

REMITTANCE PRICES WORLDWIDE



PAYMENT SYSTEMS DEVELOPMENT GROUP | FINANCIAL AND PRIVATE SECTOR DEVELOPMENT VICE PRESIDENCY

ISSUE NO. 4 – NOVEMBER, 2012

AN ANALYSIS OF TRENDS IN THE AVERAGE TOTAL COST OF MIGRANT REMITTANCE SERVICES

This Policy Note reflects the latest trends observed in the data collected in September 2012. Remittance Prices Worldwide is available at <http://remittanceprices.worldbank.org>

Overview

The Remittance Prices Worldwide* (RPW) database monitors remittance prices across all geographic regions of the world. RPW was launched by the World Bank in September 2008,ⁱ and remains a key tool to monitor the cost incurred by remitters and beneficiaries when sending and receiving money along major remittance corridors. The recently launched ninth iteration of RPW covers 219 country corridors worldwide, originating from 32 remittance sending countries to 89 receiving countries.

This policy note uses the data from RPW's most recent iteration to analyze the global, regional, and country specific trends in the average total cost of migrant remittances, as well as the factors influencing them. These data also help to measure progress towards the "5x5" objective,ⁱⁱ which has been endorsed by the G8 and the G20 and is being pursued in partnership with governments, operators, and interested stakeholders.

Main Findings

Based on the data collected for the 3Q 2012 iteration of RPW, and when compared to previous iterations,ⁱⁱⁱ the following main findings have been identified. All figures indicate the cost of sending USD 200 or the local currency equivalent.

- The Global Average Total Cost has decreased from 9.30 percent to 8.96 percent in 3Q 2011 and 3Q 2012, respectively. This confirms the downward trend recorded in 1Q 2012, but it is still far from the achievement of the 5x5 objective in 2014. The

Global Weighted Average is still lower than the mean, but it continues to grow and is now recorded at 7.26%.

- The International MTO Index, which includes the Money Transfer Operators (MTOs) present in over 85 percent of the surveyed corridors, also decreased in the last year. As at the end of 3Q 2012, the Index was 9.51 percent, compared to 9.80 percent in 1Q 2012 and 10.16 percent one year ago in 3Q 2011.

- The average cost of sending money from the G8 countries has declined in the past year, from 8.53 percent in 3Q 2011 to 8.34 percent in 3Q 2012, reaching the lowest recorded level since the inception of the RPW database in 2008. This represents a significant decline when compared to the 10.26 percent in 2008. The decline experienced in the past year was driven largely by significant price declines in Canada and Germany, 11.87 to 10.06 percent and 12.64 to 10.94 percent, respectively. Russia, Italy, Japan, and the USA also declined during the same period, while France and the United Kingdom increased. Japan remains the most expensive among the G8 countries; while Russia is the cheapest G8 sending country, followed by the United States.

- The cost of remitting from G20 countries has followed the same pattern as the global average since the 3Q 2009. According to the latest data, the average is now 8.87 percent, slightly lower than the global average (8.96). The cost of sending money to G20 remittance receiving countries, on the other hand, increased from 9.79 percent in 1Q 2012 to 10.08 percent in 3Q 2012. This is notably higher

* Remittance Prices Worldwide is a product of the Financial Inclusion and Infrastructure Global Practice of the Financial and Private Sector Development Vice-Presidency of the World Bank.

than the global average, and by a larger margin than it has been in recent years.

- On a regional basis, the South Asia (SA) region stands out as the only region where prices increased in the past year. Average costs in SA^{iv} increased from 6.15 percent in 3Q 2011 to 6.54 percent in 3Q 2012. In all other regions, the average cost declined over the past year, with the EAP region showing the biggest decline from 9.80 percent in 3Q 2011 to 8.88 percent in 3Q 2012.

- Among the different types of remittance service providers (RSPs), commercial banks remain the most expensive. The global average total cost for sending remittances through commercial banks was 13.24 percent in 3Q 2012, compared to 7.70 percent and 7.15 percent for Post Offices and for MTOs, respectively.

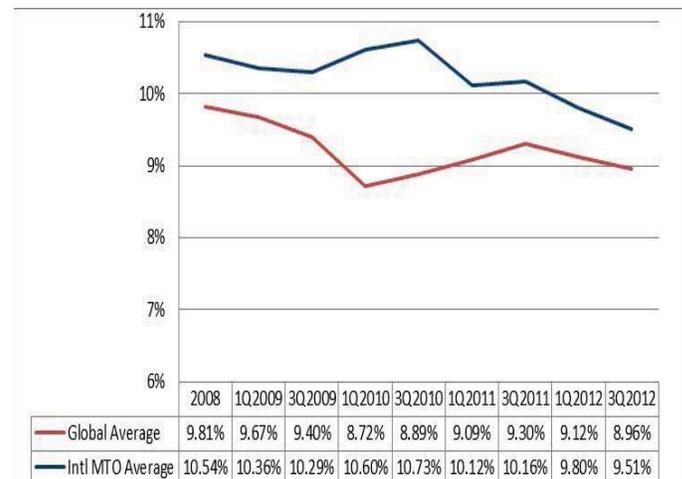
- Cash products are the most widely available ones (1,223) and their average price is 7.21 percent. Account-to-account products are the most expensive, with an average cost of 14.44 percent; however, transfers within the same bank or to a partner bank are significantly cheaper. Currently, on-line and mobile services do not appear to be competitive in terms of availability and cost.

