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Getting SmaRT about remittance price monitoring

Methodology for the Smart Remitter Target (SmaRT): a new approach to measuring the progress towards the global objectives of reducing the cost of international remittances

Payment Systems Development Group

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Summary

- The WBG has played a leading role in achieving the target of reducing the cost of remittances to 5 percent within 5 years, the so called '5x5 objective', set by G8 and adopted by G20.
- Since the adoption of the 5x5 objective, remittance costs have dropped. However, the 5 percent target is yet to be achieved. At the same time, new targets are being identified and, in particular, the UN Sustainable Development Goals have called for a reduction of the average transaction cost to 3 percent globally and to maximum of 5 percent in all corridors.
- Contributing to the continued efforts to reduce remittance costs, the WBG has developed a new indicator, the Smart Remitter Target (SmaRT), to complement existing measures in monitoring the progress towards price reduction at a more granular level.
- SmarRT will build on the WBG's experience with monitoring the '5x5 objective' and incorporate learnings from operational work in the area of remittances.
- As it accounts for both the availability and accessibility of services, SmaRT is closely aligned with existing WBG goals, including achieving Universal Financial Access (UFA) by 2020.

Background and Context

In the early 2000s, WBG economists contributed to bringing migrants' remittances to the attention of policy makers, academics, and development agencies globally by unveiling the magnitude of this phenomenon. Globally, remittance flows are estimated to have reached $582 billion in 2015, 75 percent of which - $432 billion – was transferred to developing countries.[1] These flows represent a significant source of national and family income for many emerging economies, reducing trade and current account deficits in many developing countries and are higher in aggregate than Official Development Assistance (ODA). More importantly, remittances have proven to be more resistant to economic shocks than other types of private capital flows.

Since then, the WBG has undertaken several efforts in a number of relevant areas, including;

- **Raising awareness of and focusing attention on the issue of remittances:** The 2003 publication of the Global Development Finance highlighted the size and development significance of remittances and was followed by the remittances-focused Global Economic Prospects report of 2006.
- **Collaborating with standard setting bodies to develop and publish guiding principles:** In 2007, the WBG and the CPSS (now, CPMI) – the standard setter in the payments space - published the General Principles for International Remittance Services (General Principles). The General Principles became the de facto standard in this space, aiming at improving the efficiency of the market for international remittances through a comprehensive approach, tackling transparency and consumer protection, payment infrastructure, legal and regulatory framework, and governance and risk management of the service providers. The General Principles assigned a role to both the private and public sector for the implementation of the standards.
- **Contributing towards improved data collection on remittances flows and prices:** The work of the Luxembourg Group on improving remittances data eventually led to a revision of the IMF Balance of Payments Manual and publication of a Remittances Data Compilation Guide by the IMF. Additionally, the World Bank established the Remittance Prices Worldwide (RPW) database to track the cost of sending international remittances and serve as a barometer of progress towards the goal of reducing the cost of international remittance services. As of Q2 2016, RPW tracks the

[1] Migration and Development Brief 26 (World Bank, April 2016)

cost of sending international remittances from 48 major remittance sending countries and 105 receiving countries, for a total of 365 (up from 227 in Q4 2015) country pairs, known as "corridors" for the purposes of RPW. Cost data are collected by independent researchers on a quarterly basis through mystery shopping exercises and made publicly available, at no cost to the users, on the RPW website. In addition to providing average total cost of sending remittances along these corridors, several indicators are calculated which are used to identify and analyze national, regional and global trends in the cost of sending international remittances.

- **Using convening powers to advocate for the establishment of a global target:** The WBG played a critical role in the process that culminated in the definition of a global target for the reduction of the cost of remittance services. The G8 countries endorsed the objective of reducing the global average cost of remittance services by five percentage points in five years (the 5x5 objective) at the July 2009 summit in L'Aquila, Italy. The commitment was then also adopted by the G20 at the Cannes, France summit in 2011.
- **Creating and leading a forum for ongoing discussions on international remittances:** As part of these discussions, the G8 requested the WBG to create and chair a Global Remittances Working Group, organized around four thematic areas (Data, Research and Development, Market and Payments Infrastructure, Financial Inclusion), jointly coordinated by DEC and the FMGP (former FPD).

