Increasing the Efficiency in Remittance Markets

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Payment Systems Development Group
The World Bank

The Importance of Payment Systems
Payment, Remittances & Securities settlement systems represent a basic infrastructure for the functioning of market economies

- Sound PRSS Are Essential for Financial System Stability & Development
  - Global Payment Systems Survey shows large value payments processed in a year worldwide are equivalent to more than 50 times global GDP
  - RTGS systems have shown growth in total amounts settled (86% between 2002 and 2006) but also allowed for a safe and efficient processing (82% of the value of total payments)

- Safe PRSS Mitigate Risks in Financial Markets
  - Financial market crises are likely to show their first signs in the payments system
  - Interbank money market as “distributor of liquidity” relies heavily on ability to transmit funds across the financial system rapidly and safely

- Efficient PRSS Lead Countries to Huge Savings
  - Progressive shift from paper-based to electronic payments is important for financial sector and economy
  - A study from the Central Bank of Brazil indicates that a more intensive usage of electronic-based instruments can produce a potential saving to the country of 0.7% of the GDP per year

- PRSS Are Key in Developing More Inclusive Financial Systems
  - A sound and efficient financial infrastructure enhance access to financial services
  - Retail payment services often the first entry point of underserved into financial sector
**International Standards and Best Practices**

Standard setter (BIS-CPSS), with strong support of World Bank/others, has developed body of standards, best practices and policy advice documents.

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<td>CPSS Core Principles for Systemically Important Payment Systems</td>
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<td>Securities settlement systems</td>
<td>CPSS-IOSCO Recommendations for Securities Settlement Systems</td>
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<td>G-30 Global Clearing and Settlement</td>
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<td>Payment system oversight</td>
<td>CPSS: Central Bank Oversight of Payment and Settlement Systems</td>
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<td>Remittances</td>
<td>CPSS-WB General Principles for International Remittance Services</td>
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<td>Cross-cutting issues</td>
<td>CPSS: The Interdependencies of Payment and Settlement Systems</td>
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<td>CPSS: Cross-border Collateral Arrangements</td>
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**Payment Systems Development Group: Role**

Help develop sound and efficient payment, remittance, and securities settlement systems, to:

- Strengthen Financial Stability
- Support Access to Finance

Stocktaking & Policy Advice  
Implementation Support

- Vision & Strategy
- Legal Framework
- Large-Value Systems
- Securities Settlement
- Retail Payment Systems
- Government Payments
  - Remittances
  - FX Wholesale Payments
- Oversight & Cooperation

Financing: WB loans-grants, fee-based and other TA, Regional Initiatives, FSAPs, support to FIRST-funded Initiatives, Others
Payment Systems Development Group: Delivery Model

The Payment System Development Group is at the center of an international network, whose main objective is supporting countries to reform Payments, Remittances, and SSS (over 120 countries in 14 years, 68 active!!!)

- API, CEMAC, CISPI, PAPRI
- SAPI, SADC, UEMOA, WHF
- World Bank Payment Weeks, SIBOS, Regional Events, International Conferences
- Economic research on broad range of payment system issues including remittances and new technologies (mobile payments)
- Research and New Developments
- Knowledge Dissemination
- Develop Regional Initiatives
- Multilaterals and Standard-setters
- CPSS, IMF, IFC
- IOSCO, Regional Development Banks
- other multilaterals
- SWIFT, card networks, CLS
- Bank, commercial banks, other financial institutions, payment system operators, vendors, at the global and domestic levels
- G-10 and non G-10 Central Banks and Securities Commissions

International Remittances
Overview of International Remittances

- The World Bank estimates that in 2010 remittances amounted to approximately 440 billion US dollars, out of which 325 billion US dollars went to developing countries (up 6 percent from $307 billion in 2009)

- Remittance flows to developing countries are expected to increase by 6.2 percent in 2011 and 8.2 percent in 2012

- Remittances are a lifeline for 700 million people around the world

- Remittances are countercyclical in times of crisis in the destination countries

