

**COMPILATION OF REMITTANCES DATA IN BALANCE OF PAYMENTS USING
DIRECT REPORTING FROM MONEY TRANSFER OPERATORS**

III Seminar Improving Central Bank Reporting and Procedures on Remittances

Dominican Republic Central Bank, Santo Domingo, September 5-7, 2007

Javier Álvarez de Pedro

STATISTICS DEPARTMENT
BANCO DE ESPAÑA

MAIN POINTS

Introduction

Implementing an MTO direct reporting system:

- *Making the decision*
- *Data collection scheme*
- *Coverage of statistical requirements*
- *Integration with other data sources*

The Spanish MTO direct reporting system

Conclusions

INTRODUCTION (I)

Presentation based on the paper: “Direct reporting Systems”, elaborated jointly by Spain and Italy for the Compilation guide on remittances

➤ *Spain's participation in the Luxembourg Group on remittances*

Working group set up after the International Meeting on Remittances held in Washington 2005

In charged of the practical issues for the analysis of methods and the preparation of a compilation guide on remittances. Integrated by compilers of 16 countries (including Spain), Eurostat, the World Bank and the IMF

During the last two years, three meetings of the Luxembourg group have been held (Luxembourg, Frankfurt and Brasilia). The work of the group is close to an end with the elaboration of a draft of a compilation guide for remittances (expected by the end of 2007)

INTRODUCTION (II)

Spanish background: recent incorporation of MTO direct reporting in our BOP information system as part of a general process of substitution of sources where direct reporting has grown in importance

➤ *especially urgent in the case of remittances due to the increasing importance of remittances flows sent abroad from Spain: growth and changes of immigrant population in Spain*

Increasing interest on BOP disseminated data and growing limitations of the traditional information system mainly based on the reporting of foreign receipts and payments by deposit institutions (ITRS)

➤ *availability of direct information from MTO's reported to the Bank of Spain for supervision purposes*

➤ *preliminary steps: a) estimation of potential remittances sent abroad from Spain, b) estimation of an econometric model for real remittances sent abroad from Spain*

➤ *MTO data finally used as a complementary source of the ITRS for the estimation of the debits*

MTO DIRECT REPORTING: MAKING THE DECISION

Key points to be considered:

- a) Relevancy of MTO's as remittances transfer operators
- b) Concentration of the MTO market
- c) Existence of institutional arrangements:
 - supervision of MTO activity by the Central bank or other institutions
 - data reported by financial intermediaries to the Central Bank: indirect capture of MTO information
 - ability of the Central Bank or other institutions to obtain information directly from MTO's: obligatory enforcement or cooperative agreement
 - coincidence of MTO supervisor and Balance of Payment compiler

These points have proved to be crucial in order to take a decision on the:

- suitability of adopting an MTO direct reporting system
- definition of the data collection scheme

MTO DIRECT REPORTING: DEFINING THE DATA COLLECTION SCHEME

- a) **Target population:** it is preferable to collect information from the smaller group of MTO agents (direct franchisees of subsidiaries of an international MTO) than from the larger group of sub-agents (those subordinate to a national agent) operating in a country
- b) **Data collection tool:** census or sample survey
- c) **Frequency of the data collection:** it depends on the country requirements, usually quarterly or yearly could be enough
- b) **Basic information requirements for compilation:** date of transaction, residency of the sender of the funds, direction of flows (outbound or inbound), country of origin/destination of the transfer and transaction purpose
- c) **Supplementary information:** number of remittances, currency used in the transaction, socio-demographic variables of transactors, services fees and commissions, etc.
- d) **Delivery of information by MTO's:** preferable via Internet although in the case of sub-agents other more convenient channels (mail, fax, etc) could be used

MTO DIRECT REPORTING: COVERAGE OF STATISTICAL REQUIREMENTS (I)

Last, but not least, it should be had in mind that MTO direct reporting is, by definition, a partial source of information

