Committee on Payment and Settlement Systems

The World Bank

General principles for international remittance services

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Foreword

In recent years, various organisations have tackled issues related to the important topic of international remittances. However, few of these reports have been devoted specifically to the "payment system aspects" of remittances – in effect, the practical realities of actually transferring money. Understanding these payment system aspects is crucial to understanding remittances and to ensuring that remittance services are safe and efficient. This report provides an analysis of the payment system aspects of remittances and sets out general principles designed to assist countries in improving the market for remittance services.

The report was first issued in March 2006 as a consultation document and we are very grateful to the many people who provided comments. As a result of the comments, we have made changes to the report to strengthen the analysis and sharpen the message.

The report has been prepared for the Committee on Payment and Settlement Systems and the World Bank by a task force consisting of representatives from international financial institutions involved in remittances and from central banks in both remittance-sending and remittance-receiving countries. The CPSS and the World Bank thank the members of the task force and its co-chairmen, Massimo Cirasino and Marc Hollanders, for their excellent work in preparing this report.

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1. Introduction and executive summary

Introduction

1. The flow of funds from migrant workers back to their families in their home country is an important source of income in many developing economies. The recipients often depend on remittances to cover day-to-day living expenses, to provide a cushion against emergencies or, in some cases, as funding for small investments.

2. The total value of remittances has been increasing steadily over the past decade and it is estimated that in 2005 the total value worldwide was over USD 230 billion equivalent, involving some 175 million migrants. Remittances are now probably the largest source of external financing in developing countries and for some countries they can account for as much as a third of GDP; moreover, the flow of remittances seems to be significantly more stable than that of other forms of external finance.[1]

3. However, remittances can be expensive relative to the often low incomes of migrant workers and the rather small amounts sent (typically no more than a few hundred dollars or its equivalent at a time). Moreover, it may not be easy for migrants to access remittance services if they do not speak the local language or do not have the necessary documentation, while the relatively undeveloped financial infrastructure in some countries may make it difficult for recipients to collect the remittances. In some cases, the services are unreliable, particularly concerning the time taken for the funds to be transferred. In addition, some markets are uncompetitive or have regulatory barriers to the provision of remittance services.

4. The importance of remittances, and the difficulties that can be associated with them, have been increasingly recognised in recent years. In particular, at their summit at Sea Island in June 2004, the G8 countries agreed to take action with developing countries to help reduce the cost of making remittances (see Annex 5). One such action was the creation of a task force to develop principles for international remittance services. The task force consisted of payment and development experts from central banks of both sending and receiving countries and from international financial institutions (see Annex 8 for a list of members of the task force). This report is the product of that task force.

5. Remittances can be analysed for various reasons - for example, because of their impact on development, because of the close relationship with often politically sensitive migration issues or because of the need to monitor the flows for balance of payments purposes. All these aspects of remittances are interrelated and so cannot be ignored. However, in line with the request from the G8, the focus of this report is on the payment system aspects of remittances. The term "remittance transfer" is used in this report to emphasise this.

6. The purpose of the report is to analyse these payment system aspects of remittances and provide general principles to assist countries who want to improve the market for remittance transfers. The principles are not intended to be prescriptive but rather to give guidance. The application of the principles should help to achieve the public policy objectives of having safe and efficient international remittance services, which require the markets for the services to be contestable, transparent, accessible and sound.

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[1] Source: World Bank and Inter-American Development Bank. Officially recorded flows were measured as being USD 232 billion worldwide in 2005, of which USD 167 billion was to developing countries. However, given measurement uncertainties, notably about unrecorded remittances, actual flows may be much higher - perhaps by 50% or more (see *Global economic prospects for development*, World Bank, 2006).

The market for remittances

7. The report considers only international remittance transfers and international remittance services, not domestic ones, but for simplicity it usually refers to these as "remittance transfers" and "remittance services" - ie it is assumed they are international. For the purposes of the report, remittance transfers are defined as *cross-border person-to-person payments of relatively low value*. In practice, the transfers are typically recurrent payments by migrant workers.

8. From the point of view of those providing remittance services, remittance transfers will often be indistinguishable from any other low-value cross-border transfers, including small payments to and from businesses (because the remittance service provider (RSP) is unable to reliably identify that they are person-to-person). Insofar as they affect RSPs (eg by requiring them to be more transparent about their services), the general principles are thus likely to also have to be applied to other low-value cross-border transfers, not just remittances. However, this should not be a disadvantage since it is generally undesirable to distinguish between payments according to their purpose.

9. There are many different ways that remittance transfers can be made, including cash-based services offered by individuals, services from specialised global money transfer operators, services offered by card schemes and bank-to-bank transfers.[2] The general principles are aimed at all RSPs except those whose services are based on purely physical transfers of cash.

10. Remittance services can be more or less complex, and of varying speed. However, in all cases it is necessary to have some kind of "network" - ie access points, where consumers of remittance services pay and receive funds. Also needed are procedures to link those access points to enable messaging (the transfer of information about the remittance) and settlement (the transfer of the funds themselves). Some RSPs, such as global banks, may have branch networks they can use for this purpose ("unilateral service"). Others, including smaller RSPs, may use a network provided, for example, by one of the global money transfer operators ("franchised service") or may have to cooperate to create a network ("negotiated service"). In all these cases, the RSPs providing a service have a direct relationship with each other, enabling them to agree and publicise the speed and total price of the service (including any fee charged to the receiver of the funds). Another type of service, provided by most banks for example, uses correspondent banking to send a payment to virtually any other bank in the world ("open service"). This almost unlimited global coverage is valuable, not least to ensure that even the smallest remittance corridors have a service; however, a corresponding disadvantage is that the RSP often has no direct relationship with the bank to which the funds are being sent, and thus no knowledge of the fee the latter might charge the receiver or the total time taken.

Approach of the report

11. This report is based on the belief that the best way to reduce the price of remittance services and make them more accessible is to encourage competition - in particular, to make the market for remittances more open and thus "contestable". A market that is open to a wide range of RSPs should result in lower prices and a greater choice of services. However, competition needs to be on the basis of a level playing field, with sound legal underpinnings and with an awareness that, because markets do not always function optimally, some form of regulation may be needed.

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2 In general, the term "bank" is used in the report to refer to all deposit-taking institutions or credit institutions or whichever legal term is applicable in a particular jurisdiction.

12. The issue of the appropriate type and degree of regulation is a theme of the report. In considering the issue, it is important to realise that, a priori, public policy objectives may not always point in the same direction. On the one hand, an important corollary of encouraging competition to reduce prices and improve accessibility is that barriers to entering the remittance market should be reduced as far as possible, and regulation can be a significant barrier because of the costs of compliance. By itself, this would suggest keeping regulation to a minimum. On the other hand, other public policy objectives, such as the need to prevent money laundering and terrorist financing, may make some form of regulation essential. That objectives towards remittances can conflict in this way is not surprising, since the same is likely to be true of policy towards any market.

13. As noted above, this report focuses on the payments aspects of remittances; other public policy issues such as money laundering and terrorist financing, developmental finance and balance of payments data are outside the scope of the G8 mandate and of this report. By noting the potential costs of regulation, the report suggests that the relevant authorities need to recognise the full range of issues concerning regulation and cooperate with each other so that, in the light of their country's overall priorities, they can design policies that achieve an appropriate balance.

Key issues concerning remittance services and the General Principles

14. In any market, full information - ie transparency - is important because it enables individuals to make informed decisions about which services to use and helps to make the market as a whole more efficient. Transparency in the market for remittances is arguably particularly important because the price to the consumer depends on two elements, the exchange rate used and any fees charged, and combining these to calculate which service is cheapest is difficult for most consumers. Transparency, as well as adequate consumer protection, is also important because, as low-income migrants in a foreign country, many senders may have difficulties in understanding the local language or in providing adequate identification to open a bank account, or lack the time and financial literacy to search out and compare different remittance services. *General Principle 1 is therefore that the market for remittance services should be transparent and have adequate consumer protection*. (See Box 1 for a list of the five General Principles and related roles.) RSPs should therefore be encouraged to provide relevant information about their own services in easily accessible and understandable forms. Authorities or other organisations may want to provide comparative price information. They may also wish to undertake educational campaigns to give senders and receivers sufficient background knowledge to be able to understand the information provided.

15. The infrastructure needed to support remittance services is sometimes inadequate. Many services require RSPs to cooperate to create a network of access points and it may not always be easy for potential RSPs to identify suitable partners to do this, particularly in other countries. Moreover, underdevelopment of the domestic financial infrastructure, particularly in receiving countries, may mean that transferring funds to the access points is slow and unreliable; in some cases non-cash payment services may only be available in urban locations. Another important aspect of the infrastructure is correspondent banking, which is widely used for cross-border transfers of funds but which can be expensive for small-value payments such as remittances. *General Principle 2 is therefore that improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged*. The safety and efficiency of remittance services can be affected by payment systems in the relevant markets and the way that these systems are accessed and used by RSPs or by banks acting for RSPs. Remittance services may be improved by initiatives aimed at facilitating greater interoperability of systems and straight through processing. In many receiving countries, expanding the payment system infrastructure in under-served areas and improving access to

it, although a huge task, could be of benefit for delivering financial services of all kinds, including remittances.

Box 1

The General Principles and related roles

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Roles of remittance service providers and public authorities

A. *Role of remittance service providers*. Remittance service providers should participate actively in the implementation of the General Principles.

B. *Role of public authorities*. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

16. The remittance industry is likely to flourish best under appropriate laws and regulations. As already noted, remittances may be regulated for various reasons including, perhaps most importantly, prevention of their misuse for purposes such as money laundering or terrorist financing. However, as with all laws and regulations, there is the possibility that those for remittances are badly designed with unintended side effects, that they are disproportionate to the problem they are designed to tackle, or that they continue to be applied even when no longer useful. Moreover, regulating remittances solely by type of entity, as is sometimes the case (eg when the regulations are applied only to the services provided by licensed institutions such as banks), may make regulation less effective (by creating loopholes which can be exploited for illegal activities) and distort markets (by enabling some RSPs to inappropriately avoid the costs of regulation and thus offer artificially cheaper services). National regulations should aim to create a level playing field between equivalent remittance services. *General Principle 3 is therefore that remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions*.

17. The efficiency of remittance services depends on there being a competitive business environment. *General Principle 4 is therefore that competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance*

industry. Competition can be assisted by various steps such as discouraging exclusivity conditions, whereby an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service. And it is important that RSPs without direct access to the domestic payment infrastructure needed to provide remittance services should be able to use, on an equitable basis, the payment services provided by institutions that do have direct access.

18. The relatively small values involved in remittance transfers mean that it is unlikely that there will be systemic risk involved. However, RSPs do face financial, legal, operational, fraud and reputational risks. *General Principle 5 is therefore that remittance services should be supported by appropriate governance and risk management practices*. Governance and risk management practices that are appropriate for the size and type of an RSP's business and the level of risks can improve the safety and soundness of remittance services and help protect consumers.

19. The importance of remittance flows varies from country to country so, although these principles are designed to be generally applicable, some countries may decide that the size of the remittance market does not justify significant action or that there is no need for any action. In addition, the principles are in most cases likely to be applied in sending countries regardless of the destination of the funds and in receiving countries regardless of their origin. However, in applying some aspects of the principles (such as the education programmes discussed under General Principle 1), authorities may want to prioritise their efforts in the most important bilateral corridors or corridors where they believe their efforts will be most productive. Authorities in sending countries should also bear in mind that, even if remittances are not a priority for them, they may be important for the receiving countries and the latter may be unable to implement the principles effectively without the cooperation of the sending countries.

20. Where it is decided that action should be taken to implement the principles, both RSPs and public authorities will need to be involved. Authorities should evaluate what action to take to achieve the public policy objectives through implementation of the principles, and the implementation itself will also need the active participation of RSPs. Because of the links between remittances, access to financial services and poverty alleviation, and thus the relevance of remittances to the implementation of the Millennium Development Goals, international financial institutions (such as the World Bank, regional development banks and the International Monetary Fund) have a role to play in supporting both authorities and market participants in the application of the principles.

Structure of the report

21. Section 2 describes the main features of the market for remittances and Section 3 analyses the key issues which arise. The General Principles themselves, together with the roles of RSPs and public authorities in implementing them, are then set out in Section 4, while Section 5 discusses the formulation of an approach to implementing the Principles. Possible actions for implementing the Principles and more detail on how remittance transfers are made are contained in the annexes.

2. A description of the market for remittances

22. This section describes the market for remittances. More detail is contained in Annexes 2 and 3.

2.1 Definition of a remittance transfer

23. Remittance transfers may be domestic or international. Domestic remittances occur, for example, when there is migration from rural to urban areas within a country. To a large extent, similar issues arise regardless of the type of remittance. However, the focus of this report is on international remittance transfers, which, for the purposes of the report, are defined as *cross-border person-to-person payments of relatively low value*. In practice, the transfers are typically recurrent payments by migrant workers (eg who send money to their families in their home country every month). For simplicity, in this report such payments are usually referred to just as "remittance transfers" - ie it is assumed they are international.[3]

24. The definition is designed to reflect the payment system aspects of remittances. The emphasis is on person-to-person payments rather than payments to purchase goods and services or business-to-business payments. These person-to-person payments are typically relatively low-value compared to, for example, wholesale bank-to-bank transfers. Often the flows are between relatively low-income individuals, and the senders, if they are migrants, may not always be well integrated into all aspects of the host country's society and economy. In addition, although remittance transfers are typically recurrent, in practice they are usually made as a series of individual instructions rather than by standing order.[4]

25. While in practice the most important remittance flows are usually migrants' recurring payments from developed to developing countries, the definition of a remittance transfer used here is more general and thus also covers other cross-border person-to-person transfers that are low-value. For example, it also covers payments that are ad hoc rather than recurring (eg money to cover a domestic emergency) or payments between other countries. [5]

26. Moreover, although remittances are, from an economic and social point of view, of special interest as a category of payment, it should be noted that from the point of view of those providing payment services, remittance transfers will often be indistinguishable from other retail (ie low-value) cross-border transfers, including small payments to and from businesses, because the RSP is unable to identify that they are person-to-person. For example, the sender may be making the payment not as an individual but on behalf of a small business they run, or it may not be clear whether the (foreign) name of the recipient is that of an individual or business.[6]

2.2 Remittance service providers

27. There are many different ways in which remittance transfers can be made, including, among others, cash payments using individuals who provide this service to their local immigrant communities, services from specialised global money transfer operators, bank-to-bank transfers and card payments. In this report, any person or institution providing such a

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3 Some of the other terms used in this report are defined in the glossary in Annex 7.

4 A standing order is where a payer gives an instruction to a bank or other payment service provider to make a regular payment of a fixed amount to a specified payee. The fact that standing orders are little used in practice to make remittances may be because remitters vary the amounts that they send, because the RSP does not accept standing orders or because remitters do not have access to RSPs such as banks and other deposit-takers who do provide standing order services.

5 For example, there are significant flows between Costa Rica and other Central American countries, between Russia and other Commonwealth of Independent States countries and between South Africa and other Southern African Development Community countries.

6 RSPs will also usually not know what the purpose of the payment is nor, if it is one of a series of individual instructions, that it is a recurrent payment.

service as a business is called a remittance service provider (or RSP). However, the report does not cover those whose services are based on purely physical transfers of cash (eg where a person travelling back to the home country carries the cash on behalf of the sender, or where cash is sent by post or courier from one country to another).

28. Although the term RSP is used for convenience in this report, most RSPs will in practice also offer other payment services, including other cross-border payment services. RSPs can thus be considered as the subset of payment service providers[7] that provide cross-border retail transfers.[8] (See Box 2 for more about terminology concerning RSPs.)

Box 2

Some terminology concerning RSPs that is used in other reports

In other work on remittances, a distinction is often made between the regulated and unregulated sectors of the industry and also between the formal and informal sectors. This box explains why these common distinctions are not made in this report.

The distinction between those RSPs that are subject to regulation and those that are not is reasonably clear in itself but the implications are less so. In some countries the whole industry may, in theory, be regulated but some RSPs may ignore or manage to evade the law, in which case they operate illegally. In other countries the existing regulations may be drafted so that they only apply selectively (eg to deposit-takers), in which case the unregulated sector is legal and the incomplete nature of the regulatory regime is permitted by design.

The distinction between formal and informal is frequently made, with a preference for encouraging use of the formal sector. However, the difference between formal and informal is often not clear. Sometimes the terms are used synonymously with regulated and unregulated. At other times, the terms seem to be used instead to differentiate by size and legal form - ie to distinguish those RSPs that are small and unincorporated (eg individuals) from the rest (eg global banks). Or they are used as a way to distinguish those RSPs which only provide remittance services (eg specialist money transfer operators) from other institutions that provide a wider range of financial services (eg banks and credit unions, which also take deposits and provide credit). The latter distinction may be important from a developmental point of view (insofar as a developmental objective may be to increase access to other financial services, and encouraging people to make remittances using RSPs that also provide those services may be one means of doing this). However, from a payments point of view, neither of these two other definitions of formal/informal is particularly relevant, nor can there be a presumption that the formal sector (however defined) is in some sense “better”. Indeed, it may well be the case that small or specialised RSPs actually offer cheaper and faster remittance services and, provided they do so in keeping with relevant laws, regulations and good practices, they may thus be a useful source of competition in the market.