Remittances to developing countries recovered to the pre-crisis level of $325 billion in 2010

Source: World Bank Migration & Remittances team, Nov 2010
Top recipients of remittances

(US$ Billions, 2010e)

(%) of GDP, 2009)

Development and Implementation of the BIS-WB General Principles for International Remittance Services
An international remittance is a cross-border, person-to-person payment of relatively low value

- Typically by migrant workers to their families. Especially from developed to developing countries
- Person-to-person, low value – ie not commercial or wholesale payments
- Domestic remittances also exist
- Recurrent - but typically made by individual transfers (eg not by standing order)
- Typically credit transfers
- For remittance service providers (RSPs), often indistinguishable from any other retail cross-border transfers

Issues with remittances:

- Usually expensive
- Sometimes slow
- Sometimes inconvenient
- Occasionally unreliable

Focus here is on payment system aspects (not developmental, immigration, balance-of-payments or other aspects)
The BIS-WB General Principles for International Remittance Services are a multilateral effort to address a global challenge

Assessments:
- El Salvador (September 2006)
- Morocco (November 2006)
- Honduras (April 2007)
- Haiti (September 2007)
- Nigeria (February, 2008)
- Uganda (April 2008)
- Guatemala (April 2008)
- Czech Republic (May 2008)
- U.A.E (January 2009)
- Brazil (April 2009)
- India (July 2009)
- Trinidad & Tobago (October 2009)
- Peru (October 2009)
- Rwanda (November 2009)
- Panama (December 2009)
- Bangladesh (March 2010)
- Colombia (March 2010)
- Sri Lanka (May 2010)
- Samoa, Solomon Islands, Tonga and Vanuatu (May 2010)
- Paraguay (September 2010)
- Costa Rica (February, 2011)

World Bank – CPSS General Principles for International Remittances Services

GP1: The market for remittances should be transparent and have adequate consumer protection

GP2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged

GP3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework

GP4: Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance service industry

GP5: Remittance services should be supported by appropriate governance and risk management practices

<table>
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<tr>
<th>Remittance Service Providers</th>
<th>Should participate actively in the application of the general principles</th>
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<td>Public Authorities</td>
<td>Should evaluate what action to take to achieve the public policy objectives through implementation of the general principles</td>
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Remittances: WB PSDG Activities

Implementation of the Remittances Price Worldwide (remittanceprices.worldbank.org): more than 200,000 visits and keeps growing at an exponential pace

Assessments and Operations: 15+ country assessments in the last 3 years, Technical Assistance in the implementation of National databases (Italy, CONCADECO, AUS-NZL, etc.)

Implementation of Regional Initiatives: API, ARPI, WHI, SAPI, and the PAPRI just launched!

Creation of the Public Private Partnership on Remittances: 40+ Stakeholders represented, regular meetings leveraging on the GRWG

WB PSDG and BIS-CPSS developed the Principles: the Principles have been endorsed by the G8, G-20 and the Financial Stability Forum (now Board) All countries urged to use them!!!

Creation of the GRWG

Global Remittances Working Group
Since its creation, the efforts of the GRWG have been successful in securing the commitment of the G8 Heads of State to: “...achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10% to 5% 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”

Following up on the invitation by the G8 Heads of States in the summit in Hokkaido, on July 7-9, 2008, the WB created in February 2009 the GRWG. This is a multi-year platform aiming at increasing the efficiency of the remittances market and facilitating the flow of remittances by providing guidance and policy options to the global community.

