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## ***General Principles for International Remittance Services***

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General Principles for International Remittance Systems*

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## **Overview**

- What are remittances and why do they matter?
- What are the main issues?
- What can be done? The CPSS-WB General Principles and related roles
- Implementing the GPs

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**What are remittances?  
Why do they matter?**

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## Remittances as a Payment System Issue

- **KEY IDEA:** *Remittance services are part of the broader retail payment systems - both domestic and cross-border*
  - International remittances are cross-border retail payments with particular access requirements (on both the demand and supply sides)
- An efficient domestic payment system infrastructure is key to reduce costs of remittance services, especially in receiving countries
- The development of payment system oversight is fundamental to enhance transparency and improve efficiency in the retail payment sector

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## Remittances as a Payment System Issue

- ***KEY IDEA: Remittance services are part of the broader retail payment system both domestic and cross-border***
- The CPSS of the BIS is the standard setter and a forum for discussion in the area of payment systems
- The World Bank is a leading institution in payment system development, in particular in Latin America through the Western Hemisphere Payments and Securities Settlement Forum (WHF) and other regional initiatives. In the context of payment system reforms, the World Bank has recommended improvements in the remittance area since 1999
- Payment system development projects are a good vehicle to address the issue

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## Additional Key Ideas

- Remittances are part of an individual's access to financial services
- A good remittance product improves value to the user in the short term and access to other financial products in the long term
- A good remittance product increases competition and could move transactions to the formal sector
- There are no standard solutions

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## Definition

*An international remittance is a cross-border, person-to-person payment of relatively low value*

- Typically by migrant workers to their families. Especially from developed to developing countries
- Person-to-person, low value - ie not commercial or wholesale payments
- Domestic remittances also exist
- Recurrent - but typically made by individual transfers (eg not by standing order)
- Typically credit transfers
- For remittance service providers (RSPs), remittances are often indistinguishable from any other retail cross-border transfers

