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PAYMENT SYSTEMS POLICY AND RESEARCH

GUIDANCE REPORT FOR THE IMPLEMENTATION OF THE CPSS-WORLD BANK GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES

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FOREWORD

The CPSS-World Bank General Principles for International Remittance Services[1] analyzes the payment system aspects of remittances and provides five general principles and two associated roles related to the market for international remittances.

The main purpose of this Guidance Report is to provide national authorities, international organizations, private sector stakeholders, civil society and other entities working on remittance policy and market reform, with additional guidance for the implementation of the general principles. Such guidance is derived from practical experiences and lessons accrued by the World Bank through its operational work in this specific field in more than 30 countries over the last 5 years, often in cooperation with other international organizations and national authorities. The report provides examples of tools and instruments that have shown to be effective in improving and reforming remittance markets.

The Guidance Report is not intended to set standards and does not supersede or modify the General Principles for International Remittance Services.

Through the preparation of this Guidance Report and its on-going field work, the World Bank has also confirmed that the General Principles for International Remittance Services continue to be a valid and effective framework to assess and reform remittance markets. The Guidance Report should nevertheless be seen as a living document that is likely to undergo periodical updates to accommodate emerging market practices and other relevant new realities in the remittances market.

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[1] CPSS-WB, General Principles for International Remittance Services, Bank for International Settlements, Basel, Switzerland, January 2007.

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ACRONYMS AND ABBREVIATIONS

ACH	Automated clearinghouse
AMF	Arab Monetary Fund
AML	Anti-money laundering
ATM	Automated teller machine
BIC	Bank identification code
BIS	Bank for International Settlements
BTS	Bancomer Transfer Services
CEMLA	Center for Latin American Monetary Studies
CFT	Combating the financing of terrorism
CPSS	Committee on Payment and Settlement Systems
EU	European Union
FATF	Financial Action Task Force
IBAN	International bank account number
IFC	International Finance Corporation
IFI	International financial institution
MFI	Microfinance institution
MIF-IDB	Multilateral Investment Fund of the Inter-American Development Bank
MSB	Money services businesses
MTO	Money transfer operator
NGO	Non-governmental organization
PSD	Payment Services Directive
RCB	Rural and community bank
RSP	Remittance service provider
SMP	Send money pacific
SWIFT	Society for Worldwide Interbank Financial Telecommunications
WB	World Bank

EXECUTIVE SUMMARY

This Guidance Report aims to present the key lessons learned from the work on remittance market reform since the General Principles for International Remittance Services were published. Organized around the structure of the General Principles, the Guidance Report explores common issues and problems with remittance markets that World Bank experts and experts from governments and other international organizations have encountered when working on remittance market reform, as well as other problems that were reported by authorities, private sector market participants or development organizations.

Practical examples of what national authorities and/or other market participants have done to address the identified problems in the market for remittances are presented in various boxes throughout the report. The lessons presented herewith have been derived mainly from those concrete actions and are intended to provide context and specific guidance for the implementation for the General Principles. These lessons are consistent with the list of possible actions already identified in Annex 1 of the General Principles report.

GENERAL PRINCIPLE 1: TRANSPARENCY AND CONSUMER PROTECTION

Remittance services involve certain risks and require that remittance service providers (RSPs) can be trusted with the consumer's funds. They also often include complex pricing structures expressed as fixed fees or percentages which typically vary depending on the amount sent. In addition, the conversion of the remittance from the legal tender of the sending country to that of the receiving country normally entails additional charges. Finally, fees or taxes may be levied at the receiving end in addition to what was charged to the sender when sending the money.

Experience in the field has shown that some RSPs still do not make the terms and conditions of their remittance services fully and easily available to senders. In some cases not even the basic price for the service is clearly disclosed. Especially in less competitive markets, consumers are sometimes forced to fill out a full form for the remittance before they are told the price and the foreign exchange rate of the service.

From the diagnostic assessments and reform work in the area of transparency and consumer protection the following lessons can be drawn:

Lesson 1.1.1

Appropriate disclosures and presentation of the relevant attributes of a remittance service by RSPs can facilitate the ability of consumers to "shop around" for a best alternative.

Lesson 1.1.2

Transparency and consumer protection are enhanced when consumers are provided with written and clear confirmation of transaction details, including fees, the foreign exchange rate applied and other attributes of the service provided.

Lesson 1.2.1

If transparency is to be effective, consumers need to have sufficient background knowledge to be able to understand the information provided and make informed choices.

Lesson 1.2.2

Consumer remittance price databases may be an effective means to provide consumers with readily comparable information on the prices and other service features of specific remittance services.

Lesson 1.3.1

An effective, readily accessible mechanism for consumers to file complaints enhances the effectiveness of consumer protections and deepens consumer confidence in regulated remittance channels.

Lesson 1.3.2

Industry-led initiatives to enhance consumer protection and effectively support customers with their problems can be an important complement to the official framework for resolving consumer disputes.

GENERAL PRINCIPLE 2: PAYMENT SYSTEM INFRASTRUCTURE

RSPs usually need to use national payments systems at some stage to be able to collect, settle and disburse funds. Non-bank RSPs such as microfinance institutions (MFIs) and others often only have indirect access to payment systems and depend on direct participants, usually banks, to provide them the required services. In some countries, access of RSPs to the national payments system is compromised because direct participants refuse to serve RSPs. The following lessons can be drawn:

Lesson 2.1.1

In deciding how non-bank RSPs are granted access to national (centralized) payment system platforms, regulators should weigh the objectives of an efficient remittance market with the need for safety and reliability of the payments system. In any case, where access to payment systems for non-bank RSPs is granted only indirectly, it is crucial that direct participants continue to offer appropriate indirect access to RSPs and that regulation does not inappropriately restrict this access or deter direct participants from providing access services to non-bank RSPs.

Lesson 2.1.2

Regulators that work with banks and other RSPs to identify ways to mitigate and control risks in the payments system may help facilitate non-bank RSPs' continued access to the relevant payment services.

Lesson 2.2

Where financial institutions or (retail) payment (distribution) networks are not present in rural areas and therefore large parts of the population remain un-served or under-served, regulators *could encourage or incentivize financial institutions and other RSPs to develop suitable infrastructure to increase distribution.*

Lesson 2.3

Allowing for different types of entities such as MFIs, postal operators and other non-bank financial services providers to participate in the remittance market may be important to achieve sufficient coverage of remittance distribution networks, including for rural areas. An enabling regulation may be needed to provide clarity on this respect. Where participation in payment system distribution networks (e.g. in ATM networks) is limited to specific regulated financial institutions (e.g. banks), non-bank RSPs should be able to enter into partnerships with other organizations suitable to act as their disbursement points for remittances.

Lesson 2.4

A regulatory and legal framework that enables and facilitates banks and other RSPs adopting new technologies for the expansion of retail and remittance payment systems is beneficial also to the development of an efficient remittance market.

Lesson 2.5

A good practice is when public and private sector stakeholders support the development of centralized, open and interoperable remittance payment platforms, and at the same time encourage operators of existing remittance infrastructure to make them accessible to other parties by means of enhanced interoperability. Where the public sector and international donors sponsor, commission or support the development of remittance infrastructure, they may wish to ensure that these systems are open to different RSPs and that they are connected and interoperable with other payment systems relevant for remittances.

Lesson 2.6

Connecting domestic retail payment systems of sending and receiving countries can offer RSPs a mechanism capable of improving their efficiency in processing remittance transactions.

GENERAL PRINCIPLE 3: LEGAL AND REGULATORY ENVIRONMENT

Assessments and advisory work in many countries have shown that the legal and regulatory framework is still one of the most critical areas for the efficiency and improvement of remittance markets. The most relevant of these aspects are summarized in the following lessons learned:

Lesson 3.1.1

Establishing at least basic prudential requirements for RSPs can help ensure that consumers are appropriately protected against financial losses.

Lesson 3.1.2

Technology and business models for remittances are evolving fast. Regulation for RSPs and remittance services functions best if it is independent of specific technologies and business models.

Lesson 3.2

A good practice is when different types of entities are permitted to provide remittance services and the requirements applicable to them are proportionate to the specific risks associated with the service. In this context, regulations should be designed on the basis of the type of service being provided rather than the type of institutions providing the service.

Lesson 3.3

The social and economic circumstances of many remitters and the small-value nature of remittances are important aspects to be considered when assessing the costs and benefits of current and new regulations.

Lesson 3.4

Remittance markets of countries with remittance flows between them benefit if the countries understand each other's legal and regulatory framework for remittances and cooperate where possible to increase consistency of regulation and the proper functioning of the market.

GENERAL PRINCIPLE 4: MARKET STRUCTURE AND COMPETITION

Policy and technical assistance work has shown that many remittance markets, both in sending and receiving countries still lack sufficient competition. The main causes were found to be barriers to entry, anti-competitive behavior and regulations that stifle competition. Key lessons are as follows:

Lesson 4.1

A functioning market requires that new RSPs are able to enter the market and establish distribution channels. A good practice is when anti-competitive arrangements are prohibited where they prevent a level of competition sufficient to ensure a functioning market. High prices may be an indication of a lack of competition.

Lesson 4.2

The ability to use relevant payment systems in the country effectively is a key operational requirement for RSPs and affects the competitiveness of individual RSPs.

GENERAL PRINCIPLE 5: GOVERNANCE AND RISK MANAGEMENT

Assessments, survey results and reports by regulators and consumers have shown that some RSPs, in particular smaller ones, do not always have the governance structures and risk management procedures that are necessary to ensure that consumers' funds are protected and that consumers receive an appropriate level of service. Relevant lessons include the following:

Lesson 5.1.1

The remittance industry, in cooperation with the relevant authorities and consumer interest groups, can enhance confidence in international remittance services and protect consumers by establishing guidelines for and practicing good governance and appropriate risk management.

Lesson 5.1.2

Authorities can effectively support RSPs by providing guidance on how to design appropriate risk management and governance programs. Often, the adoption of even basic risk management and good governance practices can lead to significant improvements.

Lesson 5.2.1

Regulators can benefit from a better understanding of the actual risks associated with remittance operations and the operational procedures and business models involved.

Lesson 5.2.2

Regulatory requirements relating to risk management and governance can be an important part of a licensing or other supervisory regime for RSPs.

ROLE A: THE ROLE OF REMITTANCE SERVICE PROVIDERS

In order to achieve their public policy objectives, the implementation of the General Principles require the active participation of RSPs. Field work has confirmed the value that RSPs can add to the objectives of the General Principles, and has also highlighted some areas where greater efforts could be made, in particular in the areas of transparency and competition.

Lesson 6.1.1

> *When RSPs cooperate on infrastructure and compete on services, the market for remittances can work more efficiently.*

Lesson 6.1.2

> *The market as a whole may benefit from the sharing of experiences and good practices, and from leveraging capabilities between RSPs and other financial service providers.*

Lesson 6.2

> *A good practice is when RSPs are actively and transparently providing information on the attributes and cost of their remittance services.*

ROLE B: THE ROLE OF PUBLIC AUTHORITIES

Since the publication of the General Principles, public authorities have carried out or supported many initiatives to reform remittance markets and have played an important role in implementing the General Principles. Their efforts and support will still be needed to address the many remaining challenges in remittance markets.

Lesson 7.1

> *The remittance market and remittance policies benefit from cooperation between public authorities with responsibility for remittances.*

Lesson 7.2

> *Public authorities have played a key role in supporting the implementation of the General Principles in many countries. Nevertheless, there is still a long way to go in many countries to achieve the public policy objectives of the General Principles. This will require the continuous involvement of public authorities.*



SECTION I

INTRODUCTION

1. BACKGROUND

1. In January 2007, the “General Principles for International Remittance Services”[2] report was released. It was prepared by a taskforce consisting of representatives of multilateral development banks and central banks, and was jointly chaired by the World Bank and the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS). The report provides an analysis of the payment system aspects of remittances, on the basis of which it sets out general principles designed to assist countries that want to improve the market for remittance services (Box 1).

2. The G8 declarations of Sea Island in 2004, Heiligendamm in 2007 and Toyako in 2008 made specific reference to the importance of facilitating remittances. The G8 Conference on Remittances in Berlin in November 2007 reviewed the actions agreed at the Sea Island Summit in 2004 and recommended several areas for action: (a) improvement in remittance data; (b) research on development impact of remittances; (c) implementation of the General Principles for International Remittance Services; (d) facilitating remittance flows and deepening the development impact of those flows; (e) attracting remittances to bankable channels; (f) supporting innovative payment instruments; and, (g) establishing a Global Remittance Working Group.

3. For the first time at the international level, the G8 Summit at L’Aquila identified and adopted a clear and quantifiable goal in a declaration on responsible leadership for a sustainable future (Box 2).

4. At the G20 Seoul Summit in November 2010, the G20 leaders reiterated the importance of facilitating international remittance flows and enhancing their efficiency to increase their contribution to growth with resilience and poverty reduction, and committed to a significant reduction of the cost of remittance services. The G20 Seoul Multi-Year Action Plan on Development of 2010 states: “We recognize the importance of facilitating international remittance flows and enhancing their efficiency to increase their contribution to growth with resilience and poverty reduction. We ask the World Bank, regional development banks, and other relevant organizations, including the Global Remittances Working Group, to work with individual G20 members and non-G20 members in order to progress further the implementation of the General Principles for International Remittance Services and related international initiatives aimed at a quantified reduction of the global average cost of transferring

[2] CPSS-WB, “General Principles for International Remittance Services”, Bank for International Settlements, Basel, Switzerland, January 2007.

BOX 1: LIST OF 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 payments 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. *The role of remittance service providers.* Remittance service providers should participate actively in the implementation of the General Principles.

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

remittances." Finally, at the Cannes Summit, the G20 also endorsed the commitment to reduce the costs to 5 percent by 2014, including in the Final Declaration the pledge to "[…] work to reduce the average cost of transferring remittances from 10 to 5 percent by 2014, contributing to release an additional 15 billion USD per year for recipient families."

