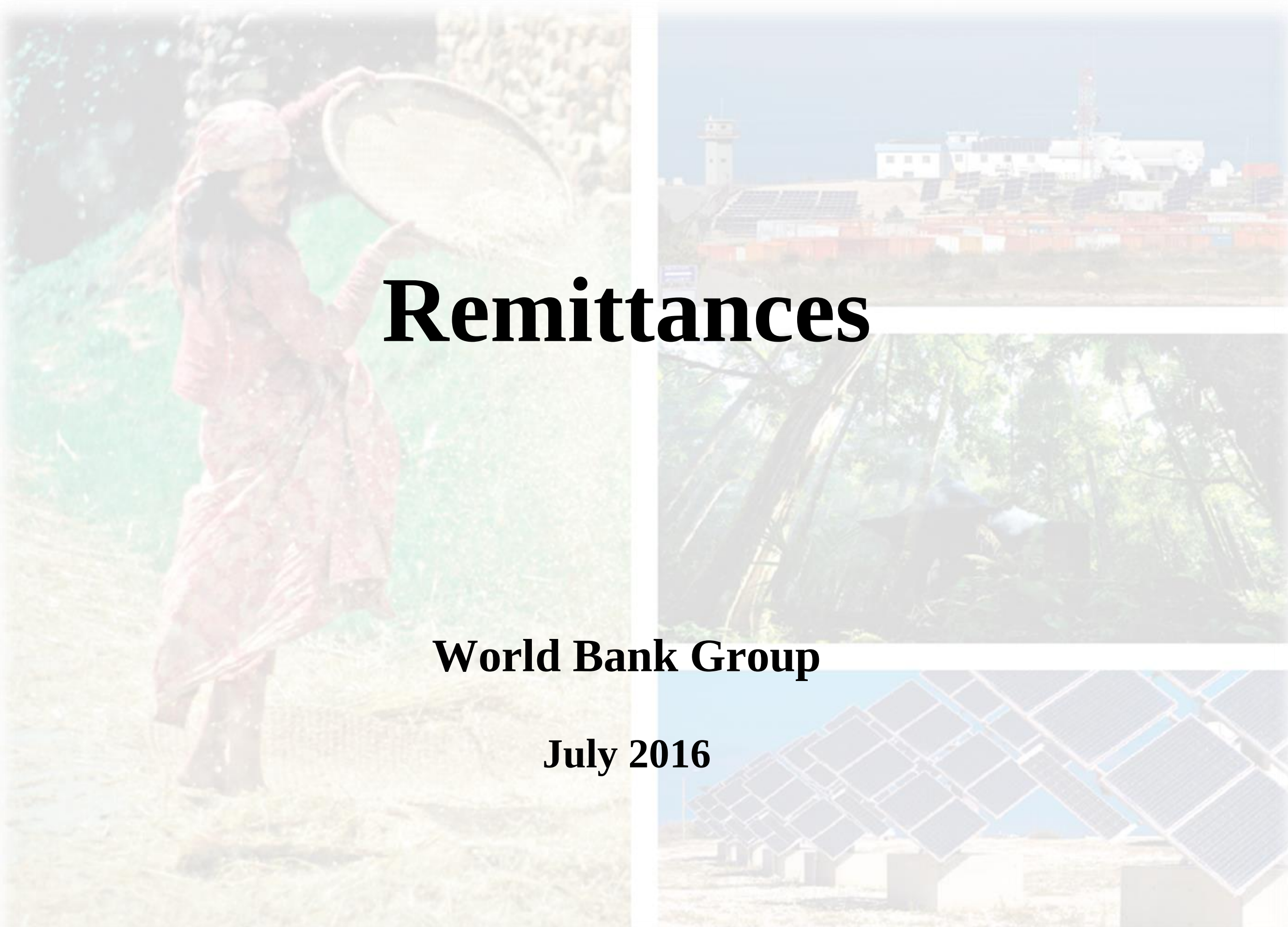
INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series



Remittances

World Bank Group

July 2016

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

FINANCING FOR DEVELOPMENT

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Remittances[1]
World Bank Group

1. Introduction

The Addis Agenda pledges to facilitate the flow of remittances and commits to:

- Reduce the average transaction cost of migrant remittances by 2030 to less than 3 per cent of the amount transferred; and to ensure that no remittance corridor charges higher than 5 percent by 2030, while maintaining service coverage.
- Work to ensure that affordable financial services are available to migrants in home and host countries; to reverse the trend of banks withdrawing services; to increase coordination among national regulatory authorities to remove obstacles for non-bank remittance providers; to promote competitive and transparent market conditions
- Exploit new technologies and improve data collection.

