia (87%) and Kazakhstan (5%)*
- *More than two-thirds of recipients receive remittances monthly*
- *Vast majority of remittances are on cash to cash basis through MTS*
- *Most funds received are for consumption purposes and not kept in bank accounts*
- *New payment technologies are emerging but not readily available*

Tajikistan GP Assessment

- **GP1: Transparency and Consumer Protection**

While fees are generally low, information provided by RSPs is often incomplete and there are no central information resources; and lack of established procedures for complaints

- **GP2: Payment Systems Infrastructure**

Low retention rates of remittances in banking system due to lack of availability of innovative products; lack of suitable infrastructure in rural areas

- **GP3: Legal and Regulatory Environment**

Lack of legal and regulatory framework that allows issuance of innovative products and participation of non-bank providers including MFIs; lack of Tajik Post oversight by NBT for remittances

- **GP4: Market Structure and Competition**

Competitive market with no exclusivity contracts. Lack of developed market for participation of non-bank RSPs which could open up competition more,

- **GP5: Governance and Risk Management**

Banks concerned about risk management practices and security standards of MTS. Overall risk management and governance practices are weak and not adequately supervised.

Moldova Market Characteristics

- *Fourth highest recipient of migrant remittances as a share of GDP in 2011*
- *USD 1.4 billion which is 23% of the GDP*
- *Top 5 source countries – Russia, Italy, Spain, Portugal and Greece*
- *70% of remittances come through banks or money transfer systems (MTS); remaining through alternative remittance systems*
- *86% of the recorded remittances are on cash to cash basis; remaining are through bank accounts and other financial instruments*
- *Most funds received are for consumption purposes; some funds now being used for housing purposes*
- *Only banks and Posta Moldova can provide remittance services (through MTS and correspondent banking arrangements)*
- *New payment technologies are emerging but not readily available*

Moldova GP Assessment

- **GP1: Transparency and Consumer Protection**

Remittance services not fully transparent and banks and Posta Moldova do not provide uniform information on fees and consumer rights

- **GP2: Payment Systems Infrastructure**

Low retention rates of remittances in banking system due to lack of availability of innovative products that incentivize consumers to use banking and payment services

- **GP3: Legal and Regulatory Environment**

Law on payment services and electronic money drafted but not approved. This is needed to allow banks and non-bank payment service providers to provide innovative payment instruments

- **GP4: Market Structure and Competition**

Competitive market but in a narrow sense. Only corridors originating in CIS countries competitive. Lack of non-bank RSPs restricts competition.

- **GP5: Governance and Risk Management**

Banks and RSPs unaware of such practices. New regulation will force banks to adopt certain standards. Non-banks still not covered.

Remittance Prices Worldwide Database

Remittance Prices Worldwide Making Markets More Transparent

The database remittanceprices.worldbank.org:

- Was launched in 2008 and published its 6th iteration in March 2011.
- Monitors the cost of remittance services across countries and regions. The last iteration for the First Quarter 2011 covers **200 corridors worldwide**, from 29 remittance sending countries to 86 receiving countries.
- Increases transparency in the market and fosters reduction of costs through a “***name and shame***” approach.
- Provides a **benchmark** for price reduction, in particular to monitor the achievement of the 5x5 objective.

