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REMITTANCE PRICES WORLDWIDE

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AN ANALYSIS OF TRENDS IN THE AVERAGE TOTAL COST OF MIGRANT REMITTANCE SERVICES

This Policy Note reflects the latest trends observed in the data collected during September 2011.
Remittance Prices Worldwide is available on-line at remittanceprices.worldbank.org

Overview

The Remittance Prices Worldwide (RPW) database monitors remittance prices across all geographic regions of the world. RPW was launched by the World Bank in September 2008[1], and remains a key tool to monitor costs variation to remitters and beneficiaries from sending and receiving money along major country corridors. The recently launched seventh iteration of RPW covers 213 country corridors worldwide originating from 31 remittance sending countries to 91 receiving countries.

This policy note uses the data from RPW's current iteration to analyze the global, regional, and country specific trends in the average total cost of migrant remittances as well as the factors influencing these movements. These figures also measure the status of the "5x5" objective[2] adopted by the G8 which is being pursued in partnership with governments, operators, and interested stakeholders.

Main Findings

Based on the data collected for the 3Q 2011 iteration of RPW, and when compared to the previous iterations,[3] the following main findings have been elaborated. All figures are intended for sending USD 200 or the local currency equivalent.

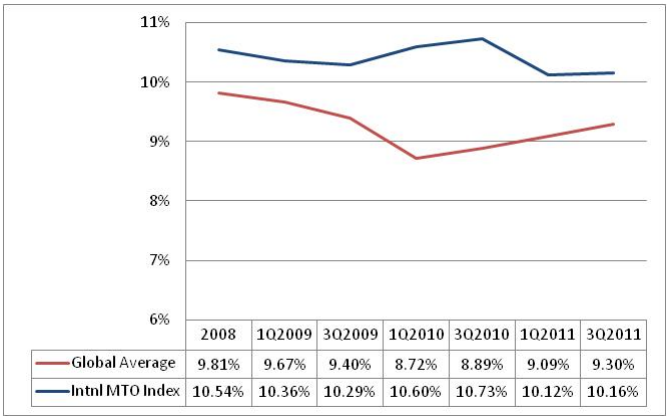
- The Global Average Total Cost increased from 8.89 percent in the 3Q 2010 to 9.30 percent in the 3Q 2011. Although this still represents a reduction compared to the first iteration of RPW in 2008, the increase observed in the last year raises some concern.
- The International MTOs Index followed a different pattern in the last year. This Index, which includes the Money Transfer Operators (MTOs) covering over 85 percent of the surveyed corridors, has experienced a slight increase compared to the 1Q 2011; however, when looking at the past year, the Index fell from 10.73% to 10.16%.
- The average price of sending money from the G8 countries went up to 8.53 percent, from 8.40 recorded one year ago. This is still significantly lower than the price recorded at the launch of RPW in 2008 (10.26 percent). Steep increases have been experienced in Canada (9 percent increase over one year) and France (nearly 30 percent increase). Italy, Japan, and Russia also went up; while prices were further reduced in the UK and the US. The most expensive among the G8 countries is still Japan; the cheapest are Russia and the US.
- The cost of remitting from G20 countries has followed the same pattern as the global average since the 3Q 2009. According to the latest data, the average is now 9.13 percent, slightly lower than the global average (9.30). The cost of sending money to G20 remittance receiving countries is 9.80 percent.
- When looking at the regional trends, the LAC[4] region shows the highest increase, from 6.82 percent in the last iteration to 7.68 percent in the 3Q 2011. The MENA and EAP region experienced slighter increases, respectively to 8.15 percent and 9.80 percent. Conversely, the averages for ECA, SA, and SSA fell to 8.68, 6.15, and 12.41 percent.
- Among different types of remittance service providers (RSPs), commercial banks remain the most expensive for sending remittances. The global average total cost for sending remittances through commercial banks was 13.68 percent in 3Q 2011. MTOs lost their status of cheapest RSP type to the post offices. MTOs were charging on average 7.36 percent, while post offices went down to 7.16 percent.
- Cash products are the most widely available ones (1,171) and their average price is 7.60 percent. Account-to-account products are the most expensive, with an average cost of 14.52 percent; however, the price is significantly lower when considering transfers within the same bank or to a partner bank. On-line and mobile services do not seem competitive yet in terms of availability and cost.