Global average cost for migrant remittances decreased during the last year

As of 3Q 2012, the global average total cost^v for sending remittances is 8.96 percent. Since the launch of RPW in September 2008, and until 1Q 2010, the global average consistently decreased. An upward trend, which began in 3Q 2010, and continued in the following two iterations, reaching 9.30 percent in 3Q 2011, from a lifetime low of 8.72 in 1Q 2010. This trend was reversed, however, when the price decreased to 9.12 percent in 1Q 2012 and again to 8.96 percent in 3Q 2012.

The International MTOs Index, which tracks the prices of MTOs that are present in 85 percent of corridors covered in the RPW database, moved in line with the simple global average.^{vi} The Index declined in the last six months, and in last year; it dropped from 10.16 percent in 3Q 2011 to 10.80 percent in 1Q 2012, and then saw a further decline to 9.51 percent in 3Q 2012 (see figure 1).

Figure 1 - Global Average Total Cost for sending USD 200

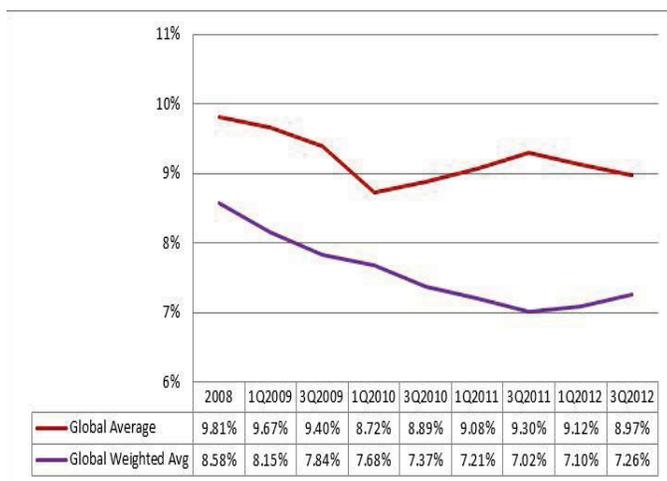


Global weighted average cost is still lower than the mean, but continues to grow

In addition to the global average, a global weighted average total cost was also calculated, which accounts for the size of the flows in each remittance corridors. It is important to note that official data on remittance flows by bilateral corridors are currently not available. Estimates are available^{vii} and have been used in this calculation. These estimates are based on the Balance Of Payments (BOP) and factor in migrant stocks, destination country incomes, and source country incomes. The methodology for these estimates has been questioned, as well as the accuracy of official data on remittance flows and migrant stocks. However, this still represents the only available comprehensive dataset on bilateral remittance flows and for this reason it has been used in the calculation presented here.

The global weighted average total cost of sending remittances, as illustrated in figure 2, shows a different pattern from the simple average. After declining for the first six consecutive iterations, from 2008 to 3Q 2011, the global weighted average increased for the first time in 1Q 2012 to 7.10 percent, up from 7.02 percent in the previous iteration. The recent upward trend continued in the most recent iteration, when the global weighted average increased yet again to 7.26 percent in 3Q 2012.

Figure 2 Global Weighted Average for sending USD 200

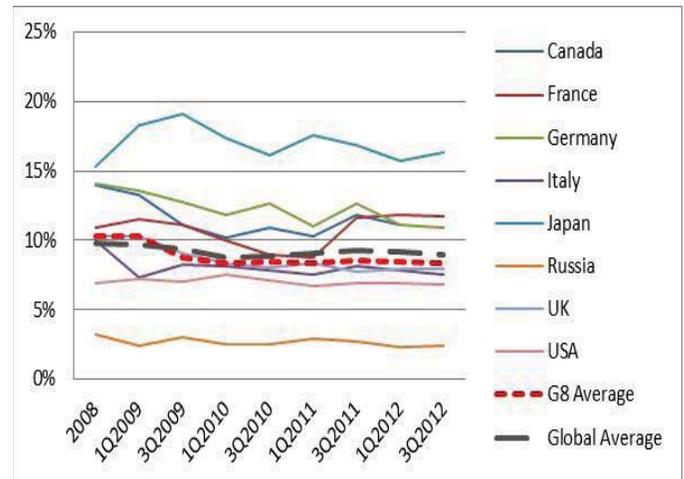


The trend for average cost in G8 countries is consistent with the global average

The G8 countries include the major sending countries in the world. However, as figure 3 illustrates, there are significant disparities in the cost structure across these countries (see also table 1 in the annex).

