Finance Watch
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Review of EU's regulation on cross-border payments

Missed opportunity to reduce money-transfer fees and to help tackle inequality worldwide

By Olivier Jérusalmy

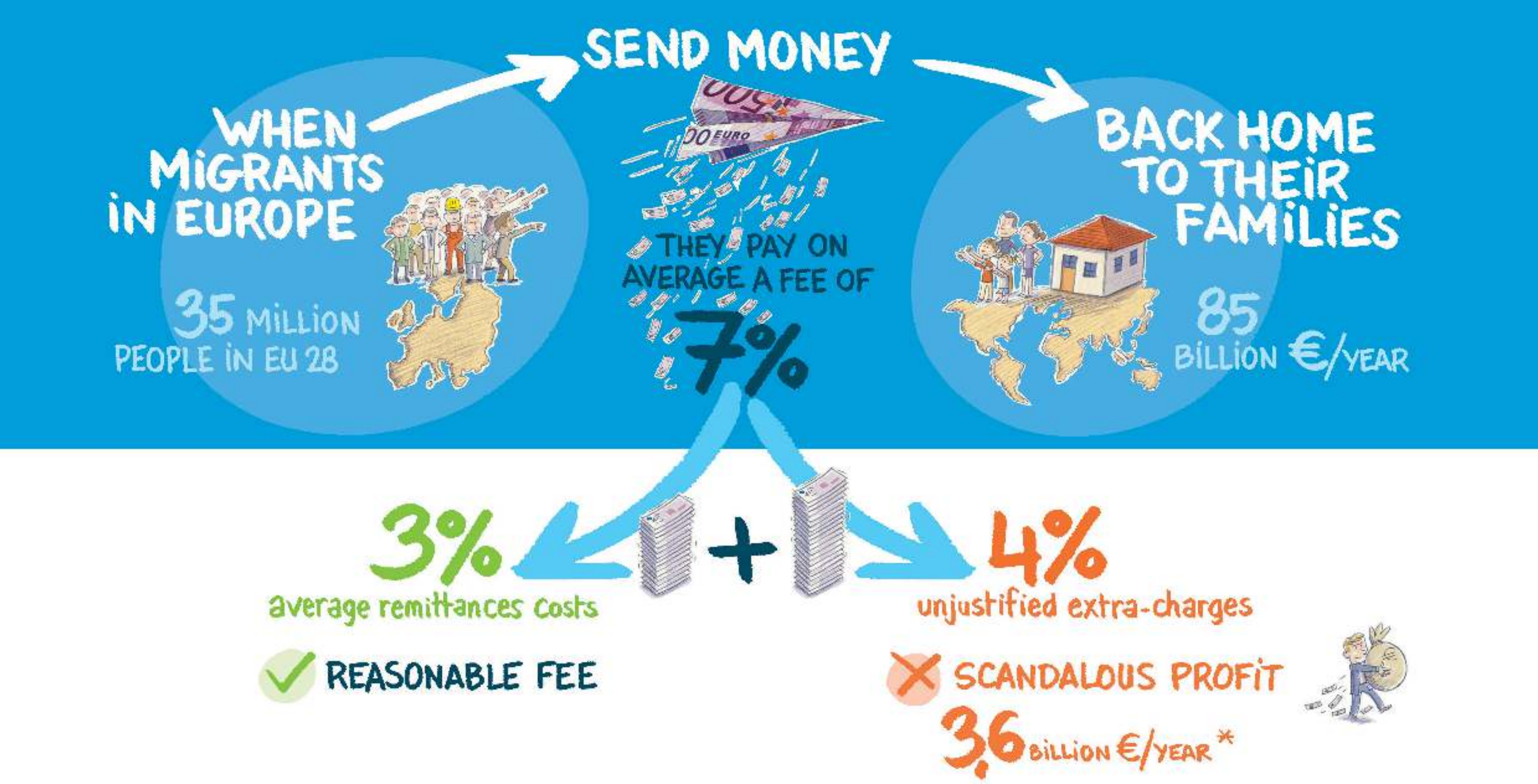
Market inefficiency, abuses of dominant position, illegitimate high costs, partial supply, inadequate services for migrants are the most visible elements of a **never-ending list of issues affecting remittances market in Europe**: What makes this market so disconnected to people's needs? How can competition grow in a market where dominant companies impose their rules? How can policy makers correct these dysfunctions?