Global average total cost for migrant remittances increased during the last year

The global average total cost[5] for sending remittances increased from 8.89 percent in the 3Q 2010 to 9.30 percent in the 3Q 2011. The global average had dropped consistently from the launch of RPW in September 2008 to the 1Q 2010. The trend has been inverted in the past three iterations, when the price went up from 8.72 to 8.89, then 9.06 in the 1Q 2011, and finally 9.30 in the latest quarter.

The trend observed is somewhat different for the International MTOs Index.[6] The Index has also shown a slight increase in the last six months; however, it dropped from 10.73 percent in 3Q 2010 to 10.16 percent in 3Q 2011 (see figure 1).

Figure 1 - Global Average Total Cost for sending USD 200



	2008	1Q2009	3Q2009	1Q2010	3Q2010	1Q2011	3Q2011
Global Average	9.81%	9.67%	9.40%	8.72%	8.89%	9.09%	9.30%
Intnl MTO Index	10.54%	10.36%	10.29%	10.60%	10.73%	10.12%	10.16%

The trend for average total cost in G8 countries is consistent with the global average

The G8 countries include the major sending countries in the world. However, there are significant disparities in the cost structure across these countries. Figure 2 below shows distinct trends within these countries.

Figure 2 - Total average in G8 countries

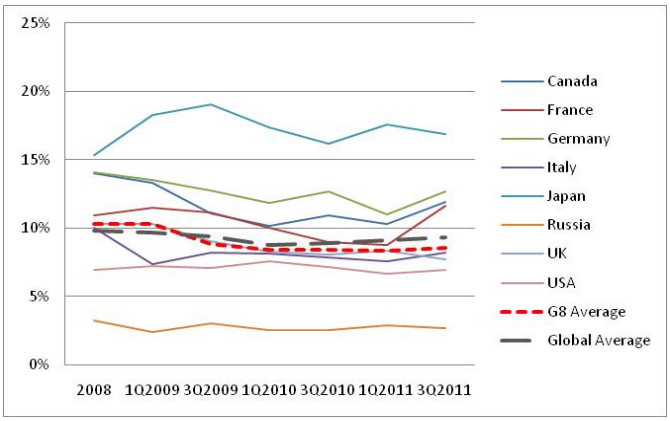


Table 1 - Total averages in G8 countries

	2008	1Q2009	3Q2009	1Q2010	3Q2010	1Q2011	3Q2011
Canada	14.00%	13.28%	11.07%	10.18%	10.90%	10.31%	11.87%
France	10.92%	11.50%	11.15%	10.01%	8.95%	8.76%	11.63%
Germany	14.07%	13.53%	12.71%	11.85%	12.67%	10.98%	12.64%
Italy	10.03%	7.36%	8.21%	8.11%	7.87%	7.57%	8.18%
Japan	15.33%	18.24%	19.06%	17.34%	16.16%	17.54%	16.84%
Russia	3.22%	2.42%	2.99%	2.54%	2.52%	2.88%	2.68%
UK	10.26%	10.27%	9.05%	8.29%	8.07%	8.33%	7.73%
USA	6.90%	7.21%	7.06%	7.57%	7.14%	6.67%	6.93%
G8	**10.26%**	**10.32%**	**8.80%**	**8.37%**	**8.40%**	**8.36%**	**8.53%**
Global	**9.81%**	**9.67%**	**9.40%**	**8.72%**	**8.89%**	**9.08%**	**9.30%**

Russia has the lowest total average cost across G8 countries. The average cost saw a nominal decline compared to the last reporting period, from 2.88 percent to 2.68 percent. As noted previously, Russia has a unique environment where cross border remittances are mostly conducted in the same currency and possible additional cost deriving from a currency exchange are not known. The Russian market also benefits from relatively low fees charged by the providers when compared to the other G8 countries.

Both the United States and the United Kingdom maintain an average total cost below the global average: 6.93 percent and 7.73 percent respectively. Both countries have seen a decline in the average total cost during the last year. Due to the high volume of remittance outflows, these markets have intense competition and there are a large number of financial products and services available to migrant workers. The United States and the United Kingdom both benefit from an impressive number of RSPs surveyed in the RPW database, respectively 67 and 69.