Because of the lack of clarity of the terms, and the conflicting value judgments that may be associated with them, neither “formal/informal” nor “regulated/unregulated” are used in this report.

29. The provision of remittance services makes use of diverse markets, arrangements and systems, as explained in Sections 2.3 and 2.4 below. The principles set out in this report

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7 “Payment service providers” include both (i) entities that take deposits and allow transfers of funds to be made from those deposits (ie most banks and many non-bank deposit-takers) and (ii) non-deposit-takers that transfer funds. The latter, in turn, can include (a) money transfer operators (where the service is based on “pay now” - for example, by cash or bank transfer from the payer to the money transfer operator), (b) those providing “prepaid” transfers (eg traveller’s cheques or prepaid cards) or (c) those providing transfers on the basis of “pay later” (eg credit cards). The term includes individuals providing payment services.

8 Retail can be distinguished from non-retail provided that an, admittedly somewhat arbitrary, value limit is set. Making this distinction can be justified to the extent that certain consumer protection measures may be appropriate for retail payments but not non-retail payments.

can be considered as applying ultimately to “remittance systems”, where a system is defined as an organised whole made up of such diverse but interrelated and interdependent parts. However, since the main products of such remittance systems are remittance services, for simplicity the report refers directly to “remittance services”.

2.3 How remittances are made

30. The key participants in a remittance transfer are the sender, the receiver and the remittance service provider. In practice, there will often be two RSPs involved, one in the sending country (the capturing RSP) and one in the receiving country (the disbursing RSP), who need to work together in some way to provide the overall service. Moreover, RSPs do not always use their own offices or branches in order to provide the service. Sometimes they may make use of agents to capture or disburse funds on their behalf.[9] Banks and other deposit-takers such as credit unions are also usually important participants in remittance transfers: RSPs may themselves be deposit-takers but, even if they are not, they are likely to use deposit-takers to transfer the funds between countries.

31. Considering the entire transfer from sender to receiver, in practice most remittances are credit transfers - that is, the payment is initiated by an instruction given by the sender to the RSP.[10] Debit instruments such as cheques are sometimes used - ie the sender writes a cheque to the receiver, who cashes it at their bank, so the instruction to the RSP (the receiver’s bank) is made by the receiver. Other debit instruments such as direct debits are not commonly used.

32. The service itself involves a number of steps. To end users, the visible parts of the service are at the beginning and end - the *capturing* and *disbursing* processes, in which, respectively, the sender pays the capturing agent and the disbursing agent pays the receiver. These payments can be made in a wide variety of ways depending on the service - for example, by cash, by debiting or crediting a bank account, or by use of prepaid funds like electronic money. The capturing and disbursing processes involve the transfer of information as well as funds (eg the sender must provide the information to enable the capturing agent to send the funds to the receiver, and the disbursing agent must tell the receiver who the sender is). There are also a variety of ways in which this information can be transferred - as well as the physical presence of the sender or receiver at the agent, these include, for example, the use of mobile phones or the internet.

33. Less visible to end users is what happens between the capturing and disbursing processes. As with most non-cash payments this consists of two essential processes, namely messaging and settlement. Messaging arrangements enable information about the remittance to be passed from capturing to disbursing agent. Settlement arrangements enable the funds themselves to be moved. These arrangements can be more or less complex, and of correspondingly variable speed, depending on the type of remittance service. In many cases remittances are not settled individually. Instead, every so often they will be settled on the basis of the overall amount transferred in the intervening period, often on a net basis (assuming that there is a two-way flow of funds between the countries). Sometimes there

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[9] For simplicity, the report refers to capturing and disbursing agents regardless of whether the entities involved are branches of the RSP or separate entities with which the RSP has a contract.

[10] A credit transfer is normally defined as “a payment order or possibly a sequence of payment orders made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein move from *the bank* of the payer/originator to *the bank* of the beneficiary, possibly via several other banks as intermediaries and/or more than one credit transfer system” [italics added] (see *A glossary of terms used in payments and settlement systems*, BIS, March 2003). However, for simplicity, the term is also used in this report to refer to cases where the RSP is not a bank.

may also be liquidity arrangements, for example to enable the disbursing agent to pay the receiver before the funds from the sender have arrived. More information on these various elements of a remittance transfer can be found in Annex 2, while some examples are given in Annex 3.

2.4 Types of remittance service

34. For a remittance service to work, it needs to have some kind of "network" (ie access points where funds can be captured and disbursed, and procedures to link those access points to enable settlement and messaging). The access points may be owned either by the RSP itself or by its agents and the network may be large or small (even, in the extreme, a single capturing agent and a single disbursing agent). It is possible to divide remittance services into "unilateral", "franchised", "negotiated" and "open" categories, which differ primarily according to how a network of access points is created and linked. The categories have no absolute dividing lines but are useful for helping to clarify some of the payment issues that arise with remittances (see Section 3 below).

Unilateral services

35. A unilateral service is a proprietary product provided "internally" by a single RSP without involving other entities as capturing or disbursement agents. This is possible only if (a) the RSP itself has physical access points in both sending and receiving countries or (b) the network is virtual - ie access points are not agents but communication devices such as PCs (for access to the internet) or mobile phones. Unilateral services based on physical access points are not widely available: many RSPs would need to involve other entities in order to offer a sufficiently wide range of access points even in a single remittance corridor. Virtual networks are currently limited in usefulness by user access problems (see Sections 3.1 and 3.2 below) but have much potential for the future. Current examples of unilateral services include those provided by global banks (with branches in many countries) or other banks that have set up branches abroad in areas where migrants from the home country are concentrated.

Franchised services

36. A franchised service is where a central provider, without necessarily having any access points of its own, provides a proprietary service: the central provider creates infrastructure to support the service (eg messaging and settlement, advertising) but obtains the necessary access points by inviting institutions in both sending and receiving countries to offer the service or act as franchisees on essentially standardised terms.[11] Examples of franchised services are global money transfer operators, while international credit/debit card schemes are or could be adapted for this purpose.

37. A relatively recent development are what might be called "partly franchised" services, whereby an RSP that offers its own remittance service using its own network of agents also makes its network and the associated settlement and messaging arrangements available to other RSPs to offer their own services. In effect, the part-franchise RSP makes its infrastructure available to the other RSPs, which can use it to offer their own brand of remittance service on terms that they can choose (rather than using a standardised brand and terms, as would be the case with a normal franchise service).

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[11] The term "franchised" is used for convenience. In practice, the legal form of the arrangement may not always be a franchise.

Negotiated services

38. In a negotiated service, an RSP negotiates with a limited number of other institutions in other countries in order to create an adequate network of access points. Examples of negotiated services include bilateral arrangements between banks (one in the sending country and one in the receiving country), credit union schemes, most hawala services,[12] or schemes established by postal organisations. The arrangement may involve more than one partner institution in the receiving country, and the service may be offered in multiple remittance corridors, using different partner institutions in each; it may even be that the service is offered by more than one RSP in the sending country (this could be the case where the RSPs have different geographical coverage within the sending country and thus are in only limited competition with each other). The essence of the negotiated service is not the number of institutions involved per se but rather that a proprietary product is negotiated between largely non-competing organisations.

Open services

39. In an open service, an RSP offers a proprietary service to its customers in the sending country and obtains access points in the receiving country using an open network to which any RSP can have direct or indirect access.[13] Currently the only such network is the international banking network, consisting of national payment systems that can be accessed from another country either through correspondent banking or (less commonly) direct links between national payment systems. This network makes it possible to send a payment from any bank offering cross-border payment services to virtually any other bank in the world; non-banks also have access to the network as customers of banks. Open services are probably the most common remittance services provided by banks.[14]

3. Analysis of key issues concerning remittance services

40. This section analyses five possible features of the market for remittances that can lead to inefficiencies in the way remittance services are provided. Such market inefficiencies can mean that the price of remittance services is higher than would otherwise be the case and/or that the services offered are of lower quality. The five features are:

- a lack of transparency in the market and of understanding by users;
- weaknesses in the infrastructure that is used to provide remittance services;
- the possibility of adverse effects from poor or disproportionate regulation or a weak legal framework;
- lack of competitive market conditions; and
- risk.

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[12] A hawala service is a remittance service provided by an individual (rather than an incorporated entity). “Hawala” is Arabic for transfer. Hawala services are also known by other terms - eg hui kuan (Hong Kong) or padala (the Philippines).

[13] De facto the opposite also exists - ie an RSP in the receiving country offers a service to receivers and obtains access points in the sending country through the open network. However, since remittances are typically credit transfers, initiated by the sender, in practice RSPs in receiving countries are typically passive participants in an open network.

[14] Other types of remittance services also typically use the international banking network, but to transfer funds cross-border rather than to create a network of access points.

3.1 Lack of transparency and understanding

41. Whatever the service offered, it is useful for senders (and receivers) to be able to have full information about the service in advance - ie before committing themselves to the service. Such transparency enables an individual to make an informed decision about which service to use. But perhaps more importantly, it can be an important force in making the market as a whole more efficient.

42. Particularly relevant is transparency about the total price and speed of the service.

- As well as the direct fee charged to the sender by the capturing RSP and any tax that may be levied, the *total price* of the transaction also depends on the exchange rate applied (assuming the sender pays in a different currency to that paid to the receiver) and, possibly, a fee charged to the receiver by the disbursing RSP or its agent. Usually, all that ultimately matters to the users is how much money the receiver will get for a given amount paid by the sender. However, because fees may vary according to the amount sent and exchange rates vary from day to day, typically users will need to understand these components of the total price if they are to make an informed decision before using a particular service.
- The *speed of the service* is the time between payment by the sender and the funds being available to the receiver.

43. At the moment, the market for remittances is not always fully transparent. This subsection examines some of the reasons for this, starting with the exchange rate, then looking at the disbursing RSP's fee and the speed of the service, and finally at some other complicating factors.

The exchange rate

44. A remittance transfer will usually involve a foreign exchange transaction - typically conversion from the currency of the sending country to the currency of the receiving country. To know the total price of the transfer, the sender needs to know the exchange rate that will be used since different RSPs are likely to use different exchange rates, which vary from day to day. In practice, RSPs typically charge senders an exchange rate that includes a margin above the current interbank or wholesale market rate. In part, the margin may reflect the uncertainty the RSP faces. Many RSPs trade only relatively small amounts of foreign currency and have to ask a bank or other foreign exchange intermediary to obtain the currency on their behalf (this is explained further in Annex 3). Therefore, the RSP may not know the exchange rate it will face when it forwards the funds, and a margin gives it some protection if exchange rates move adversely.[15] However, this protection could come from an explicit fee rather than a margin. So the margin is essentially another form of fee - one which is not easily visible to the sender (who is unlikely to know what the current interbank market rate is).

Fee charged by the disbursing RSP

45. The ability of an RSP to be transparent about any disbursing RSP's fee depends on the type of service (ie whether it is unilateral, franchised, negotiated or open). An advantage of franchised and negotiated services is that it should be possible for the capturing RSP to receive information in advance on the fee that the disbursing RSP will charge to the receiver.

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[15] Even though in the long run, and in the absence of any systematic bias, exchange rate losses will be offset by exchange rate gains, RSPs are likely to be risk-averse about short-run losses (ie a short-run loss is more disadvantageous to them than a short-run gain is advantageous).

This information can then be provided to the sender so that they are aware of the total price.[16] The same is of course possible with unilateral services (where the capturing and disbursing RSPs are the same). However, in an open service transparency about the disbursing RSP's fee is generally not possible because the RSP has no relationship with the disbursing agent, and thus no way of knowing what the disbursing agent will charge. (Indeed, in an open service this is why the disbursing agent usually needs to charge the receiver a fee - otherwise it would receive no income for the service it provides.)

Speed of the service

46. As with the disbursing RSP's fee, the speed of the transaction is also more likely to be known in a unilateral, franchised or negotiated service than in an open service. Speed depends on the speed of both messaging and settlement (or whether there is liquidity provision to the disbursing agent so that payout can take place before settlement is complete). The actual time the settlement process takes depends on how fast each of the intermediate steps is and, in negotiated, franchised and unilateral services, this should either be standardised and known (eg that a domestic payment in the receiving country always takes one day) or negotiated (eg that the RSP in the receiving country will process the payment within one day of receiving it). Moreover, to the extent that there is some uncertainty about the time (eg because of uncertainty about how fast banks will process payment instructions), the RSP can still offer a fixed transaction time provided that information flows separately from settlement and that the speed of the information flow is known (eg instantaneous if a computer link is used): the RSP can then agree with the disbursing agent that payment to the receiver will be made when the information is received or at a fixed time afterwards and, if necessary, that liquidity will be made available to the agent to enable this to happen.

47. In an open service, there is no direct contact or negotiation between the RSPs involved and so the capturing RSP has limited control over the speed of the process. Indeed, the service is likely to be relatively slow. Because of the lack of a relationship with the capturing RSP, information about the remittance travels only with the funds, so the disbursing agent usually cannot pay out before it has been paid. Speed is thus determined by how fast the settlement process is (which is likely to be at least several days under most normal banking processes). Moreover, intermediary banks may sometimes hold onto the funds for a period before forwarding them so that they can benefit from the resulting "float". However, set against this loss of speed, and the lack of transparency mentioned above, open services have the significant advantage of almost unlimited global coverage. For example, many banks and other deposit-takers allow their customers to transfer money to virtually any other similar institution anywhere in the world. This coverage is likely to be particularly valuable for remittance corridors that are small, and where it may thus be uneconomical to provide negotiated, franchised or unilateral remittance services.

Comparing different services

48. Even if individual RSPs are fully transparent, it may not be easy for end users to compare the price of different services. This is partly because market exchange rates constantly change, different margins may be applied to different currency pairs (eg to reflect differences in their volatility) with these margins changing from time to time (eg as volatility changes), and the margins may be added to different "reference" rates (eg open market rates at different times of the day). Thus the cheapest RSP on a given day in a given currency pair

[16] Alternatively, the arrangement may be that the receiver pays no fee; instead the sender pays an increased fee to the capturing RSP, and the capturing agent passes part of the fee to the disbursing agent.

may not be the cheapest on a different day or in a different currency pair. Of course, prices in all consumer markets differ across products and change from time to time (although not usually daily). But a further important complication for remittance transfers is that the cheapest RSP in terms of the exchange rate may not be the cheapest in terms of the fee charged, and for most people the calculation to work out which is cheapest overall is difficult.[17]

Access problems

49. For some end users of remittance services, transparency problems can be seriously exacerbated by "access problems" due largely to their social and economic status. For example, low-income migrants in a foreign country may have difficulties with the local language that make it hard for them to understand remittance services, to prove their creditworthiness (if they have no track record of using credit) or to provide appropriate identification to access certain services (if they do not have the relevant documents). They may also lack the time and financial literacy to identify and compare alternative remittance services. This may significantly limit the number of services they can access, even if the market is potentially competitive.

50. At the same time, RSPs themselves may lack information about the market. Knowledge about remittances is increasing, but many potential RSPs may still be unaware of the size of the market in key corridors. They may also see payment services in general as being primarily a base from which other more profitable services can be sold, and may therefore regard remittances as unattractive because senders typically have relatively low income. Senders may therefore find that some services (such as those based on bank accounts) are not readily available to them.[18]

Cost of transparency

51. Transparency is likely to have some cost. As well as the direct costs of providing information, there may be a cost attached to achieving the certainty about the service that enables the RSP to be transparent. For example, as discussed above, in a negotiated service a fixed transaction time may be possible only if liquidity is made available to the disbursing agent so that funds can be paid to the receiver at a fixed time even if settlement is not complete by then, and providing such liquidity has a cost. Any costs are likely to be passed on to the consumer. But this disadvantage is likely to be outweighed by the significant advantage, namely that transparency is likely to make competition more effective and drive down prices as consumers compare the true total price of different services.

3.2 Infrastructure issues

52. Another problem in the market for remittances is the difficulty that can exist in creating suitable infrastructure to support the services. RSPs typically make use of both their own infrastructure (eg their network of access points) and the general payments

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[17] A further complication is that RSPs or the intermediaries they use may sometimes use "float" as a partial alternative to an explicit fee. In this context, "float" is where institutions hold customer funds for longer than is otherwise necessary in order to be able to earn income by investing those funds. The result is that the explicit fee is less than it otherwise would be but the service is also slower.

[18] This may be true even with newer access methods. For example, for internet access based on card payments, cards may be available only to those who have a bank account. Or, without a bank account to settle the bills, mobile phone payments would have to be made using prepaid cards bought with cash or ex post billing paid in cash.

infrastructure that exists in the sending and receiving countries. This subsection considers three possible difficulties: creating a network of access points; weaknesses in the financial infrastructure in receiving countries; and the often relatively underdeveloped state of cross-border retail payment arrangements.

Creating a network of access points

53. For RSPs, a key difficulty in providing a remittance service can be creating an adequate network of access points (capturing agents and receiving agents and procedures for settlement/messaging) in order to provide a viable remittance service. Each type of service (unilateral, franchised, negotiated and open) has its own advantages and disadvantages in this respect.

54. All networks may be hard to create in the first place. To date, unilateral services have been limited to global banks or to banks specialising in providing services to specific nationalities in the various countries in which these nationalities are located as migrants. For the future, the use of new channels such as the internet or mobile phones may avoid the need for physical access points and thus make it easier for RSPs to offer a unilateral service. But at the moment many senders and receivers have limited access to such channels. Or if they do not have access to an account and can only use cash, they may have no means of making and receiving payments to and from an RSP offering a purely internet or mobile phone service (ie with no physical access points). Until this changes, there are limits on the usefulness of these new channels.

