REMITTANCE PRICES WORLDWIDE

PAYMENT SYSTEMS DEVELOPMENT GROUP | FINANCIAL AND PRIVATE SECTOR DEVELOPMENT VICE PRESIDENCY

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AN ANALYSIS OF TRENDS IN THE AVERAGE TOTAL COST OF MIGRANT REMITTANCE SERVICES

This Policy Note has been produced based on the latest data collected in the Remittance Prices Worldwide (RPW) database. This note will be updated periodically as new data becomes available. Online at: remittanceprices.worldbank.org

Overview

Migrants' remittances contribute significantly to economic growth and development. In times of economic crisis, they are relatively more resilient than other private flows. For example, amidst the current worldwide contraction in private flows to developing countries, remittances represent a lifeline for more than 700 million people in developing countries. The World Bank estimates that remittances totaled $420 billion in 2009, of which $317 billion went to developing countries, involving some 192 million migrants or 3 percent of the world population. The money received is an important source of family (and national) income in many developing economies, representing in some cases a very relevant percentage of the GDP of the receiving countries. *Any reduction in the cost of sending remittances would result in more money for migrants and their families. If the cost of sending remittances could be reduced by 5 percentage points relative to the value sent, remittance recipients in developing countries would receive up to $16 billion dollars more each year than they do now.* This added income could then provide remittance recipients with more disposable income resulting in higher rates of consumption, savings, and investment within local economies and higher levels of economic growth.

In many instances, the financial cost from conducting remittance transactions is relatively high compared to the income levels of migrant workers, the amount of remittances sent, and the income of recipients in developing countries. The "**5x5**" objective[1] adopted by the G8 is a goal being pursued in partnership with governments, operators, and interested stakeholders. To achieve this objective, the governments in both sending and receiving countries should consider implementing reforms based upon the WB-CPSS General Principles for International Remittances Services.[2] This internationally agreed framework has proven effective in helping reduce the cost of remittances and guiding actions to enhance the efficiency of international remittances.

RPW database is the only global database that monitors remittance price activity across geographic regions. RPW was launched by the World Bank in September 2008,[3] and is a key tool in monitoring the evolution of costs to the remitters and the beneficiaries from sending and receiving money in major country corridors. The recently launched fourth iteration of RPW covers 178 country corridors worldwide originating from 24 major remittance sending countries to 85 receiving countries.

Using the data from the RPW database, this note analyzes the global, regional, and country specific trends in the reduction of average total cost of migrant remittances; the factors influencing reduction in the average total cost of remittances; and the implications for policymakers to implement comprehensive reforms to achieve targeted cost reduction.

Key findings from Q1 2010 release of RPW database

Based on the data collected for the Q1 2010 iteration of the RPW database, and when compared to the previous iterations,[4] the key findings are as follows:

- The global average total cost[5] for migrant remittances has reduced to 8.72 percent, down from 9.40 percent recorded in Q3 2009.
- The volume of migrant remittances from a sending country and the average total cost are highly correlated. Large volume of remittance outflows typically implies lower average total cost. Countries with large volumes have seen a number of new products and services launched that play a role in keeping costs down.
- In general terms, it is more expensive to send remittances through commercial banks. The global average total cost for sending remittances through commercial banks was 12.38 percent in Q1 2010, compared to the global average total cost of 8.72 percent. On average, Post Offices and Money Transfer Organizations (MTOs) were the cheapest at 6.72 and 7.09 percent respectively.
- Reduction of average total cost at the regional levels has seen mixed results, with some regions doing a lot better than others:
  - The average total cost of sending remittances to the countries in South Asia and Latin America is the lowest when compared to the global average total cost and other regions. Both regions have shown a drop in the average total costs since 2008.
  - Countries in Europe and Central Asia Region also display a trend that is lower than the global average, however when Russia is excluded from the data, the average total cost trends a lot higher than the global average.

