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The journey so far: making cross-border remittances work for financial inclusion

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The journey so far: making cross-border remittances work for financial inclusion[1]

Executive Summary

International remittances play an essential role in supporting economic development and policy objectives related to financial inclusion. Remittances typically flow from developed economies to emerging markets and developing economies (EMDEs), in addition to intra-EMDE flows. These flows are substantial, ranking as high as or higher than official development assistance and foreign direct investment in various countries. Remittances are usually the first financial service used by migrants and their families, thus providing a point of contact with the financial sector that can be leveraged to increase access to other financial services.

The digitalisation of remittance flows is growing and has the potential to increase financial inclusion. Digitalisation of remittances, ie sending remittances between transaction accounts, is an opportunity to increase access to and usage of these accounts more generally, thereby contributing to financial inclusion. This shift is also typically accompanied by a reduction in the cost of remittance services. Furthermore, the digitalisation of remittances can also help improve opportunities for Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) risk mitigation.

Remittance flows also benefit from greater financial inclusion of both senders and receivers. The higher the percentage of remittance users that have an account, the greater the likelihood that funds will be sent via those accounts and not through unregulated channels. This can significantly increase the total value of remittances, increasing their impact on economic development.

Because of the close relationship between international remittances and financial inclusion, policymakers have promoted initiatives to support these remittances over the past two decades. Leaders of major economies, international financial institutions (IFIs) and standard-setting bodies (SSBs) have undertaken several initiatives to facilitate the sending of international remittances. In particular, the need to reduce the cost of sending remittances has become one of the key issues in the international development agenda. The leaders' groups then known as the G8 and the G20 catalysed work in this area starting in the early 2000s, including via issuing commitments to cost reduction. The United Nations (UN) included a target for remittance cost reduction in the Sustainable Development Goals (SDGs). Most recently, the *G20 Roadmap for enhancing cross-border payments* (FSB, 2020b) has brought together IFIs and SSBs, along with several central banks, to implement initiatives aimed at reducing the cost of cross-border payments, including remittances, along with improving transparency, access and speed of cross-border payment transactions. Alongside these initiatives, the Financial Action Task Force (FATF) is reviewing the extent and impact of unintended consequences of its standards on international remittance markets, focusing on identifying areas where divergent AML/CFT rules or their implementation may cause unnecessary friction for cross-border payments.

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Notwithstanding these efforts, there are still barriers to efficient cross-border remittances. Although there has been a lot of progress in some corridors, barriers remain. They can range from burden due to inconsistent or poor implementation of regulatory and legal requirements, barriers to competition, challenges related to payment system infrastructures, transparency and consumer protection, and other market structure challenges. The cost of remittances remains higher than international targets, especially in certain regions. These barriers can hamper the flow of remittances through transparent, regulated channels. Additionally, issues on the demand side, such as lack of documentation of migrants, lack of IDs of receivers, and lack of digital and financial skills continue to act as barriers.

This paper aims to shed light on current conditions in international remittances and challenges from a financial inclusion perspective. The paper takes stock of the current conditions in remittance markets. Given the gaps that remain between the objectives set by SSBs, world leaders and IFIs on the one hand and current conditions in international markets on the other, the paper attempts to pinpoint areas where progress has been most challenging and identify reasons for the obstacles that remain. The paper uses the principles developed by the Committee on Payment and Settlement Systems (CPSS) and the World Bank (WB) (2007) as the thread along which to review conditions in remittance markets. Accordingly, the paper describes aspects related to transparency and consumer protection, payment system infrastructure, legal and regulatory environment, market structure and competition, and governance and risk.

The analysis draws on a unique set of information sources. Since the publication of the principles (CPSS and WB (2007)), the WB has undertaken remittance market assessments for numerous jurisdictions, conducting detailed assessments of market conditions and making recommendations on how to improve those markets. However, these assessments are rarely made public due to sensitivities regarding the content and the recommendations. The paper draws on these reports and the recommendations provided in them. It also draws on the FATF Mutual Evaluation Reports (MERs). These assessments *are* published, and they are highly specific and technical, covering a wide array of topics well beyond remittances. The paper draws out the main implications for remittances in a concise and remittances-focused approach. The assessment is also informed by the FATF's work on cross-border payments, unintended consequences and correspondent banking. Finally, the paper also draws on interviews with officials from selected jurisdictions, SSBs and IFIs, as well as the private sector.

After identifying the main challenges, the paper reviews initiatives underway to address them. These involve the FATF, various actors under the G20 Roadmap, and the WB. For markets that are primarily senders of remittances, several initiatives have been launched under the G20 plans. For instance, improved market transparency in remittance pricing is actively pursued by several SSBs and IFIs, and efforts are underway to mitigate unintended consequences of AML/CFT requirements. The G20 Roadmap includes actions to improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments market. For markets that are primarily receivers of remittances, efforts are currently centred around consumer protection legislation, the growing recognition of the importance of data portability for financial inclusion, and the importance of standardisation of licensing and supervisory requirements.

Ongoing efforts are important to ensure that challenges are reduced and conditions for financial inclusion via international remittances are improved. Drawing on the analysis in the WB assessment reports and the FATF MERs, the paper concludes by recognising that, at least in some cases, the changes underway to improve remittance markets may still take time. Nonetheless, it is important to draw authorities', firms' and leaders' attention to these changes in order to foster the implementation of these steps that can ultimately facilitate the establishment of an efficient market that makes transparent channels available for as many customers as possible.

Section 1 – Introduction

1. **International remittances are defined as cross-border, person-to-person payments of relatively low value that are typically recurrent**.[2] These transactions are typically undertaken by migrant workers who send support payments to individuals residing in their country of origin. Remittance flows primarily (though not exclusively) tend to therefore move from the high-income economies to emerging markets and developing economies (EMDEs), in addition to intra-EMDE flows.

2. **Remittance flows are highly relevant to economic development and to policy objectives related to financial inclusion**. Remittance flows to low- and middle-income countries (LMICs) have been greater than official development assistance (ODA) since the mid-1990s and have surpassed foreign direct investment (FDI) since 2019 (WB (2022b)). Remittances are usually the first financial service used by migrants and their families, thus providing a point of contact with the financial sector that can be leveraged to increase access to other financial services. Moreover, remittances are often used for critical expenses such as education and medical care. Greater access to and usage of transaction accounts among remittance senders and recipients could also play a role in increasing the volumes of money efficiently transferred across borders. Furthermore, this could discourage the use of less transparent channels, which are more vulnerable to criminal abuse, such as unregulated money transfer operators.

3. **Digitalisation of remittances can further enhance their contribution to financial inclusion**. According to the BIS Committee on Payment and Market Infrastructures[3] (BIS CPMI) and the WB (2016), digitalisation of remittances, ie sending remittances between transaction accounts, is an opportunity to increase access to and usage of these accounts more generally, thereby contributing to financial inclusion (see Figure 1). This can also help improve opportunities for Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) risk mitigation.

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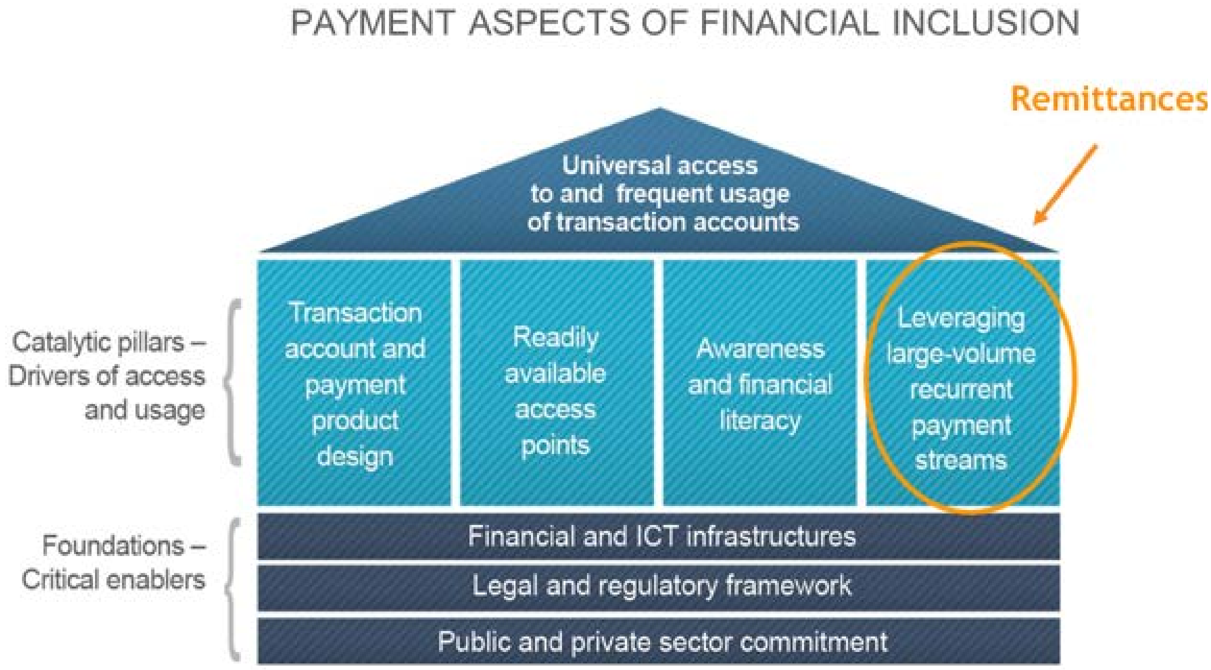
[2] This definition is widely used in the field and was first given by the Committee on Payment and Settlement Systems (CPSS) and the World Bank (WB) in a key publication on remittances (CPSS and WB (2007)). While there are broader definitions of cross-border remittances, this is the appropriate one for the purpose of this paper. This is because the focus here is on workers' remittances, given their economic development impact and their implications for financial inclusion.

[3] The CPSS was renamed as CPMI in 2014, when the CPSS governing body endorsed a new mandate and charter for it. In this publication, references to the committee follow the name in use at the time of the relevant publications.

Payment aspects of financial inclusion: the role of remittances in increasing financial inclusion

Figure 1



Source: BIS CPMI and WB (2016).

4. **Country leaders, international financial institutions (IFIs) and global standard-setting bodies (SSBs) have developed guidance and made commitments to facilitate the flow of remittances across borders.** Shaped by the discussions of the groups of world leaders then known as the G8 and then the G20, the importance of the need to reduce the cost of sending remittances has been one of the key issues in the international development agenda, starting with the Sea Island Summit of the G8 in 2004. In response to this, the CPSS and the WB established a task force to develop principles for international remittance services (CPSS and WB (2007)).[4] In parallel, several research studies and technical discussions were initiated, the Global Remittances Working Group was established, and the G8 and G20 issued subsequent declarations underlining their commitment to this agenda. In 2015, the United Nations (UN) launched the Sustainable Development Goals (SDGs), which included a specific target for reducing remittance costs. More recently, at the request of the G20 in 2019, the Financial Stability Board (FSB), in close cooperation with the BIS CPMI, other SSBs and IFIs, developed a roadmap to enhance cross-border payment flows, including remittances (FSB (2020b)). The Financial Action Task Force (FATF) has also undertaken work to identify and address unintended consequences in cases where misapplication of its standards may impede financial inclusion and cross-border payments (FATF (2021b)).

5. **While there has been a lot of progress in some corridors, there continue to be barriers to efficient cross-border remittances**. Barriers can range from burden due to inconsistent or poor implementation of regulatory and legal requirements, barriers to competition, challenges related to payment system infrastructures, transparency and consumer protection, and other market structure challenges. The cost of remittances remains higher than international targets, especially in Sub-Saharan

4 See Box 2 for a more detailed description of the Principles.

Africa and for Small States.[5] These barriers can hamper the flow of remittances through regulated and/or transparent channels.

6. **This paper aims to shed light on current conditions in international remittances and challenges from a financial inclusion perspective.** After reviewing the many initiatives in this area and explaining their interactions and development over time, the paper takes stock of the current conditions in remittance markets. Given the gaps that remain between the objectives set by SSBs, world leaders and international institutions, on the one hand, and current conditions in international markets, on the other, the paper attempts to pinpoint areas where progress has been most challenging and to identify reasons for the obstacles that remain.

7. **The paper draws on a wide range of sources**. In particular, for the first time, this paper makes intensive use of dedicated country reports produced by the relevant IFIs and SSBs. The WB conducts regular assessments of remittance markets in order to support jurisdictional efforts to improve market conditions. Given the sensitive nature of these reports, they are seldom published. While maintaining the confidentiality of individual jurisdictions, the paper draws insights and learnings from these assessments to help inform global policy work in this area. The paper also draws on both country-level reports and broader papers published by the FATF.

8. **The structure of the paper is as follows.** Section 2 provides a brief overview of the current conditions in global remittance markets that are relevant for this paper, with additional details on the costs of sending remittances provided in the Annex. Section 3 summarises the main contributions from SSBs and IFIs in the area of cross-border remittances. Section 4 describes the information sources and the sample selection criteria used in this paper. Section 5 draws on the wide range of sources described above and makes up the bulk of the paper. It provides an overview of the main commonality in findings across remittance markets, covering several focus areas. For each of these areas, the key gaps and challenges are discussed as well. Section 6 discusses current initiatives underway to address these challenges for both sending and receiving markets, and Section 7 concludes with summarising comments.

