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.