REMITTANCE PRICES WORLDWIDE

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

This Policy Note reflects the latest trends observed in the data collected during September 2010.
Remittance Prices Worldwide is available on-line at remittanceprices.worldbank.org

Overview

Twice a year, the Remittance Prices Worldwide (RPW) database is updated to reflect new information on the average cost of transactions between various country corridors. The database is the only global database that monitors remittance price activity across geographic regions. RPW was launched by the World Bank in September 2008,[1] and remains a key tool to monitor costs variation to remitters and beneficiaries from sending and receiving money along major country corridors. *The recently launched fifth iteration of RPW covers 200 country corridors worldwide originating from 29 major remittance sending countries to 86 receiving countries.*

This policy note uses the data from RPW's current iteration to analyze the global, regional and country specific trends in the average total cost of migrant remittances during the past 6 months period; and, the factors influencing these movements. This helps to measure progress with the implementation of the "5x5" objective[2] adopted by the G8 which is being pursued in partnership with governments, operators and interested stakeholders.

Newsworthy Findings

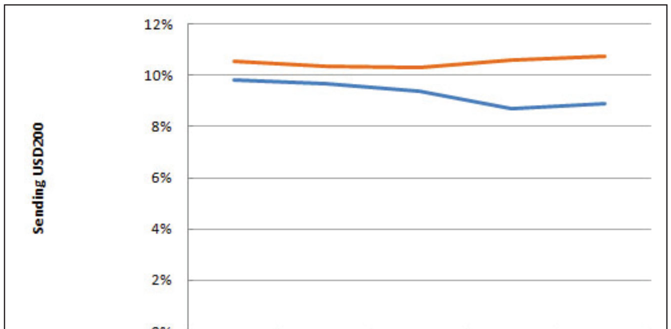
Based on the data collected for the Q3 2010 iteration of the RPW database, and when compared to the previous iterations, [3] the key findings are:

- While certain markets have seen a promising trend in lowering the total average costs for international remittances, the global average cost has not come down since the last reporting period. Compared to the previous period, recorded in Q1 2010, the global average total cost[4] for migrant remittances moved from 8.72 percent to 8.89 percent. A marginal increase since the last reporting period can be explained by the fact that four out of five new sending countries[5] added to the database this reporting period demonstrate higher averages than the global average. On a like by like basis,[6] the global average cost actually went down from 8.72 percent to 8.62 percent.
- Among different types of remittance service providers (RSPs), commercial banks remain the most expensive for sending remittances. The global average total cost for sending remittances through commercial banks was 12.79 percent in Q3 2010, compared to the global average total cost of 8.89 percent. While Money Transfer Operators (MTOs) maintained their status of being the cheapest RSP at 7.08 percent, compared to the previous period, post offices saw a significant increase in the average cost. For Q3 2010, the average total cost was 8.83 percent compared to 6.72 percent in the previous period.
- Apart from the Latin America region, where the average cost for international remittances declined, the trend for other regions actually worsened during the last six months:
  - At the regional level, the most significant reduction in average cost since the last reporting period was in the Latin America and Caribbean (LAC) region.[7] The average cost declined from 8.12 percent to 7.27 percent. During the last reporting period, the average cost in this region was almost at par with the global average. However, during current reporting period LAC fares best in terms of reducing costs.
  - The South Asia (SA) and Europe and Central Asia (ECA) regions, at 6.54 percent and 7.57 percent, remain the best performers when compared to the global average. However, the trend compared to the previous period has not been positive. Both regions have seen average costs go up by approximately one-half percent: SA region from 5.99 percent to 6.54 percent, and ECA region from 6.48 to 7.57 percent.
  - Consistent with the previous reporting period, countries in East Asia and Pacific (EAP), Sub Saharan Africa (SSA), and Middle East and North Africa (MENA) regions demonstrate higher average total costs for migrant remittances compared to the global average. The SSA region has seen the highest average cost, at 11.57 percent, when compared to the global average and other regions.
- There was almost no change in the average total cost of sending remittances from G8 countries compared to last period. At 8.40 percent, the average cost remained slightly below the global average. If Russia was excluded from the mix then the average cost for other G8 countries would be much higher than the global average.