Japan, France, Germany, and Canada maintain an average total cost above both the global average and the G8 average, while average costs in Russia, the United States, Italy, and the United Kingdom are below both the global and G8 averages. This has been relatively consistent for most countries over the years. Russia and the United States have consistently had average costs lower than the global and G8 averages since 2008; during the same

Figure 3 - Total average in G8 countries



period of time, Japan, Germany, and Canada have had averages that were consistently below. Italy and France have also been relatively consistently below and above, respectively, with the exception of one iteration in each case. The United Kingdom average has been below both the global and G8 averages, consistently since 1Q 2010.

Despite a slight increase compared to six months ago, from 2.33 percent to 2.42 percent, Russia still has the lowest total average cost across G8 countries. Russia has a unique environment where cross border remittances are mostly conducted in the same currency and possible additional cost deriving from a currency exchange are not known. The Russian market also benefits from relatively low fees charged by the providers when compared to the other G8 countries.

Japan is the only other country to register an increase in average total cost since the last iteration; the cost went from 15.70 percent in 1Q 2012 to 16.32 percent in 3Q 2012 and remains the highest average in the G8 countries. The cost of sending remittances from Japan is higher today than it was at inception of the RPW in 2008, when the remittances market in Japan was dominated by commercial banks. The Payment Services Act in late 2009 opened the market to non-bank RSPs; however, while new players have continued to

enter the market since then, the effect on prices is still unclear.

Canada and Italy registered by far the most significant declines since the last iteration; falling from 11.08 percent to 10.06 percent and 7.88 percent to 7.47 percent, in 1Q 2012 and 3Q 2012 respectively.

The cost of sending remittances from Germany declined from 11.16 percent in 1Q 2012 to 10.94 percent in 3Q 2012. The average cost recorded in 3Q 2012 not only suggests a reversal in the seasonal trend observed in 2010 and 2011, with lows recorded in the first quarters and highs regularly reached in the third quarters, but is the lowest recorded since 2008.

Figure 4 shows the spread between the minimum and maximum amounts charged by individual RSPs in each country. In most countries, the wide range between the two values is due to the presence of costly services, in particular those offered by some commercial banks. It is interesting to note, for example, that the spread is narrower in Russia, where banks do not operate in the market for remittances. In Japan, where MTOs are still relatively new players, the gap between the most and least costly services is quite wide. This may be due to the fact that, while cheaper services are being introduced by new market entrants, incumbent providers maintain relatively higher prices.

Figure 4 - Spreads and averages in G8 countries

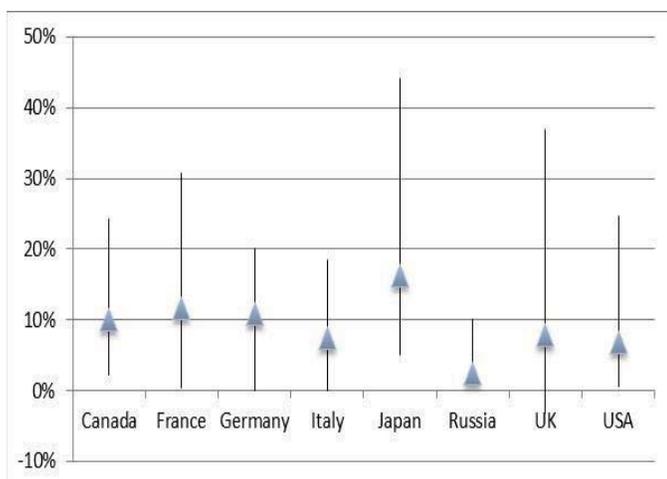
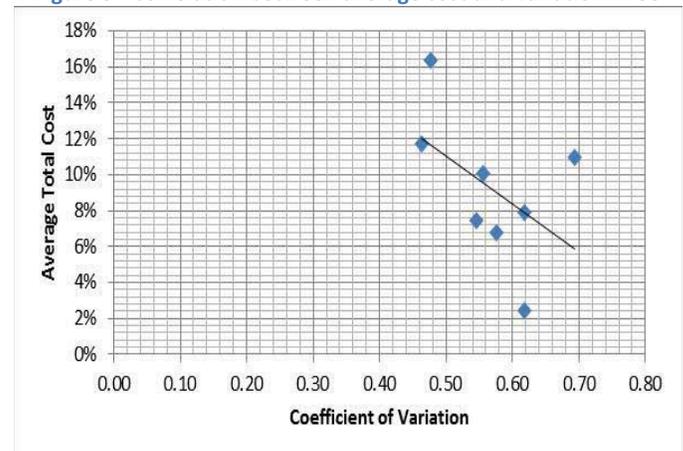


Figure 5 shows the correlation between the average total cost in the G8 countries and the coefficient of variation in those countries, which measures the extent to which the prices vary from the mean. The downward sloping line suggests that in the most expensive markets prices vary less (lower coefficient of variation), while the prices are more disparate in cheaper sending countries (higher coefficient of variation).

