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22<sup>nd</sup> MEETING OF THE ASSOCIATES  
- Istanbul, 19 May 2006 -

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**ITEM 9 OF THE AGENDA: REMITTANCE PAYMENTS AND THE BANKING SYSTEM**

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Recently our President, Mr. Pébereau and the Secretary General, Mr. Ravoet had a meeting with Mr. Franco Frattini, the EU Commissioner on Freedom, Security and Justice. During this meeting the issue of the remittances was raised by the Commissioner, and more specifically on the ways transfers of remittances could be made cheaper and faster by the EU banking system.

Commissioner Frattini raised two main issues:

- How the banking system could on the one hand improve the transparency of those money transfers (and the connected problem of the financing of the activities of terrorism as well as the means to fight it) and, on the other hand, reduce the cost of those transfers.
- The link between the migratory policy and the economic development in the countries of origin of migrants: how to encourage migrants to invest in their country of origin.

Regarding the above issues, the Commission is requesting cooperation on the long term with the banking sector.

Michel Pébereau said that commercial banks were ready to commit themselves on those two topics.

The issue of remittances as such is not a new one and in the past it has attracted the attention of many prominent institutions across the world, such as the International Monetary Fund, the OECD and the Inter-American Development Bank. However, in the last decade the global amount of remittances has more than tripled and the EU alongside the US are the two biggest economies from which a substantial portion of world wide remittance payments are originating. According to the International Monetary Fund's and the OECD's figures, around 200 billion Euros of remittances were transferred from industrialised countries, to developing countries last year alone. The estimated EU share

of it could be around 30-40 billion Euros a year, if not more. According to available statistics Turkish residents are among the main recipients of remittance transactions from their relatives residing in the EU.

One of the main characteristics of remittance payments is the regularity of transfers and the relatively low amount of money involved per transaction (100/200/300 euros). Indeed, this situation generates a substantial number of these financial transactions, according to estimates in the EU it could reach 150-200 million transactions *per* year. The overall costs are estimated to stand at the very high level of 7%.

However, despite the relatively high costs of such transactions, the nominal income derived from them still does not, as a rule, cover the banks outlaying costs when the recipient resides in a country outside the EU. As a result, in most of the EU countries, a vast majority of these transactions are being carried out by the financial intermediaries such as Western Union.

Following the meeting with Commissioner Frattini, the EBF is currently considering looking more closely at possible solutions for reducing the costs for banks, resulting from these transactions, with a view to allowing our banking system to deal with such payments more efficiently, and to provide substantially lower costs for customers transferring remittances.

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

A presentation on Remittances will be made by Patrick Poncelet, Head of the Payments Department during the meeting.

Attached to this note is a copy of the presentation (enclosure 1) as well as a note on remittances (enclosure 2) and a summary of the EBF project plan (enclosure 3).

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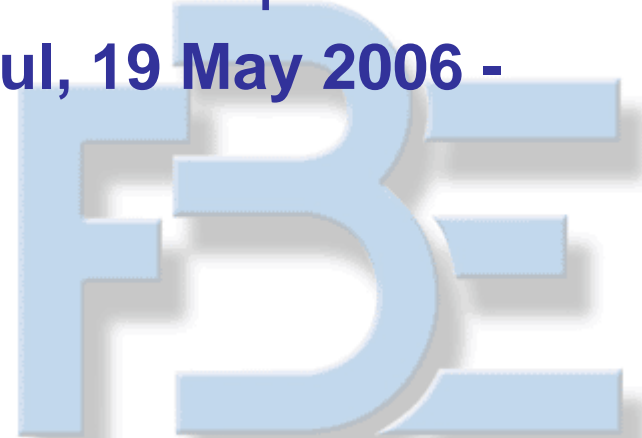
Enclosures: 3

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

**Patrick Poncelet**

Head of Payments & Securities Dept.

**- 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/printer/doc\\_immigration\\_relations\\_en.htm](http://europa.eu.int/comm/justice_home/doc_centre/immigration/relations/printer/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