2. APPLICATION OF THE GENERAL PRINCIPLES

5. The General Principles are designed to assist countries that intend to improve the market for remittance services. For their effective implementation, the General Principles require combined efforts by both public authorities and remittance service providers (RSPs). This is true for both sending and receiving

BOX 2: EXCERPT FROM THE 2009 L'AQUILA DECLARATION ON RESPONSIBLE LEADERSHIP FOR A SUSTAINABLE FUTURE

Paragraph 134: "Given the development impact of remittance flows, we will facilitate a more efficient transfer and improved use of remittances and enhance cooperation between national and international organizations, in order to implement the recommendations of the 2007 Berlin G8 Conference and of the Global Remittances Working Group established in 2009 and coordinated by the World Bank. We will aim to make financial services more accessible to migrants and to those who receive remittances in the developing world. We will work to achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10 percent to 5 percent in 5 years through enhanced information, transparency, competition and cooperation with partners, generating a significant net increase in income for migrants and their families in the developing world."

countries; indeed, in many cases, if the attempt to improve the market in a particular remittance corridor is to be fully effective, it will require cooperation between stakeholders in the relevant sending and receiving countries. However, the importance of remittance flows as well as market conditions vary from country to country. Therefore, although the 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.[3] It should also be noted that often it may be difficult for RSPs to distinguish remittances from other cross-border retail payments. So, authorities implementing the principles should be mindful that the latter may, in practice, apply to other cross-border retail payments as well.

6. Since remittance transfers are also a form of retail payment, the CPSS reports on "Policy Issues for Central Banks in Retail Payments"[4] and the forthcoming World Bank report "Developing a Comprehensive Retail Payments Strategy"[5] may be helpful in addition to the General Principles. Finally, the CPSS report on "General Guidance for National Payment System Development"[6] provides basic guidance on the development of payment systems, which are also relevant for remittance services.

3. OBJECTIVE AND ORGANIZATION OF THE GUIDANCE REPORT

7. Following the publication and circulation of the General Principles report in 2007, the World Bank and many governments and international organizations have used the General Principles to implement reforms to achieve a more efficient market for remittances.[7] Based on this experience, the Guidance Report's

[3] The size of the remittance market may only be one factor that influences whether significant action or no action is warranted.

[4] CPSS, "Policy Issues for Central Banks in Retail Payments", Bank for International Settlements, Basel, Switzerland, March 2003.

[5] This report is part of the so-called World Bank "retail package" for the development and reform of the national retail payments system, which synthesize the lessons learned in over a decade of technical assistance and research outputs of other international and national agencies. Other documents comprising the "retail package are: "A practical guide for retail payments stocktaking" in cooperation with the *Banco Central do Brasil* and the European Central Bank; "From remittances to m-payments: understanding 'alternative' means of payment within the common framework of retail payments system regulation, and; "Innovations in retail payments worldwide: A snapshot. Outcomes of the global survey on innovations in retail payments instruments and methods 2010".

[6] CPSS, "General Guidance for National Payment Systems Development", Bank for International Settlements, Basel, Switzerland, January 2006.

[7] In 2007 the World Bank, the MIF-IDB and CEMLA launched a regional program to assist the Latin American Central Banks and other relevant institutions in those countries in implementing the GPs. Since then, thirteen countries have been assessed against the General Principles and the program has provided technical assistance to the Latin American countries in several areas. This Guidance Report benefited largely from the lessons learned through the experience built in the region and from the collaboration with these institutions.

main purpose is to provide suggestions of practical actions and examples of how the General Principles may be put into practice. It needs to be noted that several of these actions had already been identified in a general form in the 2007 report.[8]

8. This Guidance Report is intended for practitioners such as central banks, other financial authorities and any other government agencies responsible for regulating and/or implementing policies in the remittance market. While this Guidance Report is based on practical experience and offers practical examples, it does not intend to provide a list of implementation actions that will work in every context or country environment.

9. Since the definitions and key features of the market for remittances are elaborated in detail in the General Principles report, this Guidance Report will not restate them but will refer to them where appropriate.

[8] See Annex 1 to the General Principles report, "Possible actions to implement the Principles".

SECTION II

LESSONS FOR THE IMPLEMENTATION OF THE GENERAL PRINCIPLES

  

10. This Guidance Report presents the key lessons obtained mainly by the World Bank in the implementation of the CPSS-World Bank General Principles for International Remittance Services (General Principles) since their publication in January 2007. Annex 1 of the General Principles report "Possible actions to implement the Principles" is taken as the basis for this discussion.[9] Practical examples of what national authorities and/or other market participants have done to address problems in the market for remittances are presented in various boxes throughout the report. The lessons presented herewith have been derived mainly from those concrete actions and are intended to provide context and specific guidance for the implementation for the General Principles.

1. TRANSPARENCY AND CONSUMER PROTECTION

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

[9] Annex 1 of the General Principles report shows possible actions based on the experiences of a number of sending and receiving countries. It is recognized that actions that are helpful in one country may not be equally helpful in another, for which reason the possible actions are not to be taken as a checklist of what needs to be done to ensure the Principles are met.

11. Remittance services are often characterized by complex pricing structures and terms of service. Remittances also involve certain risks and require that RSPs can be trusted with consumers' funds. General Principle 1 states the need for openness and transparency in the market for remittances. General Principle 1 also promotes greater consumer awareness and consumer protection to ensure fair treatment.

1.1 Key Lessons Regarding Transparency

Lesson 1.1.1

> *Appropriate disclosures and presentation of the relevant attributes of a remittance service by RSPs can facilitate the ability of consumers to "shop around" for a best alternative.*

12. Adequate transparency for remittance services would mean that RSPs disclose the fees charged to the sender and the recipient, the exchange rate applied to the transaction, any other fees charged and the time and location at which the remittance would be available for collection, among other key features of the service. This information relevant information should be easily available and made available upon request, without requiring any other action from the consumer such as opening an account or committing to use the remittance service. Annex 1 of the General Principles

BOX 3: TRANSPARENCY TO THE SENDER

When a customer enquires about a specific remittance transfer, full transparency would mean that RSPs clearly disclose 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 (e.g. 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 (e.g. if a bank account is to be credited, whether the sender knows the relevant bank and account identification codes such as BIC or IBAN), 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 (e.g. the procedures to be followed in the event of a dispute about the service), and; (d) appropriate contact information about the RSP.

Source: from Annex 1 of the General Principles for International Remittances report.

report identified the specific information that an RSP should aim to provide if it wants to achieve full transparency.[10] Those requirements are reproduced here in Box 3.

13. In addition, RSPs could also inform consumers of the various options and service alternatives that are available, including, where applicable, the various amount bands, transfer speed options, alternatives for the recipient (e.g. pick-up, credit to an account, etc.), the currency or currencies in which the remittance can be disbursed, among others.

[10] See Box 6 in Annex 1 of the General Principles report.

14. RSPs should also provide a pre-transaction quotation for the specific amount/service combination pre-selected by the customer. The quotation should include, in separate line items, the information indicated in items (A) through (E) in Box 3. Consumers should also be informed about the possibility of one or more of the information items changing from the moment the quotation is provided to the moment the transaction is actually executed, as may be the case for the applicable exchange rate.[11]

15. According to World Bank field work experience, authorities have focused their attention on those information items more directly related to pricing issues such as item (C) and in some cases also (A) and (B). Clear and precise information about the timing and location of pay-out also play an important role. Remittances often go to families living in rural areas or in marginalized urban areas and family members have to travel to a specific location to pick up their remittances. To avoid multiple costly journeys, the recipient needs to know the exact time and location in which the money will be available. On the other hand, RSPs usually use a wide network of agents in the receiving country to pay remittances on their behalf, which may make identifying the proper pick-up location a complicated matter for the sender and/or the recipient.

16. Self-regulatory measures such as the adoption of a code of conduct by the industry containing agreed standards with regard to information disclosure to remittance consumers have proved useful as a complement to official regulation and supervision in enhancing transparency levels.[12] Further, initiatives like this can play an important role in filling the gap as the government works to implement or extend the official regulatory and supervisory framework. However, self-regulation is not always effective. It can be expensive for industry to enforce. There are also some risks associated with self-regulation, including the risk that dominant players in the industry use self-regulation enforcement or certification to constrain entry to the market by other service providers.

Lesson 1.1.2

> *Transparency and consumer protection are enhanced when consumers are provided with written and clear confirmation of transaction details, including fees, the foreign exchange rate applied and other attributes of the service provided.*

17. As earlier discussed, some of the conditions of a remittance transaction may vary from the moment a quotation is provided to the moment the transaction is actually executed. The customer should be informed of the specific exchange rate that was applied to his/her transaction. In some cases, this can help consumers in identifying what RSP provide reliable/serious quotation information.

18. A written confirmation of the final amount to be received by the beneficiary in the requested currency provides certainty and also prevents fraud at the receiving end, since the beneficiaries know the exact amount they are entitled to collect.

19. Post-transaction services should include detailed information on the procedures to be followed in case

[11] Moreover, as identified in the General Principles report, there could be cases - typically with open network services - where the remittance service business model is such that the sending RSP cannot make a commitment about how long the transfer will take or does not know what fee the receiver may be charged or what specific amount the beneficiary will receive - and is thus unable to provide all the required information to the customer. When this is the case, the sender should be made aware of the reasons for the lack of such information.

[12] Additional information on an industry code of conduct is provided as part of the lessons learned in the area of ensuring appropriate consumer protection (see sub-section III.1.3).

there is a problem with the transaction (e.g. the remittance failed to reach the receiver) or if any of the agreed conditions were not properly met.[13]

1.2 Key Lessons Regarding Consumer Education

Lesson 1.2.1

> *If transparency is to be effective, consumers need to have sufficient background knowledge to be able to understand the information provided and make informed choices.*

20. Public sector authorities and private sector entities alike in both sending and receiving countries can undertake educational campaigns that explain the main characteristics of remittance services, available products and services and how to use them (e.g. required documentation and other necessary information), how to evaluate different alternatives, and the consumer protection mechanisms that can be used in the event of fraud or disputes.[14] For example, the governments of some receiving countries offer educational programs through their embassies and consulates in the relevant sending countries to raise awareness about important issues related to remittances and other financial services. Similar educational efforts can also be undertaken in receiving countries because a recipient often influences the sender's choice of RSP. In the latter case, it is likely that the effort will be more effective if undertaken by those authorities with a closer relationship with the receiver of remittance services, such as the consumer protection agency.

21. Private sector institutions such as individual RSPs, migrant associations, consumer protection groups, and non-governmental organizations (NGOs) can play a role in the preparation, collection, and dissemination of educational materials and other relevant information. As identified in Annex 1 of the General Principles report, some of the most effective means and channels for disseminating remittance-related information include: i) use of ethnic media in the sending country, especially press and radio; ii) use of financial media as appropriate, iii) immigrant aid organizations; iv) public and private sector consumer bodies, using printed material and web pages; v) overseas consulates and embassies of receiving countries; and, vi) internet and social media

Lesson 1.2.2

> *Consumer remittance price databases may be an effective means to provide consumers with readily comparable information on the prices and other service features of specific remittance services.*

22. The World Bank developed and periodically updates a worldwide database covering various international sending and receiving corridors (http://remittanceprices.worldbank.org). Box 4 provides a list of key minimum requirements for developing an appropriate national remittance price comparison database, based on the World Bank's own experience with this tool as outlined in the World Bank policy paper "Remittance Price Comparison Databases: Minimum Requirements and Overall Policy Strategy".[15]

[13] Detailed guidance on consumer redress mechanisms is provided as part of the lessons learned in the area of ensuring appropriate consumer protection (see sub-section III.1.3).

[14] Although out of the scope of this Principle, educational efforts should also target entities that could potentially become RSPs or RSP agent or sub-agents and which may not be aware of the market opportunities that exist from the large migration flows and the demographic changes this creates. Indeed, some financial institutions still view remittance senders and recipients as unprofitable and high-risk customers. Publication of data and other publicity about the scale and importance of remittance flows can help understand such market opportunities.

[15] Available at http//:remittanceprices.worldbank.org

BOX 4: REQUIREMENTS FOR WORLD BANK ACCREDITATION OF REMITTANCE PRICE DATABASES

1) Double price points data gathering (and using the average value).
2) Collection of information about the fees for the sender.
3) Collection of information about the exchange rate applied.
4) Provision of total amount of the identified costs on the website.
5) Data on speed of the transaction.
6) Data on type of services provided.
7) Coverage of at least 60 percent of all remittance providers per corridor.
8) Independence of the researchers (for example, not affiliated with any RSP).
9) Validation through "mystery shopping" exercises for data integrity tests.
10) No advertisement policy in the price database (to maintain independence).
11) No subscription policy and clear funding process.
12) Linkage with other WB-approved databases.

23. When disseminated extensively, a properly-built consumer remittance price database can become an additional tool to improve overall transparency levels by prompting individual RSPs to, as a minimum, provide information on all the same variables and use presentation standards similar to those featured in those databases.

1.3 Key Lessons Regarding Consumer Protection

Lesson 1.3.1

An effective, readily accessible mechanism for consumers to file complaints enhances the effectiveness of consumer protections and deepens consumer confidence in regulated remittance channels.

24. Consumer redress mechanisms aim at protecting consumers of remittance services against fraud, misappropriation of funds and other types of problems and shortfalls in the service provided by RSPs. For it to be effective, the procedures to address fraud and resolve other disputes with the RSP should be clear and easily applicable. The existence of such a redress mechanism should be widely disseminated and the applicable procedures should be publicly available to promote consumer awareness.

BOX 5: SEND MONEY PACIFIC

Send Money Pacific (SMP) is a remittance price database funded by AusAID and NZAID. It includes data on pricing for sending money from Australia and New Zealand to eight of the Pacific Islands. SMP first went online on January 9th, 2009 and was certified by the World Bank to meet the requirements for remittance price databases in September 2010.

Data for SMP is collected on a monthly basis for two amounts (AUD/NZD 200 and 500). The database includes services offered by specialized money transfer operators (MTOs) as well as commercial banks.