Section 2 – Key developments in markets for international remittances

9. **Remittance flows are sizeable**. According to the latest WB data, remittance flows to low- and middle-income countries (LMICs) reached $605 billion in 2021, dwarfing other high-volume flows such as portfolio investments and official development assistance (WB (2022b)). Remittance flows were forecast to contract by at least 14% because of the Covid-19 pandemic, but in practice, the reduction was much milder, highlighting remittances' resilience to external shocks and their importance in sustaining livelihoods.[6]

10. **While the cost of sending remittances has been declining, it remains high compared to the amount sent and the incomes of remittance senders and receivers.** In Q4 2021, the global average cost of sending $200 was $12.08. Overall, this represents a decline of $7.26 since Q1 2009, when the global average cost was first recorded (WB (2021f)).

11. **One of the key issues related to the cost of remittances is access to financial services**. As shown in Figure 2, digital remittances, which are defined by the World Bank's Remittance Prices Worldwide (RPW) as those that are sent via a payment instrument online or in a self-assisted manner and received in

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[5] Small States are defined by the World Bank as those that face unique development challenges and are vulnerable to exogenous shocks, natural disasters and climate change due to their small population, economic base and remoteness. For further details, see https://www.worldbank.org/en/country/smallstates.

[6] Various World Bank reports (WB (2019), (2021c)) provide further details on the data presented here.

a transaction account, have recently become significantly cheaper than cash remittances, on average. However, remittances have historically been a cash business provided mainly by specialised providers. The dominance of cash as a payment instrument for sending and disbursing remittances contributes substantially to the cost of remittances due to the need to maintain a distribution network to originate and disburse remittances and foreign exchange conversion costs (see Box 3). Access to cheaper digital remittances requires both senders and receivers to have access to a transaction account. This is a big challenge for undocumented migrants on the sending side and financially excluded families on the receiving side.

12. **Scale matters for remittances.** For example, in the case of Small States, the volume of incoming remittances is often minimal, the number of players covering the market is limited, and competition is low. More generally, Beck et al (2022) find supporting evidence for the association of lower scale and higher costs.

13. **Remittance flows are changing, thanks to digitalisation**. In terms of financial inclusion, the use of digital remittances can create tangible opportunities to extend other financial services to users. Furthermore, the cost savings are a direct addition to the disposable incomes of remittance beneficiaries, who, in many instances, are from disadvantaged groups. Digitalisation can also support AML/CFT goals by increasing transparency, simplifying recordkeeping and analytics, and making standardised and consistent AML/CFT practices cheaper. However, digitalisation can also result in new forms of financial exclusion, specifically for less digitally literate users as well as those without formal documentation.

14. **Digital-only money transfer operators (MTOs),[7] traditional providers with digital options, and those with innovative business models can provide remittance services at lower costs.** For example, WB analysis (2021f) shows that the average cost of sending $200 has almost reached the SDG target of three per cent when these services are used (see Section 3 for an explanation of these targets and the Annex for further details on the relevant indicators). Moreover, Ardic and Natarajan (2021) show that the average cost of sending $200 at the corridor level is negatively associated with the existence of providers with innovative business models. Some of these providers are now using data analytics more effectively to estimate the need for foreign exchange conversions in order to effectively reduce foreign exchange margins. Furthermore, white-label front-end solutions[8] are offered to banks and smaller MTOs to leverage their existing licenses to offer online remittance products. Similarly, companies, which forge partnerships with banks in several countries to maintain running balances, offer white-label back-end platforms[9] for use by other banks and smaller MTOs in sending countries. These providers, in turn, join these platforms in order to disburse in receiving countries where they normally do not have a direct distribution network.

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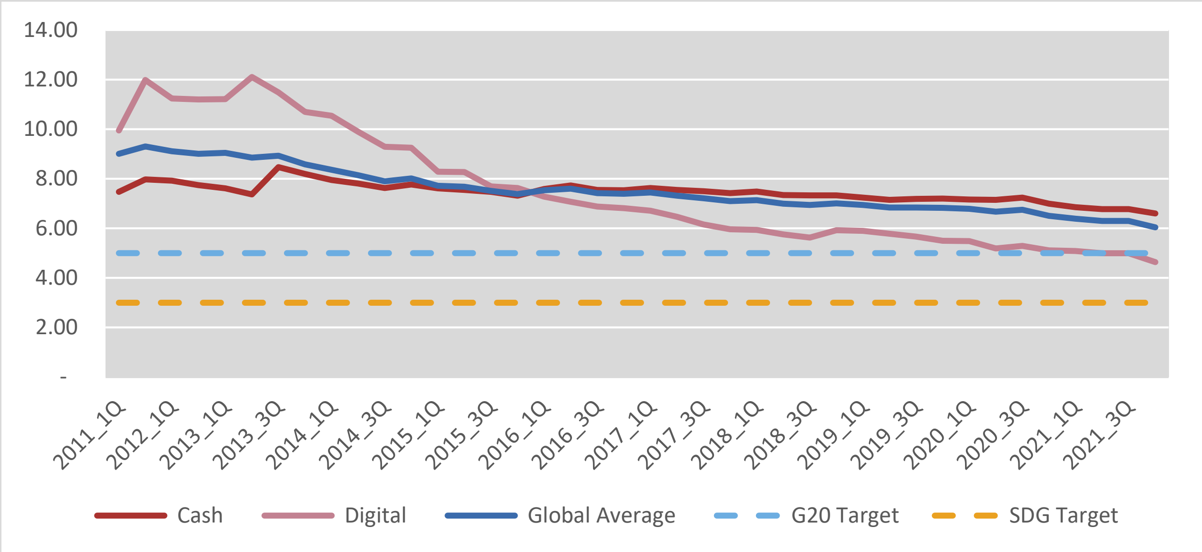
[7] In this paper, the financial company transmitting the remittance is called a remittance service provider (RSP). This term can apply to different types of financial companies. Occasionally, a more restrictive term applying only to specific types of financial firms, ie money transfer operator (MTO), is employed.

[8] A white-label solution is a non-branded, off-the-shelf product (eg an app that can be rented or acquired by a provider). Front-end solutions are customer-facing interfaces.

[9] Back-end platforms are the operational aspects of the service that are only accessed by the service provider. They are used to monitor transactions and facilitate the service.

Trends in the global cost of sending $200 in remittances

Figure 2



Source: Remittance Prices Worldwide, Q4 2021, World Bank.

Notes: The G20 remittances target aims to reduce the global average cost of sending remittances to five per cent. The G20 later endorsed the UN SDG 10.c.1, which aims to reduce the global average cost to three per cent and corridor-level costs to five per cent. Section 3 provides further information on these goals.

15. **The Covid-19 pandemic has accelerated the trend towards digitalisation of retail financial services**. Remittance flows have proved resilient during the pandemic (see Box 1). In addition, as documented by the FSB (2022), the pandemic has accelerated the development of digital technologies, and there are indications that the share of financial services provided by bigtechs and larger fintechs has further expanded during the pandemic.

Box 1

Impact of Covid-19 on remittance flows

The onset of the Covid-19 pandemic proved temporarily disabling for remittance markets and, as such, volumes declined. As national lockdowns and border controls took effect, it was initially predicted that there would be an adverse impact on remittance flows. Yet, the flow of international remittances proved to be resilient through the course of the pandemic, registering a small decline but exceeding the sum of foreign direct investment (FDI) and official development assistance (ODA) for LMICs.① One significant observation was the shift from cash-based remittances to digital remittances.

In response to the pandemic crisis, policymakers and regulators took a few important steps to address its impact. To support remittance senders and receivers during the pandemic crisis, the Remittance Community Task Force (RCTF) was established in 2020. The RCTF is supported by several institutions, including the International Fund for Agricultural Development (IFAD), the WB, and the UN. As part of its activities, the RCTF has called on industry and G20 governments to increase remittance price transparency with "total cost" (eg fees at both ends, foreign exchange rate margins) disclosed in a single upfront amount.

In partnership with the private sector, several governments and regulators took measures to create a more enabling environment to keep remittances flowing and to promote the uptake of digital channels. Some of the key measures introduced by authorities are outlined below.

- Declare the provision of remittances an essential financial service.
- Establish economic support measures that will benefit migrants and remittance service providers.
- Support the development and scaling up of digital remittance channels for migrants and families.
- Advise banks to apply risk-based due diligence measures with a view to continuing to provide banking services to remittance service providers during the crisis.
- Consider clarification of compliance and license renewal requirements for remittance service providers during the crisis.
- Provide regulatory guidance for proportionate Know-Your-Customer (KYC) requirements that are critical to scale digital financial services, especially for unbanked and undocumented individuals.

Perhaps spurred on by these changes, there was an unprecedented switch to regulated and digital channels for remittances as the pandemic forced changes in consumer behaviour and business models, and these changes have persisted since the outset of the Covid pandemic. The switch to digital has remained stable and persists in many countries even as most countries have returned to some level of normalcy. As an example, according to the data from World Bank's RPW database, the rise in mobile wallet-based services increased their share of newly introduced services (18 per cent) to be almost equal in share with services provided by banks (20 per cent) during the pandemic.

In the post-pandemic environment, the public and private sectors could continue their collaboration to improve the market for remittances in ways that would increase resilience to future crises and shocks. This would include goals similar to those for overall remittances support, such as supporting digital and remote options, implementing risk-based regulation and supervision, promoting financial literacy, improving access to the benefits of payment infrastructure for non-bank financial institutions, and exploring the potential of new products and services, such as remittance-linked insurance, which can help both remittance senders and receivers manage unexpected shocks.

① The WB (2019) forecast the trend of remittance flows to LMICs at US$ 574bn in 2020 (the latest pre-Covid-19 period forecast available), as opposed to the actual US$ 558bn reported in May 2022 by the WB (2021b, 2021c and 2022b).

16. **Despite these shifts, cash-based remittances remain the most prevalent payment instrument in most receive markets reviewed as part of this research.** This can be due to lack of access to transaction accounts, lack of options for receiving transfers using digital channels or lack of knowledge of digital products. Lack of innovation in the market due to the dominance of banks plays a role in low financial inclusion rates, as financial inclusion has recently been advanced mostly through transaction accounts provided by non-bank payment service providers (PSPs). In addition, there could be a lack of an

enabling ecosystem for digital payments; if money received digitally needs to be withdrawn in cash for use in places where digital payments are not widely accepted, cash might be the most convenient option. Finally, exchange controls can push consumers to use unregulated services where more competitive exchange rates are offered or less documentation is required.

Section 3 – Overview of international initiatives

17. **The role of remittances has received considerable attention in the international development agenda for the last couple of decades.** Much of this has been due to the efforts by the groups then known as the G8 and later by the G20. The G8 5x5 Remittances Target, which aimed to reduce the global average cost of remittance services by five percentage points in five years, was announced at the July 2009 G8 Summit in L'Aquila, Italy. At the 2011 Cannes Summit, the G20 committed to work towards reducing the global average cost of remitting $200 from 10 percent to five percent by 2014. However, by 2014, remittance prices were down by only 1.09 percentage points from the 2011 levels, still above the goal of five per cent. In response, the G20 Plan to Facilitate Remittance Flows, which recommended that countries design their national remittance plans along with a monitoring framework (G20 (2014)), was announced. The Global Partnership for Financial Inclusion (GPFI) was tasked with reviewing the progress of national remittance plans every two years and updating them appropriately.[10]

18. **In the meantime, SSBs and IFIs worked on several fronts.** In 2006, the Luxembourg Group on Remittances was created to improve data on remittances. The Group's recommendations were compiled in a publication by the IMF (2009) on guidance for compiling remittance data. In 2009, the WB launched the Remittance Prices Worldwide database to monitor progress towards the remittance cost reduction target. In the meantime, in 2007, the CPSS and the WB published the *General principles for international remittance services* (CPSS and WB (2007)). Since then, the WB has been conducting assessments of international remittance markets in over 60 jurisdictions based on this guidance and has been providing technical assistance to national authorities on improving the markets for international remittances.

19. **In September 2015, the United Nations approved the Sustainable Development Goals (UN SDGs), which include a target for remittance cost reduction.** The UN SDGs included a more ambitious version of the G8/G20 remittance cost target (UN SDG 10.c.1, see UN (2018)). The target aims to reduce the global average cost of sending $200 to less than three per cent by 2030 and to ensure that, by then, each corridor's cost for sending $200 is less than five per cent.[11]

20. **In 2020, the G20 prioritised the enhancement of cross-border payments**. Cross-border payments, including remittances, involve multiple jurisdictions, and hence are more complicated than domestic payments. High costs, low speed, limited access and lack of transparency are the main challenges affecting cross-border payments. These challenges are more pronounced for specific groups of end users, such as remittance senders and receivers. This includes limited access to low-cost, transparent financial services provided by regulated financial service providers that would enable them to send and receive remittances in a fast, efficient, and secure way.

