

**Banca d'Italia - Payment System Oversight Office**  
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*International experience: coverage,  
quality and sources of information*

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# Coverage: definition and market

- Remittance is the money that migrants return to their country of origin. The definition usually includes: worker remittances, compensation of employees and migrant transfers.
- Macroeconomic effects: financing domestic consumption, investment and foreign trade transactions in the migrants' country of origin *or* decreasing the likelihood of an improved economy and encouraging the continued migration of the working age population (**brain drain**).
- The market is crowded and dominated by banks, non-banks intermediaries, microfinance institutions and postal offices. The transmission channel is sometimes informal, unregulated and parallel (*unrecorded remittances*).

# Coverage: market trends

- After the WW II, migrants return money back home informally in the currency of their host country using relatives, friends and money couriers.
- 60s and 70s:
  - show an increasing role of financial and banking systems in handling the flow of remittances as banking networks expanded rapidly in U.S. and in many European countries;
  - setting up policy measures to influence the choice of the remittance channel in the situation where the authorities had direct control over the entire process of labour migration.
- After the Seventies ... non-banks intermediaries, microfinance institutions and strong development of postal payment services. Thus responsibility for operating (offering) payment systems (services) relies less on banking institutions today than in the past. In the future, major role of initiatives co-shared by banks and no-banks.



## Coverage: which lessons can we learn ?

- The market of remittances is characterised by worldwide global players: big commercial banks, money transfers, cards issuers. **Why ? High transaction costs for small volumes and the large cost of reach expanding imply large scale operators. Impact of regulations.**
- Policy makers are strongly interested in regulating the market of money remittances (to implement money laundering measures, protect customers of financial services, control currency flow). **Is that counterproductive ? Even if suspect fund transfers raise security issues calling for more scrutiny, all too often burdensome regulation design are related to weak environments with the risk of hindering access to unbanked people and driving transactions underground.**
- Clearing and settlement systems of remittances: are in part the same used by domestic payments (ACH) and in part reflect bilateral or multilateral agreements. **Why this dual situation ? It seems to reflect the past structure of the market. In the future, changes induced in European clearing and settlement of cross border retail payments can build a PEACH able to process remittances as well.**

# Quality of data: remittances and the world economy

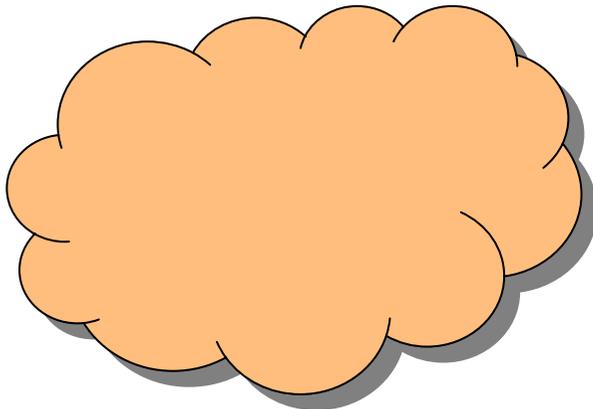
- The role of remittances in the World's Economy: workers remittances back to developing countries reached \$ 72 billion in 2001 (91 billion in 2003) and exceed official development assistance given by government (World Bank paper – D. Ratha, 2003).
- A significant impediment to remittances becoming more beneficial to the global economy and the individual recipients is transaction costs. Some studies indicate the costs of remittance transfers from U.S. to Central and South America range from 13 to 20 per cent. Reducing these cost to even 10 per cent would save workers and their families up to 3,5 billion a year.



# Quality of data: scope to increase the quality

The (poor ?) quality of data mirrors the characteristics of market of remittances:

- \* lack of a clear definition of remittance: in principle, transactions with all means of payments are encompassed;
- \* senders are mainly concentrated in U.S. and Europe;
- \* recipients are concentrated in Africa, Middle East, Central/South America;
- \* only Western Union has more than 200.000 agents today worldwide (from just 50.000 in 1998);
- \* legal framework, requirements and enforcement are different according to countries and the nature of intermediaries;
- \* potential underestimate of gross flow of remittances, due to netting practices of firms specialized in money transfers.