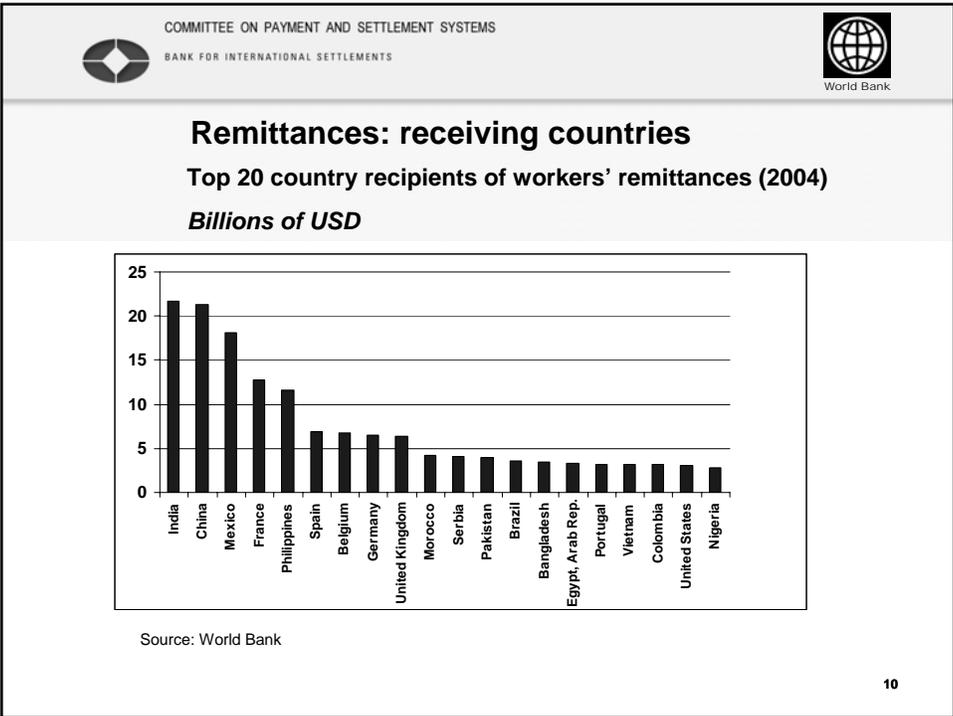
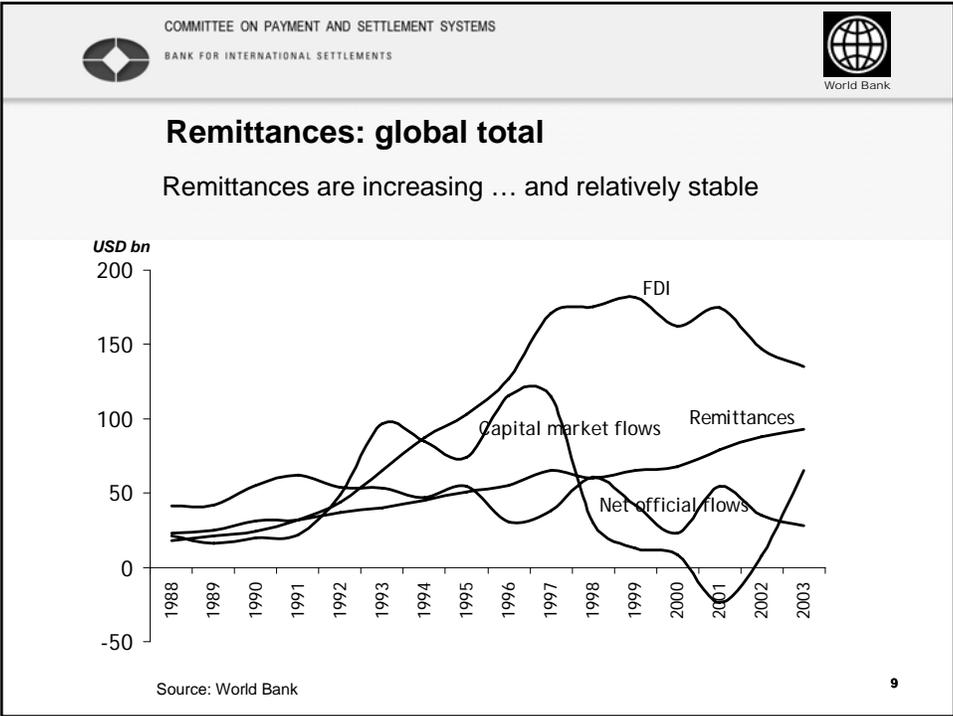
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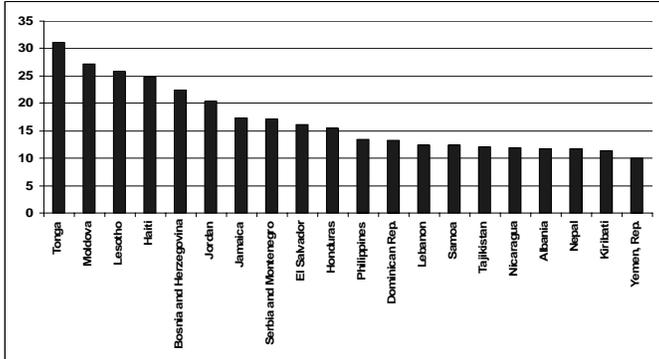
## Why do they matter?

International remittances by migrant workers are an important source of family income in many developing economies. In some cases they are a significant percentage of the GDP of the receiving countries.

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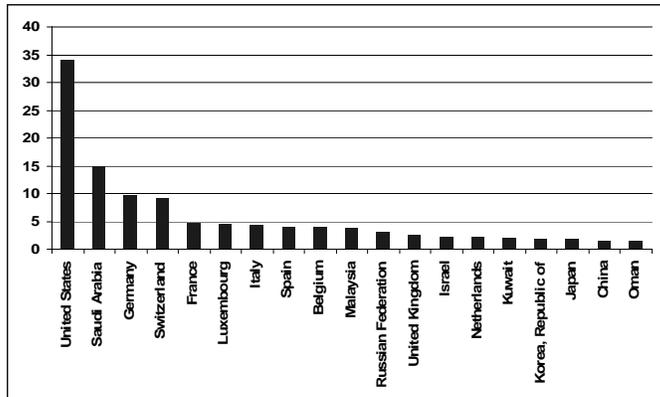


**Remittance flows: receiving countries**  
**Top 20 country recipients of workers' remittances (2004)**  
*% of GDP*



Source: World Bank

**Remittances: sending countries**  
**Top 20 country sources of workers' remittances (2003)**  
*USD billions*



Source: World Bank



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## Key problems

Focus here is on *payment system* aspects (not developmental, immigration, balance-of-payments or other aspects)

- Usually expensive
- Sometimes slow
- Sometimes inconvenient
- Occasionally unreliable

As part of the 2004 “Sea Island” remittance initiative, the G8 Finance Ministers and Central Bank Governors called for work toward developing prudential standards or guidelines for remittance services.

