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General Principles for International Remittance Services: Some lessons from the first country assessments

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General Principles for International Remittance Services: Lessons from First Country Assessments

Country Assessments performed so far by the World Bank's PSDG (specifically to assess the observance of the GPs)

- El Salvador (September 2006)
- Morocco (November 2006)
- Honduras (May 2007)
- Haiti (September 2007)



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In countries reviewed so far migration and remittances are considered officially as a State matter

- Morocco: Foundation Hassan II for Moroccans Living Abroad
- Honduras and El Salvador: a position of Deputy Minister has been created within the Ministry of Foreign Affairs to deal exclusively with matters related to migration and remittances
- *However, all these organizations and positions lack enforcement powers, and their main role is to maintain and reinforce the fundamental link of migrants with their home country.*



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Transparency

- Country authorities generally indicate that improving transparency is the “preferred option” to promote better competition and protect consumers (preferable to other types of measures, like controlling regulations)
- However, achieving an adequate level of transparency is difficult for a variety of practical reasons, such as:
 - *i) limited powers to require information from non-bank or unregulated RSPs*
 - *ii) even if RSPs do provide information, how can this be organized in a convenient way for consumer to do proper due diligence?*
 - *iii) difficulty in ensuring comparability of prices, value-added services, access points and other elements as RSPs differentiate their products to create/attract particular market niches*
 - *iv) information is only available to the sender, making it difficult to make informed decisions as to what the best option is also for the beneficiary*



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Transparency (cont..)

- The first problem will be discussed in more detail in the slides on Legal and Regulatory Powers
- Some concrete actions can indeed be taken to make information more easily understandable and comparable:
 - *Publishing all available information in a systematic and periodical manner, including comparative tables with explicit price and service information.*
 - *Common reference exchange rate.*
 - *Usefulness of requesting all RSPs to provide price information for a basic, standardized remittance product throughout the industry.*



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Transparency (cont..)

- Who should be in charge of collecting the information and for producing the new data sets? *will vs. capability*
- How will the information reach the relevant parties, i.e. sender and beneficiary?
- *In summary, the role transparency can play in practice in a market like the one for remittances is useful but limited, and will always need to be complemented with “tougher” actions.*



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Consumer Protection

- Consumer Protection Laws do not specifically cover issues related to migrant remittances, or even specific provisions for the protection of users of financial services
- For remittance services users, the mechanisms available for the resolution of disputes (in some cases only the justice system), is procedurally disproportionate for small disputes or complaints
- Then, should authorities strive for the creation of a dedicated ombudsman for remittances and other financial services users?
 - *Building trust in formal (institutional) money transfer channels.*



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Legal Issues and Regulatory Powers

- Except where the Central Bank is also the bank supervisor, powers to require non-bank RSPs to provide information and/or comply with minimum service levels is limited or even inexistent.
- Many argue that any laws/regulations requiring all types of RSPs to be licensed and comply with some minimum services level would introduce barriers to entry, and hamper competition
 - *The Central Bank of Morocco has nonetheless enacted a regulation based on the GPs that successfully addresses these concerns*
 - *Moroccan authorities worked together with the WB team to ensure this regulation would not put an unreasonable burden (excessive prudential requirements) on small, non-deposit taking service providers, and that RSPs are treated on an equitable basis regardless of their institutional form.*



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Legal Issues and Regulatory Powers

- In the absence of a regulation requiring RSPs to be licensed, it seems that the only way effective to address the gap is through the payment system oversight function
 - *Would need to be formally implemented*
 - *With a broad scope to include explicitly all relevant retail payment services*
 - *Would also need the definition of specific requirements RSPs should comply with in relation to the provision of payment services, and methodologies to determine compliance*
 - *Combined with appropriate organizational arrangements*



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Legal Issues and Regulatory Powers (cont..)