Global average total cost[8] for migrant remittances increased marginally during the last six months

The average total cost for sending remittances increased marginally from 8.72 percent to 8.89 percent in this reporting period. During the previous reporting period in Q1 2010, the global average total cost of sending remittances had dropped consistently since the launch of RPW in September 2008.[9] However, the total average cost actually declined from 8.72 percent to 8.62 percent compared to the previous iteration when the same number of corridors is considered. As shown in Figure 1, the trend for global average cost is consistent with the International MTO Index [10]

Figure 1 Global Total Average for sending USD200 in Q3 2010



	2008	1Q2009	3Q2009	1Q2010	3Q2010
Global Average	9.81%	9.67%	9.40%	8.72%	8.89%
Intnl MTO Index	10.54%	10.36%	10.29%	10.60%	10.73%

Average total cost for migrant remittances varies significantly across regions

Consistent with the previous reporting period, receiving countries in SA as well as LAC regions continue to demonstrate the lowest average total cost for migrant remittances across regions. Both regions trend lower than the global average total cost. However, compared to the last reporting period where SA regions showed a declining trend over previous iterations, this reporting period saw SA average marginally increase compared to Q1 2010 – from 5.99 percent to 6.44 percent. The LAC region shows a decline over the previous reporting period, from 8.12 percent to 7.27 percent.

An upward trend for the South Asia region is not influenced by the addition of new countries to the RPW data set, and can be attributed to the increased average total costs in the largest receiving countries in the region – Pakistan, India, and Sri Lanka. During the last six months, Pakistan's average total cost increased from 4.87 percent in Q1 2010 to 6.45 percent in Q3 2010; India from 7.34 percent to 8.13 percent; and Sri Lanka from 4.11 percent to 4.99 percent. Other countries in the SA region – Bangladesh and Nepal saw a decline during the last six months. This can be explained by greater competition being seen in some of the key markets that send to these countries.

Most receiving countries in the LAC region showed a declining trend in average total cost for remittances. Mexico, which is one of the top three recipient countries in the world, continues to improve its retail payment infrastructure to allow more choice for its consumers and promotes safe and efficient receipt of migrant remittances from major sending countries. Continued improvements resulted in further declines in average total cost since Q1 2010, from 7.42 percent to 7.37 percent. Other countries in the region that have contributed to the declining trend of average costs during the last six months within LAC region include: Brazil, down from 14.1 percent to 10.93; Colombia, from 5.67 percent 5.04 percent; Dominican Republic, from 7.01 percent to 6.40 percent, Guatemala, from 6.31 percent to 5.86, and the largest decline in Paraguay, from 14.22 percent to 8.59.

The countries within the Europe and Central Asia (ECA) region continue to demonstrate lower average cost structure than the global average. However, since the previous reporting period there has been a slight increase in the regional average cost – from 6.48 percent to 7.57 percent. Similar to observations made during the previous reporting period, inclusion of corridors originating from Russia brings down the average total cost substantially. Excluding these corridors results in the average cost structure that are much 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.