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[10] The 2015 G20 National Remittance Plans (NRPs) and successive annual reviews are available at http://www.gpfi.org/g20-national-remittance-plans. The NRPs were made more pragmatic and action-oriented in 2020. These plans can be helpful in bringing together all relevant parties for cross-border remittances, including from the private and official sectors, and facilitating the identification of hurdles and possible solutions for efficient remittances. They can also help reduce opacity on terms and conditions, and especially pricing, for remittance services, fostering competition in this market.

[11] The UN SDGs were launched in January 2016, after the 2030 Sustainable Development Agenda was adopted by world leaders in September 2015. For SDG 10.c.1, see https://unstats.un.org/sdgs/metadata/?Text=&Goal=10&Target=10.c.

21. **Among the SSBs and IFIs, the FSB has led several initiatives to implement the G20 goals on cross-border payments**. Following the G20 emphasis on enhancing cross-border payments, the FSB and BIS CPMI developed a series of reports (eg FSB (2020a)) which culminated in a roadmap to achieve specific milestones (FSB (2020b)). Of these, some are expected to be practical improvements that can be achieved in the shorter term, while others will require more time. In order to define the ambition of the roadmap work and therefore create accountability, the FSB also released a report outlining concrete targets for addressing the main challenges of cross-border payments (FSB (2021a)).

22. **Data issues and consistency in regulatory/supervisory treatment have started to emerge as key challenges for improving cross-border payments**. As the FSB and other SSBs, together with IFIs, make progress towards the targets, one issue that has required considerable attention is that of cross-border data flows. The transfer of data across borders is important to ensure that cross-border transactions are completed smoothly. The FSB is analysing the constraints imposed on cross-border data flows by existing national and regional data frameworks in order to identify issues relating to cross-border use of such data by national authorities and the private sector. Separately, consistency in the application of regulation and supervision of banks' and non-banks' operations, ensuring a risk-based approach, would be desirable when these different types of providers offer similar payment services.

23. **The G20 Roadmap highlights improvements in payment infrastructure as another important step to facilitate cross-border payments, including international remittances.** In this context, the BIS CPMI, in collaboration with the IMF, the WB and national authorities, is focusing its efforts on improvements in payment infrastructures and finding approaches to better connect different payment systems for cross-border payments. Over a longer timeframe, it plans to consider the feasibility of new multilateral platforms and arrangements for cross-border payments. Such improvements can help enhance the conditions for international remittances, especially in relation to payments involving the banking sector. Progress towards G20 Roadmap actions and building blocks is reported publicly by the FSB on an annual basis.[12]

24. **The link between remittances and financial inclusion has been studied extensively by the BIS CPMI, the WB and the GPFI.** BIS CPMI and WB (2016) identify digitalisation of international remittances as an unexploited opportunity to increase financial inclusion. This is because migrants and their families back at home usually have a chance to interact with the regulated financial sector for the first time when sending and receiving remittances. However, the majority of remittances, despite recent digitalisation due in part to Covid-19, are still cash-to-cash. The design of appropriate transaction accounts and other financial products for remittance senders and receivers can move the needle towards improving financial inclusion of these groups. In this regard, the WB has been working on Project Greenback to emphasise the importance of a bottom-up approach to policymaking for remittances and financial inclusion by bringing the perspectives of remittance users and remittance providers together with those of regulators to design informed policies.[13] In addition, the GPFI has studied the links between remittances and financial inclusion to better understand how remittances can enhance financial inclusion and sustainable development, as well as the impact of Covid-19 on these linkages (GPFI (2015, 2021a)).

25. **A market environment that facilitates the flow of international remittances through regulated channels is also relevant from an AML/CFT perspective.** The FATF assesses efforts by governments and the private sector to mitigate money-laundering (ML)/financing of terrorism (FT) risks. Within this rubric, FATF assessments consider countries' efforts to promote responsible and transparent financial inclusion as an AML/CFT goal, including recommended actions where appropriate. In particular, the FATF seeks to prevent the use of non-transparent channels, such as unregistered or unlicensed remittance providers, to provide financial services, which exacerbates ML/FT risks. From the FATF's

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[12] FSB (2021a) is the first annual progress report. The FSB will provide annual progress reports every October.

[13] For recent work on Project Greenback, refer to World Bank (2021e, 2021f, 2022a).

perspective, it is essential that remittances are not misused for illegal activities. At the same time, the extent to which unnecessary or ineffective AML/CFT requirements that are not risk-based impede legitimate flows of funds across borders and push remittances into less transparent channels must be minimised.

26. **The FATF is reviewing the extent and impact of unintended consequences of its standards on international remittance markets.** Consistent with the G20 Roadmap, the FATF work focused on identifying areas where divergent AML/CFT rules or their implementation may cause unnecessary friction for cross-border payments (FATF (2021a)). In addition, the FATF is also reviewing frictions caused by AML/CFT measures implemented at national levels, which are not consistent with a risk-based approach to the FATF standards. The major implication for remittances is that such frictions, whether of the first or second kind, may induce service providers to stop servicing specific market segments or countries without effectively mitigating ML/FT risk. Such de-risking can therefore risk excluding a substantial part of their customer base, potentially causing those customers to turn to more opaque unregistered providers. The issue of the unintended consequences of AML/CFT practices or standards has received attention from other parties, too. For instance, researchers at the WB carried out an analysis of the impact of external AML/CFT compliance evaluations on financial inclusion in lower-income countries and developed suggestions to make these evaluations more sensitive to the risk of reducing access to financial services (Celik (2021)).

Section 4 – Information sources and sample selection

27. **The analysis in this paper draws on and combines assessments from two key sources, the first one being the assessments conducted and the recommendations provided by the WB**. Since the publication of the principles in 2007 (CPSS and WB (2007)), the WB has undertaken remittance market assessments for numerous jurisdictions, conducting detailed assessments of market conditions and making recommendations on how to improve those markets. Over time, these assessments have been increasingly focused on jurisdictions where remittance markets may not be operating optimally. Issues with higher prices, high levels of informality and/or low competition are therefore observed in the sample of countries covered by these assessments. By focusing on the assessments, the paper is able to highlight ongoing issues currently existing in remittance markets. The approach also means that some well-known, larger markets are excluded from the sample.[14] Broadly speaking, many of these markets operate well given their size and scale, and this can be reflected in the cost of services for sending to them. Finally, and as already mentioned, these assessments are rarely made public due to sensitivities regarding the content and the recommendations. The paper draws on these reports and the recommendations provided in them.

28. **The second reference source is the regular reports published by the FATF**. The FATF publishes Mutual Evaluation Reports (MERs) on its members at a relatively low frequency, ie usually every ten years. These assessments are highly specific and technical, covering a wide array of topics well beyond remittances. The paper draws out the main implications for remittances in a concise and remittances-focused approach. The assessment is based on this extensive collection of FATF reports across different geographies over a period of several years, as well as general FATF work on cross-border payments. It is also informed by the FATF's work on cross-border payments, unintended consequences and correspondent banking.

29. **Additional information was collected via interviews**. Interviews were conducted with representatives of relevant institutions in sending countries and with representatives from private sector companies to get a sense of the major obstacles operators face in offering competitive remittance services.

[14] This includes some of the largest receive markets in the world, such as Mexico, the Philippines, India and China.

The companies were based in different regions; they covered both traditional remittance service providers and new entrants in the market. Finally, officials from SSBs and IFIs were also interviewed to gather more information on existing and upcoming initiatives in their field.

30. **The paper covers a sample of receive and send countries across various regions.** Remittance-receiving countries were initially selected based on the existence of WB assessment reports about them. Building on the availability of relatively recent assessments, a list of countries for inclusion in the scope of the analysis was prepared. An overlapping but not identical list of countries was identified from the FATF MERs. As a result, the countries in the sample of the paper are primarily located in Sub-Saharan Africa, East Asia and the Pacific, Eastern Europe and Central Asia, and Middle East and North Africa.[15] For countries that are primarily senders of remittances, the sample includes those that are most important from the perspective of the selected receiving countries, while keeping the sample size manageable. Table 1 summarises the sample of countries based on the WB assessment reports.

Sample of countries (WB country analysis) — Table 1

Receiving regions	Receiving countries	Sending countries *(Most relevant ones for the sample of receiving countries)*
Sub-Saharan Africa	Comoros, Democratic Republic of the Congo, Ethiopia, Ghana, Lesotho, Madagascar, Mozambique, Namibia, Nigeria, Rwanda, Somaliland, Uganda, Zambia, Zimbabwe	Canada Italy Qatar South Africa UAE USA
East Asia and the Pacific	Cambodia, Myanmar, Mongolia	
Eastern Europe and Central Asia	Albania, Bosnia and Herzegovina, Kosovo, Serbia, Tajikistan	
Middle East and North Africa	Egypt	

According to 2021 WB data, the receiving countries in the sample account for 13.6% of total remittances to LMICs. In addition, 11 out of the 24 receive countries have remittance inflows of more than five per cent of their GDP in 2021, and only three countries have remittance inflows of less than one per cent of their GDP (for more details, see https://www.knomad.org/data/remittances).

Section 5 – Observed practices and challenges

31. **This section provides an overview of practices in remittance markets and associated challenges.** The analysis draws on WB assessments of international remittance markets as well as the FATF MERs for what concerns AML/CFT issues. While the CPSS/WB General Principles (which are summarised in Box 2) are a useful reference for the paper and are the basis of the WB assessments, this section does not follow the structure of these principles given the variety of sources it draws from. Instead, this section is

[15] The FATF and the WB use different groupings of countries when referring to regions in their regular reports. In this paper, FATF and WB denominations are retained when discussing general trends in those regions.

organised around the key themes that have emerged from the analysis, each of which cuts across two or more of the General Principles. The description covers both sending and receiving jurisdictions.

Box 2

CPSS/WB General Principles for International Remittance Services

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

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

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

General Principle 4: Market Structure and Competition. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

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

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

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

For more information on the General Principles, see CPSS and WB (2007). The WB (2012) provides guidance for the implementation of these principles.

Remittances and financial inclusion

32. **Recent trend analyses on the cost of remittances point to lower costs for digital remittances and remittances via digital-only MTOs** (See Figure 2 and Annex Figures A.1 and A.2). This underlines the importance of a transaction account which would make it possible to send and receive international remittances, as discussed by BIS CPMI and WB (2016). Having a transaction account with which one can make and receive payments and safely store value is a first step towards financial inclusion. Therefore, a transaction account acts as a gateway to other financial services, including savings, insurance and credit.[16] In this framework, remittances are considered an opportunity to expand financial inclusion for two reasons. First, migrants and their families at home are most often unbanked, and second, a remittance transaction is usually the first time they are exposed to the regulated financial sector. Digitalisation of remittances can therefore contribute to financial inclusion and to a reduction in remittance costs. Policymakers and remittance service providers thus have an opportunity to further financial inclusion by finding ways to digitalise remittance flows, eg account-to-account remittances.

33. **Several studies have been conducted on the link between remittances and financial inclusion from the migrants' perspective.** The WB (2014, 2015a, 2015b) analyses this issue from a sending country perspective in Italy, France and the UK, respectively. These studies find that the majority of migrants sending remittances have bank accounts, mostly used for receiving salaries and making bill

[16] For further details, see the Introductory remarks by Cœuré (2019).

payments and transfers. However, very few used their bank accounts for sending remittances. Instead, the preferred channel was MTOs or hand-carried cash (depending on the receiving country). At the same time, a similar study in Malaysia (WB (2017a)) finds that bank account ownership among migrants is not as high as was found by the previous studies in Italy, France and the UK. Most migrants in Malaysia also used non-bank RSPs for sending money home.

34. **Similar links between remittances and financial inclusion were reported on the receiving side.** For example, Aga and Martinez Peria (2014), using data from a survey of 10,000 households in Burkina Faso, Kenya, Nigeria, Senegal and Uganda, find that receiving international remittances increases the probability of opening a bank account. At the same time, other studies report that, on the receiving side, there may be several barriers to using remittance services provided by regulated remittance service providers (RSPs) when, for example, cheaper and faster unregulated alternatives, such as hand-carried cash, are available. Using data from a household survey in six East European and Central Asian countries, the WB (2018) finds that most international remittances are sent and received in cash, either using a regulated provider (mostly through MTOs) or via hand carry across the border. Similarly, a more recent study in Morocco (WB (2021a)) finds that most remittances are transferred cash-to-cash via MTOs. Both studies found that most migrants and their families at home are not necessarily aware of the regulated and digital alternatives. Moreover, in many instances, lack of trust in the financial sector plays a role in the choice to receive in cash and lack of required documentation plays a role in the use of unregulated channels.

35. **The link between cross-border remittances and financial inclusion is not always recognised in National Financial Inclusion Strategies (NFIS).** Some of the receive markets studied recognise market barriers to financial inclusion in their jurisdictions and outline clear plans for addressing these barriers in their NFIS. However, there continues to be a disconnect between these activities and the work on improving remittance markets, with little recognition of the potential role cross-border remittances could also play in addressing these barriers – particularly as a steppingstone to greater financial inclusion.