55. For negotiated services, it may be difficult to identify suitable partners, particularly in other countries, and then to successfully conclude negotiations with them. Because of this, negotiated services are often limited in scope - ie they involve a relatively small number of parties (although this may not matter when they are designed for a specific remittance corridor rather than to provide a global service). Similar difficulties are likely to occur in a franchised service until a critical mass of agents is achieved. While an adequate network is being established, the service may therefore be more like a negotiated network, with the central provider simultaneously negotiating with multiple agents. Open services depend on a network that already exists - the international banking network.[19]

56. However, once the networks have been created, franchised and open networks offer the easiest market entry for new RSPs. Once the franchised service is well established, a new RSP can simply join the existing network provided by the central provider. And virtually any potential RSP can open a bank account which can be used to make or receive remittance transfers to or from any other account using the open network.[20]

Financial infrastructure

57. In many cases the domestic financial infrastructure, in particular in receiving countries, is underdeveloped. For example, in developing countries the banking network or other potential networks of agents may not be very extensive, especially in rural areas, creating a serious physical access problem for many receivers. Even where agents do exist, the domestic payment system needed to transfer the funds to the disbursing agents may be slow and unreliable or may lack adequate geographical coverage. For example, problems

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[19] In specific remittance corridors, there may be some scope for creating new open networks because relatively few authorities, payment systems and potential RSPs are involved and thus collective action could be easier to organise - although the need for “organisation” could make the arrangement look more like a franchised service.

[20] However, see Section 3.4 below on possible obstacles to accessing the payments infrastructure.

with the cost and speed of remittances can be caused by the lack of standardisation for particular types of payment instruments and lack of interoperability between systems or arrangements, which means that their potential geographical coverage is not fully realised. This may be particularly the case for transaction infrastructures such as those for automated teller machines (ATM) and electronic funds transfer at point of sale (EFTPOS).[21]

Cross-border payment arrangements

58. A particularly important aspect of the infrastructure for remittance transfers are the cross-border links between the domestic payment arrangements of different countries. At the moment these links, which are typically needed for settling remittance transfers, are in most cases provided by correspondent banking. This works well for the large-value transfers which are its primary business but because of the manual, and therefore expensive, processing that is often necessary to transfer payment instructions and settle them, it is arguably less suitable for retail payments such as remittances.[22] A particular problem here are the different message formats that different countries and systems use. Standardised formats, or formats that can be easily translated, would help banks achieve cheaper, automated “straight through processing” (STP). For example, adopting internationally agreed standards instead of proprietary ones in national payment systems allows cross-border payments to be more easily processed. However, changing formats is not easy. The expected volume of cross-border payments therefore has to be sufficient to justify the cost of achieving STP and this is not always the case.

59. An alternative to correspondent banking is to create a direct link between the payment systems themselves (see Annex 4 for an explanation of how this works). For such a link to be possible, three key issues have to be tackled. First, as with improvements in correspondent banking, message formats have to be sufficiently standardised to enable automated translation. Second, there needs to be an agreement about the exchange rate used to convert a payment from one currency to another. Third, settlement arrangements have to be established. The potential benefits from direct links are significant and there is correspondingly some interest in their development. However, tackling the three issues just mentioned is not straightforward and so creating a link could be costly. Market participants may therefore be reluctant to undertake such an initiative by themselves particularly if, initially, the volume of cross-border retail payments is too small to justify the cost of developing the link. Reaching an agreement that makes the arrangement sufficiently attractive to all the parties involved that they are willing to use the link could also be difficult, given that some may have a vested interest in maintaining the existing arrangements while others may be reluctant to invest because they do not see a significant market in cross-border payments.

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[21] For more on the development of payment systems, see the CPSS report *General guidance for national payment system development*, BIS, January 2006 and, in particular, Guideline 11 on retail payments.

[22] Manual processing may mean that payment instructions are handled individually rather than in batches, that correspondent accounts are manually monitored and that conversion from one format to another is done by hand. This may not matter so much for unilateral, franchised or negotiated remittance services where the information about individual remittances is passed over a proprietary network and correspondent banking is therefore needed only for the periodic settlement of any net balances. However, it is a problem for services, including open services, that want to make use of correspondent banking to transfer the funds and information associated with individual remittance transfers.

3.3 The legal and regulatory framework

The general legal framework

60. The remittance industry, like any other, is likely to flourish best when the general legal framework in which it operates is sound, predictable, non-discriminatory and proportionate. Particularly important here is likely to be the enforceability of contracts, especially when the parties to the contract are in different jurisdictions. This is a significant issue, largely outside the scope of this report, but one that is worth emphasising because in a number of countries such a framework does not yet exist.

Cost of regulation

61. Also important is any specific regulation applied to remittances. The term "regulation" is used here to refer to any intervention in the market by the authorities in the form of legally binding laws and requirements. However, it is worth noting that the issues discussed below concerning regulation may also apply to non-legally binding guidance, best practices, principles or recommendations, to the extent that RSPs come under pressure from the authorities or the market to conform to such policies. Regulation of remittances may exist for various reasons (see Box 3). However, as with all regulation, there is the possibility that it is badly designed with unintended side effects, that it is disproportionate to the scale of the problem it is designed to tackle, or that it continues to be applied even when it is no longer useful.

Box 3

Regulation of remittances

A key form of regulation is for anti-money laundering and terrorist financing purposes and involves "know your customer" requirements and recording/reporting of individual transactions (particularly large or suspicious transactions). Particularly for these purposes, many countries require RSPs to be registered or licensed.[1] In countries that have exchange controls, similar recording and reporting requirements are likely to apply, together with the need for the RSP (or its agent) to verify that the sender has permission to make the transaction. Moreover, in many countries, RSPs are not allowed to disburse funds in foreign currency.

Some countries have prudential requirements - ie requirements such as capital adequacy or liquidity rules designed to ensure that RSPs are financially robust (indeed, in some countries, only banks, which are regulated for prudential reasons, are allowed to provide remittance services). Sometimes remittance services are subject to central bank oversight. But this may be more focused on the payment systems used as part of the remittance transfer process than on the remittance service per se. Where individual services are overseen, this is typically primarily for efficiency or security rather than financial stability reasons (the relatively small values handled by RSPs mean that there are unlikely to be significant systemic risk issues, particularly in developed countries).

Occasionally there are specific consumer protection measures applicable to remittances (eg requiring RSPs to provide senders with certain prior information, such as the price and speed of the service). Finally, although not "regulation" as such, it is worth noting here that in some countries there are taxes on financial transfers, including remittances, that increase the cost.

[1] In broad terms, "registration" is where an RSP has to identify itself to the authorities and provide certain information about itself and its service, with the authorities attaching few or no conditions to the ability of the RSP to provide its service, whereas "licensing" is where substantive conditions are attached. In practice the distinction between registration and licensing is sometimes blurred.

62. A core and crucial objective of the regulation of remittances is the prevention of money laundering and terrorist financing. Recommendations on how this should be done

have been set out by the Financial Action Task Force on Money Laundering (see Box 4 in Section 4.3).

63. However, remittance services may also be regulated for other reasons, which are likely to vary from country to country. Here there is less of a consensus on what needs to be done, and although such regulation may often be useful, in some cases regulations may have an adverse impact on the market. For example, although it may be useful for the authorities in both sending and receiving countries to monitor RSPs in order to understand the market and determine what regulation, if any, is necessary, data may sometimes be collected that are never used. In some countries, certain types of institutions that are potential RSPs (eg non-bank deposit-takers such as credit unions) may be prohibited from providing remittance or other payment services, making such markets less competitive than they could be. Fees for licensing or registering RSPs may be too high and used mainly as a means of raising additional government revenue. Finally, remittance services per se do not involve deposit-taking as it is usually defined in legislation and they usually provide only a minority of a sender's overall payment needs; applying heavy prudential requirements to RSPs may therefore be disproportionate, particularly since, as discussed below, the failure of an RSP is unlikely to cause systemic risk.

Application of regulation

64. Regulating remittances solely by type of entity may make regulation less effective (by creating loopholes that are exploited for illegal activities) and distort markets (by enabling some RSPs to inappropriately avoid the costs of regulation and thus offer artificially cheaper services). At the same time, regulation should not aim to create a level playing field between different *RSPs* per se, but rather a level playing field between equivalent remittance *services*. Regulation is aimed at preventing or correcting "market failures" in the provision of the services - ie circumstances which, if the market were left to function by itself, would result in a suboptimal outcome. Some RSPs also offer other services as well as remittances (eg they may take deposits and give credit) and may be subject to more intensive regulation because of these services; depending on how they set their prices, they may therefore be more expensive than an RSP that offers only remittance services. However, where this occurs, it is not an unfair distortion but the result of their method of allocating costs when setting prices or of a market disadvantage of offering remittance services bundled with other services.[23]

3.4 Lack of competitive market conditions

Exclusivity conditions

65. Exclusivity conditions are where an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service.[24] Exclusivity conditions sometimes occur with negotiated or franchised services (although they are not a necessary feature of such services).[25] The difficulty with such conditions is that, by

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[23] This illustrates the point that some RSPs may be regulated more heavily than others because they also offer other services that require such regulation. In practice, providing multiple services may also offer benefits (eg by allowing fixed overhead costs to be spread more widely).

[24] An important distinction exists between exclusivity conditions, where exclusivity is a *condition* of offering a remittance service, and the situation where individual RSPs or agents *choose* to offer only one remittance service.

[25] By definition, an exclusivity condition cannot arise in a unilateral service, although an RSP providing such a service may choose to offer only its own service (see previous footnote). With open services, again by definition there are no exclusivity conditions on the receiving end (although there probably will be on the

restricting choice, they create an increased likelihood of de facto local monopolies. Exclusivity conditions can thus be particularly undesirable in receiving countries, where, as noted earlier, the financial infrastructure may be relatively underdeveloped. For example, if a community has only a single retail or financial outlet an exclusivity condition would mean that only one remittance service was available. The difficulty is exacerbated if the exclusivity condition is applied to agents with large networks (eg post offices, telecoms firms or major retail chains) and thus has a widespread impact.

Access to the infrastructure

66. RSPs, like everybody else, need to be able to use domestic payment systems.[26] In most countries, only banks are allowed to be direct participants in such systems.[27] Non-banks have to access the systems indirectly, as customers of banks. There are arguments for and against this arrangement. On the one hand, non-bank RSPs sometimes argue that it puts them at a competitive disadvantage compared to bank RSPs. This could be the case if, for example, indirect access were more expensive (because of the extra cost of having to use a bank to gain access) or perhaps if there were confidentiality problems (because the bank, as a result of providing payment services to the non-bank RSP, obtains useful confidential information about the latter's competing remittance service). On the other hand, the basic rationale for restricting access is that it achieves an appropriate balance between safety and efficiency in the provision of payment services. Moreover, it is not necessarily more expensive to have indirect access. Indeed, in many countries, some banks themselves (especially small banks) choose indirect access because it is cheaper. The arguments for and against allowing direct access to non-bank RSPs thus need to be considered case by case in the light of the specific circumstances in each country.[28]

67. Perhaps more serious are cases where non-bank RSPs face undesirable obstacles to indirect access to the payment infrastructure - ie where banks are reluctant to offer payment services to non-bank RSPs or will only do so under unduly onerous conditions. This may occur in individual cases if particular banks are reluctant to have competitors as customers. Banking markets are often sufficiently competitive that even if one bank will not provide such services others will, but the situation may be more problematic if the reluctance is the result of tough regulations concerning, for example, anti-money laundering and combating the financing of terrorism (AML/CFT) or exchange controls, or the result of the way such regulations are interpreted. Banks may have concerns about their ability to comply with regulations when their customers are RSPs and may therefore decide it is preferable to simply not provide services to them.

3.5 Risk

68. RSPs may face financial, legal, operational, fraud and reputational risks. The relatively small values involved in remittance transfers mean that it is unlikely that there will

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sending end if the RSP uses its own branches as capturing agents, or there could be if the RSP contracts with other capturing agents and includes exclusivity as one of the terms of the deal).

[26] The need to use payment systems could be avoided only if (as is the case with some hawala services) settlement takes place using physical transfers of cash or where, after netting, the amount to be settled fluctuates around zero, thus requiring no settlement.

[27] As noted earlier, the term "bank" is generally used in this report to refer to all deposit-taking institutions or credit institutions or whichever legal term is applicable in a particular jurisdiction. On the specific issue of access to payment systems, some countries restrict access to banks defined in this wide sense while others adopt a narrower definition.

[28] See the CPSS report *The role of central bank money in payment systems*, BIS, August 2003.

be systemic risk (ie that the failure of an RSP will lead to the failure of other financial institutions). Remittances are therefore unlikely to cause stability problems. However, other financial risks can arise with remittances, particularly in markets that are not transparent, where the legal basis is weak or where the financial system is not well developed. A longer-term disruption in the flow of remittances could also cause economic stability problems for a country that is highly dependent on the flow. But such a disruption, implying the inability of multiple RSPs to transfer funds, seems more likely to be the result of events that are external to the RSPs (such as a general financial crisis affecting all financial institutions or the imposition of exchange controls) than of prudential problems with RSPs per se.

69. For senders (and receivers), the potential risk when making a remittance is that of losing the funds while they are in transit (eg due to the bankruptcy or error of the RSP or one of the intermediaries, or because of fraud). The extent of the risk depends on the nature of the contract between the sender and the RSP and where the problem occurs. With franchised or unilateral networks, then, unless the problem is the bankruptcy of the RSP itself, it is likely that the RSP will bear any risk: the contract between the sender and the RSP is likely to be to get the funds to the disbursing agent and it will be the RSP's responsibility if this fails to happen. With negotiated and open networks, it may be less clear-cut: at some point in the transaction, responsibility may transfer from capturing to disbursing RSP.

70. For the RSP itself, the extent of the risk of loss of funds in transit depends on the nature of the remittance service. For example, the extent and duration of its exposure to the possibility of failure by the disbursing agent depends in part on whether or not it has provided liquidity to the agent. As well as the direct credit or liquidity risk of loss in transit, or the operational risk of a failure on its own part, the RSP also faces reputational risk unless it has adequate arrangements to ensure receivers get their funds on time even when there has been a loss in transit. Reputational risk could also arise from misuse of the service for illegal purposes such as money laundering. Lack of sound governance and risk management practices on the part of RSPs can exacerbate such problems.

4. General principles for international remittance services

4.1 Public policy objectives

71. For this report, the following public policy objectives for the provision of remittance services have been defined: *Remittance services should be safe and efficient. To this end, the markets for the services should be contestable, transparent, accessible and sound*.[29]

72. The report is based on the belief that the best way to reduce the price of remittance services is to encourage a competitive market for remittances. Because competition in the provision of remittance services helps to improve the services being provided, the market should be open to new entrants (ie the remittance industry should be contestable). Further, such a market would give senders and receivers:

- clear information about the price and other features of the services (ie the remittance industry should be transparent);
- easy access to remittance services (ie the remittance industry should be accessible); and

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29 A contestable market is one in which there are low barriers to entry and where *potential* entrants therefore exert competitive pressure on incumbents, forcing the latter to be efficient to maintain their market position. Thus even a market with only one supplier can be efficient if it is contestable.

- reasonable protection from operational failures and criminal abuse (ie the remittance industry should be sound).

Competition needs to be on the basis of a level playing field, with sound legal underpinnings and an awareness that, because markets do not always function optimally, some degree of regulation may be needed.

73. International remittance services are part of the national payment system and often rely on individual payment systems for settlement. Therefore, the public policy objectives for international remittance services are closely interrelated with those for payment systems.

4.2 Application of the General Principles

74. In order to achieve the public policy objectives, the report sets out principles covering five key areas: (1) transparency and consumer protection; (2) payment system infrastructure; (3) the legal and regulatory environment; (4) market structure and competition; and (5) governance and risk management. The five principles correspond to the five areas of possible market weakness identified in Section 3. Their purpose is to help remove those weaknesses in order to create a safe and efficient market. They do not aim to set specific service level standards for remittance transfers since, beyond a certain basic level of service and in normal circumstances, low price may be more important than a high level of service for most end users. Moreover, effective competition is more likely than service level standards to result in a range of remittance services that offer suitable combinations of price and service. The general principles are aimed at all remittance services except, as noted in Section 2.2, those based on purely physical transfers of cash.

75. The Principles, which require a combined effort by both RSPs and public authorities if they are to be implemented effectively, are designed to assist countries that want to improve the market for remittance services. This applies to both sending and receiving countries. Of course, the importance of remittance flows varies from country to country. Therefore, although these Principles are designed to be generally applicable, some countries may decide that the size of the remittance market does not justify significant action or that there is no need for such action. However, in taking such a decision, authorities should bear in mind that if the attempt to improve the market in a particular remittance corridor is to be fully effective, in many cases it will require cooperation between the relevant sending and receiving countries. Receiving countries may therefore be significantly handicapped in their ability to act if they do not receive the necessary support from sending countries.

