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Remittances market in the Netherlands

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Preface

The present study has been initiated by the Ministry of Foreign Affairs of the Netherlands and has been financed by the Ministry and by contributions from the Dutch Banking Association (NVB) and from the Dutch Central Bank (DNB). It has been carried out in the period between September and December 2013. The research team was supported by a steering committee, which assisted with the gathering of information, interview contacts, and critical comments. Members of the steering committee were Lidy Navis, Jaap Smit, and Richard Dons from the Ministry of Foreign Affairs, Meike Kramer from the Dutch Ministry of Finance, Ayse Zoodsma-Sungur (DNB), Marc van der Maarel (NVB), and Vyash Misier from the Dutch Association of Money Transfer Institutions (NVGTK). In addition, we received valuable advice and contributions from Nanette Farwerck-Bergwerf (INTL Global Currencies Ltd). We thank the members of the steering committee and our advisors for their active support and contribution. The authors, however, are solely responsible for any mistake or misunderstanding, which the study may contain.

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Executive Summary

1. **This study has been initiated and partly financed by the Ministry of Foreign Affairs of the Netherlands to contribute to the "5x5" initiative of the G20 to reduce the costs of remittances to an average of not more than 5 percent of the transfer amount within five years. The study has been co-financed by the Dutch Central Bank and the Dutch Banking Association. Both organizations have also been supportive in accessing information.**

2. **The focus of the study is on remittances to four African countries, since costs of remittances to Sub-Sahara African countries are still the most expensive due to issues related to efficiency, competition, innovation and compliance in both sending and receiving countries**. The four countries selected show very different characteristics: Ethiopia does not have a convertible currency, Ghana took steps to introduce mobile payments, Nigeria will supply every new citizen with a MasterCard, and Somalia lacks a fully functioning banking system.

3. **Dutch banks play a limited role in the remittances market**. Money Transfer Organizations are the main players with regard to money transfers by migrants through formal channels. A very large part of remittances, however, is sent through informal (not necessarily illegal) channels, which are seen as speedy, reliable, and not too expensive by remittance senders.

4. **Technologies for new forms of international money transfer develop at a very high speed**, and many new players build up positions, not only telecommunication companies, but also the "big powers" in mobile communications, including Google, Facebook and Apple. In the Netherlands only few alternative service providers offer their services to the Dutch market.

5. **The Netherlands form a classical example of the "handicap of a head start"**: The very fact that the Netherlands are relatively advanced in cashless (electronic) payments, compared to many other European countries, has reduced the urgency to agree on common standards for mobile payments and to actively support

innovations in the sector. The Netherlands therefore run the risk to become a country with comparatively high remittances prices in the future.

6. **Money transfer operators are under pressure from many sides to reduce their tariffs**. They will still hold a strong position in the future, because of their widespread networks of agents in the Netherlands and in receiving countries, the still general preference of clients for cash-based transactions, and because of their willingness to engage in new forms of cooperation with telecommunication operators.

7. **The informal sector probably still plays a very large role and will probably profit from stricter regulations of international payments at global and European level**. The informal sector is by no means a "traditional" sector; it has quickly adopted new means of communication and transfers ("e-hawala"). Formal channels could probably learn from innovative initiatives taken by actors in this sector.

8. **Migrants apply many other criteria than price alone in their selection of remittances channels.** Lower prices by some players on the remittances market would therefore not lead to quick shifts and a fast reduction of remittances costs. Linkages of remittances to other financial products (insurance, pensions, mortgages, direct payment of bills in the country of origin) could make specific remittances channels more attractive. These value-added services seem especially attractive to highly educated and/or second-generation migrants.

9. **The ever-stricter regulation of international money transfers is regarded as no longer proportionate to the risks of money laundering and the financing of terrorist organizations**, by many professionals in the market, and as not very effective to mitigate these risks. It threatens to become counterproductive in postponing the introduction of mobile money with an easy to follow trail of information on sender and receiver, pushing remittances flows into informal channels, and unnecessarily increasing the costs of formal remittances service providers.

Summary Recommendations

	Dutch government	Financial institutions	Migrant organizations
Better information on market and better market research	Support to financial literacy programmes 2.0	Know your customer for product development – renewed investigation of market dynamics	Financial literacy programmes 2.0
	Continuing cross-sectoral discussions		
More transparency	Support to price-comparison website	Include migrants into MOB (Maatschappelijk Overleg Betalingsverkeer)	
Preparation of transfer, easier access		Reduction of perceived thresholds for migrants	Aggregation of remittances to assure lower transfer costs
		1% development fund	
Reduction of transfer costs	Support to innovative transfer schemes	Negotiate reduction of "OUR" costs	
	Encouraging mobile money transfer		
Strengthening of financial system in receiving countries	Support to Financial Services Deepening in receiving countries	Support to partner banks in introducing mobile accounts	Support for opening bank accounts by family member
Reduction of costs at the receiving side	Support to micro-finance institutions as remittances payment agents	Link remittances to other financial services	Influence on financial systems in receiving country
		Engage more with recipients of remittances	
Development of new financial services for migrants	Cooperation in international organisations	Develop innovative financial services for 'circular migrants'	Market migrant communities as specific market segment

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Abbreviations

AFM	Autoriteit Financiële Markten
AML/CFT	Anti-money laundering/Combatting Financing of Terrorism
ATM	Automatic Teller Machine
CGAP	Consultative Group to Assist the Poor
DMA	Developing Markets Association
DNB	De Nederlandsche Bank
EMA	Electronic Money Authority
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
G20	Group of Twenty
G8	Group of Eight
GMTS	Global Money Transfer Summit
GP	General Principle
GSMA	Groupe Spéciale Mobile Association
IBRD	International Bank of Reconstruction and Development
IFAD	International Fund for Agricultural Development
LDC	Least Developed Countries
MFI	Micro Finance Institute
MLD4	Money Laundering Directive 4
MTO	Money Transfer Operator
NVB	Dutch Banking Association
NVGTK	Dutch Money Transfer Association
P2P	People to People
PSD	Payment Services Directive
RSP	Remittance Services Provider
UNCTAD	United Nations Conference on Trade and Development
WU	Western Union

I. Introduction

With the increase in international labour mobility[1], and increasing ease with which money can be sent around the globe, the worldwide volume[2] of remittances[3] has grown tremendously in the past two decades. The volume of remittances in 2012 reached US-$ 529 billion according to the World Bank[4] (having quadrupled from US-$ 132 in the year 2000), which is more than four times the total volume of official development aid.[5] Remittances keep millions of people out of poverty, stimulate demand in local markets in the receiving countries, and finance the creation of companies.[6] Some even say, "Remittances may well be the best single way to foment development."[7]

However, not all the money migrants spend on remittances reaches the receivers. Sending money costs money. The average cost of sending money home is actually about 10 percent of the amount sent by migrants.[8] If these costs could be halved, an additional amount of roughly US-$ 20 billion would reach the receivers, - which is more than three times the total Dutch development aid budget.[9]

Reducing the price of money transfers is therefore a policy priority of many governments. At their July meeting in 2009, the Heads of States G8 have proclaimed the "5x5 objective": The global average costs of transferring remittances should decline from 10 percent to 5

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[1] According to the UN Department of Economic and Social Affairs (UN-DESA) 232 million people, or 3.2 percent of the world's population, live abroad worldwide, compared with 175 million in 2000 and 154 million in 1990. (Figures released ahead of the high-level global summit on migration and development to be held by the General Assembly in New York on 3 and 4 October 2013, see http://www.un.org/en/development/desa/news/population/number-of-international-migrants-rises.html#more-10473).

[2] The published figures do not only reflect the increase of transfers, but probably also an increasing percentage of payments that flows through formal channels, and thus a higher percentage of transfers that are incorporated into official statistics.

[3] Remittances are for the purpose of this report perceived as private capital flows made by migrants to their family and friends in the country of origin.

[4] World Bank Press release of 19 April 2013, see http://www.worldbank.org/en/news/press-release/2013/04/19/world-bank-launches-initiative-on-migration-releases-new-projections-on-remittance-flows.

[5] Member countries of the Development Assistance Committee (DAC) of the OECD provided US-$ 125.6 billion in net official development assistance (ODA) in 2012. See http://www.oecd.org/dac/stats/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm.

[6] This study will not discuss the impact of remittances. For literature on that topic, see Nijkamp et al. (eds.), 2012.

[7] Nancy Birdsall, President, Center for Global Development, cited in Kitroeff 2013.

[8] Average percent was estimated to be 9.3 % in 2011, - actually higher than in 2010, - see Dia Kamgnia & Murinde 2012, Table 1: Evolution of remittance costs worldwide.

[9] Presentation World Bank EU DEVCO meeting 15 November 2013

percent in 5 years.[10] In 2010, the G20 committed to a "significant reduction in the costs of remittance services" and established a Development Action for Remittances.[11]

The World Bank has been monitoring the latest trends in the average total cost of migrant remittance services worldwide since the adoption of the 5x5 initiative. For the second quarter of 2013, it reported that the global average total cost for sending remittances continued to decline and now stands at 8,85 percent. The Dutch average was measured slightly lower than the global average at 8,51% in 2012 based on the World Bank's Remittances Prices Worldwide index (Isaacs, 2012). However, the World Bank statistics also show that still great effort is needed to reach the expected goal of 5 percentage points in 5 years time.

It is in line with this objective that Minister Lilianne Ploumen promised the Dutch parliament[12] to study ways and means to reduce the transfer costs and to engage with the relevant stakeholders in the Netherlands to bring the costs down. The present study is part of this endeavour. It has been initiated by the Dutch Ministry of Foreign Affairs and is supported by the Dutch Central Bank and the Dutch Banking Association.

The objective of this study is to identify steps that can be taken to reduce the costs of transferring remittances. Several (groups of) actors share the responsibility for reaching this ambitious goal: the Remittances Services Providers (RSPs), the governments of the sending and of the receiving countries, and the migrant communities themselves. The study will therefore present a range of recommendations for each of them.

The Migration and Remittances Factbook published by the World Bank (2011) defines remittances as the sum of workers' remittances, compensation of employees, and migrants' transfers.[13] Based on this definition, the World Bank has compiled data on remittances for the past decades. Yet, in practice, many countries gather their data in different ways, which

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[10] http://go.worldbank.org/7RKUKJF3Q0

[11] http://siteresources.worldbank.org/INTECA/Resources/June2ECARemittance.pdf.

[12] See the letter of Minister Lilianne Ploumen and Secretary of State Fred Teeven to the Dutch Parliament (Tweede Kamer) of 3 July 2013 on "Voortgangsrapportage Migratie en Ontwikkeling". See also the "Besluit van de Minister voor Buitenlandse Handel en Ontwikkelingssamenwerking van 9 november 2012, nr. DCM/MA-154/2012, tot vaststelling van beleidsregels en subsidieplafond Migratie en Ontwikkelingsprogramma 2013".

[13] Workers' remittances are current private transfers from migrant workers who are considered residents of the host country to recipients in the workers' country of origin. If the migrant has lived in the host country for less than one year, their entire income in the host country should be classified as compensation of employees. Migrants' transfers are the net worth of migrants' assets that are transferred from one country to another at the time of migration (for a period of at least one year). (from Migration and Remittances Factbook 2011, xvi-xvii)

leads to differing results and interpretations of remittances data. The Dutch Central Bank for example does not have a specific definition for remittances, but refers to Eurostat's interpretation, which is similar to but not the same as the World Bank's. The figures on the average price of sending remittances give also rise to conceptual concerns. The World Bank calculates these prices on the basis of an unweighted average of the prices quoted by different remittance service providers, irrespective of the volume of their transactions. This can provide a distorted picture of the price that migrants pay on average, e.g. if especially high or low prices are included of providers who are only responsible for a very thin flow of remittances. Such considerations need to be taken into account when reading through the report, and have been taken into consideration where possible.

The focus of this study is on four remittances corridors, linking the Netherlands with Ethiopia, Ghana, Nigeria and Somalia. Reasons for this selection are that

(a) the transfer costs for remittances to Africa are the highest, compared to other world regions[14],
(b) a number of recent studies[15] have covered other corridors that are important for remittances sent from the Netherlands.

This study will provide an overview of the remittances market in the Netherlands in part II. Part III presents the results of interviews with migrants from the four chosen countries and of the main issues discussed during a number of focus group meetings. Against this background, part IV will analyse the different measures that could be taken to reduce the costs of remittances. Finally, part V will present recommendations for the Dutch government, for financial institutions in the Netherlands, and for migrants.

[14] Kamerbrief Voortgangsrapportage Migratie en Ontwikkeling, 3 July 2013
[15] Recent studies on other important corridors include the studies on the Netherlands-Morocco (van Waes, 2009), the Netherlands-Surinam (Unger and Siegel, 2006) and the Netherlands-Afghanistan (Evtimova & Koekoek, 2013).

II. Remittance market in the Netherlands

Each day 440 immigrants are registered in the Netherlands. They make up approximately 21% of the total population in the Netherlands (CBS reports a little over 3,5 million immigrants living in the Netherlands in May 2013). Many migrants from developing countries remain connected to their countries of origin, and often are expected to financially support those left behind. To facilitate the transnational financial needs of foreign residents in the Netherlands, a market has developed that meets their requirements: offering remittances services that allow migrants to transfer their funds to family and friends in their countries of origin.

However, there is little recent data available on the different remittance corridors, on the types of services on offer, or on the regulations that ensure sound business practice in the remittances market in the Netherlands[16]. This chapter will therefore zoom in on these three factors that make up the industry: (i) size of corridors, (ii) remittance service providers, and (iii) regulations.

II.1 Size of remittances corridors

The total volume of remittances flowing out of the Netherlands in 2012 has been estimated to amount to 10.674 US million[17]. In the most recent World Bank Factbook (2011), the Netherlands was ranked 10th out of the global top remittance-sending countries. The ten most important remittance corridors served by the Dutch market (in the first quarter of 2013) were the following[18]:

[16] Previous studies on the remittance market in the Netherlands are Mohogu (2006) 'African Remittance Market in the Netherlands', NCDO (2009) 'Het Geefgedrag van niet-westerse allochtonen', Kosse (2013) 'Migrants' choice of remittance channel: do general payment habits play a role?', and the corridor studies referred to in footnote 11.

[17] http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html -> annual remittances data (outflows)

[18] Data provided by De Nederlandsche Bank.

Top 10 send countries Q1-2013

Corridor		Total volume in EUR
1	Morocco	11.682.979,69
2	Surinam	11.496.074,47
3	China	9.723.835,08
4	Philippines	9.275.525,07
5	Turkey	8.956.390,05
6	Dominican Republic	5.811.828,90
7	Bulgaria	4.431.236,73
8	Colombia	4.425.201,70
9	Ghana	4.369.783,35
10	Brazil	3.748.802,52

Source: DNB statistics

Three of the corridors in the top ten represent the biggest migrant populations in the Netherlands, namely Turkey, Surinam and Morocco, as shown below in the table.

Top 3 migrant populations Q1-2013

Population	Total # in the Netherlands
Turkey	395.302
Morocco	368.838
Surinam	347.631

Source: CBS data

In this study, specific attention goes out to four corridors in Sub-Saharan Africa, namely Ghana, Nigeria, Somalia and Ethiopia. CBS statistics show that Somalis form the largest group residing in the Netherlands, and the Nigerian population is the smallest out of the four corridors under study.

Population statistics for Sub-Saharan Africa corridors Q4-2013

Population	Nigeria	Somalia	Ethiopia	Ghana
Total living in the Netherlands	11.466	34.631	12.270	22.263
Male	6.107	18.420	6.408	10.982
Female	5.359	16.211	5.862	11.281
1st generation immigrants				
1st generation immigrant	6.153	24.597	7.897	13.626
2nd generation immigrants				
Total 2nd generation	5.313	10.034	4.373	8.637
One parent born abroad	3.495	652	1.196	2.418
Both parents born abroad	1.818	9.382	3.177	6.219
Place of residence				
North		2.618	572	316
East		5.307	1.657	2.200
South		18.071	1.253	1.407
West		8.635	8.788	18.340

Source: CBS data

The sent amount in the first quarter of 2013 for the four corridors under study amount to the following net volume in euro:

Four Sub-Saharan Africa corridors Q1-2013

Corridor		Total volume in EUR
1	Ghana	4.369.783
2	Nigeria	2.742.606
3	Somalia	955.471
4	Ethiopia	488.864

Source: DNB statistics

The Dutch Central Bank did comment that these volumes include potential transfers that fall outside of the official definition of workers' remittances.[19] This could include business investments and entrepreneurial financial activities.

[19] The IMF and World Bank have defined workers' remittances, as defined by the IMF in the Balance of Payments Manual, are current private transfers from migrant workers who are considered residents of the host country to recipients in the workers' country of origin. Often, the distinction between the two categories 'compensation of employees' or 'worker remittances' appears to be entirely arbitrary, depending on country preference, convenience, and tax laws or data availability (Migration and Remittances Factbook 2011).

II.2 Remittance services providers

Migrants in the Netherlands have full access to the financial system and have various options for sending money to their home countries. First, they can send remittances using standard international money transfers offered by banks, although none of the Dutch banks offers dedicated remittance services. However, there are various foreign banks active in the Netherlands that provide a range of remittance services.

Second, remittances may be sent through Money Transfer Operators (MTOs) that are officially registered under the Financial Supervision Act (Wet op het Financieel Toezicht) and subject to the monitoring by the Dutch Central Bank, DNB. Most commonly used MTOs in the Netherlands are Western Union and Money Gram. In addition to these two large players, some fifteen other officially registered MTOs were active in the market at the beginning of 2013.

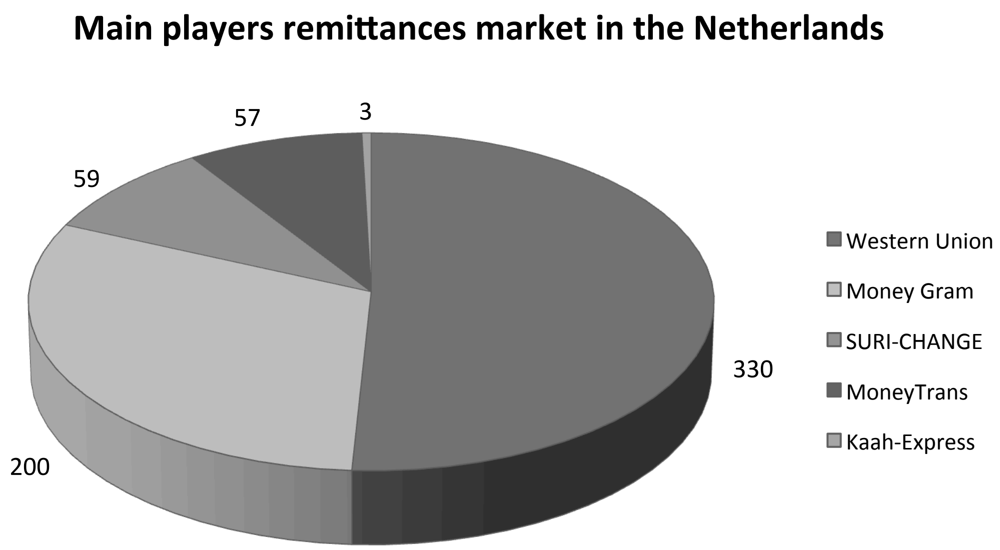
In addition, new players are accessing the market place and offering their money transfer services via new technologies. However, e-service providers and mobile money technologies have not yet penetrated the Dutch market significantly. Industry players such as Azimo and Xoom, which are promising in the UK and US, for example, currently do not (yet) serve the market in the Netherlands. Still, as e-services are expanding their reach over the coming years, their services are worth investigating to understand better its potential and expected trends.

And lastly, several informal organizations offer remittances services in the Dutch market (Kosse et al 2013: 9). Offering services that require few identification requirements and little costs, informal channels are still widely used by migrants to transfer money across borders.

These types of service providers are categorized as Remittances Services Providers (RSP), which are defined as any business that transfers money across borders for an individual. The description includes MTOs, banks and alternative service providers (such as e-services or m-services). In the following sections we will go into each type of service provider.

II.2.1 Money Transfer Organizations

MTOs on the Dutch remittance market are those of Dutch origin and foreign MTOs, which have entered the Dutch market via the passporting regime (for further details on regulatory requirements please refer to II.4). There are approximately 900 registered payment institutions throughout the Netherlands. Most of them are agencies from Western Union and MoneyGram. In addition to these two large players, some 15 other officially registered MTOs were active in the market at the beginning of 2013[20]. The pie chart below shows the five most present MTOs in the Dutch market.



The three MTOs that hold the largest market share in the Netherlands are Western Union, MoneyGram, and Suri-change[21]. These three market leaders all have their own specialization, offer their services worldwide and are focused on specific countries.

Important corridors for the five most well known MTOs offering services in the Netherlands are [22]:

[20] http://www.dnb.nl/en/binaries/Working%20Paper%20375_tcm47-287555.pdf
[21] Market share information is not easily obtained due to the competitive nature of the data. Therefore the Information here is obtained from several interviews conducted by market players in the Netherlands.
[22] Information obtained from interviews

Important corridors for MTOs in the Netherlands

MTO	Important corridors
Western Union	Morocco
	Turkey
Money Gram	Surinam
	Morocco
	Ghana
	Nigeria
Suri-Change	Surinam
Moneytrans	Surinam
	Morocco
	Turkey
	The Philippines
Kaah-Express	Somalia

These MTOs also provide remittances to the four corridors of specific interest to this study, namely Somalia (except for Moneytrans), Ethiopia, Ghana and Nigeria. Moneytrans expects to offer transactions to Somalia from 2014 onwards.