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## Quality versus cost

- “Quality” means speed, reliability, security, and convenience
- New technology may enable better quality at lower cost ....
- ... but typically there is a trade-off
- For remittances, low cost may often be the most important thing

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## Composition of the CPSS-WB Task Force on International Remittance Services

- Co-chairs: CPSS and World Bank
- Members:
  - CPSS central banks: ECB, Germany, Hong Kong, Italy, USA
  - Other central banks: Brazil, Mexico, Philippines, Sri Lanka, Turkey
  - International institutions: Arab Monetary Fund, Asian Development Bank, EBRD, IADB, IMF

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## Categorising remittance service providers

There are many types of RSPs - the report categorises them according to the network type

Other categorisations sometimes used:

- regulated versus unregulated
- formal versus informal

Because of the lack of clarity and/or the implicit value judgements, these categorisations were not felt to be useful, at least for payments purposes

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**What are the main issues?**

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**Key issues concerning remittance transfers**

1. Lack of transparency and understanding?
2. Weaknesses in the infrastructure?
3. Poor regulation or weak legal framework?
4. Lack of competitive market conditions?
5. Risk?

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## 1 Lack of transparency and understanding?

- Transparency means information about the service (price, speed etc)
- A “good thing”: transparency promotes competition (and should drive down prices)
- Some issues:
  - Exchange rate as a hidden fee
  - Disbursing RSP’s fee
  - Price calculation difficulties
  - Speed
  - Cost of transparency
  - plus: “Access” problems (eg language)

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## Access problems can compound lack of transparency

- Access by senders
  - Foreign language
  - Lack of proper documentation
  - Low income: lack of financial literacy
- Access by receivers
  - Low income: lack of financial literacy
  - Lack of physical infrastructure (little or no choice)

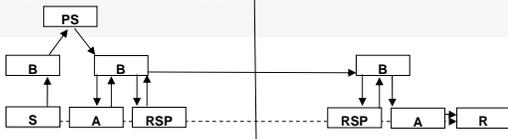
Difficult access may reduce effective competition

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## 2 Weaknesses in the infrastructure?



- Creating a network of access points
- Financial infrastructure (especially in receiving countries)
- Cross-border payment arrangements

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## 3 Poor regulation or weak legal framework?

- Cost of regulation: do benefits outweigh costs?
  - Licensing/registration and monitoring – is it useful?
  - Compliance with AML etc regulations – can it be easier?
  - Financial requirements – are they needed?
  - (“licensing fees” may just be a source of tax revenue)
- Application of regulation: is it “even”?
  - Some RSPs are more visible than others (eg banks v hawala) so easier to regulate – but distorts competition
  - Regulation should be applied equally to equivalent services

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## 4 Lack of competitive market conditions?

- Exclusivity conditions
- Access to the infrastructure
  - Direct participation
  - Indirect participation

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## 5 Risk?

- For RSPs: financial risk (eg if liquidity is supplied to disbursing agents), legal risk, operational risk, risk of fraud, reputational risk
- Unlikely to be any systemic risk
- For users: risk of losing funds in transit?

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## What can be done?

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## The objectives and the means

***Public policy objectives***

- International remittance services should be safe and efficient. To this end, the markets for the services should be contestable, transparent, accessible and sound

***The means***

- Premise is that best way to reduce cost is to have competition as far as possible
- The principles are not a call for remittances to be regulated. Sometimes it may be more important to remove existing regulation
- Publicity (and political pressure) may be the most effective action (but note that this can be similar to “soft” regulation)

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## Application of the principles

- Purpose is to tackle weaknesses in the market (including poor regulation). They do not aim to set specific service levels. (low price may often be more important than high level of service)
- They are voluntary. Designed to help countries that want to improve the market for remittance services. Not designed to be a basis for judging countries
- May have to apply to all cross-border retail payments (difficult for RSPs to tell purpose of a payment or if it is person-to-person)

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## GP1: The market for remittances should be transparent and have adequate consumer protection

- Transparency by individual RSPs about their services as far as possible
  - Total price (including fees at both ends, exchange rate, other)
  - Time
  - Access locations
  - Other factors (eg bank transfer may cost more if you don't know receiver's bank account details)
- What is appropriate consumer protection? Most important are probably "error resolution" procedures (RSPs' own or national schemes). Beware of the cost of some other possibilities!