- Equally important is to consider enacting laws or regulations to tackle/forbid actual market practices that hamper competition
 - *Exclusivity agreements*
 - *Blocking access to core payments infrastructures to competitors*



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Retail Payments Infrastructure

- Is there really an interest on the side of beneficiaries to be paid in means other than cash?
 - *In Honduras, for instance, transportation of cash to remote locations constitutes up to 40% of the total cost of a remittance*
 - *Worth noting that in all countries visited so far, domestic retail banks are by far the major RSPs*
 - *All banks interviewed reported that remittance beneficiaries do change their behavior if provided with appropriate incentives and education*
 - *To sum up, a lot can be done within the banking industry (Additional details will be discussed in the slides on “The role of market participants”)*



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Retail Payments Infrastructure

- What can be done at the level of payment infrastructures?
 - *Creation of appropriate infrastructures (e.g. an ACH) in case these do not exist.*
 - *Promote greater standardization e.g. use of bank account identification standards*
 - *Eventually, exploring the feasibility of directly interconnecting the domestic ACH with that of the main sending country*
 - *Promote greater interoperability e.g. the network of remittance disbursing points can be “expanded” by making the existing ones accessible to all through transparent price agreements*
 - *Devising mechanisms that can ensure both a broader access to the core infrastructure and appropriate containment of risks (e.g. Bansefi model in Mexico)*



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Retail Payments Infrastructure

- The only price/cost of a remittance we should care about is the explicit price that senders (or in some cases also beneficiaries) pay an RSP?
 - *The potential to reduce other implicit costs that are not necessarily reflected in the fees paid should not be overlooked e.g. time and transportation expenses to access the closest RSP disbursement point.*
 - *It is therefore also critical to expand the geographical coverage of payment services*
 - *Potential Role of the Postal Service*
 - *Mechanisms such as the “Correspondente Bancário” in Brazil*



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Market Structure and Competition

- The role of Exclusivity Agreements
- Regulations requiring RSPs to be licensed can actually bring order to, and confidence in the market place
 - *As mentioned earlier, a carefully drafted regulation will not impose undue barriers to entry into the market, whether financial, institutional or functional.*
- Policies on access to key infrastructures: need for more flexibility or more creativity?
- Regulations to deter an RSP with direct access to a core infrastructure from blocking indirect access to a competitor



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Role of Market Participants

- One of the most important roles market participants can play is on educating remittance beneficiaries on the benefits of using modern payment instruments, possibly linked with other financial services
 - *Proximity to the client*
 - *As part of an industry-wide effort*
- Market participants should act pro-actively to avoid damaging practices such as exclusivity agreements (or demand from authorities that such practices be banned)
 - *Domestic RSPs should not be limited to acting solely as price-takers*



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Role of Market Participants

- Market participants are responsible for complying with the relevant laws, regulations and any applicable performance standards.
 - *Laws and regulations should place the burden of ensuring proper compliance throughout the whole organization (including agents) on the RSP itself.*
- Fora like a NPC is a useful means to discuss the potential benefits and specific ways through which expensive infrastructure such as that used in payment systems can be used in an optimal manner.
 - *To the extent possible, market participants should seek to cooperate on infrastructure and compete on services.*



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Role of Authorities

- Some Central Banks think there is little they can do to improve the market place in order to achieve greater cost reductions
- Supervisors generally have a good knowledge of the remittance industry (not necessarily of payments matters) due to their involvement with RSPs in relation to AML/CFT
- Other authorities with, apparently, more formal powers in the area of remittances always lack the necessary technical expertise in this field
 - *Nevertheless, authorities such as the Ministry of Foreign Affairs can play a key role in facilitating the bancarization of migrants in their country of destination through the issuance of generally accepted means of identification (e.g. Matrícula consular)*



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Role of Authorities

- Evidently, not much will be achieved in the area of remittances without a strong cooperation mechanism.
- Who should take the lead?
 - *Politicians*
 - *Payment System Overseers*
 - *Supervisors*
 - *Other*



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Role of Authorities

- What role should authorities play in the area of new technologies that can have a specific application for remittances?