

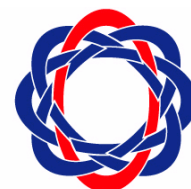
# POSITION PAPER



**“Call to overcome asymmetry”**

**A Position Paper of the  
WORLD SAVINGS BANKS INSTITUTE (WSBI)**

**in response to the  
CPSS and World Bank Consultation on  
General Principles for international remittance  
services**



WORLD SAVINGS BANKS INSTITUTE



WSBI welcomes to be given the opportunity to formally comment on the General Principles for international remittance services proposed by the Committee for Payment and Settlement Systems and the World Bank. In this response WSBI will first present its view of the current situation of remittances and highlight a number of issues. It will then introduce its vision and activities in this field, prior to reviewing point by point and commenting the Consultative Report. Finally it will suggest a set of recommendations complementing the General Principles proposed in the Consultative Report.

## **1- Remittances: a view of the current situation**

**1.1-** Over the past 5 years remittances have been grabbing an increasing share of the public's attention. Barely a day goes by without a new research, or an article, taking either a worldwide stance or approaching the topic from a regional perspective. These research reports and articles convey similar, important messages, notably:

- Remittances are a significant source of income for less developed countries. Total remittance flows could well amount to over 2,5 times official development aid.
- It is estimated that about half of remittance flows are not transmitted through “formal” financial channels, i.e. institutions and intermediaries subject to some form(s) of supervision and offering some form(s) of certainty as regards delivery of funds and/or other customer protection.
- Remittances are usually stable flows of funds (they are the “people’s money”, i.e. funds earmarked by the sender directly for identified, known recipients), they tend to be anti-cyclical in case of economic downturns, and they have shown to serve as an immediate relief buffer when natural disasters (e.g. tropical storms, earthquakes,...) hit.
- The costs for migrants to send remittances is often perceived as disproportionate to the amount and the relative (lack of) complexity of the transaction. Both migrants and recipients usually remark on the lack of transparency as regards total costs (i.e. transaction fee(s) on both sides, foreign exchange rates and commissions, float). In one “remittance corridor” (North to South America and Caribbean), however, there are signs of a decrease in the cost of remittance services over the past 5 years, reportedly due to increased competition.
- Much more data on remittances, migrants and recipient families and communities is available today than only 5 years. Notably international organizations, Central Banks and other authorities are to be commended for the continued efforts in gathering more and better data, and supporting researchers in analyzing it.

**1.2-** At the same time, however, the environment for remittance services continues to be characterized by a number of striking asymmetries:

- 1- It is recognized that with globalization, advances in cheaper travel, and access to information technology, migration is due to be a lasting phenomenon. However most of the countries where migrants settle would appear to have difficulties with this phenomenon, which translates notably into the fact that most migrants do not enjoy a legal residential



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status (at least for some time), and thus are i.a. prevented from gaining access to formal financial services (i.e. being able to instruct a transfer of funds, and/or open a bank account).

- 2- The payment system infrastructure is generally well developed in the countries from which migrants send remittances back home. However only seldom do formal financial institutions in these countries play a significant role in facilitating remittance services, and only seldom are the formal payment systems of these countries used to initiate remittance transactions.
- 3- Many recipient countries have been over the past years beneficiaries of loans from international institutions to finance the modernization of their financial systems. As a result, as concerns payment systems in particular, a real time gross settlement system (for interbank and other high value transactions) is now in place in most countries. Whilst this is an important step for financial stability and public confidence, however there has only seldom been a parallel development of the retail payment infrastructure (automated clearing house, ATM and POS networks).
- 4- In recipient countries, the financial institutions that have the widest distribution network (i.e. savings and postal banks) are often not allowed full participation in the country's financial system: they may not be allowed to be a direct participant in the clearing and settlement system(s), or participate on the money or foreign exchange market, or they may not provide loans. As a consequence, these institutions may have difficulties in acting as correspondents for remittance originators, and in leveraging deposits from remittances for the benefit of their customers and economic development in general.
- 5- In recent years there has been a justified focus on strengthening legal and regulatory dispositions for financial institutions to fight terrorist financing and money laundering. In this context, however, in particular as concerns the former, insufficient attention may have been given to the reality that criminal activities can develop more freely in the context of informal fund transfer systems. Any plans to fight against terrorist financing should therefore be more strongly directed to attracting into the formal financial system the 50% of the remittance flows which currently transit through alternative channels, in order to deprive the latter's operators of the working capital that enables illicit activities.
- 6- Governments and international institutions have expressed their commitment to reach by 2015 the Millennium Development Goals, and in particular to reduce by half the number of people living under the poverty line. Whilst the role of remittances in achieving this is generally stressed, little acknowledgement has been given to the fact that remittance transactions as such will not be instrumental in reaching the MDG: only if and when remittance funds can be transformed into financial balances will they contribute to economic development. This becomes an even more urgent task with the realization that growth in many developing countries is not labor market led, and thus may not benefit the wider part of their population, nor create the conditions for sustained growth in the future.