- a) Remittances transacted directly through banks, informal channels or in kind are not captured
 - availability of additional information sources
- b) MTO's mainly provide information on household to household transactions
 - may include data on short-term workers (non resident) sending money home (non resident), transactions that, in principle, should not be included in BOP data (could be used only as a proxy of compensation of employees net of taxes, travel and other expenses related to short term employment). However, MTO's are not probably the most popular channel for these transfers
 - social benefits and current and capital transfers to NPISH are not normally included
- c) MTO's mainly channel current transfers
 - may capture capital transfers, although these are more likely to be channelled through banks
 - no information on the real use or purpose of the funds transferred, difficulties to distinguish between current and capital transfers
- d) Other non-remittances flows sent through MTO's: related to financial assets (bank deposits and portfolio investments) and investments in real estate

MTO DIRECT REPORTING: COVERAGE OF STATISTICAL REQUIREMENTS (II)

Table 1. Remittances aggregates in BPM6 and data potentially provided by MTO direct reports

Personal transfers: All current transfers in cash or in kind made/received by resident households to/ from other non-resident households	Data on current transfers between households (workers remittances and other current transfers in cash) No coverage of current transfers in kind
Personal remittances: Personal transfers + compensation of employees less taxes on income and social contributions – transport and travel expenses + capital transfers between households	Same as above and: Data on capital transfers between households Partial/No information on compensation of employees (“net saving” of non-resident short-term workers)
Total remittances: Personal remittances + social benefits (benefits payable in cash or kind under social security funds and pension funds)	Same as above and:
Total remittances and transfers to NPISHs: Total remittances+ Current Transfers to NPISHs+ Capital Transfers to NPISHs	In general, no coverage of social benefits and current and capital transfers to NPISH

MTO DIRECT REPORTING: ADVANTAGES OF INTEGRATION WITH OTHER DATA SOURCES

MTO direct reporting may be used in combination with other information systems

Helps to mitigate certain limitations that affect the ITRS system in the current economic and financial context (specially serious in the framework of economic and monetary unions)

- *existence of relatively high reporting thresholds (Spain 12,500 euros since January 2001, 50.000 euros in the near future)*
- *effects of transactions batching or netting of operations*
- *distortions in the geographical allocation of the data that may happen when financial intermediaries resident in third countries are involved*

Provides data to implement a modeling strategy: for example, if available, data on the average remittances sent by households of a given nationality and the number of remittances sent in a given period obtained from MTO reports can be combined with data on the proportion of senders using the MTO channel (obtained from a survey on remitters) to obtain an estimate of the total remittances outflows

Direct reporting is usually not expensive as compilation channel and generally very reliable

THE SPANISH MTO DIRECT REPORTING SYSTEM: MAIN FEATURES (I)

- Relevancy of MTO's as remittances transfer operators:** existing evidence suggests a high relevance of this channel (around a 80% of the total):
 - *good properties: high flexibility, velocity and transparency in the service*
 - *increasing importance of the bank channel. Credit institutions mainly adopted a strategy based on offering remittances services in combination with other financial services. They often negotiate with a limited number of other institutions in other countries in order to create a network of access points*
- Concentration of MTO market:** activity concentrated with 10 operators managing approximately 70% of total outflows and 20 operators managing approximately 90% of total transfers in 2005 year
- Institutional arrangements:** Bank of Spain Circular 6/2001 establishes the conditions to authorize and regulate the activities of the operators and the agents that work on their behalf that manage transactions related to operations of purchase and sell of foreign banknotes and travel checks, and/or transfers made or received to/from other countries
 - *direct reporting of all MTO agents registered in the Bank of Spain for supervision purposes and total coverage of MTO agents authorized to order/receive transfers*
 - *information on the total amount of transfers ordered and received by resident MTO's with a geographical breakdown by destination/origin of the funds*
 - *Bank of Spain = supervisor = BOP data producer*

THE SPANISH MTO DIRECT REPORTING SYSTEM: MAIN FEATURES (II)

Table 2. Distribution of operators and agents that manage transactions of purchase and sell of foreign banknotes, travel checks, and/or transfers to/from other countries