36. **In response to these challenges and in order to improve financial and digital literacy and financial inclusion of remittance senders and receivers, the World Bank launched Project Greenback in 2011.** The Project evolved over time, with implementations in several sending and receiving countries. Project Greenback aims to use information from remittance senders and receivers, and from RSPs, to inform policymaking on remittances and financial inclusion. Furthermore, it works with remittance senders and receivers to provide education to improve financial capability and the digital skills needed to access financial services. The Project also works with RSPs to incorporate financial and digital literacy into their offerings, to design suitable financial products for senders and receivers, and to promote transparency. Project Greenback has been implemented (in some instances, multiple times) in the US, Italy, France, Malaysia, Indonesia, Haiti, Albania, Bosnia and Herzegovina, Kosovo, and Morocco.[17]

Transparency and consumer protection

37. **The market for international remittance services should be transparent and have adequate consumer protection**. This means that the applicable legal framework should specifically deal with consumer issues in the financial sector and outline which authorities are responsible for implementing the relevant legislation. At a minimum, any regulatory framework that elaborates on the law to protect consumers would need to be legally enforceable and binding for all financial service providers and apply to both senders and receivers in their respective markets. Such regulation would also need to cover fair

[17] The findings and lessons learned were summarised in several World Bank reports and blog posts, such as WB (2021e) and WB (2022a).

treatment and business conduct, transparency and disclosure, data protection and privacy, and dispute resolution mechanisms (see WB (2017b)).

38. **Where there is a financial consumer protection framework for payment services, it usually covers international remittances**. While different countries can take different approaches, given that remittances are a subsector of payment services, consumer protection for remittance services may be covered under a broader consumer protection regulation for payment services. For example, in the European Union, the financial consumer protection framework is harmonised by Union Law. For payment services, the European framework is provided by the Payment Services Directive 2 (PSD2), which is transposed into law in the different European jurisdictions.

39. **Remittance services are often characterised by complex pricing structures and terms of service that regulators require to be disclosed to consumers in a clear and easily understandable format**. The business model for remittances relies heavily on revenue generated from transaction fees and foreign exchange margins. This can lead to hidden fees and charges. Therefore, authorities often require remittance service providers (RSPs) to be transparent about the complete cost of using their services and utilise effective disclosure practices to communicate pricing information in a way that consumers can understand. For instance, under the Payment Services Directive 2 (PSD2),[18] consumer protection of money remitters relies on the transparency of conditions and information requirements for providers. This includes obligations to provide comprehensive information both at the pre-contractual stage and after the execution of the payment. In Canada, federal financial consumer protection regulations apply to federally regulated financial institutions (FRFIs), including all banks, in their provision of international remittances. Non-federally regulated entities may be subject to provincial/territorial regulations, which vary by jurisdiction. Although FRFIs are required to disclose all fees related to a transaction, including sending money abroad, this does not include any charges in the country where the money is received. In the United States, the Consumer Financial Protection Bureau (CFPB) established the final Remittance Rule in July 2020. The rule implements section 919 of the Electronic Fund Transfer Act governing international remittance transfers and applies to all entities that provided more than 500 remittance transfers in the previous calendar year. The Remittance Rule requires RSPs to disclose the exact exchange rate, any transaction fees charged, and the amount expected to be delivered to the recipient to remittance senders at the initiation of the transaction (see CFPB (2020)).

40. **Sending markets in the Middle East and North Africa (MENA) region tend to have specific legislation related to price transparency and product information disclosure specific to the remittance market**. The remittances business across the MENA is well established, with a specific class of financial institution – exchange houses – offering international remittance and money exchange services. For major send markets, such as the UAE and Qatar, there are dedicated legal frameworks overseeing these entities, usually an exchange house Act. Financial consumer protection rules are usually derived from this and require that all providers display exchange rates and transaction fees charged to enable customers to make price comparisons.

41. **While there is a range of legal requirements in place on the send side, disclosure of pricing information to remittance customers is not always consistent on the receive side of the transaction**. Some jurisdictions explicitly require such consistency, but not all. Evidence from the World Bank's Remittance Prices Worldwide (RPW) database also shows that as of Q3 2021, 90% of all services included on the sending side are transparent.[19] However, receive markets often do not match these requirements

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[18] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (See EUR-Lex - 32015L2366 - EN - EUR-Lex (europa.eu)).

[19] RPW's definition of transparency is based on the service provider providing information on the breakdown of the cost into its two components – transfer fee and foreign exchange margin – before the transaction to the sender. All services in RPW include information on the speed of the transaction.

and beneficiaries may not face the same rules as senders. In several markets studied for RPW, some banks often charge their account holders for receiving international wires, and this is not always disclosed at the time the transaction is initiated. These additional charges are usually taken from the principal amount received, reducing the payout to the beneficiary. As a result, a preference for services that do not apply charges on the receive side may arise, and this could discourage the use of accounts. Given the importance of remittances as a catalyst for greater financial inclusion, consideration may be given to the impact such charges have on bringing remittance beneficiaries into the regulated financial sector.

42. **The overall application of consumer protection rules also depends on the destination of the transaction**. In some ways, this reflects the jurisdictional limitations authorities have in being able to apply regulations to activities that have a cross-border element. For example, in the EU, rules for disclosing the maximum execution time for the remittance transaction apply only where the sending and receiving RSP are both located within the European Union.[20] In certain Member States, RSPs may be required to provide this information to the best of their knowledge. Similarly, although the EU's Cross-Border Payments Regulation 2 sets out rules on the transparency of currency conversion, this is limited to transactions within the EU. The legislation focuses on currency conversion via a digital channel – including a mobile app, a website or at an automated teller machine (ATM) or a point of sale (POS) device – and applies to national and cross-border payments that are denominated in euros; the regulation also applies to cross-border payments denominated in the national currencies of the Member States which have opted in to the regime it provides.[21] While exchange rates are provided to senders of remittances, the regulation does not apply to remittances that are directed to receive countries outside of the EU. This may make it impossible for the sender to check the actual cost of the transaction in advance, allowing for higher foreign exchange margins when sending remittances to some regions of the world.

43. **While there usually are laws and requirements in place, transparency requirements around remittance costs may be difficult to implement.** Market participants' views on this matter vary. Some providers (in particular, banks) argue that because they seldom exchange currencies 'on the spot' and beneficiaries may not necessarily collect their remittance on the same day it was sent, it is difficult to definitively state what the final rate on an individual customer transaction will be at the outset of the transaction. This view is not shared by newer non-bank entrants in the market, who see fee and foreign exchange margin disclosure as integral to encouraging competition as well as to their business model.

44. **Uptake of digital remittance channels requires the application of data protection legislation to these services**. The benefit of digital remittances is particularly evident when the beneficiary of a remittance has their transaction paid directly into an account (such as a mobile money wallet) and the transaction record of these payments can be safely and easily used by customers as evidence to obtain access to other financial services. This is important for leveraging remittances for greater inclusion. However, data collected by RSPs in the provision of these services must be adequately protected. In EU send markets, the General Data Protection Regulation applies to all RSPs authorised to operate there. By contrast, in many of the receive markets included in this study, data protection legislation is still under development. Some markets can derive local regulations for data protection of payment services such as remittances from regional data protection legislation, for instance in the Economic Community of West African States (ECOWAS).

45. **Approaches to redress of consumer complaints are not always present in receive markets, and when they are, they tend to be generic**. Some authorities require RSPs to have clear policies pertaining to the timeframe for when the complaint should be resolved, the process for communicating any resolution with the customer and when/how complaints can be escalated if the customer is not satisfied with how the complaint has been handled. Requirements in other countries, however, show

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[20] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366&from=EN.

[21] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0518&from=EN.

significant gaps. For instance, it is not always clear how beneficiaries of a remittance might file a complaint to the sending RSP.

Financial literacy and awareness

46. **Remittance senders and receivers oftentimes lack the necessary financial and digital skills to be able to navigate the financial products and services offered by regulated providers.** Improving the digital and financial literacy of senders and receivers is one way to protect remittance consumers from fraud and other risks, and is also a step towards financially including those that are excluded.

47. **The provision of financial education initiatives by RSPs, particularly on consumer risks such as fraud, is mandated by some sending authorities**. Some authorities require RSPs to provide educational materials to their customers to prevent them from falling victim to fraudsters. In the United States, RSPs report a strong focus on third-party fraud prevention by authorities, particularly when compared with other major send markets. In some receive markets, the provision of financial education of economic migrants travelling to work overseas is mandated by local governments (for example in Cambodia).

48. **However, the rules around educating consumers on third-party consumer risks, such as fraud, are often inconsistent.** The provision of consumer education to help protect customers from fraudulent activity remains a particular challenge. The rapid pace of change in how fraudsters target remittance senders and beneficiaries can make the cost of educating consumers and other actors in the remittance market (eg agents) very high. Larger, more traditional remittance providers who facilitate cash-to-cash remittance services may be placed under greater disclosure requirements to educate customers and remittance communities about potential risks. Through industry bodies, authorities could support greater coordination in educating consumers about fraudulent activity in order to ensure that the responsibility is applied equally to providers based on fraud risk rather than business model.

49. **Low financial inclusion rates restrict access to digital channels for remittances and result in high levels of remittances being handled exclusively in cash.** Due to low financial inclusion rates in several of the receive countries observed as part of this exercise, access to lower-cost digital options was limited in most corridors and a large majority of remittances were handled in cash. Migrants with lower incomes and those who had migrated without legal authorisation also had limited to no access to digital remittance channels such as transaction accounts, online remittance platforms and mobile wallets for funding and disbursing remittances. Legal environments that favour bank-led approaches have restricted the potential of leveraging the accessibility and affordability provided by e-money services to accelerate the formalisation of remittance transactions through digital channels (see Box 5). In some instances, senders and receivers have to resort to banks or MTO channels to send over-the-counter cash remittances, which are some of the costliest in the world.

50. **Low levels of financial and digital literacy, on the one hand, and low availability of information and communications technology (ICT) and payment infrastructure in rural areas, on the other, can increase the cost for RSPs.** As a result, many segments of recipient communities, particularly women and recipients in rural areas, are not aware of safer, cheaper and more efficient remittance alternatives available to them. Lack of familiarity with digital and regulated alternatives represents a major barrier to access to innovative products, driving the sender/receiver to use costlier cash channels or riskier unregulated channels.

Payment system infrastructure

51. **Lowering barriers to direct access to payment infrastructures can lower cost and improve speed for cross-border remittances.** Access to domestic payment infrastructures, provided in a proportionate and risk-based way, allows RSPs to efficiently move funds across borders and settle them domestically as well as provide more choice and usage in the services provided to end users. Non-bank RSPs as well as individual agents can benefit from the use of domestic payment infrastructures, whether they access it directly or indirectly through bank partners.

52. **Limited interoperability between bank and MTO platforms, as well as low agent network interoperability, further limits the availability of low-cost digital alternatives.** A lack of digital alternative options for sending remittances was observed in several markets, and this was mainly due to the dominance of banks in providing remittance services. Furthermore, limited interoperability between regional payment systems and a lack of uniformity in messaging standards for cross-border remittances have contributed to higher costs and affected the speed at which payments are transmitted. At the regional level or in high-frequency remittance corridors, many domestic payment systems and technology platforms have proprietary solutions and are not interlinked with each other. Lack of interconnectivity between payment systems correlates with fragmented and truncated data standards, high costs of capital and weak competition. Without direct connectivity between transacting parties, factors such as costs, traceability and timing have operational and cost efficiency impact for sending and receiving banks and for the end users of remittance services. All these factors negatively affect the functioning of remittance markets, as highlighted in the G20 Roadmap, in terms of speed, cost and transparency.

53. **In several African markets, penetration of remittance services in rural areas is still weak.** Weak penetration is mainly due to the fact that micro-finance institutions (MFIs), banking agents and mobile money agents are not permitted, under current legal arrangements, to operate remittance services or function as distribution points for established remittance players. This is notwithstanding the fact that such entities have a strong footprint in these areas. Altogether, remittance costs in Africa continue to be among the highest in the world (see Box 6).

Licensing and supervision

54. **The remittance industry is likely to flourish best under appropriate laws and regulations, including a sound, predictable, non-discriminatory and proportionate legal and regulatory framework.** Remittances may be regulated for various reasons, including consumer protection, currency controls or the prevention of their misuse for purposes such as money laundering or terrorist financing. However, there is a possibility that this may lead to unintended consequences if regulation is implemented poorly, is disproportionate to the problem it is designed to tackle, or is still implemented even when no longer useful. Moreover, regulating remittances solely by type of entity, as is sometimes the case, may make the 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 would therefore need to aim to create a level playing field between equivalent remittance services.

Box 3

Foreign exchange regime and its effect on cross-border remittances

A remittance transfer will usually involve a foreign exchange transaction – typically a conversion from the currency of the sending country to the currency of the receiving country. To know the total price of the transfer, the sender needs to know the exchange rate that will be used since different RSPs are likely to use different exchange rates, which vary from day to day. In practice, RSPs typically charge senders an exchange rate that includes a margin above the current interbank or wholesale market rate. In part, the margin may reflect the uncertainty the RSP faces.

The introduction of exchange rate controls in some countries has led to the emergence of a large black market for foreign exchange and remittances. In these countries, consumers can generally get a better rate on the black market, leading to a thriving trade in unregistered FX providers, which undermines the integrity of AML/CFT, financial inclusion and stability regulations.