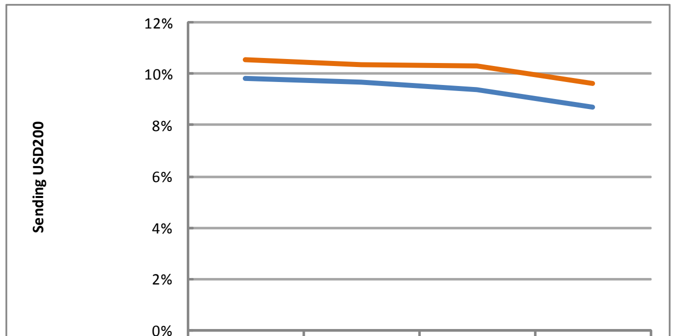
- Countries in East Asia and Pacific (EAP), Sub Saharan Africa (SSA), and Middle East and North Africa (MENA) regions have demonstrated higher average total costs for migrant remittances compared to the global average. The MENA region has seen the sharpest drop in the average cost, with the latest iteration showing a 2 percent drop in average costs since 2008.

- The average total cost of sending remittances from G8 countries is almost at par with the global average total cost. However, this number would be a lot higher than the global average if Russia were excluded from the data.
- The South-to-South corridors demonstrate higher average total cost for migrant remittances when compared to the global or regional averages.
- Based on anecdotal evidence from some countries, which is also supported by the data from RPW, implementation of one or two key areas of reforms such as improvements to retail payment infrastructure, transparency, etc. may not be sufficient in reducing the average total cost on a consistent basis. Broad based reduction in costs requires a broader approach to reforms that is based on the General Principles for International Remittances.

The global average total cost for migrant remittances has reduced since 2008

The global average total cost of sending remittances has dropped consistently since 2008 as shown in Figure 1. Measured at 9.81 percent of the total amount in the first iteration of RPW in September 2008, the average total cost reduced to 9.67 percent in Q1 2009; to 9.40 percent in Q3 2008; to 8.72 percent in Q1 2010. The global average total cost is consistent when compared with the Major International MTO Index.[6]

Figure 1. Global Total Average for sending USD200

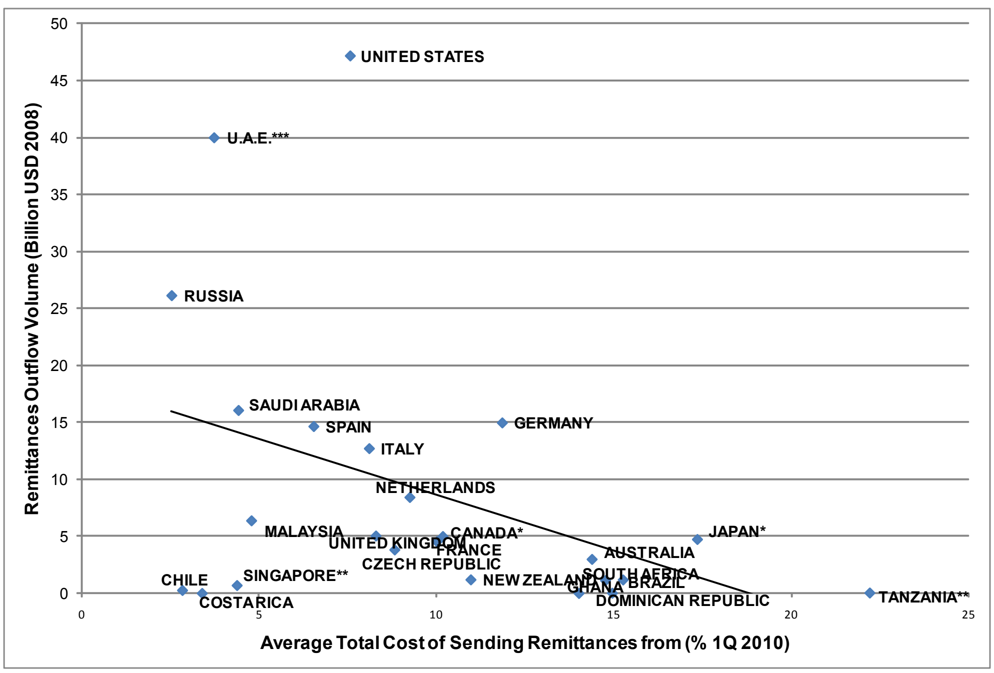


	2008	1Q2009	3Q2009	1Q2010
Global Average	0.0981	0.0967	0.094	0.0872
Intnl MTO Index	0.1054	0.1036	0.1029	0.0961

The volume of remittance flows plays a major role in reducing the average total cost of migrant remittances