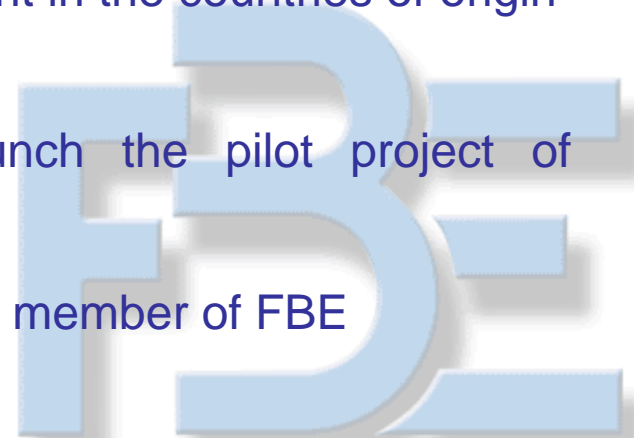


## Meeting of Mr. Pebereau with Commissioner Frattini:

- 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



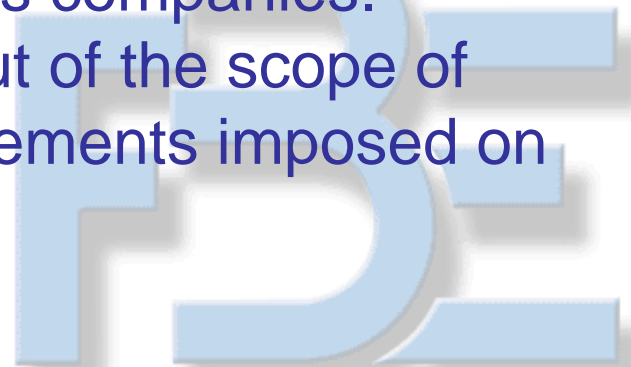
# Turkey

- 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)

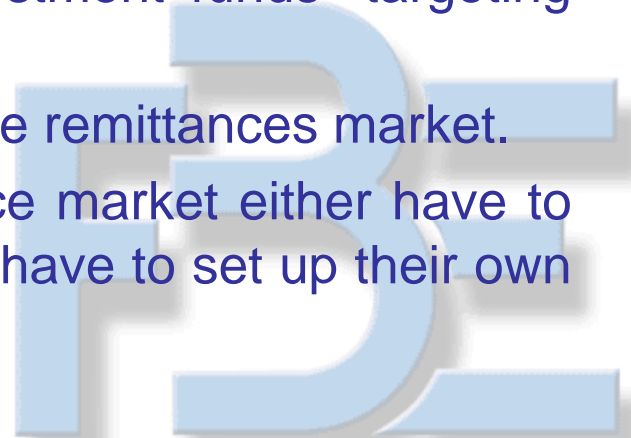
Once a country introduces a regulatory regime for all remittance providers, providers that fail to be registered or licensed are illegal. Remittance providers can be banks, money-transfer operators, non bank organisations like credit unions, microfinance institutions, exchange offices, but also individual 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?

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### Remittances

Nowadays about 180 million people live outside their country of birth. Future pressure for international migration will be great, driven by differences in demographic and real incomes between countries.

Developing countries, and in particular those which have provided the largest migration flows towards the OECD member countries since the middle of the 20<sup>th</sup> century, wish to be better integrated into the world economy.

Workers' remittances have more than doubled in the last five years, reaching USD 216 billion, of which USD 151 billion went to developing countries. For comparison the latest figure was USD 126 billion for 2004, USD 93 billion for 2003 and USD 72 billion for 2001.

In several emigration countries, remittances in 2004 largely exceeded the volume of official development aid (ODA), and in certain cases even of foreign direct investment (FDI) or income from the exports of goods and services. Remittances constitute a considerable source of hard currency for countries of emigration, sometimes covering several months of imports.

According to certain analysts, remittances, which can be considered as structured financial flows, could contribute to a reduction of poverty, constitute an important supply of foreign hard currency for economic development, or accompany the growing flows of foreign direct investment, which are sources of developments and employment creation.

It is a fact that relative to macroeconomic indicators, remittances are significantly higher in low and lower mid-income countries than in the other developing countries. Remittances are also unequally distributed across regions, with Asia receiving the lion's share, followed by the American continent and, far behind, Africa.

The reduction in the costs of transfers of funds was analysed in depth, based on experiences from OECD member countries (Greece, Italy, Mexico, Portugal and Turkey, but also in Philippines and Morocco.) The crucial role of the banking system was emphasised, as were best practices to reduce the costs of the transfer of remittances.

In the case of Portugal, private banks have attracted the greatest part of remittances and they are transferred at relatively low costs.

In Turkey the system is more complex. It is first based on networks of Turkish banks abroad, and the savings banks in senders' countries, mainly Germany. The Turkish Central Bank pays a large proportion of the transfer costs of remittances to Turkey.

Examples from Portugal (Caixa Geral de Depositos) and from Morocco (Banque Centrale Populaire du Maroc) demonstrate also that the migrant is not only considered by these banks as a foreign hard currency provider, but is a client who can benefit from all the bank's services.

**On the contrary, in the case of a failure in the banking system or lack of confidence in banks, intermediaries, such as Western Union, occupy a predominant position, even if the costs of transfers are very high.**

In fact, migrants prefer to resort to reliable services which permit the quick delivery of the funds to the recipient.