These controls can also have significant implications when it comes to sending funds out of the country. For some of the countries in the sample under study, there is a high demand for low-value payments at a regional level. Most of these are not remittances but rather payments to facilitate trade and to support regional migration. Where there are exchange controls in place, these can limit the number or type of financial institutions permitted to offer outbound payment services, namely, to banks only. This can in turn increase the cost of services due to a lack of competition. This outcome can be problematic from a financial inclusion perspective, particularly for those that need to make frequent low-value payments across a region and are limited in the choice of financial services they can use.

Electronic money services provided by non-bank financial institutions, such as mobile money, have been transformative in many receive markets for remittances, especially because of their effect on costs and inclusion rates. Where these providers operate in multiple markets, opportunities exist to provide digital remittance services at a regional level, introducing low-cost solutions for specific customer segments. However, existing exchange controls usually prevent the use and/or expansion of mobile money services to regional cross-border payments.

Innovations in areas such as central bank digital currencies may provide solutions to these challenges, allowing central banks to better monitor the flow of foreign exchange whilst also facilitating outbound payments. However, the impact of innovations such as CBDCs would be limited; in situations where the exchange rate continues to be managed and there is a disparity between the official and black market rates, customers may continue to use informal services.

Licensing

55. **Licensing requirements for RSPs usually involve the submission of a wide range of documentation.** Examples of the required documentation include evidence of share capital, financial histories, evidence of tax payments, risk management policy, AML/CFT policy and consumer resolution plans, as well as a list of senior management positions. In the event of approval, RSPs are required to provide further information regarding their operational risk management, incident response frameworks, safeguards for customer funds and their approach to notifying the relevant regulator of any significant changes to their business activities.

56. **In addition, the timeframe for approval to commence operations can limit the number of applications from new entrants.** Licensing processes in both send and receive countries can take between 90 days to two years to obtain authorisation to commence operations. Documentation requirements can discourage new entrants from submitting applications to authorities. Limited competition can result in higher remittance costs and poor quality of service. In some markets, it can also push consumers to use unregulated channels, undermining the integrity of the system.

57. **In some markets, the scope of operations for RSPs is limited by their capital base.** In some send markets, the capital requirement imposed on RSPs determines the volume of transactions they can execute (where a transaction history is available, eg after the second year of operation). For instance, in

the EU, capital requirements are set as follows: in Year 1, RSPs' capital requirement is 10% fixed cost; in Year 2, capital is equal to the weighted sum of average payment volume during the year (the weight is 4% up to 5 million, 2.5% for 5-10 million and so on). Non-bank RSPs, especially in Sub-Saharan Africa and countries in East Asia and the Pacific, can be asked to meet higher capital requirements to obtain a licence to provide remittance services compared to those of other regions of the world.

58. **There can be additional approval requirements in some receive markets**. In some receive markets, international RSPs facilitating inbound remittances may need approval from the market regulator. They may also have to partner with a local financial institution to facilitate inbound transactions. Separately, receive market regulators may stipulate the type of financial institution that international RSPs can partner with in the local market. In some instances, this is driven by foreign exchange controls. Many receive jurisdictions limit international RSPs to partnering with local banks, who are also authorised dealers of foreign currency. In such instances, RSPs are prevented from partnering with non-banks, such as electronic money services, which can be more accessible for underserved customers.

59. **There can be multiple and conflicting regulations.** Some operators outlined instances where regulations conflict with each other. In one send market surveyed, AML regulations for customer due diligence outlined by the competent authority recommend the implementation of a risk-based approach. The prudential authority, on the other hand, stipulates a rules-based approach to manage the same risks. In some instances, the older regulation is superseded. However, where this is not clearly communicated, service providers tend to adopt the more stringent requirement, thus negatively affecting access to their services.

Approaches to supervision

60. **Countries in the sample have adopted different institutional approaches to prudential supervision**. For instance, in Italy, RSPs are subject to a specific supervisory regime which is regulated by the "supervisory provisions for payment institutions and electronic money institutions" issued by the Bank of Italy. In select cases, no specific rules for the supervision of non-bank RSPs have been devised nor a specific agency to carry out such supervision identified. In some markets, RSPs are subject to rigorous supervisory regimes similar to those for banks.

61. **For some sending countries in the sample, there is an existing supervisory regime for payment services covering remittances, but it does not always extend to their agents.** An integrated model of supervision was found to be prevalent, as most supervisory activities for RSPs were conducted as if they were banks. In many jurisdictions, supervision of RSPs is based on the relevant AML/CFT legislation. In some jurisdictions, payments legislation also covers RSPs' activities. For instance, in Canada, the relevant regime for supervising remittance service providers is the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). Under the PCMLTFA, RSPs are generally required to register with Canada's Financial Transactions and Reports Analysis Centre (FINTRAC). In addition to the PCMLTFA, entities providing international remittance services in Canada may be subject to the Retail Payment Activities Act (RPAA). The RPAA is a new supervisory framework that oversees non-bank, non-traditional entities providing electronic payment services to Canadians. It applies to any entity that performs a payment function as defined under the RPAA. However, the RPAA does not apply to agents of registered payment service providers.

62. **Both onsite and offsite supervision exercises are conducted on RSPs.** Onsite supervision of operators is conducted to assess the soundness of RSPs' governance structure as well as their operations. Some of the larger RSPs report being visited by the supervisor over 40 times per year. On the other hand, offsite supervision exercises involve submission of multiple disclosure obligations, yearly documentation of financial statements, organisation structure and any significant changes, and submission of an annual self-assessment of AML risk report. In the MENA send markets, RSPs are required to report their daily transaction activities to the central bank.

63. **RSPs' operations are exposed to a lack of alignment of supervisory practices.** Supervisory practices across jurisdictions tend to be localised and there are no standardised formats for such practices. RSPs are required to make reporting submissions using different templates from the different jurisdictions where they are supervised. Lack of homogeneity in reporting formats is particularly burdensome for smaller operators.

AML/CFT[22]

64. **FATF Recommendation 14 imposes clear obligations for money or value transfer services (MVTS).** This recommendation is a key building block in the conduct of AML/CFT and related legal and regulatory requirements. The recommendation includes requirements for licensing or registration of money transfer operators, as well as effective monitoring, sanctions when necessary, and supervision of agents (see Box 4).

Box 4

FATF Recommendation 14

Money or value transfer services:① Countries should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTS) are licensed or registered, and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations. Countries should take action to identify natural or legal persons that carry out MVTS without a license or registration, and to apply appropriate sanctions. Any natural or legal person working as an agent should also be licensed or registered by a competent authority, or the MVTS provider should maintain a current list of its agents accessible by competent authorities in the countries in which the MVTS provider and its agents operate. Countries should take measures to ensure that MVTS providers that use agents include them in their AML/CFT programmes and monitor them for compliance with these programmes.

① This Box draws on the latest version of the FATF Recommendations (FATF (2022)).

65. **Risk assessment is the precondition for an effective risk-based approach to AML/CFT, and virtually all countries have adopted the FATF risk-based philosophy**. The risk-based approach is the most important core idea of the FATF standards and the basis for all effective use of the standards to mitigate illicit finance. Generally, national risk assessments undertaken for AML/CFT purposes do look specifically at the MVTS sector, but the resulting risk rating varies. Broadly speaking, the degree of cash usage and the prevalence of unregistered providers are the most common determining factors. Medium or high risk ratings appear to be more common than low risk ratings for MVTS or risk activity, and large providers, especially those with a global presence and robust compliance programmes, are seen as lower risk than small or local ones.

66. **However, implementation of the risk-based approach remains weak in many of the jurisdictions that have adopted it**. While almost all countries accept this idea in principle, remittance regulation and supervision often do not implement it in practice. The risk-based approach aims to create effective mitigation of risk, with maximum efficiency and minimal wasted effort or unnecessary barriers, by focusing resources on the areas of greatest concern. Challenges in applying this idea have an impact on both AML/CFT and financial inclusion. Very few countries explicitly allow simplified due diligence (SDD) for low-risk situations. In practice, tiered customer due diligence (CDD) usually means customers may be treated as medium risk or high risk, but there is a reluctance to identify low-risk scenarios and apply

[22] This review was informed by the totality of FATF MERs, guidance products, typology reports and discussions. However, the MERs specifically studied were those for UAE, South Africa, Canada, Tajikistan, Albania, DRC, Egypt, Ghana, Nigeria, Mongolia, Myanmar, USA, Serbia, Mozambique, Zambia, Zimbabwe, Madagascar and Italy.

simplified measures on that basis. Other indicators, such as frequent mismatch between the risks identified in the national risk assessment process and suspicious transaction report filing, also suggest that the risk-based approach remains more a theoretical principle than the basis of actual implementation.

67. **Implementation of the risk-based approach to AML/CFT is particularly challenging for many receive markets.** The use of SDD in receive markets, particularly in international remittance transactions, is almost non-existent in the sample of countries studied. Many providers and jurisdictions are also going beyond the requirement of regulation, implementing more stringent CDD rules, in the hope that this will help them preserve the banking relationships needed to facilitate their business, rather than taking a holistic approach to strengthening their systems based on assessed risks. In markets where government-issued identification is not readily available, this can result in a significant informal market undermining the integrity of the financial system and putting consumers at risk.

68. **Regulation and supervision in this area tends to focus heavily on the requirement that providers have a licence or registration, with significantly less emphasis on other aspects of FATF Recommendation 14, particularly ongoing supervision of MVTS activity.** At a minimum, almost all countries have in place a legal requirement for MVTS providers to acquire registration or licensing, although occasionally there are weaknesses in this area depending on foreign or domestic entities, especially in receive countries.

69. **Despite the clear requirement in national legal frameworks for registration or licensing, many countries struggle with a lack of action to identify and appropriately sanction unregistered MVTS providers**. While most jurisdictions have appropriate requirements for registration or licensing of MVTS providers in place under the FATF Recommendations, a high proportion of countries does not do enough to identify unregistered providers, which is also a requirement of the FATF standards. Moreover, where jurisdictions *do* identify unregistered providers, many of them fail to apply appropriately dissuasive sanctions. This not only allows for an immediate vulnerability in that these providers do not apply AML/CFT controls, but it also tends to contribute to financial exclusion by creating a perception that the overall remittances sector is high risk and placing legitimate and registered providers at a competitive disadvantage. Identifying and taking action against unregistered providers is labour-intensive and difficult for supervisors, and weaknesses in this area may stem from a lack of supervisory resources or from a failure to understand the importance of the issue. Nevertheless, robust efforts to identify and sanction unregistered providers are critical to both AML/CFT and financial inclusion, and the lack of such efforts presents an important challenge going forward.

70. **Ongoing supervision, especially of agents, poses a particular issue**. Supervision is generally weaker than regulation and many jurisdictions need to apply significantly more supervisory scrutiny to MVTS and remittance providers. While this is generally true, agent supervision is a particularly acute problem for both national authorities and private sector MVTS principals. While principals have a clear and critically important role, agents are also important parts of the remittance process and a source of ML/FT risk. In the case of cash remittances, agents make up the front-line party actually dealing with customers and implementing many basic AML/CFT controls. It is agents, for instance, who check identification documents where required and record data that principals may use for AML/CFT controls. Many jurisdictions, however, do not have sufficient requirements for agents and/or do not strongly supervise for those requirements that are in place. Overall supervision, but especially agent supervision, would need more resources and attention from national authorities.

71. **A high proportion of the countries examined in this study, especially receive countries, had formulated a strategy for financial inclusion**. Generally, receive countries recognise the importance of financial inclusion for both AML/CFT and economic prosperity, and many of them have financial inclusion strategies that FATF assessors complimented. Strategies usually aim to reduce cash usage and bring underserved populations into the registered and licenced financial sector. The recognition of the

complementary rather than oppositional relationship between AML/CFT and financial inclusion is itself a positive sign.

72. **Financial inclusion strategies, like the risk-based approach, tend to need greater actual implementation**. While it is positive that countries have created these strategies and many have received specific praise from FATF assessors, countries often failed to demonstrate follow-through in carrying out the strategies in practice. The symbiotic relationship between financial inclusion and AML/CFT is important, for instance, in reducing the prevalence of unregistered providers and encouraging reduced cash usage. Lack of implementation of these strategies represents a challenge for many of the jurisdictions examined in this study. Some strategies, especially in receive countries, could do more to recognise the link between strong AML/CFT compliance as prescribed by the FATF standards and the use of a risk-based approach and financial inclusion. Since weak compliance often leads financial institutions to exit a jurisdiction, or at least treat it as high risk, financial inclusion strategies should recognise that promoting effective compliance tends to protect access to financial services.

Market structure and competition

73. **The efficiency of remittance services depends on a competitive business environment.** Competitive markets can help limit monopolistic practices and lead to lower prices and improved service levels. In some places, or for certain remittance corridors, the demand for remittance services may be insufficient to support multiple RSPs, but even here, provided the market is open – ie without barriers to entry – the benefits of competition should be felt. Discouraging RSPs from imposing exclusivity conditions on agents can assist competition. This is particularly important if a local market such as a small village has only one potential agent (eg the local shop), so there is only one remittance service available if an exclusivity condition is imposed.