The volume of remittance outflows plays a major role in cost reduction in sending countries. As shown in Figure 2 below, countries with the largest remittance outflows, such as the Russia, and Saudi Arabia, UAE, and USA also have relatively lower average total costs. Conversely, countries with low remittance outflows like Australia, Brazil, Dominican Republic, Japan, and

Figure 2. Remittance Outflows for Major Sending Countries



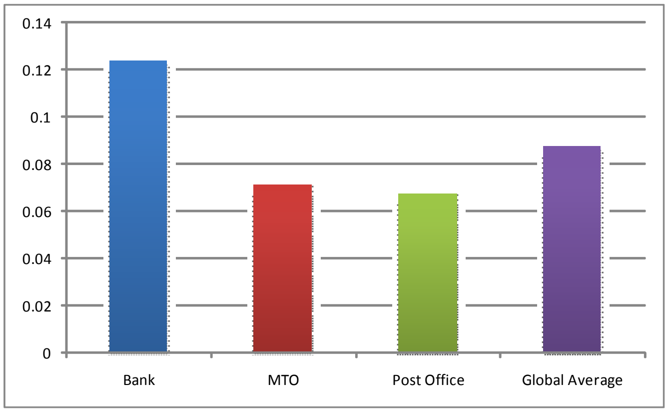
Tanzania, have the highest average total cost. Countries with high remittance outflows have seen high competition between Remittances Service Providers (RSPs) and innovation in the form of new products and services.

In addition to the volume of remittances, the other key element that influences in lowering the average total cost of migrant remittances is the regularity of the migrant stock. In countries like Saudi Arabia, UAE and other Gulf countries, the migrant workers have a legal status and are required to have work permits. In the USA, although there are a large number of illegal migrants, they can display their Matricula Consular and use most MTOs to send remittances. The regularity of the migrant stock allows greater use of all available RSPs thereby promoting competition in the market.

Banks are the costliest RSPs for sending migrant remittances

The RPW database captures the cost of sending remittances based on RSP type including commercial banks, MTOs, and Post Offices. Based on data from Q1, 2010, commercial banks were significantly more costly than other RSPs. The global average total cost for banks was 12.38 percent compared to 6.72 and 7.09 percent for Post Offices and MTOs. One of the main reasons for the significant variation in the cost structure is because commercial banks in most countries have not established specialized services for person to person migrant remittances. They have been handling mostly trade related cross border payments and have not adequately adapted the available infrastructure for migrant remittances services. Additionally, bilateral correspondent banking agreements and internal processes within banks also contribute to the high cost structure. MTOs and Post Offices, on the other hand, have specialized remittance services that are geared towards person to person cross border remittances. In countries like the Philippines, Pakistan and India, where commercial banks have established specialized services for remittances, the cost of remittances is even lower than MTOs.

Figure 3. Average Total Cost by RSP for Q1 2010



Average total cost for migrant remittances varies significantly across regions

Receiving countries in both South Asia and Latin America regions demonstrate the lowest average total cost for migrant remittances. Both regions have trended lower than the global average total cost. South Asia has seen a consistent drop in average total cost of migrant remittances since 2008, dropping below 6 percent in Q1 2010, from 7.80 percent in 2008. However, the trend for Latin America has been less consistent, with the average total cost fluctuating above or below the 8 percent mark . A lower than the global average total cost experienced by countries in these two regions can be attributed to the following aspects

- Due to significant volumes of migrant remittances that flow from sending countries, such as the USA, UAE and Saudi Arabia to South Asian and Latin American countries, the competition between RSPs helps to keep the average total cost low.
- Significance of migrant remittances inflows to countries like Pakistan as a result of increase in legal migrants to the Gulf countries has led public authorities to take action and subsidize the cost of sending remittances from these countries. The resultant cost to the migrant worker is very low as the fee charged by the RSP is absorbed by the governments. Average total cost for Pakistan was 4.87 percent in Q1 2010.
- Mexico, which is one of the top three recipient countries, has invested significantly in improving the retail payment infrastructure to allow more choice for its consumers as well as promote safe and efficient receipt of migrant remittances from major sending countries. In fact, Mexico has more collection points for remittances than the entire continent of Africa. The Mexican government has also taken measures to improve the transparency by maintaining a price database that provides competitive price information to the consumers. The average total cost for Mexico was 7.42 percent in Q1 2010.