76. In most cases the Principles are likely to be applied in sending countries regardless of the destination of the funds and in receiving countries regardless of their origin. However, in applying some aspects of the Principles, authorities may want to prioritise their efforts in the most important bilateral corridors or corridors where they believe their efforts will be most productive.[30]

77. As discussed in Section 2, it will often be difficult for RSPs to distinguish remittances from other cross-border retail payments, including small payments to and from businesses, so authorities implementing the Principles need to be aware that they are likely to have to be applied to other low-value cross-border transfers as well as remittances. However, this is not likely to be a disadvantage since it would generally be undesirable to distinguish between payments according to their purpose.

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[30] For example, this might be the case with the education programmes discussed under General Principle 1 or the possible infrastructure changes discussed under General Principle 2.

78. Finally, because remittance transfers are a form of retail payment, then, in addition to these Principles and the *General guidance for national payment system development*,[31] the CPSS report on *Policy issues for central banks in retail payments* may be helpful.[32] That report outlines a number of actions for consideration by relevant authorities, actions which may vary greatly depending on both conditions in the relevant markets and the institutional context in each country.

4.3 The General Principles

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

79. Transparency in remittance services, combined with adequate consumer protection, helps to foster a competitive and safe market for remittances.

Transparency by individual remittance service providers

80. Transparency of prices and service features is crucial to the ability of consumers to make informed choices between different services and to the creation of a competitive market. RSPs should therefore be encouraged to provide such information in easily accessible and understandable forms. As far as possible, such information should include the total price (ie fees at both ends, foreign exchange rates including the margins applied on them, and other costs to the user), the time it will take the funds to reach the receiver, and the locations of the RSP's access points in both sending and receiving countries. However, any recommendation or requirement concerning transparency needs to take into account that the business model adopted for some remittance services (namely, those using open networks) may make it extremely difficult for the RSP to provide all this information (see Section 3.1 above).

81. It should also be clear to the sender if the price or other aspects of the service vary according to, for example, how the receiver is paid (eg in cash or by crediting an account) or the ability of the sender to provide information about the receiver (eg the relevant account number and bank identifier). Finally, full transparency would mean that RSPs disclosed the information *without* imposing requirements on the consumer such as opening an account or committing themselves to using the remittance service.

Enabling end users to understand the market for remittances

82. As well as the information provided by individual RSPs, authorities may want to encourage efforts to enable end users to better understand the market for remittances. For example, authorities or other organisations may want to provide comparative price information. They may also wish to undertake educational campaigns to give senders and receivers sufficient background knowledge to be able to understand the information provided.

Appropriate consumer protection

83. Both senders and receivers should have adequate rights as consumers of remittance services, including error resolution procedures. Individual RSPs may have their own procedures. In addition, many countries have national schemes to resolve domestic

[31] Ibid.

[32] *Policy issues for central banks in retail payments*, BIS, March 2003.

consumer disputes, although the cross-border nature of remittances and cultural and language barriers can make such procedures complex. Authorities may therefore wish to encourage individual RSPs to evaluate the adequacy of their error resolution procedures. Where appropriate, they may also want to review whether national schemes give adequate protection to customers of remittance services.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Domestic payment infrastructure

84. Remittance services, except perhaps those that are entirely cash-based, depend at some stage on the domestic payment infrastructure for settlement (and sometimes also for transfer of information). In some countries, in particular many receiving countries, such infrastructure remains underdeveloped. For example, non-cash payment services may be available only in urban locations. RSPs could often make better use of the payment infrastructure that has been developed if there were greater standardisation of payment instruments, more automation of their processing, and increased interoperability of the associated networks.

85. As discussed in *General guidance for national payment system development*, improvements in transaction infrastructures such as ATM or EFTPOS networks can be achieved through the adoption of common and preferably internationally agreed standards for instruments (eg payment cards), the adoption of common equipment and software standards to allow interoperability at point of sale among competing networks (eg ATMs, card readers) and the facilitation of interconnectivity among the proprietary networks for handling the transactions. Greater automation may be able to reduce costs and provide improved services to users. It may also be possible to make improvements in the clearing and settlement infrastructures through the use of common information technology which makes it easier to interconnect existing infrastructures or even centralise or consolidate them. Such action could help achieve improved national coverage in a receiving country and reduce the effective cost to end users of a remittance (ie in addition to the direct price charged by the RSP, the cost of transport to urban centres to receive a remittance, as well as the time spent in such tasks and other related costs). Where relevant, the authorities in countries where infrastructure is weak or has limited geographical coverage may therefore want to encourage improvements to their domestic payment infrastructure, which may include new infrastructures or better use of existing infrastructures. Such improvements would of course be of general benefit, not just for remittances.

Cross-border payment arrangements

86. The safety and efficiency of remittance services can be affected by payment systems in the relevant markets and the way that these systems are accessed and used by RSPs or by banks acting for RSPs. In addition to improvements in the domestic payment infrastructure as noted above, the safety and efficiency of cross-border remittances may be further improved by the coordination and/or adoption across the relevant payment systems of, for example, communication standards and payment message formats that facilitate greater interoperability as well as rules, procedures and operating hours that support straight through processing.

87. It may also be possible to link the relevant domestic retail payment systems of sending and receiving countries, particularly where the domestic payment systems in both countries are well developed and have wide geographical coverage and where remittance volume between the countries is high. However, given the complexity of such links, it is important that there is a careful analysis of whether the likely benefits will justify the costs.

88. Sometimes such initiatives may be undertaken by the market itself. However, given, first, the diverse nature of the institutions involved and thus the potential for conflicting interests and, second, the uncertainty about the scale of future flows and thus whether investment in the initiative is justified, in many cases the authorities, and in particular central banks, may want to facilitate the consideration of these possibilities. In general, cross-border or cross-system initiatives require a high level of bilateral (or possibly multilateral) cooperation on technical, regulatory and oversight matters and, accordingly, the involvement of central banks, regulators, payment system operators, RSPs and industry associations from both jurisdictions. In some cases, central banks themselves have established bilateral cross-border links between the payment systems they operate.

89. There are several other initiatives in progress to evaluate ways to expand the use of existing international networks and platforms (eg the major international card networks, SWIFT) with a view to providing new or improved remittance services. Also particularly important could be international initiatives to standardise the message formats used by individual payment systems and the international banking community generally, since, even without direct links between domestic payment systems, standardised formats could do much to enable banks and other RSPs to process payment instructions without the need for expensive manual intervention.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

90. The legal and regulatory framework includes both the general legal infrastructure (such as the law relating to contracts, payments, securities, banking, debtor/creditor relationships and insolvency) and any specific statutes, case law, regulations or contracts (for example, payment system rules) relevant to remittances. As noted in Section 3.3, the points covered by this principle may also be relevant to non-legally binding policies (such as recommendations) issued by the authorities.

91. This principle does not call for the establishment of a specific legal regime for remittances. A country's existing laws and regulations may already address the requirements of the principles or may be capable of being modified to do so. In particular, the provision of remittance services is likely to be helped by a well founded legal framework governing domestic payments.

Prerequisites for a well founded legal and regulatory framework

92. To be well founded, the legal and regulatory framework should be sound, predictable, non-discriminatory and proportionate. A *sound* framework that is well understood helps minimise the risks faced by both RSPs and their customers. A *predictable* framework is one in which it is clear which laws and regulations are relevant, where they do not change with excessive frequency and where they are enforced by the authorities, including the courts, in a consistent manner. Predictability is a key component in creating a climate that favours private sector investment. This is crucial in order to increase competition in, and improve the quality of, remittance services.

93. *Non-discriminatory* refers to the legal and regulatory framework being equally applicable to different types of RSPs insofar as they are providing equivalent services, ie independently of the nature of the provider's other lines of business. This helps to promote a level playing field between different RSPs that encourages competition on a fair and equitable basis. Moreover, from the point of view of encouraging competition, it is desirable if the framework is flexible and general enough to cover all RSPs and remittance services. For example, it is sometimes argued that services provided by individuals (such as hawala services) should be prohibited because it is hard to prevent their misuse for crimes such as

terrorist financing. However, it is not clear that it would be easier to prohibit such services than to require them to conform to AML/CFT requirements. Either way, the difficulty lies with enforcement - ie identifying and prosecuting those who operate illegally. But bringing them within the law has an advantage over outlawing them because it increases competition.

94. Because remittance services are offered by many different types of service providers, a functional rather than institutional framework may be desirable to minimise different treatment of service providers offering similar services. However, often this may be impractical: many countries already have different bodies of law and regulations applying to different types of RSPs, and changing this would be difficult. For example, bank RSPs and non-bank RSPs may be governed by different, well established legal and regulatory frameworks. Where this is the case, the underlying principle can be met instead by ensuring that equivalent rights and obligations exist regardless of which body of law applies to an institution. For example, the know-your-customer requirements for remittances should be the same for banks and for non-bank RSPs even if they are governed by separate regulations.

95. Finally, *proportionate* means that the legal and regulatory framework for remittances should not be overly restrictive and burdensome relative to the possible issues it is designed to tackle or the number and value of transfers involved. This of course depends very much on the content of the laws and regulations, discussed below. In considering this, it is important to realise that public policy objectives may not always point in the same direction. On the one hand, an important corollary of encouraging competition in order to reduce prices is that barriers to entering the remittance market should be reduced as far as possible, and regulation can be a significant barrier because of the costs of compliance. On the other hand, other public policy objectives such as preventing money laundering or terrorist financing require potentially burdensome regulation. Proportionality means that any such inconsistencies are recognised and resolved in a way that, in the light of a country's overall priorities, achieves an appropriate balance. Proportionate regulation is also likely to be more effective in the sense that RSPs may be less likely to evade it by operating illegally (as discussed above).

Multiple legal and regulatory frameworks

96. A remittance involves at least two jurisdictions, the sending and the receiving countries. Where the RSP or its agents operate in third countries, other jurisdictions may also be involved. Laws and regulations in relevant jurisdictions need to be well founded for the legal and regulatory framework governing the provision of remittance services to be fully effective. The authorities of a given country can, of course, only have a direct influence on the framework in their own country. Nevertheless, particularly if they are aware of a significant legal issue in another country in an important bilateral corridor, they may want to work with the authorities of the other country to try to resolve the issue.

97. To achieve a well founded legal and regulatory framework internationally, harmonisation of legal and regulatory structures may sound appealing. However, different jurisdictions have different priorities and can take different legal approaches. As such, universal harmonisation of laws and regulations is extremely difficult to achieve and may be of no additional benefit if the laws and regulations of different countries are aimed at the same public policy objectives.

Content of the regulatory framework

98. Considering the way in which remittances in a country are regulated, an important aspect of any regulatory framework is that it should meet internationally agreed standards. Particularly relevant in this context are regulations implementing AML/CFT recommendations such as the Financial Action Task Force's recommendations and special recommendations (see Box 4). All RSPs should comply with the AML/CFT regulations applicable to them.

Box 4

FATF recommendations

Extracts from *The forty recommendations*, Financial Action Task Force on Money Laundering (FATF), revised 22 October 2004.

Recommendation 5: … Financial institutions should undertake customer due diligence measures, including identifying and verifying the identity of their customers, when … carrying out occasional transactions … that are wire transfers in the circumstances covered by the Interpretative Note to Special Recommendation VII [see below]; …

Recommendation 7: Financial institutions should, in relation to cross-border correspondent banking and other similar relationships, in addition to performing normal due diligence measures: (a) Gather sufficient information about a respondent institution to understand fully the nature of the respondent's business and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to a money laundering or terrorist financing investigation or regulatory action. (b) Assess the respondent institution's anti-money laundering and terrorist financing controls. (c) Obtain approval from senior management before establishing new correspondent relationships. (d) Document the respective responsibilities of each institution. (e) With respect to "payable-through accounts", be satisfied that the respondent bank has verified the identity of and performed on-going due diligence on the customers having direct access to accounts of the correspondent and that it is able to provide relevant customer identification data upon request to the correspondent bank.

Recommendation 8: Financial institutions should pay special attention to any money laundering threats that may arise from new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes. In particular, financial institutions should have policies and procedures in place to address any specific risks associated with non-face to face business relationships or transactions.

Recommendation 23: … Other financial institutions should be licensed or registered and appropriately regulated, and subject to supervision or oversight for anti-money laundering purposes, having regard to the risk of money laundering or terrorist financing in that sector. At a minimum, businesses providing a service of money or value transfer, or of money or currency changing should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national requirements to combat money laundering and terrorist financing.

Extracts from *Special recommendations on terrorist financing*, FATF, revised 22 October 2004.

VI. Alternative remittance: Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

VII. Wire transfers: Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

For more information about both reports, see http://www.fatf-gafi.org.

99. Some of the other areas that, in some countries, may be covered by regulation include transparency of conditions applicable to end users (eg prices and execution times), customer protection measures (eg dispute resolution mechanisms) and the adoption of adequate measures to mitigate risks faced by RSPs (eg legal, credit, liquidity and operational risks). To meet the FATF AML/CFT recommendations, RSPs have to be licensed or

registered; it is up to the relevant authorities to decide whether it is useful to also use this licensing or registration process for implementing any other areas covered by regulation.

100. It is important that any regulation balances the benefits of increased safety and soundness against the potential costs in lost efficiency, competition and innovation. Complying with regulations can often be costly and therefore may drive up remittance prices. Regulations can also be a barrier to entry and thus restrict competition. Authorities may also want to avoid designing regulation around specific payment instruments or distribution channels, since technologies deployed in the provision of remittances change rapidly and as far as possible such innovations should be accommodated easily with low cost and without changing regulations. Finally, the benefits of raising revenue by taxing remittances and other transfers need to be weighed against the resulting increase in costs.

101. The remittance industry should be consulted when designing the regulation of remittances to help ensure that the regulation is proportionate and effective. In some cases, the industry itself may develop codes of conduct or self-regulatory regimes that are as effective, or possibly more effective (because of lower compliance costs and greater flexibility), than formal regulation. However, the effectiveness of self-regulation is likely to depend on many factors, including how developed the remittance industry is.

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

102. The efficiency of remittance services depends on there being a competitive business environment. Competitive markets can help limit monopolistic practices and lead to lower prices and improved service levels. In some places, or for certain remittance corridors, the demand for remittance services may be insufficient to support multiple RSPs but even here, provided the market is contestable - ie with only low barriers to entry - the benefits of competition should be felt. Competition can be assisted by discouraging RSPs from imposing exclusivity conditions on agents. This is important in both sending and receiving countries, but it is particularly important in receiving countries if a local market such as a small village has only one potential agent (eg the local shop) so that there is only one remittance service available if an exclusivity condition is imposed. As discussed under General Principle 3, authorities also need to be aware that their own regulatory regime may itself lead to market distortions and impose unnecessary costs, thus causing imperfect competition.

103. To provide remittance services, RSPs usually need to be able to make use of the domestic payment infrastructure. Access to this infrastructure can be either direct or indirect. Both forms of access are capable of providing RSPs with suitable payment services, and their advantages and disadvantages vary according to specific circumstances.[33] Whichever form access takes, it is important that it is available to RSPs on a fair and competitive basis, not least because RSPs are in competition with each other and access may be a factor in their ability to compete. RSPs without direct access to core payment infrastructures should be able to use the payment services provided by institutions having direct access. Institutions with direct access to such infrastructures should provide all relevant payment services, including foreign exchange services, on an equitable basis to RSPs. In this respect, AML/CFT requirements such as know-your-customer requirements should be equivalent for

[33] Direct access means that the RSP is itself a direct participant in the system, submits its payment instructions directly to the system, and is responsible for settlement. Indirect access means that the RSP is not itself a direct participant in the system but instead uses another institution, which is a direct participant, to act on its behalf - ie the RSP is a customer of the direct participant. For more on this issue, see *The role of central bank money in payment systems*, ibid.

all RSPs. In addition, banks and other institutions should not apply these requirements inappropriately to discriminate against other RSPs when providing payment services.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

104. Appropriate governance and risk management practices by RSPs can improve the safety and soundness of remittance services and help protect consumers. Governance structures can help RSPs meet their fiduciary responsibilities to their customers. A governance structure that may be appropriate for a small provider of remittance services is likely to be quite different from one that may be appropriate for large multinational financial institutions. Nevertheless, in either case RSPs should strive to adopt standards for good governance according to their country's legal requirements and to follow best practices that may have been developed for the provision of retail financial services.[34]

105. As is the case for the payments industry generally, the remittance industry faces legal, financial, operational, fraud and reputational risks. In establishing risk control measures, RSPs should conduct risk level assessments to ensure that proposed risk control measures are appropriate to the level of the risks and the size of the business generally. In doing so, they should as far as possible take appropriate steps to protect themselves and their customers against risks arising from their operations in different jurisdictions, in particular in those with shortcomings in their legal and regulatory framework.

4.4 Roles of remittance service providers and public authorities

106. Although circumstances vary between countries, both RSPs and public authorities have responsibilities for implementing the Principles in order to achieve the public policy objectives.

A. Role of remittance service providers. **Remittance service providers should participate actively in the implementation of the General Principles.**

107. Remittance service providers should endeavour to follow the General Principles. They should strive to offer competitive services that meet their customers' needs. They should disclose their prices and service features so that consumers can make informed choices. As payment service providers, they have a particular responsibility to ensure that both they and any capturing or disbursing agents they use comply with applicable laws and regulations, including AML/CFT requirements. They should also implement appropriate governance and risk management processes to help improve the safety and soundness of their services and to meet their fiduciary responsibilities to their customers.

