An analysis of trends in the cost of remittance services

# Remittance Prices Worldwide

Special Issue 1 on COVID-19: *April 10, 2020*

*This Special Issue monitors the impacts of COVID-19 on the cost of remittance services.*

*Remittance Prices Worldwide is available at http://remittanceprices.worldbank.org*

## Introduction

This update provides an overview of international remittances markets considering the recent developments due to the COVID-19 pandemic. The pandemic is expected to affect remittance flows in two ways: (1) migrants' incomes are impaired, impacting the amount of remittances they can send; and (2) widespread closures to prevent the spread of COVID-19 may lead to restricted physical access to locations of remittance service providers (RSPs). An additional, ancillary concern is that volatility in the financial markets, oil prices, etc. may lead to difficulties in pricing foreign exchange, which may eventually be reflected on the cost of sending remittances.

To monitor the developments, the World Bank has launched a study. As part of this study, World Bank will collect cost data for a small number of corridors in the *Remittance Prices Worldwide* (RPW) database every week in order to track the impact, if any, of COVID-19 on the cost of sending remittances, and disseminate the analysis through weekly special issues. This note presents the outcomes of the first round of quantitative data collection.

## Key Findings

The RPW update as of April 3 for 14 corridors points out to the following findings:

- The number of available services in each corridor surveyed is lower than "business as usual."[1]
- The number of providers in each corridor is not necessarily affected as much as the services.[2]
- In some corridors where the economy-wide lockdowns started earlier, on the sending side or receiving side or both, the effects on the availability of services and operational providers have been more evident.
- Sending via digital payment instruments remain available, in general.
- Overall, the services that remain available are priced lower, compared to the latest business as usual data collected in Q1 2020.

Table 1 includes a list of all corridors for which the data are collected during the week of March 30 - April 3, and the average cost of sending $100 and $200. The corridors were selected based on the relative size of flows to include major sending and receiving countries. Furthermore, corridor selection was also informed by the publicly available information on the lockdowns, with the intention of monitoring the effects of lockdowns on the cost. The set of corridors for which the price data are collected will alternate weekly between two cohorts. In addition, for comparison purposes, Table 1 includes the average total cost of sending $200 under the business as usual case from Q1 2020 and the same for a smaller number of services in Q1 2020

[1] "Business as usual" scenario is what RPW database includes regularly.

[2] A remittance service provider may offer more than one type of service in each corridor. Services are characterized by differences in the instrument used to fund the transaction, access points on the sending side, time it takes to complete the transaction, the instrument used to disburse, and access points on the receiving side.

that remain available as of April 3 in these corridors. RPW collected data on the cost of sending $100 in addition to $200, different from the regular amounts of $200 and $500 included in the RPW dataset. The reason for replacing $500 with $100 during this period was to capture the cost of sending smaller amounts frequently during times of economic crises on both ends of the corridors.

TABLE 1 – Average cost of sending $100 and $200 for different cases for selected corridors.

| Corridor | COVID-19 April 1 | COVID-19 April 1 | RPW Q1 2020 (same services as April 1) | RPW Q1 2020 (business as usual) |
|---|---|---|---|---|
| | Avg. Total Cost ($ 100) | Avg. Total Cost ($ 200) | Avg. Total Cost ($ 200) | Avg. Total Cost ($ 200) |
| Australia to Vietnam | 6.30% | 4.35% | 4.14% | 6.83% |
| Canada to Haiti | 10.62% | 7.21% | 10.74% | 10.06% |
| France to Morocco | 8.33% | 6.47% | 5.06% | 5.57% |
| Italy to Albania | 8.70% | 4.89% | 7.45% | 7.35% |
| New Zealand to Samoa | 8.82% | 6.44% | 10.29% | 11.89% |
| Russia to Tajikistan | 9.33% | 1.01% | 1.67% | 1.67% |
| Saudi Arabia to Bangladesh | 6.53% | 4.15% | 3.48% | 3.37% |
| Saudi Arabia to Ethiopia | 9.67% | 5.71% | 5.13% | 5.13% |
| UAE to Egypt | 5.35% | 3.09% | 3.94% | 3.68% |
| UAE to Nepal | 8.36% | 5.11% | 4.48% | 3.95% |
| UK to Nigeria | 9.13% | 7.67% | 8.65% | 8.65% |
| UK to Pakistan | 6.62% | 4.48% | 5.22% | 5.12% |
| USA to Mexico | 5.97% | 3.86% | 3.69% | 4.04% |
| USA to Philippines | 5.30% | 3.67% | 4.49% | 4.50% |