Difference across MTOs

The MTOs argue their strengths are: reliability, accessibility, targeted service, simplicity, speed and low fee rates. These are elements with which they try to distinguish themselves from their competitors. However, from interviews we learn that in practice there is actually little difference between the distinguishing strengths provided by the different MTOs, as is shown in the following table.

Strengths of MTOs in the Netherlands

MTO	Corridor	Strength
Western Union	Somalia, Ethiopia, Ghana, Nigeria	Speed, pricing, reliability, physical accessibility, low fee rates, simplicity
Money Gram	Ethiopia, Ghana, Nigeria	Speed, pricing, physical accessibility, low fee rates
Suri-Change	Somalia, Ethiopia, Ghana, Nigeria	Speed, pricing, transparency, low fee rates, simplicity
Moneytrans	Ethiopia, Ghana, Nigeria	Speed, pricing, reliability, low fee rates, targeted services
Kaah-Express	Somalia, Ethiopia, Ghana, Nigeria	Speed, pricing, physical accessibility, low fee rates

MTOs argue that the current model for remittance services has proven most effective, and thus adopted across the sector.

Serving the Dutch market

The MTOs aim predominantly at migrants, who send money to support friends and family, and/or (international) students who come to withdraw money that has been sent by family. Furthermore, MTOs report that entrepreneurs also make use of their services. These clients make use of their services for business transactions. Migrants are specifically approached in their respective languages or in Dutch. MTOs market their services through the media, at churches or mosques, or at festivals and concerts. Clients are also referred to MTOs by word of mouth.

Clients can visit an affiliate or an agent of a MTO or can make use of the Internet. MTOs try to expand their accessibility for their target groups by joining in partnerships in both the Netherlands and abroad. Accessibility is important because MTOs realize that travelling costs time and money for their clients. On average, people can collect the received sum after 10-20 minutes.

None of the MTOs in the Netherlands collaborates with banks, while this does appear to be the case in other countries. However, in the beginning of 2014, Western Union will start a pilot project in collaboration with the Royal Bank of Scotland/ABN Amro. The nature of the pilot will be revealed in the first quarter of 2014. And, Moneytrans does promote bank-related services, such as the recent offer of free services for bank-to-bank deposits within 24 hours to the Philippines. Recently other types of partnerships have emerged such as the cooperation between MoneyGram and PostNL, allowing the Dutch postal network to offer remittance services through their network.[23]

The MTOs have reported to be satisfied with the workings of the Dutch market. Factors attributed to their satisfaction are (i) space to grow, (ii) a healthy competition and (iii) enough room for the smaller MTOs.[24] MTOs state that they feel it is important to stick to laws and regulations. The laws and regulations such as the European Payment Services Directive (PSD) and the Dutch Financial Supervision Act (Wft), to which MTOs must abide, have positive yet also negative effects. In part II.4 we will turn to the regulatory framework in more detail.

Effects of laws and regulations

Positive effects	Negative effects
Services are well structured	Clients are unaware of the prescribed documents they need to bring
Offers possibilities to curb illegal services	Additional administrative costs
Offers possibilities to utilise the Dutch license in other European countries (European Passport)	- Implementation and execution cost time and effort - Executing control slows down the process

[reference: Information obtained from interviews with MTOs]

Additional services

Because a large portion of the receivers abroad does not have a bank account, the MTOs handle an important share of the remittances market. This offers opportunities to expand the services with additional services such as insurance and savings possibilities. Western

[23] More information on the newly established partnership can be retrieved here http://www.postnl.nl/voorthuis/postkantoor/MoneyGram/.
[24] Information is compiled from interviews with several MTOs offering their services on the Dutch market between October and November 2013.

Union for example now offers Mobile Payment online[25], provided this is offered in the receiving country, which could imply a plethora of additional service possibilities such as mobile bill payments. Current additional services offered by the MTOs, which are offered besides remittances, are:

Additional services offered by MTOs

MTO	Services
Western Union	Delivery in m-wallets (receiving money in a mobile (or online) wallet)
Suri-Change	Ordering of foreign currencies, payment of acceptgiro, Home delivery of money free of charge, send money to mobile (service offered to Ghana)
Moneytrans	VIP-Service for investors (documents do not have to be shown during each transaction), and pilot Cash-To-Health (client can send money directly to a hospital)
Kaah-Express	Payment of accept-giros

From the above-mentioned services, it follows that there are currently no insurance or savings possibilities being offered by the large MTOs. Though, due to the partnership with Surichange Bank (SCB) in Surinam, transferred funds can be utilized for loans to the Surinam community concerning investment credits, student loans, personal loans, car finances, and deposit credits. This approach shows that remittances can prove valuable in confirming credit-worthiness of customers and have lead to cross selling of other financial services.

II.3.2 Banks

The three major Dutch banks – ABN AMRO, ING, and the Rabobank - play a limited role in the remittances market. Their precise market share is difficult to assess, because the absolute size of the remittances market is not really known, and because the banks themselves do not always distinguish between remittances and other international payments by private customers in their internal statistics. Migrants are not targeted as a

[25] The service offered by Western Union provides consumers with the option to send and receive funds in three ways: (i) cash to mobile, (ii) mobile to cash, and (iii) mobile to mobile (if the mobile operator cooperates with Western Union).. For more information on their corporate strategy, refer to http://corporate.westernunion.com/Mobile_Money_Transfer_Fact_Sheet.html .

distinct group of customers.[26] They are welcome as everybody else to open a payment account and make use of the services of the banks, but there are hardly any specific services that meet the special needs of migrants. Given the limited number of potential customers from certain African countries such as Nigeria and Somalia within the Netherlands, this market segment is perceived as not very commercially attractive for banks.

Banks only play a role in remittances sent from bank account to bank account. Since relatively few people in the countries of origin of migrants possess a bank account, their market share is inherently limited. Orozco underlines the importance of having a bank account and argues that banks show a "lack of understanding of the financial behavior among remittance senders and recipients, unwillingness to work with low-income or rural customers, limited coverage in rural areas, high costs of formal banking services, or financial illiteracy among remittance receivers and senders." (Orozco 2013, 103) This statement does not necessarily apply to banks in the Netherlands, but also for Dutch banks, there is certainly 'room for improvement'.

International payments, furthermore, are not a very lucrative business. Bank departments responsible for international payments are actually fully absorbed by the intricacies of the introduction of SEPA, the Single Euro Payments Area (on the 1st of February 2014); the remittances market and the limited business opportunities in this field do not get much attention.

In comparison to the speedy delivery of funds by money transfer operators, transfers through banks outside the EU can take several days, depending on factors such as the transfer mechanism used and the procedures of the receiving bank (Mohogu 2006: 23). However, in some cases transferring remittances through banks is cheaper than using the services of MTOs, which could counterbalance the delay in delivery of the funds for remitters and receivers. As will be shown in part III, the speed of service is mentioned as one of the influential factors determining the choice of channel by migrant remitters.

Globally, banks seem however to become more wary to offer remittance services. Only recently, Barclays has withdrawn from offering remittance services in Somalia. The country is now left with no banks that offer remittance services. Barclays presumably fears its

[26] With the exception that the Rabobank applies a lower transaction provision to transfers to those countries where large numbers of immigrants come from (see table below), and ING Bank applies especially low "OUR" costs to almost the same range of countries. In that way, they do offer special conditions to remittances.

continued involvement in such services could leave it open to accusations of aiding terrorists and money laundering. Last year, the US authorities posed a $1.9 billion fine on HSBC for example, for poor money laundering controls, prompting the bank to run down its activities in the money-service sector.[27]

Initiatives within Dutch banks, such as the proposals developed by ABN-AMRO's Dialogues Incubator in 2010 (to develop a Pre-Paid Family Card[28]) and in 2013 (to explore "Mobile Money as an Option for Facilitating Remittance"[29]) did not see a follow-up, because of other priorities.

The role of banks in the remittances market could increase if it became easy to send money from a Dutch bank account to a mobile phone in another country. This is possible by sending money online to one of the platforms (see part IV), which are linked to mobile operators and can credit the mobile wallets of their clients. Such facilities would probably be used much more, if they could also be accessed by phone. If clients were used to mobile banking for domestic payments, they would also more easily choose this channel for international remittances.

Banks in the Netherlands, however, show symptoms of the "handicap of the headstart". The very fact that cashless ("pin") payments are more common in the Netherlands than in many other European countries has reduced the pressure (and increased the obstacles) to introduce a mobile wallet. Vodafone, KPN, Rabobank, ABN AMRO and ING did sign a cooperation agreement in November 2011 to jointly introduce mobile payments at the Point of Sale in the Netherlands, - a move that followed the signing of a letter of intent between the five banks and mobile network operators, along with T-Mobile, in September 2010. However, the so-called "Sixpack" plan for a joint venture company was abandoned again in 2012, though the partners were said to be looking for different forms of cooperation.[30]

[27] More information on the withdrawal by Barclay can be found http://www.somculned.com/mo-farah-pleads-with-barclays-not-to-end-remittances-to-somalia/

[28] Business Case: Remittances. Presentation by Timo Mulder, Divya S. Chadha and Jaspar Roos, Dialogues Incubator, ABN-AMRO, 1 June 2010.

[29] A. Evtimova, R. Koekoek – Mobile Money as an Option for Facilitating Remittances. Case Study: Research within the Afghan community in the Netherlands, Dialogues Incubator, Amsterdam, May 2013.

[30] See http://www.nfcworld.com/2011/11/30/311666/dutch-banks-and-carriers-to-launch-nfc-in-2013/ and http://www.nfcworld.com/2012/07/19/316969/dutch-banks-and-carriers-abandon-sixpack-nfc-joint-venture-plan/

A follow-up is actually given to this plan in the form of a pilot project in Leiden.[31] ABN AMRO, ING and Rabobank – in cooperation with MasterCard, KPN and the city of Leiden experiment with mobile payment in the period from the 1st of September 2013 to the end of the year. About 1000 consumers and more than 100 shops participate in the experiment. More widespread use of mobile phones for domestic payments would facilitate the introduction of mobile payments for international money transfer.

II.3.3 Alternative service providers

New technologies and solutions to (international) remittances are introduced worldwide in order to facilitate sending and receiving remittances, often accompanied with a cost reduction of services. These services range from more efficient traditional services (i.e. riamoneytransfer.com), newly developed and innovative technologies to facilitate transfers (i.e. worldremit.com), and the introduction of specific remittances products (i.e. regalii.com). Large technology players such as Apple, Google and Facebook are developing online money transfer services to meet the needs of their online customers.

However, currently only few actors serve the Dutch remittance market with alternative services for sending and receiving remittances, nor are such providers actively marketing their service in the Netherlands. From interviews and discussions with the business sector outside of the EU, the decision to enter the EU market is stalled partly because of the unfamiliar regulatory environment.

US-based alternative providers, such as Remitly, or remittance-oriented banks such as Wellsfargo provided 'size of the corridor' as one of the reasons for their interest in the business, as some states within the US have heavily concentrated migrant populations. (from interview with Remitly, Nov 2013, and Wellsfargo, Dec 2013) Such clear market segmentation seems to create better incentives for business engagement than the more dispersed migrant populations across the EU.

The services that are provided are to date still mostly corridor specific and are in most cases limited by the need of having a bank account to transfer funds through their online services.

[31] https://www.mobielbetaleninleiden.nl/

In addition, from interviews with migrant representatives, such alternative providers were at the time of research not presented as a commonly used method for transferring funds.

II.3.4 Informal service providers

The World Bank estimate of the actual value of remittance flows in 2012 of US-$ 529 billion already includes estimates of the large part of flows through unrecorded informal channels. These include savings brought home on return and transfers through unregistered intermediaries.

"Informal fund transfer systems" refers to any network or mechanism that can be used to transfer funds from place to place either without leaving a formal paper-trail of the entire transaction, or without going through regulated financial institutions (Passas, 2003).[32] Such systems include practices such as hawala (Arabic for 'transfer') or hundi. It is primarily used by migrant workers abroad to send earnings back home, and are mostly legitimate operations with legitimate clients. (Shah, 2007) The Dutch remittance industry also includes such informal providers of services.

The terms "hawala" or "hundi" refer to traditional systems, but these systems can be very modern, which would justify the term "e-hawala" for many of these transactions. As far as speed and convenience are occurred, these transactions can easily compete with the formal system. The biggest advantage of the informal service providers for the senders of remittances is that they do not require specific additional information such as identification of the money sender. In addition, some do not charge any transaction fees in certain cases and the recipient does not need to have a bank account. Another advantage of informal providers is that they disburse the transaction sums immediately and in some cases even in

[32] "A distinction is often made amongst remittance flows based on the transmission mechanism of the money. It is common to group these transactions in binary categories, which may include: official versus unofficial, formal versus informal, regulated versus unregulated, legal versus illegal and recorded versus unrecorded. These binary categories reflect different things. For instance, "informal remittances" are usually defined as transfers initiated outside the formal banking system and outside the main money transfer businesses (e.g. Western Union). Many informal remittances, such as hand carried money, could still be legal. "Unrecorded remittances" are those that do not appear in official government statistics, either because the flows are sent through informal channels where there is no record of the transaction or because the government has decided not to collect these data in a systematic way." (Isaacs 2012, p. 23 paragraph 2.7)

advance (the money is already being disbursed, while the money of the client is not yet received).[33]

Despite the potential advantages of informal remittance channels in terms of cost, speed, accessibility and anonymity, informal channels have increasingly been debated due to concerns about potential misuse for criminal ends, including money laundering, the financing of terrorism and smuggling. Moreover, with regard to safety and security, informal channels are generally perceived to be more risky because they often rely on informal contracts and entail a higher risk of theft or loss. This is why many authorities try to channel remittances through the formal sector.[34]

Licensed Money Transfer Operators fear that informal services are given low priority by the Dutch authorities. During discussions with MTO representatives, the following aspects of the informal sector were said to negatively influence the remittance business:

- Registered offices: unfair competition
- Consumers: no protection
- Government: No insight in financing of criminal activities

If we look at the official figures for remittances sent from the Netherlands to developing countries (see page 12), they are so low that it is obvious that there must be quite dramatic omissions.[35] If we look at individual countries, it becomes even more obvious that informal channels probably dominate a number of corridors. To send money to Somalia via official channels has been quite difficult for a while. In a country like Ethiopia, where the street value of foreign exchange is considerably higher than the official value, because the currency is not freely convertible, it would be astonishing if the majority of transfers would nevertheless take place through formal channels. Even for Ghana, which has a developed banking system, long-standing habits of diaspora groups to send money through informal channels are difficult to change, as interviewees told us.

There are also many transactions which could be counted as the transfer of remittances, but in which no money leaves the country, - for example if the money is used to buy goods (e.g.

[33] It is difficult to say anything about the prices of informal fund transfer systems. They often can be cheaper than the official providers, because they do not have to maintain the same administration and infrastructure, but MTOs also report cases in interviews in which MTOs are actually less expensive than the informal providers.
[34] http://www.dnb.nl/en/binaries/Working%20Paper%20375_tcm47-287555.pdf
[35] Some estimates of the omissions at the European level are contained in Leon Isaacs et al., p, 23.

cars), which are then shipped abroad and sold there, with the proceeds accruing to family members in the country of origin, which otherwise would have been the beneficiaries of money sent directly.

There is anecdotal evidence of a great variety of ingenious mechanisms to transfer value from diaspora groups to countries of origin (from interviews with migrant organizations). Research on such a topic is by definition difficult, but it might reveal some innovative solutions for money transfers, which could also be interesting for formal remittance service providers.

The very fact that the official figures on remittances are relatively low and have to leave out the unknown transfers via informal channels contributes to the lack of interest of financial institutions to develop special products for migrant populations, because the size of the streams involved do not seem to be very attractive. However, only services, which offer an added value to remittances, might be able to get a larger percentage of the informal transmittances out into the open and channel them through formal institutions.

II.3 Comparison of prices

Different types of remittance service providers charge different costs across the services they offer. These costs depend on their commercial interest in the remittance sector, the type of services they offer and the network they can tap into. As recent data on pricing of remittances for the three types of RSPs (MTOs, banks, alternative service providers) is not readily available, the following section presents an up-to-date overview of costs related to international payments. For the purpose of this research, data has been retrieved for each corridor at the four biggest MTOs serving the Dutch market via mystery shopping. The data on banks and alternative service providers can be found on their respective websites.

II.3.1 Money Transfer Operators

Below an overview of the mystery shopping data is provided for each corridor under study at the four biggest MTOs serving the Dutch market. The overview provides recent data on fees for the three most common transfer amounts.

The customers of the MTO pay for the services through a fee per transaction (some depending on the size of the amount) and for additional costs that are incorporated in the exchange rate. MTOs publish this information online, in brochures and at the counter. The applied rate and the exchange rate will eventually be listed on the transaction form.

Ethiopia (mystery shopping data of 19 November 2013):

MTO	Fee in €
For a payment of € 100,00	
MoneyGram	10,50
Western Union	17,00
Moneytrans	8,00
Suri-Change	5,00
For a payment of € 250,00	
MoneyGram	17,50
Western Union	20,50
Moneytrans	8,00
Suri-Change	5,00
For a payment of € 500,00	
MoneyGram	28,00
Western Union	32,50
Moneytrans	8,00
Suri-Change	5,00

Ghana (mystery shopping data of 19 November 2013):

MTO	Fee in €
For a payment of € 100,00	
MoneyGram	8,00
Western Union	6,90
Moneytrans	5,00
Suri-Change	5,00
For a payment of € 250,00	
MoneyGram	9,00
Western Union	14,90
Moneytrans	5,00
Suri-Change	5,00
For a payment of € 500,00	
MoneyGram	15,00
Western Union	19,90
Moneytrans	5,00
Suri-Change	5,00

Nigeria (mystery shopping data of 19 November 2013):

MTO	Fee in €
For a payment of € 100,00	
MoneyGram	8,00
Western Union	6,90
Moneytrans	5,00
Suri-Change	5,00
For a payment of € 250,00	
MoneyGram	9,00
Western Union	14,90
Moneytrans	5,00
Suri-Change	5,00
For a payment of € 500,00	
MoneyGram	15,00
Western Union	19,90
Moneytrans	5,00
Suri-Change	5,00

Somalia (mystery shopping data of 19 November 2013):

MTO	Fee in €
For a payment of € 100,00	
MoneyGram	Not possible
Western Union	6,90
Moneytrans	Not possible
Suri-Change	5,00
Kaah Express	6,00
For a payment of € 250,00	
MoneyGram	Not possible
Western Union	14,90
Moneytrans	Not possible
Suri-Change	5,00
Kaah Express	12,50
For a payment of € 500,00	
MoneyGram	Not possible
Western Union	19,90
Moneytrans	Not possible
Suri-Change	5,00
Kaah Express	25,00

All MTOs, except for Western Union, maintain one exchange rate per day. Western Union maintains three exchange rates per day (morning, afternoon, evening). The transaction costs are stated on the MTOs' websites. The exchange rates, however, are not mentioned on all websites. Concurrently, when MTOs' request fees, these are made public, but exchange rates often are not. When making the transaction, the MTO states the sum that the beneficiary will receive on the deposit receipt.

The MTOs offer the possibility to withdraw the money in a different currency than the local currency that is in Euros or Dollars. Due to regulations there is a special situation in Ethiopia. The money that is to be withdrawn is first converted into US Dollars in The Netherlands and this sum is stated on the deposit receipt. In Ethiopia the money that is to be withdrawn is then converted into local currency (Birr).

MTO experience with reducing fees

The effects of significant fee reductions are diverse. Two MTOs have reduced their start fees by nearly half in the past ten years, which has led to an increase in the number of remittances made. A different provider, which had initiated substantial fee reduction as a temporary action, only witnessed a small increase in the number of remittance transfers. What was noticeable, however, was that the size of the transfer amount increased when fees were reduced. A fourth provider did not reduce its fees last year at all, as it felt that the provider's margin is already relatively small. Each year however during special holidays, such as Christmas or religious events, special fee rates are offered by MTOs.

MTOs indicated that lowering fee rates have advantages and disadvantages. An advantage would be the short-term commercial benefits it could bring and the clear advantage it has for clients. The disadvantage is that smaller MTOs will not be able to survive, which will leave a group of traditionally large MTOs to serve the market. These will most likely control the market, and determine the fee rates.

II.3.2 Banks

In cases where both, sender and receiver have a bank account, the costs of international payments through banks are competitive. The basic transfer provision for payments in Euro outside SEPA (and all international payments in other currencies) are relatively low:

Basic transfer provision for payments in Euro outside SEPA

ABN AMRO	ING Bank	Rabobank
0,1 % of the transferred amount minus € 4, with a minimum of € 5,50 and a maximum of € 55	0,1 % of the transferred amount, with a minimum of € 6 and a maximum of € 50	€ 10 (€ 7 for transfers to Turkey, Morocco, Suriname, Curacao, Sint Maarten, Bonaire, Sint Eustatius, Saba and Aruba)

However, the total costs also include the costs of the banking services at the receiving end. Senders can choose whether sender and receiver both pay their bank ("SHA" for "sharing the costs"), or whether the sender pays all transaction costs (including the costs of bank in the receiving country – an "OUR" transaction), which is probably the case for most senders of remittances. For a "SHA" transaction, only the basic transfer provision is paid. But for "OUR" transactions, the charges can differ considerably from bank to bank, and from receiving country to receiving country.