Particularly concerning are the results of the last data collection for France and Canada. In both countries, dramatic increases have been observed. In this quarter, France has registered the highest average cost since the launch of RPW in 2008: 11.63 percent, up from 8.76 percent in the 1Q 2011. Similarly, Canada has hit the record price of 11.87 percent, the highest in the last two years.

Germany and Italy have also experienced increases in the average cost of sending remittances. In Germany, the cost went up to 12.64 percent, significantly higher than the 10.98 percent recorded in the previous iteration, but at the same time slightly lower than the figure recorded one year ago, 12.67 percent. In the past two years, Germany has shown a clear tendency to a seasonal trend, with highs regularly reached in the third quarters and lows recorded in the first quarters. Oppositely, for Italy this is the first increase since the 3Q 2009: the average cost went up from 7.57 percent in the last iteration to 8.18 percent.

In September, shortly after the data collection for RPW was completed, a tax was introduced in Italy for all international money transfers. The tax is applied to all transfers outside the European Union and unless the sender is in possession of the tax identification code ("Codice Fiscale") and social security card. The amount of the tax (2% of the amount sent) and the extension of its applicability are such to raise serious concerns on the cost for remittance services in Italy, due to both direct (additional cost due to application of the tax) and indirect (compliance costs, incentive to use of non-regulated channels) effects of the introduction of the tax.

Japan is a market that was until very recently dominated by the commercial banks. The market was opened to non-bank RSPs by the Payment Services Act in late 2009. New players have been entering the country since then; however, the effect on prices is still unclear. Japan continues to have the highest average total cost of all G8 countries. A decrease has been observed in the last six months; however, the average cost is higher than it was in the 3Q 2010.

Figure 3 shows the spread between the minimum and maximum amounts charged by individual RSPs in each country. In most countries, the significant difference between the two values is due to the presence of costly services, in particular those ones offered by commercial banks. It is interesting to notice how the spread is lower in Russia, where banks do not operate in the market for remittances. The high spread for Japan may be due to the fact that the market was recently opened to MTOs, hence costly services still exist while cheaper once are being introduced by the new players entering the market.

Figure 3- G8 countries spreads and averages

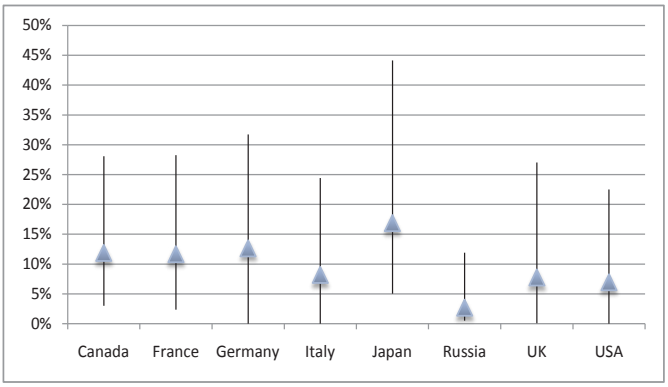
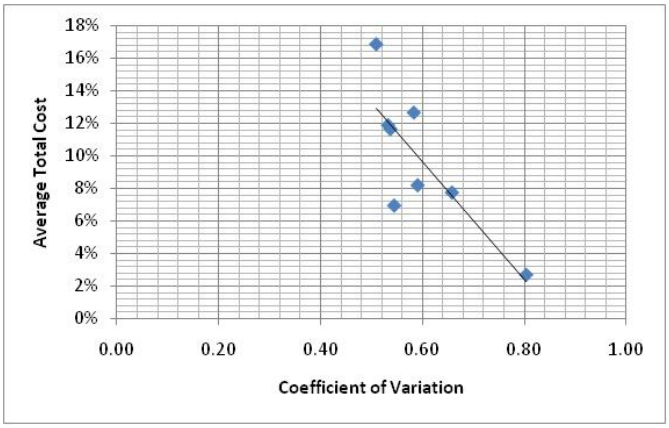


