The Committee on Payment and Settlement Systems and the World Bank General Principles on International Remittance Services

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The flow of funds from migrant workers back to their families in their home country is an important source of income in many developing economies. The recipients often depend on remittances to cover day-to-day living expenses, to provide a cushion against emergencies or, in some cases, as funds for making small investments.

The total value of remittances has been increasing steadily over the past decade and it is estimated that in 2005 the total value worldwide was over USD 230 billion equivalent, involving some 175 million migrants. For some individual recipient countries, remittances can be as high as a third of GDP. Remittances also now account for about a third of total global external finance; moreover, the flow of remittances seems to be significantly more stable than that of other forms of external finance.

However, remittances can be expensive relative to the often low incomes of migrant workers and to the rather small amounts sent (typically no more than a few hundred dollars or its equivalent at a time). Also, it may not be easy for migrants to access remittance services if they do not speak the local language or do not have the necessary documentation, while the relatively undeveloped financial infrastructure in some countries may make it difficult for recipients to collect the remittances. In some cases, the services are unreliable, particularly concerning the time taken for the funds to be transferred. In addition, some markets are uncompetitive or have regulatory barriers to the provision of remittance services.

The importance of remittances, and the difficulties that can be associated with them, have been increasingly recognised in recent years. In particular, at their summit at Sea Island in June 2004, the G8 countries agreed to take action with developing countries to help reduce the cost of making remittances. One such action was the creation of a task force to develop principles for international remittance services. The report on General Principles for International Remittance Services has been prepared for the Committee on Payment and Settlement Systems and the World Bank by this task force, consisting of representatives from international financial institutions involved in remittances and from central banks in both remittance-sending and remittance-receiving countries.

In recent years a number of reports have been prepared by various organisations on the topic of international remittances. However, few of these reports have been devoted specifically to what can be called the "payment system aspects" of remittances – in effect, the practical realities of how the money is transferred. Understanding these payment system aspects is crucial to understanding remittances and to ensuring that remittance services are safe and efficient. The CPSS-WB 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. The report was issued in March 2006 as a consultation document and comments are invited from any interested parties. Comments should be sent to the CPSS Secretariat (cpss@bis.org) and the World Bank (paymentsystem@worldbank.org) by 18 August 2006.

The task force believes that application of the principles will help to achieve the public policy objectives of having safe and efficient international remittance services, which require the markets for the services to be contestable, transparent, accessible and sound.

The market for remittances

The report considers only international remittance transfers and international remittance services, not domestic ones, but for simplicity it usually refers to these as "remittance transfers" and "remittance services" – i.e. it is assumed they are international. For the purposes of the report, remittance transfers are defined as cross-border person-to-person payments of relatively low value. In practice the transfers are typically recurrent payments by migrant workers. From the point of view of those providing remittance services, remittance transfers will often be indistinguishable from other low value cross-border transfers (e.g. because the remittance service provider (RSP) is unable to identify that they are person-to-person).

There are many different ways that remittance transfers can be made, including cash-based services offered by individuals, services from specialised global money transfer operators and bank-to-bank transfers. The general principles are aimed at all RSPs except those whose services are based on purely physical transfers of cash (e.g. where cash is sent by courier from one country to another).

Remittance services can be more or less complex, and of varying speed. However, in all cases it is necessary to have some kind of "network" – i.e. access points, where consumers of remittance services pay and receive funds. Also needed are procedures to link those access points to enable messaging (the transfer of information about the remittance) and settlement (the transfer of the funds themselves). Some RSPs, such as global banks, may have branch networks they can use for this purpose ("unilateral service"). Others, including smaller RSPs, may use a network provided, for example, by one of the global money transfer operators ("franchised service") or may have to cooperate to create a network ("negotiated service"). In all these cases, the RSPs providing a service have a direct relationship with each other, enabling them to agree and publicise the speed and total price of the service (including any fee charged to the receiver of the funds). Another type of service, provided by most banks for example, uses correspondent banking to send a payment to virtually any other bank in the world ("open service"). This almost unlimited global coverage is valuable, not least to ensure even the smallest remittance corridors have a service; however, a
Key issues concerning remittance services and the general principles

In any market, full information – i.e. transparency – is important because it enables individuals to make informed decisions about which services to use and helps to make the market as a whole more efficient. Transparency in the market for remittances is arguably particularly important because the price to the consumer depends on two elements, the exchange rate used and any fees charged, and combining these to calculate which service is cheapest is difficult for most consumers. Transparency, as well as adequate consumer protection, is also important because, as low-income migrants in a foreign country, many senders may have difficulties in understanding the local language or in providing adequate identification to open a bank account, or lack the time and financial literacy to search out and compare different remittance services. General Principle 1 is therefore that the market for remittance services should be transparent and have adequate consumer protection. (See Box 1 for a list of the five General Principles and related roles.) RSPs should therefore be encouraged to provide relevant information about their own services in easily accessible and understandable forms. Authorities or other organisations may want to provide comparative price information. They may also wish to undertake educational campaigns to give senders and receivers sufficient background knowledge to be able to understand the information provided.