An encouraging sign of the effectiveness of SMP is that the cost of remittance services in the surveyed corridors from New Zealand fell from 18.64 percent in January 2009 to 14.83 percent for transferring NZD 200 in July 2011. Australia has also experienced a reduction of the cost for sending AUD 200 from 23.19 percent to 19.78 percent over the same period of time. Since the market in the Pacific is dominated by MTOs, it is important to note the particularly steep reduction in the costs of services offered by MTOs. According to the SMP data, such costs dropped from 14.60 percent to 10.51 percent for remittances from New Zealand, and from 16.54 percent to 12.67 percent for remittances from Australia.

The SMP team has implemented a number of marketing activities over the years. These have included presence at events and festivals, workshops, creation of a newsletter, meetings with community leaders, radio and press releases and others. The SMP team has also promoted the website by linking with other websites and publishing a page on social network sites (e.g. Facebook). These promotion activities have been very successful and brought SMP from a few hundred of visits per month in early 2010, to over 5,000 in April and May 2011. An online survey clearly showed that most of the visitors of the sites are migrants sending money home, suggesting that SMP is influencing the remittance market.

25. Many countries already have a general framework for resolving consumer disputes, and in some cases a specialized framework of this kind has been developed specifically for financial services.[16] Often, however, even the specialized framework does not apply to remittance services and/or to all RSPs (e.g. those RSPs not classified as "financial institutions" under the applicable legal framework). Consideration should be given by the relevant authorities to extending the application of such a framework for resolving consumer disputes to the remittances industry.

26. To the extent possible, dispute resolution procedures should recognize that a significant share of the users of remittance services may face particular difficulties in enforcing their rights through the general legal system (e.g. due to their situation as illegal immigrants, or because of cultural and/or language barriers, among other factors).

Lesson 1.3.2

Industry-led initiatives to enhance consumer protection and effectively support customers with

[16] In some countries, consumer protection is ensured by a financial ombudsman that protects consumers from malfeasance by financial service providers. The ombudsman is sometimes also empowered to sanction the relevant service provider. Where this is not the case, the roles and boundaries of the various national authorities (central banks, prudential supervisory agencies and consumer protection groups) for matters related to consumer protection of financial service users should be clear and be publicly disclosed to the extent possible.

BOX 6: GOOD PRACTICES FOR DEVELOPING AN INDUSTRY CODE OF CONDUCT

1) The code should contain recommendations for transparency and consumer protection, as described in this Guidance Report, among other key aspects.

2) There should be arrangements for regular review and updating of the code.

3) There should be adequate human and financial resources for the industry effort.

4) Ideally, there should be organizational independence from the industry.

5) There should be widespread coverage of service providers adhering to the code.

6) The arrangements should have the support of key stakeholders.

7) Enforcement of the provisions in the code is important to bring offenders into line. The effectiveness of enforcement or monitoring of compliance will depend largely on the resources available to perform this task.

their problems can be an important complement to the official framework for resolving consumer disputes.

27. As earlier discussed, self-regulatory measures such as the development and adoption of a code of conduct or customer charter by the industry, either as a complement to any official regulations with regard to transparency or when official regulation and oversight cannot be implemented in a short time span, can also be an effective means to enhance transparency and consumer protection. These initiatives should address consumer protection issues in detail and suit national circumstances, including the legal and regulatory environment.

28. An appropriately protective industry code of conduct could be agreed upon and subscribed by the largest possible number of RSPs at the national level. On this basis, each RSP should develop clear procedures that can be easily followed by an average remittance customer in the event of a problem or dispute. Where applicable, these procedures should also conform to relevant official regulations.

29. The code of conduct/customer charter should contain high-level principles in consumer-friendly language – not in the form of a legal contract. However, there may be a need to provide explanatory guidance for RSPs to articulate the high-level principles in more detail in order to provide operational clarity. Both the code of conduct and the detailed guidance for its implementation should be in the public domain. Box 6 describes examples of good practices for developing and adopting an industry code of conduct.

30. Industry efforts to promote enhanced transparency and consumer protection might be further expanded by developing an independent RSP certification program, one of its specific purposes being to help con-

sumers identify with ease those RSPs that have been certified as fully compliant with the industry code of conduct or any other relevant industry standards.

2. 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.

31. Remittance services, except perhaps those that are entirely cash based, depend at some stage on national or international payments infrastructure for settlement (and sometimes also for the transfer of information). RSPs often require using parts of the payments infrastructure in the sending and receiving countries to, for example, pay the actual remittances or to facilitate settlement between different parties involved in the processing of remittances. Access to national or centralized payment systems can generally be provided as direct access or as indirect access. In the latter case, an RSP uses the payments system through the services provided by a direct participant of that payments system, typically a bank.[17]

32. Remittances, like other payments, require significant investments in infrastructure (and therefore economies of scale to break even). This includes building collection and distribution networks and retail payment platforms in the sending and the receiving country.

2.1 Key Lessons Regarding Payment System Access

Lesson 2.1.1

> *In deciding how non-bank RSPs are granted access to national (centralized) payment system platforms, regulators should weigh the objectives of an efficient remittance market with the need for safety and reliability of the payments system. In any case, where access to payment systems for non-bank RSPs is granted only indirectly, it is crucial that direct participants continue to offer appropriate indirect access to RSPs and that regulation does not inappropriately restrict this access or deter direct participants from providing access services to non-bank RSPs.*

33. In many countries access to national or centralized payment systems is limited to regulated financial institutions, mostly banks, and access for other RSPs is therefore only possible indirectly through banks. An example of banking services for RSPs is provided in Box 7 below. To process remittances efficiently, non-bank RSPs therefore depend on banks and banking services. However, in a number of countries where this is the case, banks have decided to discontinue banking services to non-bank RSPs for a variety of reasons, including: a) the bank and the RSP(s) are direct competitors in this market, which raises a conflict in the bank; b) financial regulators have extended the burden of monitoring the transactional activity of RSPs onto the banks; c) regulators have highlighted remittances as a high risk services and thereby discouraged banks from serving RSPs.

Lesson 2.1.2

> *Regulators that work with banks and other RSPs to identify ways to mitigate and control risks in the payments system may help facilitate non-bank RSPs' continued access to the relevant payment services.*

[17] On the other hand, direct access means that the RSP is itself a direct participant in the payments system, submits its payment instructions directly to the system, and is responsible for settling them.

BOX 7: EXAMPLE OF BANKING SERVICES FOR RSPS

WestPac is one of Australia's leading banks and offers an online banking facility that allows its RSP customers to make online settlement payments with their remittance partners overseas using SWIFT. These services are provided at a reduced cost compared to over-the-counter international money transfers.

34. Non-bank RSPs that operate safely and do not have direct access to a centralized payments system should be able to continue using the services of banks to access such a system. Regulators in some countries are engaging in discussions with banks and other RSPs to determine the way in which payment services by banks to those non-bank RSPs can be provided on an ongoing basis without jeopardizing the ongoing safety and integrity of the relevant payment systems, or without putting at risk the banks' themselves in their role as payment services providers with responsibility for ensuring the integrity of transactions.

2.2 Key Lessons Regarding the Expansion of Retail Payments Infrastructure

Lesson 2.2

> *Where financial institutions or (retail) payment (distribution) networks are not present in rural areas and therefore large parts of the population remain un-served or under-served, regulators could encourage or incentivize financial institutions and other RSPs to develop suitable infrastructure to increase distribution.*

35. The payments infrastructure in many developing countries that receive a large volume of remittances is very limited and the existing infrastructure often suffers from inefficiencies. Modern payment systems and payment distribution networks that would enable the efficient processing of payments and support low cost delivery of remittances, such as automated clearinghouses or ACHs, or networks of ATMs and point of sale terminal, either do not exist or are available only to a few financial institutions and retailers. Bank branch networks are often limited and only reach urban areas. Some payments or remittance service providers in developing countries have innovatively used new technology to overcome these shortcomings with great benefits.

36. Many remittance and retail payment systems exist today that have the ability to process remittances efficiently, but they are often proprietary, are stand-alone solutions, are not interconnected or otherwise limit scalability. This often means, for example, that banks and other distribution parties in the receiving countries need to operate multiple systems – for the various RSPs they do business with - and develop the required expertise, or need to connect their internal systems to a large number of different RSP systems, which is generally costly and lengthy. Innovative remittance and retail payment systems are nevertheless a desirable feature in the marketplace.

37. Examples in a number of countries have shown that sharing infrastructure (e.g. through increased interoperability of payment systems) can enable RSPs to establish remittance services to new destinations quicker, at lower cost and with significant benefits to all parties involved. Box 8 below provides two examples of commendable developments in retail payments infrastructure. The emergence of specialized service providers to connect sending and receiving RSPs can produce significant efficiencies and cost savings by facilitating standardization, spreading costs over many parties and reaching economies of scale quicker.

BOX 8: RETAIL PAYMENT SYSTEMS DEVELOPMENTS

Example 1: *Banco de México*.

Banco de Mexico, Mexico's central bank, has been intimately involved in the development of payment systems in the country. During the last few years, the regulatory framework has been modified to reduce barriers to entry, facilitate access to domestic payment systems and increase price transparency. A number of measures have been undertaken to further promote and facilitate the development of payment services. Among these, the introduction of new transparency rules for bank charges and the reform of the requirements to access to the common inter-bank infrastructure for electronic fund transfers should be mentioned. More recently, changes to banking regulations have been adopted to facilitate the use correspondents and/or agents and the provision of mobile payment services using prepaid accounts.

Example 2: Mobile phone-based payment system at postal operators in West Africa.

Several postal operators in West Africa have connected, through mobile phones with a specific application, their post office locations - as payment locations - at their head office where all payments and remittances are centrally processed. Staff at individual post offices can request a remittance or domestic transfer for a customer by entering the required information into the mobile phone of the post office and the receiving post office can access this information for payment the same way. Such system, when linked to the International Financial System provided by the Universal Postal Union, has allowed post offices in remote areas to provide remittances services for their customers.

2.3 Key Lessons Regarding Remittance Distribution

Lesson 2.3

> *Allowing for different types of entities such as MFIs, postal operators and other non-bank financial services providers to participate in the remittance market may be important to achieve sufficient coverage of remittance distribution networks, including for rural areas. An enabling regulation may be needed to provide clarity on this respect. Where participation in payment system distribution networks (e.g. in ATM networks) is limited to specific regulated financial institutions (e.g. banks), non-bank RSPs should be able to enter into partnerships with other organizations suitable to act as their disbursement points for remittances.*

38. In many developing countries where retail payments locations of banks and other financial institutions are limited, alternative payment locations exist that can extend the reach of traditional financial outlets, for example (MFIs, national postal systems or commercial retailers-see Box 9). These can be particularly relevant for international remittances due to their wide geographic reach and accessibility for the rural and lower income population. RSPs often outsource part of their distribution operations and use third parties as agents (or under other legal arrangements) to act as collection or disbursement points. Banks in many countries also increasingly use these distribution models.

39. World Bank experience in the field has nonetheless shown that some countries restrict non-bank financial institutions from participating directly in remittance

BOX 9: INCREASING REMITTANCE SERVICES IN RURAL AREAS: CORRESPONDENT BANKING IN BRAZIL

Some of the 5,578 municipalities in Brazil have no bank branches but receive banking services instead through so-called *correspondentes bancários* (bank correspondents). In 2000 there were approximately 2,000 *correspondentes bancários* in Brazil, but nowadays the number has risen to slightly less than 150,000 - almost six times the number of bank branches (26,500). They act on behalf of banks under agency agreements and are authorized, among other things, to receive deposits and general payments, make payments related to the accounts concerned and receive applications related to loans and credit cards. The most important *correspondente bancário* is the Brazilian post office (ECT - *Empresa Brasileira de Correios e Telégrafos*). ECT 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 outlets, 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 institutions that can be *correspondentes bancários*, the types of services that they can provide, the settlement procedures between the *correspondente bancário* and the bank for which it acts and the requirement that a *correspondente bancário* cannot use its own funds for its banking service activities.

markets, and in some cases even prohibit their indirect participation as agents or correspondents of a bank or otherwise regulated RSPs.

40. National postal services, for example, which often provide payment services, usually have a large distribution network and are therefore widely accessible in many countries. Enabling them to provide remittance services or at least provide distribution services to RSPs can increase competition, provide more convenient services to recipients and may help to reduce prices.

41. The banking system could be encouraged to further develop arrangements with third parties with wide distribution networks suitable to provide payment services. Enlarging the national payments system through increased interoperability of networks for specific types of payment instruments, notably payment card and ATM networks, could also provide increased access to remittance services.

2.4 Key Lessons Regarding New Technologies

Lesson 2.4

> *A regulatory and legal framework that enables and facilitates banks and other RSPs adopting new technologies for the expansion of retail and remittance payment systems is beneficial also to the development of an efficient remittance market.*

42. New technology, including mobile telecommunication, is increasingly used to overcome infrastructure limitations and has demonstrated potential to expand the reach of existing payment systems, or even to function as the backbone of new payment systems. Electronic payments offer lower operating costs for RSPs and lower prices and increased convenience for consumers. While the majority of remittances are still sent from and received in physical locations using cash,

BOX 10: USE OF TECHNOLOGY FOR REMITTANCE SERVICES

Example 1: Times of Money/Remit2India.
Times of Money operates an internet funds transfer platform which has been used by financial service providers in India to develop branded remittance products. The platform uses services of financial institutions in the sending countries like US, UK and Australia to receive the funds from the sender either through a direct debit or credit transfer using the domestic payment infrastructure like ACH. The funds are then aggregated and sent to the financial service provider in India typically through correspondent banks. The funds are then remitted to the recipients using the domestic payment infrastructure in India, typically the National Electronic Funds Transfer (NEFT) system. The platform avoids the use of agents and thus has been able to offer the services at very low fees, and given that it operates as a service provider to multiple financial services institutions it has benefited from economies of scale. This platform is not suitable however for instantaneous transfers given the processing time and operating rules related to settlement in the domestic payment systems used. Typically, the transfers take 3-5 days to get to the final beneficiary.