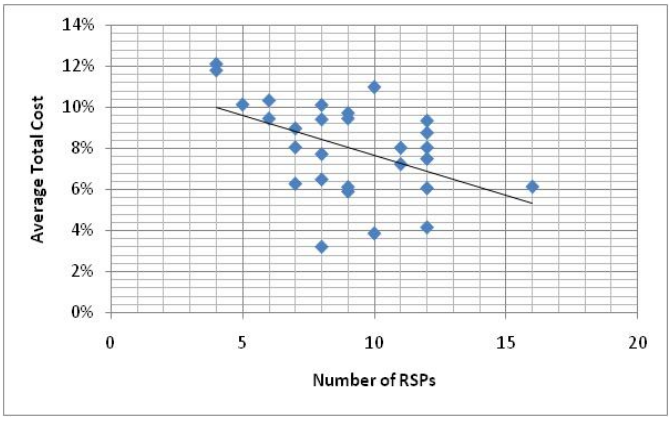
Figure 4 shows that in the most expensive markets in the G8, prices tend to concentrate around the mean, while the cheaper sending countries experience a higher dispersion. In other words, when the average cost is higher, providers tend to offer their services at a price that is closer to the average. Conversely, when the average cost is lower, the prices offered are more differentiated among the providers. This may also be an index of how the receiving markets affect the price: for sending countries where low prices are possible, optimal market conditions need to be in place also on the receiving side in order for the providers to offer cheap services.

Figure 4 - Correlation between average cost and variation in G8 countries



Competition is an important factor for cost reduction in the market for remittances. This intuitive finding is confirmed by the analysis of the correlation between the number of RSPs surveyed in each corridor and the average total cost for the same corridor. For each corridor, RSPs representing 80 percent of the market are surveyed: if only a few providers alone represent the almost totality of the market, then it can be assumed that the level of competition is low; conversely, if many providers need to be included in the sample in order to reach the 80 percent of market shares, this is a sign that there is a higher competition in that market. Figure 5 represents the example of the UK, which clearly shows how the price is lower in the corridors that are serviced by a higher number of providers. All the G8 countries show a similar correlation, with the exception of Japan.

Figure 5 - Correlation between number of RSPs and average cost in the UK



Cost for migrant remittances in the G20 countries

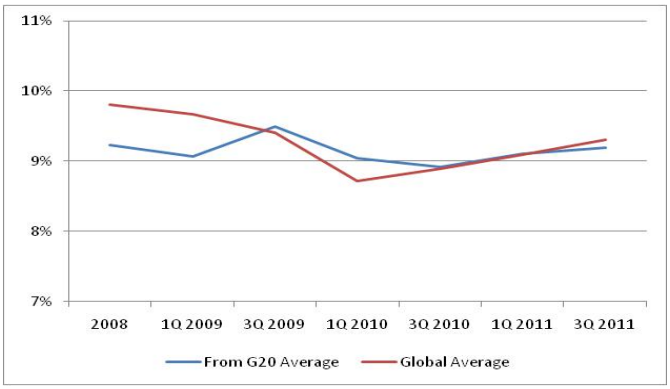
The topic of remittances has gained a higher level of attention in the agenda of the G20 countries. In particular, the G20 discussion on the adoption of a target raises the need for an index that specifically monitors the price of remittances in the G20 members.[7]

Due to the heterogeneity of the sample, a single index cannot be calculated with the same methodology used for the G8. As a matter of fact, a single index would entail including in the same calculation figures that are different in nature, i.e. the cost of sending remittances from and to a country. This is due to the fact that some countries are included in the database as sending markets, while other countries are included in the sample as receiving markets.[8]

For this reason, two different indexes are proposed here: (i) average for sending remittances from the G20 member countries (see figure 6); and (ii) average for sending remittances to the G20 member countries (see figure 7).

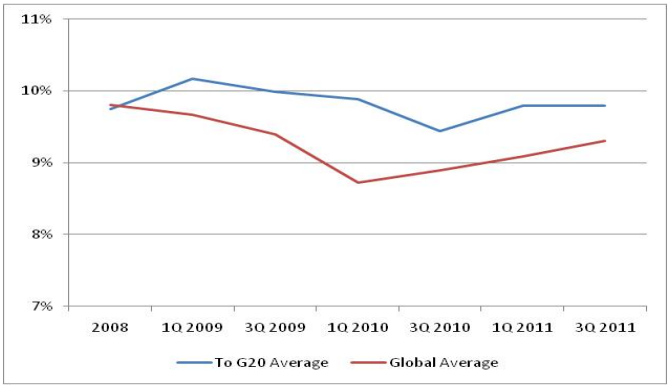
The cost of remitting from G20 countries has followed the same pattern as the global average since the 3Q 2009. According to the latest data, the average is now 9.13 percent, slightly lower than the global average (9.30).