74. **There is growing international discussion of the advisability of allowing RSPs access to domestic payment infrastructures, with countries often determining their policy based on whether non-bank RSPs can adequately manage their liquidity and credit risks**. This is happening already in some send countries, such as the UK and Singapore, with the EU, Canada and Japan exploring this option. In receive countries, however, this trend is not common. If non-bank RSPs do not qualify for access to domestic payment infrastructure, they may obtain indirect access through a member financial institution. This makes them dependent on banks, which increases the cost of operations if securing such access is difficult. The terms and conditions under which access is granted to such infrastructures have important bearing on the ability of banks, non-bank RSPs and service users to manage their payment system risks, as well as the central bank's capacity to preserve and promote the stability of the financial system. However, access would need to be granted only after conducting a risk assessment. The latter will have to include examination of wider policy considerations and vetting of risks to ensure that the prospective non-bank RSPs meet appropriate operational, financial and legal requirements to access the system or to secure access through a bank partner, which will allow them to fulfil their obligations to national payment system infrastructures on a timely basis.[23] Lack of a means of access has implications for the cost structure of remittances. This is evident for countries in the Southern Africa region, where the costs for sending and receiving international remittances are some of the highest in the world (see Box 6).

[23] Access to payment system infrastructures by non-bank RSPs requires an assessment of risks posed by the prospective participants in the payment system infrastructures. Participation rules should be designed to be proportionate and risk-based. General Principle 4 (CPSS and WB (2007)) stresses the importance of this point and provides guidance on the broad contours of access to domestic payment system infrastructures. In addition, Principles 18 and 19 of the Principles for Financial Market Infrastructures described in CPSS and IOSCO (2012) provide detailed guidance on access and participation requirements for payment and financial market infrastructures.

75. **However, there are exceptions, with some countries allowing direct access for RSPs.** In the UAE, a send country, non-bank RSPs have also been allowed direct access to payment infrastructure, which has helped reduce costs. Some receive countries are also starting to take steps to provide access. However, in almost all instances, this is usually through a member financial institution that acts as a sponsor bank.

Box 5

Stablecoins and remittances

So-called 'stablecoins' are a variety of crypto assets that purport to maintain a stable value relative to some reference asset. They are usually pegged to a fiat currency or basket of relatively stable assets but may also use algorithmic or other stabilisation mechanisms.

The G20 Roadmap (FSB (2020b)) recognises the potential of global stablecoin (GSC) arrangements to improve cross-border payments, including international remittances. Other forms of digital money, such as electronic money services, have had a material impact on financial inclusion, including for remittance senders and beneficiaries. Given the similarities in some stablecoin business models to e-money services, their potential to have a positive impact on financial inclusion and remittances could be significant. However, stablecoins, like other crypto assets, may pose risks. The FSB notes that "a widely adopted stablecoin with reach across multiple jurisdictions could become systemically important in and across one or many jurisdictions" and this could challenge the effectiveness of existing regulatory and supervisory oversight. In response to this, the FSB has agreed on 10 high-level recommendations to promote coordinated and effective regulation, supervision and oversight of GSC arrangements. At the international level, the FSB, BIS CPMI and IOSCO are currently coordinating to determine regulatory approaches for GSC, including those that are intended to be used in mainstream payments markets like international remittances (FSB (2022)). The FATF has clarified that its standards on virtual assets apply to stablecoins, which it considers a variety of virtual asset.

There are several live stablecoin deployments that aim to provide cross-border solutions to customers, and regulators are taking different approaches to regulating these activities. Some authorities interviewed have implemented stand-alone legal and regulatory regimes for crypto assets, including stablecoins. Others are focusing on the actual activities of stablecoin providers. Where these are similar to existing business models, such as 'money transmission' or international remittances, the approach taken is to treat them as such. For example, in the United States, the regulatory and supervisory system is functional and based on the financial service provided. To the extent that stablecoin providers or those dealing in other crypto assets offer money transmission, for instance, they fall under existing money transmission rules at the federal level and in most states. US federal regulators have defined money transmission as applying to activities that facilitate the transmission of money or monetary value. The inclusion of "monetary value" in the definition was designed to allow for the entry of new innovative business models that can be used to send the equivalent of money, even if it is not fiat currency.

Some counterparts interviewed reported significant growth in 'virtual currency transmission' (including cryptocurrencies) across borders. However, at this stage, very little of this activity is happening in typical remittance corridors, suggesting that such transactions are unlikely to be low-value P2P transactions undertaken by migrants sending money home.

76. **In addition to access to payment infrastructures, access to critical shared market infrastructures such as identification (ID), digital ID, credit registry or electronic know-your-customer (eKYC) utility can help improve efficiency in remittance services**. AML/CFT and other regulatory requirements generally depend on identifying customers and tracking their activity. Therefore, infrastructures that help RSPs make this process more reliable, more efficient or cheaper can lower costs and improve AML/CFT risk mitigation. In addition, limited access for non-bank RSPs to critical shared market infrastructures, including eKYC, ID or digital ID and credit scoring, has a direct influence on the cost of compliance and reduces the availability of services.

77. **While there has been progress worldwide in the last ten years to eliminate agent exclusivity contracts, a few receive markets still have looser rules which are not properly enforced.** Historically,

exclusivity contracts were common when MTOs required their partners for paying out remittances in receive markets to work with them on an exclusive basis. Such arrangements contributed to non-competitive remittance markets and high fees, particularly where there were limited partner options for other RSPs wanting to enter the market. This also meant that regulations that restricted agent banking business models limited the use of payment system infrastructures. This disadvantaged specific customer segments, including rural recipients. Whereas there has been progress worldwide, with regulators updating their regulations and promoting more competition and, in some markets, explicitly banning exclusive commercial arrangements, a few markets observed as part of the sample continue to demonstrate that the rules for exclusivity contracts are either loosely defined or they are not properly enforced to have the desired effect. In such instances, MTOs are still able to lock in these exclusivity contracts, especially with smaller financial institutions acting as agents.

78. **The rise of digital-only MTOs has reduced the average cost of sending remittances to and from many of the markets studied for this paper.** As shown in Annex Figure A.1, the emergence of digital-only MTOs over the last few years has given a boost to digital remittances and has reduced the average cost of sending remittances. Digital-only MTOs have seen rapid growth, especially during the pandemic, when digital uptake greatly improved over that of the previous years. Digital remittances can be initiated through bank accounts, payment cards, cryptocurrencies and digital wallets and have proven to be faster, cheaper and convenient for senders and receivers. Many of the send and receive markets studied for this project have seen a material rise in digital remittance services provided by digital-only MTOs. Although the use of virtual currencies for cross-border payments is still nascent in most jurisdictions in the sample, some have also highlighted rapid growth in this area (see Box 5).

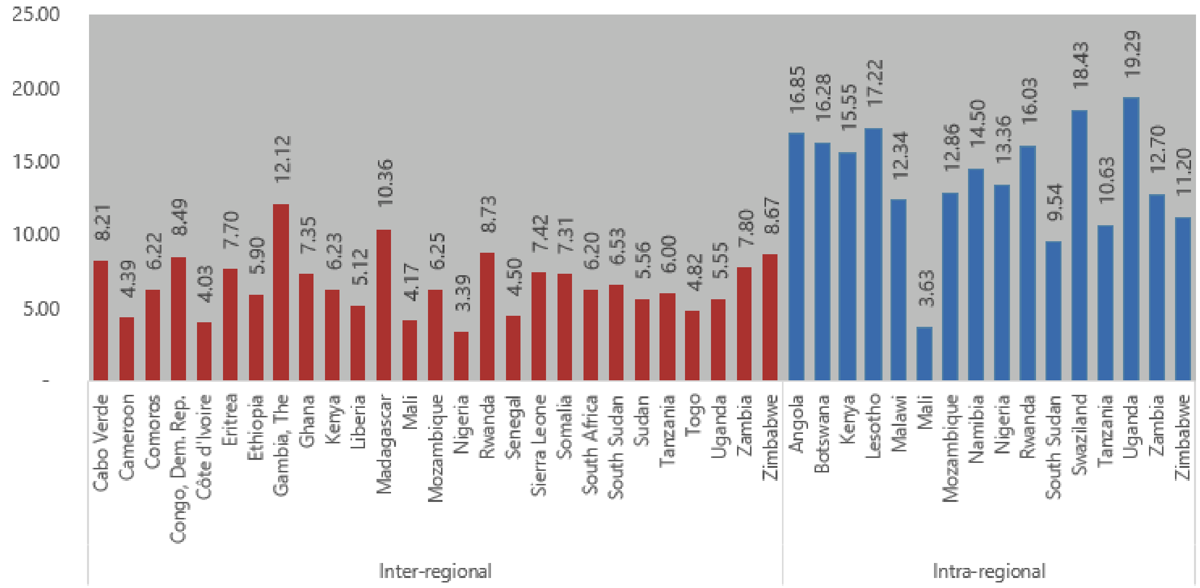
Box 6

Intra-African flows and ongoing challenges

Compared to the global average as well as to other regions, Sub-Saharan Africa has the highest average cost for sending intra-region remittances, at about 13.78 per cent. The intra-regional, average cost for sending USD 200 within Sub-Saharan Africa is between 10 and 20 per cent (see Figure 3).①

Average cost of intra-regional and inter-regional remittances by destination country (Q4 2021)

Figure 3



Source: Remittance Prices Worldwide, Q4 2021, World Bank.

In comparison, the average cost of remittances received by the Sub-Saharan African countries from other regions is much lower than the cost of sending remittances within the region. The cost of sending remittances from Europe, Gulf Cooperation Countries, North America and Australia varies between 12 and 3 per cent, implying that several corridors have achieved scale and are able to provide these services at more competitive prices. Though progress has been made for some corridors in general terms, the lack of adoption of cost-effective digital channels and the dominance of bank-led models continue to contribute to high costs. Digital options in the region cost, on average, 2.97 percentage points less than non-digital options. Similarly, banks demonstrate the highest costs on average (at 15.97 per cent) compared to MTOs (at 6.22 per cent), and these prices are significantly higher than those offered by their peers in other regions.

Several reasons have been identified for the higher costs in the region:

1. Legal and regulatory frameworks which restrict innovation, new business models and partnerships, and the potential of agent-based models in the sector.
2. Loss of banking relationships and concerns about profitability, as well as the costs of AML/CFT compliance and bank perception of high ML/FT risk.
3. Limited digitalisation of remittances due to restrictions on bank account ownership for migrant workers in the countries of their employment.
4. High cost and reduced speed for low-value/high-volume payments due to limited regional payment systems interoperability and lack of uniformity in payment purpose codes for cross-border remittances.

5. Limited scaling of remittance services and leveraging of platforms to accelerate transparency and service efficiency due to the restricted access of non-bank Payment Service Providers (PSPs) and MTOs to national and regional payment infrastructures.
6. Lower levels of financial inclusion, leading to the use of more expensive cash-to-cash remittance services.
7. Lack of digital and financial literacy, weak rural ICT infrastructure and low levels of internet affordability and phone ownership lead to further disadvantages for certain groups, such as women and rural communities.

① A relevant exception is the costs for corridors originating from Senegal, Cote d'Ivoire and Mali. One of the primary reasons is that most remittance flows are to other CFA franc countries. Due to the currency union, the foreign exchange margin is negligible or zero, thereby reducing total costs significantly.

Section 6 – Ongoing initiatives and remaining challenges

79. **This section recaps the main challenges presented so far and initiatives underway to address them**. For send markets, several initiatives have been launched under the G20 plans to support remittances. These involve the FATF, various actors under the G20 Roadmap, and the WB. For receive countries, key messages have been put forward by the WB in the context of the remittance assessment reports, and their main insights are reflected in this section.

80. **Among the ways to improve the resilience of remittance flows to crises and shocks, one is remittances-linked insurance products.** While the availability of such products is still limited in the market, research has shown demand for these services amongst remittance senders and receivers.[24] The Access to Insurance Initiative, in collaboration with the International Association of Insurance Supervisors, has convened various stakeholders to explore regulatory and commercial barriers that might be limiting product development in this area.

81. **A key area for improvement relates to transparency and consumer awareness**. As discussed in the previous section, senders may not have enough information on pricing, terms of the remittance service and the risk of fraud. To address these issues, improved market transparency in remittance pricing is actively pursued via the GPFI National Remittance Plans, the WB quarterly reports on remittance pricing (eg WB (2021f)), and national or regional initiatives. For instance, in the European Union, a revised regulation, the Revised Cross-Border Payment Regulation, was approved in June 2020 for payments within member countries. This regulation requires operators to disclose the total costs of remittances, making internal cross-border payments more transparent. However, it applies only to payments within the Union. The implementation of the Remittance Rule in the United States is much wider, however, and its impact on ensuring pricing transparency in the market is well documented. The 2021 US National Remittance Plan also references its ongoing supervision of compliance with this rule and cites the CFPB's supervisory and enforcement authority to ensure that MSBs comply with the law. At the same time, the WB also continues to support efforts for better consumer education and understanding of remittance prices. In addition, IFIs, including members of the RCTF, are calling for further improvement in disclosures in send countries to eliminate confusion from untransparent pricing practices, particularly in relation to exchange rates.