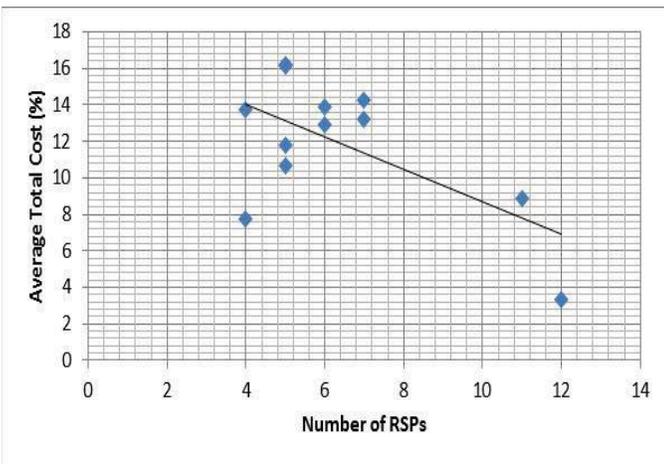
In other words, when the average cost is higher, providers have less incentive to compete on costs and, therefore, prices tend to concentrate around the mean. Conversely, when the average cost is lower, market pressure to compete on the basis of price means that providers are more likely to deviate from the average price in order to gain market share.

Figure 5 - Correlation between average cost and variation in G8



Competition in the market for remittances is an important driver of the cost of sending remittances; corridors served by a higher number of RSPs should have lower prices. This intuitive finding is confirmed by the analysis of the correlation between the number of RSPs surveyed in a corridor and the average total cost for the same corridor. For example, this phenomenon can be clearly observed in Germany, where average prices per corridors vary from 3.34 for Romania to 16.18 for China. Among other factors, this result seems to be affected by the level of competition in these markets, as shown in figure 6.

Figure 6 - Correlation between average cost and number of RSPs in Germany



Cost for migrant remittances in the G20 countries

The topic of remittances has gained a higher level of attention in the agenda of the G20 countries. In particular, the G20 discussion on the adoption of a target raises the need for an index that specifically monitors the price of remittances in the G20 members.^{viii}

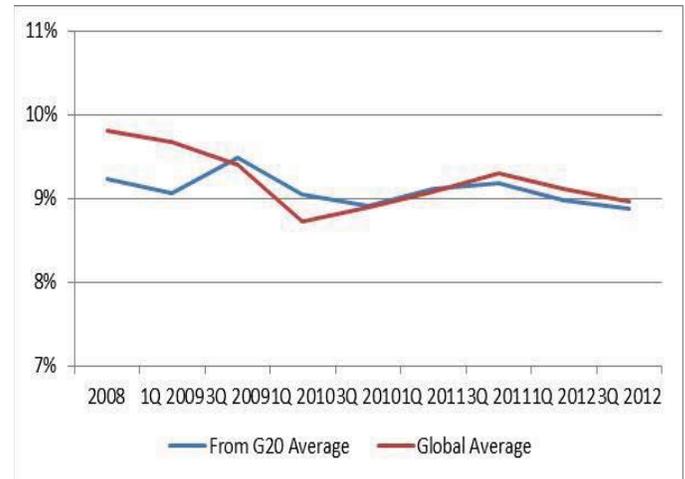
Due to the heterogeneity of the sample, a single index cannot be calculated with the same methodology used for the G8. As a matter of fact, a single index would entail including in the same calculation figures that are different in nature, i.e. the cost of sending remittances from and to a country. This is due to the fact that some countries are included in the database as sending markets, while other countries are included in the sample as receiving markets.^{ix}

For this reason, two different indexes are proposed here: (1) average for sending remittances from the G20 member countries (see figure 7); and (2) average for sending remittances to the G20 member countries (see figure 8).