Achievements

Since the adoption of the 5x5 objective, prices have dropped. The average cost of sending USD 200 or its equivalent – as monitored by the RPW database – was 7.60 percent in Q2 2016, down from 9.67 in Q1 2009. The overall downward trend is even more evident when looking at the level of individual corridors. In Q2 2016, nearly 80 percent of corridors had an average total cost below 10 percent compared to only half in 2009 and, in the same period, the percentage of corridors with an average cost over 15 percent has been reduced by two-thirds. The WBG also estimate that, since the beginning of the global effort to reduce the cost of remittance services, a total of over USD 75 billion has been saved by migrants and their families thanks to lower prices.

Notwithstanding such remarkable achievements, the 5 percent target is yet to be reached. The progress remains quite disparate, with some regions such as Sub-Saharan Africa keeping an average cost close to 10 percent, and some countries continuing to be well above the 5 percent target even if – for some of them – significant reduction has also been achieved.

Way forward

Learning from the experience of the 5x5 objective, the WBG will continue working towards the reduction of the cost of remittance services globally. The WBG believes that reducing the global average cost for sending remittances to 5 percent should continue to be an objective for governments, private sector, and the development community to achieve at the earliest. Overall – and despite its limitations as outlined in Box 1 – the World Bank believes that the Global Average as it is calculated today provides a simple, robust, and sufficiently accurate tool to measure the cost of sending remittances internationally and to serve as a barometer of the impacts of cost reduction efforts. The rationale behind having global indicators cannot be forgotten: to push the cost of transferring international remittances downward, so that all migrants have access to efficient, reliable and affordable remittance services, regardless of country in which a transaction originates or to which it is destined. Thus, reducing the global average will ensure that the general level of the cost of these services is lower across the world.

The Smart Remitter Target (SmaRT)

Rationale

The increased collective knowledge on the topic of remittances, gathered through research and operational work over the last decade, has allowed for the elaboration of new indicators that more accurately reflect the user perspective by including only services that migrants and their families can reasonably be expected to be able to access. In this spirit, the WBG has developed the Smart Remitter Target (SmarRT).

> **Box 1: Strengths and Weaknesses of the Global Average**
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> The World Bank calculates and tracks the Global Average Total Cost for sending remittances on a quarterly basis. This is intended to provide a tool to track the trend of remittance prices and measure progress towards the commitment by the G8 and G20 member countries to reduce the cost of remittances by five percentage points over five years (the "5x5 Objective"). The Global Average Total Cost is calculated as the average total cost of sending USD 200 with all Remittance Service Providers (RSP) worldwide. In other words, the Global Average Total Cost is the *simple average* of the *total cost for sending USD 200* charged by *each single RSP* included in the RPW database, across all corridors covered in the database.
>
> It is also important to understand what the Global Average <u>does not</u> include specifically, RSPs that do not disclose the exchange rate applied to the transaction and fees/commission charged at remitter's end. These are listed as non-transparent and are not considered when calculating the Global Average, as they do not meet the requirements for transparency. By refusing to disclose the exchange rate applied to the transaction, the services appear artificially cheaper and would have an unfair advantage over RSPs that disclose the foreign exchange rate and fees/commissions charged on remittance transfers and hence would show a higher overall percentage price.
>
> While a useful tool, the Global Average Total Cost has limitations. The most often cited among them being that it is not weighted by flows or market share. The Global Average is a simple average, which means that all corridors and services – regardless of size – are given equal weighting. A Global Weighted Average is also calculated, but this only account for the estimated size of the flows in each corridor. An average weighted by relative size of flows in each corridor and market share of RSPs in each corridor would be ideal; however, the dearth of accurate, easily accessible, and objective data on bilateral remittance flows and RSPs' market shares in a given corridor means that this method remains exactly that – an ideal, not a real possibility.

The WBG believes that the Smart Remitter Target (SmarRT) more accurately reflects the cost that a savvy consumer with access to sufficiently complete information *could* pay in each corridor. SmaRT addresses some of the limitations of Global Average and the Global Weighted Average, especially due to lack of available data on market shares, use of services, bilateral flows etc. Most importantly, the Global Average includes relatively expensive services, which are presumably seldom used by migrants for the purposes of sending remittances to their families, but are given the same weight as cheaper services, which might be more frequently used. As such, SmaRT also reflects two critical aspects from the perspective of the users: the availability and the accessibility of the services.[2]

Compared to the Global Average or Global Weighted Average of remittance prices, SmaRThas two key advantages:

i. **SmaRT mutes the impact of changing sample of RSPs in a given corridor.** While the global average, and global weighted average are affected by the addition and removal of RSPs – which