[24] See Cenfri (2020).

82. **The G20 has noted the importance of effective financial consumer protection legislation for remittances, and several receive countries are developing the required regulation including for new types of financial services.** Forums such as the GPFI have developed a comprehensive action plan, which includes activities on consumer protection for underbanked populations. At the country level, many countries are adding financial consumer protection rules, also covering new products such as e-money. Many of the recommendations made in the WB assessments call for receive market authorities to work to establish financial consumer protection legislation that is applicable to all types of financial services, including international remittance services.

83. **Recognition of the importance of data portability in financial inclusion continues to grow**. This is also the case for international remittance transactions, especially since they are often sent on a regular and consistent basis. For beneficiaries of these remittances, easily obtaining a transaction history could be helpful in gaining access to additional financial services such as credit. The WB assessments recognise the importance of effective data protection and portability legislation for facilitating the provision of such data services. While this is much easier to implement for digital remittance services, consideration can be given to how to extend this to users of cash remittance services as well.

84. **The WB assessments recommend that receive markets outline policies for leveraging cross-border remittances in NFIS.** This is particularly relevant for receive markets that are highly dependent on inward remittance transactions, as well as those markets where cash payout is the predominant channel for receiving remittances. Recognition of the importance of remittances to financial inclusion at the NFIS level will facilitate greater engagement with key stakeholders in both the public and private sectors, which would in turn facilitate implementation at the market level of tools and techniques to help bring remittance beneficiaries into the formal financial sector.

85. **The G20 Roadmap acknowledges the importance of standardisation of licensing and supervisory requirements**. This is particularly important for creating a level playing field between banks and non-banks in order to ensure that entities involved in the same business activities and offering the same business services are subject to the same or similar rules and supervision ('same activities, same risks, same rules'). At the same time, the application of regulation and supervision to non-banks, particularly smaller non-bank RSPs, should be proportionate to the risk they pose in order to avoid adverse effects on costs and financial inclusion. Standardisation can streamline entry into new markets, particularly when timeframes for responses to applications are clearly communicated. Standardisation can also be extended to include reporting templates in order to minimise the operational costs associated with operating in multiple markets. All these factors will help enhance competition in remittance markets, as well as the quality of services received by remittance senders and beneficiaries.

86. **Efforts are underway to mitigate unintended consequences of AML/CFT requirements and to create strong and effective AML/CFT systems that will support the provision of transparent services to legitimate users**. The possibility that undue or ineffective AML/CFT requirements that are not justified by underlying risks might prevent certain remitters from accessing registered remittance channels is a major concern. The FATF is also considering further work to reinforce global understanding and implementation of a risk-based approach. Improvements in the quality of supervision can also help reduce restrictions in send markets and promote inclusion by increasing the confidence of banks in send markets that AML/CFT risks can be effectively managed.[25] In addition, in some send countries such as Canada and the United States, regulatory authorities also aim to clarify to reporting entities that they should evaluate the risks posed by individual customers and their own ability to mitigate those risks before making decisions, rather than eliminating whole classes of customers indiscriminately. Moving from a "rules-based" approach towards a genuine "risk-based" approach can also help reduce barriers to cross-border remittances. The 2021 versions of the GPFI National Remittance Plans, including those of the UAE and the

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[25] In March 2022, the FATF Plenary decided that the FATF would continue working on how it "can mitigate the unintended consequences of FATF's Standards without diminishing the effectiveness of global AML/CFT measures".

United States, include commitments to take actions that reduce the impact of de-risking in remittance markets.[26]

87. **Receive countries, like send countries, could support greater inclusion of RSPs through improved AML/CFT systems**. Similarly to the efforts of send countries, receive countries increasingly recognise that stronger AML/CFT efforts, particularly in supervision of remittance providers, actually promote financial inclusion by giving banks that provide correspondent banking services greater confidence in the mitigation of the risks in these transactions. This tends to open up registered and transparent channels for users while also reducing illicit finance.

88. **The FATF and international financial institutions recognise the continuing need to support EMDEs (of which many are net receivers of remittances) with effective implementation of the risk-based approach to AML/CFT**. Greater use of SDD in lower-risk situations in receive markets, including for international remittance transactions, is key to leveraging these high-volume flows for greater financial inclusion. Where SDD measures do exist, support for authorities to ensure their use amongst providers will be beneficial. Recognising this, the WB and FATF assessments have recommended that authorities work with the private sector to ensure approaches to CDD are proportionate to potential risks and that the necessary risk assessments are conducted to minimise vulnerabilities. Similarly, in markets where unregistered providers are common, many authorities would need to take sufficiently strong action against this practice in order to avoid leaving the sector exposed to high risks of illicit finance and making it unattractive to potential foreign correspondents and partners.

89. **Competitive market conditions for remittances can be supported by access to payment systems or ancillary infrastructure for non-banks**. The G20 Roadmap (FSB (2020b)) includes actions to achieve the aim of improving existing payment infrastructures and arrangements to support the requirements of the cross-border payments market. Efficient cross-border payments can be facilitated by allowing different types of remittance providers to access payment systems originally set up for banks. In this way, more operators can rely on a well-developed and robust payment network. Efforts are also underway to facilitate cross-border payments by integrating payment systems or by making them interoperable and interconnected on a regional basis for areas where regional transfers are relevant, such as among Arab countries using Buna, the cross-border and multi-currency payment system. Work is also underway in East Asia to improve remittance flows between specific corridors. Initiatives have been undertaken in corridors such as Singapore-Thailand, Thailand-Cambodia and Malaysia-Cambodia. However, joining up national infrastructures may take time. Another example is the African continent, where the Pan-African Payment & Settlement System (PAPSS) is expected to be operational soon. It is important to note that while these issues are raised under send market considerations, they apply equally to the receive market context as well.

90. **A BIS CPMI report on cyber resilience recognises that there is increased operational risk from cyberattacks against payments and financial systems, and a structured approach is needed to minimise these risks**.[27] The BIS CPMI report recognises that cyberattacks against payments and financial systems have become increasingly frequent, sophisticated and widespread, and pose significant operational risks for all types of RSPs. They may take the form of persistent malicious action by attackers' intent on creating systemic harm or disruption, resulting in financial losses and reputational damage. Any operational incident that results in the delay or interruption of a remittance service could be immediately observable by end users and could also cause reputational harm to the affected RSPs. Therefore, the very unpredictability of cyber risks dictates the urgency of having a proper approach put in place by the authorities, with RSPs managing these risks. The reputational damage that RSPs face from such events can

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[26] See GPFI (2021b, c).

[27] See BIS CPMI (2014).

be avoided if they communicate the problem to end users in a timely manner and provide adequate compensation if needed.

91. **CBDCs and fast payment systems (FPS) also present useful opportunities to increase the effectiveness of remittance markets.** CBDCs could provide immediate settlement and competitive exchange rates whilst also making the best use of existing domestic payment rails. Being a claim on the central bank, CBDC would eliminate credit risks between financial institutions participating in cross-border transactions, which would have a significant positive impact on operational costs for RSPs, which could then be passed on to consumers in the way of reduced transaction fees. These arrangements would also enable a large number of possible counterparts and could replace the need for existing correspondent banking relationships (see Auer et al (2022)). Similarly, FPS could offer much of the same benefits as a CBDC, particularly in the areas of immediate settlement for consumers.[28]

Section 7 – Conclusions

92. **International remittances have received considerable attention in the past 15 years, with special renewed focus in the past couple of years**. The strong desire to support remittances reflects an international recognition that they are a critical lifeline for many EMDEs, as well as an important flow of funds the risks of which require careful management. Under the steering of G8 and G20 leaders, national and regional authorities, SSBs and IFIs have introduced several initiatives to improve conditions for cross-border payments and remittances in particular. This paper summarises the main activities and their objectives, building on a review of their development over time and the role of different players in this area.

93. **Ambitious targets were set to improve remittances, but progress to achieve them is incomplete**. One of the milestones for enhancing cross-border remittances is the reduction of their cost. According to this metric, more progress is needed. The paper documents limitations in achieving this target, as well as other shortcomings, including continuing weaknesses in AML/CFT policies and consumer protection. To structure the analysis, the paper follows the main themes of the General Principles developed by the CPSS and the WB (2007).

94. **Across all of the five General Principles, there is scope for improvement against identified challenges**. For instance, in the area of transparency and consumer protection, disclosure on pricing information is not always consistent or in-depth enough. Obstacles to reducing costs emerge in the area of payment infrastructure, where limited interoperability between payment systems can affect the cost and speed of transfers. For legal and regulatory issues, inconsistency in regulation across firms and, in particular, banks and non-banks, can be a major barrier to introducing competition in the remittance market. Moreover, while the AML/CFT oversight of remittance flows is, in principle, conducted under a risk-based approach, in practice most countries do not take advantage of the possibility to adopt a simplified due diligence for low-risk situations, nor do they effectively supervise unregistered providers of remittances and agents. In terms of market structure, market dominance by banks also plays a role in low financial inclusion rates in many receive countries. Finally, when it comes to risk management and governance, operational risks from cybersecurity, de-risking, and data protection are known to authorities and providers but require further attention.

95. **Where progress is incomplete, more can be achieved along possible avenues identified in the paper**. Via its regular assessment reports, the WB has highlighted approaches that can support an improvement in conditions for international remittances. On AML/CFT issues, FATF publishes reports on

[28] See WB (2021d) for further details on this topic.

countries' compliance with its standards, including implications for international remittances. These individual assessments include recommended actions for countries to take to make improvements, and the FATF has also given guidance at the global level on various aspects of cross-border payments and the risk-based approach. Drawing on these reports and their conclusions, as well as interviews with authorities and market participants, the paper suggests areas where either send or receive countries could undertake actions to improve the market for international remittances. Broadly speaking, these suggestions consist of ways to improve supervision, increase transparency, mitigate operational and AML/CFT risks, increase competition and reduce unnecessary barriers. Although these changes may still take time, it is important to draw authorities', firms' and leaders' attention to them in order to foster the implementation of these steps that can ultimately facilitate the establishment of an efficient market that makes transparent channels available for as many customers as possible.

96. **There is room for improvement in terms of the financial inclusion of remittance senders and receivers.** Recent evidence indicates that digital remittances are cheaper, in addition to contributing to a broader goal of financial inclusion. However, many senders and receivers do not or cannot use digital remittances for various reasons, including lack of documentation, lack of trust in the regulated financial sector, lack of digital and financial literacy, or lack of products to support their needs. Policymakers can work on removing some of these barriers via regulations to open up the market for the safe and efficient provision of innovative remittance services, while the private sector can bring in innovative business models to reach those senders and receivers that have been excluded.

97. **Continued work is needed to fully realise the linkages between remittances and financial inclusion**. Identifying opportunities to leverage remittance flows for greater financial inclusion is one aspect, and this can be achieved by successfully utilising overarching policy and strategy documents such as the NFIS. Similarly, taking advantage of greater financial inclusion to improve remittance markets is important. This includes utilising transaction accounts for sending and receiving remittances, particularly where cash payout continues to be a dominant channel, as well as establishing the regulatory and commercial basis for the development of products such as remittance-linked insurance products to help manage risk and deepen inclusion of remittance senders and receivers.

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Annex: Cost of sending remittances

Monitoring the targets and the World Bank Remittance Prices Worldwide database

In 2008, in response to a request by the G8 and G20, the World Bank launched the Remittance Prices Worldwide (RPW) database to measure the global average cost of sending remittances as a percentage of the amount sent. The RPW database is the most comprehensive and most rigorous tool publicly available to track the price of sending money from countries representing 85% of global remittance value. Every quarter, mystery shoppers enquire about sending two payments (the equivalents of $200 and $500) between 367 pairs of countries ("corridors"), recording all fees, charges and information on transparency, accessibility and transaction speed. Information is collected for a variety of service providers: banks, money transfer operators, mobile money operators and post offices. For every corridor, providers surveyed by RPW account for at least 80% of the market as measured by transaction value. Annual market analyses are conducted to ensure that the list of providers and their market share data remains up to date.[29] In many instances, when a remittance transaction is not transparent, the providers either do not disclose the foreign exchange rate to the senders at all or do not provide the breakdown of the cost across the transfer fee and the foreign exchange margin. Therefore, RPW is also able to classify services as transparent.

RPW indices to measure cost

Global Average (and regional breakdowns): Global average cost is calculated as the simple average of cost of sending USD 200 via all transparent service providers in all corridors, regardless of speed, product, access point or network coverage.[30] The Global Average is calculated based on equal weighting for all of the RSPs and corridors included. Since data on remittance flows is not fully precise and data on market shares of RSPs are not available in most cases, this is currently the most accurate and representative way available to calculate the global cost. Regional breakdowns of this variable have been calculated and reported in *RPW Quarterly* reports along with the Global Average itself. Both the Global Average and its regional breakdowns have also been calculated and reported for USD 500 as the send amount since Q4 2017. It is possible to calculate both the sending and receiving average at a country level as well.