Figure 6 - Average cost of sending USD 200 from G20 countries



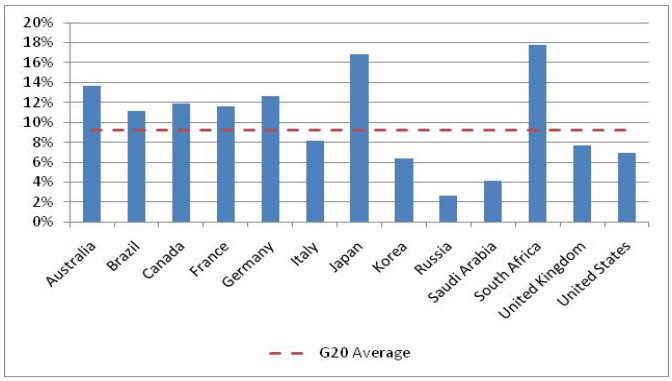
The average cost of sending money to the G20 countries that The average cost of sending money to the G20 countries that are included in RPW as receiving markets is 9.80 percent and has not varied significantly since 2008 (9.74). This figure has been constantly higher than the global average.

Figure 7 - Average cost of sending USD 200 to G20 countries



South Africa and Japan are the costliest remittance sending countries in the G20 group, with an average of respectively 17.73 and 16.84 percent (see figure 8). The cheapest sending countries, together with Russia, are Saudi Arabia (4.13) and Korea (6.36), followed by the United States (6.93).

Figure 8 - Average cost of remitting from G20 countries in 3Q 2011

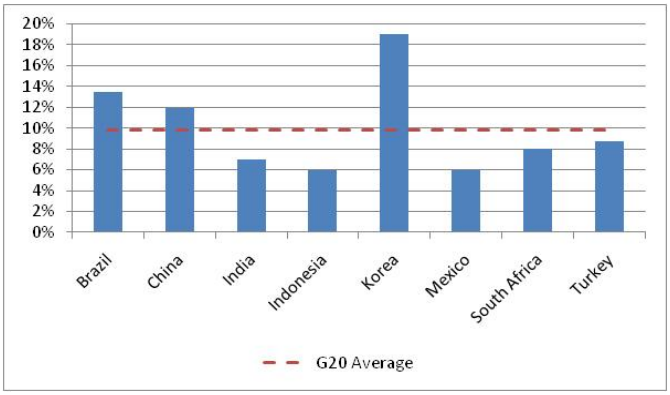


Korea, Brazil and China are the most expensive receiving countries in the G20. Sending money to Korea costs 19 percent; however, it is important to notice that the only sending country captured for Korea is Japan, which is among the most expensive sending markets.

For Brazil the high cost is also due to the high margins charged by RSPs when exchanging the sending currencies into the Brazilian Real. In particular, providers generally use as a reference the commercial rate when sending money to Brazil; however, the parallel rate is commonly applied in the country to retail transactions. For this reason, the parallel rate, which is more favorable for the sender, is also used in RPW to calculate the margins charged by the providers.

Figure 9 shows that Indonesia and Mexico are the cheapest receiving markets in the G20, with an average of 5.94 and 5.97 percent respectively.

Figure 9 - Average cost of remitting to G20 countries in 3Q 2011



A specific analysis was dedicated to India and China, the main receiving countries worldwide by volume of remittances received. As Figure 9 clearly shows, China is among the most expensive receiving markets, while India rates among the cheapest countries to send money to. Sending money to China costs an average of 11.92 percent; sending money to India costs an average of 6.96 percent. This contradicts the finding, otherwise generally confirmed, that the average price for sending remittances is lower for countries where higher volumes are transferred. The level of competition in sending countries also seems to be very similar for both India and China: if the common sending countries are taken into consideration, both India and China are served by an average of seven providers per corridor. A difference can be observed in the coefficient of variation: the cost of sending money to India varies more than the same value for China (1.01 for India, 0.67 for China). This finding seems to demonstrate the dependence of remittance prices on the receiving market: when the receiving environment is favorable, prices vary more depending on the providers and sending country; when the receiving environment represent an obstacle to the reduction of cost, the variation is lower and prices tend to concentrate around the average.