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## 2- Remittance services: WSBI's vision

**2.1-** The World Savings Banks Institute (WSBI) is the global representative of savings and retail banks. With 104 Members it represents over 2000 savings and retail banks and associations in 86 countries of the world, with assets in excess of USD 7 trillion and physical presence through close to 200.000 branches. WSBI Members are efficiently operated, competitive institutions that hold in common what they refer to as the “3 Rs”:

- They are **R**etail oriented institutions who provide financial services mainly for individual consumers, households, SMEs, and local authorities;
- With a **R**egional focus they offer their services through a broad decentralized distribution network, serving local and regional markets;
- They evidence social **R**esponsibility as they reinvest their profits in their local economy and bring returns both to markets and to the society in which they operate.

**2.2-** For remittance services WSBI's vision is inscribed in WSBI's endeavor to promote “access to finance”, a continuing task in spite of the over 1,2 billion accounts already held worldwide at institutions being part of the savings banks movement. WSBI believes that for remittances to deliver maximum benefits both to the individuals concerned (i.e. the remitting migrants, and their families and communities in their country of origin) and at macro-economic level, it is essential that remittance flows become fully included in the financial space. The ultimate objective is to enable every migrant to instruct from a bank account remittance transfers that will be credited (under conditions which are transparent for both sides, and within a guaranteed time cycle) to the bank account of the intended recipient. Ultimately this will enable the latter to make a choice of consumption and savings or insurance, and over time access to lending possibilities. At macro-economic level a migration from mostly cash-based remittance services to account-to-account services will lead to a fuller inclusion of the huge remittance flows into the balance of payments of recipient countries (and the balance sheets of recipient financial institutions) which will be instrumental in powering economic leverage – with a 1 to 3 impact according to IMF studies.

This vision is supported by WSBI's strategy in remittances which rests on 3 pillars:

- 1) Contributing to the formulation and shaping of public policy,
- 2) Motivating WSBI Members and other players to become actively involved in the remittance business,
- 3) Encouraging individual market participants to deliver value to customers and counterparties.

**2.3-** In 2003 WSBI formulated and published its “Fair Value Remittances Value Proposition”. This proposition builds on a standard service level schedule to be agreed between sending and receiving financial institutions, supported by a standard master agreement (both developed by WSBI) setting the legal framework for the relationship between sending and receiving financial institutions, and their commitments to their customers as remitters and recipients. The combination of service level schedule and master agreement allows sending and receiving institutions to make “promises” to their respective customers in terms of remittance transaction transparency and speed that are independent of the various technological solutions that institutions may choose to transfer remittances. As these are “standard” service level schedules and master agreements, sending and receiving institutions can easily establish new relationships without the length and uncertainty of contractual negotiations. These WSBI standard service level schedule and master agreement are available for both members and non-members.



The “Fair Value” branding stresses that all parties involved must receive their share of the value delivered by the execution of each remittance transfer:

- For the remitting customer, this translates into lower costs, full transparency of end-to-end charges, guaranteed execution time and a clear redress procedure in case of need;
- For the receiving customer, this translates into higher receipts, a predictable income frequency, a clear redress procedure in case of need, and privileged access to financial services, in particular loan facilities, through the ability to build up an “income history”;
- For the remitting bank, commitment to “fair value remittances” translates into differentiated positioning vis-à-vis potential remitters, a commitment to marketing assistance (community-based) from receiving banks, adherence to a clear dispute resolution mechanism, and greater customer retention with cross-selling opportunities;
- For the receiving bank, commitment to “fair value remittances” translates into access to a standardized framework for establishing and managing relationships with remitting banks, higher receipts for the account-based customer population, more predictable cash management and lower processing costs, a differentiated positioning vis-à-vis other receiving banks and money changers, greater customer retention and a broadening of products acceptance opportunities, as well as a clear dispute resolution mechanism.

**2.4-** WSBI is also the proud contributor to the “Statement on Remittances to Latin American and the Caribbean”, released by the Inter-american Development Bank on the occasion of its Annual General Meeting in Lima in March 2004. This Statement establishes a set of 11 “Core Recommendations” for respectively institutions participating in the remittance market, public authorities and civil society. These Recommendations are:

- Remittance institutions: improve transparency, promote fair competition and pricing, apply appropriate technology, seek partnerships and alliances, expand financial services;
- Public authorities: do no harm, improve data, encourage financial intermediation, promote financial literacy;
- Civil society: leverage development impact, supports social and financial inclusion.