# Quality of data: drawbacks

Data weakness and omissions are due to the difficulties in obtaining all necessary data: risks of double accounting or underestimate.

For compiling all remittances flow, a variety of data sources would have to be used, some of which are difficult to capture.

Data are neither perfectly comparable nor equally comprehensive and reliable across countries, informal transfers could amount to 10-55 per cent of total remittances (still large use of cash which is impossible to record?).

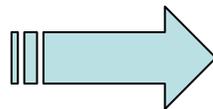
# Quality of data: possible solutions

- Market failures suggest that central banks can play a proactive role in



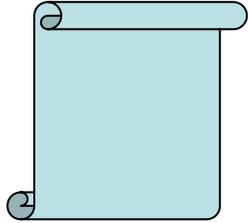
considering the fast changes occurring in remittances services :

- increasing use of electronic payments (general purpose prepaid cards and remittances cards like PONI)
- non bank participation in the payment systems (PayPal company operating in 60 countries and First Data)



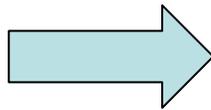
bringing underserved population into electronic transactions economy through the innovative use of existing networks:

- postal systems can be used to deliver new payment services.
- joint ventures between banks and money transfers can broaden the range of delivery points.



## Sources of remittances data

- Official data on remittance inflows and outflows have traditionally been recorded for BOP scope. Therefore, banking industry has contributed to its compilation with a variety of data and sources (single operations, lump sum, threshold, estimates).

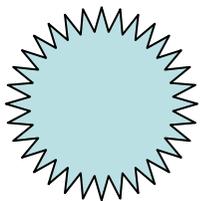


For purpose of oversight function, central banks are now improving the collection of data on cross border transactions with new interesting breakdowns (for currencies, countries and economic sectors). New methodology for Blue and Red Book is a good starting point .

## Sources: new challenges

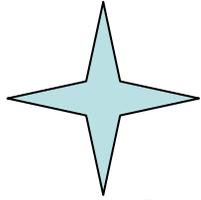
- The market trends can be accommodated by central banks and be incorporated in policy guidelines to foster the use of cashless payment instruments (instead of investing only in estimating cash remittances for statistics purposes).
- From a policy makers perspective, data on remittances and their impact on development and poverty are partly outside the framework of balance of payment statistics.

We can imagine to establish a conceptual framework committed to:

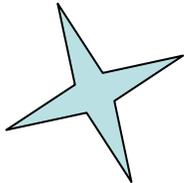


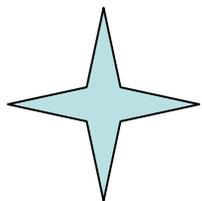
- \* the improvement of data on remittances
- \* making transfers of funds cheaper and more secure
- \* bringing underserved populations into electronic transactions economy

# Making trade-offs explicit



- Central banks should set out publicly their oversight policies, including the policy requirements or standards for systems and the criteria for determining which systems these apply to (**General oversight principle A: Transparency; Central bank oversight of payment and settlement systems, BIS 2005**)
- The central bank should, at a minimum monitor development in market conditions and behaviours relating to retail payment instruments and services and assess their significance .....and reviewing conditions in the market for cross-border retail payments, with a view to promoting improvements, if such action is warranted (**Public Policy Goal B – Policy issues for central banks in retail payments, BIS 2003**)





# Making trade-offs explicit

- Instead of chasing only data and information, central banks could try to organize the market of remittances in terms of surveying intermediaries operating this activity and monitoring the turnover and its evolution.
- In this way, central banks can exploit the existing networks of payment systems set up by big operators to broaden access to payment and financial services.

The pros of this proposal are numerous:

- possibility to collect data in a more accurate way (prices other than volumes);
- opportunity of monitoring and updating the structure of the remittances markets;
- convenience of stipulating agreement with global players (VISA, MC, WU, etc.) to collect data directly;
- achievement of reduction of cash remittances and growth of the operations channelled by legal entities in medium term;
- understanding and monitoring the risks related to operators that are unlike credit institutions or other regulated intermediaries: for example, in the case of failure of a money transfer who bears the risk ?