The table below shows the "OUR" costs for payments to different African countries as indicated on the websites of ABN AMRO and ING Bank. The Rabobank does not charge a fixed sum, but instead 0,1 % of the transferred amount (with a minimum of € 7,50), irrespective of the destination country of the transfer. For most remittances, these charges are therefore considerably below the "OUR" charges of the other two banks. The Rabobank therefore offers the most advantageous conditions to migrants.

"OUR" costs charged by ABN AMRO and ING Bank

	ABN AMRO	ING Bank		ABN AMRO	ING Bank
Angola	€ 12,50	€ 25,00	**Mauritius**	€ 12,50	€ 15,00
Botswana	2,5 promille, min. € 4,00 max. € 20,00	€ 25,00	**Mozambique**	€ 12,50	€ 25,00
Burundi	€ 12,50	€ 25,00	**Namibia**	3 promille, min. € 5,00 max. € 20,00	€ 15,00
Cameroun	€ 12,50	€ 50,00	**Nigeria**	€ 12,50	€ 50,00
Egypt	3 promille, min. € 1,50 max. € 20,00	€ 15,00	**Somalia**	€ 12,50	€ 50,00
Ethiopia	7,5 promille, max. € 20,00	€ 50,00	**South Africa**	3 promille, min. € 5,00 max. € 50,00	€ 25,00
Ghana	€ 12,50	€ 50,00	**Tanzania**	€ 12,50	€ 25,00
Ivory Coast	not included	€ 25,00	**Tunesia**	2,5 promille, min. € 3,50 max. € 12,00	€ 25,00
Kenya	€ 10,00	€ 50,00	**Uganda**	€ 12,50	€ 50,00
Morocco	1,5 promille, min. € 10,00 max. € 12,50	€ 9,00	**Zambia**	€ 12,50	€ 50,00

From: http://www.ing.nl/zakelijk/betalen/internationaal-betalingsverkeer/wereldbetaling/our-opslag/index.aspx (12 November 2013) and https://www.abnamro.nl/nl/zakelijk/betalen/tarieven/buitenlands-betalingsverkeer.html

The Rabobank also offers a somewhat more advantageous exchange rate than the other two banks. The exchange commission is the third cost element of remittances (beside the transfer provision and "OUR" costs). Normally, the receiving bank does the conversion of payments in Euro into local currency, and the bank of the sender has little influence on the exchange rates.

The Remittances Price Database of the World Bank provides a detailed comparison of the costs for a number of corridors. We include here the comparison of prices for transfers to Ghana and Nigeria. However, this comparison does not take the "OUR" costs into account and thus provides a somewhat distorted picture.

Ghana (data of 16 July 2013)[36]:

Bank	Fee	Exchange Rate Margin* (%)	Total Cost (%)	Total Cost (€)
For a payment of € 140,00				
ABN AMRO	5,50		3,93	5,50
ING Bank	6,00		4,39	6,01
Rabobank	10,00		7,14	10,00
For a payment of € 345,00				
ABN AMRO	5,50	0	1,59	5,49
ING Bank	6,00	0	1,74	6,00
Rabobank	10,00	0	2,90	10,00

*No "exchange rate margin" is given, because the money is transferred in Euro, and the receiving bank in the receiving country does the exchange into local currency. Depending on the banks in the receiving country, it can thus vary. By not including information on the exchange rate margins, the table provides a more positive picture for the banks than might be justified.

Nigeria (data of 16 July 2013)[37]:

Bank	Fee	Exchange Rate Margin* (%)	Total Cost (%)	Total Cost (€)
For a payment of € 140,00				
ABN AMRO	5,50		3,93	5,50
ING Bank	6,00		4,29	6,01
Rabobank	not included			
For a payment of € 345,00				
ABN AMRO	5,50	0	1,59	5,49
ING Bank	6,00	0	1,74	6,00
Rabobank	not included			

*No "exchange rate margin" is given, because the money is transferred in Euro, and the receiving bank in the receiving country does the exchange into local currency. Depending on the banks in the receiving country, it can thus vary. By not including information on the exchange rate margins, the table provides a more positive picture for the banks than might be justified.

The data provides the wrong impression that the Rabobank is the most expensive. If the different "OUR" costs are taken into account, the Rabobank is on the contrary the most advantageous.

The prices of banks as indicated in the World Bank comparison cannot easily be compared with those by the MTOs. While the MTOs indicate the exchange rate, the information on banks shows a zero conversion rate, because they send the money denominated in Euros.

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36 http://remittanceprices.worldbank.org/en/corridor/Netherlands/Ghana?order=field_coverage&sort=asc#tab-1
37 http://remittanceprices.worldbank.org/en/corridor/Netherlands/Nigeria

The money still has to be converted into the local currency of the receiving country. This is done by the receiving bank and adds to the total costs of the transaction, not included in this comparison. This shows that even the international efforts to compare the prices of different RSPs have not contributed to more transparency and often can be outright misleading.

II.3.3 Alternative service providers

Based on an Internet search of online service providers, the following average fees for alternative RSPs could be collected:

Comparison of average fees of innovative RSPs

Remittance Service Provider	Average Fee in €
For a payment of € 250,00	
WorldRemit*	9,99
Azimo* (only from UK, Germany, Ireland)	5,98
Transferwise **	1,24
Xoom (only from US)	3,68
Remitly (only from US to Philippines)	Basic service (3 days) : free Express service (immediate) : 3,09 – 3,68
For a payment of € 500,00	
WorldRemit*	12,99
Azimo* (only from UK, Germany, Ireland)	5,98
Transferwise **	2,49
Xoom (only from US)	3,68
Remitly (only from US to Philippines)	Basic service (3 days) : free Express service (immediate) : 3,09 – 3,68

* need bank account to send money
** only bank to bank

While often propagated as solutions to traditional payment services, these alternative remittance service providers at first glance do have some essential limitations. While overall costs for financial transactions are considerably lower than for example the fees requested by MTOs, the necessity for the sender to have a bank account for three out of five alternative providers might limit its use by certain migration populations with a preference to cash-based transaction.

In addition, the corridor-specific services that are offered at the moment (services offered only in specific sending countries) poses limitations to the potential use for migrants beyond its current reach. However, as such technologies do not require the presence of a vast network of physical locations, the expansion of their services might pose less initial investment and different regulatory challenges. Currently, the services of WorldRemit and Transferwise are the only two available options presented in this list for remitters transferring funds from the Netherlands. Especially for US based alternative service providers, the regulatory framework determining international payments from European countries are unclear and could pose as a barrier to new players.[38] In part IV, more information is provided on the type of providers and services on offer.

Comparing prices[39]

An interesting development over the past years is the rise of national price comparison websites that allow for more transparency regarding remittance costs across different corridors. The World Bank offers a remittance price comparison website, which provides data on the cost of sending and receiving small amounts of money from one country to another.[40] Their site covers 220 country corridors worldwide, from 32 remittance sending countries to 89 receiving countries. It offers a picture of general trends, and collects data through mystery-shopping (until recently every 6 months) for each corridor available on their website. While relevant for understanding global trends, these prices are not up-to-date. Therefore, countries have developed their own price-comparison sites to offer migrants transparency over the remittance market.

The argumentation behind the websites is that they not only provide a more transparent overview of remittance services across the largest corridors, they also serve the purpose of stimulating competitive pricing across RSPs. The industry prices are exposed out in the open and thus allow consumers to choose the most favourable rating. This in turn should bring down prices for those offering higher deals. According to the Italian Ministry of Foreign

[38] Information gathered from discussions with alternative service providers at the GMTS and through interviews.
[39] For an overview of the different price comparison websites and their characteristics refer to the final report presented by Isaacs et al (2012) page 38.
[40] http://remittanceprices.worldbank.org/en

Affairs, remittance prices in Italy have halved since the launch of their website www.mandasoldiacasa.it.[41] Yet in other countries the success rate of the websites is not as clear-cut.

Until recently, the Dutch market was served by the website www.geldnaarhuis.nl. The Dutch site offered an overview of remittance prices across 34 corridors, offered by eight service providers, namely: ABN AMRO, DHB, ING, MoneyGram, Rabobank, SNS Bank, Western Union and Chaabi Bank. The site also offered an overview of the exchange rates. As an exception to other European price comparison websites, geldnaarhuis.nl offered the site in 5 different languages (including Dutch, English, Portuguese, French, and Arabic). The site averaged monthly hits of 8.900 visitors, totalling 89.771 visitors from August 2012 to May 2013.[42]

It is important to note the manner in which the average prices for countries are recorded. These might not necessarily be representative, because the prices given are not based on weighted averages. The World Bank does not include market share, or average size of amount sent per corridor as a variable. While understandable from the perspective of bulk data collection, it does give a somewhat distorted picture of the actual setting.

Let us take the example of the corridor between Ghana and the Netherlands. According to the World Banks site, the average cost is 8,37% over a sum of €140. This average is taken from all services on offer for that specific corridor. The relatively low cost is thus also influenced by the low percentage offered by banking services, or the services offered by innovative players such as Skrill (at 0,3%). While, from interviews with Ghanaian migrant representatives, Ghanaians appear to prefer Unity Monetary Services due to their corridor specific services, rating at an average of 10,37%. Actually, banks are reported the least used when transferring remittances to family and friends in Ghana. Therefore their low percentage over remittance costs technically should not weigh as much as, say Unity Monetary services, which appears to have a large market share over the corridor at a higher rate.

[41] EU Technical Workshop on Reducing the cost of Remittances, 15 November 2013
[42] Maastricht University has conducted a mid-term evaluation study of the price comparison website geldnaarhuis.nl. At the time of research the website was offline due to the foreclosure of IntEnt.

Price difference across corridors

Prices per corridor differ considerably as the costs are influenced by context-related factors such as the receiving and sending country's regulatory environment, financial infrastructure, and size of its migrant's population, to name some. From surveys and interviews of RSPs in key migrant destination countries (France, the UK and the US), Mohapatra and Ratha (2011) were able to reveal three key factors that determine the high costs of transferring money to Africa: (i) lack of access to formal financial services and required identification, (ii) exclusive partnerships, and (iii) regulations related to anti-money laundering and combating the financing of terrorism (AML/CFT).[43] The following page offers an overview of the four receiving countries of the corridors under study and their approach to the three key factors as set forth above.

Surprisingly, we have seen that the Asian remittance corridors have actually managed to arrange the lowest remittance-related costs globally by addressing some of these factors head-on. UNCTAD (2012) reports that the pro-active institutional arrangements by Asia's Least Development Countries (LDCs) have lead to the reduction of overall costs across the continent. Some of the factors that have been attributed to reducing these costs in Asian markets are: (i) a large number (higher than average) of RSPs per sending country; (ii) lower average exchange rate margin costs; (iii) major MTOs face greater competition due to the absence of exclusivity agreements; and, (iv) proliferation of new technology (i.e mobile phone transfers and debit cards).

[43] Tightened regulations after 9/11 have made it more difficult for smaller RSPs to access banking and settlement facilities for the transfer of remittances to Africa. And, as mainstream banks appear wary to engage in the remittance business, the range of remittance services provided remains small for the African market. (Mohapatra and Ratha, 2011: 29-31)

Overview of four key factors determining costs of remittances to Ghana, Ethiopia, Nigeria and Somalia

	Financial infrastructure	Identification requirement	Exclusivity agreements	AML/CFT requirements
Ghana	- strongly developed financial sector - limited penetration of new technology - large portion of remittances through informal sector - capital requirement for RSPs is entry barrier	National ID is required in all cases	strong partnerships of a few MTOs	- No major challenges for the business - AML requirements limit currency exchange holding
Ethiopia	- low level of developed financial sector (i.e. lack of access to clearing and settlement systems) - strong informal sector	Selected means of identification forms accepted (yet not all citizens have ID)	Exclusivity agreements are outlawed but strong partnership networks remain	Strict foreign exchange regulations due to foreign exchange shortages
Nigeria	- innovations taking place in mobile banking - strong informal sector - little regulatory oversight	Selected means of identification forms accepted (yet not all citizens have ID)	Exclusivity agreements are outlawed but ‘oligopolistic’ remittance industry to date	Nigerian corridor flagged as high risk due to limited oversight.
Somalia	- Lack of financial infrastructure - Hawala system dominates economy	Community contacts and clan-based system used as mode of identification	-	Somali corridor flagged as high risk due to lack of regulatory oversight.

Source: drawn from Mohapatra and Ratha (2011), and interviews with embassy representatives for Somalia and Ghana

II.4 Regulatory framework

The regulatory framework overseeing remittance service providers in the Netherlands is perceived as advanced by industry players and central banks across Europe in comparison to other European countries.[44] Early cases of misconduct in the international remittance industry lead Dutch regulatory bodies to develop a system of oversight that outpaced many other countries in the European Union. When the Payment Services Directive was introduced in 2009, it became clear that the Dutch market was already well organized and for a great deal in line with the newly introduced European regulations.[45] (DNB interview 7 October 2013, Ministry of Finance interview 1 November 2013)

International and domestic laws and directives such as the Payment Services Directive and Money Laundering Directive at European level, and the Financial Supervision Act in the Netherlands influence regulations of the remittance industry. The Financial Supervision Act (Wet op het financieel toezicht – Wft) adopted in 2007 defines the rules and regulations for the financial markets and the corresponding overseeing bodies. The responsibility for oversight is divided between two institutions: the primary supervision for payment institutions falls under the guidance of the Dutch Central Bank, De Nederlandsche Bank (DNB); and the business supervision (*gedragstoezicht*) falls under the workings of the AFM (Authority Financial Markets). Payment institutions report back to DNB and all AML control is executed by DNB.

The AFM takes on a risk-based approach, and has prioritized those areas that it perceives are posing the biggest threat. This implies that AFM monitors market development and analyses risks constantly in order to prioritize their supervisory roles. Such an approach is required as the AFM indicates that it is not feasible nor economically viable to execute oversight on all areas. At this moment, no indicative risks have been identified for remittances services providers, and no relevant complaints have reached the AFM of the sector.

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[44] Both at the Global Money Transfer Summit in London (October 2013) and during the EU DEVCO meeting in Brussels with EU representatives of the remittance industry, the Netherlands was brought forward as having a solid regulatory environment that met the PSD criteria at an early stage. During discussions at the Dutch Ministry of Finance such sentiments were confirmed.

[45] Changes in the regulatory framework followed the realization that fx bureaus had to then, 1995, little oversight over its services, which arguably eased money laundering practices. After 9/11 the Dutch government argued that remittance service providers could have facilitated such terrorist activities, and therefore argued in favour of tightening regulations. More information on the development of the legislation, refer to https://zoek.officielebekendmakingen.nl/kst-28229-3.pdf (Dutch version).

European regulations

European regulations such as the **Payment Services Directive** and the **Money Laundering Directive** influence the Dutch regulatory framework for a great deal. The PSD was introduced in 2009 to guarantee fair and open access to payments markets and to increase consumer protection across Europe.[46] It aimed to create a single market in payment services through harmonization of rules, i.e. by introducing 'passporting' as a means to encourage greater competition, greater choice for consumers, and lower prices of services on offer because of that.

The remittance industry is influenced by the introduction of the PSD in, but not limited to, three core areas:

- it allows companies other than banks (e.g. money remitters, retailers and phone companies) to provide payment services. A new category of payment service providers was introduced: Payment Institutions.
- it obliges payment service providers to process payments within limited timeframes, and to ensure the recipient has immediate access to the funds.
- it increases clarity over services as RSPs are obliged to offer transparency over the services provided with detailed terms and conditions, this includes transparency over processing time, spending limits, charges and refund rights.

The PSD has the objective to ensure the same rules apply across 30 European countries (including the EU, Iceland, Norway and Liechtenstein). In practice, each country has the right to interpret the directive autonomously within the framework. This has influenced the practical implementation of the directive across borders and has limited the harmonizing effect to a certain extent. From the perspective of MTOs for example, the Netherlands maintains one of the strictest interpretation of the PSD across Europe, and adhering to the requirements of the directive is reported as costly in comparison to other countries (from

[46] For more information on the PSD and SEPA, refer to http://ec.europa.eu/internal_market/payments/framework/index_en.htm.

interviews with MTOs).[47] The scheme below offers a SWOT analysis of the European market under the PSD, which provides an overview of the impact the PSD has had on the business of RSPs.

SWOT analysis of MTO perspective of the European market under the PSD

Strengths: - harmonized legal status for all MTOs - enhanced management and internal controls for all PIs - more secured IT infrastructure	**Weaknesses:** - additional prudential requirements and costs associated to PSD status
Opportunities: - eased integration between different companies belonging to a same Group - facilitated access to new territories using a European passport - possibility to offer new complementary payment services	**Threats:** - lack of harmonization in practice and asymmetric supervision across the EU (creating "unfair competition") - own lecture made by the Banks of the PSD requirements, leading to additional regulatory requirements and hence increasing the differences across the EU

Figure is drawn from the Moneytrans presentation at the GMTS 2013 in London.

Currently the PSD is under revision, and the PSD2 is expected to take hold in 2014 under the Greek presidency of the European Union. Some changes will be made to the Directive that will influence the remittance industry considerably.[48] To name some of the expected and relevant changes:

(i) transparency and information requirements will also apply to corridors with countries outside of the EU, the so-called one-leg transactions. This will be of interest to the corridors with receiving countries in Sub Sahara Africa that receive special interest in this report.

[47] The European Commission's proposal, dated 24th July 2013, for a revised Directive 2007/64/EC on Payment Services ("the PSD2") incorporates an increased degree of harmonization because of the incorporated reduction of options for individual Member States.
[48] For a full overview of main proposed changes, refer to London Economics' *Study on the impact of Directive 2007/64/EC on Payment Services in the Internal Market and on the application of Regulation (EC) NO 924/2009 on cross-border payments in the Community*' for EC DG Internal Market

(ii) transparency will have to be provided over *all* currencies (and not just EU currencies). This could lead to fewer fluctuations in foreign exchange rates and potential hidden costs.

(iii) to limit the number of companies that split their services over several smaller companies to avoid regulations, the threshold for small payment institutions will be changed from €3 to €1 million per month. This will level out competition and limit 'cowboys' in the industry.

At the same time, the Money Laundering Directive is up for revision, and the MLD4 implementation is expected to take place in 2015. According to the Electronic Money Association (EMA), credit-institutions, payment institutions and e-money issuers may face more difficulties if the new MLD is introduced in its proposed form. As it stands now, the MLD3 allows for a simplified customer due diligence regime for low-value transactions. This means for all electronic payments that no upfront identification is required for customers that transact less than total of €2.500 transfers a year, and cash-out that is limited to €1.000 a year. This allows for the industry to offer services with a low threshold to their customers. However, in the new MLD this simplified regime is deleted and therefore requires full customer identification upfront, regardless of the transaction or turnover amount.

According to EMA, this could mean that it hampers all low value payment transactions in Europe in the area of e-money services and electronic remittances. The proposed elimination of simplified due diligence does not take into account that the electronic forms of payment are being audited and could be used to monitor and combat fraud if it occurs. This could offer authorities the opportunity to alternatively track the responsible culprit when suspicious activities have been reported. The cash audit-trail of cash-based service providers for example could be perceived as more limited in oversight opportunities and perhaps even more sensitive to fraud. In addition electronic money issuers may apply further context-based information of their customers to safeguard and monitor the transactions.

The tendency towards stricter controls seem to derive from a realization that there is a minority of small businesses deliberately non-complying leading to (in the UK) 2 billion pounds to be laundered through the sector annually. (National Crime Agency UK) Therefore regulators and their executing bodies take on a risk-based approach that seems to respond to a somewhat damaged reputation of the remittance industry because of “a few cowboys who are ruining the business for us all”, as a speaker at the Global Money Transfer Summit in London described it. The EMA for example argues that in its own monitoring and its contacts with the local FIUs in Europe, it finds only anecdotal evidence of fraud in this industry, but not the systematic structural frauds that the regulators seem to fear.[49]

[49] The Electronic Money Association (EMA) is a European Trade Body for electronic money issuers and payment institutions. It represents 40 players and was set up when the electronic money directive was introduced in 2001 in Europe. Information from EMA gathered from interview with Dutch representative on 18 November 2013.

III. Migrants' preferences

Ghanaians, Nigerians, Somalis and Ethiopians, are the largest African migrant populations in the Netherlands, after Moroccans. Remittances represent the most widespread and important migrant economic activity. These international payments are a key component of the migrant lifestyle and reality. Nonetheless, the percentage of migrants who remit varies by region. In Western industrialized nations, almost 70% of migrants remit. (Orozco, 2013) In the following paragraphs the frequency of transfers, amounts sent, receivers of remittances, preferences for remittances channels and needs for additional financial products will be analysed for the Dutch context.

III.1 Frequency of transfers

In the Netherlands, a relevant distinction can be made between first and second-generation migrants when analysing the frequency of remittance transfers. Irrespective of the country of origin, the first generation migrants have strong ties with and feel responsible for their families in their homeland. Arguably, they send money out of a moral obligation. They send money frequently, if possible on a monthly basis to cover basic (consumption) needs of the receivers (Migrant Organizations, interviews Oct/Nov/Dec 2013 and Ghana focus group, Dec 2013).

This bears resemblance with the remittance behaviour of Nigerians in the U.S.A, and Ghanaians in the U.K. and Germany: they send money 13 times a year (Orozco, Migrants Remittances and Development, 2013).