The World Bank Remittance Prices Worldwide database provides a reference for monitoring progress on this objective on a biannual basis.
**Country reforms for the implementation of the 5x5**

- **Restoring American Financial Stability Act of 2010 (so-called Wall Street reform bill):**
  - Increased transparency (FX, fees, amount received, date of delivery, error resolution tools, etc.)
  - Empowerment for the Federal Reserve to “expand the use of the automated clearinghouse system for remittance transfers to foreign countries”
  - Creation of a financial services consumer protection authority

- **Enactment of Payment Services Act of 2009**
  - Introduction of convenient, inexpensive and safe services of remittance services
  - Opening of the remittance market to non-bank entities
  - Reform of the consumer protection framework for remittances customers
  - New registration process (no licensing)
  - Deposit guarantee for RSPs to protect customers in case of bankruptcy

**G20 Action Plans – 2010 Seoul Development Consensus for Shared Growth**

**Facilitate the flows of international remittances**

“We (G-20) 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, RDBs 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 remittances…”
Implementing the GPs: Remittance Prices Worldwide
Increasing Transparency in the Market

The database remittanceprices.worldbank.org:

- Increases transparency and competition
- Provides comparisons of markets across countries and regions. The new iteration Q3 2010 (launched on September 2010) surveys 200 corridors from 29 sending to 86 receiving countries
- Fosters price reductions through a “name and shame” approach. An example of the positive effect of this approach has been the case of LAC, where publication of remittance fees was one of the factors in their reduction from 15%, on average, in the region in 2000, to 5.6% in 2006
- Is not focused directly on the consumer (not updated on a day-to-day basis) and in this sense does not replace national databases but complements them (e.g. www.mandasoldiacasa.it for Italy, www.enviacentroamerica.com for Central American Countries and www.sendmoneypacific.org for the Pacific). WB CERTIFICATION!!!
Achieving the 5x5 Objective through the implementation of the General Principles

- In the Third Quarter 2010 the total global average of sending USD 200 worldwide was 8.89%
- 5 new sending countries were added to the Remittance Prices Worldwide database (Belgium, Korea, Norway, Qatar, and Switzerland)
- Considering only the countries that were already included in the First Quarter 2010, the average would be down to 8.62%

Sending USD 200 from G8 countries: trends

- The average total cost of sending USD 200 from the G8 countries in the Third Quarter 2010 was 8.40% (up from 8.37% in the First Quarter 2010)
- A significant reduction was recorded for France (down from 10% to 9%) and for the most expensive sending country, Japan (down from 17.3% to 16.2%)
- Most G8 countries show at least a slight reduction compared to the First Quarter 2009
Sending USD 200 from G8 countries in the 3Q 2010

- Japan, Germany, and Canada were the most expensive sending countries in the G8.
- Russia was by far the cheapest sending countries among the G8 thanks to the well-known peculiarity of this market.
- Italy, UK, and US ranked below the G8 average total cost for sending USD 200.

Key findings from RPW database

The volume of migrant remittances from a sending country and the average total cost are highly correlated.

The global average cost for sending remittances through commercial banks was higher than from Post Offices (the cheapest) and MTOs.

The cost of sending remittances to South Asia and Latin America is the lowest when compared to the global average total cost and other regions.

The cost of sending remittances from G8 countries is almost at par with the global average total cost. However, this number would be a lot higher than the global average if Russia were excluded from the data.

The South-to-South corridors demonstrate higher cost for migrant remittances. Based on anecdotal evidence from some countries, broad based reduction in costs requires a broader approach to reforms that is based on the GPs.
Central American Database:
www.enviacentroamerica.org
This Database is focused on Central America countries and covers 19 selected country corridors, representing at least 60% of total remittance flows to the region, including one South to South corridor.

South Pacific Database:
www.sendmoneypacific.org
This Database focuses on Small Countries in the South Pacific and covers 18 corridors, representing at least 80% of total remittance flows to the region. The database has just been certified by the WB as compliant with the WB Standards for National Remittances Databases

In the Pipeline

- Implementation of the GPs
  Several country missions and TA projects will be implemented and dedicated resources will be put in place to coordinate the work and contribute to the achievement of the 5x5 objective

- Country Briefs
  Public Dissemination Reports based on the Missions for the Implementation of the GPs

- African Remittance Database
  This Database focused on Sub-Saharan Africa will study approximately 100 selected country corridors, aiming at covering at least 60% of total remittance flows to the region, including intra-African corridors. The outreach activities will play a fundamental role in the African contest and specific awareness programs have been designed in order for the database to be a useful tool for consumers
In the Pipeline

