



International Remittance Systems

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General Principles for International Remittance Systems*

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International Remittance Systems

- I. Remittance flows**
- II. The structure of a remittance operation**
- III. The CPSS/WB Task Force on General Principles for International Remittance Systems**
- IV. Conclusion**



I. Remittance Flows

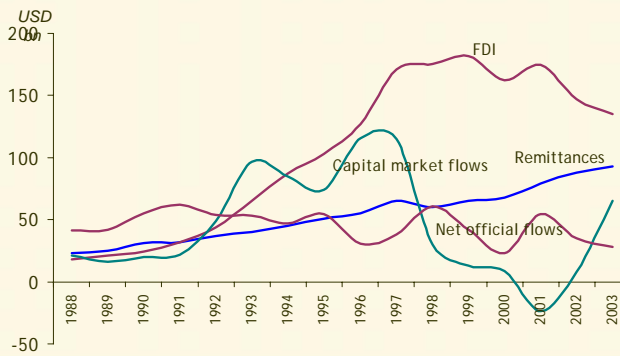
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Remittance flows (I)

- ... person to person transfer across borders
- ... are increasing
- ... are stable
- ... may be countercyclical



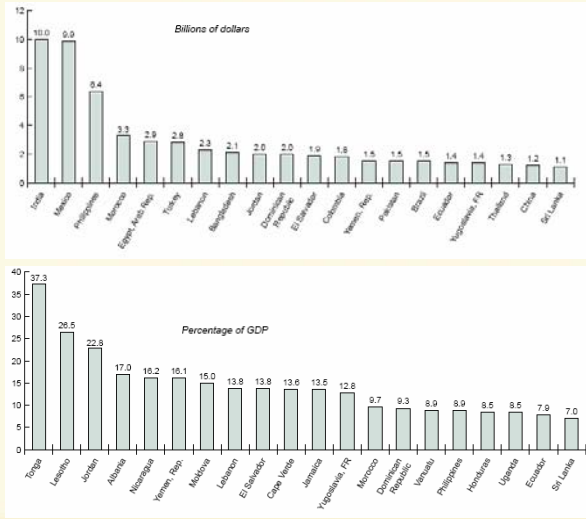
Source: World Bank (Dilip Ratha), 2003. "Workers' Remittances—An Important and Stable Source of External Development Finance." In Global Development Finance 2003 (chapter 7). Washington, D.C.: World Bank.

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Top 20 developing country recipients of workers' remittances, 2001

Remittance flows (II)



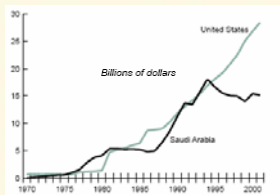
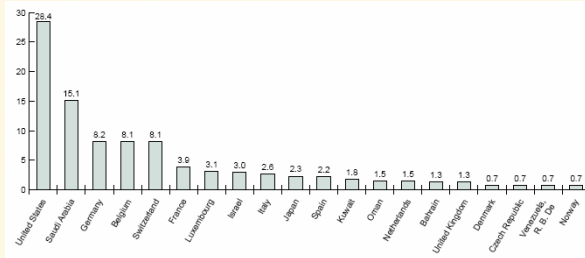
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Remittance Flows (III)

Top 20 country sources of recipients of workers' remittances, 2001



Data caveats:

- Methodology for recording varies
- Accuracy varies with time and country
- A recorded outflow does not necessarily originate in the country
- Informal sector is not recorded

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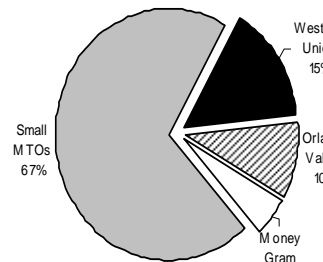


Remittance Flows (IV)

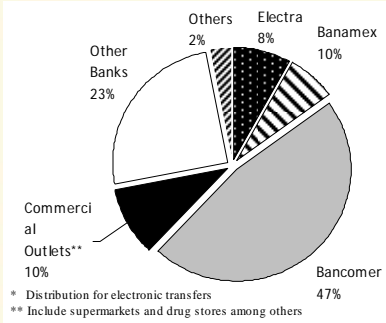
Increased competition means lower fees

Market share is different between originator and distributor due to different agents

Originator estimated market share, June 2004



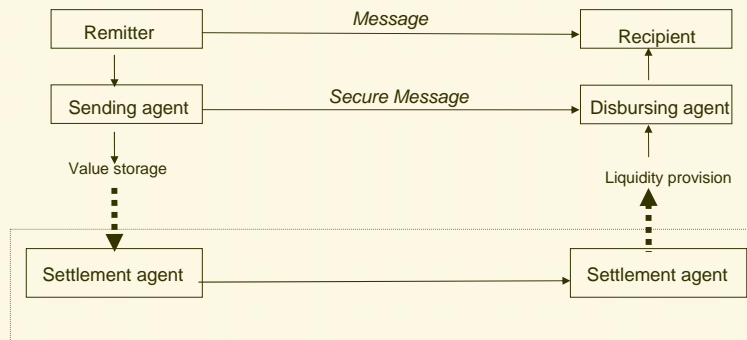
Distributor estimated market share, June 2004*



II. The structure of a remittance operation



The structure of a remittance operation (I)



The structure of a remittance operation (II)

Funds capture

Means: Through cash, direct debit to bank accounts, debit to pre-funded non-bank accounts, credit/debit cards; in person, by representative, over internet, by telephone.