The number of services operational during the COVID-19 data collection cycle is smaller than that under the business as usual case, and therefore, average costs are calculated using a smaller subset vs. a larger set of services for COVID-19 and Q1 2020, respectively. However, when the pricing of currently available services is compared to the pricing of the same group of services under the business as usual case, the decline in prices, in general, can also be observed.

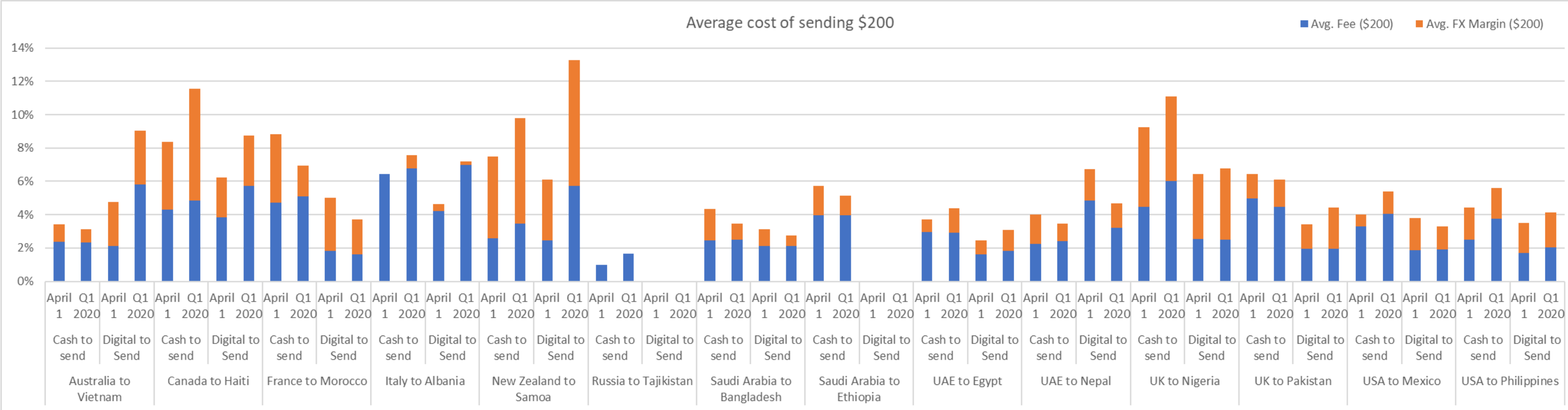
Figure 1 compares the cost of sending $200 in these 14 corridors for the services available as of April 3 and for the business as usual case, by breaking down the cost into two components: fee and foreign exchange (FX) margin. In panel (a) a further breakdown was introduced: cash vs. digital payment instruments used to fund the transaction. In panel (b), costs are broken down into "in-person" access vs. "remote" access on the sending side of each corridor.

Overall, the findings indicate:

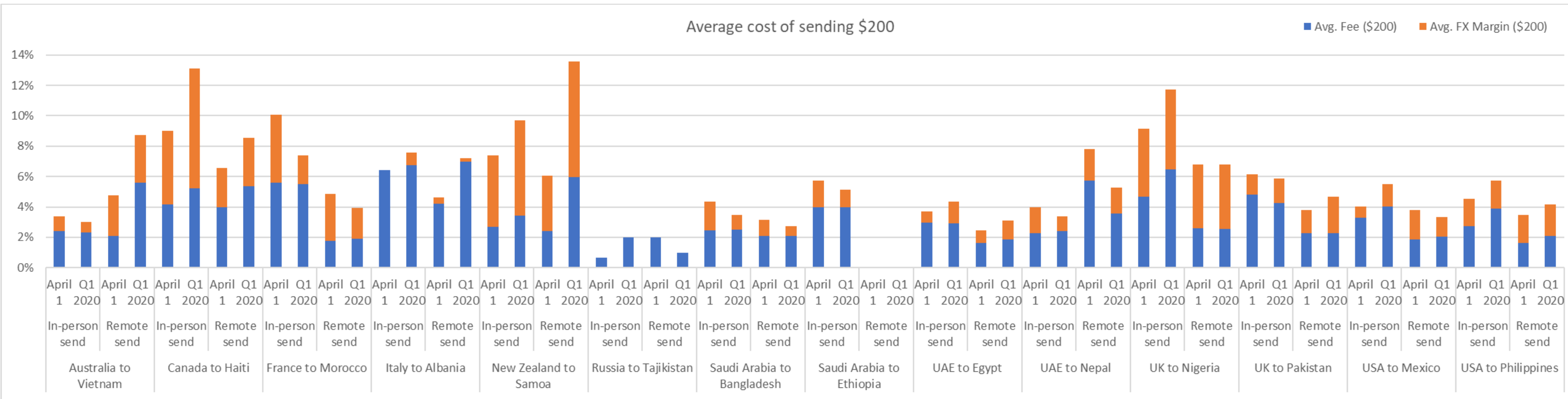
- There are fewer services available during the March 30 - April 3 data collection round.
- The remaining services are mostly funded by digital payment instruments, but those that are sent in cash also remain.
- Sending remotely and sending using digital payment instruments are cheaper, however, these are not feasible options for the financially excluded.

## FIGURE 1 - REMITTANCE PRICES WORLDWIDE DATABASE: AVERAGE COST OF SENDING $200, SELECTED CORRIDORS

**Panel a)** Cash vs. digital payment instrument to fund the remittance transaction, Q1 2020 vs. April 3




**Panel b)** Remote vs. in-person access to the service, Q1 2020 vs. April 3




***Source***: *Remittance Prices Worldwide (RPW). Cost of sending $200 is the sum of the fee and the FX margin charged by the RSPs on the sending side. Receivers may incur additional costs. Cost of sending $200 is presented in four different ways: cash vs. digital payment instruments used to fund the transaction, and in-person vs. remote access to the service. In-person access includes going to an agent location, a bank branch or post office. Remote access includes using the service over internet, mobile money transfers, and call centers. The number of services that are operational is different in the two panels.*

Table 2 below provides some information from recent studies that aim to predict the decline in remittance flows to the developing economies. As noted above, there are two reasons for this decline: (1) the expected decline in migrants' incomes impacting the amount of remittances they can send; and (2) the widespread closures to prevent the spread of COVID-19 leading to restricted physical access to locations of RSPs. In the past few weeks, with the start of the pandemic-related lockdowns to prevent further contagion of the virus, physical access to locations of RSPs were restricted in several countries. While the practice varied from one country to another, the restrictions resulted, in general, in complete closures of RSP locations to reduced operating hours and the need for adhering to social distancing rules. When RSP locations remained open, social distancing rules dictated limits on the number of people that can be served simultaneously. These, coupled with restricted operating hours, led to long lines for senders and remitters, and sometimes inability to use the service.

In response to the interruptions in the remittances markets and to ensure the steady flow of remittances from migrants to their families, the World Bank has published a blog post on April 3 with a "call to action" (Box).

### Box – A call to action

Over the near term, the World Bank recommends the following actions to support the remittances sector:

- Public authorities should treat remittance service providers as essential services and mitigate any operational impacts to their functioning.
- Public authorities should support the remittances industry with appropriate instruments to manage their credit and liquidity risks effectively.
- Public authorities should encourage the adoption of digital payment instruments for sending and receiving international remittances where feasible.