All these issues are well known, well documented and the **negative impacts are huge for the 35,1 million migrants** who live in the EU-28.[1]

Not only are migrants not particularly financially included in the EU countries, but also the money they send to their families, to support their low living standards and economic development, are reduced on average by more than 7,2% of the total amount. To make things clear, it is considered than 3% is a fair and sustainable price for the money transfers industry.[2]

The lack of competition in the market allows money transfer operators to price their services over the threshold necessary to cover their total costs. The **4,2% over-pricing equals US$3,6 billion per year that do not reach families' wallets**: indeed, US$ 84,9 billions have been sent by the migrant workers established in EU-28.[3] By comparison, the EU-28 has provided in 2016, for the European Civil Protection and Humanitarian Aid operations (ECHO) a budget of US$1,9 billion (just about 53% of the over-pricing amount).[4]

In the light of these figures, it proves to be a missed opportunity that the European Commission chose not to cover money transfer from the EU to non-EU countries in its proposal for a reviewed Cross-border payments Regulation (EC) No 924/2009, as announced on 28 March 2018. As such, it will not have a positive impact for migrants, nor for their families in non-EU countries.



Facts and figures

1. European countries involved

- The 45 countries of Continental Europe include 26 sending countries, with an annual gross domestic product (GDP) per capita above US$20.000 and the Russian Federation. These 26 countries[5] include 18 EU-member states;
- Therefore, 19 are European receiving countries, with an annual GDP per capita below US$20.000. These 19 countries include 10 EU-member states[6].

2. Remittances flows and sizes

- In 2014, migrant workers living in all 45 European countries sent home over US$109,4 billion to their families. One third of these flows (US$36.5 billion) went to the Balkans, the Baltics and Eastern Europe, and the other two-thirds (US$72.9 billion) went to developing countries outside of Europe (Africa, Asia, Latin America and the Caribbean, of flows, remittance service providers present and the Near East).
- The EU-28 part of the US$109,4 billion is US$84,9 billion, 78% of the total.

3. Impact of these flows

- For 3 receiving countries in Europe, remittances inflows from Europe to GDP ratios are above 10 per cent: Moldova (22%), Kosovo (17%) and Bosnia and Herzegovina (10%). This situation happens more often with the non-European receiving countries: for example, Tajikistan (42 %), Somalia (50%);
- In receiving countries, the amounts sent are purchasing power with a direct impact on local trade and financial infrastructures. Part of them is dedicated to business creation or development. As such, remittances can be seen as one of the most important anti-poverty programmes;
- An estimated 150 million people worldwide benefit from remittances coming from Europe. In most of the cases, remittances are a significant complementary income for families and represent, on average, up to 40% of household income[7];
- The European TOP 10 sending countries account for US$ 92 billion and represent less than 0.69 per cent of their individual GDP[8].

Why remittances remain so costly?

Identified causes

Before presenting more specific reasons, the major issue is the financial institutions' and banks' attitude regarding migrants. The latter are not considered as real nor serious clients with specific needs of financial services. Even if bankers get rid of this erroneous stereotype, they remain reluctant to develop dedicated services for this part of the public, as they are considered as potentially dangerous (their identification can be challenging) and, above all, not profitable (they are poor forever).

That being said, a large range of factors have an impact of the costs of remittances. Many studies have deeply analysed this issue which have led to a sound understanding of the issues.

<u>Elements which increase the costs / the prices:</u>

1. the level of the incomes of the senders and of the receivers: the costs increase with the level of their income;
2. the market share of the bank: the prices increase with the size of the market share of banks;
3. the share of receivers who lives in rural area: the prices increase when this share increases.

<u>Element which decrease the costs / the prices:</u>

1. the market size (number of users) of a transfer corridor: the prices decrease as the size increases;
2. the level of effective competition: the prices decrease when competition increases.

How is the market supply structured in the TOP 10 European sending countries?

- Two dominant international companies: MoneyGram International (MG) and Western Union International (WU);
- Seven challengers, which increase their geographical covering: Ria International, Sigue, Skrill Small World, Transferwise, completed with two companies with geographical specialities: Azimo (Eastern Europe) and Remit2India.

In Europe, the market share of the specialised money transfers companies is 70%. They can have their own license or develop partnership with banks or postal networks. The market share of banks in Europe is 25%, which is the highest score worldwide. Postal networks exist in all 10 countries but have a significant activity in 3 of them.

