

## **IX. REMITTANCE PAYMENTS & THE BANKING SYSTEM**

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**- Meeting of the Associates, Istanbul, 19 May 2006 -**



## Remittances attract attention

- **June 2004 G8 summit:** to reduce the cost of making remittances
- **European Investment bank:** Study on improving the efficiency of workers' remittances in Mediterranean countries (March 2006)
- **BIS/CPSS/World Bank:** General principles for international remittance services (March 2006)

### EU level

- **European Commission:** Communication on Migration and Development (September 2005) – COM(2005)390 Final

See:

[http://europa.eu.int/comm/justice\\_home/doc\\_centre/immigration/relations/primer/doc\\_immigration\\_relations\\_en.htm](http://europa.eu.int/comm/justice_home/doc_centre/immigration/relations/primer/doc_immigration_relations_en.htm)



## Communication of the EC

Critical remarks towards the banking industry concerning:

- 1) the cost of sending remittances
- 2) the conditions under which they are sent

Three main areas of policy actions were designated in the Communication:

- making transfers cheaper, faster, safer and more transparent
- enhancing the access of migrants to banking and financial services
- enhancing their development impact in recipient countries



## Meeting of Mr. Pebereau with Commissioner Frattini:

- FBE welcomes the discussion of the various aspects relating to remittances
- The Commission supports any project in order to decrease the costs of sending remittances and is seeking cooperation of the banking sector in this respect .
- **The Commissioner is waiting for suggestions on the following issues:**
  - initiatives to improve transparency in the remittances (statistics regarding these transfers and costs)
  - costs of those transfers
  - information about the opportunities of development in the countries of origin of the migrants

**Management Committee:** green light to launch the pilot project of remittances with selected countries

- Turkey was selected as the TBA is an associated member of FBE



# Pilot project

## Goals of the project:

1. To make remittance sending mechanisms more efficient (transparent, fast and at the lowest possible cost);

In this context it is necessary to consider:

- Direct costs paid: fees and commissions;
- Costs for foreign currency exchange;
- Speed of the transfer;
- Security of the transfer
- Information to the sender/receiver

2. To stimulate the transfers through formal channels

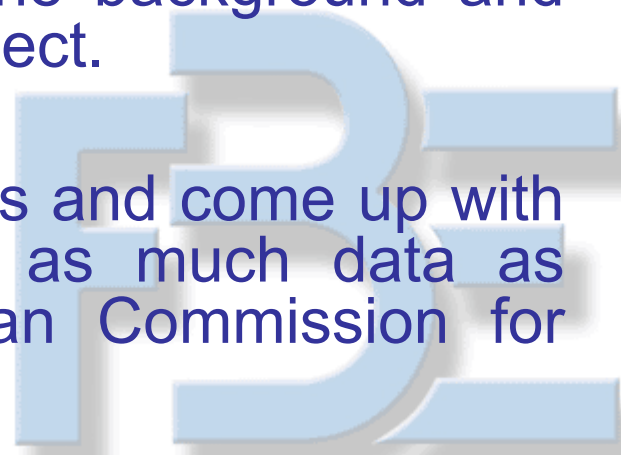
It is necessary to consider:

- Proximity
- Accessibility



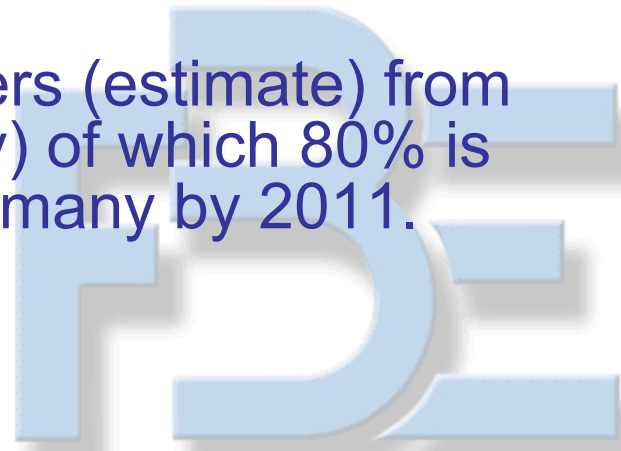
## To be noticed:

- The official statistical data are very poor, often apparently underestimated, outdated, the available figures diverge greatly and do not reflect informal and illegal remittance channels and figures.
- The aim of the presentation is to summarize the available data to give a broad idea about the selected basic figures to better understand the background and the ideas for the launching of the project.
- We will try to reinvestigate the figures and come up with a feasibility study in order to get as much data as possible. We will ask the European Commission for cooperation and data sharing.