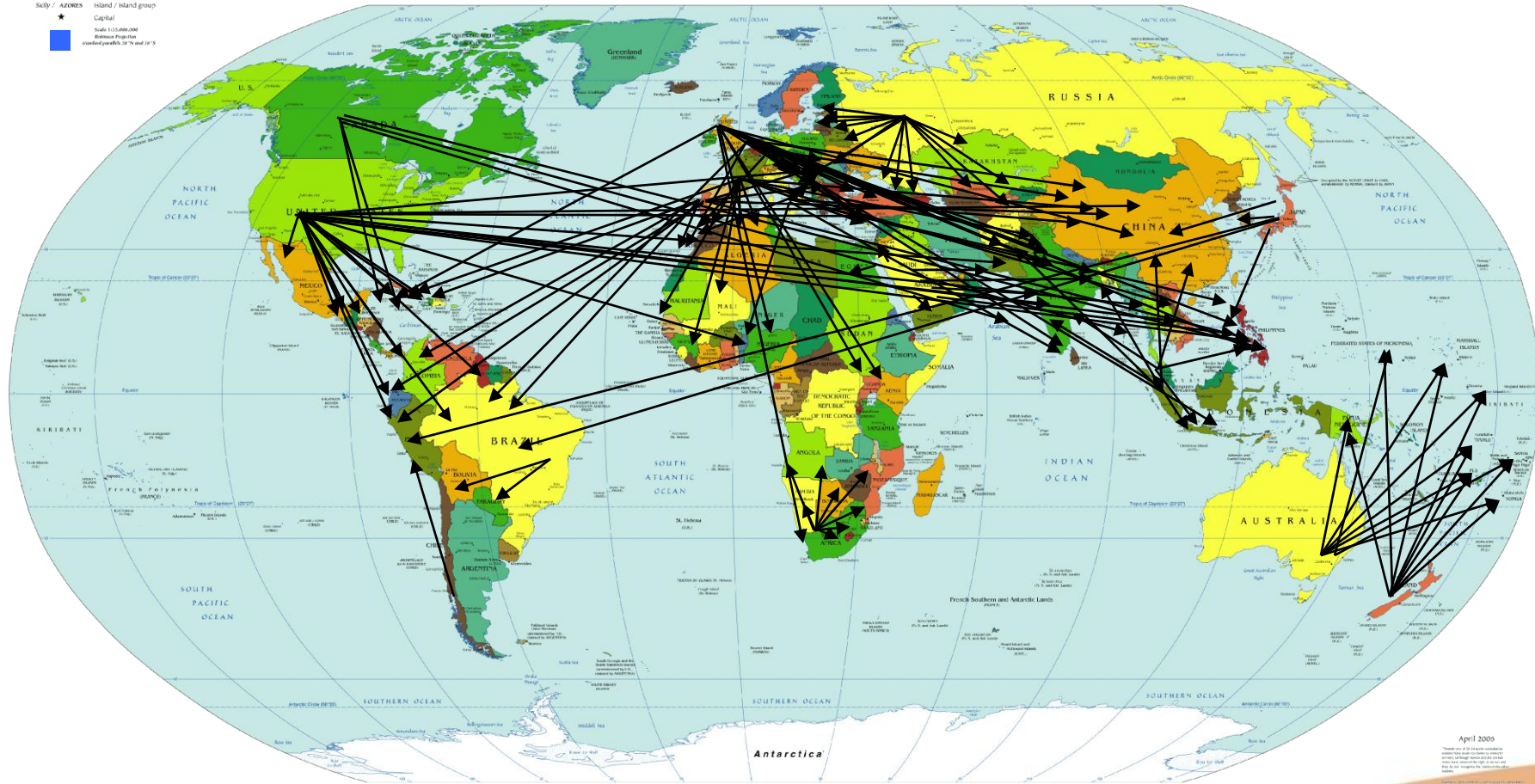
RPW Methodology

- All data collected through mystery shopping.
- Two amounts: USD 200 and 500.
- At least 80% of market share coverage in each corridor.
- The following data are collected:
 - Fee
 - Exchange rate applied
 - Product type
 - Transfer speed
 - Network coverage