**2.5-** More recently WSBI formulated a blueprint for an approach that bridges remittances with access to finance and micro-credit. The objective of this approach is to assist in accelerating the impact that remittances can have on economic development by promoting even closer relationships between recipient institutions, migrants and sending institutions, the financing of remittance receivables and the refinancing of micro-credit portfolios. The transposition of this blueprint translates into a series of actions underway, notably:

- The definition of best practices (capitalizing on actual experience) for approaching the pre-migration phase;
- The promotion of access to accounts for migrants in immigration countries (including acceptance of alternative means of identification);
- The promotion with international organizations and Central Banks of the importance of access to payment systems for savings and retail banks (provided prudential requirements can be satisfied);
- The definition of guidelines and standards for building remittance receivables portfolios, and a contractual framework for negotiating them;
- The specification of a shared, distributed capability for Members to support micro-finance operations from a back-office perspective.



### **3- WSBI commentary of the “General Principles for international remittance services”**

WSBI wishes to congratulate the Committee on Payment and Settlement Systems and the World Bank for taking this initiative and launching a wide-ranging consultation on this critical subject. WSBI would like to contribute the following comments to the Consultative Report – in the order of the latter’s structure:

**3.1-** The CPSS-World Bank Consultative Report is strictly limiting the scope of the observations contained therein to the payment dimension of remittance services. How relevant is this restriction, and what can its implications be?

First one should remember that according to economic theory payment systems generally provide two major sources of value:

- First they reduce the cost of exchange between the buyer and the seller,
- And second there are more exchanges with more efficient payment systems than there would have been in their absence.

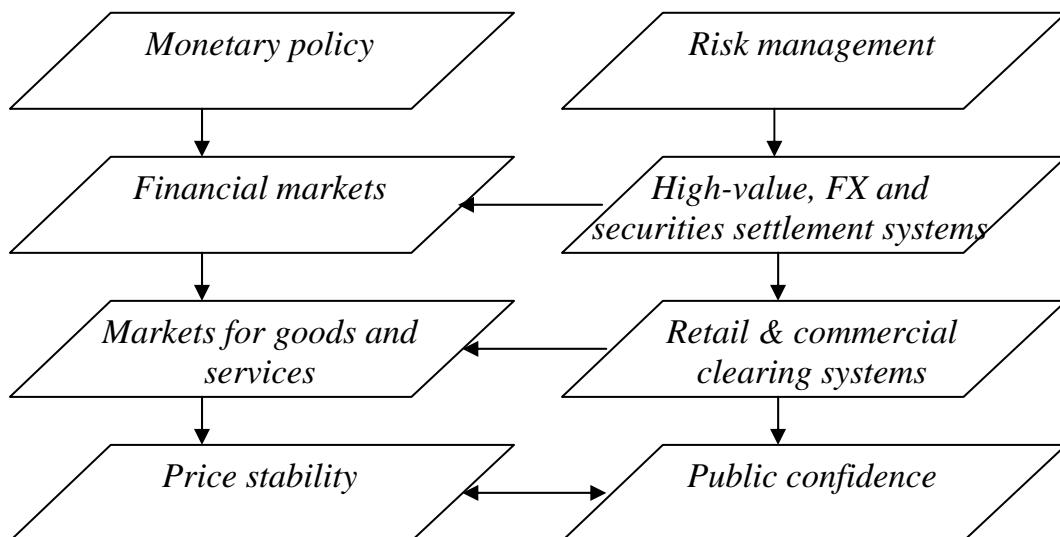
One may however doubt that this approach finds a direct application in the context of remittances services. Indeed:

- The relationship between the “buyer” of the remittance service, i.e. the recipient, and the “seller”, i.e. the remitting migrant precedes and will outlast the remittance transaction. Whilst quite naturally both sides always try to reduce the (perceived) cost of the exchange to the minimum, this cost (as perceived) is not as such an obstacle to the remittance transaction taking place: it is merely a question of which channel and which form (cash or non-cash) the transaction will take.
- Equally the elasticity of remittance transactions is limited, certainly as far as the total value transferred is concerned. Migrant remitters transfer as much as they can, and/or as much as their recipients need. Again, in the absence of what is generally considered a “payment system”, migrants have always found a substitute (e.g. a bus driver delivering cash). It is unlikely that the total value of transfers will increase if payment systems become more efficient, although the total value available to recipients may increase (as a result of reduction in fees, decreasing exchange losses, and other charges). There may however be a change in remittance patterns – as has been observed in some corridors: when transaction costs go down, migrants may transfer weekly or bi-weekly, instead of monthly or quarterly.