Example 2: Smart and GCash Mobile Remittances in the Philippines.
In the Philippines, telecom companies provide remittance services that use mobile phones and e-money (stored value). The telecom company recruited RSPs to provide services 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 either transfer by a further text message to the phone of another person or to an agent of the telecom company. In the latter case, the agent in return will give the receiver cash. Settlement between the sending RSP and the telecom company, and between the telecom company and its Philippine agents, is via the usual banking channels. The electronic money transfer service aspects of these remittance services are regulated by the central bank as the payment system overseer.

new online and mobile phone services have grown fast in some markets and demonstrated their potential to reduce costs (see Box 10).[18]

2.5 Key Lessons Regarding Open and Interoperable Remittance Systems

Lesson 2.5

A good practice is when public and private sector stakeholders support the development of centralized, open and interoperable remittance payment platforms, and at the same time encourage operators of existing remittance infrastructure to make them accessible to other parties by means of enhanced interoperability. Where the public sector and international donors sponsor, commission or support the development of remittance infrastructure, they may wish to ensure that these systems are open to different RSPs and that they are connected and interoperable with other payment systems relevant for remittances.

43. Developments in competitive remittance markets have shown that increased cooperation of RSPs by combining distribution networks and the creation of

[18] Note, however, that in most instances, the use of electronic payments for remittances does not eliminate the need for cash-in/cash-out distribution networks or agents.

BOX 11: INTEROPERABLE AND OPEN REMITTANCE NETWORKS

Example 1: BRAC Remittance Processing Hub.
BRAC is a microfinance bank in Bangladesh that has built a central remittance processing hub called "ELDORADO" that combines the branch network of BRAC with that of other participating banks and other financial services providers. The network is also connected to the ATM network and has entered into a partnership with Bangalink, the country's largest mobile network operator. RSPs can connect to the hub and will be able to send remittances through all participating institutions.

Example 2: Bancomer Transfer Services.
Bancomer Transfer Services (BTS) is a subsidiary of the Mexican bank BBVA Bancomer (part of Spanish bank BBVA) which has developed an open remittance platform that combines its originally proprietary branch distribution network in Mexico with the branch network of many of its correspondent banks and recently also retail networks in other Latin American countries. RSPs can access the combined network simply by establishing one connection to BTS's platform.

open remittance networks that can be used by a number of market participants can greatly enhance efficiency and reduce costs (see Box 11 on interoperable and open remittance networks).

2.6 Key Lessons Regarding Improvements to Cross-Border Payment Infrastructure

Lesson 2.6

> *Connecting domestic retail payment systems of sending and receiving countries can offer RSPs a mechanism capable of improving their efficiency in processing remittance transactions.*

44. World Bank assessments and studies in recent years have shown that some payments system operators have begun to develop payment platforms to connect the domestic payments system in remittance sending and receiving countries to establish a fast and efficient way to process international payments (see Box 12 below).

45. In any event, to implement a link requires a high level of bilateral (or eventually multilateral) cooperation on technical, regulatory and oversight matters. The complexity of constructing a payments channel that complies with the requirements in two or more jurisdictions may require the extensive involvement of central banks, other regulators, payment system operators, banks and bankers' associations and other industry representatives from both jurisdictions.

3. 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.

46. General Principle 3 aims to ensure that remittances are supported by an appropriate legal and regulatory framework. World Bank assessments and advisory work in many countries, especially developing receiving countries, have shown that the legal and regulatory framework is still one of the most critical areas for the efficiency and improvement of remittance markets.

BOX 12: INTERCONNECTION OF PAYMENT SYSTEMS AND SERVICES ACROSS BORDERS

Example 1: Earthport.
Earthport is a UK company founded in 1997 that provides banks and RSPs a connection to many national ACHs around the world. RSPs connected to Earthport's payments platform are able to send remittances to bank accounts in many countries by establishing just one connection.

Example 2: SWIFTRemit
SWIFT is a messaging system for banks that is used by most banks in the world to make international transfers. SWIFT, which was traditionally limited to account-to-account payments, introduced SWIFTRemit to provide banks with a tool to process remittances through a variety of channels and payment instruments, including cash. Combining a contract template, a common market practice rulebook, an online reference data directory, messaging standards and services, SWIFTRemit supports all types of retail payment products and channels: account, cash, cards, cheque and mobile.

Example 3: Connecting domestic ACHs across borders.
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.

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 and Banco de México (Mexico's central bank) began offering a cross-border ACH service from the United States to Mexico, which was later named Directo a Mexico. While the 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.

In 2009, the US ACH service was extended to cover a wide number of European countries for transfers to accounts and several countries in Latin America for transfers with payment in cash via RSP's distribution networks. To facilitate this, a new ACH format, the International ACH (IAT), was implemented starting September 2009.

47. Given the size and importance of remittances for social and economic development and the risks of international cash transfers, the policy side of remittance regulation serves more than one objective, Typically policy needs to ensure that remittances can benefit the economy and the often poor people who receive them as much as possible while ensuring that the financial system is protected from risks.

3.1 Key Lessons Regarding the Soundness and Flexibility of Regulatory and Legal Frameworks

Lesson 3.1.1

Establishing at least basic prudential requirements for RSPs can help ensure that consumers are appropriately protected against financial losses.

BOX 13: RSP REGULATION: THE UNIFORM MONEY SERVICES ACT IN THE UNITED STATES

In the United States, most individual states regulate and supervise many of the RSPs that are not banks or credit unions. Many RSPs that are not banks or credit unions that wish to operate across the US hence need to obtain licenses or register in most of the 50 states. The Uniform Money Services Act was suggested by the National Conference of Commissioners on Uniform State Laws as a worthwhile Uniform State Law to help regulate money transfer operations and other "money services businesses" in 2000. It was later amended in 2004. The act provides a framework for regulating some aspects of money services businesses: the act focuses on prudential requirements and anti-money laundering issues, while not addressing consumer protection issues. The Act was adopted by Alaska, Arkansas, Iowa, the U.S. Virgin Islands, Vermont and Washington and used as a basis for regulation in many other States.

48. Remittance services can entail risks of financial losses for consumers who entrust funds to an RSP expecting that a payment will be made to the designated beneficiary. Countries have chosen very different approaches to ensuring that consumers are appropriately protected against this potential financial loss, ranging from prudential requirements that are very similar to those applicable to banks, to licenses with simplified prudential requirements, to simple registration, or no requirements at all.

49. World Bank analyses from assessments and other market studies indicate that remittance markets where high prudential requirements are applied to non-bank RSPs tend to be uncompetitive because the markets lack specialized operators and have comparatively large usage of unregulated channels. On the other hand, market participants and regulators in several countries with no prudential or licensing requirements at all, or where such requirements are not enforced, reported more often that they had cases of fraud (e.g. RSPs that only promoted a remittance service for few weeks, collected funds for transfer from consumers and then disappeared with these funds), or had bankruptcies of RSPs that caused losses to consumers.

50. Licensing and registration procedures and requirements should be proportionate to the risk associated with the remittance service provided (Box 13 outlines the US approach to RSP regulation). Requirements for licensing of RSPs in competitive markets with low costs tend to cover the following:

a) Identification of beneficial owners and proof of their reliability;
b) financial soundness;
c) operational capacity;
d) management of consumers' funds;
e) compliance with anti-money laundering and counter-terrorist financing regulation.

Lesson 3.1.2

Technology and business models for remittances are evolving fast. Regulation for RSPs and remittance services functions best if it is independent of specific technologies and business models.

51. New payment and telecommunications technology is shaping remittance markets. New forms of electronic payments and electronic user interfaces are changing the traditional business model of RSPs and are fostering the evolution of more efficient and cheaper remittance services.[19]

[19] For example, the collection of remittances through retail agents which maintain physical locations is costly, being responsible for about 30 percent to 50 percent of the total costs of RSPs.

52. Regulation in some countries is still based on the traditional model of remittance services, or is tailored around one specific emerging technology. Discussions with market participants have shown that RSPs in these cases tend to stick to the less efficient business model or favor one technology over other, potentially more efficient ones. A regulatory framework that is too rigid can maintain or promote inefficiencies in the remittance market.

53. Regulation should therefore consider and accommodate different business models, processing arrangements, and technologies and establish the necessary requirements for RSPs without prescribing specific means to achieve them.

3.2 Key Lessons Regarding Non-Discriminatory Regulatory and Legal Frameworks

Lesson 3.2

> *A good practice is when different types of entities are permitted to provide remittance services and the requirements applicable to them are proportionate to the specific risks associated with the service. In this context, regulations should be designed on the basis of the type of service being provided rather than the type of institutions providing the service.*

54. Remittance services are still mostly cash based and therefore require broad distribution networks. In many countries, regulated financial institutions do not have the necessary network of branches to cover rural areas. In addition, remittances are large volume, small value transactions that require high efficiency and low operating costs. RSPs are therefore often specialized money transfer operators (MTOs) with dedicated systems and that operate through commercial retailers and other entities to collect and disburse the funds. Because they are highly specialized operators, their risk profile is different to that of banks which offer a variety of much more complex financial services and take deposits from the public.

55. The legal requirements that apply to banks in some cases make it difficult for them to offer remittance services efficiently because the regulatory requirements are too costly and burdensome or do not allow for business practices that facilitate the efficient processing of remittances. At the same time, in some cases bank regulation is simply extended to specialized MTOs that have a very different risk profile and operational capacity.

56. Regulators face the challenge to ensure that both specialized service providers and banks are able to participate in the remittance market (Box 14 outlines the solutions adopted by the European and Japanese regulators). Banks play an important role because they can offer senders and recipients of remittances access to a broad range of financial services and can thereby further the objectives of financial inclusion. Specialized providers may have broader reach, increase competition, and may adopt new technologies more quickly.

57. World Bank experience in assessing legal frameworks for remittances has shown that markets tend to function best when a specific type of license is developed for specialized payment services providers (i.e. providers that are not banks or other deposit-taking institutions), which limits the services they can provide to money transfers/remittances. This approach generally allows for setting regulatory requirements that are commensurate with the products and services provided by these specialized service providers.

3.3 Key Lessons Regarding the Proportionality of Regulatory Frameworks

Lesson 3.3

> *The social and economic circumstances of many remitters and the small-value nature of remittances are important aspects to be considered when assessing the costs and benefits of current and new regulations.*

58. Remittances can pose risks to the financial system, in particular with respect to money laundering and terrorist financing, and of financial losses for consumers. At the same time, they provide an important social benefit and individually are very small-value transactions. Senders and recipients of remittances are often disenfranchised due to poverty, lack of education and their legal status.

BOX 14: REGULATORY REFORM

Example 1: The EU Payment Services Directive.

The Payment Services Directive (2007/64/EC) (PSD) of the European Union (EU) covers various issues related to remittances identified in the CPSS-World Bank General Principles and establishes rules for payment service providers including RSPs. The PSD establishes a harmonized legal framework for remittance services in the EU by creating a single license for all providers of payment services which are not taking deposits or issuing electronic money. To this end, the PSD introduces a new category of provider of payment services, the 'Payment Institution'.

The PSD serves three main goals: First, the PSD supports the establishment of a single payments market and harmonizes payment services regulations across member states. Second, the PSD increases competition among payment service providers and efficiency in the payments market. Third, the PSD promotes transparency and consumer protections for payment services users.

The rules only apply to payment transactions in EU currencies where both the payer's payment service provider and the recipient's payment service provider are located in the EU (so-called two-leg payment transactions).[20] Thus, the PSD only covers part of the remittance flows entering or leaving an EU country. The PSD already acknowledged this in Article 87, in which the Commission is invited in the context of the review of the Directive after three years of operation, to examine the possible need to expand the scope of the PSD to include payments where either the payer or the payee is outside the EU (one-leg payment transactions), as well as to include transactions in non-EU currencies.[21] Several countries have already made use of the option given in the PSD to widen the scope of the rules to one-leg transactions and to all currencies when they transposed the Directive into their national legislation.[22]

Example 2: The Payment Services Act of Japan.

The Payment Services Act in Japan came into effect in April 2010 and deregulated various aspects of the payments market in Japan. Among other issues, it enabled companies to offer remittance services by registering as a special type of entity with lower regulatory requirements than previously necessary when only banks were allowed to offer remittance services.

[20] Article 2 of the Directive excludes Article 73 on value dating from the provision that only transactions within the EU and in any EU currency are within the scope of the Directive.

[21] European Commission, Payment Services Directive: Frequently Asked Questions, Memo 07/152, Brussels 24 April 2007, available at: http://ec.europa.eu/internal_market/payments/framework/archive_en.htm

[22] The PSD allows the individual Member States in twenty-three instances to decide on how to implement the rules. See for the differences in implementation: http://ec.europa.eu/internal_market/payments/framework/options_en.htm

BOX 15: IDENTIFICATION REQUIREMENTS

Example 1: Electronic identification for users of remittance kiosks in Russia.
In Russia, a wide network of electronic payment kiosks exists which enable consumers to pay their utility bills, add money to their prepaid mobile phone account and recently also make remittances. To meet the identification requirements, the RSP offering the remittance service through the kiosk has entered into partnerships with banks and other entities with retail locations where consumers can go to present their identification documents, register and receive an identification card and number that they can then use to identify themselves at the electronic kiosk to make a remittance.

Example 2: Lowered identification requirements for low value transactions in India.
In 2010, a new health system payment program was launched in Bihar, India that included beneficiary payments, salaries, incentive payments, etc. One of the main elements supporting the program was the creation of a basic bank account with lower account opening-requirements and a transaction limit that permitted reduced know-your-customer requirements. Despite not being primarily targeted for remittances, lessons learned from this project can be implemented in the remittance scenarios as well.

Example 3: Mexican Consular ID.
The *Matricula Consular*, or "Consular ID," is an identification card issued by the Mexican consulate to Mexican nationals in the US. The card is predominantly issued to Mexican citizens residing outside of Mexico for identification purposes. The *Matricula Consular* features a photograph of the bearer and lists the individual's birthplace, address outside of Mexico, and an official, government-issued identification number. Applicants must show proof of identity, proof of Mexican nationality, and proof of their local mailing address. For Mexican citizens applying for the *Matricula Consular* in the United States, one can provide a utility bill as proof of their U.S. address. The identification card certifies that the bearer is a Mexican citizen, but does not provide immigration information and is issued regardless of immigration status. Some major banks within the U.S began recognizing the *Matricula Consular* as an acceptable form of identification for non- US individuals opening banking accounts. Today, the consulate identification cards are accepted at many financial institutions across the United States. Other countries issuing similar consular identification cards include Argentina, Brazil and Colombia, among others.