The Country Pairs

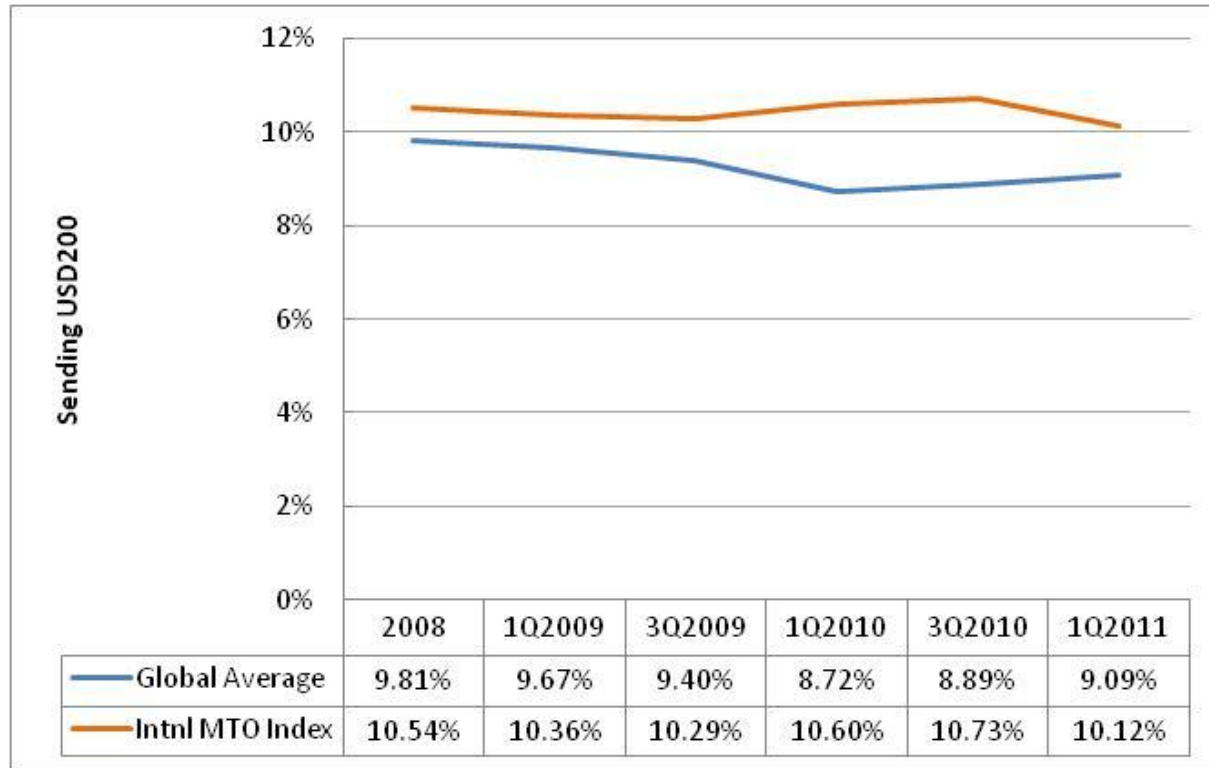
Political Map of the World, April 2006

- ▲ AUSTRALIA Independent state
- ▲ Bermuda Dependency or area of special sovereignty
- City / AGNES Island / Island group
- ★ Capital
- Scale 1:1,000,000
- Distance from the equator parallel to 0° and 180°

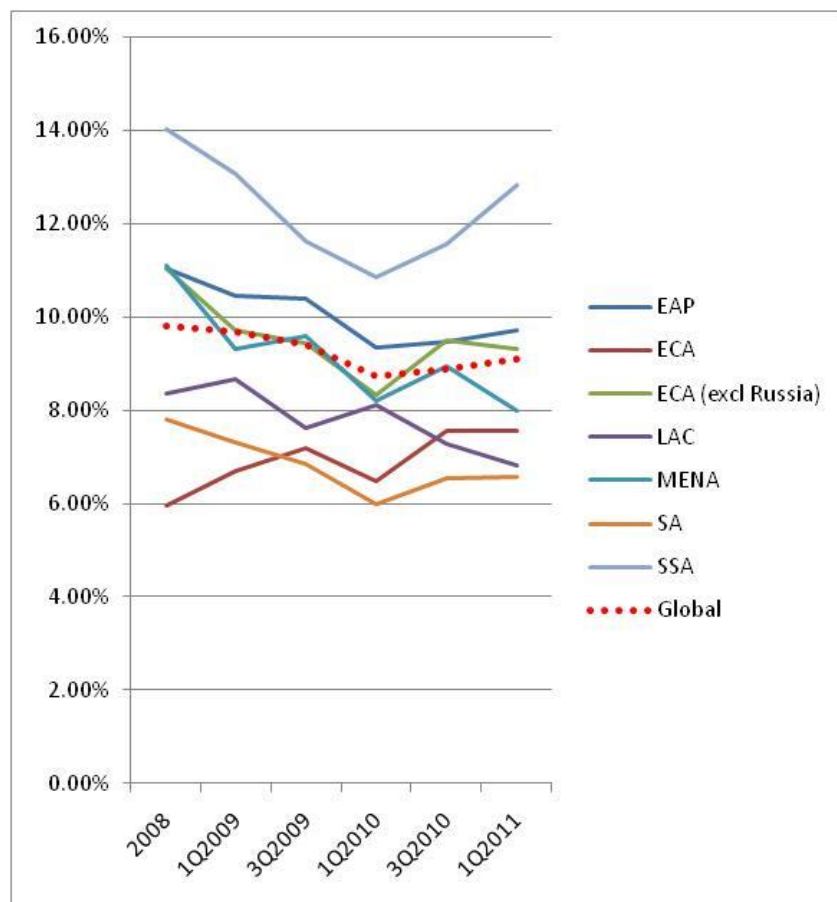


April 2006

Total Global Average 2008-2011



Remittance Prices Worldwide - Regional Trends



- In the First Quarter 2011 the total global average of sending USD 200 worldwide has remained stagnant
 - LAC and MENA regions show the most relevant cost reductions
 - The increase in costs in Sub-Saharan Africa region appears to pull the global average cost up
- Note: high volatility of foreign exchange rates against the US Dollars may result in higher costs

RPW corridors in ECA region

Belgium-Turkey

Czech Republic-Ukraine

FROM GERMANY TO:

Bosnia Herzegovina

Moldova

Romania

Serbia

Turkey

FROM ITALY TO:

Albania

Moldova

Romania

Serbia

Netherlands-Turkey

Norway-Poland

FROM SPAIN TO:

Bulgaria

Romania

Switzerland-Serbia

FROM UK TO:

Albania

Bulgaria

Lithuania

Poland

Romania

FROM RUSSIA TO:

Azerbaijan

Belarus

Georgia

Kazakhstan

Kyrgyz Republic

Latvia

Lithuania

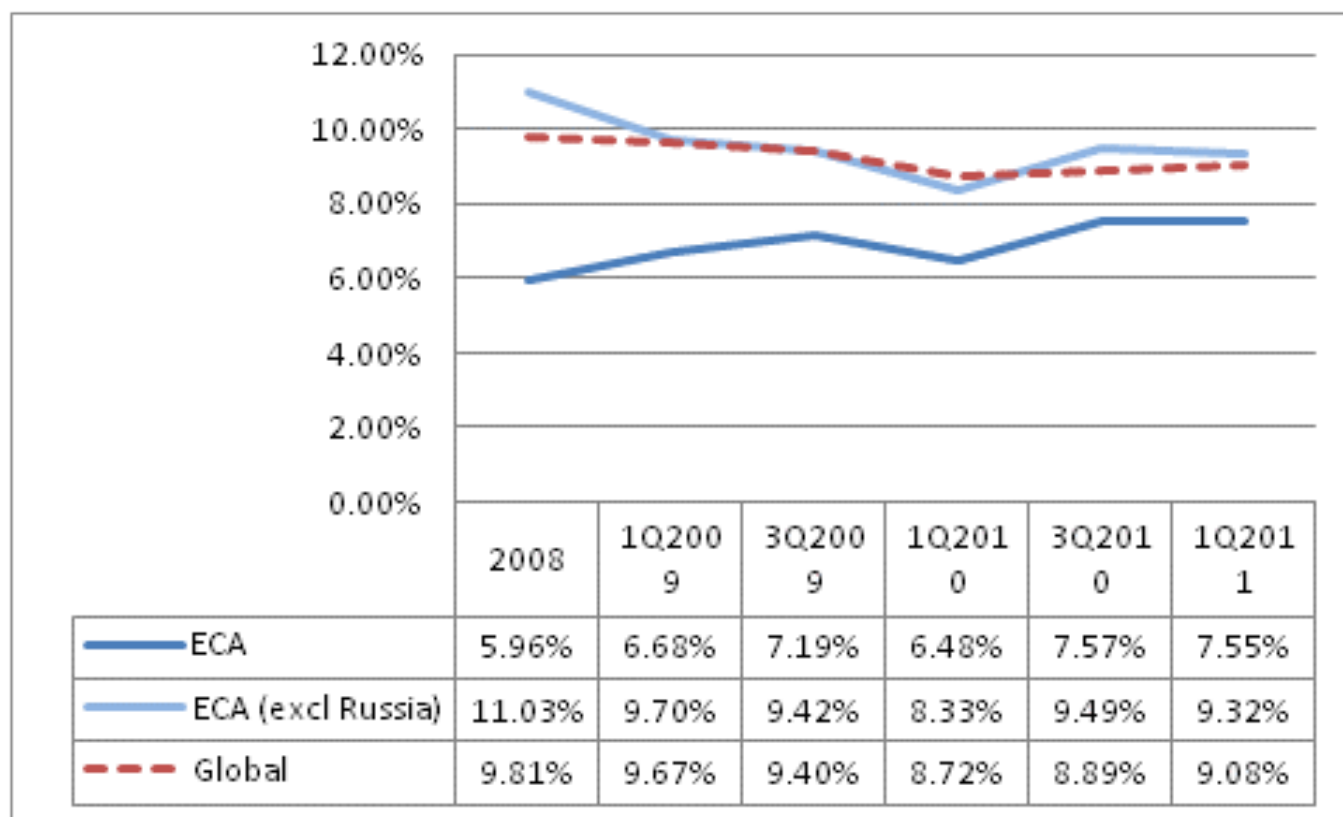
Moldova

Tajikistan

Ukraine

Uzbekistan

Remittance Prices Worldwide - Regional Trends



National and Regional WB-certified databases

Increasing the relevance and number of national databases on the cost of remittances because:

- a) They serve the ultimate beneficiaries of the remittances: the migrants
- b) They can cover more frequently the changes of the market
- c) They can serve as a benchmark for the conclusions of the RPW

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Thank you!