[2] The distinction between "available" and "accessible" services lies in whether or not migrants and their families are able to use them. A service may be "available" in the sense that it is offered by a RSP, but might still not be "accessible" because some impediment prevents migrants and their families from using it, such as physical distance for cash services, not owning a bank account, not owning a mobile phone, not having Internet connection.

reflect the sometimes rapid changes in a quite fluid market – the number of RSPs included in SmaRT remains constant across corridors and over time.

ii. **SmaRT accounts for the accessibility of the services.** The cheapest services in a given corridor might be online services or may be available only to bank account holders, so, if either the remitter or the beneficiary does not have internet access or own a bank account, those services are not accessible. SmaRT accounts for this and addresses not just the availability, but also the accessibility, of services, and considers the context in both the sending and receiving countries.

As such, SmarRT will also be strictly connected to and aligned with other WBG objectives, in particular the Universal Financial Access (UFA) 2020 goal – the aspiration that all adults worldwide will have access to an account or an electronic instrument to store money, make payments, and receive deposits by 2020. The link between the two efforts is two-way; on the one hand, given that remittances are often the first service used by migrants and their families, these transactions provide a point of contact with the financial sector that can be leveraged to increase access to payment accounts by promoting more efficient transaction channels, and thereby contributing to UFA 2020; on the other hand, as UFA 2020 is achieved, improved access to and usage of transaction accounts among remittance senders and recipients could significantly increase the possibility of transferring money across borders.

Definition

SmarRT represents the average total cost that a well-informed consumer *should* expect to pay, in any given corridor, to send the equivalent of USD 200,[3] adjusted for the likelihood of the accessibility of services in that corridor.

Methodology for calculation

SmaRT is calculated using a simple average of the three cheapest services for sending the equivalent of USD 200 in each corridor and is expressed as a percentage of the total amount sent.

In order to ensure both availability and accessibility, the three cheapest services must meet the following criteria to be included in the calculation of SmaRT:

1. Transaction is available to recipient within five days after money is sent.
   - This information is already available in RPW for all services and labeled as “transfer speed”.
2. Transaction can be originated in all relevant areas of the sending country.
   - This information, categorized as high, medium or low, is only available starting in Q1 2016. The categories are assigned based on a qualitative analysis, supported by the available quantitative data, based on whether a service is accessible to a large extent to remittance senders in the corridors where it is available.
3. Transaction can be delivered to the recipient nationwide, or at least in all relevant areas of the receiving country.
   - This information is already available in RPW for all services and labeled as “network coverage,” and can be high, medium or low.Only services with a coverage area deemed as “high” will be included in SmaRT.

[3] Amount may be adjust to inflation every three years.

4. If the service requires access to a transactional account[4] or other technologies, such as the Internet or mobile phones, access to these technologies should be nearly universal for senders and receivers in that corridor.
   - There are no data available to show the accessibility of different types of services in a given region from the perspective of users. In other words, no available data show whether migrant workers have access to transactional accounts, the internet and/or mobile phones, which may be necessary to access certain remittance services. In order to estimate the accessibility of a service, a set of indicators on transaction account, internet, and mobile phone penetration have been constructed and used to estimate the likelihood of a migrant worker being able to access a service that requires one or more of these. For instance, in the case where among the three cheapest services available in a given corridor, one requires that customers have an account, such a service is not included in the calculation of SmaRT if account penetration in the sending and/or receiving country is so low that migrant workers and/or their families can be considered unlikely to have the bank account necessary to access this service.[5] The same approach is applied to the estimated accessibilities of online and mobile services based on the internet penetration and mobile penetration indicators, respectively. Table 1 delineates these indicators and the relevant data sources.

[4] The Payment Aspects of Financial Inclusion (PAFI) report broadly defines a transaction account as an account held with banks and/or other regulated service providers, which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts.

[5] The thresholds for account penetration required to be included in SmaRT on the sending and receiving side have not yet been determined and part of the discussion will be to identify the possible implications of various methods to decide which services are included or not.