59. World Bank assessments of the legal framework particularly in sending countries in some cases have shown that regulation intended to prevent money laundering can create barriers for senders to use regulated remittance services, discourage banks and other regulated financial institutions to offer remittance services (and to provide banking services to non-bank RSPs), and hamper the growth of new technologies that facilitate the usage of electronic remittance payments and potentially lower costs.

60. In particular, very stringent identification requirements for small transactions have shown to be a disincentive to offer remittance services, in particular for banks, because they cause high administrative costs. New electronic remittance services where the (cost-intensive) physical location to send remittances is replaced with a low cost self-serve interface such as an electronic kiosk, a mobile phone or a website depend on users having an efficient electronic way to identify themselves or on lowered identification requirements for small transactions (see example 1 in Box 15).

3.4 Key Lessons Regarding International Coordination of Legal and Regulatory Frameworks

Lesson 3.4

> *Remittance markets of countries with remittance flows between them benefit if the countries understand each other's legal and regulatory framework for remittances and cooperate where possible to increase consistency of regulation and the proper functioning of the market.*

61. Due to the international nature of remittances, RSPs and their services are affected by the legal and regulatory framework of both the sending and the receiving countries. This is particularly important where countries have significant migration and remittance flows between them. The way market participants can fulfill regulatory requirements in one country is often influenced by the regulatory framework in the other country. For example, if the migrants' home country does provide identification documents to the migrants but the host country adopts identification requirements that do not allow RSPs to accept them, many migrants may be prevented from using regulated remittance channels.

62. World Bank assessments have shown that coordination between authorities on both sides of a remittance corridor can lead to significant benefits for the remittance market. Bilateral coordination on migration, identification documents of migrants and remittance regulation can create a safe and sound remittance market that still ensures that migrants can and will use regulated remittance channels.

63. Such international cooperation can increase the overall effectiveness of the regulatory framework covering remittance operations. Regulators may meet with, or even establish regular meetings with their relevant counterparts of other countries within the same remittance corridor to discuss policy initiatives (see Box 16).

4. MARKET STRUCTURE AND COMPETITION

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

64. The efficiency of remittance markets can be enhanced by the existence of a competitive market where a sufficient number of different RSPs are offering remittance services that are in direct competition with each other so that they offer consumers choice and force the RSPs to compete on price, speed, distribution, and other aspects of the remittance services.

65. The number of RSPs in any given remittance corridor is not only determined by the market opportunity, but also by the applicable regulatory framework in each country and other barriers to entry. For RSPs to compete in a market they need to be able to use the various relevant services effectively, be able to find suitable distribution channels, and find an environment in which they can operate efficiently and on a level playing field with other providers. Experience from World Bank remittance market assessments and discussions with market participants and regulators have shown that these are critical areas where problems exits that negatively impact the efficiency of remittance markets in a number of countries.

BOX 16: INTERNATIONAL COORDINATION

The Ministry of Foreign Affairs of the Netherlands in 2010 commissioned studies of the regulatory framework in the three countries receiving most remittances from the Netherlands and hosted an international workshop for government officials, RSPs and other market stakeholders where the studies were presented and opportunities for coordination and harmonization were discussed.

4.1 Key Lessons Regarding Market Access

Lesson 4.1

> *A functioning market requires that new RSPs are able to enter the market and establish distribution channels. A good practice is when anti-competitive arrangements are prohibited where they prevent a level of competition sufficient to ensure a functioning market. High prices may be an indication of a lack of competition.*

66. RSPs need to build their own network of distribution agents or have access to existing distribution channels in order to provide recipients access to their remittance funds. Distribution networks are usually made up of local partners able to make cash payments or capture remittance details for initiating a transaction, such as banks. World Bank assessments have shown that in many receiving countries access to distribution channels is a problem for RSPs. Adding to the fact that in some cases only a limited number of entities are allowed to enter into the remittance value chain to provide some specific but relevant services (i.e. initiate transactions and/or pay-out remittances), these same entities many times enter into exclusive partnerships with RSPs, effectively locking out market entrants.

67. Regulators and governments may be able to promote competition by ensuring that there are sufficient entities permitted and able to provide the relevant services to RSPs and – where this is limited – that they are able to service different RSPs (see Box 17). Government-owned providers that have a general service obligation, for example postal operators or national railway operators, should be prohibited from making exclusive arrangements for the payment of remittances to enable other providers to access their distribution capabilities. To increase competition, public authorities could also support the participation of alternative types of financial institutions like credit unions, savings banks and microfinance institutions to offer remittance services.

68. While insufficient competition in the marketplace can result in high prices for the end-users of remittance services, it should be noted that such high prices may also be an outcome of high operating costs or the high costs of compliance with already existing rules.

4.2 Key Lessons Regarding Access to Domestic Payments Systems

Lesson 4.2

> *The ability to use relevant payment systems in the country effectively is a key operational requirement for RSPs and affects the competitiveness of individual RSPs.*

69. As discussed in General Principle 2, access to the payment system infrastructure can be granted on a direct or indirect basis. Both forms of access (i.e. direct or indirect access) are capable of providing RSPs with suitable payment services.

70. Payment system access criteria should be clear, well-defined and fair. Payment system operators and their overseers may want to check whether their direct access requirements are consistent with best international practices to ensure payment system safety and

BOX 17: PROHIBITING EXCLUSIVE DISTRIBUTION AGREEMENTS

The central banks or other authorities in charge of remittance regulation in Bangladesh, Ethiopia, Ghana, India, Morocco, Nigeria, Rwanda, Senegal, Tanzania and other countries have prohibited exclusive remittance distribution agreements for banks regulated by them (in many of these cases, following General Principles Assessments) because the number of available entities to offer remittance distribution services was too small to provide for sufficient distribution and a competitive market.

soundness and a level playing field for different potential financial service providers. Issues regarding direct and indirect access to payments systems are discussed in detail in the CPSS report "The Role of Central Bank Money in Payment Systems".[23]

71. Direct participants in the payments system may compete as RSPs with other RSPs that can only access the payments systems indirectly. Many markets are sufficiently competitive so that RSPs with only indirect access will have a choice of which direct participant to use. However, experience in some countries has shown that circumstances exists where some or even many direct participants are unwilling to provide payments systems access to non-bank RSPs (see discussion under General Principle 2).

72. Regulators should monitor whether RSPs have appropriate access to the domestic payment systems (and banking services in general). When drafting access requirements they should consider the role, risk profile and operational capabilities and requirements of RSPs as participants in the domestic payments market.

73. A model that has been successful in some countries to, among other purposes, facilitate direct access to national (centralized) payment systems is for smaller non-banking financial institutions and/or payment service providers to come together to create a "limited purpose bank", whose only function is to provide payment services to its members and their customers (see Box 18).

5. GOVERNANCE AND RISK MANAGEMENT

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

74. Consumers rely on the RSP not only to deliver the money in the agreed timeframe but also to keep the funds received from the consumer safe until payment is made to the (correct) beneficiary. World Bank assessments, survey results and reports by regulators and consumers have shown that in particular smaller RSPs do not always have the governance structures and risk management procedures that are necessary to ensure consumer funds are protected, and that consumers receive an appropriate level of service. As a result, consumers complain about delays in payment, financial losses, difficulties in receiving reimbursements and other problems related to their money handled by RSPs. Some regulators and law enforcement agencies report weaknesses in programs and procedures to prevent abuse of remittance services for money laundering, terrorist financing and other illicit activities.

[23] CPSS, "The Role of Central Bank Money in Payment Systems", Bank for International Settlements, Basel, Switzerland, August 2003.

BOX 18: PAYMENT SYSTEM ACCESS THROUGH ASSOCIATIONS

Example 1: ARB Apex Bank Ghana.
The Association of Rural Banks Apex Bank (ARB Apex Bank) in Ghana is the bank of the rural and community banks (RCB) providing banking and non-banking support to the RCBs. The key functions are training and human resource development of the ARB Apex Bank and RCBs staff, cheque clearing and other operations on behalf of its member banks and audit and inspection services.

Example 2: Bansefi, Mexico.
Bansefi, a state-owned development bank, has created a special infrastructure to support a network of rural financial institutions (MFIs, cooperatives and other non-bank financial institutions). The infrastructure was created to strengthen this sector, improve access to finance in rural areas and give these financial institutions better access to payment and other services. The special communications network connects participating entities with Bansefi, on the basis of which those entities can then offer payment products and services, and also link up their service outlets to provide a virtual large service delivery network.

5.1 Key Lessons Regarding Self-Regulation for Risk Management and Governance

Lesson 5.1.1

> *The remittance industry, in cooperation with the relevant authorities and consumer interest groups, can enhance confidence in international remittance services and protect consumers by establishing guidelines for and practicing good governance and appropriate risk management.*

75. RSPs as any other provider of payment services are subject to operational, financial and legal risks. All RSPs should implement good governance and risk management procedures to help improve the financial and operational safety and soundness of their services and to meet their responsibilities to their customers – independent of whether these are legal requirements.

76. As participants in international payments markets, RSPs have a responsibility for preventing their services from being used for money laundering, financing of terrorism, and other illicit activities. This includes the design of AML/CFT programs, the appropriate allocation of resources and responsibilities to AML/CFT activities, familiarity of staff with AML/CFT procedures and requirements, and that the firm's governance structure is responsive and adapting to the changing nature of terrorism financing and money laundering.

77. In the case where the RSPs outsource functions such as, for example, funds capture, funds disbursement, and international settlement, the RSP should remain responsible to the end user for the funds transmitted and the timely delivery to the recipient. Where RSPs use third parties to collect funds from senders on their behalf, to make payments or for the settlement between these parties and themselves, RSPs should ensure that these third parties manage the ensuing capital and liquidity risks appropriately and comply with relevant regulations.

Lesson 5.1.2

> *Authorities can effectively support RSPs by providing guidance on how to design appropriate risk management and governance programs. Often,*

BOX 19: REGULATORS' GUIDANCE FOR RSPS

Example 1: US Money Services Business website.
The US Department of Treasury's Financial Crimes Enforcement Network (FinCEN) offers RSPs and other money services businesses (MSB) a website, http://www.fincen.gov/financial_institutions/msb/, which provides guidance on how to design effective and compliant programs to prevent money laundering and terrorist financing and explains the RSPs' regulatory requirements in this respect.

Example 2: AUSTRAC Online Service for RSPs.
AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit and as such in charge of registering RSPs. AUSTRAC provides an online service where RSPs (and other regulated entities) can submit transaction reports, review their past reports and update their information held by AUSTRAC. In addition, RSPs can find all the relevant information on regulatory requirement and obtain counselling to address issues and doubts.

the adoption of even basic risk management and good governance practices can lead to significant improvements.

78. Many RSPs are small businesses with limited revenues and therefore limited operational capacities and sometimes management experience. They may lack the experience or know-how to design and implement programs that will help them to ensure appropriate risk management and good governance. Regulators and other parties such as international donors and NGOs can support RSPs by providing them with practical guidance in these areas (see Box 19).

5.2 Key Lessons Regarding Regulatory Requirements for Governance and Risk Management of RSPs

Lesson 5.2.1

Regulators can benefit from a better understanding of the actual risks associated with remittance operations and the operational procedures and business models involved.

79. Remittance service providers face similar risks to other financial or payment services providers, but typically have very specific operational and business arrangements as determined by the specific nature of remittances as small-value, large volume, international, mostly cash-based payments to countries with limited infrastructure and for consumers with specific requirements.

80. Most RSPs collect cash through independent third parties acting as agents for the RSP. The agent legally binds the RSP, collects funds on their behalf and makes representations regarding the service (delivery times, distribution points etc.). Therefore, agents often also carry out important risk management aspects, in particular related to the identification of customers and the collection of information about the background of the transaction as it relates to suspicious activities. The RSP needs to collect the funds received by the agent on its behalf, which entails credit risks relating to the ability and willingness of the agent to pay.

81. On the receiving side, RSPs often also work with third parties that make the payments for them. RSPs

usually offer customers the immediate payment of the remittance, e.g. before they may even have received the funds from the agent. Agents and correspondents often require that the RSPs provide advance funding for the payments they are requested to make on behalf of the RSP.[24] The RSP therefore faces a delay in collecting funds from the agents on the origination side and a need to prefund payments on the payment side.

82. RSPs normally operate proprietary payment platforms. These systems may or may not be used by their agent(s) or correspondent(s). Where they are not, the RSP needs to integrate its system with that of the agent or correspondent. The correspondent on the receiving side may have very limited telecommunication infrastructure and systems may be very basic.

83. Since RSPs offer a fast and efficient way to make international payments often with lower identification requirements than banks, they are at risk to be used for money laundering and terrorist financing. However, the number of known cases of, and the funds involved in, money laundering through remittance networks seems small compared to the number of transactions, the volumes processed and cases that are reported from other areas of the financial system.[25]

84. Finally, regulators should consider the importance of remittances for the economic development of many developing countries, for development policy and for their often poor population.

85. Regulators that wish to ensure through guidance, regulation and supervision that RSPs have appropriate risk management will benefit from understanding these and other operational differences and should consider them when drafting regulation, examination manuals and other guidance.

Lesson 5.2.2

> *Regulatory requirements relating to risk management and governance can be an important part of a licensing or other supervisory regime for RSPs.*

86. Given the risks involved with remittances, the importance of risk management for RSPs and the shortcomings of RSPs' risk management and governance demonstrated by assessments and other experiences, regulators can ensure that RSPs meet minimum standards by establishing regulatory requirements to do so.

87. Such requirements should consider the guidance that applies to the legal and regulatory framework as set out in General Principle 3 and section III.3 of this Guidance Report. It should also take into consideration the differences between the types of services provided by RSPs and other regulated financial entities as pointed out earlier in this section.