B. Role of public authorities. **Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.**

108. Where public policymakers decide to take action with respect to remittances by applying the Principles, the relevant authorities need to have appropriate powers and resources. There are multiple tools that can be used by public authorities, depending on the level of involvement authorities decide to undertake. These tools include monitoring, dialogue

[34] For more on governance relating to payments, see the CPSS report *Core principles for systemically important payment systems*, BIS, January 2001, and particularly Core Principle X. Although the report is concerned with systemically important payment systems, much of what it says is also useful in other circumstances.

with the private sector and the provision of information to the public. Public authorities could resort to regulation to address market failures but before doing so they should weigh the perceived benefits of such regulation against the costs of compliance and possible market distortions.

109. Several different domestic authorities, with different objectives, may be involved in implementing policy towards remittances: for example, law enforcement authorities, statistical offices, development agencies, consumer protection services, financial supervisors and central banks. Where implementation of the principles involves multiple domestic authorities, public policymakers should ensure that domestic policies are coordinated and that the authorities cooperate at the policy and implementation levels. Cooperation at international level - whether bilateral corridor cooperation, regional cooperation or global cooperation - may also be useful.

5. Formulating an approach to implementing the General Principles

110. Responsibility for implementing the Principles lies with both the public authorities and the private sector. (See Annex 1 for some possible actions to implement the Principles, including examples derived from country experiences.) However, if a policy decision is taken to implement the Principles, the authorities are likely to have to initiate the process and they will need to decide how to do this.

Tools for implementing the General Principles

111. Public authorities can take action on remittance services in various ways, depending on the level of involvement they decide is useful.

- *Monitoring* will be helpful in carrying out public policy objectives and deciding on appropriate actions with respect to the remittance industry. The changing nature of the market increases the importance of monitoring, which could focus on the way remittance systems are evolving. Market research commissioned by the authorities may be an additional useful tool.
- *Dialogue* with the private sector is an important tool that can be used to understand market trends and influence outcomes. Dialogue should involve all interested parties, including end users, so that the views of all stakeholders are taken into account.
- *Communication and outreach* are related to dialogue but they deserve specific attention since they involve both awareness-raising among RSPs that may be able to provide efficient and effective remittance services and financial literacy programmes for end users to foster their use of financial products.
- Authorities may be able to help the private sector improve the market for remittances by acting as a *catalyst* or *facilitator* - ie where authorities use their influence to support or speed a market outcome. For example, they may be able to encourage appropriate codes of conduct or possibly self-regulation.
- Public authorities may sometimes need to use *regulation* to address market failures. Where they do so, they should attempt to ensure that regulatory solutions have net benefits and do not create unnecessary barriers to entry that limit the supply of remittance services. Authorities may wish to review regulations to ensure that they are not excessively burdensome and do not discriminate for or against the provision of remittance services by certain types of providers.

- *Direct provision* by public authorities of certain services (eg settlement services) to support remittances is also a possible instrument, although often this will be desirable only if other instruments prove ineffective.

Coordination of responsibilities

112. Different aspects of the Principles are likely to fall under the responsibility of different public authorities such as central banks, antitrust authorities, consumer protection authorities, the ministry of finance, financial supervisors and anti-money laundering authorities. (See Box 5 for more on the potential role of central banks.) Moreover, as noted earlier, the a priori public policy objectives of different authorities may not always be entirely consistent. To achieve the necessary consistency of policy in this situation, it may be useful to identify an authority with lead responsibilities or with the duty to coordinate. Authorities should cooperate on both policy itself and its implementation.

Box 5

A potential role for central banks in the application of the Principles

Central banks have different roles in retail payments, including remittance services, depending on their responsibilities, policies and powers. It may be desirable that central banks monitor developments in the market for remittances to assess their significance for safety and efficiency. In some cases, central banks' responsibilities may also make it appropriate for them to oversee certain remittance services. To the extent that central banks provide payment services, they may be able, where appropriate, to enhance these services to support the smooth functioning of remittance services. Examples might include the development of new services that support cross-border payments or enhancing existing services to make them more useful for supporting cross-border payments. In those receiving countries where there is a need to develop the local payment infrastructure (not just to support remittances but more generally), the central bank is likely to play a key role (see, for example, Guideline 1 of the *General guidance for national payment system development* (see footnote 21 above)). Central banks may wish to enter into discussions with the private sector and other central banks to facilitate the achievement of public policy objectives regarding remittance services and to foster international cooperation.

However, as noted in the main text, the authorities of a country should work collectively to address public policy objectives towards remittances, allocate responsibility for achieving those objectives, and coordinate the resulting actions.

113. At the international level - whether there is bilateral corridor cooperation, regional cooperation or global cooperation - cooperative efforts could include authorities of the relevant countries working together to achieve compatible and consistent policies and regulations, to create a better business environment and to lower barriers to entry.

114. International financial institutions (IFIs, such as the World Bank, regional development banks and the International Monetary Fund) have a role to play to support authorities and market participants in the application of these principles. In particular, IFIs have experience of the actions that countries have taken to improve the market for remittance services that can usefully be passed to others. To be effective, IFIs should coordinate their actions among themselves and with those of domestic authorities.

115. All industry associations representing the different types of RSPs (eg those representing banks, credit unions or money transfer operators) could be engaged in the discussion of common issues and policies. These associations should help both the authorities and RSPs to find practical ways to implement the Principles. They may want to prepare voluntary or binding codes of conduct based on the Principles.

Annex 1:
Possible actions to implement the Principles

This section contains some possible actions for countries that choose to implement the Principles. These possible actions are based on the experiences of a number of sending and receiving countries. However, there are many differences between countries - economic, cultural and political - which mean that actions that are helpful in one country may not be equally helpful in another. The suggestions below should therefore not be taken as a checklist of what needs to be done to ensure the Principles are met.

Possible actions concerning General Principle 1 (transparency and consumer protection)

Transparency by individual RSPs

1.1 RSPs could use a combination of methods such as signs in their agencies, brochures, the internet and customer service phone numbers to allow potential end users to obtain sufficient general information about prices and services - ie to achieve transparency without having to enquire about a specific transaction. (However, as prices and speed often vary by amount and destination and, in the case of exchange rates, change frequently, it may be impractical to insist that signs in agencies alone contain all the information necessary to achieve transparency.)

1.2 When an end user approaches an RSP with an enquiry about a specific transaction, the information that an RSP should aim to provide if it wants to achieve full transparency is set out in Box 6.

1.3 Where the remittance service business model is such that the RSP cannot realistically make a commitment about how long the transfer will take or does not know what fee the receiver may be charged (as will typically be the case with open services) and is thus unable to meet all the requirements in Box 6, full transparency means that the sender should be made aware of the reasons for the lack of such information.

1.4 To the extent that fees are charged to the recipient, RSPs who want to be transparent should make this clear to the recipient, in writing or equivalent, at the time the remittance is collected or delivered. Such notification is not a substitute for upfront disclosure to the sender of these fees.

1.5 The industry could be encouraged to agree on a common reference exchange rate (eg the interbank market rate at a certain time of day) to be used as a basis for calculating the price of the remittance service. In addition to (C) in Box 6, senders could then be quoted a total price that includes both the explicit fees/costs and the effect of any difference between the reference exchange rate and the actual exchange rate applied by the RSP (eg see the "full cost" calculation in Box 7 below). This would make it easier for senders to compare services.

1.6 It may also be desirable that RSPs inform end users that they are registered or licensed, and that the relevant authorities make the list of registered or licensed RSPs easily available so that end users can check the information. This could be a step towards discouraging use of illegal RSPs, and thus desirable from an AML/CFT point of view. However, it would not necessarily have significant benefit from the point of view of consumer protection since, in most countries, the fact of being registered or licensed gives only a little information about the reliability of an RSP and probably no information about its solvency. Indeed, care would be needed to prevent end users from incorrectly assuming that registration or licensing provided some kind of guarantee of reliability or solvency.

Box 6

Transparency to the sender

When a customer enquires about a specific remittance transfer, full transparency would mean that RSPs clearly disclosed the following information without requiring any other action from the consumer such as opening an account or committing to use the remittance service:

(A) the total amount in originating currency that will be paid by the sender;

(B) the amount in disbursing currency that will be paid to the final recipient;

(C) the fees paid by both sender and receiver (and any other relevant costs such as taxes) and the exchange rate;

(D) the time when the remittance will be available for pickup by the recipient or delivered to the recipient;

(E) the location(s) where the remittance will be available for pickup.

If the above information varies according to how the receiver is paid (eg in cash collected by the receiver, in cash delivered to the receiver or by crediting an account) or according to the information the receiver is able to provide about the sender (eg if a bank account is to be credited, whether the sender knows the relevant BIC and IBAN[1]), this should be clear to the sender.

For key remittance corridors, it may be appropriate to provide the information in the languages of both the sending and receiving countries.

If the customer chooses to use the remittance service, the RSP should also provide the information above (plus the information provided by the sender to identify the receiver) in written form as confirmation of the agreed service.

To achieve full transparency, RSPs should also provide information about any other relevant aspects of their service. For example, this might include: (a) the ability, if any, of the sender to revoke the transfer after it has been paid for; (b) whether the RSP will inform the receiver when the funds are available; (c) information about the rights of the consumer in the event of any problems (eg the procedures to be followed in the event of a dispute about the service) and (d) appropriate contact information about the RSP.

[1] Bank Identifier Codes (BICs) and International Bank Account Numbers (IBANs) are globally recognised codes. The BIC is a unique address which, in a telecommunications message, identifies the financial institution and the IBAN is a code that uniquely identifies an account held at the financial institution.

Enabling end users to understand the market for remittance services

1.7 In the absence of an agreement on a common reference exchange rate (as mentioned in 1.5 above), then even with full transparency it will still be difficult for many senders to combine exchange rate and fee information in order to calculate which is the cheapest service. However, that does not negate the benefits of transparency because, over time, information about RSPs that generally offer lower prices is likely to spread among end users (eg by word of mouth among a migrant community). However, as a more direct approach, end users could also be given comparative information on the prices of specific services, in an appropriate form, especially for the most important remittance corridors (see Box 7). The following means of dissemination could be considered: (1) use of ethnic media, especially press and radio; (2) financial media; (3) national associations and immigrant aid organisations; (4) public and private sector consumer bodies, using printed material and web pages; and (5) overseas consulates and embassies of receiving countries. Dissemination of information in the receiving country could also be considered.

Box 7

Remittances from the United States to Mexico: a price comparison

PROFECO (Federal Consumer Protection Commission) is part of the administrative branch of the federal government of Mexico. Profeco publishes a weekly price comparison for remitting USD 300 (plus fees) from nine US cities to Mexico. As an example, the information for Chicago to Mexico for a particular day is given below (the names of the three RSPs have been anonymised).

1	2	3	4	5
Service	**Fee per transfer (USD)**	**RSP's foreign exchange rate (pesos/USD)**	**Amount received (USD equivalent)**	**Full cost (USD)**
RSP A	5.00	10.53	299.43	5.57
RSP B	8.00	10.55	300.00	8.00
RSP C	8.00	10.50	298.58	9.42

The "amount received (USD equivalent)" in column 4 is the actual amount received in pesos (ie USD 300 converted at the actual rate used by the RSP in column 3), re-converted to US dollars using a reference exchange rate of 10.55 (the average of the bid rates on this day of a sample of bureaux de change). The "full cost" is the sum of the fee charged by the RSP (second column) and a foreign exchange cost, the latter being the difference between USD 300 and the "amount received (USD equivalent)" in column 4 - ie it reflects the difference between the reference exchange rate and the actual exchange rate used. (In the case of the services shown, no fee is charged to the receiver.)

Example for RSP A: The actual amount received in pesos is 300 x 10.53 = 3,159. The "amount received (USD equivalent)" is 3,159/10.55 = 299.43. The foreign exchange cost in US dollars is 300 – 299.43 = 0.57. The "full cost" is 5.00 + 0.57 = 5.57. Note that for RSP B the full cost is the same as the fee (USD 8.00) because on that day this RSP used the same rate as the reference exchange rate (10.55).

Further information can be accessed at http://www.profeco.gob.mx/html/envio/envio.htm.

1.8 If transparency is to be effective, senders and receivers also need to have sufficient background knowledge to be able to understand the information provided and make informed choices. Perhaps as part of wider financial literacy campaigns, authorities or other organisations may therefore wish to undertake educational campaigns that explain the main characteristics of remittance services, how to evaluate different services and the consumer protection mechanisms that exist (for example, see Box 8). Such education could be provided through fairs or information campaigns by government agencies, industry associations (such as those representing banks, credit unions and money transfer operators), non-governmental organisations and other agencies. In sending countries, the governments of receiving countries could offer education at their embassies and consulates or through reaching out to migrants where they work and live. In receiving countries, initiatives could include information about the use of bank accounts and other financial products.

Box 8

Information provided by the Philippines authorities to emigrants

Philippine workers going overseas may attend pre-departure orientation seminars conducted by several different government agencies. This seminar programme, which has been in place since 1981, covers not just remittance topics (such as pre-departure opening of a bank account to be used by the receiver of the remittances) but also other topics specific to the destination country such as travel regulations, immigration procedures, cultural differences, housing issues, employment and social security concerns, and the rights and obligations of Philippine migrants.

1.9 In carrying out educational programmes, it is useful to be aware that in some cases end users of remittance services may lack trust in financial institutions, making them reluctant to use the remittance services offered by these institutions and thus reducing effective competition. It may be useful to look, in both sending and receiving countries, at the reasons for such lack of trust and consider whether it is possible to improve the situation.

1.10 In sending countries banks could assist migrants in obtaining the necessary documents to open accounts. Employers could play a role in the education of migrants by providing information on alternative channels or negotiating deals with particular providers.

Appropriate consumer protection

1.11 It is helpful if there is a set of clear, publicly available and easily applicable procedures in cases of fraud and disputes. At a minimum, individual RSPs could establish their own procedures that customers could follow in the event of difficulty, and provide clear information to customers about these procedures.

Box 9

Receipt-of-funds guarantees

A receipt-of-funds guarantee could either be introduced voluntarily by RSPs or imposed on them by the authorities.

Individual RSPs or groups of RSPs might voluntarily offer a receipt-of-funds guarantee in order to make their service more attractive, particularly if they were new RSPs trying to establish a reputation for being safe. Such a guarantee might be achieved through some form of external insurance, self-insurance by a group of RSPs creating a pool of funds, or by individual RSPs segregating their funds in some way. However, the guarantee would involve a cost, so increased safety would come at a price, which might not be desirable for many end users. Many RSPs, particularly those who already have a reputation for safety and speed, would thus not find it commercially attractive to offer such a guarantee. Moreover, in some cases there could be practical difficulties. For example, it could be argued that such a guarantee would be most useful in open services, which may involve a number of intermediaries that are not known to or under the control of the sending RSP and thus where the risk of loss in transit may be greater. But this lack of control may equally make a guarantee scheme more difficult to implement, not least because of the difficulty to the sending RSP of reliably identifying whether or not the funds have reached the intended receiver.

Because of the cost and practical difficulties, authorities are unlikely to want to impose such a guarantee scheme on the industry. In particular, the scheme would amount to a tax on safer RSPs and a subsidy to riskier ones, except in the unlikely event that it was possible to devise some reliable means of assessing the riskiness of individual RSPs and charging them accordingly for the guarantee. Indeed, without such a risk-based charge on RSPs, end users would have an incentive to use the cheapest RSP regardless of its riskiness because they would be protected by the guarantee; this in turn would give RSPs an incentive to cut costs even when that resulted in greater risk, because in the event that funds were lost the cost would be borne not by them but by the industry as a whole (including RSPs who offered an intrinsically safe service). This is an example of "moral hazard", where individuals act in their own self-interest to the detriment of others because they do not bear the full consequences of their actions.[1]

[1] A similar example of moral hazard can occur with deposit insurance on bank accounts. There, however, the consequences of loss are more serious to the financial system (because of the risk of a run on a bank leading to the collapse of the financial system) and the negative effects of moral hazard are limited by banking supervision (which, while imposing further costs on the banking industry, limits the ability of banks to adopt excessively risky strategies).

1.12 Consideration could be given to extending the application of a country's framework for resolving consumer disputes to the remittance industry, where this is not already the case. An entity, such as an ombudsman, that could help RSPs and their customers resolve problems may be helpful.

1.13 Some RSPs may want to consider offering some form of receipt-of-funds guarantee, so that if a remittance failed to reach the receiver (eg because of operational loss in transit or the bankruptcy of one of the parties involved), the sender would get the money back. This is discussed in more detail in Box 9. Even if such a service is not provided, the rights of the end users in the event of a problem, and the procedure to be followed, should be made clear to the sender as part of the service transparency discussed in Box 6.

Possible actions concerning General Principle 2 (payment system infrastructure)

Domestic payment infrastructure

2.1 In line with the CPSS reports on *Policy issues for central banks in retail payments* and *General guidance for national payment system development*,[35] central banks could facilitate and provide leadership, where necessary, in developing the domestic retail infrastructure.

2.2 Business models that profitably support the expansion of the branch, agency or electronic banking networks (eg ATMs and internet banking schemes) of existing and potential RSPs into rural or smaller urban areas, especially in receiving countries, could be encouraged.

2.3 Increased interoperability of networks for specific types of payment instruments, notably payment card and ATM networks, can provide increased access to remittance services when such technologies are employed by RSPs.

2.4 Organisations that have large branch networks, such as major banks or national postal services, are widely accessible in many countries. Where relevant, particularly in receiving countries, these organisations could be encouraged to play a bigger role in providing remittance services.