With the exception of 3Q 2009, the cost of remitting from G20 countries has followed the same pattern as the global average. According to

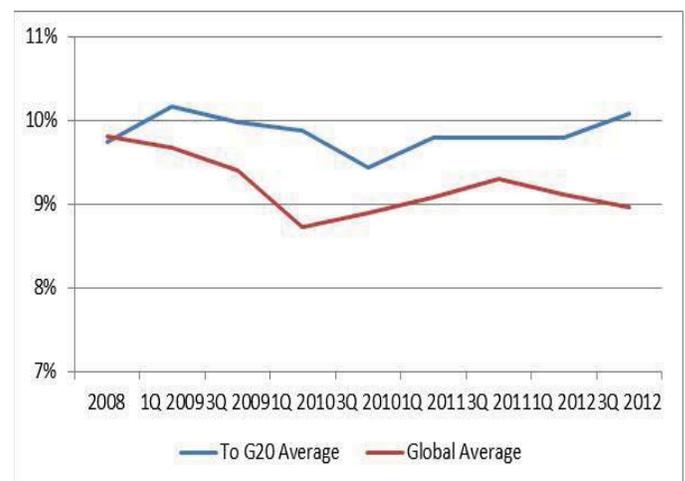
the latest data, the average is now 8.87 percent, a slight decline from 8.98 percent in 1Q 2012, and slightly lower than the global average (8.96).

Figure 7 - Average cost of sending USD 200 from G20 countries



The average cost of sending money to the G20 countries that are included in RPW as receiving markets is 10.08 percent, which is higher than the 9.79 recorded in 1Q 2012, and the second highest level recorded since the first iteration of RPW in 2008 (9.74). This figure has been constantly higher than the global average, but the margin between the global average and the G20 average (receiving countries) is the widest it has been since 1Q 2010.

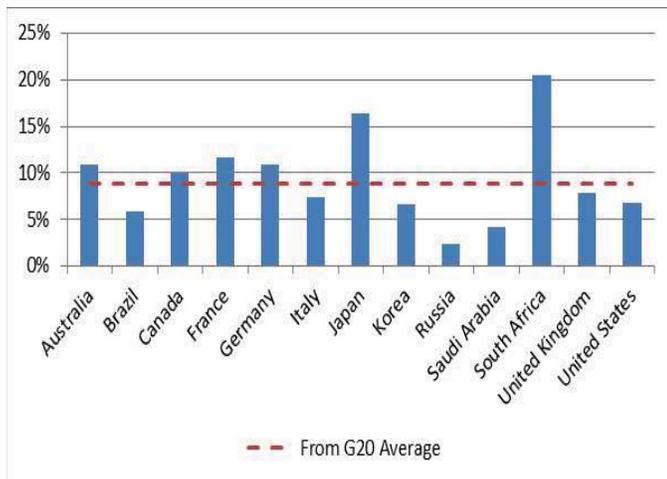
Figure 8 - Average cost of sending USD 200 to G20 countries



South Africa is the costliest remittance sending country in the G20 group, with an average of 20.56, followed by Japan with an average of 16.32 percent

(see figure 9). The cheapest sending countries, together with Russia, are Saudi Arabia (4.25) and Brazil (5.88), followed by Korea (6.65).

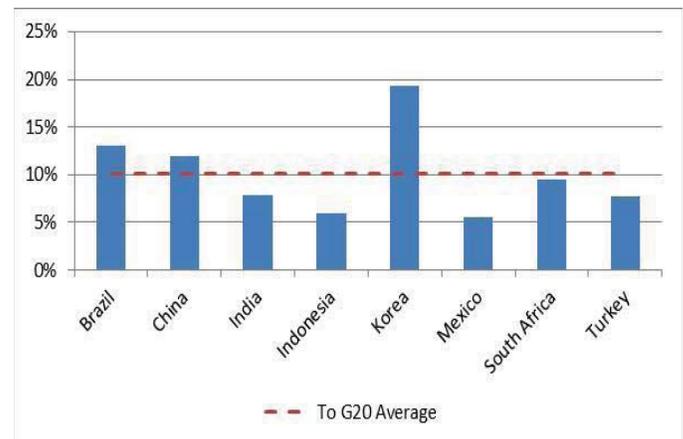
Figure 9 - Average cost of remitting from G20 countries in 3Q 2012



Korea^x, Brazil and China are the most expensive receiving countries in the G20, with average costs of 12.99 and 12.01 percent respectively (figure 10). For Brazil, the high cost is partially due to the high exchange rate margins charged by RSPs, especially MTOs, when converting the sending currencies into the Brazilian Real. In particular, providers generally use the commercial rate as a reference when sending money to Brazil; however, the market rate is commonly applied to domestic retail transactions in the country. For this reason, the market rate, which is more favorable for the sender, is also used in RPW to calculate the margins charged by the providers.

Mexico and Indonesia are the cheapest receiving markets in the G20, with an average of 5.56 and 6.01 percent, respectively.