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[24] Banks acting as agents of RSPs typically make payments only after principal has been settled though the different settlement institutions or mechanisms (for example SWIFT settlement banks).

[25] Financial Action Task Force, "Money Laundering through Money Remittance and Currency Exchange Providers", June 2010. This report in particular states that "Clearly, laundering through money remittance and currency exchange providers poses a number of regulatory and enforcement challenges. At the same time, it was observed that there is low detection of money laundering in comparison to the size of the industry as a whole." One of the reasons is that the small transaction size of remittances makes it difficult to launder larger amounts of money without being detected. Most of the conclusions of the subsequent FATF Guidance of June 2011 "Anti-money laundering and terrorist financing measures and Financial Inclusion" are based on the same principles. The Guidelines introduce in this area a risk-based approach for the regulation of the remittances market.

6. ROLE A: THE ROLE OF REMITTANCE SERVICE PROVIDERS

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

88. In order to achieve their public policy objectives, the implementation of the General Principles require the active participation of RSPs. Field work has confirmed the value that RSPs can add to the objectives of the General Principles, and has also highlighted some areas where greater efforts could be made, in particular in the areas of transparency and competition.

6.1 Key Lessons Regarding Cooperation and Competition between RSPs

Lesson 6.1.1

> *When RSPs cooperate on infrastructure and compete on services, the market for remittances can work more efficiently.*

89. As has been set out earlier in this document, remittances require efficient payments system infrastructure to deliver the service in often rural places with very limited infrastructure. World Bank assessments of remittance markets and discussions with stakeholders have shown that in some markets RSPs cooperate on creating this infrastructure and share it to deliver their services. It has been demonstrated that through such forms of cooperation, important economies of scale and the required network effects can be reached/delivered quicker than individual, competing efforts. Therefore, to the extent possible RSPs should cooperate on the provision of infrastructure when this can be done in a way that is not anti-competitive.

Lesson 6.1.2

> *The market as a whole may benefit from the sharing of experiences and good practices, and from leveraging capabilities between RSPs and other financial service providers.*

90. Industry associations could be engaged in the discussion of common issues and policies. These associations should include the full range of service providers and seek to find practical ways to implement the General Principles.

91. Dissemination of examples of good practice in seeking and formulating alliances in countries where such alliances are geographically wide-spread will help reinforce the outreach of the registered/licensed providers even to rural or more remote areas.

92. RSPs should seek partnerships and alliances, including linkages between money transfer companies and financial institutions in order to leverage capabilities and promote "cash to account" services where applicable. In particular, they may consider partnerships with credit unions, rural microfinance institutions, post offices, and similar entities that may have a greater reach into the community.

6.2 Key Lessons Regarding RSPs Role in Transparency

Lesson 6.2

> *A good practice is when RSPs are actively and transparently providing information on the attributes and cost of their remittance services.*

93. Work in many countries has shown that RSPs, especially in less competitive markets, do not always openly display the prices and other attributes of their services, especially the exchange rate (see section III.1 above). While the difficulties with providing a fixed exchange rate for a transaction that may span several

days are acknowledged, RSPs should aim to at least clearly display their prices and the then current FX rate so that consumers are able to compare services.

7. ROLE B: THE ROLE OF PUBLIC AUTHORITIES

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

94. Public authorities play a key role in implementing the General Principles. Ultimately, it is the responsibility of public authorities to ensure that remittance markets function in accordance with the General Principles.

7.1 Key Lessons Regarding Cooperation of Public Authorities

Lesson 7.1

> *The remittance market and remittance policies benefit from cooperation between public authorities with responsibility for remittances.*

95. The authorities entrusted with overseeing and monitoring RSPs and/or remittance markets typically vary from country to country, depending on the institutional framework of each jurisdiction. Since the General Principles pursue a number of public policy objectives, there are usually also different authorities involved in their implementation which may have competing objectives. Experience in different countries has shown that the responsibilities of the authorities are not always clearly assigned and that sometimes public authorities do not have the necessary resources to carry out these responsibilities, for example to provide effective recourse for complaints from consumers using remittance systems or the supervision of RSPs.

96. Where responsibilities overlap or policy objectives compete against each other, effective coordination and cooperation is necessary. Public authorities should regularly exchange their views and plans for regulation and policy initiatives for the remittance market. They should consult each other – and the industry – before new regulation or policies are put in effect. Policymakers should ensure that domestic policies and the actions of implementing agencies are coherent and coordinated, and that regulations and guidelines are predictable and well-publicized.

97. In order to carry out their policies effectively, public authorities will benefit from clear mandates and an appropriate legal empowerment as well as appropriate resources. Also, appropriate organizational arrangements should be in place to ensure timely and coordinated action. Finally, a wide set of public policy instruments should be available, sufficiently capable to being calibrated to the different needs and objectives of the national remittance markets and their changing challenges and opportunities (see Box 20 below).

7.2 Key Lessons Regarding the Involvement of Public Authorities

Lesson 7.2

> *Public authorities have played a key role in supporting the implementation of the General Principles in many countries. Nevertheless, there is still a long way to go in many countries to achieve the public policy objectives of the General Principles. This will require the continuous involvement of public authorities.*

BOX 20: THE REMITTANCES WORKING GROUP IN THE UK

The UK Remittances Working Group1 (Working Group) was formed as a result of interest expressed in the 'Remittances as a Market Opportunity' meeting, opened by the Secretary of State for International Development on 29th June, 2004.

The Remittances Working Group offers an opportunity for private and public sector representatives to discuss opportunities, as well as constraints, and identify actions to expand and improve remittance transfer services to developing countries.

98. There are multiple tools that public authorities can use to develop further initiatives and/or carry out additional actions with regard to international remittance services (also see Box 21 on the central bank's role vis-à-vis the General Principles, and Box 21 on cooperative oversight):

- Monitoring: the changing nature of the remittance market increases the importance of monitoring. To understand how the remittance market is evolving, it could be useful to: (i) have an updated list of intermediaries that provide remittance services, and (ii) collect, or having access to, relevant data and information on RSPs and the remittance industry. In respect to the latter, collection of data could cover, for example: the features of remittance services, functioning rules of the remittance system, description of settlement mechanisms and volumes processed and settled, the countries where money is sent to, etc.

- Dialogue: together with data collection, dialogue with industry participants is an important tool to understand market trends. Dialogue can also be used to influence outcomes. Dialogue can improve the effectiveness of actions taken and prevent authorities from taking inappropriate or even damaging actions. Dialogue should also involve other parties such as end users, so that the views of all stakeholders are taken into account.

- Catalyst: authorities may be able to help the private sector improve the market for remittances by acting as a catalyst or facilitator for innovation or reforms where necessary.

- Regulation: in some cases regulation can be the only effective means to address some of the market failures that may have been observed. On the other hand, it should be noted that extensive regulation often represents a significant barrier to entry that can limit the supply of remittance services and increase prices. When resorting to regulation, the perceived benefits of such regulations should be weighed against the costs of compliance as well as any potential market distortions that might ensue, and determine whether the proposed new regulatory intervention is likely to result in net benefits.

- Communication and outreach to consumers deserve specific attention as it is consumers who ultimately determine which remittance services are used. Financial literacy programs targeted at end-users should not only focus on providing information on remittance services but also foster the understanding and use of financial products.

- Direct provision of remittance services by public sector entities is a possible instrument, although often this will be desirable for a limited time (e.g.

BOX 21: A POTENTIAL ROLE FOR CENTRAL BANKS FOR APPLICATION OF GENERAL PRINCIPLES

The authority or authorities entrusted with the pursuit of the objectives concerning remittance services may vary from country to country, depending on the institutional framework of each jurisdiction. Given their expertise in payment system development, operation and oversight, in general it is advisable that central banks be actively involved in the application of the General Principles. However, central banks' oversight activities concerning retail payments, including remittance services, vary depending on their oversight responsibilities, policies and powers.

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 international 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.

The central bank should cooperate with other public authorities to address significant policy issues arising from market structure and performance. Central banks may wish to enter into discussions with the private sector and other national central banks to facilitate the achievement of public policy objectives regarding international remittance services and to foster international cooperation.

during a specific crisis) and only if other options available have proven ineffective. The same is true for taxes and subsidies.

99. In order to ensure that public policy is well-adjusted to the market and industry, authorities can establish advisory groups with membership from all relevant types of industry participants. Authorities should ensure that such advisory councils do not unduly favor incumbents.

100. International financial institutions (IFIs), such as the World Bank, regional development banks and the International Monetary Fund can offer support to authorities and market participants in the application of the General Principles. It is important that the actions of the IFIs are also well coordinated and effective. At the global level, IFIs can focus on disseminating best practices and help implementing the General Principles through technical assistance, research and remittance market overview and stock-taking exercises.

101. The G20 has developed and adopted a Remittances Toolkit that offers countries and public authorities practical examples and actions that support the implementation of the General Principles. The G20 Remittances Toolkit is attached as Annex B.

BOX 22: POSSIBLE COOPERATIVE OVERSIGHT FRAMEWORK

The 2005 CPSS Oversight report[26] developed the following principles for international cooperative oversight of payment and settlement systems. While not all of these principles are relevant for remittances, they provide a framework for cooperation among central banks on cross-border issues:

Cooperative oversight principle 1: Notification
Each central bank that has identified the actual or proposed operation of a cross-border or multicurrency payment or settlement system should inform other central banks that may have an interest in the prudent design and management of the system.

Cooperative oversight principle 2: Primary responsibility
Cross-border and multicurrency payment and settlement systems should be subject to oversight by a central bank which accepts primary responsibility for such oversight, and there should be a presumption that the central bank where the system is located will have this primary responsibility.

Cooperative oversight principle 3: Assessment of the system as a whole
In its oversight of a system, the authority with primary responsibility should periodically assess the design and operation of the system as a whole. In doing so it should consult with other relevant authorities.

Cooperative oversight principle 4: Settlement arrangements
The determination of the adequacy of a system's settlement and failure-to-settle procedures in a currency should be the joint responsibility of the central bank of issue and the authority with primary responsibility for oversight of the system.

Cooperative oversight principle 5: Unsound systems
In the absence of confidence in the soundness of the design or management of any cross-border or multicurrency payment or settlement system, a central bank should, if necessary, discourage use of the system or the provision of services to the system, for example by identifying these activities as unsafe and unsound practices.

[26] CPSS, "Central Bank Oversight of Payment and Settlement Systems", Bank for International Settlements, Basel, Switzerland, May 2005.



SECTION III

GENERAL PRINCIPLES ASSESSMENTS OF NATIONAL REMITTANCE MARKETS

102. The General Principles provide valuable guidance on the most important aspects of national remittance markets. As such, they have been used by the World Bank and other organizations to undertake diagnostic assessments of the remittance markets in specific countries to serve as a basis for reforms and other improvements. Since the publication of the General Principles over 30 sending and receiving countries have undertaken or supported General Principles Assessments and initiated reforms based on these assessments.

1. OBJECTIVES AND BENEFITS

103. The key objective of a General Principles assessment is to identify market inefficiencies and develop recommendations for concrete actions that can be used to address these issues.

104. Diagnostic assessments based on the General Principles allow countries to analyze their remittance markets using a proven methodology and assess all relevant aspects in a comprehensive manner. The assessments deliver important information on which areas of the national market function efficiently and where market or other failures exist. They offer indications for possible reforms and help to guide policy and regulatory initiatives. At the same time, the assessments can help governments to initiate discussions with other stakeholders, in particular private sector market participants and consumers.

2. SCOPE

105. The assessments cover the areas of the five General Principles and the role of private sector remittance service providers and public authorities in analyzing the environment of a remittance market of a country. A team of remittance specialists should initially review all relevant publicly available information, including information on the level of prices, laws and regulations and any other reports that have been produced. In some cases reports in the general media may also provide useful indications.

106. Even though the assessments generally cover - where possible - issues in the main sending or receiving countries in the relevant corridors of the assessment country, the assessments are particularly effective where both sending and receiving country in a remittance corridor are assessed so that issues on both sides can be identified and suggestions for bilateral improvements can be made.

107. The main assessment should be undertaken in the country through meetings with all stakeholders of

the remittance market. The assessment is usually best undertaken in cooperation with the central bank and/ or the Ministry of Finance by at least two remittance and payment specialists who spend one to three weeks on the ground to meet with all relevant stakeholders.[27] The following table provides suggestions of parties to meet and issues to discuss:

3. ASSESSMENT REPORTS

108. The stock-taking exercise will provide a review of the remittance services market in the country under examination, and should provide a report that can function as a sound basis for developing improvement strategies and action plans to foster remittance markets reform. An assessment report should:

1. Set-out the context of the country's remittance market (migration patterns, remittance flows, general financial services market);

2. Analyze the current status of the remittance market based on the General Principles;

3. Provide practical and strategic recommendations and suggestions for improvement opportunities, including short-term and long-term improvements to the remittance market.

[27] Carrying out the assessment also in cooperation with the official development agency of the main sending country(ies) might also be considered.