By contrast, as shown in Figure 4 below, countries in the EAP, SSA and MENA regions have consistently shown higher average total cost compared to the global average.

The countries in EAP region include a diverse set of countries with very different cost structures that impact the overall average total cost for the region:

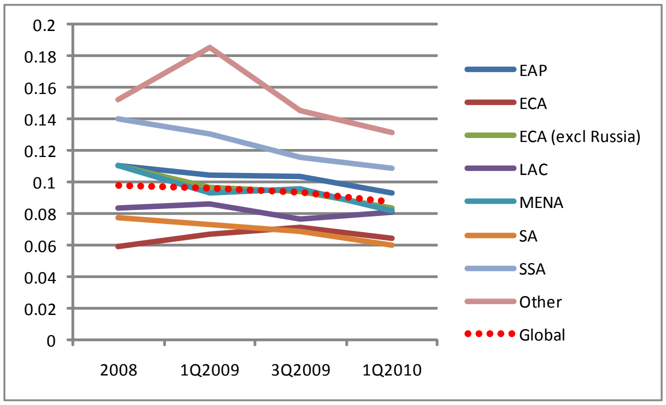
- The Philippines and Indonesia receive large volumes of remittances and have very competitive cost structure – average total cost for the Philippines and Indonesia was 5.63 and 6.40 percent respectively in Q1 2010.
- China is the second largest recipient of remittances after India, however, due to the lack of internal competition the average total cost remains very high relative to the volume of remittances received by the country. Average total cost for China was 12.55 percent in Q1 2010.

- Smaller countries like Fiji and other Pacific Islands have taken measures to improve transparency by introducing a price database, but lack of volume has not helped keep the average total cost down. Average total cost for countries like Fiji, Solomon Islands, and Tonga were 11.96, 13.21, and 11.55 percent respectively in Q1 2010.

Countries in the MENA and SSA regions also demonstrate high average total cost mainly due to a lack of volume which results in little competition. Exclusivity contracts are highly pervasive in these regions, where MTOs require their agent banks or outlets to maintain exclusivity in providing remittance services, thereby restricting the competition in the market. Also, in some Sub Saharan Africa countries like Rwanda, only banks are allowed to engage as RSPs, which severely restricts competition and drives up the average total cost. The average total cost in Rwanda was 17.97 percent in Q1 2010.

Countries within the ECA region have the most significant variation in the cost structure. When corridors originating from Russia are included as part of the regional trend, the average total cost of migrant remittances is very low and at par with the South Asia region. However, when these corridors are excluded, the average total cost for the region is a lot higher than the global average. The corridors originating from Russia to other CIS countries are very active and experience high volume. However, these corridors predominantly conduct same currency transfers – dollar to dollar or ruble to ruble. This aspect eliminates the foreign exchange margin typically charged by RSPs, which results in a much lower average cost between Russia and other CIS countries. Additionally, exclusivity contracts were made illegal in the 1990s, making the environment for sending remittances very competitive.

Figure 4. Average Total Cost by Region (based on sending USD 200)



The trend for average total cost in G8 countries[7] is consistent with the global average

The G8 block of countries includes some of the major sending countries which have relatively highly developed retail payment infrastructure. As shown in Figure 5 below, there are some distinct trends in the country corridors originating from the G8 countries.