Figure 10 - Average cost of remitting to G20 countries in 3Q 2012



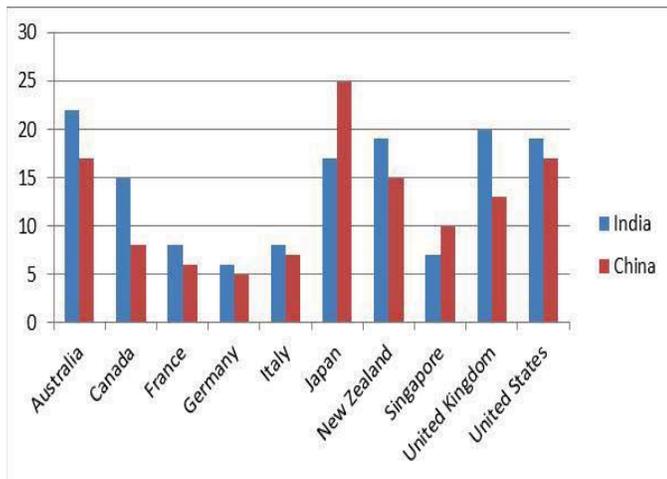
Focus on China and India: remittance markets are not created equal

A special analysis was conducted on flows to India and China, the two main receiving countries worldwide by volume of remittances received. Despite the large volume of remittances flowing into both countries, there is a significant gap in the price of sending remittances to China and India, as figure 9 shows. The cost of sending money to China, 12.01 percent in 3Q 2012, is above both the global and G20 averages, which were 8.96 and 10.08 percent, respectively, for the same period. Sending money to India, on the other hand, costs an average of 7.83 percent and is below both the global and G20 averages.

A difference can be observed in the coefficient of variation: the cost of sending money to India varies more than the same value for China (0.74 for India, 0.49 for China). This finding demonstrates the importance of receiving market conditions as a determinant of remittance prices; when the receiving environment is favorable, prices vary more depending on the providers and sending country; when the receiving environment represents an obstacle to the reduction of cost, the variation is lower and prices tend to concentrate around the average.

As figure 10 illustrates, even though China and India both have large inflows, India is served by a larger number of services than China, both overall and in common source countries, with the exception of Singapore and Japan.^{xi}

Figure 11 - Number of RSPs in Common Sending Countries



Remittance sending costs vary significantly across receiving regions

The cost for remittance services varies significantly depending on the region where the money is being sent (see figure 12; in the annex, see table 2). As in previous iterations, South Asia (SA) and Latin American and the Caribbean (LAC) are the least costly regions to send money to, with an average cost of 6.54 percent and 7.63 percent respectively. Both regions registered slight declines; SA declined from 6.70 percent in 1Q 2012, while LAC declined from 7.72 percent over the same period. This represents a reversal of a concerning upward trend noted in both regions in 3Q 2011.

Due to the peculiarity of the Russian market and its heavy influence on the Eastern and Central Asia (ECA) region, two values have been calculated and considered: an average including and an average excluding Russia. In both cases, the average cost increased over the last six months, from 6.28 to 6.54 percent when all corridors are considered, and from 8.14 to 8.21 percent when Russia is excluded

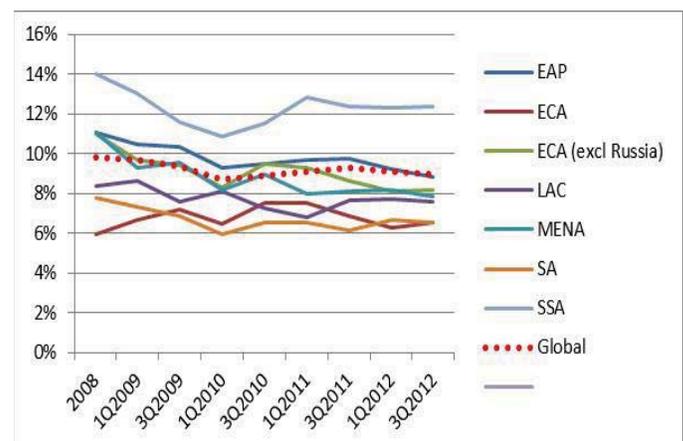
from the calculation, but declined in the past year, from 6.86 percent and 8.68 percent.

The average cost of sending remittances to the East Asia and Pacific (EAP) region has decreased from 9.80 percent one year ago and 9.27 percent six months ago, and now stands at 8.88 percent, reversing an upward trend observed in the three previous iterations. This decline is likely the result of efforts in the area of transparency and competition, as well as increased dialogue among regulators and operators, particularly in the Pacific region.

Until 2012, the Middle East and North Africa (MENA) was characterized by a seasonal trend; slight increases in the third quarters followed by drops of the average costs in the first quarters. Unlike past years, the average price in this region went up from 8.15 percent in 3Q 2011 to 8.19 percent in 1Q 2012 and declined in the last six months, to 7.85 percent in 3Q 2012. Despite the slight increase in 1Q 2012, the 3Q 2012 level is the lowest that has been recorded for the MENA region since 2008.