- **Pacific Remittance Initiative**
  Assess markets for remittances in six countries. Create sustainable arrangements to continue regional cooperation in payment systems and remittances

- **Issuance of the Guidance Note for the Implementation of the GPs**
  Specific guidelines for countries to implement the General Principles for International Remittances

- **Strategic Partnerships**
  Solid relationships have been created with:
  - the African Institute for Remittances to intervene more effectively at the regional level
  - the Universal Postal Union and the International Fund for Agricultural Development to reform national postal systems particularly in Africa and Asia
  - the Food and Agricultural Organization to undertake interdisciplinary assessments in countries with high levels of remittances to rural areas

Global Payment System Survey
Launch of New Iteration of the World Bank Global Payment Systems Survey

- First Survey published in 2008
- Covered 128 central banks and 142 countries
- Available at www.worldbank.org/paymentsystems
- Topics covered:
  i. Legal and Regulatory Framework
  ii. Large-Value Funds Transfer Systems
  iii. Retail Payment Systems
  iv. Foreign Exchange Settlement Systems
  v. Cross-border Payments and International Remittances
  vi. Securities Settlement Systems
  vii. Payment System Oversight and Cooperation
  viii. Planned and On-going Reforms to the National Payments System

Payment Systems Survey 2010

- Launched in July 2010
- Sent to 171 central banks and 190 countries
- 140+ countries responded - as of December 1, 2010
- Topics covered:
  i. Legal and Regulatory Framework
  ii. Large-Value Funds Transfer Systems
  iii. Retail Payment Systems
  iv. Foreign Exchange Settlement Systems
  v. Cross-border Payments and International Remittances
  vi. Securities Settlement Systems
  vii. Payment System Oversight and Cooperation
  viii. Planned and On-going Reforms to the National Payments System
- Annex 1! New survey on innovations in retail payments issued as an Annexure to GPSS. Builds on CPSS “Survey of Developments in Electronic Money and Internet and Mobile Payments”. Annex 1 is divided into 5 key areas:
  i. Type of Products
  ii. Design Features of the Products
  iii. Legal and Regulatory Framework
  iv. Statistics
  v. Planned Reforms/New Products
Scaling up Interventions in the Retail Payments Space

15+ years of discussion and reforms have led to important progress worldwide with regard to Legal Framework and High-Value Payment Systems…

- 98 central banks report having a RTGS system
- Most of the RTGS in place are secure and have been designed around international standards and best practices

…but retail payment systems in developing countries still lag behind significantly when compared to those of developed countries

- 100+ per capita cashless transactions per year in the EU and ODC
  - 15-20 for EAP and ECA
  - Less than 1 for AFR

*Source: Global Payment Systems Survey 2008
Non-Cash* Retail Payment Transactions Per Capita
(Simple average for each region, 2006)

On average, an adult in Africa makes a non-cash transaction only about 2 times per year compared to an adult in EU countries who makes 175 transactions per year.

*Non-cash transactions include: checks, payment cards (debit and credit), EFT (debit and credit transfers)

Scaling up Intervention in the Retail Payments Area, Currently the PSDG Supports:

- Creation of comprehensive retail payment system strategies
- Implementation of an efficient clearing and settlement infrastructure for ALL retail payments
- Efforts to improve the efficiency of the market for international remittances, through the implementation of the WB-BIS General Principles for International Remittances Services
- Reform of the legal and regulatory framework
- Inclusion of the public sector in the retail space to enhance the efficiency of government payments
- Creation of an effective payment system oversight function and an inclusive cooperative framework
World Bank Reform Agenda for Retail Payments (defined by PSDG - 2005)

- Central banks and all stakeholders in the retail arena must work together in a clear strategy to promote the intensive use of retail electronic payment instruments and reduce the importance of cheques.

- Central banks should take a leadership role to achieve the necessary agreements among banks and other participants so that there is at least one ACH operating in the country that is able to process modern payment instruments such as credit transfers and direct debits.