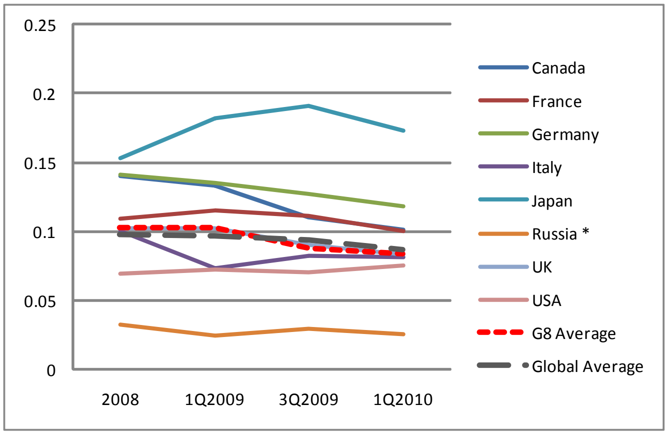
- Countries like USA and UK have average total cost below the global average. Due to high volume of remittance outflows, these markets have intense competition and there are a large number of products and services available to migrant workers.
- Countries such as France, Germany, Canada and Italy have duality in the market where the non-bank RSPs consistently show lower average total cost compared to the banks which have high cost structure. Most consumers in these countries prefer non-bank RSPs as they are less costly than the banks, and do not require them to open bank accounts. High prices charged by the banks also results in adversely influencing the average total costs for these countries. The European Commission's Payment Services Directive is further expected to open the markets for cross border remittances to non-banks in countries like the France, Germany and Italy, which should further add to cost reductions in these countries.
- Japan is a market that was until very recently dominated by commercial banks. It has the highest average total cost of all G8 countries. With the passing of a new Payment Services Act in late 2009, non-bank RSPs were allowed to participate in transmitting remittances The data captured for Q1 2010 does not reflect this change as this is a very recent legislation and the market has not yet fully realized the benefit.
- Russia as noted above has a unique environment where cross border remittances are mostly conducted in the same currency and the exchange rate margin does not reflect in the total cost. Despite that, the fee charged by the operators is relatively low when compared to the other sending countries in the G8 block.

	2008	1Q2009	▼ 3Q2009	1Q2010
Canada	14.00%	13.28%	11.07%	10.18%
France	10.92%	11.50%	11.15%	10.01%
Germany	14.07%	13.53%	12.71%	11.85%
Italy	10.03%	7.36%	8.21%	8.11%
Japan	15.33%	18.24%	19.06%	17.34%
Russia *	3.22%	2.42%	2.99%	2.54%
UK	10.26%	10.27%	9.05%	8.29%
USA	6.90%	7.21%	7.06%	7.57%
G8 Average	**10.26%**	**10.32%**	**8.80%**	**8.37%**
Global Average	**9.81%**	**9.67%**	**9.40%**	**8.72%**

▼ indicates the beginning of the G8 countries' commitment for cost reduction

* The very low costs for Russia are due to the fact that in this corridor transactions are generally same-currency transfers and an exchange rate margin is not applied. Cost would be higher if this element of the cost could be captured.

Figure 5. Average Total Cost for G8 Countries (based on sending USD 200)

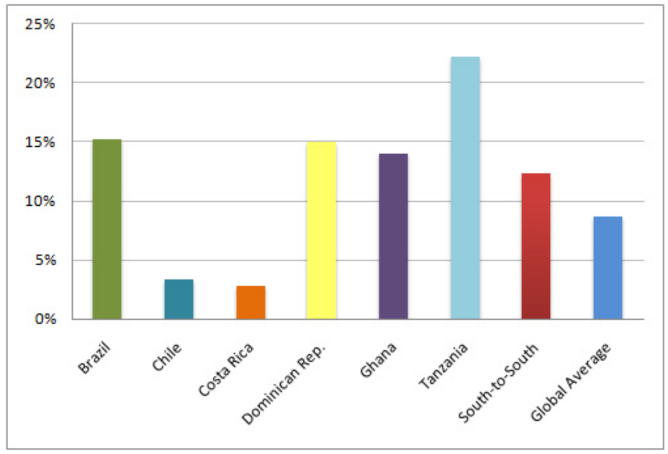


The South-to-South Corridors are relatively more costly when compared the global average

Since Q3 2009, the RPW database started monitoring migrant remittance flows between certain South-to-South corridors in Sub Saharan Africa and Latin America regions. Although a relatively small sample,[8] the data provides some useful insights into the cost structure and other dynamics influencing the migrant remittance flows between these countries. As measured in Q1 2010, the average total cost for South-to-South corridors is 12.30 percent when compared to the global average of 8.72 percent. Only Chile and Cost Rica have arrangements that are far cheaper than the global averages and this is because the cross border remittances are conducted in same currency which eliminates the foreign exchange margin for the total cost. Migrant remittances to other South-to-South countries from Tanzania, Ghana, Brazil, and Dominican Republic are a lot higher than the global or even the regional averages. Several factors explain this:

- The retail payment infrastructure in both the sending and the receiving countries are relatively underdeveloped leaving a few banks and MTOs to provide services that are a lot costlier than the cost of remittance inflows to the same sending country from a more advanced market like the USA or UK. The volume of migrant remittance flows is also relatively low between these corridors which prevent more RSPs from providing specialized services.
- There is a lack of competition due to the presence of exclusivity arrangements enforced by MTOs on agent banks. In the case of Tanzania, the average cost of sending remittances is very high compared to the global average – 22 percent, where some banks can charge as high as 45 percent of the amount.