2.5 In both sending and receiving countries, banks and other deposit-taking institutions could be encouraged to develop basic low-cost payment accounts and services for retail clients (which could then be used for remittances).

2.6 One model that has successfully extended domestic payment service coverage is an arrangement in which accounts are held at banks or other deposit-taking institutions but access to those accounts for payment services is decentralised. For this purpose, deposit-taking institutions contract with other types of institutions such as the post office, lottery houses, drugstores and other small retailers that are willing to act as agents to provide payment services to end users (see Box 10).

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[35] Ibid.

Box 10

Enlarging access to banking services in Brazil

About a third of municipalities in Brazil have no bank branches but receive banking services instead through *correspondentes bancários*. There are about 16,000 *correspondentes bancários* - almost the same number as bank branches. They act on behalf of banks under agency agreements and are authorised, among other things, to receive deposits and payments and make payments related to the accounts concerned. The most important *correspondente bancário* is the Brazilian post office, which acts on behalf of a major Brazilian private bank and serves all but a few of the municipalities where there is no bank branch. Other *correspondentes bancários* include lottery houses, supermarkets, drugstores and other small retailers. The activities of the *correspondentes bancários* are regulated by the National Monetary Council, a government body in which the Central Bank of Brazil participates. The rules set out the kinds of financial institutions that can be *correspondentes bancários*, the types of services they can provide, and the settlement procedures between the *correspondente bancário* and the bank for which it acts.

Cross-border payment arrangements

2.7 Existing networks and platforms could be adapted to accommodate the needs of the remittance market or to connect domestic ACHs or other payment systems across borders. As an example, Box 11 presents various examples of linking ACHs, including the case of a link between two ACHs operated by central banks. Initiatives from the private sector are also under way or proposed (eg the major international card networks, SWIFT). Authorities could monitor these developments and, to the extent that they increase the efficiency of the remittance market, encourage them.

Box 11

Connecting domestic ACHs across borders

In recent years, the Federal Reserve Banks in the United States have undertaken a number of initiatives to offer low-cost cross-border ACH services by linking the US ACH system to that of several other countries. These services are currently limited to outbound transactions from the United States. Incoming transactions are prohibited until the US ACH system can screen for US AML/CFT requirements.

In 2001, the Federal Reserve Banks in partnership with a private sector bank in Canada began offering a cross-border ACH service to Canada. The Canadian ACH service permits depository institutions in the United States to send ACH credit and debit transactions to depository institutions in Canada.

In 2003, the Federal Reserve Banks began offering a trans-Atlantic ACH service to five countries in Western Europe (Austria, Germany, the Netherlands, Switzerland and the United Kingdom). The trans-Atlantic ACH service is limited to credit transactions only, with transactions originated in US dollars in the United States and received in the domestic currency of the European country.

In 2004, the Federal Reserve Banks and the Bank of Mexico began offering a cross-border ACH service from the United States to Mexico under the name “Directo a Mexico”. It uses the exchange rate published daily by the Bank of Mexico (“the fix”). The Federal Reserve Banks charge depository institutions in the United States less than one dollar per payment. The Bank of Mexico does not charge banks in Mexico for the service but receives part of the fee charged by the Federal Reserve Banks. While the vast majority of the payments are US government payments to individuals in Mexico, the channel is available for use by depository institutions offering cross-border remittance services to Mexico. Efforts are under way to extend the reach of the service in Mexico to also include accounts at credit unions.

2.8 RSPs who offer open services may find that an intermediary bank involved in transferring the funds holds the funds for a period as float. Float is an implicit charge: its effect is that the remittance service is slower and the intermediary bank earns interest income from the funds.[36] If the RSP wants to increase the speed of its service and the bank concerned is one with which it does not have a direct relationship (eg because the bank was chosen by the RSP's correspondent bank), the RSP may want to talk to its correspondent bank about the possibility of using an alternative intermediary or to choose an alternative correspondent that is willing to be more selective about which other intermediaries to use. In countries where the use of float is widespread, the authorities may want to consider how to influence a change in market practice (eg by introducing a code of conduct or regulation, preferably with the cooperation of the banking industry itself).

2.9 Where the market finds it difficult to introduce potentially beneficial changes, the authorities may want to act as a catalyst and facilitator, helping to carry out studies into the viability of projects and, where such projects seem beneficial, assisting market participants in implementing them.

Possible actions concerning General Principle 3 (legal and regulatory environment)

The legal framework should be sound, predictable and non-discriminatory

Most of the legal basis of a country relevant to remittances (eg the ability to enforce contracts) will be of general applicability in the country and so any necessary reform is a topic that goes beyond the scope of this report. Nevertheless, there are some specific actions, in addition to regulation, which is covered below, that are particularly relevant to remittances.

3.1 As interbank payment systems could be involved at some point in the remittance transfer, it is important that the legal framework underpinning these systems is well founded (eg concerning the robustness of settlement finality and netting). It is also important that the domestic legal framework for payment instruments (eg cards, credit transfers) is sound.

3.2 Authorities may need powers to achieve any public policy objectives they have been set and, depending on the relevance of the remittances market and other factors in individual countries, in some cases it may be appropriate that such powers are included in the law.

Multiple legal frameworks

3.3 At the international level, authorities could assess whether the relevant legal frameworks are consistent or complete.

The content of the regulatory framework

Regulators might want to:

[36] Reducing float may therefore speed up remittances and, indeed, all other payments to which the practice applies, including larger cross-border payments. However, it may also increase their price if intermediary banks are able to compensate for the loss of interest income from float by raising the explicit charges they make for transferring funds. Depending on the charging structure they adopt (and particularly if they charge per payment regardless of its size), it is therefore possible that the resulting increase in the price of the remittance service will not be insignificant.

3.4 Avoid regulations that create undesirable barriers to entry or obstacles to competition, for example by unnecessarily limiting the provision of remittance services to particular types of institutions (such as institutions with a banking licence).

3.5 Check that, where the regulation of RSPs varies according to the type of entity (eg banks versus non-banks), the content of the regulation is equivalent as far as the provision of remittance services is concerned.

3.6 Evaluate whether it is appropriate to subject RSPs to prudential financial requirements (eg capital adequacy requirements). Although the consequences to an individual of the loss of funds resulting from the failure of an RSP would be the same as the loss of equivalent value held as a deposit, remittance services per se do not involve deposit-taking and the failure of an RSP is unlikely to cause systemic risk.

3.7 Apply registering and licensing procedures that are proportionate to the service provided, and fees (if any) that are at a reasonable level (since fees can be a significant barrier to entry).

3.8 Avoid designing regulation around particular technologies since these can change rapidly. To the extent possible, new technologies should be able to be accommodated easily, with low cost and without changing regulations.

3.9 Where applicable, specify what information RSPs must retain and under what circumstances they must report it, as automatic retention and immediate reporting of all transaction data may be expensive and ineffective.

3.10 Investigate alternative means of customer identification that are as effective as passports and national IDs. Requiring use of identification documents that are difficult for migrants to obtain could restrict the choice of remittance services available to senders or encourage them to use services which may be unsafe or even illegal.

3.11 Consult the remittance industry and other stakeholders when preparing relevant regulation. This will help to ensure that their legitimate concerns are considered and that the regulation is as effective as possible without imposing unnecessary costs. It is also likely to help the industry to understand why regulation is needed and thus to make implementation of the regulation more effective. In some cases, the industry itself may develop codes of conduct or self-regulatory regimes; provided they are properly designed with appropriate governance arrangements and sanction powers, these may be as effective, or possibly more effective (because of lower compliance costs and greater flexibility), than formal regulation. (See Box 12 for an example of the development of a code of conduct.)

Box 12

Development of a "quality mark"

In the United Kingdom the Department for International Development has set up a Remittances Task Force consisting of representatives from the private sector, including money transfer organisations, international banks, domestic banks, payment system operators and consumer representatives. One of the possible outcomes from the task force is a code of conduct or "quality mark". To be awarded a quality mark, RSPs would be required to be transparent about their service by providing information about such things as the fee to be charged, the exchange rate and how long it will take for the funds to be transferred. RSPs would also sign up to meet certain other quality standards (including redress procedures) and a body to monitor compliance would be required. RSPs awarded the quality mark would be expected to display it and it is hoped that, over time, consumers would look for the quality mark when choosing which RSP to use.

3.12 Educate RSPs about the importance of regulatory compliance and provide guidance on how to comply.

3.13 Consider the introduction of a period of transition to any new regulatory regime during which firms that have previously not been registered or licensed are not subject to penalties.

Box 13

Mobile phone remittance services and their regulation

In the Philippines, two telecoms companies are competing to offer remittance services that use mobile phones and e-money (stored value). Both schemes are of the negotiated network type, where to provide the service the telecoms company has recruited RSPs in sending countries with significant Philippine communities. To make a remittance transfer, the sender pays cash to one of these partner RSPs, in return for which the RSP sends a secure text message to the mobile phone of the receiver in the Philippines. The effect of this text message is to load e-money onto that phone, which the receiver can then transfer, by a further text message, either to the phone of another person or to an agent of the telecoms company. In the latter case, the agent will give the receiver cash in return. Settlement between the sending RSP and the telecoms company, and between the telecoms company and its agents in the Philippines, is via the usual banking channels. The electronic money transfer services of which these remittance services are one aspect are regulated by the central bank, Bangko Sentral ng Pilipinas, as payment system overseer. The regulation is primarily for AML/CFT purposes and includes, for example, know-your-customer requirements and a limit on the amount that can be transferred each month.

Possible actions concerning General Principle 4 (market structure and competition)

4.1 Where appropriate, it is useful for financial sector oversight/supervisory authorities and competition authorities to work together to help ensure consistent approaches.

4.2 RSPs could be discouraged from making exclusivity a *condition* of offering a remittance service. As far as a *choice* by individual capturing or disbursing agents to offer only one remittance service is concerned, in general it would be difficult and probably undesirable to restrict such choice. However, particularly in receiving countries, it may sometimes be worth encouraging institutions with extensive branch networks and/or de facto local monopolies (eg post offices, major retailers, banks) to offer multiple services where it is appropriate for them to do so.

4.3 It is helpful if the regulatory structure for remittances supports competitive market conditions. The appropriate authorities may wish to monitor mergers or alliances that could significantly reduce competition for a relevant part of the market.

4.4 It may be helpful to improve potential RSPs' awareness of the remittances market. For example, unless they understand the scale of the flows in particular remittance corridors and the possibilities for cross-selling products, financial institutions may view remittance senders and recipients as low-balance, high-risk customers, unlikely to use other services, making them less willing to offer remittance services. General publicity about the scale and importance of remittance flows (eg in trade journals or at trade conferences, or through general publicity about any of the other actions taken to implement the Principles) may therefore be useful, particularly for remittance corridors with few existing RSPs. RSPs could also be assisted in their communications with key migrant groups.

4.5 Payment system operators and their overseers may want to check whether their direct access requirements are consistent with international principles to ensure payment system safety and soundness. Access criteria should be clear, well defined and fair; and access should be granted to all entities, including RSPs, which comply with such requirements.

4.6 The relevant authorities may want to check that RSPs without direct access to core payment systems can obtain fair indirect access. Institutions with direct access should be encouraged to provide relevant payment services, including foreign exchange services, on an equitable basis to RSPs.

4.7 While competing on services, RSPs could seek, where this can be done in a way that is not anti-competitive, to cooperate on core infrastructure to take advantage of economies of scale and network effects and thus reduce processing costs.

Possible actions concerning General Principle 5 (governance and risk management)

5.1 The remittance industry, perhaps in cooperation with the relevant authorities and consumer groups, may wish to establish guidelines for good governance and the management of risks to enhance confidence in remittance services and protect consumers. Such guidelines could be based on those already used in the financial sector but should recognise the diverse nature of RSPs.

5.2 The industry might also like to develop ways to help RSPs assess the nature and level of the risks they face, and thus to help RSPs implement any guidelines in a way that is appropriate for their business.

5.3 Given the particular importance of AML/CFT regulations, the authorities and the industry may want to cooperate in order to develop guidance on how to meet such regulations in a way that is effective and appropriate for different types and sizes of RSPs.

5.4 Where RSPs outsource functions to those who provide services in the RSP's name (eg capturing and disbursing agents), they should satisfy themselves that those carrying out the outsourced functions also meet appropriate governance and risk management standards and comply with relevant regulations.

Annex 2:
Elements of a remittance transfer

1. This annex explains in more detail the five elements that make up a remittance transfer as set out in Section 2.3 - ie capturing, disbursement, messaging, settlement and liquidity provision.

Capture

2. The sender can pay the capturing agent using any means of payment that is acceptable to both. Most common is cash or, where the RSP is a bank or other deposit-taking institution, a debit from an account held by the sender at the RSP. But other methods such as a transfer from a bank account (eg using a debit card or cheque), prepaid funds (eg e-money, other prepaid cards, money orders, bankers drafts) or credit (eg provided by the RSP or by using a credit card) may sometimes be used. This transaction is simply a standard domestic payment, and there is nothing special about the fact that the service being bought is a remittance.

3. Identification of the sender is not always technically necessary for the purposes of making the remittance transfer per se but will usually be necessary in order for the RSP or its agent to comply with AML/CFT regulations. However, the sender usually does need to provide the capturing agent with sufficient information to identify the receiver. At a minimum, this will include the name of the receiver. If the funds are to be credited to some kind of account (eg a bank account) then details of this also need to be provided. For extra security, particularly if the money is to be paid out in cash, the capturing agent may provide the sender with some form of transaction code, or the sender may be asked to specify a question to which only the genuine receiver will know the answer. The capturing agent sends this information to the disbursing agent; and the sender passes it to the receiver. The receiver then has to provide the relevant code or answer to the disbursing agent in order to claim the funds.

4. An exception to the principle that the sender needs to identify the receiver exists with certain card arrangements. Under these arrangements, the sender opens an account with a bank or other deposit-taker in the sending country and obtains a payment card (eg a debit card) that can be used internationally. This card is then sent to the receiver, who can use it to withdraw funds at ATMs in the receiving country. Although from a payments point of view these arrangements can be very effective, they may raise issues from the point of view of AML/CFT regulations since there is no certain way of identifying the receiver (anybody who has been given the PIN could be using the card).

5. The “location” of the transaction between the sender and the capturing agent (“access point”) is usually a physical location such as a local shop, post office, bank branch, foreign exchange bureau or an outlet specialising in remittance services, but new technology makes “virtual locations” such as the internet or mobile phones increasingly possible. The nature of the location affects the payment possibilities: for virtual locations, it is likely to be necessary to use card payments, e-money or credit since physical instruments such as cash or cheques are not possible.

Disbursement

6. Typically, the disbursing agent will pay the receiver in cash or by crediting a bank account but other means may also be used, as with capturing. The range of possible access points is also likely to be similar. However, the relatively underdeveloped payment

infrastructure in some receiving countries may raise particular issues about the possibilities for disbursement (see Section 3.2).

7. The disbursing agent needs to know whom to pay and how much to pay. It may also need other information - for example, the currency in which the payment is to be made or the mode of payment (eg whether it is to be credited to an account, collected by the receiver or delivered to them). Normally the sender would also be identified. Sometimes it may be possible for the sender to transfer other, optional information (such as the purpose of the payment), which the disbursing agent then also passes on to the receiver.

8. Identifying the receiver typically involves a combination of a sufficient level of authorisation from the capturing agent (eg some form of secure message identifying the receiver) and evidence from the receiver about their identity (eg suitable ID and perhaps a transaction code). However, if the receiver has an account at the disbursing agent (eg where the agent is a bank), evidence of identity is likely to be the same as for any other transaction (eg to withdraw funds from the account, the receiver might use a payment card and PIN). In the case of the specific card arrangements mentioned in paragraph 4 above, in effect only the sender is identified and the receiver is anonymous.

Messaging

9. The information from the capturing agent to the disbursing agent will sometimes travel together with the funds - ie passed through the various intermediaries in the settlement process (see below). This would typically be the case in an open service,[37] where there is no direct relationship between the capturing RSP and its agent, on the one hand, and the disbursing RSP and its agent on the other hand, and so there is no easy way for the two to communicate directly. Transferring information with funds can be difficult and time-consuming if the different payment instructions in the settlement chain use different message formats, requiring translation from one format to another, which may involve expensive manual intervention.

10. In other remittance services, the information will typically be transferred independently of the funds (eg directly from the capturing agent to the disbursing agent, with a copy to the RSP) by any one of a wide variety of means (eg public channels such as the internet, e-mail, fax, phone, mail or courier or proprietary communication channels such as intranets or interbank links).

Settlement

11. Settlement can be complex. Readers who are not familiar with payment systems and correspondent banking may want to read Annex 3, which describes various possibilities. A remittance transfer is likely to involve a "settlement chain" - a series of separate payments, each of which may be made differently. Payments to and from end users have already been described. For each of the payments in-between (from capturing agent through to disbursing agent), settlement will normally take place by means of a credit transfer from the payer to the payee's bank, with one of the payments being cross-border (typically by correspondent banking).

12. Unlike payments between end users and agents, where each remittance transfer usually requires a separate payment, the payments between agents and the RSP may be batched and possibly netted (eg all the transfer instructions from the agent to the RSP that day are netted against all the transfer instructions from the RSP to the agent in order to

[37] The different types of service, including open services, are explained in Section 2.4.

create a single payment). Often, the scope for netting may be limited given the largely one-way nature of remittance flows; however, in some cases the flow may be sufficiently even in each direction that, after netting, the amount to be settled is small or fluctuates around zero, requiring no settlement.