Relevant Party of Parties	Possible Discussion Topics
Central Bank	• Review of existing data on remittances • Statistics and data on RSPs (if possible) • Review of Payment System Infrastructure • Framework for settlement of money transfers • AML/CFT issues (if responsibilities fall under the Central Bank) • Financial institutions supervisory issues • Legal and Regulatory framework for payments systems and remittances • Consumer protection issues (if applicable) • Other issues mentioned in the guidelines related to role of authorities and other principles • Coordination with other authorities
Other relevant payment system operators, such as payment cards operators	• Review of Payment System Infrastructure • Framework for settlement of money transfers • AML/CFT issues • Legal and regulatory framework for payments systems and remittances • Consumer protection issues • Other issues mentioned in the guidelines related to role of authorities and other principles
Ministry of Finance	• Financial institutions supervisory issues (if applicable) • Other issues mentioned in the guidelines related to role of authorities and other principles • AML/CFT issues (if applicable)
Statistics Agency/Department	• Review of existing data on remittances • Statistics and data on RSPs (if possible) • Data on migration
Consumer Protection Agency	• Consumer protection and remittance services • Consumer protection law and remittances services and customers • The role of consumer authorities in remittance market
Competition Authority	• Competition laws and regulation • The role of the authorities in promoting competition in remittance market • Exclusivity agreements
Commercial banks	• Data on remittance flows • Available products for money transfers (for example: electronic transfers, money orders, dual debit cards, etc.) • Methods of payment of remittances (cash payments, deposits in bank accounts, ATMs, etc.) • Geographic distribution of payment of remittances • Fees associated with money transfers (fees paid by senders, exchange rate spreads and fees paid by beneficiaries) • Market share of different institutions in the payment of remittances • Agreements with money transfer companies and commercial banks and other correspondent banks located in the countries where transactions originate • Mechanism of remittances (payment order, wire, settlement, payment, etc.) • Settlement of remittance transactions • Impact of AML/CFT regulations • Securitization of remittances (if applicable) • Supply of financial products for households receiving remittances (deposit and investment accounts, consumer credit, mortgages, pension funds, life and non-life insurance products, etc.) • Other issues mentioned in the guidelines related to role of RSPs and other principles

Relevant Party of Parties	Possible Discussion Topics
Money transfer operators	• Data on remittance flows • Available products for money transfers (for example: electronic transfers, money orders, dual debit cards, etc.) • Methods of payment of remittances (cash payments, deposits in bank accounts, ATMs) • Geographic distribution of payment of remittances • Fees associated with money transfers (fees paid by senders, exchange rate spreads and fees paid by beneficiaries) • Market share of different institutions in the payment of remittances • Agreements with commercial banks • Mechanisms to transfer money • Settlement of remittances • Impact of AML/CTF regulations • Other issues mentioned in the guidelines related to role of RSPs and other principles
Other RSPs: credit unions, cooperatives, MFIs, bureau of exchange, MTOs, the Postal Office, etc.	• Data on remittance flows • Available products for money transfers (for example: electronic transfers, money orders, dual debit cards, etc.) • Methods of payment of remittances (cash payments, deposits in bank accounts, ATMs, etc.) • Geographic distribution of payment of remittances • Fees associated with money transfers (fees paid by senders, exchange rate spreads and fees paid by beneficiaries) • Agreements with other market players • Agreements with other Postal Office • Mechanisms to transfer money • Settlement of remittances
Other organizations • Mobile network operators (for mobile payment services) • Official development agencies (especially in sending countries) • Hometown or neighborhood associations • Migrant welfare associations • CGAP in the country • Non-governmental organizations • Microfinance organizations and cooperatives • Community organizations	

ANNEX A: REMITTANCE QUESTIONNAIRE FOR CENTRAL BANKS, FINANCIAL AUTHORITIES, STATISTICAL AGENCIES, AND OTHERS

Please note: This questionnaire is intended for use by an oral interviewer that interviews the respondent in person. If the survey is to be used for written responses, it should be adapted to fit with a written format. The survey should be adapted to local circumstances, including the country's regulatory structure and data sources.

In adapting the questionnaire, please note that this questionnaire is designed to capture both sending and receiving countries. The questionnaire should also be adapted according to the nature of the country as either mainly remittances receiving country or mainly remittances sending country.

While it is recognized that not all remittance senders are migrants, the main focus of this specific questionnaire is on remittances sent by migrants.

Where alternatives are given for answering a question, it is recommended that the interviewer asks the question and based upon the response, checks the appropriate box, rather than the interviewer reading out all the alternatives. If the listed alternatives are not appropriate or additional information is needed, use the "Other" option.

1. BASIC DATA ON REMITTANCE INFLOWS

1.1 Please indicate what the source(s) of your official data on remittances are?

a. Reports from firms specialized in money transfers (Western Union, Money Gram, etc.) _______
b. Reports from banking institutions _______
c. Reports from exchange bureaus _______
d. Reports from other financial institutions that deliver remittances (e.g. micro-finance institutions, credit unions, saving and loans companies, etc) _______
e. Reports from non-financial institutions that deliver remittances (e.g. post offices) _______
f. Reports from settlement and clearance agencies _______
g. Information reported by migrants themselves entering the country (at airports or other points of entry)
h. Other, please specify _______

____

____

1.2 What type of transactions do you record as remittances?

a. Electronic transfers ______
b. Drafts ______
c. Money orders ______
d. Withdrawals at automated teller machines (ATMs) using cards issued by foreign financial institutions ______
e. Money reported by migrants visiting their home country at point of entry ______
f. Use of pre-paid cards for remittances ______
g. Cheques issued by banks in foreign jurisdictions ______
h. Other (please specify) ______

____

____

1.3 Does the data you collect allow you to identify the source country of remittances? ______

1.4 Does the data you collect allow you to identify the number of remittances transactions? ______

1.5 Do you disclose information on remittances to the public? ______

1.6 If so, how often is the information disclosed?

a. Every month ______
b. Every quarter ______
c. Every year ______
d. Other ______

1.7 Which year did you start to collect information on remittances? ______

1.8 Are there other government agencies collecting information on remittances in your country? If so, which? ______________________________

1.9 Do you have any plans to improve the coverage of your data and the methodology used to measure the volume and structure of remittances? If so, please describe your current or future initiatives on this matter.

____

____

2. BASIC DATA ON REMITTANCE OUTFLOWS (MONEY SENT BY FOREIGN WORKERS LIVING IN YOUR COUNTRY)

2.1 Please indicate what the source(s) of your official data on remittances outflows are?

a. Reports from firms specialized in money transfers (Western Union, Money Gram, etc.) ______

b. Reports from banking institutions ______

c. Reports from exchange bureaus ______

d. Other, please specify ______

____

____

2.2 What type of transactions do you record as remittances outflows?

a. Electronic transfers ______

b. Drafts ______

c. Money orders ______

d. Other (please specify) ______

____

____

2.3 Does the data you collect allow you to identity the destination country of remittances? ______

2.4 Does the data you collect allow you to identify the number of remittances transactions? ______

2.5 What is the country of origin of migrants living and working in your country? Please list the five largest countries (in terms of migrant population)

____

____

3. STATISTICS ON REMITTANCES (INFLOWS)

3.1 How many nationals of your country live overseas (number of migrants and migrants as a percentage of total population)? ______

3.2 Do you know in which countries do migrants live (top five destination countries)? ______

3.3 Do you have specific information regarding the number of migrants of your country living in each foreign country (top 5 destination countries)? ______

3.4 Do you have any statistics on the average amount of remittances sent by migrants every month and every year? ______

3.5 Do you know how often migrants actually send remittances (on average) to their families and relatives?

a. Every month ______
b. Every two months ______
c. Every three months ______
d. Every six months ______
e. Once a year ______

3.6 Could you please provide the following data on remittances for the past three years?

Instrument to transfer remittances	Year 1		Year 2		Year 3	
	Number of transactions	Volume of transactions ($)	Number of transactions	Volume of transactions ($)	Number of transactions	Volume of transactions ($)
Electronic wires						
Drafts						
Debit cards						
Money orders						
Pre-paid cards						
Cheques						
Money sent through relatives traveling to home country						
Other, please specify						
Total						

3.7 **Which country (countries) is the major source of your remittances?** ______________________________

3.8 **Please indicate which types of institutions below deliver remittances in your country.**

Types of financial and non-financial institutions delivering remittances in your country	Number of institutions	Who supervises these institutions?	Share of the market of remittances (percent)
Firms specialized in money transfers (Western Union, Money Gram, etc.)			
Private banking institutions			
State-owned banks			
Exchange bureaus			
Other financial institutions (e.g. micro-finance institutions, credit unions, saving and loans companies, etc)			
Non-financial institutions (e.g. post offices, commercial retail chains, travel agencies, etc.)			
Other			

4. FINANCIAL INFRASTRUCTURE SUPPORTING REMITTANCES - PAYMENT SYSTEMS, TECHNOLOGY, PLAYERS

4.1 **Which institutions operating remittances in your country (commercial banks, exchange bureaus, micro-finance institutions, credit unions, etc.) have direct access to the central bank's clearing and settlement systems?**

____

____

4.2 **For institutions with no direct access to the central bank's clearing and settlement systems, what clearing and settlement systems do they use?**

____

____

4.3 Are there any plans to modify access rules to the central bank's clearing and settlement systems? If so, please describe your plans. _______

____

____

4.4 Do institutions operating remittances in your country have direct access to an Automated Clearing House system (in case this is not operated by the central bank)? _______

4.5 If so, which institutions operating remittances have access to the Automated Clearing House (banks, exchange bureaus, micro-finance institutions, credit unions, etc.)?

____

____

4.6 How do banks deliver funds in locations where they do not have branches?

____

____

5. BEST PRACTICES IN THE MARKET, GOOD PRACTICES AND BAD PRACTICES USED BY MARKET PLAYERS

5.1 From your perspective, what are the areas that require more attention by authorities in order to make the transfer and delivery of remittances more efficient and secure? Please select all applicable areas.

a. Better statistics on remittances (amount, characteristics, composition) _______
b. Better statistics and studies on migrants (location, social background) _______
c. Competition among institutions transferring and delivering remittances _______
d. Delivery of remittances in rural areas _______
e. New technologies and products for the transfer and delivery of remittances _______
f. Financial integrity issues _______
g. Other, please specify _______

____

____

5.2 From your perspective, are there any practices that should be prohibited in order to make the transfer and delivery of remittances more secure? ______

5.3 Have you experienced cases of fraud or other types of losses in the transfer and delivery of remittances? ______

5.4 Is there any office in your country responsible for handling and resolving customer complaints on issues related to transfer and delivery of remittances? ______

5.5 If so, what is the office? ______________________________

5.6 If not, how are issues related to consumer complaints on remittances normally resolved?

____

____

6. REGULATORY ENVIRONMENT

6.1 According to your laws, which institutions can receive and deliver remittances from foreign sources?

a. Private commercial banks ______
b. Public-owned financial institutions ______
c. Post offices ______
d. Exchange bureaus ______
e. Credit unions ______
f. Micro-finance institutions ______
g. Other ______

6.2 Do the above institutions need to be registered in order to receive and deliver remittances? ______

6.3 How many institutions delivering remittances have been officially registered so far? ______

6.4 Who supervises each of the above institutions? ______________________________

6.5 In the particular case of money transfer companies, what are the capital requirements for establishing this type of firms?

____

____

6.6 In case of money transfer companies, do they need a bank-like license to operate? ______

6.7 Are remittances taxed? If so, what types of taxes apply to remittances and what is the tax rate (s)?

____

____

6.8 How are consumers informed about the cost of sending remittances in the source and destination country?

a. Each financial institution informs the public about its fees ______
b. A non-government organization (NGO) provides comparative data to the public on the costs of sending remittances ______
c. A government entity regularly provides comparative data to the public on the costs of sending remittances ______

6.9 Does your country allow the general public to have deposit accounts in foreign currency? ______

6.10 How is the exchange rate for retail transactions in your country determined (conversion of remittances to local currency), by market or by government?

____

____

6.11 Do you have any legal powers to issue regulation to limit the fees related to the transfer and delivery of remittances (such as exchange rate to be used for the transaction, currency in which the delivery of remittances occurs, fees for ATM withdrawals, etc.)? ______

6.12 Have you used these legal powers in order to lower the cost of remittances in the past three years? ______

7. PUBLIC POLICY ISSUES

7.1 What is, in your opinion, inhibiting migrants from using formal channels to transfer remittances to your country?

a. Lack of valid identification in home country ______
b. Lack of access to financial institutions in home country ______
c. Mistrust or lack of information about electronic transfers ______
d. High costs of services ______
e. Other ______

7.2 In your opinion, what needs to be done in your own country to encourage migrants to transfer their remittances through formal channels?

a. Lift foreign exchange restrictions ______
b. Allow remittances to be delivered in US dollars or Euros or another international currency and not just in local currency. ______
c. Improve postal service infrastructure to be able to deliver remittances to more locations ______
d. Other, please specify

____

____

7.3 What incentives do you grant migrants to transfer their money back to the country (such as attractive investment options, purchases of land, tax breaks, etc.)? Please describe them.

____

____

7.4 What efforts have financial authorities recently undertaken to expand the outreach of remittances services to rural areas and remote locations in your country in which population have no means to receive their remittances?

____

____

7.5 In your opinion, what else could be done in your country to improve the transfer and delivery of remittances to rural areas and remote locations?

7.6 Do financial authorities in your country have any plans to foster the use of formal mechanisms to transfer remittances (banks and other registered financial institutions), instead of informal channels (money sent by migrants through relatives traveling to home country)? If so, please describe the plans. If actions are already underway, please describe them.

7.7 Do you have any plans to make use of the amount of funds your country receive in remittances each year to obtain additional financing in the local or international markets (e.g. securitizing future flows of remittances)? If so, please describe the plans. If actions are already underway, please describe them.

7.8 What type of actions has your government conducted in coordination with counterparts in foreign countries (source of remittances) in order to facilitate and lower the cost of the transfer of remittances? Please describe them, if any.

7.9 At an international level, what can the World Bank do to facilitate the rapid, secure and inexpensive transfer of remittances of migrants to their home countries?

ANNEX B: G20 REMITTANCES TOOLKIT

G20 Seoul Multi-Year Action Plan on Development 6th Pillar – Action 2 (International Remittances)

G20 Remittances Toolkit Policy Tools for the Implementation of the General Principles for International Remittances

At the G20 Seoul Summit in November 2010, G20 leaders reiterated the importance of facilitating international remittance flows and enhancing their efficiency to increase their contribution to growth with resilience and poverty reduction. The G20 also committed to reduce the global average cost of remittances.