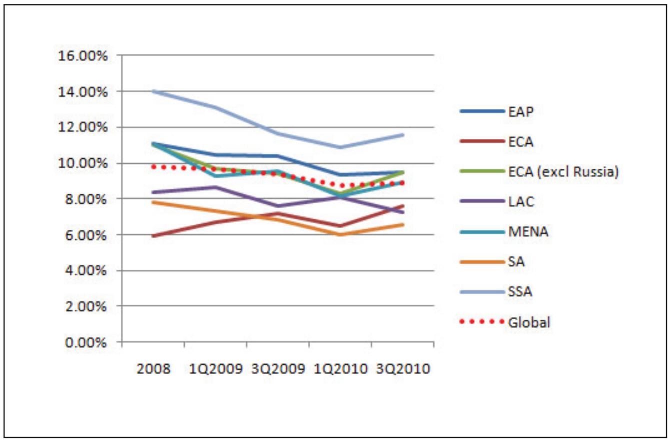
In contrast, as shown in Figure 4 below, countries in the East Asia and the Pacific (EAP), Sub-Saharan Africa (SSA), and the Middle East and North Africa (MENA) regions have consistently shown higher average total cost compared to the global average. The SSA region has the highest cost structure when compared to other regions, and the trend has worsened since the previous reporting period, up from 10.86 percent in Q1 2010 to 11.57 percent in Q3 2010. The average total cost in EAP and MENA regions, though only slightly higher than global average, marginally deteriorated compared to the previous reporting period. MENA region saw an increase from 8.19 percent to 8.95 percent; and EAP region saw an increase from 9.33 percent to 9.48 percent.

These aspects can be attributed to:

- Highly diverse set of countries in the region that keep the regional average total cost high despite presence of Indonesia and the Philippines, which exhibit one of the cheapest cost structures globally. China, the second largest recipient of remittances after India, lacks internal competition and the average total cost remains very high relative to the volume of remittances received by the country.

- The SSA and MENA regions 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.

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



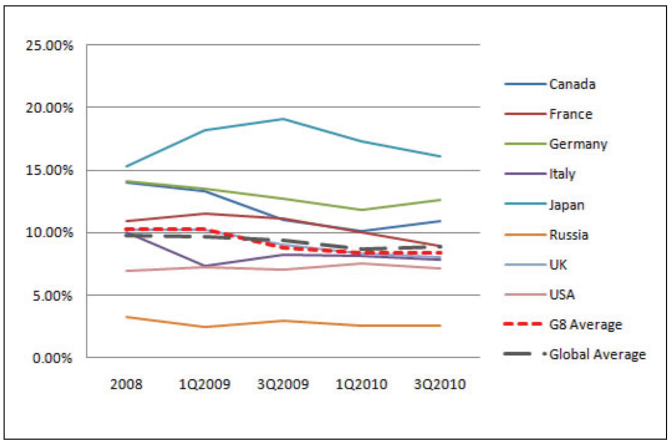
The trend for average total cost in G8 countries[11] is consistent with the global average

The G8 block of countries includes some of the major sending countries in the world. However, there are significant disparities in the cost structure across these countries. Figure 5 below shows distinct trends within these countries:

- Russia continues to demonstrate the lowest total average cost across G8 countries. The average cost saw a nominal decline compared to the last reporting period, from 2.54 percent to 2.52 percent. As noted previously, Russia has a unique environment where cross border remittances are mostly conducted in the same currency and there is no exchange rate margin. Additionally, the fee charged by the MTOs is relatively low when compared to the other sending countries in the G8 block.
- Both the United States and the United Kingdom continue to maintain average total cost below the global average: 7.14 percent and 8.07 percent respectively. Compared to the previous reporting period, both countries have seen a decline in the average total cost during the last six months. Due to the high volume of remittance outflows, these markets have intense competition and there are a large number of financial products and services available to migrant workers.
- The U.S. has also recently passed new regulation[12] that includes very explicit requirements for the RSPs to clearly disclose the key transaction related information in a consumer's receipt including the fees, the exchange rate, the total cost of the transaction, and the final amount that will be received by the beneficiary in local currency of the receiving country. Standards are being established for clear and concise signage in each RSP outlet that will inform the customers of the total cost of remittances, their rights to correct any errors in a transaction, and the contact information of appropriate authority to whom complaints can be addressed. All disclosures under these new consumer protection measures will be made in the same language that the transfer was advertised, negotiated, or finalized in. These regulations have recently gone into effect and the improvement in transparency and reduction of costs is not measureable yet. However, these regulations are an important step towards the creation of a transparent market for remittance services, where consumers are adequately protected and informed about their rights.
- Similar consumer protection rules are also included in the European Union (EU) Directive on Payment Services[13]. However, the Payment Services Directive *per se* only applies to remittance transfers within the European Union, and the EU member States have the opportunity to extend its scope beyond the EU when implementing the Directive. The implementation of the Payment Services Directive across EU member states has been patchy. While MTOs have already adopted the measures included in the Directive their adoption by banks has been slow. Among G8 countries, some such as France, Germany and Italy lag behind others such as the U.K., in adoption of the measures.
- Countries such as Canada, France, Germany, and Italy saw mixed results compared to the previous reporting period. While France and Italy both reduced average total cost substantially, Canada and Germany showed an increase (see table below). In the case of Italy, prices may have been affected by an increased level of transparency in the market accomplished through the launch of the national remittance prices database. These markets continue to show dual structure, where the non-bank RSPs have lower average total cost compared to the banks, which demonstrate a higher 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. The high prices charged by banks also results in adversely influencing the average total costs for these countries. The European Commission's Payment Services Directive has not yet had a major impact on the cost reduction in these countries.
- Japan is a market that was until very recently dominated by the commercial banks. It continues to have 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 in the current reporting period shows a decline in average total cost but the legislation is still very recent the market has not yet fully realized its benefit.

	2008	1Q2009	3Q2009	1Q2010	3Q2010
Canada	14.00%	13.28%	11.07%	10.18%	10.90%
France	10.92%	11.50%	11.15%	10.01%	8.95%
Germany	14.07%	13.53%	12.71%	11.85%	12.67%
Italy	10.03%	7.36%	8.21%	8.11%	7.87%
Japan	15.33%	18.24%	19.06%	17.34%	16.16%
Russia	3.22%	2.42%	2.99%	2.54%	2.52%
UK	10.26%	10.27%	9.05%	8.29%	8.07%
USA	6.90%	7.21%	7.06%	7.57%	7.14%
G8 Average	10.26%	10.32%	8.80%	8.37%	8.40%
Global Average	9.81%	9.67%	9.40%	8.72%	8.89%

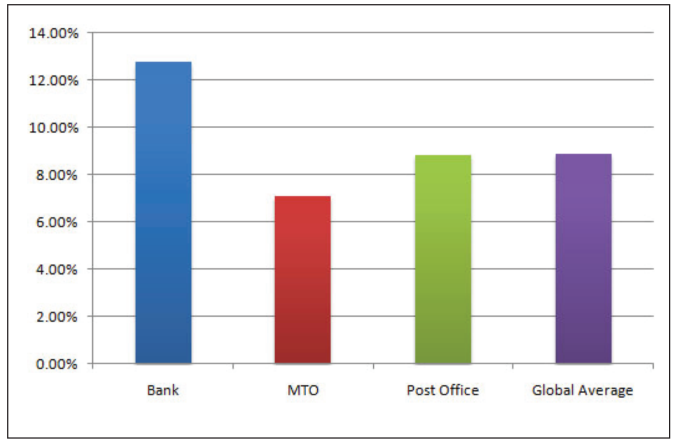
Figure 5 Average Total Cost for G8 Countries (based on sending USD 200)