Second it would seem useful to recall the relation existing between the implementation of monetary policy and the systems used to manage financial risk. In modern economies authorities seek to achieve price stability by giving the appropriate signals through the monetary policy impulses they inject into financial markets, which in turn impact the markets for goods and services. To that end they use robust high value payment as well as securities settlement systems (usually providing for real time gross settlement and delivery versus payment). Public confidence – an essential ingredient of price stability – is further strengthened by the implementation of retail and commercial clearing systems (e.g. automated clearing houses) with risk mitigation processes conforming to internationally accepted guidelines in this respect. This relation is illustrated in the chart below:



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As a consequence of their sheer volume the impact of remittances on price stability and other economic fundamentals in recipient countries should not be overlooked. Remittances should certainly be one of the dimensions to be considered by authorities when defining monetary policy. Therefore whilst it can be accepted that a Consultative Report primarily deals with remittance services, the impact the latter have on monetary policy and other aspects should not be underestimated when defining guiding principles to enhance how remittance instructions are executed.

Having said so, it cannot be overlooked either that remittances as such are part of a number of other, important debates, e.g. migration, and the advantages and disadvantages this may bring to the migrants' countries of origin, including the "brain-drain" dimension, co-operation policy between developed and less developed countries, including issues surrounding official development aid, deployment of development policies at the level of emigration countries, etc... However, for practicality reasons, a certain focus is required. Whilst the strict focus on remittance services appears too narrow to move the subject forward, it is suggested as well that the perimeter of the present discussion be not broadened to cover all the topics listed immediately above.

**3.2-** It is well accepted that the Report deals with "international remittance transfers and international remittance services" only. As evidenced in the Report, these flows, and the number of people concerned, are surely significant enough to justify this focus. Whilst accepting the latter for the purpose of this Report, one should however not overlook the fact that within large developing and quasi-industrialized countries significant migrations of workforces take place as well. In a number of instances it would appear that these migrants are confronted with obstacles which are not dissimilar to those encountered by international migrants: documentation and permit issues, access to financial services, absence of a satisfactory domestic payment system infrastructure allowing for wide reach ("first" and "last" mile issues).

**3.3-** It is well noted that the "General Principles are aimed at all Remittance Service Providers except those whose services are based on purely physical transfers of cash". Indeed, remittances processed by "RSPs" represent significant amounts of funds, and improvements in the conditions under which these funds are transmitted would bring significant benefits. However one should take account of the fact that about half of all remittances are transmitted outside channels operated by "RSPs". A key objective of any oversight and/or regulatory approach to remittances should



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therefore be to create the appropriate conditions for attracting into these RSP channels the largest possible portion of remittance transfers which are currently processed outside these channels.

**3.4-** The Consultative Report proposes 5 General Principles to enhance international remittance services. These Principles suggest the following comments:

- General Principle 1 (“transparency and adequate consumer protection”) is certainly supported. Without distracting from the importance of the transparency and consumer protection message (WSBI promotes them already through its Fair Value Proposition) attention should however be paid when implementing such principles to keeping an adequate balance between the objective, and the additional costs generated.
- General Principle 2 (“improvements to payment system infrastructure to increase the efficiency of remittance services”) can only be supported as well. It must however be cautioned that this Principle should not be interpreted as encouraging the development of special purpose remittance payment infrastructures. If one of the objectives is to continuously reduce transaction costs, then those payment infrastructures which can support any type of transaction, including remittance transactions must be further enhanced. From the perspective of recipient countries the focus should certainly be on achieving the appropriate level of outreach – i.e. bringing the distribution network points as close as possible to the greater number of people. One should observe that in developing countries this is as much a challenge in very large, burgeoning cities (“megapoles”) as in rural areas. Generally speaking enhancements to payment infrastructure can be realized with available, proven technology.
- General Principle 3 (“remittance services to be supported by a sound, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions”) and the considerations underpinning it are certainly supported. The challenge is to coin a legal and regulatory framework:
  - ...that whilst being as generic as possible (i.e. applicable to all types of retail and commercial payment transactions) nevertheless recognizes the unique nature of remittance transactions, i.e. the fact they are regular (as opposed to “random”) transactions (generally in terms of both frequency and amounts) between “stable” pairs of senders and recipients: this is certainly a segment where “know your customer” techniques and procedures can be fully applied by remittance service providers;
  - ...that equally acknowledges the fact that the bigger threat is represented by remittances transiting over informal channels – not because senders and/or recipients are more likely to engage into criminal activities, but because the operators of these channels (acting as “clearers” of funds) are far more likely to resort to illicit activities (either as a principal, or an accessory activity) when “clearing” remittance proceeds between sending and receiving countries. As a consequence, and again whilst remaining as generic as possible (i.e. applicable to all types of retail and commercial payment transactions), the legal and regulatory framework should act as a catalyst, rather than a disincentive, for remitters to entrust their funds to a formal payment system;