With an average cost of 12.40 percent in 3Q 2012, the Sub-Saharan Africa region remains the most expensive region of the world to send money to, a position it has held since the launch of RPW in 2008. The levels observed this quarter represent a slight increase compared to the previous data collection six months prior, when the average cost was 12.32 percent. These results are indicative of the lack of coherent and targeted interventions in the most critical areas of the market for remittances in the continent.

Figure 12 - Total averages by region of the world



Banks remain the most costly RSPs for sending migrant remittances

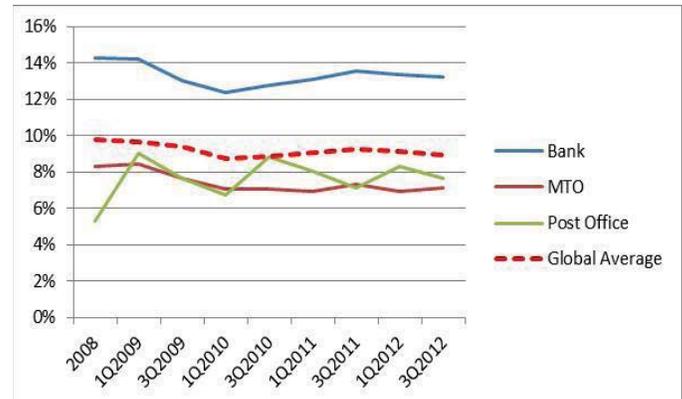
The RPW database tracks the cost of sending remittances based on three RSP types; commercial banks, MTOs, and post offices. Based on the data from this reporting period (see figure 11), commercial banks continue to be the most costly RSP type. The cost of sending remittances using a commercial bank is 12.24 percent, higher than the global average (8.96), and higher than Post Offices and MTOs, which cost 7.70 and 7.15 percent respectively.

Post Offices briefly became the cheapest RSP type in 3Q 2011, but that was short-lived. A 0.22 percent decline in the prices offered by MTOs, from 7.37 percent one year ago, coupled with a 0.54 percent increase in the cost of Post Office remittance services, from 7.16 percent one year ago, combined to make MTOs the cheapest RSP type once again.

In addition to being the cheapest RSP type, MTOs are also the largest category in the RPW database and the most transparent. 98 percent of MTOs (1,747 out of 1,775) disclose full information to their customers, compared with only 74 percent of banks (678 out of 914) and 44 percent of Post Offices (16 out of 36). For non-transparent services, the exchange rate applied to the transaction was not disclosed, and therefore, the average price reported here could be significantly higher if full information were provided.

Despite being the cheapest and most transparent RSP type, MTOs were the only category to experience an increase in the last iteration; 7.15 percent compared to 6.96 percent in 1Q 2012.

Figure 13 - Total averages by RSP type

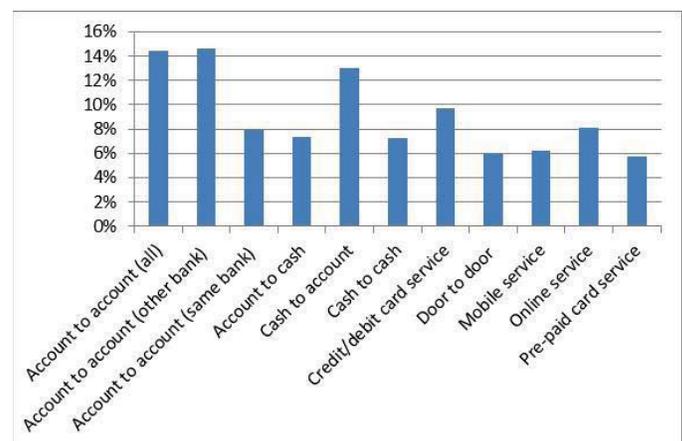


Cash services dominate the remittance market at competitive prices

Cash services remain the most widely available ones (1,223) and, with an average price of 7.21 percent, are also among the cheapest (see figure 14). Account-to-account services (526), on the other hand, are the most expensive, with an average cost of 14.59 percent. It should be noted, however, that when transfers within the same bank or to a partner bank are considered, the price falls to 7.88 percent, though these services are not as common (49).

Although not widely available, pre-paid card services (70), door to door (71) and mobile services (12) were the cheapest product types, with average costs of 5.72, 5.99, and 6.22 percent, respectively. 326 on-line services were surveyed and the average total cost was 8.12 percent.

Figure 14 - Average cost by product type



NOTES

ⁱ Several countries/regions operate their own databases to monitor remittance price activity at the national/regional level. The World Bank certifies national and regional remittance prices databases compliant with the minimum mandatory requirements for remittance databases. To date, five databases have been certified (Italy, Central America, Australia/New Zealand, Africa and Norway). For more information, visit <http://remittanceprices.worldbank.org/National-Databases>.