Key: Access to remitter, price, trust, value proposition.

Sending agent

Money transfer agent (check casher, grocery store, travel agency, hawala), bank, credit union, internet portal or payment service, payment card operator, telecom company, utilities or retail company. Independent, franchised, chain. Licensing/registration requirements.

Key: Ability to link funds capture to disbursing agent, who might be affiliate or independent. Are remittances the only revenue?



The structure of a remittance operation (III)

Messaging

Message from remitter to recipient: Normally independent of service provider.

Message from sending agent to disbursing agent: Secure; by phone, internet, fax, common database, in some cases by the remitter mailing a draft issued by the sending agent on the disbursing agent.

Disbursing agent

As with sending agent: Money transfer agent (check casher, grocery store, travel agency, hawala), bank, credit union, internet portal or payment service, payment card operator, telecom company, utilities or retail company. Independent, franchised, chain. Licensing/registration requirements.

Key: Ability to link sending agent to recipient. Are remittances only revenue?



The structure of a remittance operation (IV)

Disbursement

Means: Cash pick-up or hand delivery, direct credit to a bank or non-bank account or to store account, delivery of goods or services, payment of bills, creation of bank account, issue of ATM card, credit to existing card account.

Key: Access to recipients, ability to disburse in a safe manner.

Liquidity provision

Until accounts are settled between the sending and disbursing agent, liquidity has to be provided for the disbursement.

Issues: Who gets the float and pays for the liquidity? Are all funds disbursed or are they kept in customer accounts? Are the funds kept separate?



The structure of a remittance operation (V)

Settlement

Means: Correspondent accounts, outsourcing to multinational or correspondent banks, international payment systems, proprietary international settlement systems, import/export of goods, provision of services, over-/underinvoicing.

Issues: Real time settlement or batch settlement, pricing, remittances subsidized by other activities, economies of scale. Are remittances other side of goods trade?

Settlement – Currency Conversion

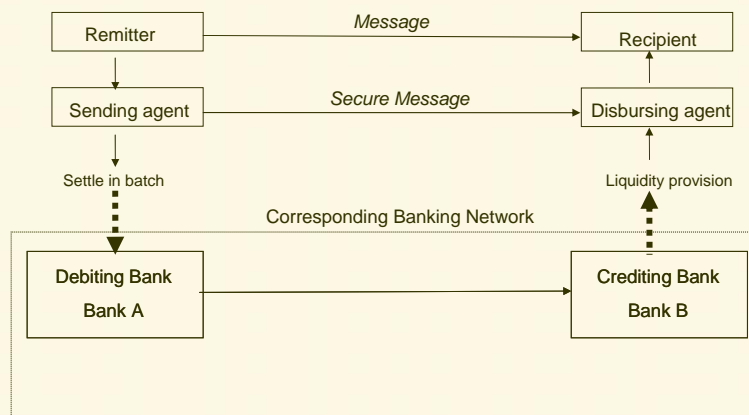
Means: Provided by correspondent banks or international payments system, outsourced to third party, resulting from in-kind settlement

Issues: Rate known up-front – to the service providers and/or users? Disbursement in originating currency? Potential for hedging?



The structure of a remittance operation (VI)

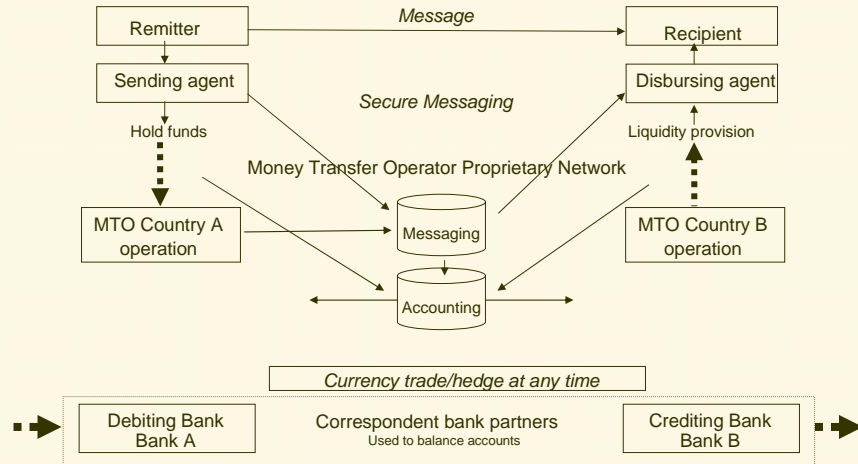
Example: Using correspondent banking to settle