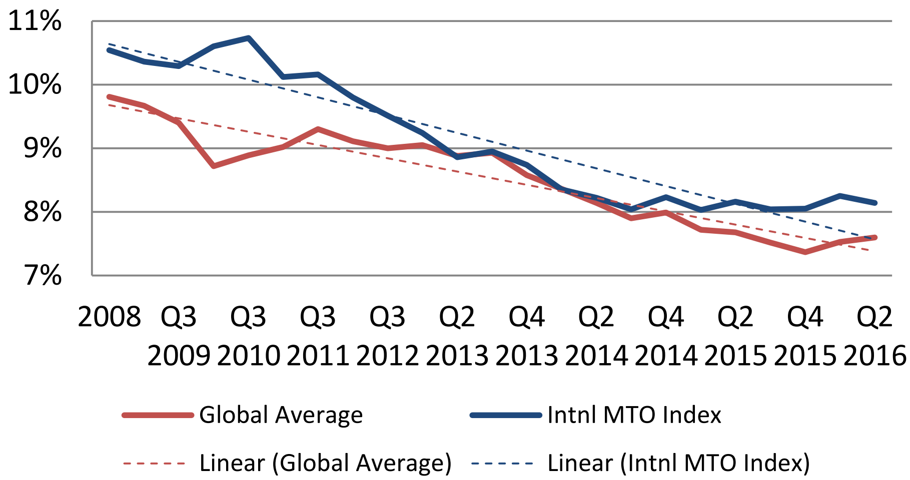
These commitments are partly covered by the following means of implementation target under SDG 10c: *By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent*. The indicator measures remittance costs as a proportion of the global average amount of USD 200 remitted.

2. Stocktaking

<u>2.1. Remittances cost trends</u>

The global average cost of sending the equivalent of USD 200 has slightly increased from 7.37 percent in the fourth quarter of 2015 to 7.60 percent in the second quarter of 2016. The same average cost was at 7.52 percent 12 months before, indicating a substantial stagnation of the cost in the last 12 months. The other indicators produced by the Remittance Prices Worldwide (RPW) database of the World Bank Group confirm the same trend, recording slightly increased costs also in the Weighted Global Average (5.68 percent in Q2 2016, from 5.60 percent in Q4 2015) and in the International Money Transfer Operators (MTO) Index (8.14 percent in Q2 2016, from 8.05 percent in Q4 2015). Such increases, even if minor, represent an anomaly in the historical trends recorded by the RPW database in the last 6 years, also due to the global, regional and local efforts activated around G20 and WBG initiatives (e.g. the WBG-led Global Remittances Working Group - GRWG).

[1] This preliminary draft was prepared by the Finance and Markets Global Practice of the World Bank Group. It will benefit from subsequent rounds of discussions with other WBG units and interested and informed parties.



Source: World Bank Group – Remittance Prices Worldwide database.

The cost increase could be due to several factors, independent among themselves and not easily predictable. Among them, the continuous fluctuations of the foreign exchange market, the financial and economic crises in some major remittances sending countries and the constant changes in the level of competition of the different markets. The de-risking phenomenon could be an additional element that might have negatively influenced the global cost in the last few months, creating a reduction of the number of competitors and increasing the overall costs of compliance for the participants in the global market.

2.2. De-Risking Phenomenon and promotion of competitive remittance markets with risk-based supervision

At the request of the G20 and the Financial Stability Board (FSB), and with the support of the Committee on Payments and Market Infrastructures (CPMI), the World Bank Group has played a leading role in the fact-finding work on de-risking – the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk. This analytical work has focused on two areas – restriction or termination of correspondent banking relationships (CBRs) (i.e. the provision of banking services by one bank to another) and account closures of MTOs. Results of both reports[2] show that de-risking is happening, though it hits specific countries, regions and financial services in varying degrees.

The World Bank Group continues to support international dialogue in this area via a coordination role with other relevant fora such as FATF, CPMI, IMF and G20. In November 2015 the Financial Stability Board (FSB) announced a four-point action plan to address the decline in correspondent banking relationships, coordinating with the BCBS, CPMI, FATF, IMF, World Bank, FSB member authorities and FSB Regional Consultative Groups. The Correspondent Banking Coordination Group (CBCG) was established in March 2016 to implement the action

[2] Available at http://www.worldbank.org/en/topic/financialmarketintegrity/publication/world-bank-group-surveys-probe-derisking-practices

plan, which is: (i) further examining the dimensions of the decline and implications for financial inclusion and financial stability; (ii) clarifying regulatory expectations, including through more guidance by the FATF; (iii) supporting domestic capacity-building in jurisdictions that are home to affected respondent banks; and (iv) strengthening tools for due diligence by correspondent banks.

In the last year, the World Bank Group has implemented different activities in the area of technical assistance aiming at increasing the level of competition in the market for remittances of several countries among which El Salvador, Haiti, Rwanda, South Africa, Tajikistan and Vietnam.

In Somalia, the remittances crisis highlighted the need for the Central Bank of Somalia to start formal supervision of Somali Money Transfer Operators (MTOs) to help build greater confidence in their correspondent banking relationships. Also in the past year, the World Bank has developed with the Central Bank of Somalia a larger reform program of policy change, institutional reforms and technical assistance and is now under implementation.