Over the medium-term, recovery of remittance flows will be largely dependent on the success of the economic stimulus efforts of the G20 and other net-remittance-sending countries and broader migration and labor market dynamics. Targeted efforts to support migrant communities in host countries are also urgent. Over the medium term, the World Bank recommends the following key actions to accelerate the efforts to reduce remittance prices:

- Embrace the new emerging remittance models, which enable originating and disbursing remittances through digital means. Sending and receiving countries should address regulatory and infrastructure barriers for development of these models in their respective jurisdictions.
- Support universal financial access in receiving countries and amongst migrant workers in sending countries.
- Enhance domestic retail payment systems promoting interoperability and fast payment services and Enable remittance service providers to have access to domestic retail payment systems to enable digital means of sending and receiving remittances.
- Enhance AML/CFT compliance in receiving countries by strengthening regulatory capacity for enforcing these regulations and support development of Digital ID solutions and their usage for remittance transactions.
- Support development of comprehensive cross-border payment solutions for MSME trade flows, ecommerce and remittances. Particularly for small states, this would enable achieving scale and enhance the attractiveness of these remittance markets.

TABLE 2 – Summary of selected recent publications on estimating the decline in remittance flows

| Source | Country | Summary |
|---|---|---|
| BBVA | Mexico | Due to the uncertainty regarding its duration, it is difficult to estimate the impacts of the Covid-19 crisis on the flow of remittances to Mexico. This article estimates such effects based on the effects of the past global financial recession of 2008/2009 on remittance flows. Three scenarios are presented.<br>Scenario 1: It is estimated that remittances to Mexico could contract more than 21% between 2020 and 2021, and recover up to 10 years from now, in 2028. Remittances could contract by 17% in 2020.<br>Scenario 2: If various factors are considered, such as: 1) the construction sector in the U.S. could end up being less affected than the service sector, 2) undocumented Mexican migrants are not that many, and 3) the increasing trend in observed in remittance flows in the recent years continue after the crisis, remittance flows from the U.S. to Mexico could exceed by 2024 the record amount of 2019 remittances.<br>Scenario 3: In addition to the factors considered in scenario 2, although the effects of the Covid-19 crisis are more acute, if the economic recovery is much more accelerated, remittances could recover their historical maximum by the end of 2023. |
| International Food Policy Research Institute | Egypt | While all households are hurt by lower tourism revenues, it is the poor households—and especially those in rural areas—that suffer the most from a decrease in the flow of remittances. Rural poor households are estimated to lose in total between EGP 104 and 130 ($6.60-$8.20) per person per month, or between 11.5% and 14.4% of their average income, while urban poor households are likely to see their incomes decline somewhat less, between EGP 80 and 94 ($5-$6) per person a month, or between 9.7% and 11.5% of their average income. |
| Devex | Latin America & the Caribbean | • Estimates from the Inter-American Dialogue show U.S. outbound remittances could drop by 7% from 2019 — representing about $6 billion in lost funds for those who rely on family and friends abroad to help make ends meet. Countries in Latin America and the Caribbean that are highly dependent on remittances would be the hardest hit by a recession and migrant job loss in the U.S. service and construction sectors due to widespread business closures aimed at controlling the pandemic.<br>• Estimates from before the coronavirus outbreak showed that 30% of remittances to Latin America would be fully digital by 2030 — not requiring either sender or receiver to go to a physical location to process the transaction. This is expected to accelerate given the pandemic. |
| EBRD | ECA and MENA | Estimated resilience to the Covid-19 shock in the EBRD regions. |
| LSE | Somalia | • There is a need for continuous monitoring of conditions in both diaspora countries and in Somalia to see how the epidemiological and economic impacts of the pandemic influence diaspora/country of origin interactions; operational aid agencies (both Somali and international) and donors should use this information to adapt their approaches.<br>• The influence of politics and conflict on the spread of COVID-19 needs to be monitored in real time to be able to adapt.<br>• Remittance-sending channels need to be protected to enable people to send money to all parts of Somalia.<br>• All money transfer companies operating in Somalia should reduce their transaction fees to help maintain the flows.<br>• Aid flows to Somalia may need to increase to compensate for losses in remittance support. It is worth noting that humanitarian agencies rely on Money Transfer Companies to deliver this much needed aid. |