In general, second generation migrants do not feel as responsible for the family members in their countries of origin. They are integrated in the Dutch community and either send on special occasions, like holidays, or do not send money at all to their family (IntEnt Maroc. Interview, Oct 2013). The second and third generation migrants in the Netherlands do not share the interest of the first generation in sending 'common' individual remittances,- referring to the remittances used for immediate use sent on a monthly basis. Rather, they send money occasionally for the purpose of supporting social projects, entrepreneurship or investments. In general, they seem to disagree with the concept of regular remittances as they feel it increases dependence and creates unwarranted expectations (HIRDA, interview, Oct 2013).[50]

Undocumented migrants tend to send money more frequently than the ones with a legal status, because of the risk of being caught by the police and sent back to their country of origin, without being able to access their money in the Netherlands (Goodwill Homage Foundation, interview, Nov 2013).

III.2 Amounts sent

Most remitters send money on a monthly basis, the amount sent depends on their monthly income. (from interviews with migrant organizations and focus group discussions) Senders with a high education in general have a higher income and do send more than the ones with lower education levels. The financial situation of the remitter is thus crucial to the amount that is transferred. Not only the income level determines the amount sent, but their financial stability is crucial as well. It is argued that the longer a migrant has been established in the Netherlands, the greater the chance that he/she is in a stable financial situation and is able to send more than the newcomers (Ghanaian migrant, interview, Nov 2013). This statement is confirmed by Orozco (2013) for Ghana and Nigeria: “Amounts sent, increase over time, while the frequency of sending continue apace- in contrast with other corridors”.

Next to the income level and the financial stability of the migrant, a third factor reported to contribute to the level of the amount sent is the ties with the family in the country of origin. Orozco states in “Migrant Remittances and Development in the Global Economy” that Ghanaians and Nigerians send primarily to their parents, and secondarily to children. Ghanaian migrants send 15% of their income to relatives. Ghanaians tend to remit more the longer they stay abroad (Orozco, 2013). According to Orozco as of 2007 Ghanaians in the Netherlands sent on average $340 on a regular basis. He states that Nigerian and Ghanaian remittance senders are well-educated.

From discussions with members of migrant communities, it appears that women are more likely to send money than men, even though men in general have a higher income than

[50] For more detailed information on the interest of second generation migrants in supporting their countries of origin, refer to the report published by HIRDA foundation on *Engaging youth migrants and second generation Somali in the Development of Somalia* (2012).

women. In the case of illegal employment of migrant men and women however, it appears that women have easier access to illegal jobs and will therefore have higher earnings and thus be able to send more money home (Vital Aid Foundation).

According to an MTO, fee rates are experienced as 'high' because clients transfer generally small sums of money, which make the transaction fee a large portion of the total sum. This is why clients are sometimes advised to wait with their transaction until the transaction sum has increased.[51] In the case of migrants that are sending money for business purposes, the amounts are larger than the remittances intended for consumption.

III.3 Receivers of remittances in country of origin

Globally, over 40 percent of remittance recipients reside in rural areas (IFAD 2009,10). Remittance recipients have an almost 26 percent higher median income than non-recipients and reportedly they save twice as much as non-recipients. Remittance recipients have more years of schooling on average, with the majority of recipients having at least a high school education. Recipients are more likely to have more savings and are more likely to have a relationship with a financial institution. One indicator of the demand among clients for cross-selling of other financial services is the current use of loan products. (IFAD, 2009)

Factors likely to increase the level of remittances include the amount of savings, the number of people in the household, and ownership of a bank checking account. Variables that tend to decrease remittance levels are the holding of an extra job, ownership of a debit card or a credit card and the desire to migrate. (IFAD, 2009)

For the corridors under study, many receivers depend on remittances to pay their bills and to buy daily necessities. In most of the cases the receivers are close relatives of the remitters.

[51] Paul Collier offers in his recent book "Exodus" (2013, 156) a reason why migrants are not easily convinced to follow this advice: …"migrants who wish to honor their commitment may wish regularly to signal to their family back home that they are doing their best. This may explain one of the current paradoxes in the analysis of remittances, namely that migrants typically choose to make small regular payments home. From the naïve economic perspective, small and regular is stupid. The transaction costs of making remittances include a fixed charge that heavily penalizes small transfers. It would be much cheaper for the migrant to accumulate cash and occasionally send a single large payment. The only big winner from the prevailing pattern of small-and-frequent appears to be the wire agency Western Union. But one unexplored explanation for such behavior is that small and frequent installments signal to the family back home that they are not forgotten. They give the appearance that the migrant is constantly struggling to put together something to send back. In contrast, were the family to receive only infrequent large amounts (albeit with the same total), the behavior could be misinterpreted as indicating that the migrant had done very well but was only fitfully remembering his obligations."

Most of the times the money will be collected by a male person. One attribute that distinguishes the sender-receiver relationship among Nigerians from that of Ghanaians is gender. Unsurprisingly, 57% of Ghanaian recipients are female. While the majority of senders within both groups are male, over 70% of Nigerian recipients are male. Education levels of Nigerian recipients are surprisingly high, with 43% of all recipients indicating they have a college degree (Orozco, 2013). The Ghanaian focus group participants (Amsterdam, November 2013) gave as one of the purposes of the money sent to be education, besides basic necessities of life and health care. They stated that it is very common for parents to leave their children in Ghana, because they noticed that the youth in Ghana has a higher education than the Ghanaian youngsters in the Netherlands.

A recent study commissioned by the Food and Agriculture Organization's (FAO's) Food Security and Nutrition Analysis Unit for Somalia (FSNAU) found that one-third of remittance recipients in Somaliland and Puntland would be unable to afford food, medicine and school fees without their remittances. The same study found that households receiving remittances are more likely to support poorer families (75 percent) than households not receiving remittances (54 percent).

It is difficult to convince the beneficiaries to make different use of their remittances; such as for savings, investments or added value services. This is mostly because of the dire necessity of the funds for immediate use. But also because of a lack of value added services, like possibilities to save or invest, offered by the service providers (HIRDA, interview Oct 2013). Remittances are sent to allow the receivers to meet their livelihoods, pay hospital bills when they are sick, and allow children to attend school. “That money is not money for development” (Recogin, interview October 2013).

In Somalia, remittances are an important source of revenue for women. The IFAD survey found that more than half of Somali women receive money and are responsible for managing house- hold spending (even when they are not regarded as the head of household). On average, the income of Somali women who receive remittances is 52 percent higher than that of women who do not get funds from relatives living abroad. On average, female remittance recipients are nearly four times more likely to save than women who do not receive remittances (Orozco for Oxfam-Novib, 2013).

In the Ethiopian context, a World Bank survey on Ethiopian remittance recipients shows that 14% out of the 37 million Ethiopian adults are dependent on remittances; of which each adult receives 600 USD each year (Addisfortune 2010 and Capitalethiopia, 2010) which means over 5 million Ethiopian adults are dependents on remittance. And of course, these recipients also remit part of the 600 USD to other extended family member (ibid) which extends the dependency to other family members too. To receive 600 USD per year is by far larger than the country's average per capita income, which could also lead to income disparity among those who do and do not receive (Mehari, Thinking Back Home, 2010).

III.4 Preference for remittances channels

The choice of preferred remittance channels depends on four determining factors (UNCTAD 2012: 67): (i) cost, (ii) reliability, (iii) accessibility for both sender and receiver, and (iv) trust. Cordaid conducted an extensive survey under the African migrant population in 2006 and discovered that the preferred channels for sending money home differed across countries, while the reasoning behind their choices were similar (see tables below).

How money is sent to migrants' home countries

	Somalia	Ghana	Nigeria
Western Union	14,1%	24,9%	60,6%
MoneyGram	5,2%	16,8%	3,6%
Bank	8,1%	5,2%	0%
People traveling	6,7%	31,2%	16,1%
African transfer agencies	65,9%	22%	19,7%

Source: adapted from Mohogu 2006

Why money is sent through Western Union and MoneyGram

	Somalia	Ghana	Nigeria
Speed & Safety	100%	62,4%	89,9%
Office open all the times	0%	0%	3,2%
Cost	0%	12,7%	6,0%
Good Services	0%	24,9%	0,9%

Source: adapted from Mohogu 2006

Preference for the informal

Based on evidence on West Africa presented by Orozco, we have to realize that "most of the mechanisms used to send money are informal. Results show that 65 percent of migrants send money to their relatives through another person "…". Furthermore a combined 20 percent send money through a driver or take the cash themselves. Reasons provided for the choice of sending method are straightforward: convenience (70 percent), recommendation (32 percent), safety (15 percent), and reputation (12 percent), based on multiple-choice response." (Orozco 2013, 92) This demonstrates that there are other important considerations than price that play a role in the choice of a specific RSP.

In the Netherlands, the research shows that migrants prefer to send money through informal channels to save money, but most importantly because of the speed and its familiarity, while they are not regarded as being less reliable than others. A contributing factor reported by migrant communities for the use of informal channels is the mandatory requirement to identify oneself when sending money through formal channels, and the time it takes to go through all the procedures (Ghanaian Focus group, Dec 2013). This also influences the (lack of) use of innovative technological solutions, such as making online transactions, as this would require registering online and often the need for a credit card. MTOs confirm that even though these online transactions are cheaper, the target audience makes little use of this possibility. Thus costs do not seem the most important factor for choosing a channel.

The study conducted by Unger and Siegel (2006) into the remittance corridor of the Netherlands and Surinam shows similar results. Respondents of household surveys argued that they prefered informal services over formal institutions. On average they ask lower fees, and provide more favourable exchange rates. In addition, the services offered fit well with the needs of the recipients, such as home delivery of the transferred funds, and text message to both recipient and sender. Informal service providers were often more trusted than offical banking institutions as these latter were often conncected with issues of corruption or breach of privacy.[52]

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[52] Deeper insights into the informal economy in the Netherlands, though not necessarily connected with the international remittance industry, can be found in the publication by Slot (2010) "Informele Economie: oorsprong, oorzaak en ontwikkeling" in Justitiële verkenningen, jrg 36, nr 7, Boom Juridische Uitgevers.

Especially the undocumented migrants and the ones who are involved in the informal sector (and sometimes illegal) will send their money through the informal channels (Vital Aid Foundation, interview Oct. 2013). In addition, those migrants in the Netherlands that are dependent on social welfare are more likely to use informal channels. As the authorities check their balances and expenditures, there is a fear that they could lose social benefits and allowances if their remittances were recorded.

Migrants are not always aware of the fact that an informal channel is not automatically illegal; if no fees are charged, the activity is not illegal. This makes it difficult to discuss openly about informal channels and to get detailed information about these services.

Where there is limited access to financial institutions, lower technology within the market and fluctuating exchange rate differentials, such as in Ethiopia, it will not be surprising that the total remittance sent through the formal channels is lower than the actual amount. Following this realization, the government of Ethiopia as a receiving country through its general directorate for Ethiopian expatriates started an awareness creation campaign to the Ethiopian diaspora that sends money through informal channels. It informed about the illegal nature and the potential negative effects on the economy. As a result, the government has recorded a growth of formal remittance flows. (Arefaine Berhe, 2010)

MTO’s are the second choice of the migrants. Mostly, when the money is urgently needed, they send money via MTOs, for their high speed. These findings were supported by the argumentation provided by MTOs, who state that clients consider speed and accessibility in the receiving country to be important. An example was provided to support this realization. In 2012-2013 an MTO in the Netherlands had organized a 48-hour action in which clients were offered a reduced fee when transferring money to Morocco. The limitation to the deal was that the recipients could withdraw the money only after 48 hours. The action has been discontinued as clients stressed the importance of speed over costs.

Reliability, positive experiences of other clients, targeted services, and having close accessibility are other factors on which clients base their choice for an MTO. However, in practice, even when offering specialized ‘targeted’ services, like Unity for Ghana and SuriChange for Suriname, the remitters give preference to the informal channels. For the Surinamese and the Ghanaians, this channel is as reliable as the formal ones; the service providers are aware of the importance of their reputation for future transactions (Seva, interview and Ghanaian focus group). These informal remittances services are often offered by non-financial businesses that need foreign currency to buy goods to resell in the countries of origin. This service might even be costless for the senders.

Banks are a less common used remittances channel. It is argued that language, cultural an institutional barriers hinder the use of bank services. Banks in most cases require clients to have a bank account, whereas MTO's only require official identification. What is more, recipients can find it difficult to access banks due to their limited coverage, especially in poor, remote or destroyed areas. Banks do not always have direct links to every country (e.g. Somalia) and thus involve intermediate banks. As a result, bank transfers may take a couple of days (Kosse & Vermeulen, DNB Working Paper, 2013). On the other hand, migrants that are sending money for business purposes will send their money more often through a bank (e.g. a Letter of Credit or directly to a bank account) or an MTO. This is because they need a receipt for tax purposes in the Netherlands (interviews with migrant entrepreneurs, Oct/Nov 2013).

In Somalia non-bank financial transfers involving cash payments dominate the market. Somali Remittances Organizations replace the formal system's expensive bureaucratic safeguards, designed for an open market, with a closed network constructed out of the social capital and safeguards provided by clan and family membership. (Cockayne, 2013)

According to the participants of the Ghana focus group, in Ghana most adults in the urban areas do have a bank account. This is due to the regulation concerning payment of salaries in Ghana; all payments have to be done through bank accounts. Accessibility in both the Netherlands and Ghana, and speed play a role when choosing between formal channels. About 70% of Ghanaian migrants donate to religious or community groups. Networks between churches in Ghana and the Netherlands play a crucial contact role between Ghanaians abroad and communities in Ghana. Development activities are promoted trough these church initiatives (Orozco, Migrant remittances and development, 2013).

In the Nigerian community the illegality of migrants plays a role when sending remittances. In some cases when legal Nigerians send money for the illegal ones, they are confronted with being blocked with an MTO, after having sent money several times. Because they lack information on the regulations for remitting, they prefer to send money through informal channels, to prevent future blockings. The highly educated Nigerians though, prefer to send money through formal channels (no risks and convenience of internet) (Goodwill Homage Foundation, interview, Nov 2013).

Among Ethiopians in the Netherlands, the informal channels are the most common ways of sending money home. The main reason is that the costs are less than when sending money through formal channels (Ethiopian migrant, interview, Oct 2013).

The Ghanaian, Nigerian, Somali and Ethiopian communities in the Netherlands have good connections with their fellow-countrymen in England and compare the remittances services in both countries. They find that the legislation for sending remittances in the Netherlands is unattractive compared to the U.K. (interviews with several Migrant Organizations).

III.5 Needs for additional financial products

Migrants' and remittance recipients have different financial requirements and expectations. Five different types of financial products have been suggested by the migrant community and the migrant organizations that would meet these specific needs. These products are: (i) products and services using information and communication technologies to transfer money from residence to origin countries (such as mobile banking), (ii) products and services to improve 'traditional' money services, (iii) products and services for linked bank accounts (such as remote opening of non-resident accounts in recipient countries); (iv) services for collective investments by migrant associations, and lastly (v) products for migrants' long-term financial investments (such as bonds and loans). (Bourenane 2011: 84).

In the Netherlands it appears that migrants are not very familiar with the financial products offered by the Dutch banks. Products like a pension are quite complex to them (like for most Dutch people). This can be concluded from the interviews with several Migrant Organizations. Tailor-made information on (transnational) financial products like insurances, mortgages and (transnational) pension schemes are not readily available. However, banks in the countries of origin, like Ghana, Ethiopia and Morocco are already offering special services to the Diaspora. Yet, these services have been created without solid market research into the needs and wants of the Diaspora (information collected of experiences of start-up missions in Ghana, Ethiopia and Cape Verde, former IntEnt director).

Presently, some foreign banks have been established in the Netherlands to serve their diaspora, such as Chaabi du Maroc (Morocco). Besides remittances services it offers special financial products to their customers, such as life insurance, and mortgages for real estate in Morocco.

In some destination countries the marketing of remittance products is made difficult, such as the introduction of remittance-backed mortgages and loans. In some cases, it is even made impossible by laws and regulations that prohibit the selling of savings products and properties abroad. At the same time, it is argued that such proof of savings is critical to establish credit for low-income migrants (Rannveig Agunias and Newland 2012: 127).

Financial institutions might consider conducting market research among this specific market segment to understand the needs of potential diaspora customers in order to create new products for transnational investment purposes. From the conducted study, it appears that especially second-generation migrants are very interested in investing in businesses and projects in their country of origin. In addition, DMA has reported that in the case of Ghana a majority of Ghanaian migrants want to have more control over how the money they sent is spent. DMA reports that direct channelling of funds into schemes through remittances would help to eliminate common trust issues around the misuse of funds. (DMA, 2011)

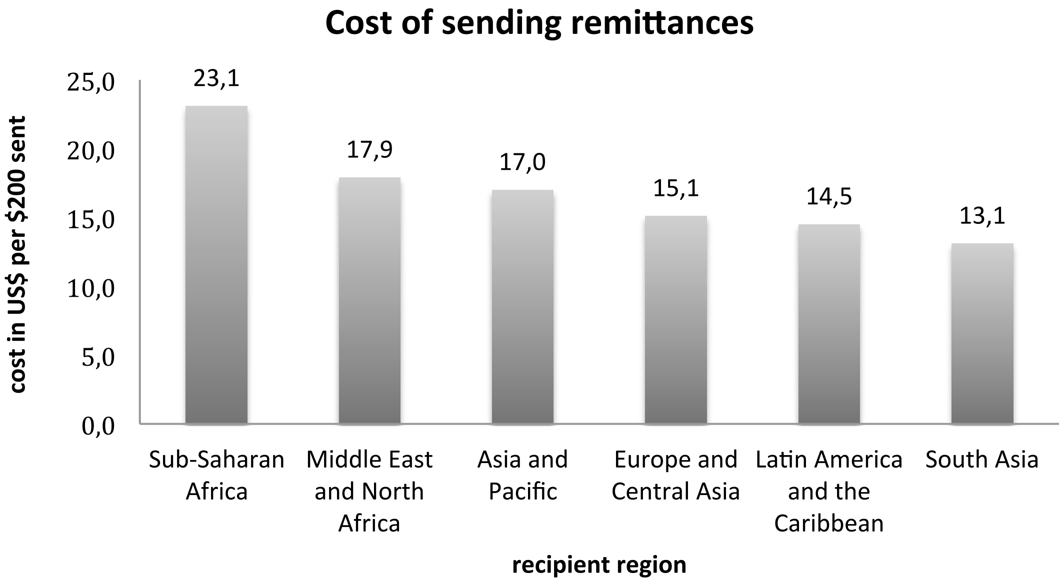
IV. Cost reduction of remittances

To date, the prognosis of reaching the 5x5 objective across Europe is not very positive. During the latest Technical Workshop at EU DEVCO (November 2013), it appeared that the EU average is lacking behind on the rest of the world, with an approximate average of 10% across the European Union. The EU G20 coordinator argues that for European countries to meet the objective before the set deadline of 2014, coordinated actions should be taken that have a short-term, middle term and long-term focus in bringing down the costs of remittances.

Remittances can be expensive relative to the often-low incomes of migrant workers and to the rather small amount sent – typically, no more than a few hundred dollars or the equivalent at a time (IBRD/The World Bank, 2011: 81). In Sub-Saharan Africa, the costs for sending remittances and receiving remittances are reported to be the highest among all developing regions (Mohapatra and Ratha 2011: 27). Africa's overseas workers, who sent close to US$60bn in remittances last year, pay more to send money home than any other migrant group. According to the World Bank's Send Money Africa database, sub-Saharan Africa is identified the most expensive region to send money to.[53]

These costs are constructs of fees, rates and running costs that involve international payment services. Breaking down this cost structure actually shows the potential for reduction in the price that remitters and their recipients need to pay. The following pages will offer an insight in the different price components related to remittances and what opportunities are available to reduce costs. [54]

[53] The World Bank has developed specific websites for different continents such as the price comparison website for Asia corridors: Send Money Asia and the African corridors: Send Money Africa. For more information on the African website, please refer to http://sendmoneyafrica.worldbank.org
[54] Graph drawn from Sanket Mohapatra and Dilip Ratha (2011)



Source: Information obtained from the World Bank briefing on Remittance Prices Worldwide, September 2013

IV.1 Elements of the remittance transfer

Five elements are involved in the international money transfer process: capture, disbursement, messaging, settlement, and liquidity. Each element directly or indirectly influences how costs are structured, influences transparency over costs and determines the type of options senders and receivers of remittances have. In the below figure the five elements are presented as well as what actions are involved in the process that influence remittance costs, transparency and services.

As becomes clear from the figure on page 54, transferring remittances is complex and involves a number of stages. This complexity influences the cost of remittances significantly. It can for example affect (in-) efficiency and (lack of) transparency of the transfer process. The process is furthermore determined by the means of payment that are available, the necessary identity requirements, and the type of disbursing agents allowed to serve remittance customers in both sending and receiving country. In addition, the type of settlement network transferring the funds from A to B contribute to the complexity of the system and influences the cost structure (see Annex 2). [55]

[55] The World Bank offers an interesting overview of how the settlement process of remittances is organized in different contexts. As described in the figure, the 'settlement chain' is the payments *in-between* (from the agent receiving the cash through to the disbursing agent paying out cash to the recipient). Such chains could include the more traditional settlement structure involving RSPs (banks and non-banks), intermediary banks and their local liaison offices. The information provided by the World Bank explains how different forms of networks

STAGES OF REMITTANCE TRANSFER

CAPTURE

Money is captured by the RSP. AML/CTF procedures need to be followed and require identification of at least the receiver, and/or sender. The location for receipt of remittances is determined at this stage.