Taking advantage of new technologies could also help reduce the costs and reinforce the security of transfers. The development of new technologies is increasing the competition among suppliers of banking and financial services in both receiving and sending countries.

The diversity in the personal characteristics and the economic situation of immigrants, and the ways in which they make use of their savings, makes it very difficult to attract and orient these funds towards the economic development of their home countries. Remittances are private transfers and the savings involved belong to the immigrants and their families, who decide on their allocation. Many attempts to channel these funds towards development have been unsuccessful, because they have failed to recognise the primacy of individual choice.

In fact, the best way to maximise the impact of remittances on economic growth in developing countries is to implement sound macroeconomic policies and policies of good governance, as well as development strategies involving actors in the economy. Good governance, a sound banking system, respect for property rights, and an outward-oriented trade and FDI strategy, are prerequisites for enhancing the efficiency of remittances in an economic development perspective. The state has a primordial role to play in establishing these key building blocks for economic development, supported by the international community. Remittances are neither a substitute for ODA nor for FDI flows.

Interesting findings are available from the Inter-American Development Bank's study on remittances for the Latin American Countries (LAC). Although the emigration structure in the EU differs considerably from that in the US, there are many similar features of the behaviours of immigrants with the respect to remittances.

*"There are currently an estimated 25 million LAC-born adults living outside their country of origin. Approximately 65% send money home on a regular basis, typically \$100/\$200/\$300 a month, resulting in about 175 million separate financial transactions a year (!). Transaction costs to send these remittances have been cut in half over the past five years; but at 7% still remain too high. Almost 75% of LAC remittances are sent from the US (approximately USD 40 billion); but in recent years, Western Europe has become the fastest growing destination for LAC migrants, resulting over 12% of the market."*

*Estimated remittance flows by source and destination in 2005 (USD billion).*

	USA	Japan	Germany	France	Canada	Other	Total DAC*
India	2.3				0.4	0.4	3.1
Mexico	18.0						18.0
Philippines	2.5	0.4			0.4	0.1	3.4
<b>Turkey</b>	0.2		2.8	0.4		1.2	4.6
Central America	10.5				0.2	0.2	10.9
<b>North Africa</b>	0.4			3.2		1.8	5.4
Total above	33.9	0.4	2.8	3.6	1.0	3.7	45.4
Total developing countries	50.1	5.7	5.7	6.2	2.5	7.6	77.8

\*DAC = Development Assistance Committee Countries (Austria, EC, Finland, France, Germany, Ireland, Japan, Mexico, Sweden and the US)

*Sources: International Monetary Fund, the OECD and the Inter American Development Bank*

\* \* \*



Fédération Bancaire Européenne  
European Banking Federation

## **PROJECT ON REMITTANCES**

### **Background**

In September 2005 the European Commission issued a Communication on Migration and Development focusing on the impact of migration on development. The Communication pointed out some critical remarks towards the banking industry concerning the cost of sending remittances and more generally the conditions under which they are sent.

Two main areas of policy actions were mentioned in the Communication:

- 1) making transfers cheaper, more transparent, faster and safer
- 2) enhancing their development impact in recipient countries

The Commission moreover raises the issue of access of migrants to banking and financial services and wishes to foster initiatives aimed at improving the access to these services in developing countries.

FBE welcomes the intention of the European Commission to discuss the various aspects relating to remittances. Mr Pébereau, chairman FBE met with Commissioner Frattini (DG Freedom, Security and Justice) and said that commercial banks were ready to commit themselves on those two topics. Consequently it was decided at the Management Committee to launch a project on 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

### **Pilot project on remittances**

Regarding more efficient infrastructures handling these remittances, it was suggested to focus in a first stage on a small number of countries (Turkey, Morocco, Algeria, Tunisia) combining wide flows of migrants (and consequently remittances) in European countries and large presence of branches of European Banks (pilot projects).

Turkey was chosen as the target country for the project because the Turkish Banking Association is an associate member of the FBE. In case of success, the project on remittances can possibly be extended to other developing countries.

It could be considered that a reduction in fees may have a negative impact on the revenue side of the banks. We are however of the opinion, that accurate and timely use of the opportunities, which the migrants' market offers, could represent on the contrary an investment and development possibility and could lead to revenue increases in the future on both sides - Europe and Turkey.

## **Project plan**

The project is planned in two phases. In the first phase, data on remittances flows from Europe to third countries in general and Turkey in particular will be collected. The focus will be put on their volume, flows, structure and how they are used (that is if consumption or investment tendencies prevail).

We will also try to specify the needs and preferences of the current and potential banking clients among Turkish migrants.

The second step of the first phase of the project would be to contact the Turkish banking association and sound their interest in the project.