- Central banks should coordinate efforts under way in order to achieve a system that encompasses all relevant players and that processes as many services as possible, avoids duplications and operates on a full scale.

World Bank Reform Agenda for Retail Payments (defined by PSDG - 2005) (continued)

- Central banks and other relevant government agencies should foster coordination and communication to ensure that collection and disbursements of the public sector institutions that are major players in the payments system be processed electronically and in a timely manner.

- Central banks, in coordination with other authorities, should ensure customers protection and foster a safe and efficient provision of remittances services in line with the CPSS-WB General Principles for International Remittance Services.
Scaling up Interventions in the Retail Payments Space

Public Policy Objectives and Goals

- **Efficiency and reliability** are the general policy objectives. In addition, at least **three policy goals** should be considered:
  - Achievement of a socially optimal use of payment instruments
  - Deployment of an efficient infrastructure to support payment services
  - Affordability and easiness of access to payment instruments and services
Defining a Framework for a Comprehensive Retail Payment Strategy

- **Public Policy Goals**
  - Availability of a range of efficient and reliable electronic payment instruments
  - Efficient clearing and settlement arrangements for retail payments
  - Broad based access to electronic payment instruments
  - Sound and reliable legal framework
  - Foster competition

- **WB-BIS General Principles for International Remittance Services** will serve as an analysis framework to identify specific issues and action areas

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Sneak Preview of Retail Payment Strategy Paper

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<th>Principle</th>
<th>Actions by Government and private players</th>
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<td>Consumer Protection, Transparency and Access</td>
<td>- Minimum standards for consumer protection and Transparency</td>
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<td>- Ombudsman office</td>
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<td>- Enshrine customers right to financial access</td>
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<tr>
<td>Legal Framework</td>
<td>- Legal act to address standard payment system issues</td>
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<td>- Regulations, guidelines to address specific aspects</td>
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<td>- Proportionate regulations for payment service providers</td>
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<td>- Enable non-bank players to offer payment services</td>
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<td>Infrastructure</td>
<td>- Require inter-operability</td>
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<td>- Foster creation of national payment networks</td>
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<td>- Fair and transparent access criteria for using infrastructure</td>
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<td>Competition</td>
<td>- Encourage competition amongst payment instruments and mechanisms</td>
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<td>- Legal safe-guards against anti-competitive behavior</td>
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<td>- Ensure fair-access criteria</td>
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<td>- Ensure cross network acceptance of payment instruments</td>
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<tr>
<td>Risk Management</td>
<td>- Minimum standards for data security, privacy, fraud and operational risk management</td>
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<td>- Effective mechanism to address settlement risks</td>
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Scaling up Interventions in the Retail Payments Space

Government Payments

The Importance of Government Payments to the National Payments System

Large Scale government payments projects encourage coordination and cooperation between financial service providers and the government authorities to develop efficient business processes for delivery of payment solutions.

Government payments can play an important role in promoting financial inclusion by extending non-cash, electronic payment instruments to the unbanked.

The use of non-cash, electronic payment instruments for government payments may significantly improve cost savings at all levels of national economy.

Scale and importance of government payments can play an important role in promoting growth and innovation in a country’s retail payment infrastructure.

Role of Central Bank as an Overseer and fiscal agent of the Government
PSDG Strategy for Government Payments

Conceptual Framework and Guiding Principles
Creation of the Task Force on Government Payments
Country Assessments and Pilots
Self Assessment Methodologies
TA Product Line

Task Force Composition
Chair:
• PSDG World Bank
Representation from:
• DFIs
• IMF
• Central Banks and Ministries of Finance from various regions
• NBFIs such as UPU, WBSI, etc.
• Payment Networks – MasterCard, Visa, Eurogiro and SWIFT
• World Bank Group – CGAP, IFC, HDN/SSN and ICT

The Task Force inaugural meeting was launched on December 2-3, 2010

Thank you!
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www.worldbank.org/paymentsystems
http://remittanceprices.worldbank.org