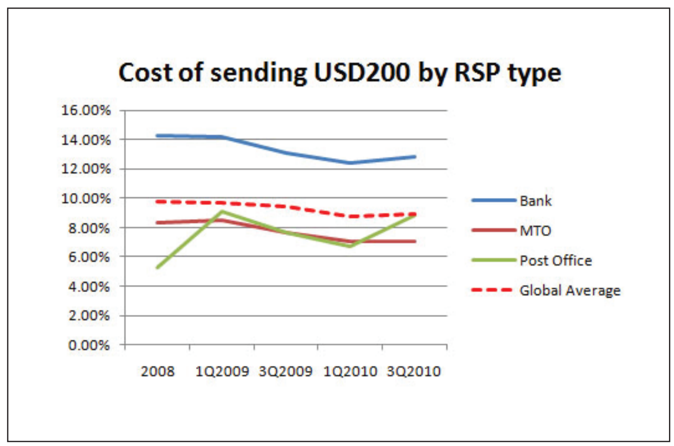


Banks are the costliest RSPs for sending migrant remittances

The RPW database captures the cost of sending remittances based on RSP type including commercial banks, MTOs, and Post Offices. Based on the data from this reporting period, commercial banks continue to be the most costly RSP category. In fact compared to the previous period, the average total cost for this category has actually gone up: from 12.38 percent to 12.79 percent. Compared to the previous period, Post Offices saw the most significant increase among RSPs, from 6.72 percent to 8.83 percent. As shown in Figure 6 below, MTOs maintained the same cost structure as the previous reporting period. One of the main reasons for a variation in the cost structure among RSPs is because commercial banks in most countries do not have specialized services for person to person migrant remittances. The reason for sudden jump in the cost structure of Post Office can be explained by two factors: a) Some of the new countries added to the database – Norway, Switzerland and Belgium – are more expensive markets that drive up the overall price including post offices; and b) In some markets, such as, Italy, Germany, and Belgium, the post offices have rationalized their international remittance operations to only offer MTO providers' services, which brings their earlier lower priced services in line with the higher prices charged by MTOs. MTOs typically have specialized remittance services that are geared towards person to person cross border remittances and this has continued to keep the costs down. In addition, anecdotal evidence gathered during the data collection process suggests that that there is increased competition in the MTO sector in many markets.

Figure 6: Average Total Cost by RSP for Q3 2010





Conclusions

As noted above, certain markets have seen a promising trend in lowering the total average costs for international remittances. However, across the board (based on all sending-receiving countries within the RPW database) the global average cost has not come down since the last reporting period. If the global 5x5 objective were to be met in the designated timeframe then countries must continue with the implementation of reforms that are consistent with the internationally agreed WB-CPSS General Principles for International Remittances Services. This is the best way to help reduce cost of migrant remittances on a long term basis. These changes will need to work in parallel with market changes such as the introduction of new technologies and a change to the operating models of RSPs.

Endnote

1 Several countries operate their own national databases to monitor remittance price activity at the national level. The World Bank certifies national and regional remittance prices databases compliant with the minimum mandatory requirements for remittance databases. Currently, three databases have been certified (Italy, Central America, Australia/New Zealand). For more information visit http://remittanceprices.worldbank.org/National-Databases.

2 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.

3 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, and Q1 2010. The current

4 The global average total cost is calculated as the average total cost for sending USD200 with all RSPs worldwide; 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.

5 Norway, Switzerland, Belgium, South Korea and Qatar are the 5 new sending countries added this reporting period. Only Qatar demonstrates lower total average cost than the global average.

6 This implies that the same number of corridors is considered as the previous report

7 None of the new "high cost" sending countries added to the RPW database this period are in the LAC region.

8 The global average total cost is calculated as the average total cost for sending USD200 with all RSPs worldwide; 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.

9 Measured at 9.81 percent of the total amount in the first iteration of RPW in September 2008, the average total cost reduced to 9.67percent in Q1 2009; to 9.40percent in Q3 2008; to 8.72percent in Q1 2010

10 International MTO Index is based on the average price charged by Western Union and Money Gram that has presence in 90 percent and 88 percent respectively of the country corridors covered in the database.

11 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.

12 The Wall Street Reform Bill passed in July 2010 also known by its official name of the "Restoring American Financial Stability Act of 2010."

13 PSD 2007/64/EC was adopted by the EU in 2007 and became effective in November 2009.