Figure 6. Average Total Cost for South-to-South corridors (based on sending USD 200)



Efficient retail payments infrastructure is necessary but not sufficient in ensuring lower average total cost for migrant remittances…

Migrant remittances are transferred using the retail payment infrastructure in both sending and receiving countries. The national retail payment infrastructure includes the clearing and settlement systems in each country and cross-border mechanisms that link these national systems. Of the 24 sending countries currently included in the database, only 14 countries are considered to be major sending countries for remittance payments, based on a minimum of five remittance country corridors.

All but one are rated as having well developed (high to medium high) retail payment systems. These countries have retail payments infrastructure that has been largely developed to support not only the domestic retail payment flows, but also used for supporting cross border remittances.

Conversely, with the exception of a few countries in Eastern Europe and East Asia, most of the 85 receiving countries covered in the database have poorly developed retail payment systems. Receiving payments from sending countries very often requires some form of electronic payment link, and the asymmetry in the development of retail payment infrastructure between sending and receiving countries poses significant challenges in creating efficient and secure cross border mechanisms for transmitting remittance payments, which eventually has a bearing on the high costs for migrant remittances.

… to ensure that the efforts to reduce average total cost of migrant remittances are successful, reforms need to be broader than just improvements to retail payments infrastructure

Countries that have consistently shown low average total cost for migrant remittances are not necessarily the ones with the most advanced retail payments infrastructure. Whereas, the quality of retail payments infrastructure is very important in ensuring efficiency, safety and security of a payment transaction and more choice for the consumer, there are other factors that are also equally important in ensuring low cost of remittances. Countries like India and Pakistan have demonstrated an active role by the public authorities that ensures the low cost of migrant remittances from high volume corridors. Mexico has invested heavily in the promotion of transparency and consumer protection in addition to improving the retail payments infrastructure. Russia and Nigeria made exclusivity agreements illegal, thereby promoting competition in the market, which might have had an influence on lowering the average cost of remittances. The Philippines simplified legal and regulatory environment to promote non-bank operators to provide innovative remittance services that includes mobile payments and prepaid cards.

In fact, a comprehensive approach that is based on the internationally agreed WB-CPSS General Principles for International Remittances Services is the best way to help reduce cost of migrant remittances on a long term basis. Key aspects include promotion of market transparency and consumer protection; improving the payment systems infrastructure; reforming the legal and regulatory framework; enhancing market structure and competition; and adopting governance and risk management best practices.

Endnotes

1. The 5x5 objective was adopted by the G8 in 2009, and it refers to reduction of the global average total cost of migrant remittances by 5 percentage points in 5 years.
2. General Principles for International Remittance Services, Bank of International Settlements – the World Bank, January 2007.
3. Several countries like Italy, UK, Mexico, Australia, etc. also operate their own national databases to monitor remittance price activity at the national level. The World Bank now certifies national databases that meet the key minimum mandatory requirements (see http://remittanceprices.worldbank.org/NationalDatabase/)
4. The first iteration of the database was released in September 2008, after which the RPW database has been updated once every six months. The following releases were in Q1 and Q3 2009, followed by the current iteration of Q1 2010.
5. The global average total cost is calculated as the average total cost for sending USD200 with all RSPs worldwide. The averages quoted here are unweighted averages. Non transparent RSPs (i.e. RSPs that do not disclose the exchange rate applied to the transaction) are excluded as well as corridors from Russia, since in these cases the exchange rates were not provided and cost could be higher if data were complete.
6. The Major International MTO Index is based on the average price charged by the MTOs that are present in more than 80% of the country corridors covered in the database. One of the main reasons why G8 countries are included in this analysis is because of their strong commitment to the 5x5 cost reduction objective.
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8. Currently the RPW database has 7 South-to-South country corridors: Brazil-Bolivia, Brazil-Paraguay; Chile-Peru; Dominican Republic-Haiti; Ghana-Nigeria; Tanzania-Rwanda and Costa Rica-Nicaragua.

For more information contact: paymentsystems@worldbank.org