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**Some possible actions re GP1**

- Transparency requirements for individual RSPs where feasible?
- Encourage information in key foreign language?
- Encourage use of reference exchange rate?
- Publish comparative price information?
- Background understanding: financial literacy campaigns?
- Reasons for lack of trust in financial institutions?

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**GP2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged**

- Domestic payment infrastructure  
Remittance services usually depend to some extent on this. But the infrastructure may not always be very efficient, especially in receiving countries.
- Cross-border payment infrastructure
  - Greater standardisation to help STP in correspondent banking?
  - Direct links between domestic systems as an alternative to correspondent banking?
 May be useful for central banks to facilitate?

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**Some possible actions re GP2**

- Overall development of domestic payment infrastructure: central banks can facilitate?
- Encourage expansion of RSPs' branch/electronic networks into smaller urban and rural areas and increased interoperability of electronic networks?
- Postal services to play bigger role?
- Link domestic ACHs across borders?

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**GP3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework**

**Nature**

- Does not mean special laws/regulations for remittances
- Sound, predictable, non-discriminatory (functional versus institutional based regulation), and proportionate
- For key corridors, sending and receiving countries may want to cooperate if there seem to be legal obstacles

**Content**

- Proportionate: Avoid danger of over-regulation. What is the problem regulation is meant to cure? Is regulation the best way to cure it?

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**Some possible actions re GP3**

- Check what is really necessary and useful
- Check in particular:
  - Unnecessary barriers to entry
  - Different types of RSPs treated equivalently?
  - Do you need prudential requirements?
  - Nature of registration/licensing requirements?
  - Nature of reporting requirements?
  - What sort of customer ID is acceptable?
- Consult RSPs before changing!

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**GP4: Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance service industry**

- Importance of contestability
- Avoid exclusivity conditions (as opposed to an agent choosing to offer only one remittance service)
- Are there problems with direct or indirect access to domestic payment systems?

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**Some possible actions re GP4**

- Central banks, supervisors etc should work with competition authorities to ensure consistent approaches?
- Discourage exclusivity conditions?
- Help improve potential RSPs' awareness of the market?
- Check whether direct and indirect access conditions are consistent with safety requirements and not unnecessarily anti-competitive?

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**GP5: Remittance services should be supported by appropriate governance and risk management practices**

- Good governance and risk management practices by RSPs make remittance services safer and help protect consumers ...
- ... but risk protection measures should be proportionate to the risks

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**Some possible actions re GP5**

- Remittance industry to develop guidelines for good governance and risk management?
- ... and ways to assess actual levels of risks and how to implement the guidelines?
- Authorities to give guidance on how to meet AML/CFT requirements in an effective and appropriate way?

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**Who should take action?**

Many people may need to take action. But RSPs and the authorities have particularly important roles:

- Role A: RSPs should participate actively in the application of the general principles.
- Role B: Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the general principles

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**Form of action by authorities?**

- Monitoring?
- Dialogue?
- Communication and outreach?
- Catalyst/facilitator?
- Regulation?
- Direct provision?

↑  
Less interventionist  
More interventionist  
↓

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**Implementing the GPs**

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## Implementation of the General Principles

- The Multilaterals (ADB, AMF, EBRD, IADB, and IMF), under the leadership of the World Bank, are developing detailed Guidelines for the application of the GPs and a stocktaking methodology, which will be released in June 2006
- Remittance systems might be evaluated against the GPs, and policy recommendations will possibly be implemented by authorities, service operators and other stakeholders
- Available tools will be used for the stocktaking and to foster the dialogue within the country and among countries (e.g. regional initiatives in payment systems, e.g. WHF, CISPI, API, FSAPs, etc.)

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## Implementation of the General Principles

- The World Bank plans to be involved in these assessments together with other development banks, the IMF and country authorities (pilots to be started in June 2006)
- The World Bank will be open to support the implementation of action points after the assessments

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## Implementation will not be easy

Large number of “systems”

- Many are small and informal  
*-Even for banks, each has usually its own “system”*
- Some systems are global: who will assess them?
- In many countries, the authorities may not have the powers to assess or implement

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## Some final reminders

- The key is greater competition
- Low price may often be more important than high service level
- Intervention can be costly: weigh benefits against costs

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