The infrastructure needed to support remittance services is sometimes inadequate. Many services require RSPs to cooperate to create a network of access points and it may not always be easy for potential RSPs to identify suitable partners to do this, particularly in other countries. Moreover, under-development of the domestic financial infrastructure, particularly in receiving countries, may mean that transferring funds to the access points is slow and unreliable; in some cases non-cash payment services may only be available in urban locations. Another important aspect of the infrastructure is correspondent banking, which is widely used for cross-border transfers of funds but which can be expensive for small-value payments such as remittances. General Principle 2 is therefore that improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. The safety and efficiency of remittance services can be affected by payment systems in the relevant markets and the way that these systems are accessed and used by RSPs or by banks acting for RSPs. Remittance services may be improved by initiatives aimed at facilitating greater interoperability of systems and straight-through processing.

The remittance industry is likely to flourish best under appropriate laws and regulations. Remittances may be regulated for various reasons including, perhaps most importantly, prevention of their misuse for purposes such as money laundering. However, as with all laws and regulations, there is the possibility that those for remittances are badly designed with unintended side effects, that they are disproportionate to the problem they are designed to tackle, or that they continue to be applied even when no longer useful. Moreover, regulating remittances solely by type of entity, as is sometimes the case (e.g. when the regulations are applied only to the services provided by licensed institutions such as banks), may make regulation less effective (by creating loopholes which can be exploited for illegal activities) and distort markets (by enabling some RSPs to inappropriately avoid the costs of regulation and thus offer artificially cheaper services). National regulations should aim to create a level playing field between equivalent remittance services. General Principle 3 is therefore that remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Box 1: 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.

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

**General Principle 2.** Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

**General Principle 3.** Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

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

**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.
RSPs to offer its remittance service only on condition that they do not offer any other remittance service. And it is important that RSPs without direct access to the domestic payments infrastructure needed to provide remittance services should be able to use, on an equitable basis, the payment services provided by institutions that do have direct access.

The relatively small values involved in remittance transfers mean that it is unlikely that there will be systemic risk involved. However, RSPs do face financial, legal, operational, fraud, and reputational risks. General Principle 5 is therefore that remittance services should be supported by appropriate governance and risk management practices. Governance and risk management practices that are appropriate for the size and type of an RSP's business and the level of risks can improve the safety and soundness of international remittance services and help protect consumers.

Both RSPs and public authorities have a role to play in implementing the principles. Authorities should evaluate what action to take to achieve the public policy objectives through implementation of the principles, and the implementation itself will also need the active participation of RSPs. International financial institutions (such as the World Bank, regional development banks and the International Monetary Fund) have a role to play to support both authorities and market participants in the application of the principles.

The importance of remittance flows varies from country to country so, although these 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. In addition, the principles are in most cases likely to be applied in sending countries regardless of the destination of the funds and in receiving countries regardless of their origin.

The report presents some possible actions to implement the principles for countries that choose to implement the principles. These possible actions are based on the experiences of a number of sending and receiving countries. However, there are many differences between countries - economic, cultural and political - which mean that actions that are helpful in one country may not be equally helpful in another. Therefore, the suggestions included in the report should not be necessarily taken as a checklist of what needs to be done to ensure the principles are met.

The role of the World Bank in the implementation of the General Principles

In parallel with the finalization of the General Principles, the Bank is developing, together with other international financial institutions (IFIs), a Guidance Report with detailed guidelines and actions for the implementation of the General Principles. Remittance systems in sending and receiving countries will then be able to use this methodology to evaluate to what extent the remittance industry observe the General Principles.

The Bank plans to be involved in these exercises, as well, together with other development banks, the IMF and authorities of sending & receiving countries. In this effort, the Bank will benefit from the experience accrued from the corridor studies, which will be expanded to evaluate the situation of the assessed country more globally, i.e. vis-à-vis all relevant sources/destinations of remittances.

The Bank, in cooperation with other IFIs, will also support the implementation of policy recommendations and action points that stem from these assessments. In this regard, any necessary actions will be integrated in the context of the reform of the national payment system, which in many countries the Bank is supporting or has supported in the past. The Bank has supported payment system reforms in 70+ countries over the past 12 years and, in many of these countries, has already created the preconditions for an enhancement of the efficiency in the provision of remittances through better retail payment systems and more effective payment system oversight.

Available tools to foster the dialogue within the country and among countries include the Regional Initiatives in Payment Systems (Western Hemisphere Payments and Securities Settlement Forum, Arab Payments Initiative, Commonwealth of Independent States Payments Initiative, Southern African Development Community), the Financial Sector Assessment Programs, Technical Assistance programs etc.

1. Source: World Bank and Inter-American Development Bank. Officially recorded flows were measured as being USD 232bn worldwide in 2005, of which USD 167bn was to developing countries. However, given measurement uncertainties, notably about unrecorded remittances, actual flows may be much higher – perhaps by 50% or more (see Global economic prospects for development, World Bank, 2006).
2. In general, the term "bank" is used in the report to refer to deposit-taking institutions or credit institutions or whichever legal term is applicable in a particular jurisdiction.