13. Some RSPs may have bank accounts in both sending and receiving countries, in which case the cross-border element can be partially "internalised". In this case, the funds from the capturing agent are credited to the RSP's account in the sending country, the funds to the disbursing agent are paid from its account in the receiving country, and the RSP records this fact internally.[38] However, again because of the largely one-way nature of remittance flows, the RSP may sometimes have to transfer funds from the sending country to top up its account in the receiving country.

Liquidity

14. Although settlement is a "chain", the transactions within it do not have to take place in sequence. For example, the disbursing agent may pay the receiver before it has received funds from the disbursing RSP. This is particularly likely with services (particularly franchised services) where the receiver has a choice of where to collect the funds, and thus where the RSP will not know which disbursing agent to pay until after the funds have been collected. In turn, the disbursing RSP may pay the disbursing agent before it has received funds from the capturing RSP.

15. To the extent that the transactions in the chain do not take place in sequence, some credit risk is created (paying before being paid). There is also a need for liquidity. For example, if the disbursing agent pays the receiver before being paid by the RSP, the agent needs to have either sufficient funds or credit available. Providing liquidity has a cost - namely, the cost of borrowing funds, or the opportunity cost of being unable to invest funds already held. The greater speed achieved by providing liquidity is therefore likely to increase the overall price of the service.

[38] If the RSP acts as its own capturing and disbursing agent, then the process is even more internalised.

Annex 3:
Examples of settlement in remittance services

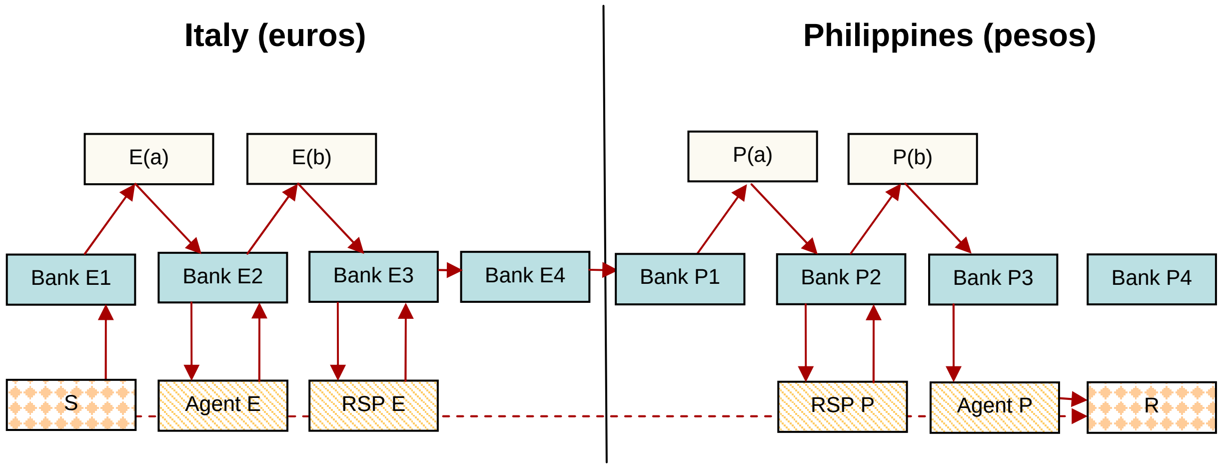
1. This annex uses stylised examples of remittance transfers from Italy to the Philippines to illustrate how remittance services settle. The initial example is designed to show that even a remittance service that appears to be simple to end users may involve complex settlement arrangements. Three variations on the example with less complex settlement arrangements are then considered.

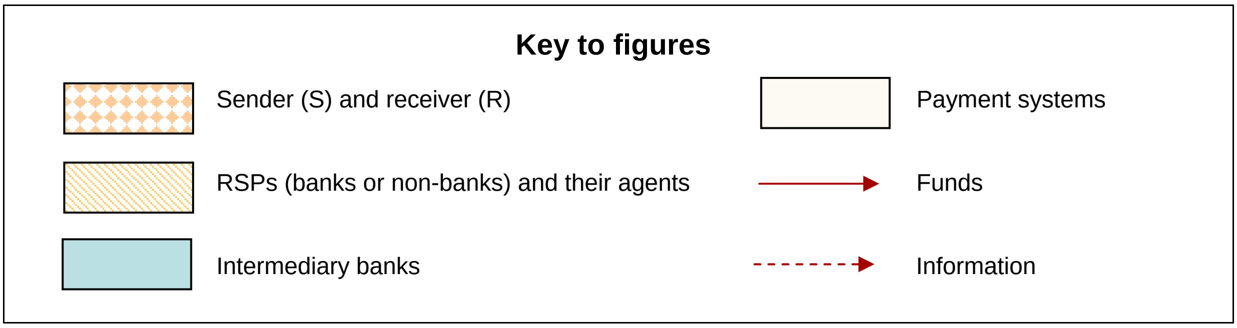
Description of initial example

2. Figure 1 illustrates a sender (S) in Italy transferring euros (say, €200) to a receiver (R) in the Philippines, who will be paid in pesos. It is assumed that the capturing agent and capturing RSP in Italy are different entities, and that they, and the sender, have euro accounts at different banks. Similarly, the disbursing RSP and the disbursing agent in the Philippines are different entities, and they, and the receiver, have peso accounts at different banks.[39] Both countries have two domestic payment systems which settle at the central bank.

3. The capturing and disbursing RSPs are assumed to be part of a negotiated network in which the information about the remittance is sent separately from the funds (eg by encrypted e-mail), as shown by the dotted line, and passes more or less immediately from one end of the chain to the other.[40]

Figure 1





39 Throughout this example, the term "bank" is used as shorthand for any deposit-taking institution offering payment services.

40 The different types of network, including negotiated networks, are described in Section 2.4.

Step 1: sender to capturing agent

4. In the first step, S uses a debit card to pay euros to the capturing agent (Agent E). How many pesos this translates to depends on the exchange rate used by the agent.[41] The debit card transaction results in S's euro account at Bank E1 being debited and Agent E's euro account at Bank E2 being credited, and at some point, depending on how payment system E(a) works, Bank E1 settles with Bank E2 across the accounts they hold at the central bank. This step is a normal domestic payment.

Step 2: capturing agent to capturing RSP

5. The second step is for Agent E to pay the capturing RSP (RSP E). The agent is assumed to do this only once a day, when it transfers all the euro amounts it has collected on behalf of RSP E that day (not just the euros from S). The agent makes a credit transfer (eg a bank giro credit) through payment system E(b), which results in its account at Bank E2 being debited and RSP E's account at Bank E3 being credited. Again, at some point that depends on how system E(b) works, Banks E2 and E3 settle across their accounts at the central bank. This is also a normal domestic payment.

Step 3: capturing RSP to disbursing RSP

6. The third step is for RSP E to transfer the funds to the disbursing RSP in the Philippines (RSP P). Again, it is assumed that it does this once each day for all Italy-Philippines transfers it handles that day, which may include funds from other capturing agents in addition to Agent E. (It is also possible that the RSP has a relationship with more than one disbursing RSP in the Philippines, but here it is assumed that there is only one.) This step, which involves a number of sub-steps, uses international correspondent banking.

Sub-step 3a: between banks in Italy

7. To transfer the funds to RSP P, RSP E asks its bank, Bank E3, to make an international transfer of pesos to RSP P's account at Bank P2. It is assumed that, perhaps because it does not have much international business, Bank E3 does not provide an international payments service directly but instead uses global Bank E4, where Bank E3 holds a euro account for this purpose. Bank E3 gives the information about the transfer to Bank E4, which in return tells Bank E3 the euro value of the transfer, which depends on the exchange rate Bank E4 uses (this need not be the same rate used by RSP E and its agent Agent E to charge S).

8. To pay for the transfer, Bank E4 debits Bank E3's account. This assumes that Bank E3 has a sufficient balance on the account or that Bank E4 will give Bank E3 credit. If not, Bank E3 will have to first transfer euros to its account. Bank E3 may have a range of business going across the account, both outflows and inflows. Bank E3 will therefore monitor the account and transfer euros to or from it as the amount on the account becomes too small or large. Any amount transferred on that day may thus bear no relation to the business of RSP E, let alone the specific transfer of S.

Sub-step 3b: cross-border transfer between banks

9. It is assumed that, to make and receive payments to and from the Philippines, Bank E4 holds a peso account with Bank P1 (a so-called international correspondent bank relationship). Bank E4 therefore gives an instruction to Bank P1 to credit pesos to RSP P's account at Bank P2. Again, Bank E4 must have sufficient pesos on its account at Bank P1 or

[41] For simplicity in discussing the amounts, the fees charged by the various parties to the process are ignored.

sufficient credit to do this. From time to time, Bank E4 may need to go to the foreign exchange market to buy or sell pesos to keep the balance at a reasonable level.

Sub-step 3c: between banks in the Philippines

10. Bank P1 then transfers the money, by credit transfer, through the Philippines payment system P(a) to Bank P2, and Bank P2 credits the funds to the account that RSP P holds there. Depending on how payment system P(a) works, Bank P1 settles with Bank P2 across their accounts at the central bank. This is a normal domestic payment.

Step 4: disbursing RSP to disbursing agent

11. The fourth step is for RSP P to pay the disbursing agent in the Philippines (Agent P). RSP P may deal with several agents, so of the pesos received from RSP E that day, only some will be destined for Agent P. (Likewise, RSP P may have received funds not just from RSP E but also from other capturing RSPs around the world that are for Agent P.) RSP P thus tells its bank, Bank P2, to transfer the relevant amount of pesos to the account that Agent P has at Bank P3. This is a normal domestic payment, using payment system P(b).

Step 5: disbursing agent to receiver

12. Finally, the fifth step is for Agent P to give the money to the receiver, R, in cash.[42] Agent P knows from the information provided by the capturing agent how many pesos to give R.

Analysis of the example

13. The example illustrates a number of points about how remittance transfers are made.

- *Multiple payments.* The transfer consisted of a set of individual payments - in this case five payments (S to Agent E, Agent E to RSP E, RSP E to RSP P, RSP P to Agent P and Agent P to R), each of which was made in a different way (eg using a different payment system). Moreover, one of the payments (from RSP E to RSP P) itself involved three transactions (from Bank E3 to Bank E4, from Bank E4 to Bank P1, and from Bank P1 to Bank P2).
- *Speed.* The whole process may take a significant time. That depends in part on certain fixed schedules (eg the speed of the different payment systems involved) and on the speed of each of the parties to the transactions (eg when it receives the payment instruction from Bank E3, how quickly Bank E4 passes it on to Bank P1).
- *Liquidity.* The process has been described as if the steps occurred in sequence but this does not have to be the case. The steps could be out of order, provided the payer concerned (a) has the necessary information to do so, (b) has the necessary funds (liquidity) to do so and (c) is willing to do so (given that if it pays before being paid it may face the risk of losing the money). For example, some RSPs offer an almost immediate service - within a few moments of the sender initiating the remittance, the receiver can collect the funds. That could be possible in this example (where, as part of the negotiated network, information flows immediately from Agent E to Agent P), provided that Agent P is willing to pay out the funds to R before it receives them from RSP P. In practice, if it wants to provide a fast service, RSP P

[42] Alternatively, if it knows that R has an account at Bank P4, Agent P could transfer the money to that account.

may provide liquidity to Agent P - it might provide Agent P with a float. Or Agent P may have to claim ex post for the money it has paid out that day, but be compensated for this by receiving a higher fee from RSP P. RSP P may then use its own liquidity to cover the time until the funds actually arrive from RSP E (the cost of this being built into the fees charged to R and/or S), or RSP E may be required to maintain a balance in an account on which RSP P can draw.

- *Batching and netting.* Because they are only small amounts, the funds associated with individual remittances are unlikely to be transferred individually or in real time throughout the process. Rather, the funds from multiple remittances are likely to be batched and transferred as a single payment - in this example, it has been assumed that this happens once each day. Batching is possible because (as noted above) it is assumed that the information about the individual transfers is transferred separately and so does not need to accompany the funds. Sometimes, the payments may also be netted (eg if there is also a flow from the Philippines to Italy) so that only the smaller net amount needs to be transferred.
- *Exchange rates.* Because S pays in euros but R receives pesos, RSP E (through its agent, Agent E) needs to use an exchange rate to decide how many pesos R will receive. To do this, it would be useful for RSP E to know what exchange rate its bank, Bank E3, will use, while, in turn, it would be useful for Bank E3 to know what rate Bank E4 will use. As mentioned, Bank E4 does not necessarily have to buy pesos in this example (it may already have enough on its account at Bank P1). Nevertheless, it will typically charge Bank E3 a rate close to the current open market rate, and the rates charged by Bank E3 and RSP E will be related to that rate. But because there may be a significant time gap between S initiating the remittance with Agent E and Bank E4 converting the euros to pesos, not all exchange rates may be known in advance and thus a margin is likely to be built into the rates actually charged in case rates move adversely in the meantime.[43]

Variations on the example

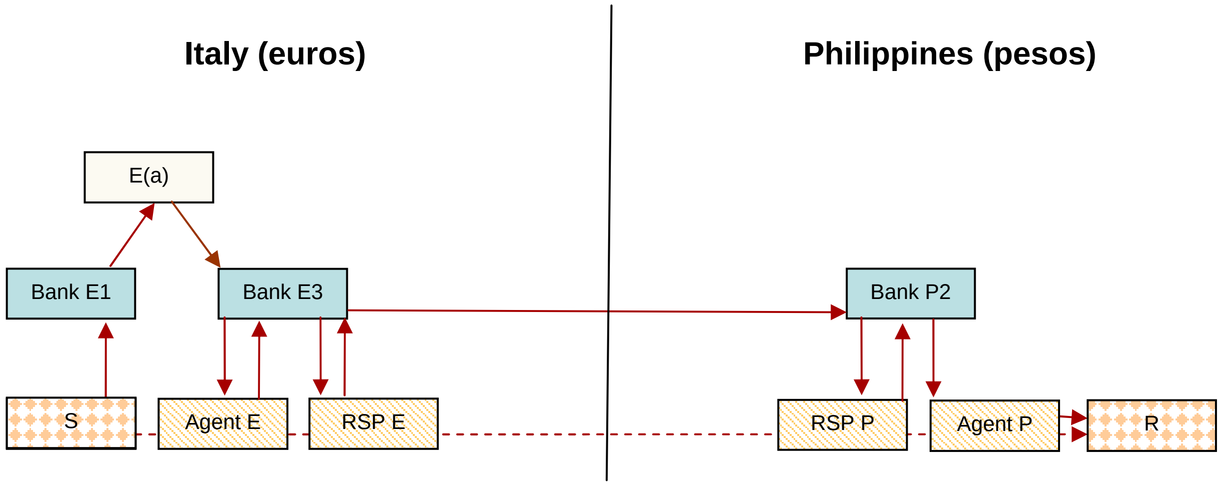
14. The example above illustrates the steps which may be involved in making a remittance. The steps will differ to some extent depending on whether the service uses a negotiated, unilateral, franchised or open network of access points. Often the process may also be simpler, or at least appear to be simpler, than that just described. However, in considering the variations below it should be noted that “simplification” often means that, instead of involving different entities, steps are simply “internalised”; such internal steps may be faster and/or less costly than external steps but this will not necessarily be the case.

Using a negotiated network

15. One possible simplification with the negotiated network described earlier is that the RSPs and their agents choose to use the same bank. Thus Agent E and RSP E might both use Bank E3 so that the transfer between them takes place across the books of Bank E3. Similarly, RSP P and Agent P might both use Bank P2. Furthermore, the choice of banks may be determined by the cross-border service they can offer. Thus Banks E3 and P2 may have been chosen because Bank E3 has a direct correspondent banking relationship with P2, cutting out the involvement of Banks E4 and P1. This is shown in Figure 2.

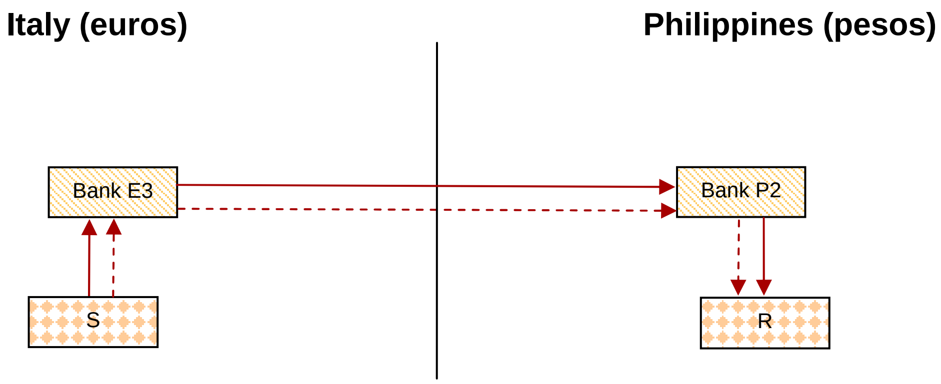
[43] The exchange rates used by the different parties to the transactions may also build in an additional margin to cover other costs of the transaction (ie non-exchange rate costs) as an alternative, or in addition, to charging an explicit fee.