MESSAGING

Information on the transfer will be processed from capturing agent to the remittance disbursing agent. This could be a complicated process when payment services are not interoperable or using the same softwares and/or programmes.

SETTLEMENT

This element includes the processing 'in-between' of the transfer from the moment it is captured to the moment it is disbursed. A settlement chain is often involved, where a series of seperate payments is conducted before the money reaches the disbursing agent.

DISBURSEMENT

The receiver is paid out in cash or via other means through the disbursing agent. Payment infrastructures in the receiving country could raise issues concerning the mode of disbursement. In addition, the disbursing agent requires specific information regarding the remittances to be disbursed (identity, amount, currency, etc).

LIQUIDITY

Although settlement is a "chain", the transactions within it do not have to take place in sequence. For example, the disbursing agent may pay the receiver before it has received funds from the disbursing RSP. This entails a credit-risk and requires a need for liquidity.

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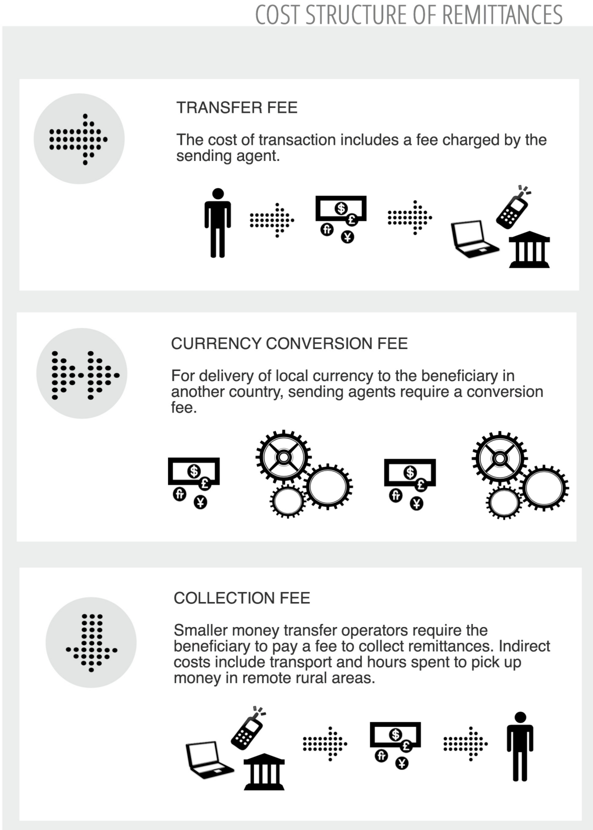
influence the complexity of the transfer process and thus carry the potential for improved efficiency and transparency over costs.

Before we turn to approaches that touch upon the different elements of the transfer process in an effort to facilitate the flows of remittances, it is important to understand how costs are calculated across the transfer process. The next section provides a basic description of costs involved in sending and receiving international money transfers.

IV.2 Structure of costs of remittance transfers

Remittance costs can be structured related to three processes: (i) the transfer and processing of funds (costs related to capturing, messaging and settling), (ii) exchanging currencies (costs determined at settling stage) and (iii) receiving of funds (costs related to disbursing and liquidity). Firstly, when *capturing* remittances, Remittance Service Providers (RSPs) charge a service fee. MTOs have stated that the most important cost components are: staff costs, ICT, housing, compensation for agents, and deposit costs for cash money (to cover for liquidity requirements at the disbursing end). In addition, expenditures related to compliance and regulations also impact the eventual cost calculation of the fee.[56] Secondly, for the *processing* stage (messaging and settling), currency conversion rates are added, as well as potential fees for the messaging or processing of information to and from the capturing and disbursing agent. Here, especially, often signals of 'hidden costs' are reported as not all service providers are transparent over the currency rate that is applied, which influences the amount the recipient eventually receives. (IFAD 2009]

COST STRUCTURE OF REMITTANCES



[56] In interviews with MTO representatives in the Netherlands it became clear that MTOs see little opportunity for reducing the costs. In contrast, they have argued that they expect costs to rise with new regulations that are underway. For the table, Information drawn from the World Bank report 'General Principles for International Remittance services' (2007)

Foreign Exchange conversion as a hidden cost: a banking perspective

When sending Hard Currency (HC) EUR or USD to beneficiaries in developing countries by a bank-to-bank transfer the currency can be exchanged from HC into the Local Currency (LC) of the country of the beneficiary. When EUR are being sent to an account of the beneficiary, which is also held in EUR; no FX conversion is involved. In that situation it is up to the local beneficiary to exchange the received EURs into its own LC. However when EURs are sent to an account of the beneficiary in its own country, which is denominated in LC, an FX conversion is required. The Dutch client will be debited by their Dutch bank with the agreed EUR amount and the bank of the beneficiary who sees that the account of the beneficiary is held in LC need to exchange the EUR into LC.

The beneficiary bank is in principle able to use any FX conversion rate it feels like, as there is no involvement of either the payee or the beneficiary on this rate. So when for instance EUR 200 is being sent and the payee is being debited by this amount it depends on the FX conversion rate used by the beneficiary bank how many LCs this will be paid out. As it is hardly possible to influence the FX rate as a customer and the FX quote taken is most likely not even reported to the beneficiary it is a hidden and a non-transparent cost. In combination with the fact that the FX market for emerging markets suffers from rather non-transparent FX-quotes it is also hard to evaluate whether the FX quote received were competitive compared to the market rates that day.

Finally, when remittances are *disbursed*, direct and indirect costs for collecting the funds are sometimes, but not always, involved.

In addition, context-related factors determining the transfer of remittances contribute to costs. For example, the available means of transfer determine the choice of services and mode of receipt. This is one of the reasons why a lot of discussion has been taking place surrounding the closing down of Barclays bank accounts for Remittance Service Providers serving the Somalia corridor. The decision will directly affect the choice of sending options for remitters, and might negatively influence the flows of money to Somalia, either by forcing people to use informal channels, or reducing the number of industry players offering competitive services across the market.

IV.3 International agreements on cost reduction

A number of international initiatives have been taken that contribute to a more comprehensive understanding of remittance flows that have fuelled policy actions in different sectors supporting cost reduction. Those actions that are relevant to the Dutch regulatory and policy environment are mentioned here.[57]

IV.3.1 Luxembourg Group

In 2006 the Luxembourg Group was created as an informal working group of practitioners to consider the difficulties of collecting and compiling remittance data. The objective of the Group is to make recommendations for improvements that should lead to the production of a compilation guide for remittance statistics.[58] The initiative followed the realization that there exists a large discrepancy in terminology and conceptualization of remittances that influences how data are collected and interpreted.

If for example speaking of the total amount of remittances flowing out of the Netherlands, the EU report (2012) shows two different volumes contributing to a total of approximately EUR 8 billion outward remittances from the Netherlands. The total volume is composed of €1,5 billion in workers' remittances and the amount of €5,5 billion in compensation of employees (approximate data).[59] The difference lies within the definition of remittances, whether this includes workers' remittances *and/or* compensation of employees. The former total refers to worker's remittances, which the IMF has defined in the *Balance of Payments Manual,* 6th edition as current private transfers from migrant workers who are considered residents of the host country to recipients in the workers' country of origin. In the latter case the amount includes payment of salaries to foreign nationals working in the Netherlands, such as Belgian and German expats (compensation of employees). The difference in definitions and thus the corresponding calculations may influence policy actions at country level.

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[57] The Dutch Ministry of Foreign Affairs has been engaged in several initiatives that directly or indirectly address the issue of remittances, such as the Financial Inclusion Support Framework (FIRST), which supports the development of financial infrastructures and the creation of an enabling environment; support to CGAP and the government participates in relevant networks, working groups and bilateral communications relevant to the topic under study.

[58] More information on the Luxembourg Group and its participants can be found on the website of IMF at http://www.imf.org/external/np/sta/bop/2006/luxgrp/060106.htm

[59] Eurostat database offers an overview of country statistics on remittances. The latest data collected is for 2011. For a detailed comparison per country at European level, please refer to http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bop_remit&lang=en.

IV.3.2 5x5 initiative and general principles

The G8 and G20 have called upon states to make an effort in achieving a price reduction of global average cost of remittances from 10 to 5 percent of the transfer amount by 2014 (by 5 percentage points in 5 years) and more broadly, to improve the remittance market. This attempt at reducing the price to transfer money across borders would generate a net increase in income for migrants and their families in the developing world, estimated at 20 billion euro per year.[60] The potential such a surge in transfers brings, inevitably has an impact on economies both in sending and in receiving states.

In support of achieving the 5x5 initiative within its set time frame, the World Bank has developed five general principles for remittances (see box). These principles are one of the key tools that are being used by many countries to help deliver on the objectives of achieving a price reduction in the global average cost of remittance services. The G20 is especially relevant in realizing these ambitions as half of global remittances flows is sent from or received by G20 members. In addition to the general principles, the World Bank has drafted twelve tools as guidance for states in reaching their objectives and applying the general principles to practice.[61] (see Annex 3 for overview of tools)

Complementary to the World Bank monitoring reports, the European Commission offered in 2012 a report on the barriers, challenges and recommendations for enhancing the development impact of remittances (Isaacs 2012) – including the necessity of cost reduction of remittances in order to achieve this goal. The report argued that certain fields require continued attention from policy-makers in the EU in order to realize the 5x5 objective. Especially in the field of “market structure and competition” (GP4) EU countries lack behind on fulfilling their 5x5 promises. Overall, the EU countries were reported to be reasonably compliant with the GPs.

[60] These estimates come forth out of calculations provided by the Financial Inclusion and Infrastructure Global Practice team of the World Bank, which were presented at the EU DEVCO Technical Workshop on reducing the cost of remittances at EU level in Brussels on 15 November 2013.
[61] The Toolbox offers guidance to countries that wish to follow the five general principles of the World Bank.

From the lessons learned since the adoption of the 5x5 initiative by the G20, the following steps have been highlighted that have proven beneficial to cost reduction: (i) improved efficiency, (ii) increased competition, (iii) innovation, (iv) compliance requirements, and (v) measures taken in receiving countries. Below, we will go through each of the recommended steps.

General Principles for Remittances

1. Transparency and consumer protection:

   The market for remittance services should be transparent and have adequate consumer protection.

2. Payment system infrastructure:

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

3. Legal and regulatory environment:

   Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

4. Market structure and competition:

   Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

5. Governance and risk-management:

   Remittance services should be supported by appriopriate governance and risk management practices.

The general principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

IV.4 Opportunities for cost reduction

At the EU Technical Workshop on 'Meeting the G20 5x5 objective" in November 2013, the World Bank argued that global average remittance costs remains high due to the following factors[62]:

- underdeveloped financial infrastructure in some countries
- limited competition
- scarce transparency
- regulatory obstacles
- lack of access to the banking sector by remittance senders and/or receivers
- difficulties for migrants to obtain the necessary identification documentation to enter the financial mainstream

While these factors seem to influence the cost structure negatively, it also means that these factors offer opportunities for improvements. It is also important to note that not all factors are equally important for each corridor, such as in the case of the Netherlands, where every registered migrant is allowed access to a 'basic bank account'.[63] However, as remittances constitute financial interactions across borders and with industry players operating in multiple countries, these factors will automatically affect parts of the corridors that the Dutch market serves.

This part provides an overview of global practices that could prove relevant in the corridors under study. Firstly we will turn to how improved efficiency of the transfer process of remittances can reduce costs. Arguably, market inefficiencies can mean that the price of remittance services is higher than would otherwise be the case and/or that the services offered are of lower quality (CPSS/World Bank, 2007). Secondly, the issue of a competitive market environment is discussed and how exclusivity agreements in sending *and* receiving

[62] Full presentation of Ceu Pereira, Senior Payment Systems Expert for the World Bank at the Technical Workshop on reducing the cost of remittances at EU level can be requested with the authors.
[63] The Dutch banks established, in collaboration with the Salvation Army, the self-regulatory 'Covenant on a Package of Primary Payment Services' for the provision of primary banking services in 2001. All large retail banks are involved, giving a total coverage of 98 % of the Dutch market and availability throughout the country. This Covenant guarantees access to an individual bank account for Dutch residents older than 18 years, who do not yet have a bank account (such as homeless and socially disadvantaged people) and whose identity can be affirmed as indicated by national and European rules and regulations concerning anti-money laundering, combating of financing of terrorism and other customer due diligence measures. The basic bank account is offered to all consumers, even to those with a bad credit history or a history of fraud. The applicant needs a valid ID (or temporary residence permit) and a Dutch social security number to open a basic bank account. The participants of the Covenant have launched the website www.basisbankrekening.nl in 2010.

countries determine fee rates and networks that sender and receiver can turn to. Thirdly, the role of innovative market players is exemplified and the possibilities to not only reduce costs of remittances but also to create added-value products.

		Possible Actions
Efficiency	*Sending country*	- research on and learn from informal service providers - encourage interoperability with service providers in receiving countries
	Receiving country	- increase financial inclusion levels - support national identification - encourage interoperability with service providers in sending countries
Competition	*Sending country*	- Outlaw exclusivity agreements - Lowering barriers for innovative players and small RSPs to enter market - support price comparison website
	Receiving country	- outlaw exclusivity agreements
Innovation	*Sending country*	- lowering barriers for innovative players to enter market - provide incentives for technological innovation and business development
	Receiving country	- allow non-banks to enter the remittance market (and deal with foreign exchange) - conduct market research into recipients of remittances (not copy-paste models such as mPesa)
Compliance	*Sending country*	- provide support to receiving country to meet AML/CFT supervision requirements
	Receiving country	- support national identification - strengthen supervisory requirements to counter irregular activities

Then, the chapter turns to the issues of compliance, referring to the changing regulatory environment that is perceived by some as countering efforts to reduce fees. Lastly, the possibilities that receiving countries have to contribute to a more favourable environment to receive remittances at lower costs is discussed.

IV.4.1 Improved Efficiency

Some explanation has already been provided in part IV.1 on the complexity of the transfer process of remittances. Especially the settlement processes seem intricate, where multiple payments are made to autonomous institutions using particular technologies in order to reach the disbursing agent. The more players and technologies are involved in the 'in-between' network, the more commission, operational costs and perhaps other fees are included. However, this goes specifically for the settlement of payments. In the case of pay-out possibilities and sending facilities, the more players are allowed to offer their services, the more efficient the sector potentially could become.

Interoperability

Improving efficiency of the payment infrastructure could therefore influence costs for senders and receivers. We see this happening at the European level already where countries are preparing for the shift to a Single Euro Payments Area, an initiative that is aimed at simplifying bank transfer denominated in euro. According to the DNB, SEPA will strengthen international competition for payment institutions.[64] More competition will in principle lead to improved products, more efficiency and lower costs of payments. While this assumption refers to the European context, the principle could be applicable to contexts outside of Europe as well (Takashi Mobile, interview Nov 2013).

One approach to increasing efficiency is to support interoperability of payment services and technological innovations. One such service that is doing just that for the remittance industry is **HomeSend** (www.homesend.com) by BICS. The company has introduced a way to facilitate interoperability of telecom operators across borders to serve the remittance market by improving its efficiency. HomeSend is a global 'hubbing service' that enables person-to-person transfers, and makes it possible to integrate mobile wallets or money transfer systems of two different providers. It also provides access to other service providers, such as money transfer organizations and banks.

In the Netherlands, a working group with a similar domestic purpose was formed under the name of **Six Pack**. The objective of the initiative was to develop a sound eco-system for mobile payments in the Netherlands, and joined together three banks and three mobile

[64] More information on SEPA can be found at the DNB website http://www.dnb.nl/betalingsverkeer/sepa/waarom-sepa/ .

operators. Different reasons are mentioned for the end of the Sixpack project: according to Dan Armstrong, who was one of the initiators of the initiative, the initiative eventually was not successful due to the fact that the interests of the different market players (banks vs operators) were not aligned: the operators were interested in making profit by increasing mobile usage; the banks were interested in developing more payment methods to broaden access to banking facilities. (Takashi Mobile, interview Nov 2013) Another reasons given is that Sixpack announced that given the now mature availability of trusted service management (TSM) products and services, there is no need to continue with its original complex plans for setting up one national TSM to support (Dutch) mobile contactless payments and related near-field-communication (NFC) services.

The Consultative Group to Assist the Poor (CGAP) reports that elsewhere in the world, developments are underway to understand how interoperating of especially branchless banking can strengthen efficiency and reduce costs.[65]

RemitOne (www.remitone.com) is an example of a software solution that offers a single system for money transfers. It argues that unifying software across RSPs will reduce costs and extend the range of services for customers. They see the current infrastructure as not adapting to technological changes that are required to meet the needs of customers, as well as not meeting the diversity of needs of customers;- who want to send money from a laptop, a tablet, a smartphone and an ATM machine as well as visiting their agent on the corner.[66]

Companies such as **WorldRemit** (www.worldremit.com) offer other approaches to improving efficiency of payment services. The company argues that the agent-based model that is used by many traditional remittance players is no longer viable in the current Internet era. It argues that moving to a *cashless business model* would address some of the 'traditional' problems that are associated with remittances. It would for example eliminate the use of intermediary players, thus making one business responsible for customer due diligence procedures. And, cashless transactions ensure an audit trail of funds.[67]

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[65] More background information on interoperability, especially in branchless banking, can be found in the blog series of CGAP on "Interoperability in Branchless Banking and Mobile Money" at the following weblink http://www.cgap.org/blog/interoperability-branchless-banking-and-mobile-money-0 . It reports that in Ghana, the government is trying to understand its role in promoting interoperable branchless banking. In India, interoperability at the agent level is part of the financial inclusion vision painted by the Unique Identification Authority of India.

[66] Presentation of RemitOne at GMTS 2013 available upon request.

[67] Information obtained from presentation of WorldRemit at the Global Money Transfer Summit 2013 in October in London.

Such technological advances could impact the remittance industry in countries such as the Netherlands, where most migrants have access to bank accounts. This increases their ability to send money home using their payment account, whether this would be online or through an agency using the WorldRemit service.

Reaching the last-mile

Another way to improving efficiency in the market is building the financial infrastructure and increasing access to the market for alternative market players, such as Micro Finance Institutes. About 40% of remittances are received in rural areas (IFAD 2013), yet these areas are the least penetrated by financial institutions. Making use of alternative payout locations that could as well offer complementary services could provide a solution to lowering the indirect costs of remittances (travel time/costs, safety, etc). In Ethiopia for example, new types of partnership agreements are emerging in the RSPs market. These include partnerships involving microfinance institutions (MFIs) and the national post office, which are deemed to better serve the unbanked, particularly in rural areas of the country (Mohapatra and Ratha 2011: 128). However, thus far MFIs have not seem to shown much success when serving as RSPs. But neither have they proven to fail in their endeavours. (CGAP interview)

IV.4.2 More competition

Corridors with a large number of migrants and with high level of competition among service providers are found to exhibit lower prices for remittances (Beck 2009). Enhanced competition is a product of the regulatory environment, the available capacity and the resources at the disposal of Money Transfer Operators and other players in the market. In its latest monitoring report, the World Bank stated that competition in the market for remittances seems to be an important driver of the cost of sending remittances; corridors served by a higher number of RSPs should have lower prices (The World Bank 2013: 4). Two core issues influence the level of competition at the sending and receiving side of the remittance transfer process: (i) exclusivity conditions and (ii) access to the financial infrastructure.

The former refers to exclusivity contracts that have been signed between RSPs and agents, in which agents are not allowed to offer any other remittance service. It has been reported that two major MTOs dominate the African remittance market with about 65% of the market share in some countries (IFAD 2009, 5). Exclusivity conditions can be particularly undesirable in receiving countries, where for example a community has only a single retail or financial outlet offering one available remittance service (CPSS/World Bank 2007: 18).

The Role of Micro-Finance Institutions

For many years MFIs have been trying to get involved as payout locations for remittance recipients in order to offer additional added-value products (loans, savings). According to the African Development Bank "Microfinance institutions (MFIs), credit unions, and small banks have demonstrated a key role in banking the traditionally unbanked - especially the poor - and in transforming remittance clients into clients of other financial services by being closer to remittance recipients. Indeed, MFIs can contribute to the reduction of remittance costs, but only if the institutions are well regulated. Appropriate regulation provides a level playing field and transparency of information so that there is adequate competition and cost reduction." (Dia Kamgnia and Murinde 2012, 1)

The present role of MFIs in this field, however, is still small. "Even in countries where MFIs are allowed to act as agents or subagents, many of these institutions have not yet entered as players in the market. This suggests an opportunity (…) for increasing competition and expanding remittance services to people in rural areas where MFIs have a relatively larger presence compared to commercial banks." (Orozco 2013, 97) According to CGAP, this expectation is too optimistic. MFIs have never really been able to attract a 'sticky' customer-base. The perception was that remittances could function as collateral, and therefore additional financial products could be more easily offered to recipients. Yet to date, according to CGAP, little empirical evidence showing that MFI initiatives have been successful in these endeavors has appeared. It seems that the principle has not yet achieved scale. One of the reasons provided relate to the intended use of receiving funds. Most remittances pay for ongoing expenses on a day-to-day basis. Money is thus withdrawn for direct use. Recipients of remittance then do not naturally become savers or good customers for the financial sector, just because they receive remittances; - which often seems to be the underlying assumption of such initiatives.