Table 1: SmaRT Methodology – data sources

Criteria	Indicator	Data Source(s)	Method of Collection	Status	Method of calculation	Thresholds or eligible categories
Transfer is available to recipient within five days after money is sent	• Transfer speed	• RSP	• WB vendor – mystery shopping	Available	Filter by threshold	5 days
Transaction can be originated in all relevant areas of the sending country	• Availability of service by location in sending country	• RSP	• WB vendor	Available starting Q1 2016	Filter by categories	High
Transaction can be delivered to recipient nationwide or at least in all relevant areas of the receiving country	• Availability of service by location in receiving country	• RSP	• WB vendor	Available	Filter by categories	High
If the service requires access to an account or to internet or other technologies, access to these be nearly universal for senders and receivers in that corridor	• Transaction account ownership • Mobile phone penetration • Internet penetration	• Global Findex • ITU – available for 228 countries	• WB data catalog	Available	Filter by thresholds	See Table 2 below

Indicator for **<u>Criterion 1</u>** – **Transfer speed**: Transaction is available to recipient within five days after money is sent:

- Description: this indicator denotes the length of time it takes for the remittance to be made available to the recipient and should be less than five days in order to be included in the SmaRT calculation. The so-called "transfer speed" is currently recorded in RPW using the following categories: less than one hour, same-day, next day, 2 days, 3 to 5 days, and 6 days or more. The indicator is a filter: if the recorded transfer speed is '6 days or more' the service is not included in the SmaRT calculation.

Indicator for **<u>Criterion 2</u>** – **Availability of service by location in sending country**: Transaction can be originated in all relevant areas of the sending country:

- Description: this indicator shows the geographic coverage of the RSP offering the service in each sending country, from which it is determined whether migrant concentrated areas are covered or not. Similar to criterion 1 and 2, this indicator is filtered using the categories under which this information is currently recorded in RPW – high, medium and low – and only services with "high" network coverage are eligible for SmaRT calculations based on this criterion. This criterion will only be applied to services requiring in-person appearance at a physical location, such as those paid for in cash.

Indicator for **<u>Criterion 3</u>** – **Network coverage in receiving country**: Transaction can be delivered to recipient nationwide or at least in all relevant areas of the receiving country

- Description: this indicator shows the geographic coverage of the RSP offering the service in each receiving country, from which it is determined whether migrant concentrated areas are covered or not. Similar to criterion 1, this indicator is filtered using the categories under which this information is currently recorded in RPW – high, medium and low – and only services with "high" network coverage are eligible for SmaRT calculations based on this criterion. This criterion will only be applied to services requiring in-person appearance at a physical location, such as those paid for in cash.

Indicators for **<u>Criterion 4</u>** – **(1) Access to an account: % of adults with an account (Findex); (2) Access to internet: % of individuals using the internet (ITU); (3) Access to mobile phone: Mobile-cellular telephone subscriptions per 100 inhabitants (ITU):** For services that require access to an account or to other technologies, such as a mobile phone or the internet, access to these prerequisites should be nearly universal for senders and receivers in that corridor.

(1) Access to account: Global Findex data – specifically the % of adults with access to a transaction account, which captures the percentage of adults age 15+ who report having an account (by themselves or together with someone else) at a bank or another type of financial institution or personally using a mobile money service in the past 12 months – will be used for access to account. Findex Data is updated once every two years and covers 199 countries, including all of the sending and receiving countries in RPW.

(2) Access to internet: International Telecommunications Union (ITU) data – specifically the Internet Penetration Rate, or the % of population using the internet in an individual country – will a proxy for access to internet. The database covers 228 countries from 2000 to 2014, including all of the sending and receiving countries in RPW.

(3) Access to mobile phone: Likewise, ITU data on mobile-cellular telephone subscriptions per 100 inhabitants, which covers 228 countries from 2000 – 2014 and includes all of the sending and receiving countries in RPW.

- Description: To evaluate the accessibility of different type of remittance services using the indicators for criterion 4, minimum thresholds for account access, access to internet and mobile phones have been established for sending and receiving countries. For example, if the account ownership in a given sending country is below 80% overall, services requiring account access will be deemed inaccessible as it is unlikely that migrants will have access to account-based remittance services. The same rationale is applied to all indicators, both in sending and receiving countries. The final thresholds selected, based on an analysis of the data available and the dispersion over the last three years, are detailed in Table 2 below.

Table 2 Accessibility Thresholds for SmaRT Indicator

	Thresholds	
Indicators	Sending Country	Receiving Country
Account Ownership (% population)	80	50
Internet Penetration (% population)	80	50
Mobile Phone Penetration (per 100 inhabitants)	75	50