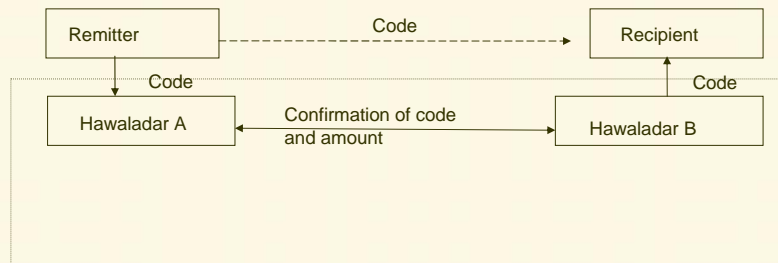
The structure of a remittance operation (VII)

Example: Integrated international money transfer operator



The structure of a remittance operation (VIII)

Example: Hawala-type informal remittance operation





III. CPSS/WB Task Force on General Principles for International Remittance Systems



Composition of the Task Force

The Task Force is co-chaired by the CPSS and the World Bank. The central banks of Italy, the United States, Brazil, Mexico, the Philippines, Sri Lanka, Turkey, Germany, Hong Kong and the European Central Bank, as well as the World Bank, the International Monetary Fund, the Arab Monetary Fund, the Asian Development Bank and the Inter-American Development Bank.



Background

- International remittances initiated by migrant workers are an important source of family income in many developing economies (representing in some cases a very relevant percentage of the GDP of the receiving countries).
- Some obstacles identified including:
 - *Lack of physical access to financial institutions*
 - *Inadequate financial education*
 - *Inefficient and costly remittance services available at financial institutions*
 - *Regulatory barriers to the provision of remittances services*
 - *Inadequacy of data on remittance flows*
 - *Lack of guidance on what regulation/supervision of remittance service providers is necessary to ensure the safety and integrity of financial services*
 - *Etc.*
- As part of the Sea Island remittance initiative, the G7 Finance Ministers and Central Bank Governors called for work toward developing prudential standards/guidelines for remittance services.



Mandate and scope (I)

The Task Force is to develop general principles on remittances describing key features and functions that should be satisfied by remittance systems, providers and financial intermediaries. These principles must be clear and universally applicable international standards, its main focus being to identify the main characteristics of sending and receiving remittances and the related infrastructures with a view to improving them.



Mandate and scope (II)

The Task Force shall pursue the following streams of work:

- To map and compare the remittance market in different countries, as well as the respective cross-border arrangements in these countries in the form of country reports. This analysis should allow the Task Force to define stylised structures of remittance systems, and to determine Principles that could be applied.
- To try to identify principles to ensure an appropriate level of consumer protection and transparency. In this context, the different pricing methodologies shall also be analysed.
- To discuss the appropriate level of access to payment systems infrastructure preserving the safety and integrity of the infrastructure. Appropriate mechanisms for educating the remittance agents and operators will also be considered.
- To discuss public policy issues related to the remittance market.
- To discuss the role of the central bank and other public authorities in the application of the principles.



Work progress

The Task Force identified four main key areas and, accordingly, the following subgroups were created:

- SG1: *Stylised market structures*
- SG2: *Consumer protection and transparency*
- SG3: *Payment systems infrastructure access and integrity*
- SG4: *Public policy on remittance systems*



Preliminary Outline

- Introduction
- The current framework for remittances
- A new framework for international remittance systems
 - *Public Policy Objectives*
 - *General Principles for International Remittance Systems*
 - *Market Environment*
 - *Consumer Protection and Transparency*
 - *Market Infrastructure*
 - *Service Provider Standards*
 - *The role of public authorities*



Timetable

- The Task Force will discuss and prepare a draft report probably by October 2005
- The Report will be reviewed by CPSS and World Bank
- The Report will be available for public consultation, probably at the beginning of 2006



Implementation: some preliminary ideas

- When the Principles are available, remittance systems in main corridors will need to be assessed against them, and policy recommendations implemented by authorities, service providers and other stakeholders
- An assessment methodology will need to be finalized based on the Task Force Report and the work already carried out by several institutions



Implementation: some preliminary ideas

- Available tools can be used for the assessment and to foster the dialogue within the country and among countries (e.g. regional initiatives in payment systems, such as the Western Hemisphere Payments and Securities Settlement Initiatives, FSAPs, etc.)
- The World Bank plans to be involved in these assessments together with other development banks, the IMF and authorities of main corridors (pilots to be started in 2006)
- The World Bank might support the implementation of action points after the assessments



Implementation will not be easy

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