The G20 remittances toolkit provides countries with a selection of policy options aimed at reducing the global average cost of remittances and increasing their development benefits. G20 countries can select specific and concrete actions relevant to their specific remittance market. The toolkit provides country specific examples, however these should be adapted to meet different country contexts. The toolkit builds upon previous work, including the 2009 Rome Road Map for Remittances, the Committee on Payment and Settlement Systems (CPSS)[28] and World Bank General Principles for International Remittance Services[29] (Principles are at Attachment A) and the World Bank's report and Guidance Report on the implementation of the General Principles.[30]

MEASURES TO INCREASE COMPETITION

1. Establish a remittance price comparison website (Principle 1: Transparency and Consumer Protection)

The General Principle for International Remittance Services 1 addresses the need to ensure that remittance service providers (RSPs) disclose all fees and the foreign exchange rate that apply to their service, that RSPs can be trusted, and that consumers have recourse in case of problems. Some countries have established public websites that list available RSPs and the terms of their services including fees, foreign exchange rates applied (where necessary) and delivery times. The objectives of the price comparison websites are: a) to increase transparency; b) to promote lower cost options; and c) to foster competition between RSPs in order to drive down prices. G20 countries that do not have a remittances price comparison website may want to put one in place or consider sponsoring national or regional initiatives to establish one.

[28] The Bank of International Settlements Committee on Payment and Settlement Systems (CPSS) is responsible for strengthening the financial market infrastructure through promoting sound and efficient payment and settlement systems. The CPSS is the standard stetting body for payment and securities settlement systems. It also serves as a forum for central banks to monitor and analyse developments in domestic payment, settlement and clearing systems as well as in cross-border and multicurrency settlement schemes. CPSS and the World Bank jointly chaired a process to develop the General Principles for International Remittance Services in 2007.

[29] The "General Principles for International Remittance Services", Bank for International Settlements, Basel, Switzerland, Committee on Payment and Settlement System and World Bank, January 2007. The Principles were developed by a taskforce chaired by the World Bank and the CPSS in 2007. The G20 endorsed the principles in 2010.

[30] Since remittance transfers are also a form of retail payment, the CPSS reports on "Policy Issues for Central Banks in Retail Payments" may be helpful in addition to the General Principles, and also the report on "General Guidance for National Payment System Development", Bank for International Settlements, Basel, Switzerland, Committee on Payment and Settlement System, March, 2003.

Guidance

Price comparison websites require the regular survey of remittance service providers and the costs of their remittance services and to make this information available on a public website. To ensure that the price comparison website is effective, it should be promoted through media and services targeting.

The World Bank offers technical assistance for establishing price comparison websites and can certify the compliance of national and regional websites to its methodological standards (see www.remittanceprices.worldbank.org).[31]

Example

Some countries, including Australia, UK, Germany, Norway, France, Italy, Mexico and the Netherlands, have established their own price comparison websites and keep them regularly updated. These websites can have real impacts on encouraging competition in the remittance market leading to a reduction in remittance costs.

2. Improve market access (Principle 4: Market Structure and Competition)

The General Principle for International Remittance Services 4 states that competitive market conditions should be fostered in the remittance industry. In certain countries the network for the collection and/or disbursement of remittances can be limited, and in some cases restricted to only a few entities, such as banks. In addition, dominant money transfer operators (MTOs) in some cases use their market position to prevent other competitors from entering the market. Traditional legal requirements, which are targeted at financial institutions, often impose an excessive and discouraging burden for remittances operators. Adapting regulations to include prudential requirements proportionate to the operational and financial risks faced by remittance payments providers in the course of their business, can reduce costs and encourage new operators to enter the market.

G20 countries should discourage, limit or ban exclusivity contracts between RSPs and important distribution networks. This allows new competitors to enter the market, offer lower cost or more convenient services, and free the available distribution channels to work with a number of providers or select one based on the merit of their service and cost.

3. Support innovation in the payment processes through the use of technology (Principle 2: Payment Systems Infrastructure)

General Principle for International Remittance Services 2 states that improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. Migrants and their

[31] For more information on the topic, please see the World Bank "Guidance and Special-Purpose Note - Remittance Price Comparison Databases: Minimum Requirements and Overall Policy Strategy", available at http://go.worldbank.org/SOAZF9BP80.

Guidance

Governments can introduce specific regulations for the payment service providers. The requirements for the payment institutions should reflect the fact that payment institutions engage in more specialised and limited activities, thus generating risks that are narrower and easier to monitor than those that arise in other financial institutions. Payment institutions should also be subject to effective anti-money laundering and anti-terrorist financing requirements.

Examples

The **European Union** adopted the EU Payment Services Directive in 2007, which provides companies with the opportunity to obtain a license that enables them to offer payment and remittances services across all countries of the EU.

In **Mexico**, practitioners inside the industry cite the breakup of exclusivity contracts and the entry of new competitors – especially banks – into the corridor as among the key events leading to a steady decline in prices.

In **Ethiopia**, the National Bank banned exclusive remittance distribution agreements for banks in 2008. Since then, banks have been able to enter into agreements with many new RSPs and the number of RSPs has increased from five to over 20. In return, prices have fallen and consumers in sending and receiving countries have more choice.

In **Japan**, the Payment Services Act of 2009 has reformed the regulatory framework for remittances so that licensed non-bank providers can offer remittance services in addition to banks.

families in many countries lack access to financial services and therefore efficient electronic means for payment. As a result, remittances are still sent and received mostly through branch, agents and in cash. Therefore, the costs to process remittance transactions are significantly higher than comparable electronic payments.

New financial services and payment technologies such as payment cards, mobile and online payments can help banks to serve migrants, provide migrants access to low cost electronic payment means and thereby eliminate or reduce the need for cash and branches. This leads to a reduction of transaction processing costs and in return to a reduction of the fees charged to consumers. G20 members could encourage non-bank entities to provide remittance services, thereby increasing competition among service providers.

G20 members should consider supporting a holistic approach towards the reform of the retail payment systems infrastructure and the introduction of new technologies that reduce transaction costs and promote financial inclusion.

Guidance:
Options to support the growth of new technologies include: a) ensuring that an appropriate legal and regulatory framework that balances the objectives of financial inclusion with the need for consumer protection and market integrity is in place; b) ensuring interconnectivity of payment systems in sending and receiving countries; and c) supporting projects that introduce innovative new technology. A major challenge is to do this transnationally, i.e. allowing for mobile international payments.

Examples
In **Kenya**, three in four adults now make or receive domestic remittances through a mobile phone because it is cheap and convenient; the mobile payment infrastructure is now also used for the distribution and origination of international remittances at a significantly reduced cost.

In **Gabon**, the Universal Postal Union introduced an electronic remittance system in 2007 that has reduced the cost for domestic remittances by 50 percent and for international remittances by 25 per cent compared to the costs charged by the dominant remittance service provider. In 2008, the market leader reduced its prices for domestic remittances by 50 percent.

In 2004, the Federal Reserve in the **US** 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") as reference exchange rate. The Federal Reserve Banks charge depository institutions in the US 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 Bank.

In **India**, Several banks have begun to offer online remittance services that allow Indian migrants in the US and the UK to send remittances directly from their bank account or credit card by visiting a website established by the Indian bank, eliminating the money transfer company as a middle man and reducing costs to migrants, in some cases by more than 30 percent.

In **Japan**, the Payment Services Act, which enabled non-bank entities to provide remittance services, was enacted in 2009 and enforced in 2010. The number of registered non-bank remittance services providers has increased to 17 as of July 2011.

MEASURES TO IMPROVE THE LEGAL AND REGULATORY ENVIRONMENT FOR REMITTANCES

4. Assess and reform national remittance markets and payment systems consistent with the General Principles

The General Principles establish best practices for the policy framework of remittance markets to ensure effective competition, financial inclusion, appropriate prices and other policy objectives. Various countries have used the General Principles to assess their remittance market using a methodology established by the World Bank. The assessments cover all areas of the General Principles (transparency and consumer protection, payment systems, regulatory framework, competition and market structure, and governance and risk management) and deliver recommendations for concrete actions for the implementation of the General Principles and improvement of the remittance market of the country.

Guidance

G20 countries can ask their Central Banks or other government agencies to undertake a General Principles self-assessment or request suitable consultants such as the World Bank to carry it out. The World Bank Guidance Report for the Implementation of the General Principles provides useful guidance in such exercise.

Countries can also support the assessment of other countries' market, either by providing funds directly to the countries or by participating in regional programs that provide General Principles Assessments.

Examples

The **World Bank**, supported by Australian Agency for International Development (AusAID), has completed the assessments of four neighbouring countries: Tonga, Samoa, Vanuatu and Solomon Islands. Australia is also coordinating with the WB on the deployment of a mission for the assessment of its own market for remittances against the GPs.

The **African Institute for Remittance**, an institution of the African Union financed by European Commission, has financed General Principles Assessments for various countries in Africa and already completed Malawi, Liberia and Tanzania.

Germany has developed a checklist to analyse national remittance markets and to identify bottlenecks which need to be tackled. The checklist has already been successfully tested in Uzbekistan leading to the creation of specific financial products for migrants and remittances recipients as well as increased work on financial literacy.

5. Better coordination between government agencies in sending and receiving countries to improve the development impact of remittances (Principle 3: Legal and Regulatory Framework)

General Principle for International Remittance Services 3 states that remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions. Remittance policies often involve multiple authorities in one country (for example, payment system overseers, competition authorities, and consumer protection authorities, the ministry of finance, financial supervisors and anti-money laundering authorities). In addition, due to the cross-border nature of remittance flows, they involve the legal and regulatory framework in both the sending and receiving country. Policymakers should ensure that domestic policies are coherent and coordinated and a degree of coordination, based on international best practices, between sending and receiving countries exists when relevant and appropriate.

Guidance

The G20 Principles for Innovative Financial Inclusion provide a useful checklist of issues to be addressed to improve the regulatory context, including clear leadership and coordination between government agencies. Regulators and policymakers of G20 countries can establish bilateral or multilateral dialogue with relevant authorities in their remittance corridors and coordinate where possible policy initiatives, ensure that policies in other countries are taken into account when formulating their own legal reforms, and ensure that they understand the possible effects of their policies on other affected countries. The 2005 CPSS Oversight report provides guidance on issues that should be addressed when coordinating payment systems internationally.

Example

France established a coordination group on remittances that comprises representatives from the Ministry of Foreign Affairs, the Treasury, the Banque de France, the Ministry of Home Affairs (responsible for immigration affairs) and the French Development Agency. It meets around 5 times a year, conducts studies and works on ways to lower remittances costs and encourage productive investments from the diasporas in their country of origin, using the different tools and leveraging possibilities of each ministry or agency.

ACTIONS TO INCREASE FINANCIAL INCLUSION AND INCREASE THE DEVELOPMENT IMPACT OF REMITTANCES

6. Support financial inclusion mechanisms and financial education programs for migrants

Many migrants are keen to support development in their home countries, beyond sending money to their families. Given the large amounts of remittances they send, this can represent a substantial contribution. At the same time, migrants tend to be unbanked and hence lack access to, and experience with, financial services that could help them and their families to use financial services more effectively. G20 members can take action to: a) promote the use of financial education programs for migrants; b) encourage the development of financial services customized to the needs of, and suitable for, migrants and; c) ensure that migrants have access to banks and other financial institutions.

7. Ensure cooperation between the public and private sector, migrants and civil society on the development impact of remittances.

Remittances impact different areas of public policy and implementation. Enforcement of remittance policies depends on cooperation between public authorities, migrants and civil society concerned with development and migrant welfare. Broad representation between stakeholders should be an integral element of the policy formulation process.
G20 countries could support this process by facilitating dialogue between the different stakeholders of remittance policy through formal bodies, roundtables, and other means of cooperation and communication.

Guidance

Governments can develop or support financial education programs to be delivered by financial institutions, government agencies or NGOs that help migrants, prior to departure, understand their financial options and further financial inclusion. Receiving countries can use their consular networks to offer migrants financial education or promote opportunities for investment in the country, be it only by opening a local savings account. Receiving countries can also encourage local banks to create and offer specialized products to migrants, such as non-resident savings and investment accounts.

Examples:

In **Brazil**, 1,740 out of 5,578 municipalities (30 percent) have no bank branches, but receive banking services through correspondentes bancários (non-bank corresponding agents). Correspondentes bancários act on behalf of banks under agency agreements and are authorized, among other things, to receive deposits and general payments, perform credit transfers from an account and receive applications related to loans and credit cards.

In 2004, **South Africa** launched a low-cost national bank account, called "*Mzansi*". These accounts extend access to low-income earners and other non-banked people. By August 2005, more than 1.5-million Mzansi accounts had been opened. The Mzansi initiative also includes a commitment by South Africa's banks to establishing banking services within 15km of all South Africans, and an automatic teller machine (ATM) within 10km of all South Africans.

Germany has organised a dialogue between Serbian banks and Serbian migrants' associations in order to discuss the migrants' needs for financial services in Serbia. As a result, Germany produced an information brochure informing Serbs living in Germany about recent changes in the Serbian banking system, provisions for customer protection and migrant-friendly financial services available (e.g. cost-free transfer of pension funds etc).

Guidance

G20 countries could organise outreach events and special initiatives on the development impact of remittances with other governments, academia, the private sector and civil society. They can also initiate a Public-Private Remittance roundtable to advocate for reducing the cost and increasing the developmental aspects of remittances. Objectives may also include encouraging all remittance service providers to broaden their services and to discuss regulatory barriers, financial literacy campaigns or public service information campaigns.

Examples:

In the **UK**, 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 form the taskforce is a code of conduct or "quality mark". To be awarded a quality mark, remittance service providers would be required to be transparent about their service.

In **Australia**, a remittance roundtable and partnership between with AusAID, NZAID, the private sector, and banking regulators have helped to progress remittance policies. This involved intensive data collection, awareness raising, and bridging numerous information and coordination gaps in order to arrive at robust public private partnerships that have shaken up the inertia in the remittance market and led to incumbents lowering prices and the introduction of effective competition.

In **Italy**, the Directorate General for Global Issues of the Ministry of Foreign Affairs is coordinating since 2008 a domestic working group dedicated to remittances. The working group holds regular meetings with the private sector.

In **Brazil**, the Ministry of Foreign Affairs organize yearly a general meeting with members from the Brazilian communities living abroad to discuss issues of common interest. The topic of remittances has been addressed on a regular basis with support from the World Bank and the Central Bank of Brazil.