<u>2.2. Fostering the usage of digital payments and improving data collection</u>

The World Bank Group has led the efforts at global level to reform the national payment systems and increase the usage of digital (electronic) payments, in particular at retail level. The technical assistance provided to more than 30 countries has the objective of a) reforming the legal and regulatory frameworks to allow the emergency of new payment service providers; and b) support the implementation of modern and efficient infrastructures to allow the development of digital payment services for the whole population. These activities are in line with commitment of the World Bank Group to achieve the Universal Financial Access (UFA) goal by 2020,[3] resulting in adults globally having access to a transaction account or electronic instrument to store money, send and receive payments as the basic building block to manage their financial lives.

On the data collection front, the RPW database has been recently upgraded to cover a larger number of countries and it remains a key tool to monitor the cost incurred by remitters when sending money along major remittance corridors. As of today, RPW covers 48 remittance sending countries and 105 receiving countries, for a total of 365 (up from 227 in 2015) country corridors worldwide. To complement the existing indicators, the World Bank Group has introduced the Smart Remitter Target (SmaRT), which will more accurately reflect the cost that a savvy consumer with access to sufficiently complete information could pay in each corridor. SmaRT is calculated as the simple average of the three cheapest services for sending the equivalent of USD 200 in each corridor and be expressed as a percentage of the total amount sent. As for other indicators, only transparent services are included in SmaRT, but services must meet additional criteria to qualify for being included in the calculation. These include transaction speed (five days or less), and accessibility, determined by geographic proximity of

[3] See more at http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020

branches for services that require physical presence, or access to any technology or device necessary to use the service, such as a bank account, mobile phone, or the Internet.[4]

3. Policy options and recommendations for corrective action

3.1. Achieve the remittances cost reduction objectives

The global efforts to reduce the cost of remittances have achieved substantial success in the last seven years. The cost of remittances has dropped from approximately 10 percent to the current 7.60 percent since the official commitment from the G8 Heads of Government and States to reduce the cost of remittance services at the July 2009 summit in Italy. The reduction has been due to a series of reforms introduced in different countries and to a more transparent market. The international community and the single countries should carefully consider the recent increase in the remittances cost and should promptly implement reforms according to the CPMI-WB General Principles for International Remittances Services. These standards and the relative Guidance Report[5] summarize the fundamental elements of the market for remittances in every country and can support the creation of policies and reforms enabling a higher level of efficiency, competition and safety in each market. The implementation of the reforms in this area has been the successful element for the achievement of significant reductions in the average costs of many countries.

3.2. Addressing the de-risking phenomenon and its consequences

A variety of stakeholders are involved in the phenomenon of de-risking. At national level, commercial banks, money transfer businesses, foreign exchange brokers, and many other financial sector entities are involved in the decision making process and are impacted by the potential actions taken in this area. At international level FATF, FSB, CPMI, G20 and other international organizations are trying to coordinate the dialogue and identify potential solutions.

The WBG is supporting the Financial Stability Board (FSB) in strengthening the data collection on de-risking via a close collaboration with the CBCG. The FSB will soon launch a survey to monitor the extent and effects of the de-risking phenomenon and the World Bank Group will work to allow the participation in the survey of countries which are not members of the FSB.

In addition to the above, actions at country level to create guidelines on how to bank certain customers and segments and the provision of clear indications on the enforcement rules (in particular on KYCC) could increase the level of confidence of the banks in providing accounts to other participants in the market.

3.3. Reforming the national payment systems and improve the data collection

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[4] The SmaRT methodology is available at https://remittanceprices.worldbank.org/sites/default/files/smart_methodology.pdf

[5] Respectively available at http://siteresources.worldbank.org/INTPAYMENTREMMITTANCE/Resources/New_Remittance_Report.pdf and at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1360600536890/WB2012_CPSS.pdf

Countries should continue the implementation of reforms in the area of payment systems and: a) increase the efficiency of their financial infrastructure, b) design proportionate, sound and non-discriminatory legal frameworks to meet their policy objectives, and c) enhance the compliance of their financial sector with international standards and best practices. In particular, countries could broaden the level of financial inclusion by enhancing the quality and cost-efficiency of all types of payments, including remittances sent by migrant workers. Transaction accounts allow people – including the "unbanked" – to make and receive payments in a cost-effective way. Instruments like e-money and debit cards have great potential to reach the excluded and to help fulfil the World Bank Group's vision of UFA by 2020. Several countries are already working in this direction and the World Bank Group is managing numerous projects to assist countries in modernizing retail payment systems and government payments. In this direction, the World Bank Group has published the "General Guidelines for the Development of Government Payment Programs" in consultation with the International Advisory Group for Government Payments (IAG).[6]

[6] Available at http://www.worldbank.org/en/topic/paymentsystemsremittances/publication/general-guidelines-for-the-development-of-government-payment-programs