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- ....that does not create distortions in the level playing field between different classes of “payment services providers” i.e. credit institutions and other categories of payment services providers (where they are recognized). This is of importance not only to prevent the creation of “legal or regulatory loopholes” which would be detrimental to the very objective pursued, but also to ensure that a maximum amount of competition can exist between payment service providers. Applying the well tested principle of “same business, same risks, same rules” would assure a level playing field and prevent distortions of competition;
  - ....implementation of which does not put too onerous a burden (notably in terms of additional, specific system developments, administrative procedures e.g. specific reporting or archiving requirements) on participating payment services providers, in order not to negatively impact the cost of remittance services.
- General Principle 4 (“the fostering of competitive market conditions, including appropriate access to domestic payments infrastructures”) is supported as well. As already highlighted above, WSBI believes this to be a very critical principle. Indeed in a number of countries the financial institutions with the widest distribution network are prevented from participation in the country’s payment and/or financial infrastructure. For the purpose of this principle payments infrastructure should be understood in a wide acceptance, i.e. not only strictu sensu participation in a real time gross settlement system, automated clearing house, or co-operatively owned ATM or POS network (the latter playing an increasingly important role, both in terms of additional point of disbursement for cardholders - the “cash-back” practice – and as business case component for debit and credit card issuers in receiving countries), but also direct access to the foreign exchange market (to allow the conversion under competitive conditions of remittances received in foreign currencies), and direct access to the money market (where it exists), in order to allow the placement, and obtain remuneration for, balances from remittance receipts.
  - General Principle 5 (“appropriate governance and risk management practices to support remittance services”) can be supported as well. However it would seem that this Principle, whilst fully applicable to the domain of remittance services, is totally generic (i.e. applies to any kind of payment system), and thus does not require any specific application save for the fact that the “know your customer” rule has to be implemented with the consideration that remittances should be recurrent transactions between stable pairs of senders and receivers - as already suggested above.

**3.5-** The Report remarks that “both RSPs and public authorities have a role to play in implementing the Principles”. Prior to discussing the respective roles of the public and the private sectors in implementing the Principles, it would appear of importance to establish guidelines in order to clearly define the respective spaces for public and private action in remittances:

- Public authorities (legislators, regulators, overseers) have the responsibility to actively create and maintain the conditions for the remittance market to operate in line with the objectives laid out in the Report, i.e. a competitive market with transparent conditions for consumers, and adequate protection. Creating the conditions in this context means removing barriers. Furthermore public authorities should beyond the objectives set in the Report concern themselves with ensuring that an ever growing share of remittance funds is processed through formal channels, that more remitters and recipients are enticed to open and maintain bank accounts, and that a greater share of migrant revenues earmarked for



remittances as well as remittance proceeds are plugged back into the respective economies of sending and receiving countries. In addition, public authorities should continue to act as catalyst to promote the importance of the topic. However, only if and when there would be “failure” of private actors to come up with market offerings should public authorities (e.g. via a Central Bank) participate in the market for remittance products and services – however on a strict “cost recovery plus” basis in order not to discourage entrance of private actors at a later stage.

- The role of private actors is to identify, develop and deliver value propositions. Many would-be private actors would not be expecting any other prompting than the removal of the various legal and regulatory barriers highlighted in this Position Paper.

As regards the implementation of the proposed Principles, one could wonder about practical means which could be used to give maximum impact to these Principles, and monitor and measure their implementation. Indeed one should be concerned that these Principles could remain a set of well intended declarations. The topic is of such high importance also from a policy perspective (let alone the human perspective) that clearer conditions for acceptance of, and adherence to these Principles should be established.