However, exclusivity agreements do not only exist in the receiving countries. In sending countries, postal networks too are involved in agreements with RSPs. This could have a big influence on transfer costs and options, as postal networks have a vast network in the sending country. It has also been argued that greater freedom of money transfer agencies and post offices to operate independently of banks can increase the degree of competition in the remittance market and thereby put downward pressure on costs" (Irving, Jacqueline, Sanket Mohapatra, and Dilip Ratha. 2010: 16). In the Netherlands, Post NL recently made a deal with MoneyGram, allowing for remittances to be sent at the offices of the Dutch postal network. Thus far, PostNL only offers services by MoneyGram. Yet it should be noted that it is unclear whether this entails an exclusive relationship. (DNB interview 7 October 2013)

CGAP argues that actually one of the main driving forces behind the lack of progress in bringing costs down is the competitive role of traditional money transfer operators. According to CGAP, the exclusive partnerships and networks that they have been able to establish in a staggering number of corridors influences their dominance in the remittance market. The strength of their network of agents in the receiving country influences their competitive position at the sending end. The added value for such operators to participate in scaling up for example branchless banking opportunities was until recently missing, as their competitive position would be negatively influenced as new players would be allowed to benefit from their well-established networks. (CGAP interview).

The second issue, access to financial infrastructure, refers to the fact that not all countries allow non-banks (such as MTOs or MFIs) to have access to official payment services, such as dealing with foreign currencies. This would result in only banks being able to offer international remittance services for example, and therefore limiting competition in the market place, as is the case in Nigeria. Orozco has argued that low cost remittance transfers depend significantly on the nature of the agreement established between financial institutions and the money transfer companies, and the money transfer company itself (Orozco 2006: 13). "Greater freedom of money transfer agencies and post offices to operate independently of banks can increase the degree of competition in the remittance market and thereby put downward pressure on costs" (Irving, Jacqueline, Sanket Mohapatra, and Dilip Ratha. 2010:16). This argument is supported by IFAD (2009) arguing "effectively, 80 percent of African countries restrict the type of institutions able to offer remittance services to banks".

A EU commissioned study showed in 2012 that EU countries need to improve their policies especially in the fields of fostering market competition – as currently the market structure in many European countries hampers competition and effective business operations (Isaacs et al 2012: 27). Since 2009, the passporting arrangement in the Payment Services Directive has allowed for greater competitive advantages for industry players. It allows RSPs to apply for one license in a member state, and they can then use this license across other EU countries. Therefore they only need to meet the requirements for AML/CFT for example in one country, to be able to offer their services in other member states. However, due to country-specific interpretation of the PSD requirements, it is reported that the European market is not harmonized, as compliance requirements might be stricter in one country than in the other, making the passport perhaps less efficient in certain contexts. (Interview with Ministry of Finance, 1 November 2013) The European Commission's proposal, dated 24th July 2013, for a revised Directive 2007/64/EC on Payment Services ("the PSD2") incorporates an increased degree of harmonisation by the reduction of Member State options that is inherent in the proposal.

The example provided in the previous section of BICS' HomeSend might offer an opportunity for alternative industry players to circumvent exclusivity deals, according to CGAP. Such non-cash based models could offer a competitive advantage over the well-established networks of traditional industry players as they could compete outside of the existing agency networks.

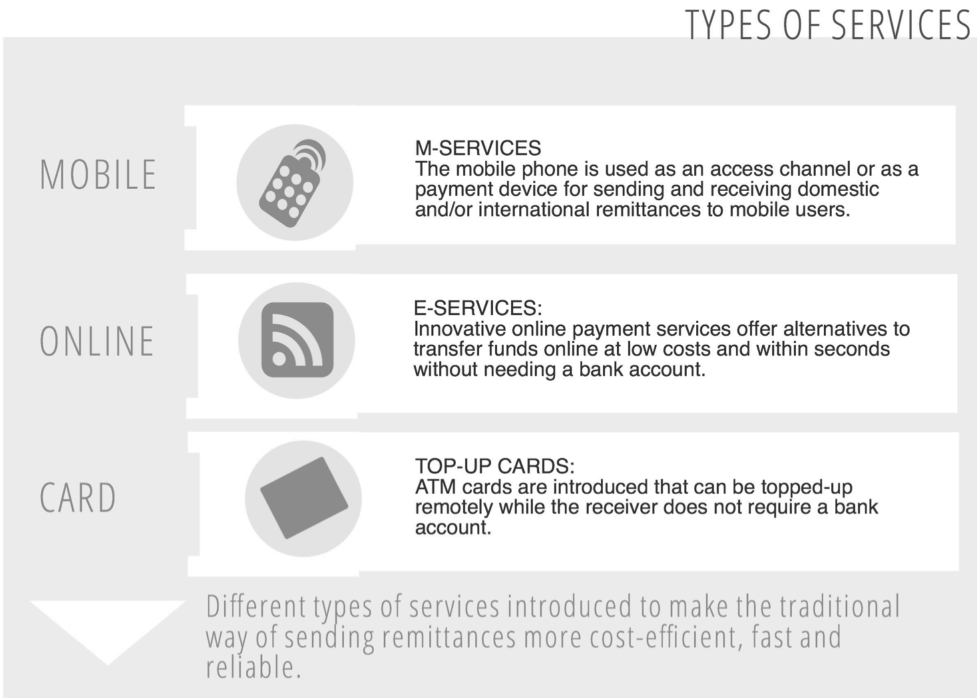
Yet, more competition in the market place does not immediately lead to a reduction in costs. During the EU DEVCO workshop [15 November 2013], DEVCOMPETITION raised the issue that having more players does not lead quickly to better markets for consumers. It requires a period of transition for both consumers as well as traditional market players to respond to new trends in the market. In addition, from interviews with MTOs, arguments were drawn that diminishing costs does not necessarily lead to reduced fee rates. It is the competitive nature of the business and strategic decisions of the sector that will determine the fee rates in the end. (Dan Armstrong, interview, Nov 2013)

IV.4.3 Innovative forms of remittances

New technologies and solutions to (international) remittances are introduced worldwide in order to facilitate sending and receiving remittances, often accompanied with a cost reduction of services. These services range from more efficient traditional services, newly developed and innovative technologies to facilitate transfers, and the introduction of specific remittance products.

Three major technological innovations in the remittance sector are: (i) the introduction of mobile services, (ii) the introduction of online payment services and (iii) the introduction of debit cards or pre-paid cards (see overview in the figure below). Each of these innovations could be categorized as 'branchless banking options', which according to CGAP refers to "receiving mechanisms that use technology to expand access to remittances to beneficiaries".

Often, these types of services are identified as 'disruptive innovations' as they offer competitive products in relation to traditional service providers. The technologies used to facilitate the transfer have been presented in figure below.



Traditional market players have actually started to reach out to their customer base using new technologies such as mobile payments or offering online transfers. Ria Money Transfer for example has recently (September 2013) launched **RiaMoneyTransfer.com**, the customer's first consumer-facing digital product offering. It now offers remitters the possibility to transfer their funds through their online platform, rather than having to visit the physical location. **Western Union** in its turn is serving customers that request pay-out in m-wallets in countries such as Bangladesh, Kenya, Philippines and Tanzania.

Mobile services

"(A)n area of growing interest consists in mobile telephone-based remittances, where the telephone either functions as a stored-value instrument, much like a prepaid card, or where the phone functions as a communication instrument to authorize debits and credits from a separate account." (Orozco 2013, 67)

The best-known example is m-Pesa, launched by Safaricom, the Kenyan daughter of Vodafone in 2007. It has become a tremendous success, with now (in early 2013) 17.3 million active users in Kenya, i.e. users who have made a transaction during the last 90 days. M-Pesa works like a debit card: a client buys e-money at one of the 96.000 agents in the country, sends the money by phone to another phone, whose owner can then use it again as money on a debit card or turn it into cash again at another agent. In Kenya alone, payments of about 1.2 billion dollars are transferred every month, normally of small amounts (of an average of $ 30) through many millions of transactions every day. Users do not need a bank account for these transactions. A mobile payment system like that is therefore especially attractive in countries with a low banking penetration, but widespread ownership of mobile phones.

Vodafone has introduced such systems in 10 other countries, beside Kenya also in Afghanistan, the DRC, Egypt, Fiji, India, Lesotho, Mozambique, Qatar, South Africa and Tanzania. Similar successful systems have been developed by MTN in Uganda, by Orange in West-Africa, and by two telephone providers in the Philippines. Users in Kenya and Tanzania can also receive international payments on their m-Pesa account. This services is offered in cooperation with Western Union and BICS (a Belgacom company – see www.bics.com).

Vodafone expects a fast expansion of international payments: "International money transfer will become very, very big I believe over the next few years", according to Michael Joseph, Managing Director M-Pesa.[68] He expects that enabling migrant workers to send money home will be a big opportunity for Vodafone, for example from Qatar to India. The challenges are no longer of a technological nature, but getting permission from the various regulators.

[68] Mobile Money Webinar, 5 March 2013, Transcript, p. 3, see http://www.vodafone.com/content/dam/vodafone/investors/company_presentations/2013/Mobile_Money_Webinar_transcript.pdf

Precondition for a widespread use for international payments is that clients are accustomed to use their mobile phone for domestic payments. Vodaphone Spain was the first country in the world that introduced Vodafone's mobile payments system SmarPass in November 2013, - an app which will include a prepaid Visa account. At launch, it is accepted at 250,000 stores across Spain where the Visa payWave technology is already in place, and at more than one million locations across Europe.[69]

"We are living in an era of unprecedented change. One of the most transformational of these changes has been the influence of the mobile phone – which has become one of the most commonly used technologies on our planet."

Tomasz Smilowicz, Global Head of Mobile Solutions, Citi, Global Transaction Services
In: Foreword to Davidson (2011)

The use of mobile phones to transfer money can make a decisive contribution to reduce the costs of remittances. At the end of 2010, there were already 84 live mobile money deployments in low- and middle-income countries that targeted the unbanked (Davidson 2011, 4). These did not include the mobile services that banks offer to their existing customers to interact with their bank and to handle their bank accounts from mobile devices. This is regarded as a mere "channel extension", which does not serve additional customers. The Dutch Six Pack Project was such a "channel extension". "(T)he key feature that distinguishes an unbanked-focused mobile money service from a 'channel extension' [is] a network of independent agents at which customers can cash in and cash out."(Davidson 2011, 5)[1] A 2009 study estimated that there would be 1.7 billion unbanked potential customers who do possess mobile phones by 2012.[1]

To offer "mobile money" to the unbanked, banks and mobile operators have to work together: "a bank must hold the deposits which back the electronic value stored in customers' and agents' wallets … an operator must provide the data channel which allows customers and agents to initiate transactions using their handsets." (Davidson 2011, 4) Both types of actors bring specific assets to the field:

Comparative strength of banks and operators in mobile money operations

	Banks	Mobile Network Operators
Interest in mobile money	Access to low-income customers who cannot be profitably served through traditional branches	New services to customers to strengthen their position in the increasing competition among operators
Specific strengths	Deposit-taking license, ATM/cash machines, well situated to support agent liquidity	Large and growing customer base, well-known brand; Pervasive agent network for airtime distribution
Competencies	Risk management, regulatory compliance, financial product development, liquidity management, relationship with financial regulator	Mass marketing, service development, relationship with telecom regulator

Source: Based on Davidson 2011.

[69] http://www.zdnet.com/vodafone-to-launch-mobile-wallet-in-spain-ahead-of-global-rollout-7000020278/

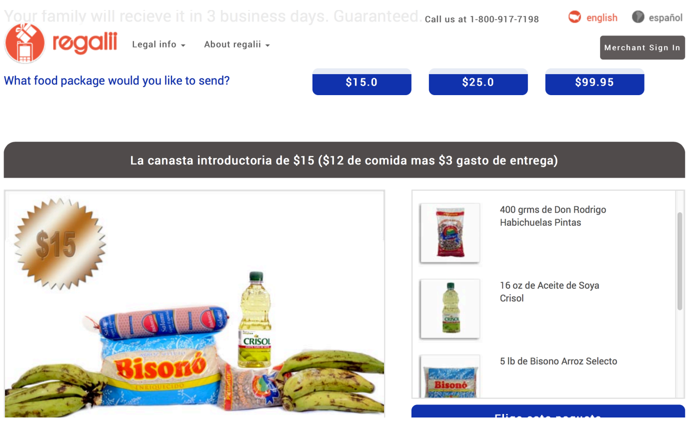
Vodafone is cooperating with other operators with mobile money operations, connecting them to the BICS hub in Belgium, and then tying up the remittance agencies to the hub.[70] This is expected to take place in the next 12-18 months.

In the Netherlands, Vodafone operates with WorldRemit (see www.wordremit.com). Senders can use its online portal to send money to Ghana or Nigeria and pay with a credit card or with iDeal[71], and the receiver will get the money as mobile money on their phone or on their bank account.[72]

Online services

Money transfers online (online to bank account or online to mobile) have shown to be more feasible in the short run than transfers from mobile to mobile. There are innovative online senders such as **Remitly** (www.remitly.com) and **Xoom** (www.xoom.com) offering a variety of options for delivery channels on both the sending and receiving side. There is the opportunity to 'remit to a cash substitute', where senders purchase a retail gift card. Or, another example of a new model is remitting a direct payment, where remitters can transfer funds to pay utility bills or school fees directly for the recipient.

Figure x: Screen shot of Regalii website



[70] Mobile Money Webinar, 5 March 2013, Transcript, p. 9
[71] To ease payments for online products and services, the iDEAL online payment method was introduced. iDEAL allows online payments to be made using online banking.
[72] Receivers in Ghana can get the money in cash, on a bank account, as MTN Ghana Mobile Money, or as Airtime Topup on their mobile (see https://www.worldremit.com/en/ghana?gclid=COei0rSg5LoCFUrJtAodOwcA8Q). Receivers in *Nigeria* can receive their money as an instant bank deposit in their bank accounts of 19 leading Nigerian banks or as Mobile Topup (see https://www.worldremit.com/en/nigeria?gclid=CPbnlcSj5LoCFQjKtAodEGcA3w).

One of the benefits of these innovations is that it brings along new opportunities in decision-maker power over the mode of transfer and the use of remittances for senders and receivers. Some new models offer senders control over where and how funds are spent, such as **Regalii** in the Dominican Republic (www.regalii.com). The company has devised a way for people, via their mobile devices, to send remittances to their families back home, which are received in the form of credits to buy groceries.[73]

Send for example offers opportunities for wireless top-up of mobile phones, international bill payments or paying for gift cards that could be for example used in grocery shops. And, **Willstream** in its turn serves the Senegalese community by offering gift cards for bill payments or groceries. Their marketing message emphasizes the need for controlling the use of productive use of remittances: "it's important to make sure the funds you send are used as you intended them to be." Another example is the "Ensure Your Family" service developed by the Rotterdam company Enviu, which "aims to help diasporas buy financial products, like health insurance and house construction savings, for family in their home country."[74]

These innovative solutions might not directly lower the costs of traditional remittances, but they do offer senders and receivers alternatives with reliability and value-added benefits that might outweigh fee savings, according to CGAP. Through the use of these innovations, receivers therefore increasingly have influence over remittance channels and usage. Through close communication with the sender, receivers can influence how funds are sent or the channel by which they cash-out. **Remitly** for example includes direct chat services between senders and receivers via their mobile app. (interview Remitly 11 November 2013) According to online sender WorldRemit, 30% of their sending decisions are made with receiver input, and Facebook-enabled sender **Azimo** advertises the benefit of sender-receiver communication and through their service, the recipient actually decides where they want the money sent. (CGAP Dalberg Research)

[73] Interview CGAP 19 November 2013. There have also been other cases of 'directed' remittances, such as senboutique.com in Senegal. See Melissa Blanchard (2011), presented at the University of Trento *Senboutique.com or how Senegalese migrants' use of e-commerce reshapes family relations and consumption practices.*

[74] http://enviu.org/nl/our-work/ensure-your-family-2/: "We want ... to offer diaspora the possibility to choose and buy financial products for their family in the home country directly online. We work with local insurers and banks to ensure that we provide the people with adequate financial products such as life insurance, health insurance and pension products."

Beside Facebook, the other big power on the Internet, Google, is also active in mobile payments. Google introduced the mobile payment system Google Wallet in the US in 2011.[75] It allows users to store debit cards, credit cards, loyalty cards and gift cards on their phone, to make payments by simply tapping the phone on any PayPass-enabled terminal at checkout.[76] Google Wallet is a combination of a credit or debit card and a mobile payment service. The service can easily be used to send remittances within the United States. Google advertises: "Send money to friends and family and they can spend it instantly with the Google Wallet Card. … Send money to any friend in the US with an email address. It's easy, fast and free to send from your bank account or Google Wallet Balance. … Send friends money with Gmail, as easily as you'd send them a picture."[77] Google combines a debit or credit card with a mobile payment service. Given the global coverage of Google, it would be a relatively small step to extend the service to international payments.

The introduction of virtual currency like "Bitcoins" would strengthen the role of online money transfers. Simultaneously buying, transfer and selling of Bitcoins is mentioned as an innovative solution for reducing the costs of remittances. The valuta specialist David Woo of the Bank of America Merrill Lynch expects that Bitcoins can become a serious competitor of Money Transfer Organizations like Western Union (Het Financieele Dagblad, 6 December 2013). However, this may still be a far-fetched alternative and will not be elaborated in this study.

However, another innovative online scheme that allows remittances at almost no cost between senders and receivers connected to the system would be Auxfin, which also contributes to positive development by creating incentives for community mobilization and allowing to trace not only monetary payments, but also the flows of commodities (see box on following page).

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[75] Google had already offered "Google Checkout" in the United States since 2006 (and in the UK in 2007). Google Checkout was an online payment processing service aimed at simplifying the payment for online purchases. Users stored their credit or debit card and shipping information in their Google Account, so that they could purchase at participating stores by clicking an on-screen button. The service was discontinued in November 2013. http://en.wikipedia.org/wiki/Google_Checkout

[76] http://en.wikipedia.org/wiki/Google_Wallet

[77] http://www.google.com/wallet/: "It's free to send money from your Google Wallet Balance or directly from a linked bank account. When you use your credit or debit card to send money, a 2.9 % fee per transaction (minimum $ 0.30) will apply … Receive instant notification on your phone immediately after you send and receive money and after every Google Wallet Card transaction. You'll also be able to track all of your Google Wallet transactions in the app or at wallet.coogle.com. … Once you receive money into your Wallet Balance, you can access it instantly with the Google Wallet card. You can purchase in stores by swiping the card at millions of MasterCard locations or you can withdraw cash from ATMs. You can also transfer the money to your bank account, use it to buy on Google Play or send money to friends."

Auxfin's UMVA value registration system

A recent creation is Auxfin, a highly innovative formula for "banking the unbanked". It allows the transfer of remittances at almost no cost via the UMVA online value registration and management system. At the same time, it contributes to

- financial inclusion of migrants on the one side and of remittances recipients on the other,
- increased cooperation and social cohesion within migrant organizations as well as local institutions,
- spreading ICT and financial literacy,
- assuring a high level of information on senders and recipients,
- allowing better insight into the use of remittances,
- fighting corruption at the sending and the receiving end,
- and increasing transparency of all transactions and thus the trust among the different actors involved.

The system has been tested with remittances from Senegalese migrants in Spain to their home country, and large-scale applications are presently on their way in Burundi and in the DRC Congo. In Burundi, about 1.2 million farmers will be connected to the system, which is also used to administrate the distribution of fertilizer to the farmers.

At the core of the system is the UMVA platform, which allows private persons and organizations to open an account In any kind of organization that works at the rural level. The account can be used to send money to all other account holders within the system. The account holder thus obtains ownership rights to part of a corresponding account in a commercial bank, which is owned either by an association or foundation in the sending or the receiving country.

Money is sent within the system by transferring amounts from one UMVA account (e.g. in the sending country) to another UMVA account (e.g. in the receiving country). The system accumulates these transactions and translates them into bulk bank transfers from its bank account in the sending country to the bank account of the organization that uses UMVA in the country of destination. While the real transfer may take some time, the money can almost instantly be available at the receiving end, because the receiver is notified that money has been sent to his/her UMVA account, and it can either be withdrawn (e.g. at post offices or cooperating microfinance organizations) or used to make payments to other UMVA account holders. UMVA accounts can not only be created for money, they can also be created for commodities (sacks of cement, fertilizer, coffee, school fees, etc.) allowing to trace the use of money for important categories of expenditures.

Users of UMVA accounts receive a basic computer training to handle their account – and to use the internet for access to all kind of relevant information as well as for communication with family members abroad. The better the communication and the links maintained, the larger probably the flow of remittances will be.

Since large groups of recipients and local organizations get connected to the system and open an UMVA account, the system can also be used to make local payments, - reducing the risky use of cash, facilitating the administration of the institutions involved, increasing transparency and cutting down opportunities for corruption. A central role is played by schools, where every student can hold an UMVA account, where financial literacy can be taught, and which also reach out to the parents to involve them in the system.

For information on AUXFIN, see www.auxfin.com.