ⁱⁱ The 5x5 objective refers to reduction of the global average total cost of migrant remittances by 5 percentage points in 5 years. It was adopted by the G8 at the 2009 L'Aquila summit where the commitment was made "to achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10% to 5% in 5 years." In 2010, the G20 committed to a "significant reduction in the cost of remittances" and established a Development Action for Remittances.

ⁱⁱⁱ The first iteration of the database was released in September 2008, after which the RPW database has been updated every six months. The subsequent data releases took place in 1Q and 3Q 2009, 1Q and 3Q 2010, 1Q and 3Q 2011 and 1Q and 3Q 2012.

^{iv} The regions' abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), South Asia (SA), Sub-Saharan Africa (SSA).

^v The global average total cost is calculated as the average total cost for sending USD 200 with all RSPs worldwide; non-transparent RSPs (i.e. RSPs that do not disclose the exchange rate applied to the transaction) are excluded, as well as corridors from Russia, since in these cases the exchange rates were not provided and cost could be higher if data were complete.

^{vi} The International MTOs Index includes all MTOs that are present in over 85 percent of RPW corridors. Thus far, it has included Western Union and MoneyGram, which operate in 99 percent and 92 percent of the country corridors covered in the database, respectively.

^{vii} Ratha and Shaw 2007 (updated in November 2010), available at <http://go.worldbank.org/JITC7NYTT0>.

^{viii} In the final declaration of the Cannes Summit on November 3 and 4 2011, the G20 head of state committed to work towards the reduction of the average cost of transferring remittances from 10 to 5 percent by 2014.

^{ix} The following G20 countries are included in RPW. Sending countries: Australia, Canada, France, Germany, Italy, Japan, Russia, Saudi Arabia, United Kingdom, and the United States. Receiving countries: China, India, Indonesia, Mexico, Turkey. Countries that are both sending and receiving: Brazil, Republic of Korea, South Africa. Argentina is not included in RPW. The European Union does not appear as such in RPW, although most EU member countries are included in the database.

^x Currently, Japan is the only source country surveyed for Korea. It has been observed by Japanese and Korean authorities that the flows from Japan to Korea do not consist primarily of migrant remittances. For this reason, further analysis of the Korean case will be conducted, starting from the next data collection.

^{xi} India is served by a total of 178 RSPs, compared to 143 for China. The number of RSPs reflects the number of options for sending USD 200 from various countries around the world, and only includes transparent providers.

ANNEX: TABLES

Table 1 - Total average in G8 countries (%)

	2008	1Q2009	3Q2009	1Q2010	3Q2010	1Q2011	3Q2011	1Q2012	3Q2012
Canada	14.00	13.28	11.07	10.18	10.90	10.31	11.87	11.08	10.06
France	10.92	11.50	11.15	10.01	8.95	8.76	11.63	11.78	11.68
Germany	14.07	13.53	12.71	11.85	12.67	10.98	12.64	11.16	10.94
Italy	10.03	7.36	8.21	8.11	7.87	7.57	8.18	7.88	7.47
Japan	15.33	18.24	19.06	17.34	16.16	17.54	16.84	15.70	16.32
Russia	3.22	2.42	2.99	2.54	2.52	2.88	2.68	2.33	2.42
UK	10.26	10.27	9.05	8.29	8.07	8.33	7.73	7.93	7.88
USA	6.90	7.21	7.06	7.57	7.14	6.67	6.93	6.91	6.80
G8	10.26	10.32	8.80	8.37	8.40	8.36	8.53	8.49	8.31
Global	9.81	9.67	9.40	8.72	8.89	9.08	9.30	9.12	8.96

Table 2 - Total averages by regions of the world (%)

	2008	1Q2009	3Q2009	1Q2010	3Q2010	1Q2011	3Q2011	1Q2012	3Q2012
EAP	11.05	10.46	10.38	9.33	9.48	9.71	9.80	9.27	8.88
ECA	5.96	6.68	7.19	6.48	7.57	7.55	6.86	6.28	6.54
ECA (w/o Russia)	11.03	9.70	9.42	8.33	9.49	9.32	8.68	8.14	8.21
LAC	8.37	8.65	7.63	8.12	7.27	6.82	7.68	7.72	7.65
MENA	11.10	9.30	9.58	8.19	8.95	8.00	8.15	8.19	7.85
SA	7.80	7.31	6.85	5.99	6.54	6.56	6.15	6.70	6.54
SSA	14.01	13.07	11.61	10.86	11.57	12.82	12.41	12.32	12.40
Global	9.81	9.67	9.40	8.72	8.89	9.08	9.30	9.12	8.96