**3.6-** The Report refrains from making a distinction between regulated and unregulated remittance service providers, and between the formal and informal sector. For the reasons already highlighted above, WSBI believes that the potential of remittances to contribute to economic development is currently underexploited to a significant extent. This potential can only be harnessed if a bigger share of remittance proceeds are transformed from cash into bank balances – which can only occur if an increasing number of remitters and recipients can be convinced to open and maintain bank accounts. This objective cannot be considered as an accessory to the remittance transaction, it should be viewed as the actual objective. Therefore acknowledging the distinction between regulated and unregulated providers, and formal and informal channels (being well accepted that all should be clearly defined), should be an important component of public policy. Within the limits of the remarks made above, notably as regards Principle 3, the development and use of “regulated” providers, and “formal” channels should be clearly encouraged.

**3.7-** Regarding the analysis of the key issues concerning remittance services, from WSBI’s experience it would appear that to a large extent the “access problems” encountered in remitting countries are largely self-inflicted by policy makers and regulators. Indeed, whilst on one side it is generally acknowledged that developed countries require immigration in order to supplement an adverse demography and sustain their skills market, on the other it is only seldom that dispositions have been taken which allow migrants to “legally” access transfer and/or banking services. The absence of such dispositions, coupled with increasingly constraining dispositions as regards fight against terrorism and money laundering, contribute to explain why in developed countries a fair number of financial institutions have shown reluctance to engage in the remittance business. A direct consequence is that migrants are forced to resort to the use of informal channels, with all related risks – and opportunities for the operators of these channels to engage into illicit activities, as highlighted earlier.

In an ideal situation all people living and working in a given country should hold the official documentation (identity card, etc...) required by that country. This obviously is not the present situation, for reasons beyond the scope of the Consultative Report, and this discussion. This is why providing migrants with documentation that allows them to access formal remittance services – without threatening their presence in the country of immigration – is today a core, essential building



block in any endeavor to enhance the provision of remittance services. In essence a distinction should be made between documentation which establishes the conditions of a migrant's residence in the country of immigration, and documentation which allows him/her to access remittance services, and/or open a bank account. Strict "Chinese walls" between both documentation systems should be guaranteed. One example of such documentation is the "tarjeta consular" issued by several diplomatic representations to their migrating nationals in the United States. These "tarjetas consulares" allow holders to identify themselves for remittance transactions, opening of bank accounts, and other financial services. The concept has been supported and promoted by the Federal Reserve Bank.

**3.8-** As regards the financial infrastructure, and notably those of recipient countries, the issue raised (page 11 of the Report) should be considered in 2 parts:

- First, the question to be raised is whether all entities who should participate in the domestic payment system can effectively do so. As remarked already at an earlier stage in this Position Paper, this is far from being the case in a number of countries. The objective of this remark is not to suggest that non-qualified institutions use remittance transactions as a Trojan horse to gain access to payment systems that would otherwise have remained closed to them. The objective rather is to suggest that the rules of payment systems – in particular those in recipient countries – should be proportionate to the risks that may arise. Where there are significant volumes of incoming remittance transactions, it would occur that there are more significant risks from a macro-economic perspective – e.g. ineffective transposition of monetary policy impulses, under-development of refinancing capabilities, disincentives to the development of the retail payments infrastructure - in keeping such flows outside the financial infrastructure than in creating the conditions for having them captured by that infrastructure. Of course, in doing so, the level playing (between all participants) principle should be respected – even where it means establishing a new level playing field.
- Second, the important challenge that often remains is to ensure the appropriate outreach for technical networks, particularly in recipient countries. This is an area where the actions of the public sector could usefully complement initiatives by the private sector. On the other hand, the "lack of standardization of certain payment instruments" or the "lack of interoperability between systems or arrangements" can be considered as rather secondary issues, as there is today sufficient technology available – at reasonable prices – to overcome these obstacles.

**3.9-** The problem encountered with cross-border payment arrangements (as presented in the Report, page 11) cannot be reconciled with WSBI's experience. Whilst it is true that the links between domestic arrangements between different countries are mostly provided by correspondent banking arrangements (thus underlining the importance of the private sector, and the criticality for the public sector to continue motivating the former to participate), the difference in message formats represents by no means the obstacle suggested in the Report. Whilst it is correct that a single message format, equally implemented worldwide, would facilitate processing, it must also be recognized that (as stressed several times in this Position Paper) remittance transactions are stable flows, not only between remitter and recipient, but also usually between payment intermediaries. This means that the sending and receiving payment intermediaries have well oiled systems in place which allow them to deal with the differences in the messaging standards of their respective countries. This remark is not intended to suggest that a further convergence of messaging standards should not be pursued – on the contrary – one could also remark that the gradual deployment of



relatively standardized payment systems applications (e.g. automated clearing house applications) today already greatly contributes to furthering that convergence. Rather, WSBI is keen on attributing the appropriate weight to the problems highlighted by the Report.