Prepaid cards

A very easy way to handle remittances and to reduce the price of remittances drastically, using existing infrastructure, is to issue prepaid cards (debit cards), which could be topped up online or via mobile banking. These cards could then be used by receivers to withdraw cash at any ATM machine (probably only in an urban environment) or to use them directly to make payments at stores where the cards are accepted.[78]

MasterCard advertises prepaid cards in the Netherlands, which cost only €10 and do not require a credit check.[79] Prepaid MasterCards are sold as "Lucamoney Cards" in Britain for £ 4.99[80] to anybody who can show a passport or UK driving license and a proof of address.[81] The Silver Lycamoney Card allows additional cards, linked to the same account, which makes it easy to withdraw money by a different person in a different country. They are popular among Ghanaian migrants in Britain.[82]

Dutch banks have been very cautious with prepaid cards or second bank cards. The Dialogue Incubator of ABN AMRO already in 2010 came with the suggestion to use a Pre-Paid Family Card for remittances[83], but this proposal was not picked up by the bank. A large credit card company that actually experiments with prepaid cards is even anxious to be named in the context of remittances. The use by a prepaid card by anybody else than the person for whom the card is issued would for the company be a breach of contract.

In the near future, however, this problem can easily be avoided, when the functions of a prepaid card are incorporated into a mobile phone, because remitters may be inclined to give a debit card to a family member in the country of origin, but would not easily cede their mobile phone to anybody else. Regulators are not charmed by the use of prepaid cards by third persons, because this would not allow tracing the receiver of the money withdrawn.

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[78] With the "Square Register app", introduced by Twitter's Chairman Jack Dorsey, prepaid cards can be processed from a mobile phone, which may extend the use of credit and debit cards considerably, especially in areas with few ATM tellers. Square processes some US-$ 15 billion annually. (Time, 13 January 2014, 22)

[79] https://www.skrill.com/nl/skrill-prepaid-mastercard/overview/?rid=16730621&gclid=CIjCi4y_srsCFY5b3godsV0A_g

[80] Even that small amount is returned to the card owner as a credit once the owner has activated and loaded the card for the first time.

[81] www.lucamoney.co.uk/

[82] Molenaar (2013, 28), too, mentions lending a card to a family member in Ghana, who can then withdraw money from an Amsterdam account of a migrant at a local ATM in Accra, as one of the informal ways of transferring money.

[83] Business Case: Remittances. Presentation by Timo Mulder, Divya S. Chadha and Jaspar Roos, Dialogues Incubator, ABN-AMRO, 1 June 2010.

IV.4.4 Reduction of compliance requirements

Part of the costs for remittance service providers arises because of the required compliance with relevant laws and regulations, - in the sending and in the receiving country. If these requirements were somehow more lenient, remittance transfer could be cheaper (but at a risk). According to the DNB, it is expected that the coming Fourth EU Directive on Money Laundering will contain rather stricter than more lenient requirements.[84] EMA confirms that it expects harsher regulations, which will potentially influence all low value payment transactions in Europe.[85]

After “9/11” in 2001, international pressure has increased to sharpen regulations and to improve the surveillance of international money transfers to prevent payments to terrorist organizations and money laundering. “Since September 11, 2001, regulations have required MTOs and financial institutions apply stricter requirements to remittance transactions, such as tightened Know Your Customer guidelines, the Bank Secrecy Act, and the Patriot Act. These requirements have made the internal costs of regulatory compliance soar. According to one major business, MTOs and financial institutions often have to devote as much as 65 percent of their time and personnel to compliance issues.” (Orozco 2013, 83-84)

Recent analysis by Mara Wesseling has shown that the existing regulations would not have prevented “9/11” and probably did not have an impact on the availability of money to terrorist organisations.[86] And, if CGAP’s prognosis is right, this could mean that the stricter (identification) compliance requirements expected will most likely lead to an increase in the use of informal channels for remittance transfers.

During the EU DEVCO Workshop, it was argued that the focus placed on regulatory issues and compliance requirements as a contributing factor to lowering remittance costs might be too single-focused. While reduced requirements are often cited as a way to lower costs of remittances, these changes require stamina for the long-term as regulations are not changed over night. In the long run they could increase competition and expand room for innovation, but remittances will remain a commodity that is served by industry players with commercial interests. (from Takashi Mobile, interview 7 November 2013)

[84] Interview at the DNB on 7 October 2013. A detailed overview of all EU policy documents on financial crimes can be found on http://ec.europa.eu/internal_market/company/financial-crime/index_en.htm#laundering
[85] Phone interview with EMA on 18 November 2012.
[86] Mara Wessling - *The European fight against terrorism financing: professional fields and new governing practices.* PhD dissertation, University of Amsterdam, defended on 3 September 2013.

Compliance requirements in the EU

According to the Global Payment Systems Survey 2010 of the World Bank, euro-area countries show the highest percentages of countries with relatively strict requirements regarding transparency of remittance services[87]: "The high level of transparency in this region is explained to a large extent by the disclosure and consumer protection requirements under the EU Payment Services Directive 2007/64/EC." The national implementation of EU directives varies from country to country (e.g. with different thresholds for identification requirements), with more elaborated requirements in Great Britain, Germany and the Netherlands, and other countries "catching up".

Compliance requirements in African countries

Many African countries do not have fully convertible currencies, and they show considerable balance of payments deficits. They therefore try to apply strict controls on foreign currency flows. "Most African countries permit only banks to pay remittances. In most countries, banks constitute over 50 percent of the businesses undertaking money transfers. About 41 percent of payments and 65 percent of all payout outlets are serviced by banks in partnerships with Western Union and MoneyGram – the two dominant MTOs on the continent. Indeed, such partnership agreements are major obstacles to the development of [other] mechanisms for remittance transfers." (Dia Kamgnia & Murinde 2012, 4)

In many countries, MTOs have concluded exclusive arrangements with banks for remittances payments. The lack of competition in many African markets for remittances services has kept prices relatively high,–and has thus contributed to a large-scale use of informal channels for remittances. In fact, in a recent survey, almost 70 percent of central banks in Sub-Saharan Africa cited high costs as the most important factor inhibiting the use of formal remittance channels. (Irving, Mohapatra, and Ratha 2010) In countries, where the official exchange of the currency is below the rate that is paid on the black market for foreign currency, this forms an additional incentive to prefer informal channels and to bypass the official banking system.[88]

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[87] World Bank, Payment Systems Worldwide, 2011, 90-92

[88] Writing not about Africa, but about Latin America, Orozco (2013, 85) states that "informal businesses typically operate in countries where flows are not particularly attractive to companies because of their small volume, foreign currency transfers are highly regulated, technology is still inaccessible to individuals and businesses, or customers prefer person-to-person delivery."

In many international forums, recommendations are made that have the objective to influence regulations in remittances receiving countries and to make local payments systems more competitive and more effective.[89] The government of the Netherlands can support such efforts, but changes of national regulations in developing countries are largely beyond reach of Dutch policies. This report therefore limits itself to some short remarks on the four countries chosen.

(a) Nigeria

In Nigeria, "the presence of exclusive agreements has been a primary cause for lack of competition": "As of 2007, twenty-one out of twenty-five banks operating in Nigeria have agreements with MTOs. Fifteen banks work with Western Union, five with MoneyGram, and one with Coinstar and Vigo Corporation (Vigo is owned by Western Union). Thus, Western Union controls approximately 80 percent of money transfer through banks." (Orozco 2013, 93). "In November 2008, however, the Central Bank of Nigeria warned banks against signing exclusive deals with MTOs to hinder competition in a deregulated environment. All deposit money banks were notified that the Central Bank of Nigeria would no longer approve any money transfer agreements between International Money Transfer Operators and agent banks that contain exclusivity clauses." (Orozco 2013, 100, note 22)

While competition as a result may increase, another important bottleneck is the limited extension of the banking network in the country: "The geographic diffusion of bank branches, while very important, is not sufficient to ensure effective delivery across the country. Nearly 35 percent of all bank branches are based in Lagos (29 percent) and Abuja (6 percent) alone. Therefore people may be finding alternative ways for transferring remittances in order to address the lack of choice." (Orozco 2013, 93) A possible remedy could be to allow more financial institutions to participate in the market, e.g. microfinance organizations that reach far into rural areas.[90] (See Dia Kamgnia & Murinde 2012)

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[89] GMTS (London, 2013), EU DEVCO (November 2013), IFAD (Bangkok, 2013), Wereldbank

[90] See Dia Kamgnia & Murinde 2012: Microfinance Institutions actually do not account for more than five procent of all remittances payouts in Africa (according to UNCTAD 2012).
"In many countries - including Kenya, the Philippines, Bangladesh, Jamaica and India– it is possible to send remittances without having to use banks. Providing regulation that is accommodating to new business models will be increasingly important moving forward. New technological advancements in mobile phones and Internet, and as such new operating models, highlight the need to amend regulation, or the implementation and interpretation of regulation, to accommodate and reflect changes in the market." Developing Markets Associates, 2011, 4.

The opportunities for cheap remittances may dramatically increase in the future, if the plans are realized to equip large numbers of Nigerian citizens with an ID card, which combines identity functions with other applications including the MasterCard prepaid payment functionality.[91] This would ease remittances payments through formal channels. This does not imply automatically, however, that most remittances senders will really make use of the cards, since there are many reasons to keep these flows out of the official system.

(b) Somalia

There still is an almost total absence of oversight or regulation of financial transactions in Somalia. With the recent closure of the last international Bank in Somalia[92], ´the remittance companies are the sole international financial institutions operating in Somalia. Omer wrote about ten years ago "Regardless of the formation of a strong central government and/or banking system in Somalia, the remittance/Hawala system will remain an integral part of the Somali economy and monetary system for the foreseeable future. The reasons were as follows:

- Remittance companies have the trust and confidence of their customers;
- Remittance companies have an extensive network of agents that service almost all the towns and villages in Somalia; as well as all major cities and towns in other countries populated by Somali Diaspora;
- Remittance operations are far more efficient than other financial services;
- There are social and historical factors that reinforce a relationship of trust between individuals who are doing business, these are tied to the extended family, geographic and clan factors;
- The cost of remittance is far cheaper than other financial institutions, such as banks.

Currently, the context in Somalia seems to be more favourable to new financial players entering the market. Since 2009, a growing number of mobile providers are offering their services in Somalia, allowing for the growth of mobile banking technology and services to take a hold in the country.

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[91] MasterCard Inc., the second-biggest United States payment network, is working with the Federal Government of Nigeria to issue 13 million debit cards in Nigeria, which will also act as identity cards. See http://www.punchng.com/business/money/mastercard-plans-13-million-debitid-cards-for-nigeria/ Under this plan, the Nigerian National Identity Management Commission plans to introduce more than 100 million cards to Nigeria's 167 million citizens. http://www.technologytimes.ng/mastercard-parleys-jonathan-cashless-nigeria/

[92] See e.g. http://www.somsa.co.uk/news-press/

(c) Ghana

A recent study by Developing Markets Associates (2011, 4) concludes “the Bank of Ghana also has a role to play in reducing the dependency on banks in the money transfer process. At present regulation in Ghana means that remittance payout outlets are confined to banks and the Post Office or agents that have to be visited by the Bank of Ghana. All international remittances into Ghana must be channelled through these institutions. This regulation restricts competition in the market (and thus prices) and affects the convenience for rural recipients where long travel distances can be expensive in terms of both time and cost. These factors contribute to making the informal market more attractive. A change in the regulation, to open up the international remittance market to other outlets, such as retail outlets and mobile phone kiosks, would therefore help to tackle some of these issues. It is acknowledged that the Bank of Ghana has issued guidance notes on Branchless Banking for a bank-led model. This is a good step in the right direction but implementation of non-bank agents is extremely slow due to the requirement for the bank of Ghana to visit every single agent location.”

(d) Ethiopia

The website of the National Bank of Ethiopia provides a good overview of the current regulation of remittances.[93] Recognized Remittance Service Providers are only “licensed transfer houses that provide remittance service to customers either directly by banks via SWIFT or through money transferring agents working in association with banks.”

However, Ethiopia seems to be a good example of how stringent regulations together with official exchange rates below the street market value of foreign currencies push remittances payments into unofficial channels, as our interviews seem to suggest. As long as the disparity of exchange rates remains in existence, cheaper transfer costs via the official channels could not compensate for the unattractive exchange rates in the informal markets. Changes in the regulations alone would therefore have not a big effect on the amount of money that the receivers obtain.

IV.4.5 Influence on costs in receiving countries

Lastly, we turn to the influence that receiving countries can have on the cost structure of remittances. As the report so far has shown, the African remittance market has a low level of

[93] http://www.nbe.gov.et/remittanceservice/index.html

competition in comparison to other regions, especially when compared to the Asian market. Two Money Transfer Operators dominate about 65% of the African remittance market. Due to exclusivity agreements that were once made, these two operators now control most remittance payout locations, and thus have the power to determine prices, locations and type of services that recipients of remittances depend on. Such regulatory arrangements have severely undermined the level of competition on the continent and have created barriers to entry for new players, such as MFIs or post offices. These factors embedded in the recipient country have direct influence on the cost of remittances.

It should be noted that introducing innovations at the receiving end does not necessarily bring down costs considerably. CGAP argues that the cost structure of remittances is built across an end-to-end remittance corridor. (from interview CGAP 19 November 2013) This implies that reducing costs only at one end will most likely not have the expected impact. Rather, it is argued that measures should be taking to reduce costs at both sending and receiving sides congruently. Therefore, changes in the infrastructure at the receiving end for example, would have little potential to reduce the overall cost structure of remittance if measures would not be taken to improve the level of efficiency across the whole value chain.

Having said that, there are opportunities that combine two seemingly separate worlds: lowering the costs of remittances, while supporting financial inclusion for remittance recipients. There are case examples where commercial payment services have collaborated with governments in order to not only include citizens in the traditional financial sector, but also to incorporate them into national databases. For example, the MasterCard's collaboration with the Federal Government of Nigeria to issue 13 million ID cards, which combine identify functions with other applications including the MasterCard prepaid payment functionality. Or, for example, Micro Finance Institutions (MFIs) could prove to be effective remittance disbursers when provided the right capacity, as 20% of people receiving remittances live within the reach of MFIs. Yet, in 2009 they represented only less than 3 percent of remittance payers.

We have also seen in Kenya what innovative technologies could mean for countries with limited financial infrastructures. The introduction of M-Pesa, the mobile money transfer service, is now offering financial payment services to millions of Kenyans and is exploring the market for international m-payments. Still, some issues inhibit initiatives such as M-Pesa to successfully expand their services across remittances corridors. Factors pertaining cross-border m-payments are for example the required authorization to act as a paying institution, limits on and requirements of the amount of money transferred, the possibility of owning a foreign currency account and issues related to AML regulations.

V. Recommendations

These recommendations follow an intensive period of research in which 55 people have been interviewed, primary data has been gathered and secondary literature has been studied. These recommendations consider those issues relevant for the three sectors under study: the financial sector, the public sector, and migrant organizations. For additional recommendations regarding data gathering, the further development of the EU Payment Services Directive, the General Principles for international remittance services of the World Bank, Policy Cohesion and the development of a European Remittances Portal, we suggest to study the recommendations in the EU Report by Isaacs et al (2012).

While reading through the recommendations, it remains essential realizing the remittances market is a fast-changing industry that requires a forward-looking approach when policies are developed and actions are taken.

V.1 Recommendations for the Dutch government

V.1.1. Support to financial literacy programmes "2.0" of migrant organizations

This report has shown that there are many new opportunities for migrants to send money home at considerably lower costs than they run now, and these opportunities will certainly increase in the future (see IV Cost reduction for remittances). Migrants are often not aware of these new channels, and a new generation of financial literacy programmes "2.0" could assist them in this respect (see recommendations for migrant organizations, V.3. Financial literacy programmes "2.0"). There is now considerable experience how such awareness raising programmes should be organized (FReDI Handbook by GiZ). Combining efforts in this field could proof beneficial in terms of outreach and impact: linking financial education programmes to price-comparison websites (see recommendation V.1.6) could prove efficient and meeting the expectations of the target audience.

V.1.2 Support to "Financial Services Deepening" in receiving countries

One of the reasons why migrants do not make more use of the new channels is a lack of financial infrastructure in their countries of origin. This includes the low percentage of citizens with a bank account, a limited number of ATM-machines, limited facilities to send and/or receive "e-money" on mobile phones, exclusive agreements between MTO's and banks, unconvertible currencies or artificial exchange rates, cumbersome banking regulation, restrictions for Microfinance Institutions (MFIs), bureaucratic bank procedures, etc. This has not been a priority area of development cooperation in the past, but more attention to this field could take away many of the bottlenecks for a broader use of formal transfer channels and a reduction of the costs of remittances.

V.1.3 Support to innovative transfer schemes

While the financial services sector will introduce many innovations in the field of international money transfer, development cooperation could support new forms of integrating innovative money transfer schemes into broader development programmes. The Auxfin initiative (see page 74) is a good example for that, since it goes much further than the mere transfer of remittances. It creates incentives for a better organization among the migrant population, it links the transfers to community organizations in the receiving country, it supports the shift from cash transactions to less risky and more transparent electronic transfers, and it helps to fight corruption by accounting not only for monetary flows, but also for material transactions. Such initiatives could make an important contribution to reach several development goals simultaneously, and to use the flow of private money as a leverage to achieve public objectives.

V.1. 4 Support for micro-finance institutions as remittance payment agents

The further expansion of microfinance institutions (MFIs) and their integration into such innovative schemes could help to bridge the "last mile" in rural areas in many countries. That would often entail a change in regulations, allowing for a greater role of MFIs in receiving remittances. Building the capacity of MFIs to cope with the required procedures and regulations, and to deal with questions of liquidity and foreign exchange would be essential. In addition, capacity-building support to such institutions need to be accompanied by financial education programmes for the people they wish to serve, the recipients of remittances (in line with the FReDI recommendations offered by GiZ and the work of CGAP).

V.1.5 Encouraging mobile money transfer

It is a remarkable that mobile money transfer has become possible in some of the poorest and most conflict prone countries (Afghanistan, DRC), but not in other developing countries, where the situation is more stable and the infrastructure more developed (and thus already offering a more efficient and safe payment system). Similar facilities in other countries with a low bank penetration, but a high number of people with mobile phones, could make a very important contribution to reduce the costs of remittances and to streamline payment services. A support to such initiatives, as DFID gave in the early phase of the discussions that lead to the creation of M-PESA, would fit well into a policy to achieve the "5 x 5" objectives.

V.1. 6 Support to price-comparison websites

Though comparative information on the costs of different channels is not always effectively used by migrants (Orozco 2013, 61), it has an important function. The now defunct website "geldnaarhuis" should be revived – with a greater emphasis on the different new and alternative channels that have come into existence, as was emphasized during the EU level discussion on meeting the G20 5x5 objective. It could be expanded to serve a broader purpose focused on meeting the needs of its target group. This could involve including an online financial education programme and/or linking the site to opportunities for development or investment in home countries. The EU report (Isaacs, 2012) offers recommendations for the configuration and support structure of such price comparison website. Different structures could be thought of where the programme is fully or partly funded by the government, and/or co-financed by the private sector. However, in practice most 'surviving' models required some form of government funding.

V1.7 Continued cross-sectoral discussions

The steering committee that was established for the purpose of supporting the research that lead to this report was a first step towards structural discussions between different representatives in the industry. It represents a mix of interest groups (representing banks and MTOs), public institutions, regulatory bodies, and academics. It is advisable to continue discussions after the report has been approved to discuss short-term, mid-term and long-term plans for addressing structural issues that the remittance market is dealing with. Such sessions should be fed by consultative sessions with migrant representatives and results could feed back into these groups.

V.1.8 Cooperation in international organizations

Many initiatives at the global and regional level have been taken, which the Dutch government can (continue to) support in order to

- improve financial services in countries of origin and make them more inclusive,
- reduce the obstacles for international mobile money transfers,
- adapt international regulations regarding anti-money laundering and crime prevention to the actual risks,
- support institutions like the African Institute for Remittances to gather relevant statistics and to spread information on innovative ways to transfer and use remittances.

V.2 Recommendations for regulators

V.2.1 Constructive international discussion on regulatory changes

The unintended consequence of increasing regulatory oversight because of perceived risks in the sector is a growing use of the informal sector. From discussions with migrant representatives, as with industry players, it follows that increasing identity requirements for low value transactions and having the sector adhere to more reporting requirements carries the potential of increased costs, and a push of customers towards the informal sector. Regulators are urged to support international discussions on transnational approaches towards a balanced regulatory framework that weighs perceived risks with the burden of compliance. The follow-up discussion organized by the EU G20 coordinator at EU DEVCO in the coming months could be relevant.

V.2.2 Interaction with peers in developing countries

An efficient and transparent remittance industry will require action at both ends of the transfer process. Inviting interaction with peers in developing countries, and specifically in the corridors served by the Dutch market, would stimulate the development of regulatory frameworks that respond to transnational trends.

V.2.3 Pro-active approach towards innovators

If the proposed changes in the 4th AML Directive ("the MLD4") are adopted, this will have a serious impact on the remittances-related services offered by electronic money providers (including telco's, card-based services and online services). Rather than waiting for the regulations to take hold, it is advisable for Dutch regulators to take on a pro-active approach towards the industry and continue discussions with industry players to develop adequate responses for the Dutch market to the changes at the European level.

V.2.4 Include migrant representatives in Maatschappelijk Overleg Betalingsverkeer[94]

Migrant communities are currently not approached as a separate market segment in the financial sector, nor by regulatory bodies and are therefore more or less a 'blind spot' for authorities. However, this report has shown that the type of industry, as well as the specific needs and requirements of migrants would request a targeted approach. It is suggested to include migrant representation in the biannual discussion of the MOB (Maatschappelijk Overleg Betalingsverkeer), which allows civil society to participate in discussions on relevant payments-related issues in the Netherlands. This could take shape in the form of consultative feedback sessions with migrant communities, as the diversity of the population might not offer the opportunity for 'a single voice' at a biannual meeting.