Figure 2



16. A further simplification would occur if the banks were themselves the RSPs. In this case, Bank E3 would be the RSP in Italy, and Bank P2 the RSP in the Philippines. This is shown in Figure 3. This also assumes that S now has an account with Bank E3; if S is to be able to use the service, this will normally be the case since banks typically make payment services available only to their own account holders. Correspondingly, R is assumed to hold an account with Bank P2.

Figure 3

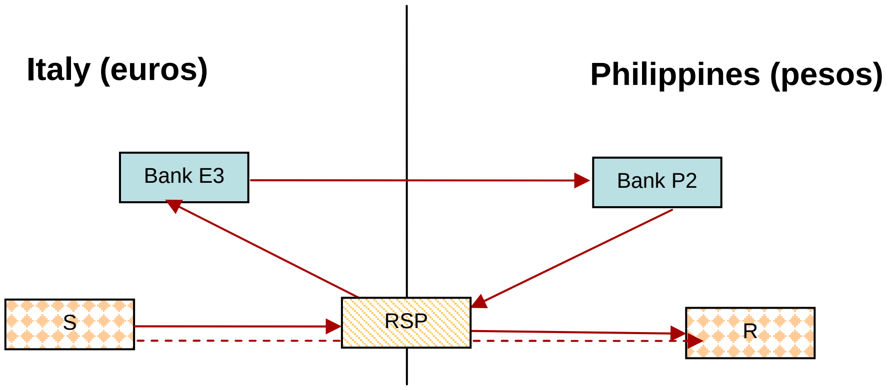


Using a franchised or unilateral network

17. Another variation is that the network is franchised (so RSP E and RSP P are the same entity) or unilateral (so Agent E, RSP E, RSP P and Agent P are all the same entity). Figure 4 shows a unilateral network where the RSP is a non-bank.[44] In this case, the RSP has its own branches in both Italy and the Philippines (and so does not need to use separate agents). In addition, for further simplification, it is assumed that S pays the RSP in cash. However, as the RSP is a non-bank, it needs to hold a euro account with Bank E3 in Italy and a peso account with Bank P2 in the Philippines. As in Figure 2, it is assumed that Bank E3 has a direct corresponding banking relationship with Bank P2.

[44] If the RSP were a bank, the situation would be further simplified in that, in Figure 4, Banks E3 and P2 would not be needed.

Figure 4

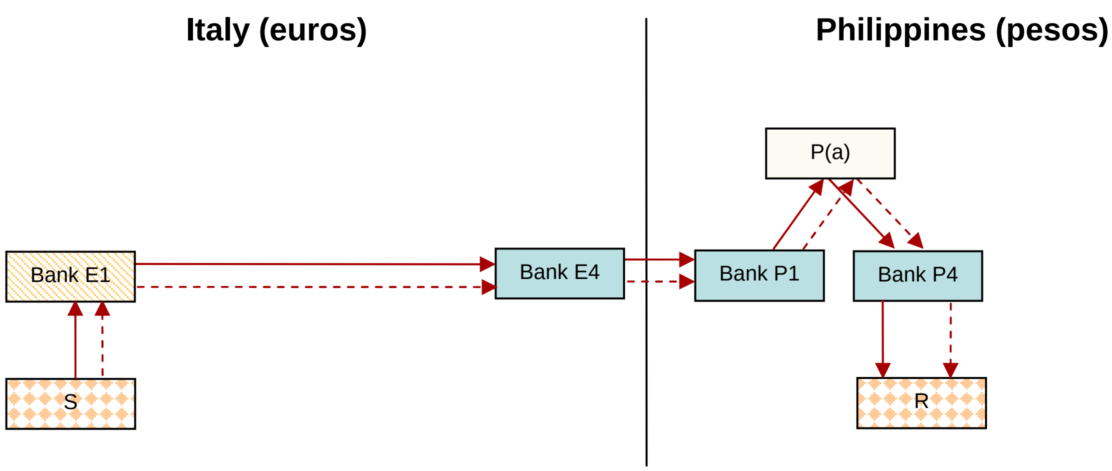


18. Under these assumptions, S pays the RSP in cash, which the RSP then deposits (with the other euros received that day) in its account at Bank E3. Immediately, the RSP can pay R in cash, using pesos already held in its account at Bank P2. If the business handled by the RSP is predominantly one-way (ie from Italy to the Philippines), then over time the RSP will accumulate euros at Bank E3 and eventually run out of pesos (or credit) at Bank P2 and so at some stage it will have to ask Bank E3 to transfer some pesos to its account at Bank P2 (which Bank E3 will do by debiting the RSP's euro account and giving the credit instruction to Bank P2). As in the basic example, if rates have moved, the exchange rate charged by Bank E3 to the RSP may be significantly different to that charged by the RSP to S some time earlier.

Using an open network

19. A third variation on the example involves an open network. This is shown in Figure 5. This is similar to the situation shown in Figure 1, except that the remittance service is now assumed to be offered by a bank (as is typically the case when an open network is used). Thus the RSP in Italy is now assumed to be Bank E1. Bank E1 is assumed to use Bank E4 to make cross-border payments on its behalf. Moreover, there is no RSP per se in the Philippines. Instead, S asks for the money to be transferred to the bank account that R has with Bank P4 (in effect, Bank P4 is acting as an RSP in the Philippines). Information about the transfer travels only with the funds.

Figure 5



20. Apart from cutting out the involvement of many entities, the significant difference here is that the RSP in Italy (Bank E1) has no direct relationship or agreement with the de facto RSP in the Philippines (Bank P4). The receiver R may have an account with any bank in the Philippines (or indeed in another country) and the arrangement will still work. All Bank E1 needs to know is an internationally recognised form of identifying that bank and the account that R holds there (such as the BIC and IBAN). It then relies on an indirect relationship with Bank P4 - via Bank E4 and Bank P1 and the ability of Bank P1 to send funds to other banks in the Philippines (including Bank P4) through a Philippine payment system.

21. In particular, Bank E1 has no arrangement to send information directly to Bank P4, which thus has no information about the remittance until it receives the funds from Bank P1. R will therefore not receive payment until some time (usually several days) after S originally sends the funds.[45] An "immediate" service, as in the previous variations of the example, is therefore not practical.

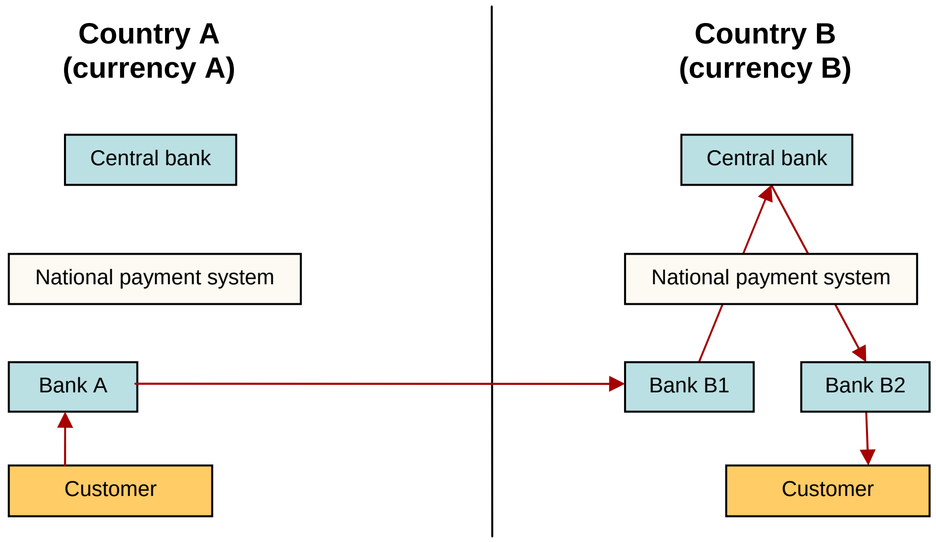
22. Against the disadvantage of slower speed, the significant advantage of an open network arrangement is its global coverage: it is possible to make a payment between banks almost anywhere in the world. This is particularly important in providing competition in remittance corridors where the volume of transactions may be too low to make negotiated networks viable.

[45] Even without a standing arrangement, RSP E could in theory send an ad hoc message to Bank P4 by, for example, phone or e-mail (assuming it knew the number or address). But apart from the likely processing cost of an ad hoc message, there would still be a problem for Bank P4 in establishing the authenticity of the message.

Annex 4:
Direct links between payment systems

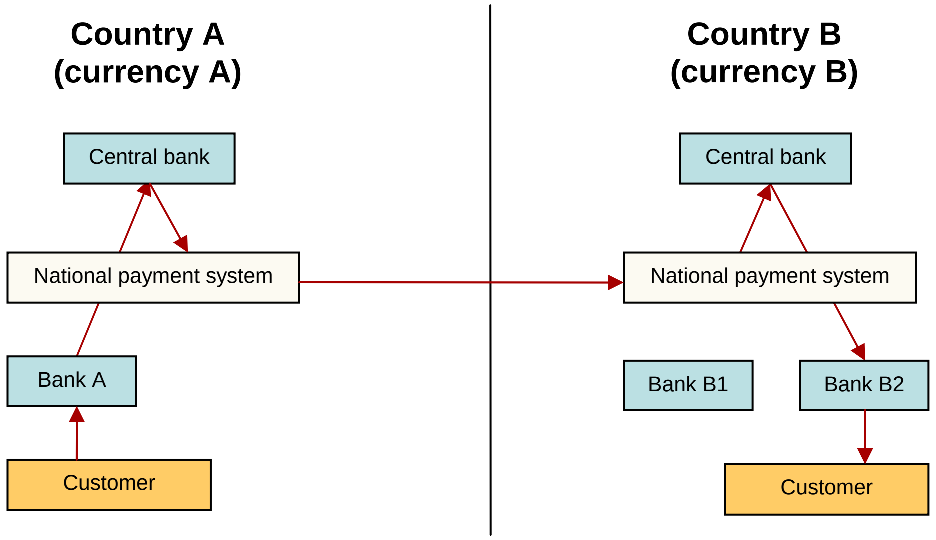
1. The normal method of making a cross-border payment, using correspondent banking, is shown in Figure 6. This is based on parts of Figures 1 and 5 in the previous annex. Only the settlement (not the information) flows are shown.

Figure 6



2. In contrast, the situation where there is a direct link between the two payment systems is shown in Figure 7.

Figure 7



3. An alternative is for the link to be not between the payment systems (as shown in Figure 7) but between the central banks instead. This is perhaps particularly likely where the systems are operated by the central banks as in the case, for example, of the United States-Mexico ACH link (described in Box 11 in Annex 1).

Annex 5:
Extract from G8 summit document

G8 action plan: applying the power of entrepreneurship to the eradication of poverty (Sea Island, 9 June 2004)

" …

G8 countries have agreed on the following set of actions to encourage and support national policies and programs that promote effective private sector-led development to help alleviate poverty, thereby helping to achieve the international development goals of the Millennium Declaration. G8 countries will work to ensure that bilateral and multilateral assistance help to mobilize capital and expertise to accelerate growth and free up resources for productive use by people in developing countries. These innovative programs are intended to support the efforts that developing countries are undertaking themselves. This approach complements official development assistance, which remains crucial for poverty alleviation.

…

Facilitating remittances to help families and small businesses

The flow of remittances across international borders, mostly a few hundred dollars at a time, is growing rapidly and now totals nearly $100 billion per year. This money is the fruit of the work of immigrants and plays an increasing role in the financing of development in the workers' home countries. Remittances can therefore play a key role in private-sector development efforts, enabling families to receive needed capital for, for example, education, housing and small business start-ups and expansion. But transaction costs can be high - as much as 10 to 15 percent even for flows to large, urban markets.

Attracting remittance flows into formal channels can strengthen financial systems in developing countries and reduce the risk that remittances will be diverted for illicit purposes. G8 countries will work with the World Bank, IMF, and other bodies to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries. G8 countries will also lead an international effort to help reduce the cost of sending remittances. The developmental impact of these flows may be fostered by increasing financial options for the recipients of these flows.

To accomplish this, we will take actions, including through pilot partnerships and programs, with developing countries on remittances. The G8 programs … will:

1. Make it easier for people in sending and receiving countries to engage in financial transactions through formal financial systems, including by providing access to financial literacy programs, where appropriate, and by working with the private sector to extend the range and reach of these services.

2. Reduce the cost of remittance services through the promotion of competition, the use of innovative payment instruments, and by enhancing access to formal financial systems in sending and receiving countries. In some cases, remittance costs between sending and receiving countries have been reduced by up to 50 percent or more. G8 countries believe that similar reductions of high costs could be realized in the case of other countries.

3. Promote better coherence and coordination of international organizations that are working to enhance remittance services and heighten the developmental impact of remittance receipts in developing countries.

4. Encourage cooperation between remittance service providers and local financial institutions, including microfinance entities and credit unions, in ways that strengthen local financial markets and improve access by recipients to financial services.

5. Encourage the creation, where appropriate, of market-oriented local development funds and credit unions that give remittance-receiving families more options and incentives for productively investing remittance flows.

6. Support dialogue with governments, civil society, and the private sector to address specific infrastructure and regulatory impediments. For example, governments should ensure non-discriminatory access to payment systems for the private sector, consistent with strong supervisory standards, and work together to modernize overall financial infrastructure."

Annex 6:
Select bibliography

This bibliography lists, by organisation, some publications that are particularly relevant to the payments aspects of remittances.

Committee on Payment and Settlement Systems. (1) *Core principles for systemically important payment systems*, BIS, January 2001. (2) *A glossary of terms used in payments and settlement systems*, BIS, March 2003. (3) *Policy issues for central banks in retail payments*, BIS, March 2003. (4) *The role of central bank money in payment systems*, BIS, August 2003. (5) *General guidance for national payment system development*, BIS, January 2006.

Credit Union National Association. Voluntary principles for credit unions making wire transfers using the International Remittance Network (IRnet) system; issued in 2003 by the board of the Credit Union National Association, a trade association for credit unions in the United States.

Financial Action Task Force on Money Laundering. *The forty recommendations*, revised 22 October 2004. *Special recommendations on terrorist financing*, revised 22 October 2004.

Inter-American Development Bank - Multilateral Investment Fund. (1) Recommendations issued by a group of representatives from the remittance industry, banks and NGOs convened by the IDB's Multilateral Investment Fund in Lima in 2004. (2) *Beyond small change: making migrant remittances count*, 2005.

United Nations Technical Group on Innovative Financial Mechanisms. A working document on remittances sent to the United Nations Secretary General in March 2005 from the ambassadors to the United Nations from Brazil, Chile, France, Germany and Spain following a meeting of the Technical Group on Innovative Financial Mechanisms.

World Bank. (1) *Global economic prospects 2006: economic implications of remittances and migration*, 2005. (2) *Remittances: development impact and future prospects*, 2005. (3) *Workers' remittances to developing countries: a survey with central banks on selected policy issues*, Jose De Luna Martinez, Policy Research Working Paper 3638, June 2005. (4) *Remittance service providers in the United States: how remittance firms operate and how they perceive their business environment*, Ole Andreassen, Financial Sector Discussion Series, June 2006.

Annex 7:
Glossary

Below is a short glossary of some key terms relating to remittances as they are used in this report. For more general terms relating to payments and payment systems, see *A glossary of terms used in payments and settlement systems* (BIS, March 2003) at http://www.bis.org/publ/cpss00b.htm.

Access point. Locations where end users can send/receive remittance transfers. "Locations" can be physical (eg bank branches, post offices, shops) or virtual (eg websites, telephones).

Agent (capturing or disbursing agent). An entity that captures or distributes remittance transfers on behalf of a remittance service provider. "Capturing" means receiving the money and instructions from the sender. "Disbursing" means giving the money to the receiver.

End user. The sender or the receiver of a remittance transfer.

Exclusivity condition. An exclusivity condition is where an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service.

International remittance transfer. A cross-border person-to-person payment of relatively low value. In practice, the transfers are typically recurrent payments by migrant workers (eg who send money to their families in their home country every month). In the report, the term "remittance transfer" is used for simplicity (ie it is assumed the transfer is international).

Money transfer operator. A non-deposit taking payment service provider where the service involves payment per transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (for example, by cash or bank transfer) - ie as opposed to a situation where the payment service provider debits an account held by the sender at the payment service provider.

Payment service provider. An entity that provides payment services (remittances and/or other payments). This includes both entities that take deposits and allow transfers of funds to be made from those deposits (ie most banks and many non-bank deposit-takers) and non-deposit takers that transfer funds (eg money transfer operators).

Price. The total cost to the end users of sending a remittance transfer (including the fees charged to the sender and recipient and the margin by which the exchange rate charged to the end users is above the current interbank exchange rate).

Remittance service. A service that enables end users to send and/or receive remittance transfers.

Remittance service provider (RSP). An entity, operating as a business, that provides a remittance service for a price to end users, either directly or through agents.

Annex 8:
Members of the task force

Co-Chairmen	Massimo Cirasino The World Bank
	Marc Hollanders Bank for International Settlements
Members	
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Asian Development Bank	Austin Belton
Central Bank of Brazil	Marcelo Deschamps d'Alvarenga José Antonio Marciano
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European Central Bank	Tom Kokkola
Deutsche Bundesbank	Birgit Zeitschel
Hong Kong Monetary Authority	Osbert Lam
Inter-American Development Bank	Gregory Watson
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The World Bank	Mario Guadamillas
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