Cost for migrant remittances varies significantly across receiving regions

The cost for remittance services varies significantly depending on the region where the money is being sent (see table 2). As in previous iterations, South Asia (SA) and Latin American and the Caribbean (LAC) are the least costly regions to send money to. The cost of sending money to SA has decreased in the last year from 6.54 percent to 6.15 percent, confirming this region as the cheapest receiving market in the world. Conversely, LAC has experienced a dramatic increase in the last two quarters, from 6.82 to 7.68 percent.

In the Eastern and Central Asia (ECA) region, two values have been considered: due to the peculiarity of the Russian market and its heavy influence on the region, both an average including and an average excluding Russia have been calculated. In both cases, the average cost dropped over the last year, from 7.57 to 6.86 percent when all corridors are considered, and from 9.49 to 8.68 percent when Russia is excluded from the calculation.

The East Asia and Pacific (EAP) region has recorded an increase, consistent with a trend observed in the last two years. The average cost for sending money to EAP countries went up from 9.48 percent last year to 9.80 percent in this quarter.

The Middle East and North Africa (MENA) region confirmed a seasonal trend that has seen slight increases in the third quarters followed by drops of the average costs in the first quarters. The average price in this region went up from 8.00 percent to 8.15 in the last six months, but a reduction can be observed when looking at the figure recorded for the 3Q 2010, 8.95 percent.

The Sub-Saharan Africa region is confirmed as the most expensive region of the world to send money to. However, a limited reduction has been observed in this quarter compared to the previous data collection: the average price for remitting to SSA is now 12.41 percent, compared to 12.82 percent in the 1Q 2011. It should be noticed that these figure are still the highest recorded for the region in the past two years.

Table 2 - Total averages by regions of the world

	2008	1Q2009	3Q2009	1Q2010	3Q2010	1Q2011	3Q2011
EAP	11.05%	10.46%	10.38%	9.33%	9.48%	9.71%	9.80%
ECA	5.96%	6.68%	7.19%	6.48%	7.57%	7.55%	6.86%
ECA (no Russia)	11.03%	9.70%	9.42%	8.33%	9.49%	9.32%	8.68%
LAC	8.37%	8.65%	7.63%	8.12%	7.27%	6.82%	7.68%
MENA	11.10%	9.30%	9.58%	8.19%	8.95%	8.00%	8.15%
SA	7.80%	7.31%	6.85%	5.99%	6.54%	6.56%	6.15%
SSA	14.01%	13.07%	11.61%	10.86%	11.57%	12.82%	12.41%
Global	**9.81%**	**9.67%**	**9.40%**	**8.72%**	**8.89%**	**9.08%**	**9.30%**

Banks are the costliest RSPs for sending migrant remittances

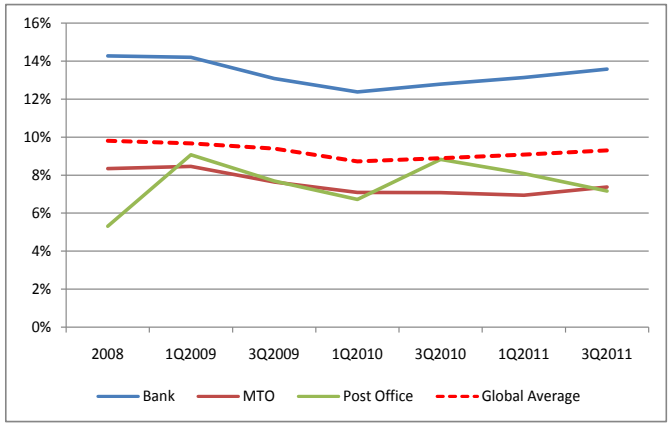
The RPW database captures the cost of sending remittances based on RSP type including commercial banks, MTOs, and post offices.

Based on the data from this reporting period (see Figure 9), commercial banks continue to be the costliest RSP type. Compared to the previous period, the average total cost for this category has further increased from 13.14 to 13.58 percent, reaching the negative record of the past two years. It should be noted that banks are also one of the least transparent types of RSP: out of 905 bank services included in the database, 253 (28 percent) did not disclose the exchange rate applied to the transaction. As a consequence, the average price reported here could be significantly higher if full information were provided.