In case of interest, a roundtable between the Turkish and banking Associations from Europe interested to discuss the issue will be organized followed by a workshop organized by the FBE with the attendance of banks, Banking Associations, Migrants Associations and other stakeholders.

The fourth step would be to make the decision on launching or not a pilot project by ensuring commitment of a group of pilot banks on both sides of the Mediterranean.

The second phase of the project will depend on the findings and conclusions from the previous phase.

## **Project plan and timetable**

### ***First phase of the project (feasibility):***

#### **1. Problem definition**

- Goal of the project: streamlining and making more efficient and less costly remittances from Europe to Turkey.
- Facilities to achieve the goal
- Presentation of project plan to the Management Committee

#### **2. Involvement of respective partners**

- Introducing the project at the PSC Meeting (23 March);
- Proposing the cooperation to the Turkish Banking Association (4 April);
- Requesting cooperation and sharing of possible experiences with selected European Banking Associations (France, Portugal) (4 April);
- Requesting cooperation and sharing of possible experiences with German banking Association (15 May)
- Presentation at the meeting of Associates in Istanbul (18-19 May)
- Raising the issue with EPC Coordination Committee (31 May)

#### **3. Feasibility study**

- Study on migration and remittances with focus on Turkey (30 June);
- Requesting the European Commission to share data (4 May);
- Completing own data collection (30 June).

#### 4. Financing

#### 5. Communication

- Organising roundtable with the interested European associations and the Turkish Banking Association (30 September);
- Visiting several remittance banks (30 September);
- Organising workshop (31 October).

#### 6. Findings and final decision

- Progress report (15 November)
- Decision on go/no to the second phase (pilot project) (30 November)

#### ***Second phase of the project (execution):***

Launching the pilot project if approved based on the findings and conclusions from the first phase.

1. Project execution plan
2. Establishing the working groups
3. Implementation
4. Evaluation

#### **Goal 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.<sup>1</sup>

Regarding the migrants, relationships with banks depend on the structure of the latter. For those which have branches within the countries of origin of migrants, it is possible to help them by means of commercial proposals, but only if they accept them. Many banks use money transferors for that purpose and apart from the strict terms of reference and service levels they request, they have no means to control these transfers or to direct the use of the flows. Furthermore, the migrants have often their own agenda about the use of those flows.

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<sup>1</sup> European Investment bank: Migrant access to bank accounts in the EU should be improved also by recognizing simple ID cards issued by embassies.

In this context it is necessary to consider:

- Proximity
- Accessibility

These two goals are interconnected and can not be achieved separately. Acquisition of new clients can naturally lead to cost reduction and development of new technologies. To attract the migrants to open a bank account and to use the banking services by sending remittances will however require development of new products on the base of migrants' needs and possibilities.

### **Possible facilities to achieve the defined goal of the project:**

#### **Sender side:**

#### **1. To make remittance sending mechanisms more efficient (fast and at the lowest possible cost)**

- Cost-benefit analysis;
- Sending remittances (MT 103) directly to the receiver bank and not via correspondent banks can reduce the amount of charges (excluding the charges of the correspondent bank);
- Consideration of new correspondent channels (opening nostro accounts directly by Turkish banks);
- Infrastructure projects

#### **2. Development of new products according to the migrants' needs to attract them to open a bank account:**

- Basic banks accounts<sup>2</sup>
- premium interest rates accounts;
- saving banks accounts with possibility to send remittances on a specified day and in a specified amount;
- standing orders at the lowest possible cost, especially for small amounts of money, assuming that migrants may tend to remit frequently and send small amounts;
- cards related products;
- recruitment of Turkish speaking staff to enhance the migrants' trust in the financial institutions;
- information campaign;
- opening a branch in Turkey.

It must be noted that freedom of establishment is uneven depending on the countries and that in some countries it is very difficult to develop retail banking activities. It must also be questioned whether national authorities of those countries are willing to develop their economies using these transfers and more specifically if immigrants are also willing to. Costs to banks for gathering information and the risk to make migrants flee from financial networks with too high constraints must be taken into account.

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<sup>2</sup> bank account with limited features designed for people who might not meet the criteria for opening a regular account

# **Receiver side:**

- 1) To make remittance receiving mechanisms more efficient (fast and at the lowest possible cost)
  - Cost-benefit analyses;
- 2) Development of new projects according to the migrants' needs to attract their families to open a bank account:
  - Opening a dialogue with the Turkish Central Bank to revoke the special accounts held for migrants as soon as possible and leave the 14 billions Euro to the commercial sector;
  - Developing new financial products (issuing remittance-backed bonds, saving accounts, investment funds, mortgages – with cooperation of European banks, based on regular remittance flows, card products, etc)
  - Information campaign;
  - Opening a branch in Europe.

As available data is not sufficient and accurate, market research on both sides has to be put in place.