**3.10-** The Report builds on several initiatives (recent, or less so) to establish direct links between domestic payment systems. The Report also highlights in particular 3 obstacles to be overcome (i.e. sufficient standardized message formats, exchange rate agreements, settlement arrangements) to allow this solution to work. On the basis of observations from earlier market attempts in this direction, WSBI would submit that whilst of importance the aforementioned obstacles are all technical obstacles, which can all be resolved in due course. More difficult (actually: at times insurmountable) have proven so far to be governance obstacles, i.e. the willingness of the shareholders of the one or the other domestic payment systems to even consider the possibility of providing/opening such a direct link. In addition one may submit that – in spite of the significance of the volumes and values that remittances represent – they usually only account for a small portion of the volumes and values originated by payment systems in remitting countries, and as such the link contemplated above does hardly – under normal circumstances - trigger enough economic benefits on its own to be justified.

**3.11-** Regarding the legal and regulatory framework, and notably the application of regulation (page 13), WSBI would submit that “regulation *should not* be only aimed at preventing or correcting market failures in the provision of the services”, but also at ensuring that the institutional structures used to deliver them are sound and sustainable. Indeed, both the remitters and recipients’ confidence have in the past (and sometimes quite recent past) been bruised by failures of the institutions they used either as entry point, intermediary, or delivery point. Therefore it is an essential dimension that General Principles – in particular if they are to bear the stamp of the Committee for Payment and Settlement Systems and the World Bank – are unambiguous and support both the sustainability of the institutions involved in the delivery of the remittance value proposition, and demands as to the quality of that value proposition itself.

**3.12-** Regarding the lack of competitive market conditions, and more particularly the reference to “exclusivity conditions” as described on page 13 of the Report, Members of WSBI have effectively mentioned in the past that such conditions, contractually imposed on them by a certain intermediary, now prevented them from demonstrating the commercial flexibility the market required. It has been reported to WSBI that that intermediary up to now remains deaf to demands to lift without penalty this exclusivity clause. WSBI certainly supports the considerations expressed in the Report.

**3.13-** Regarding considerations in the Report about risk, and notably the conclusion (page 14) that “the relatively small values involved in remittance transfers means that it is unlikely that there will be systemic risk” must be challenged. Because of the significant amounts that remittance transfers may represent to the economy of a recipient country, any serious problem in the execution of a certain number of remittance instructions will have a significant repercussion at least on the recipient country side. If serious enough (e.g. failure of a remittance intermediary – whether formal or informal) such a problem could trigger a lasting credibility and confidence issue for remitters and recipients alike, with ripples reaching far beyond the population of recipients alone, actually triggering conditions equivalent to those at the origin of a systemic risk. In this respect, WSBI welcomes the reference to the “*General guidance for national payment system development*” and to the CPSS Report on “*Policy issues for central banks in retail payments*”.



**3.14-** As regards the tools for implementing the general principles (page 21) WSBI would like to remark that the proposals listed are – to a large extent – quite “soft” tools. WSBI would suggest considering in addition measurable objectives (that could be specified on a regional basis) in order to be able to gauge the adoption, and effectiveness, of the present General Principles.

#### **4- WSBI recommendations**

In order to complement and strengthen the extremely valuable General Principles proposed in the Report, WSBI recommends that the following principles be considered as well – by order of priority along the remittance value chain:

**4.1-** International organizations and public authorities should recognize that it is a public policy objective that funds for and from remittances can be accrued in the form of bank balances – both on the remitting and on the receiving side – and that as a consequence efforts by public authorities should aim at incentivising non-cash based remittance transactions.

**4.2-** Public authorities, in particular in countries of immigration, should create the necessary conditions for migrants to use formal payment and financial services, notably by supporting the issue of the required documentation migrants can use specifically for that purpose, and by ensuring that such documentation can be issued without undue interference from other government bodies.

**4.3-** International organizations and public authorities should ensure that the various, necessary legislative and regulatory dispositions regarding fight against terrorism allow for the creation of “remittance corridors” – free of onerous checking and reporting obligations for individual transactions - between sending and receiving countries, under the strict proviso that the remittance transactions concerned a) are part of a recurrent, regular remittance process between the remitter and the recipient, b) that both the remitter and the recipient are identified and known to the remittance service providers concerned, and that the latter are agreed to exchange information about the former, c) that individual remittance transactions are for an amount of EUR 1.000 (or equivalent) or less.

**4.4-** General Principles set by international organizations and public authorities should be technologically neutral. They should promote the concept of remittance transactions being supported by open technical standards, developed along well accepted processes with proper and wide consultation, freely available without any Intellectual Property Right (IPR), and administered by recognized international bodies.