Global Weighted Average: Global weighted average cost is calculated as the weighted average of the cost of sending USD 200 in each corridor included in the RPW database, weighted by the relative size of the remittance flows in that corridor.[31] RPW utilises bilateral remittance flow information from KNOMAD to calculate the relative size of remittance flows.[32] The Global Weighted Average cost has also been calculated and reported for USD 500 as the send amount since Q4 2017.

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[29] More information on RPW can be found at https://remittanceprices.worldbank.org.

[30] "Non-transparent" service providers are not considered when calculating the global average because they do not meet the requirements for transparency and could have an unfair advantage over "transparent" providers that disclose the exchange rate. The calculation also excludes RSPs operating in Russia and the former Soviet Republics since they operate based on the integrated payment systems of the former USSR and are not comparable to RSPs which incur high costs when having to bridge the national payment systems in two countries. The corridors in RPW that originate from Russia all disburse in rubles and therefore there is no foreign exchange margin. (Russia thus has the lowest remittance costs, and including Russian RSPs would significantly reduce the global average cost).

[31] Like in the Global Average, non-transparent RSPs are not included when calculating the Global Weighted Average. However, the Global Weighted Average does include RSPs operating in Russia and the former Soviet Republics.

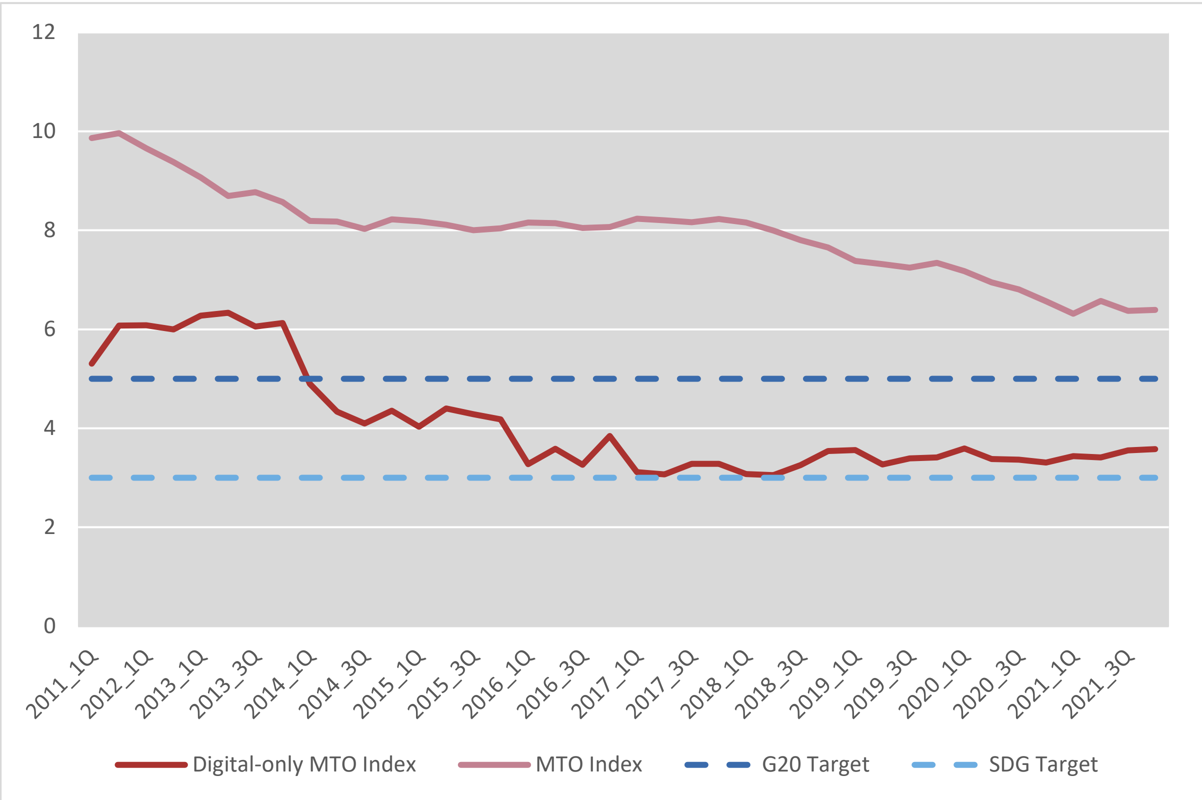
[32] All datasets by KNOMAD can be found at www.knomad.org.

International MTO Index: This index is calculated as the simple average of the cost for sending USD 200 with all of the MTOs that are present in at least 85 per cent of the markets surveyed in RPW (Figure A.1).[33] The International MTO Index reflects the prices of the most widely used remittance service providers with the largest market share. The International MTO Index is calculated for both the USD 200 and USD 500 price points.

Digital-only MTO Index: This is a new index that the RPW is about to start calculating and reporting. Digital-only MTOs are defined as money transfer operators that send remittances only through digital channels. The Digital-only MTO Index reflects the growing impact of digital and information technology innovation on the global remittance market. This index is also calculated using a simple average of the cost of sending USD 200 via digital-only providers (Figure A.1).[34]

Trends in International MTO Index and Digital-only MTO Index

Figure A.1



Source: Remittance Prices Worldwide, Q4 2021, World Bank.

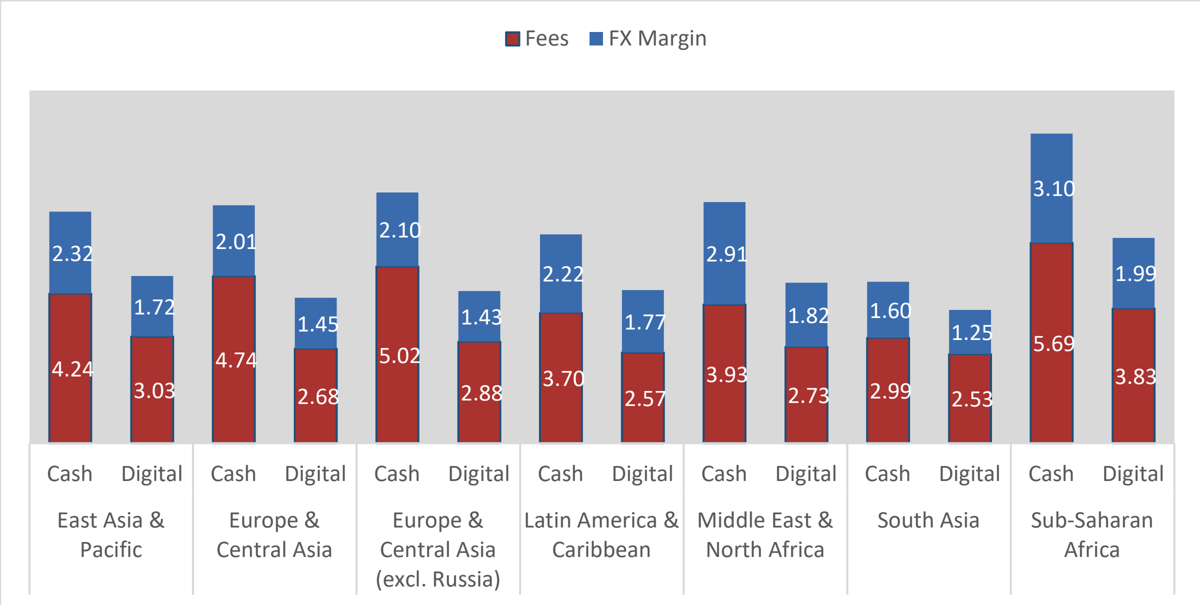
Digital Remittances Index (and regional breakdowns): In Q3 2020, RPW started calculating and reporting a new digital remittances index. A digital remittance is defined as a remittance transaction which is sent via a payment instrument online or in a self-assisted manner and received in a transaction account, ie a bank account, transaction account maintained at a non-bank deposit-taking institution (eg a post office), mobile money or e-money account. The Digital Remittances Index is calculated as the simple

[33] So far, only MoneyGram and Western Union have satisfied this criterion.

[34] InstaREM, Remitly, Transferwise, WorldRemit and Xoom are included in the index based on this definition.

average of the cost of sending USD 200 in digital remittances via transparent providers globally or regionally. Figure A.2 plots the cost of digital versus cash remittances across different receiving regions. It also provides a breakdown of the two components of the cost: fees and foreign exchange margin. Digital remittances are cheaper across all regions. In addition, both cost components are lower in all regions for digital remittances.

Average costs of remittances by region (cash vs digital), Q4 2021 — Figure A.2



Source: Remittance Prices Worldwide, Q4 2021, World Bank.

Smart Remitter Target (SmaRT) methodology

The SmaRT Index was introduced to monitor remittance transactions at a more granular level. SmaRT is calculated as the simple average of the three cheapest services that satisfy certain conditions for sending the equivalent of USD 200 in each corridor and is expressed in terms of the percentage of the total amount sent. The aim is to gauge the cheapest options that meet a certain quality threshold (WB (2016)). The qualities that such services need to meet include those on speed and accessibility:

1. The transaction is available to recipient within five days after money is sent.
2. The transaction can be originated in all relevant areas of the sending country.
3. The transaction can be delivered to the recipient nationwide, or at least in all relevant areas of the receiving country (which usually includes rural areas).
4. If the service requires access to a transaction account or other technologies, such as the Internet or mobile phones, access to these technologies should be nearly universal for senders and receivers in that corridor.

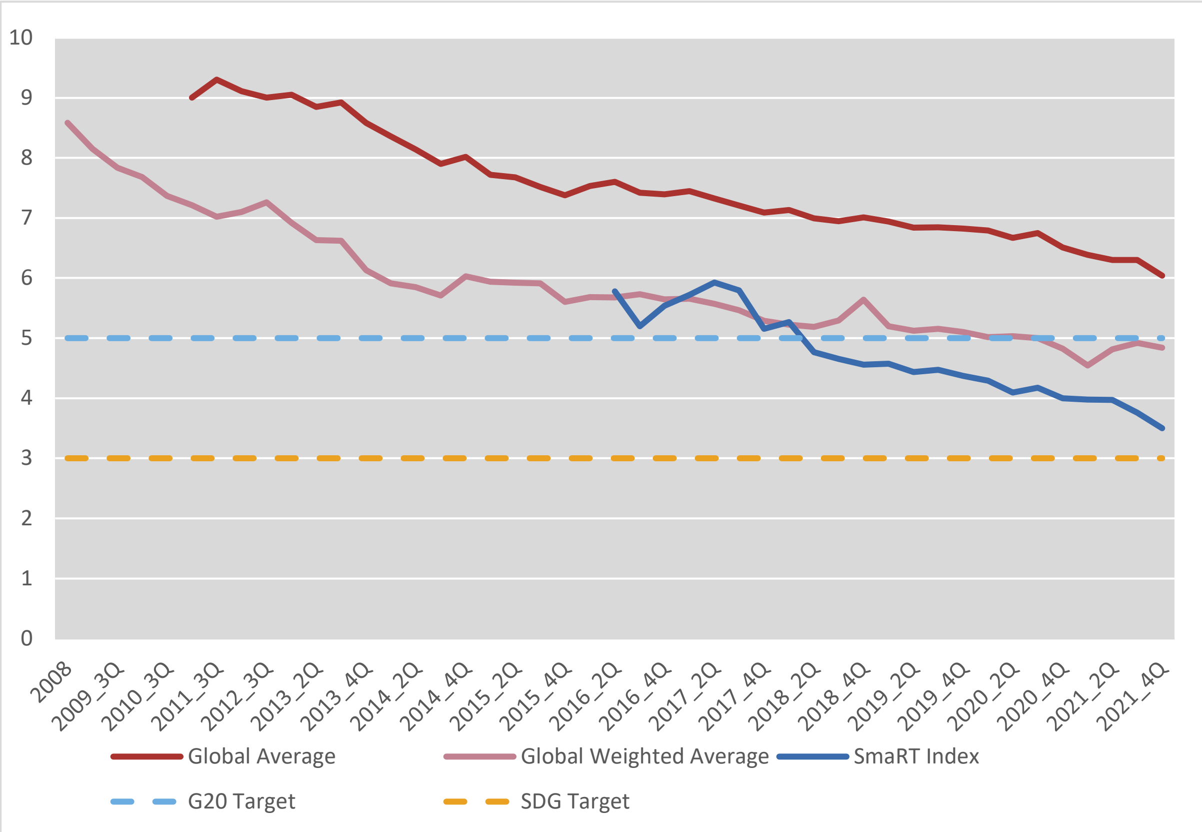
RPW already reflects information on (1)–(3) above. For (4), external data sources such as World Bank's Global Findex or World Development Indicators and ITU's ICT Development Indicators are utilised.

SmaRT indicators have been used to monitor the second part of UN SDG 10.c.1: remittance costs at the corridor level.

SmaRT more accurately reflects the cost that a savvy consumer with access to sufficiently complete information could pay in each corridor. SmaRT also reflects two critical aspects from the perspective of the user: the availability and accessibility of the services. Figure A.3 plots the trends for the Global Weighted Average and the SmaRT Index against the Global Average for sending USD 200.

Global Average, Global Weighted Average and SmaRT Index, $200

Figure A.3



Source: Remittance Prices Worldwide, Q4 2021, World Bank.