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Operators (a)	53	55	58	57	59
Agents (b)	4.024	4.968	6.484	7.878	10.021

a) Operators entitled to manage transactions of purchase and sell of foreign banknotes, travel checks, and/or transfers made and received to/from other countries

b) Agents that work on behalf of the operators in group (a)

Information reported quarterly to the Financial Reporting and CCR Department of the Bank of Spain by operators in group (a)

THE SPANISH MTO DIRECT REPORTING SYSTEM: INTEGRATION IN THE GENERAL BOP INFORMATION SYSTEM (I)

In the Spanish BOP information system, remittances related flows are covered by:

- a) ITRS:** cross-border transactions channeled through resident deposit institutions and reported to the Bank of Spain (includes transactions on behalf of MTO's)
- b) Information directly reported by MTO's to the Bank of Spain and useful for statistical purposes:** total amount of transfers managed by MTO's by currency of transaction and by country of origin and destination of the transfers (corresponding to the five more important countries or those representing more than a 5% of total transfers)

Until 2006, the estimation of Workers' Remittances item was exclusively based on the information on foreign receipts and payments obtained through the ITRS

- *underestimation of disseminated data (outflows)*
- *distortions in the geographical breakdowns*

THE SPANISH MTO DIRECT REPORTING SYSTEM: INTEGRATION IN THE GENERAL BOP INFORMATION SYSTEM (II)

In order to evaluate the limitations of the ITRS and the suitability of new information sources two lines of research were followed:

- *remittances estimation using statistics on foreign population*
- *a panel data econometric model for remittances sent abroad from Spain*

Since 2006, for data from 2002 onwards, ITRS has been complemented by MTO direct reporting for the estimation of Workers' Remittances debits:

- *the information on the total amount of transfers made by MTO's is used for cross-checking and correcting the figure on the total transfers obtained from the ITRS system*
- *the information on the geographical breakdown of transfers reported by the MTO's is used to correct potential distortions in the geographical breakdown*

THE SPANISH MTO DIRECT REPORTING SYSTEM: INTEGRATION IN THE GENERAL BOP INFORMATION SYSTEM (III)

Table 3. Total outbound and inbound transfers managed by MTO's (millions of euros)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Outbound	2.296	2.821	3.423	4.013	4.891
Inbound	241	224	213	211	202

High growth of outbound transfers managed by MTO's during this period (average rate of growth of 21% in 2003-2006) and decrease of inbound transfers

THE SPANISH MTO DIRECT REPORTING SYSTEM: INTEGRATION IN THE GENERAL BOP INFORMATION SYSTEM (IV)

Table 4. Geographical distribution of Workers' remittances outflows from Spain 2006

	<u>MTO's + ITRS</u>		<u>ITRS</u>
Colombia	19,7	United States	28,4
Ecuador	17,0	Colombia	13,1
Bolivia	10,8	Ecuador	11,7
Romania	7,2	Ireland	7,8
Morocco	6,1	Netherlands	5,1
Dominica Republic	5,7	Bolivia	5,1
Brasil	4,5	Germany	3,6
Ireland	3,9	Uruguay	3,4
Peru	3,4	Mexico	3,3
Netherlands	2,6	Peru	2,3

Source: Bank of Spain

CONCLUSIONS

In the current economic and financial context, on the one hand, the accuracy on the measurement of BOP remittances related flows has gained importance and, on the other hand, BOP data collection systems based on ITRS face up serious limitations.

The suitability of adopting an MTO direct reporting system will very much depend on the weight of the funds channeled through them, the structure of the market and the institutional framework.

MTO direct reporting presents two main advantages opposite to ITRS: better information on gross flows (inbound and outbound) and better geographical allocation of the data.

Although MTO data cannot be directly aligned with BPM6 definitions, given their relevancy as a remittances channel in many countries, direct reporting by MTO's can be considered a useful strategy for compilation of remittances data in BOP.



THANK YOU FOR YOUR ATTENTION