V.2.5 Renewed investigation of market dynamics

Based on the reports from other countries on potential mal-practice of remittance service providers, especially in the field of transparency and information-provision on foreign exchange rates, it would be advisable for the Authority Financial Markets (AFM) to reinvestigate the sector, based on two notions that follow from this report in chapter II and IV: (1) migrants might be a 'blind spot' to authorities (and are less inclined to file complaints), and (2) remittances prices might include hidden costs in foreign exchange rates.

[94] The National Forum on the Payment System (known by its Dutch acronym MOB) promotes the efficiency of the Dutch payments system. Broadly based, the Forum represents both the providers and the users of payment systems, including retailers' and banks' umbrella organizations, the consumer interest association Consumentenbond, and disabled people's organizations. The Forum holds regular consultations on the social implications of developments in payment systems. Its key focus is to establish how the payments system can be run more efficiently for consumers, businesses and banks alike – which is why the Forum brings together players from different ends of the payments spectrum. The MOB does not merely collect and analyses data, it also makes baseline agreements. The Dutch Central bank chairs the Forum. In addition to the core group, the Forum has working groups focusing on particular issues and a special consultative platform." (source: NVB)

V.3 Recommendations for financial institutions

V.3.1 Recommendations for Dutch banks

V.3.1.1 Reduction of perceived thresholds for migrants

The large Dutch banks do not explicitly target the migrant population in the Netherlands, though it is a considerable percentage of the Dutch population. More explicit efforts could be made to address a migrant audience and to reduce the (perceived) thresholds for financial services offered by banks. Banks could encourage their staff to participate actively in financial literacy programmes of migrant communities, which would also help to reduce the social distance between the banks and many migrants.

V.3.1.2 Negotiate reduction of "OUR" costs with partner banks

While the transfer provisions of banks for money transfers to the countries of origin are relatively low, the "OUR" costs charged for the services of the correspondent (intermediary) banks in the receiving country can be quite high. Negotiations with partner banks could take increases in efficiency and competition into account and lead to lower charges for this component of the total remittance costs.

V.3.1.3 Support to partner banks in introducing mobile money accounts

The banking sector is – for good reasons – a quite conservative sector. Banks could distinguish themselves from competitors if they encourage their partner banks in receiving countries to offer services like M-Shwari[95], introduced in cooperation with the Commercial Bank of Africa. Such forms of cooperation could trigger a more intensive use of bank accounts for remittance transfers.

V.3.1.4 Develop innovative financial services for "circular" migrants

Banks could increase their share in the remittance market, if they came up with innovative products, which address the increasingly "transnational" needs of circular migrants, who simultaneously build up an existence "there and here". These could be saving and pension accounts, insurance products, (cross-border) mortgages, investment credits etc. adapted to

[95] M-Shwari is a new banking product for M-PESA customers that allows saving and borrowing money through your phone while earning interest on money saved. M-Shwari also offers emergency loans to its customers.

the ambitions of an increasingly mobile migrant population that creates bridges between the sending and the receiving countries.

V.3.2. Recommendations for MTOs

V.3.2.1 Know your customer for product development

Most MTOs and industry players that were asked during international events when they had last done market research among their customers into their needs and requirements, answered negatively. Especially traditional MTOs working with cash-based models and agent-networks appeared to have spent only limited attention to 'knowing their customer' for their own marketing. Innovative players on the other hand use social media and context-related information of their online users to learn more about customer behavior. By conducting market research, new products could be developed that could improve efficiency of services and better meet the needs of remitters and receivers of remittances.

V.3.2.2 Engage more with recipients of remittances

CGAP and others (such as Remitly) foresee a shift of focus from senders deciding on modes of transfer and services, towards receivers having a greater say in the services that are used and the way they receive the funds. It is expected that app's and digital solutions will be offered to receivers that offer geo-location services for receivers to find out the nearest pay-out location on their phone, or services such as Yelp that allow customer-rating of offices so that potential clients can diversify their options.

V.3.2.3 1% Development fund

A number of migrant representatives have mentioned that migrants would be attracted as (new) customers if a social purpose was added to the service. Their suggestion is to work together with RSPs in creating 'development funds' that could for example be formed by a percentage of each transfer that is to be deposited in the fund, and the fund to be spent for development purposes in the corridors the RSPs serve. This is in line with the well-known Mexican 'Tres por Uno' initiative. Even when costs might be relatively higher than the competition, it is expected that such added services could attract a larger customer base (and thus perhaps pulling in clients that formerly gave preference to informal channels).

V.4. Recommendations for migrant organizations

V.4.1 Financial literacy programmes "2.0"

The remittance market is in a process of fast change. Even professionals active in the market often lack an overview of recent developments and new competitors. It would therefore be strange if all migrants were aware of up to date information about the available channels and the costs of different channels within the corridors most interesting for them. Many migrants regard themselves as fully financial literate, while they are not aware of recently created opportunities. They may not feel the urgency of getting more information, because many of them have found a way to transfer money which is satisfactory for them, though it may not be the least costly, the most secure, the fastest, or the most advantageous for the receivers. There is certainly a need for a new generation of financial literacy programmes, though this need might not be felt within migrant organizations. The recent *Handbook on financial literacy for remittances and diaspora investments (FReDI)* provides detailed suggestions on such programmes. It recommends, for example, combining financial literacy with other project activities, e.g. developing remittance-linked financial products in cooperation with financial institutions and linking the trainees to the financial institutions (FReDI, p. 13).

V.4.2 Influence on the financial system in the receiving countries

Migrant organizations could stimulate that the receivers of remittances open bank accounts, which would allow the use of cheaper channels. In countries where banks demand relatively high initial deposits, but where owners of a mobile phone can hold a mobile money account, such accounts could fulfill the same function. The same holds true for the participation in microfinance networks. Migrants can inform family members about the advantages of channels for "account-to-account" transactions and can stimulate them to create such accounts. Beyond their influence on receiving family members, they could sometimes also exercise some influence on the regulatory framework in the receiving country, by proposing adaptations that would ease the flow of remittances.

V.4.3 Aggregation of remittances to assure lower transfer cost

The pooling of remittances to allow lower transfer costs is often done in an informal way. Regulatory authorities find this worrisome, since it is against the “Know Your Customer” principle. However, innovative schemes like Auxfin allow at the same time the aggregation of remittance flows and a detailed administration of the origin of such flows. Such schemes should therefore meet less regulatory objection. At the same time, they could give an additional purpose to migrant organizations, make membership more attractive, and strengthen the links between these organizations and local communities in receiving countries.

V.4.4 Market migrant communities as specific market segment

As has been mentioned in several of the above recommendations, migrants are in many cases not perceived as a specific market segment in the Netherlands. Still, members of migrant communities appear to have very specific needs and requirements that are currently not met by the financial sector. This conclusion can be drawn from the fact that many still prefer the informal services, above the formal. Migrant associations could play a role as intermediaries in discussions with the financial sector and pro-actively engage with their members as well as with industry players to address the needs of their communities.

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Annex 1: List of interviewees

Organization	Name Interviewee	Date
ABN AMRO	Axel Beune	25-nov-13
ADPC	Albert Che Suhnjwi	28-nov-13
AFM	Martijn van Andel	19-nov-13
AfroEuro (Ghanaian community)	Vincent Gambrah	06-nov-13
Auxfin	Cornelis Heesbeen	08-nov-13
Bakaal General Trading (MTO Somalia)	Amid A. Ibrahim	07-dec-13
CGAP	Xavier Faz	19-nov-13
Chaabi Bank	G. Anakhrouch	15-nov-13
De Nederlandsche Bank	Ayse Zoodsma-Sungur	07-okt-13
De Nederlandsche Bank	F.W. de Rooij, Saliha Emjadi, Ayse Zoodsma-Sungur	07-okt-13
DHB Bank	Pinar Ture A. Sag	14-dec-13
Dialogues House	Jaspar Roos, Aneliya Evtimova	09-dec-13
Dutch Banking Association (NVB)	Marc van der Maarel	15-nov-13
Dutch Embassy in Ghana	-	22-nov-13
Dutch Embassy for Somalia (Nairobi)	-	19-nov-13
Ethiopian community	vrouwelijk	16-okt-13
Ethiopian entrepreneur	Siicid Ducaale	19-nov-13
EMA	Simon Lelieveldt	08-nov-13
Ghanaian community	vrouwelijk	11-nov-13
Ghanaian community	focusgroep	06-dec-13
Goodwill Homage Foundation	Joshua Ebule	27-nov-13
Hirda	Fatumo Farah	22-okt-13
ING Bank	Kawita Doerga	12-nov-13
IntEnt Maroc	Asmae Idrissy	30-okt-13
International Card Service	Cornelie van Holthe	03-dec-13
Izere (Burendese Migrant Organization)	André Nkeshimana	31-okt-13
Kaah Express	Peter Mulder	
Cape Verdian entrepreneur	Lucia Dias	26-nov-13
Ministry of Foreign Affairs	Jaap Smit, Richard Dons	01-nov-13
Ministry of Foreign Affairs	Rene Spitz, Lidy Navis, Nelleke van der Walle	06-nov-13
Ministry of Finance	Iris Vissers Meike Kramer	01-nov-13
Mondato	Diana Boncheva	10-okt-13
Money Trans	Fernandez Rosa	07-nov-12
MoneyGram	Janine de Pee	27-nov-13
Nederlandse Vereniging van Banken	Chris Buijink Marc van der Maarel	17-dec-13
NVGTK	P. Mulders	06-nov-13
PHB Development	Gera Voorrips	18-dec-13
Rabobank	Milco Lust	05-nov-13

Rabobank	Gijs van Tuyl	29-okt-13
Rabobank Development	F. Nagel	04-dec-13
Recogin (Ghanaian community)	Charles van der Puye	10-okt-13
Remitly	Matt Oppenheimer	11-nov-13
SEVA	Radj Bondhoe	11-nov-13
Sierra Leone Migrant Organization	Ababukar Bangura	14-nov-13
Small World	A. Kuyper	20-nov-13
SPARK	Marc de Klerk	26-nov-13
Suri-Change	V. Misier	30-okt-13
Takashi Mobile	Dan Armstrong	07-nov-13
Text to Change	Hajo van Beijma	06-dec-13
Unity Money	Linda Boers M. Douglas	02-dec-13
Vital Aid Foundation (Nigerian Migrant Organization)	Marylin Marthins	30-okt-13
Vodafone	Klaas van der Molen	10-dec-13
Vodafone Group, London	Claire Alexandre	14-nov-13
Wellsfargo	Daniel Ayala	18-dec-13
Western Union	Ted Jansen	30-okt-13
	Klaas Molenaar	12-dec-13

Annex 2: Settlement of Remittance Transfer

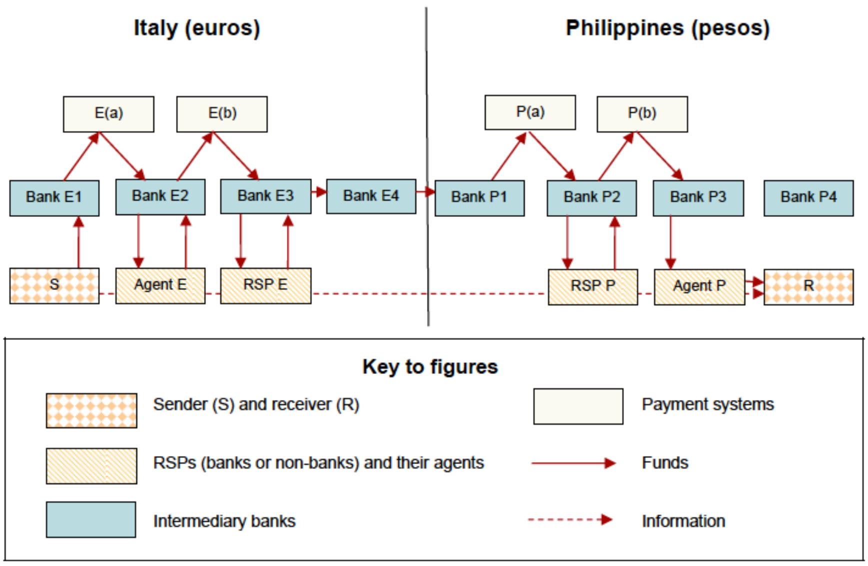
This annex[96] uses stylized examples of remittance transfers from Italy to the Philippines to illustrate how remittance services settle. The initial example is designed to show that even a remittance service that appears to be simple to end-users may involve complex settlement arrangements. Three variations on the example with less complex settlement arrangements are then considered.

Description of initial example

Figure 1 illustrates a sender (S) in Italy transferring euros (say, €200) to a receiver (R) in the Philippines, who will be paid in pesos. It is assumed that the capturing agent and capturing RSP in Italy are different entities, and that they, and the sender, have euro accounts at different banks. Similarly, the disbursing RSP and the disbursing agent in the Philippines are different entities, and they, and the receiver, have peso accounts at different banks. Both countries have two domestic payment systems, which settle at the central bank.

The capturing and disbursing RSPs are assumed to be part of a negotiated network in which the information about the remittance is sent separately from the funds (eg by encrypted e-mail), as shown by the dotted line, and passes more or less immediately from one end of the chain to the other.

Figure 1



96 The Annex is copied from the World Bank (2007)

Step 1: sender to capturing agent

In the first step, S uses a debit card to pay euros to the capturing agent (Agent E). How many pesos this translates to, depends on the exchange rate used by the agent. The debit card transaction results in S's euro account at Bank E1 being debited and Agent E's euro account at Bank E2 being credited, and at some point, depending on how payment system E(a) works, Bank E1 settles with Bank E2 across the accounts they hold at the central bank. This step is a normal domestic payment.

Step 2: capturing agent to capturing RSP

The second step is for Agent E to pay the capturing RSP (RSP E). The agent is assumed to do this only once a day, when it transfers all the euro amounts it has collected on behalf of RSP E that day (not just the euros from S). The agent makes a credit transfer (eg. a bank giro credit) through payment system E(b), which results in its account at Bank E2 being debited and RSP E's account at Bank E3 being credited. Again, at some point that depends on how system E(b) works, Banks E2 and E3 settle across their accounts at the central bank. This is also a normal domestic payment.

Step 3: capturing RSP to disbursing RSP

The third step is for RSP E to transfer the funds to the disbursing RSP in the Philippines (RSP P). Again, it is assumed that it does this once each day for all Italy-Philippines transfers it handles that day, which may include funds from other capturing agents in addition to Agent E. (It is also possible that the RSP has a relationship with more than one disbursing RSP in the Philippines, but here it is assumed that there is only one.) This step, which involves a number of sub-steps, uses international correspondent banking.

Sub-step 3a: between banks in Italy

To transfer the funds to RSP P, RSP E asks its bank, Bank E3, to make an international transfer of pesos to RSP P's account at Bank P2. It is assumed that, perhaps because it does not have much international business, Bank E3 does not provide an international payments service directly but instead uses global Bank E4, where Bank E3 holds a euro account for this purpose. Bank E3 gives the information about the transfer to Bank E4, which in return tells Bank E3 the euro value of the transfer, which depends on the exchange rate Bank E4 uses (this need not be the same rate used by RSP E and its agent Agent E to charge S).

To pay for the transfer, Bank E4 debits Bank E3's account. This assumes that Bank E3 has a sufficient balance on the account or that Bank E4 will give Bank E3 credit. If not, Bank E3 will have to first transfer euros to its account. Bank E3 may have a range of business going across the account, both outflows and inflows. Bank E3 will therefore monitor the account and transfer euros to or from it as the amount on the account becomes too small or large. Any amount transferred on that day may thus bear no relation to the business of RSP E, let alone the specific transfer of S.

Sub-step 3b: cross-border transfer between banks

It is assumed that, to make and receive payments to and from the Philippines, Bank E4 holds a peso account with Bank P1 (a so-called international correspondent bank relationship). Bank E4 therefore gives an instruction to Bank P1 to credit pesos to RSP P's account at Bank P2. Again, Bank E4 must have sufficient pesos on its account at Bank P1 or sufficient credit to do this. From time to time, Bank E4 may need to go to the foreign exchange market to buy or sell pesos to keep the balance at a reasonable level.

Sub-step 3c: between banks in the Philippines

Bank P1 then transfers the money, by credit transfer, through the Philippines payment system P(a) to Bank P2, and Bank P2 credits the funds to the account that RSP P holds there. Depending on how payment system P(a) works, Bank P1 settles with Bank P2 across their accounts at the central bank. This is a normal domestic payment.

Step 4: disbursing RSP to disbursing agent

The fourth step is for RSP P to pay the disbursing agent in the Philippines (Agent P). RSP P may deal with several agents, so of the pesos received from RSP E that day, only some will be destined for Agent P. (Likewise, RSP P may have received funds not just from RSP E but also from other capturing RSPs around the world that are for Agent P.) RSP P thus tells its bank, Bank P2, to transfer the relevant amount of pesos to the account that Agent P has at Bank P3. This is a normal domestic payment, using payment system P(b).

Step 5: disbursing agent to receiver

Finally, the fifth step is for Agent P to give the money to the receiver, R, in cash. Agent P knows from the information provided by the capturing agent how many pesos to give R.

Analysis of the example

The example illustrates a number of points about how remittance transfers are made.

- **Multiple payments**. The transfer consisted of a set of individual payments - in this case five payments (S to Agent E, Agent E to RSP E, RSP E to RSP P, RSP P to Agent P and Agent P to R), each of which was made in a different way (eg using a different payment system). Moreover, one of the payments (from RSP E to RSP P) itself involved three transactions (from Bank E3 to Bank E4, from Bank E4 to Bank P1, and from Bank P1 to Bank P2).
- **Speed**. The whole process may take a significant time. That depends in part on certain fixed schedules (eg the speed of the different payment systems involved) and on the speed of each of the parties to the transactions (eg when it receives the payment instruction from Bank E3, how quickly Bank E4 passes it on to Bank P1).
- **Liquidity**. The process has been described as if the steps occurred in sequence but this does not have to be the case. The steps could be out of order, provided the payer concerned (a) has the necessary information to do so, (b) has the necessary funds (liquidity) to do so and (c) is willing to do so (given that if it pays before being paid it may face the risk of losing the money). For example, some RSPs offer an almost immediate service - within a few moments of the sender initiating the remittance, the receiver can collect the funds. That could be possible in this example (where, as part of the negotiated network, information flows immediately from Agent E to Agent P), provided that Agent P is willing to pay out the funds to R before it receives them from RSP P. In practice, if it wants to provide a fast service, RSP P may provide liquidity to Agent P - it might provide Agent P with a float. Or Agent P may have to claim ex post for the money it has paid out that day, but be compensated for this by receiving a higher fee from RSP P. RSP P may then use its own liquidity to cover the time until the funds actually arrive from RSP E (the cost of this being built into the fees charged to R and/or S), or RSP E may be required to maintain a balance in an account on which RSP P can draw.
- **Batching and netting**. Because they are only small amounts, the funds associated with individual remittances are unlikely to be transferred individually or in real time throughout the process. Rather, the funds from multiple remittances are likely to be batched and transferred as a single payment - in this example, it has been assumed that this happens once each day. Batching is possible because (as noted above) it is

assumed that the information about the individual transfers is transferred separately and so does not need to accompany the funds. Sometimes, the payments may also be netted (eg if there is also a flow from the Philippines to Italy) so that only the smaller net amount needs to be transferred.

- **Exchange rates**. Because S pays in euros but R receives pesos, RSP E (through its agent, Agent E) needs to use an exchange rate to decide how many pesos R will receive. To do this, it would be useful for RSP E to know what exchange rate its bank, Bank E3, will use, while, in turn, it would be useful for Bank E3 to know what rate Bank E4 will use. As mentioned, Bank E4 does not necessarily have to buy pesos in this example (it may already have enough on its account at Bank P1). Nevertheless, it will typically charge Bank E3 a rate close to the current open market rate, and the rates charged by Bank E3 and RSP E will be related to that rate. But because there may be a significant time gap between S initiating the remittance with Agent E and Bank E4 converting the euros to pesos, not all exchange rates may be known in advance and thus a margin is likely to be built into the rates actually charged in case rates move adversely in the meantime.

Annex 3: Toolbox for General Principles

The International Conference on Remittances in Rome has identified a set of possible initiatives according to a "tool box" approach, embracing various means to lower the costs of remittances and to improve their development impact[97]:

1- improvement of data accuracy, for example through the use of migration and remittances modules in household surveys
2- promotion of transparency and consumer protection in the market
3- creation of national databases to inform customers and other interested parties on the costs of sending remittances
4- activities of moral suasion, advocacy and monitoring by relevant authorities
5- participation to international initiatives and working groups, such as the Global Remittances Working Group
6- establishment of codes of conduct for remittance operators
7- creation of sound, predictable, non-discriminatory and proportionate legal frameworks on remittances
8- implementation of best practices to increase the access to finance through remittances
9- elaboration and financing of projects in the field of remittances, including those that encourage innovative instruments of payments to facilitate the transfer of remittances
10- efforts to continue monitoring the impact of financial crisis on migration and remittances
11- global survey of Central Banks on various areas to be updated, at least every two years
12- analysis of impact of remittances on development including thei role post-natural disasters, labour market participation, poverty reduction, education and health outcomes, and role in providing financing for small business investments

[97] The informaion is drawn from the Rome Road Map for Remittances (published 9th November 2009) http://www.esteri.it/mae/approfondimenti/20091230_Rome_Road_Map_for_Remittances_fin.pdf

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