Compared to the previous period, post offices are the only RSP type experiencing a price decrease, from 8.08 percent to 7.16. However, the same issue mentioned above for banks on transparency applies to the post offices, which detain the negative record of least transparent RSP in the sample (only 17 out of 38 post offices were able to disclose the exchange rate margin).

MTOs increased their average cost to 7.37 percent from 6.94 percent in the previous period. MTOs are the most transparent RSP type, with 99 percent of the 1677 services disclosing full information to their customers.

Figure 10 - Total averages by RSP type

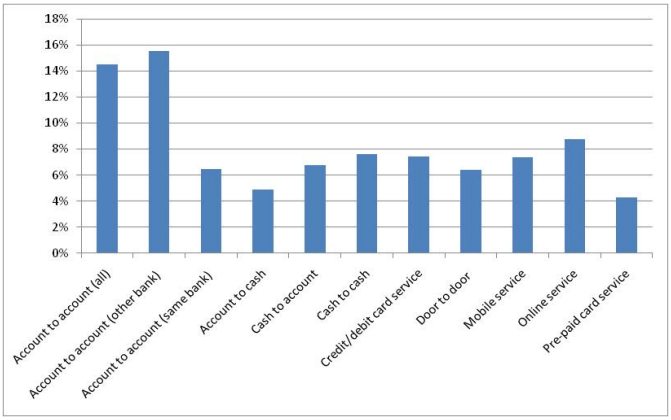


Cash services dominate the remittance market at competitive prices

For the first time in this iteration, a comprehensive analysis of the price by product type was produced (see figure 10). Cash products remain the most widely available ones (1,171) and their average price is 7.60 percent. Account-to-account services (511) are the most expensive, with an average cost of 14.52 percent; however, it should be noted that the price falls to 6.47 percent when considering transfers within the same bank or to a partner bank (56).

261 on-line services were surveyed and the average total cost was 8.76 percent. Although not widely available, pre-paid card services (68) and account to cash (44) were the cheapest product types, respectively at 4.20 and 4.91 percent. Only 10 mobile services were recorded, for an average cost of 7.36 percent.

Figure 11 - Average cost by product type



Notes

1 Several countries operate their own national databases to monitor remittance price activity at the national level. The World Bank certifies national and regional remittance prices databases compliant with the minimum mandatory requirements for remittance databases. Currently, four databases have been certified (Italy, Central America, Australia/New Zealand, Africa). For more information visit http://remittanceprices.worldbank.org/National-Databases.

2 The 5x5 objective was adopted by the G8 in 2009, and it refers to reduction of the global average total cost of migrant remittances by 5 percentage points in 5 years.

3 The first iteration of the database was released in September 2008, after which the RPW database has been updated every six months. The following releases were in 1Q and 3Q 2009, 1Q and 3Q 2010, 1Q and 3Q 2011.

4 The regions' abbreviations are as follows: East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), South Asia (SA), Sub-Saharan Africa (SSA).

5 The global average total cost is calculated as the average total cost for sending USD 200 with all RSPs worldwide; non-transparent RSPs (i.e. RSPs that do not disclose the exchange rate applied to the transaction) are excluded as well as corridors from Russia, since in these cases the exchange rates were not provided and cost could be higher if data were complete.

6 The International MTOs Index includes all MTOs that are present in over 85 percent of RPW corridors. Thus far, it has included Western Union and MoneyGram, which operate respectively in 98 percent and 93 percent of the country corridors covered in the database.

7 In the final declaration of the Cannes Summit on November 3 and 4 2011, the G20 head of state committed to work towards the reduction of the average cost of transferring remittances from 10 to 5 percent by 2014.

8 The following G20 countries are included in RPW. Sending countries: Australia, Canada, France, Germany, Italy, Japan, Russia, Saudi Arabia, United Kingdom, and the United States. Receiving countries: China, India, Indonesia, Mexico, Turkey. Countries that are both sending and receiving: Brazil, Republic of Korea, South Africa. Argentina is not included in RPW. The European Union does not appear as such in RPW, although most EU member countries are included in the database.