**4.5-** International organizations and public authorities should openly promote the notion that, in particular in recipient countries, financial institutions including savings and postal institutions should have direct access to real time gross settlement and automated clearing house functionalities, as well as co-operatively operated ATM and/or POS networks, the money market and the foreign exchange market, and have the possibility to take deposits, and to lend. At the very minimum, all such activities should be allowed when related to remittances (or when using proceeds from remittances). Of course open, transparent obligations regarding in particular risk mitigation should be adhered to by the institutions concerned – as they would have to be by any other institution applying to participate in the same system(s) or market(s).

**4.6-** International organizations and public authorities should engage more forcefully into promoting the notion that remittances can contribute to sustainable economic development. As a



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consequence, international and public authorities should require that recipient countries refrain from imposing dispositions (e.g. taxation, e.g. preventing the maintenance of foreign currency accounts,...) which would discourage remitters to use formal channels. Conversely public policies which encourage the opening of bank accounts, as well as savings and investments in productive areas including education and health plans should be supported.

**4.7-** International organizations and authorities should establish the principle that recipient countries, when implementing a financial system modernization plan, should in addition to a real time gross settlement system and an automated clearing house consider the deployment in parallel of co-operatively operated ATM and POS networks, and in particular expanding the reach of the latter into underserved areas, such as rural areas or areas which are peripheral to large cities.<sup>1</sup>

**4.8-** In addition to the General Principle that promotes transparency of remittance services, and consumer protection, international organizations and public authorities should promote that Alternative Dispute Resolution mechanisms be used by preference in order to resolve issues that may arise between providers and users of remittance services.

**4.9-** As part of their commitment to monitor market evolution in the light of the publication of the General Principles, international organizations and public authorities should commit to the publication of an Annual Report assessing progress subsequent to the adoption of these General Principles in the areas under their responsibility.

**4.10-** Finally international organizations and public authorities should acknowledge that remittances will represent an essential enabler in meeting the Millennium Development Goals. As such, these General Principles – narrowly evolved around the notion of remittance services – represent a much needed step. This, however, will not be sufficient for the MDG to be met. The development of decisive guidelines, incentives and measures to prompt the plugging back of remittance proceeds into the economy will be required.

## **5- Conclusion**

The present response first identified 6 asymmetries that in the eyes of WSBI must be addressed in order for individuals concerned and economies alike to extract maximal value from remittance flows:

- 1- Allowing remitters' access to formal transfer and banking services in general;
- 2- Prompting greater usage of the payment and financial infrastructure on the sending side;
- 3- Developing (the reach of) the retail payment infrastructure on the receiving side;
- 4- Enabling wider access for institutions in receiving countries to the payments and financial infrastructure;
- 5- Preventing the emergence of additional legal and/or regulatory disincentives to the use of formal channels;
- 6- Establishing a close connection to the Millennium Development Goals.

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<sup>1</sup> In this respect Box 9 page 26 of the Consultative Report requires a correction: in Brazil the largest banking correspondents' network is maintained by Caixa Economica Federal (CAIXA). CAIXA was the first bank in the country to implement this concept - extending its network to very small towns that had neither banks nor post offices. As of December 2005, CAIXA had more than 12,450 POS outlets (providing a card reader, barcode scanner and a PC with dial up or high-speed connectivity) located at petrol stations, supermarkets, drugstores, bakeries, butchers as well as lottery and mini-lottery outlets and other stores. This banking correspondents' network reaches out to the country's some 5,562 municipalities.



The Consultative Report proposes 5 General Principles to enhance international remittance services, which can be summarized as follows:

- 1- Transparency and adequate consumer protection;
- 2- Improvements to payment system infrastructure to increase the efficiency of remittance services;
- 3- Remittance services to be supported by a sound, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions;
- 4- The fostering of competitive market conditions, including appropriate access to domestic payments infrastructures;
- 5- Appropriate governance and risk management practices to support remittance services.

To close the gap between the asymmetries identified and the General Principles as proposed, the 10 recommendations formulated in the previous section of this response address and re-enforce the importance of a) access to formal financial services and to financial systems, b) achieving appropriate reach for the technical infrastructure, c) maintaining technological neutrality, d) avoiding unintended, counterproductive legislative or regulatory side-effects, e) the need for Principles monitoring (along clearly defined measurable objectives), and f) the relationship between remittances and economic development, also in the context of the Millennium Development Goals.

WSBI would like to encourage CPSS and the World Bank to build on an excellent initial set of General Principles and consider the integration of these 10 recommendations.