## Selected figures on migrants

- 175 millions persons living outside their country of birth or citizenship for more then 12 months
- **Europe:**  
Four EU countries: France, Germany, Italy, and the UK have together 72.16 % of the entire foreign population of Europe
- EU enlargement: 335 000 new workers (estimate) from all Eastern Europe (excluding Turkey) of which 80% is expected to move to Austria and Germany by 2011.



# Selected figures on remittances

- World Bank: officially recorded remittance-related flows worldwide are estimated at \$232 billion in 2005
- Remittances are expected to rise significantly in the long term

## Top 5 corridors based on remittances

Top 5 corridors based on remittances	
1	Germany – Turkey
2	France – Morocco
3	France – Algeria
4	Netherlands – Turkey
5	Netherlands – Morocco

Source: EIB Study on improving the efficiency of worker's remittances in Mediterranean countries



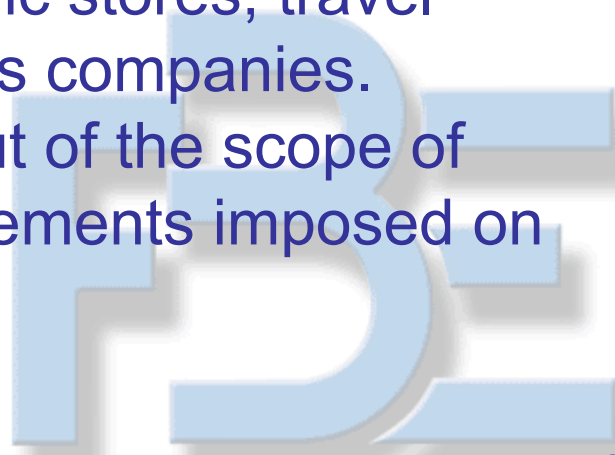
## Turkey

- 3.45 million Turkish migrants all over the world
- 85% located in Europe
- 75% of Turks living in Europe live in Germany
- 33% in Rheinland Westfalen and 31% in Southern Germany, most Turks are coming from Anatolia
- 320 000 Turks live in Netherland
- 208 000 live in France



## Remittance channels (formal and informal)

Once a country introduces a regulatory regime for all remittance providers, providers that fail to be registered or licensed are illegal. Remittance providers can be banks, money-transfer operators, non bank organisations like credit unions, microfinance institutions, exchange offices, but also individual business people, traders, ethnic stores, travel agencies, petrol stations, courier and bus companies. Informal providers are those, who are out of the scope of regulatory framework without any requirements imposed on them. (unrecorded channels)



## German – Turkish corridor

### EIB study:

- Formal channels
- Turkish banks are the major remittance channel
- Over the years the costs for fund transfers have been kept by Turkish banks relatively low (1.3-2.5%) and they also provide a more rapid service compared to other channels.
- At the moment the Turkish banks in Germany have started to offer new products -such as Turkey-related investment funds- targeting the migrant population.
- German banks only have a minor share of the remittances market.
- German banks willing to enter the remittance market either have to find a correspondent bank in Turkey or they have to set up their own branch in Turkey



## **EIB examples by sending EUR 400 from Germany to Turkey**

- The transfer through the Turkish bank was cheap, fast and easy (1.3 – 2.5%)
- After the sender had identified himself, the funds were transferred to the account of the recipient in just one day
- There was no need for the sender to have a bank account
- The transfers through the MTOs were also fast and convenient, but more expensive. (5% by Western Union with minimum Eur 26, Euro 21 by Money Gram)



## Specific role of the Turkish Central Bank

- Held two specific bank accounts to the individual migrants with higher interest rates than the Turkish commercial banks with the aim to channel the sources into savings and investments in Turkey. (Foreign Currency Deposit Accounts and Super FX Accounts)
- The total amount of remittance deposits on these accounts reached almost **14 billions Euro in 2004.**
- From the long term perspective, these operations seem very costly for the Central bank and outside of its principal duty and therefore their removal is envisaged in the long term.
- This will be a great chance for Turkish financial sector to develop and offer new financial products to attract remittances as there are 14 billions Euro in question, which will be “thrown” into market.



## What Next?

### Turkey or another country?

#### Decision criteria:

- the amount of remittances?
- the number of migrants?
- the development of the remittance market?
- Market potential? (generation)
- Other?

**YOUR VIEWS ARE WELCOME!**