What can be done?

Many barriers need to be removed before competition grows, here are some of the most recommended ones:

1. **To progressively forbid exclusivity agreements and ease access to payment systems**
   Powerful money transfers companies impose exclusivity agreements. Exclusivity agreements limit access to existing distribution network or payment systems. Therefore, a more competitive market condition, including access to domestic payments infrastructures, should be fostered in the remittance industry.

2. **To stop the financial exclusion of migrants because of de-risking practices**
   De-risking practices can be summarised as banks/financial institutions' refusal to serve people or to develop partnership with companies that might be involved in money laundering and financing terrorism. Risks can refer to identification issues, cash transfers, nature of transactions, political instability or terrorist activities in the countries involved. Migrants are particularly affected by these de-risking practices, at least in part because of identity difficulties.

3. **To review and clean existing rules from measures which lead to competition distortion**
   Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework, in relevant jurisdictions.

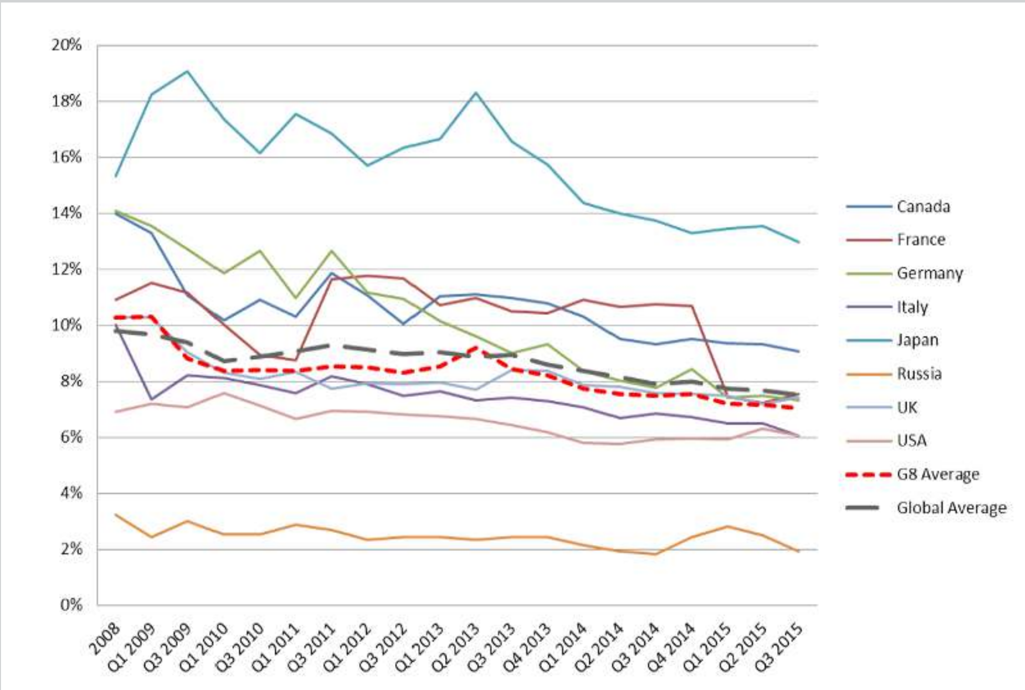
4. **To guarantee appropriate governance and risk management**
   Remittances services should be supported by appropriate governance and risk management practices.

5. **To increase transparency (cost comparison) and improve the current weak users protection**
   Database and comparison websites, minimal transparency standard, easy and consumer friendly dispute resolution procedure are some of possible actions.

6. **To increase access to relevant and accessible information for remittances users on new alternatives**, on new secured and costless tools, on their specific financial inclusion rights[9] and benefits.

Poor improvements since 2008

It is true that some improvements have been measured since 2008, the figure below shows a very slow decline of the average costs from G8 countries. Nevertheless, it is interesting to highlight the Russian average costs; under 3% for years now.



Source: World Bank Group - Remittance prices worldwide - Issue n°15. October 2015, p.4

A light in the night: 2017 EU consultation on transparency and fees in cross-border transactions

The EU Commission, which has to be seen as one of the actors involved in the United Nations Sustainable Development goals, showed a reasonable interest in remittances practices within the EU-28.

Indeed, question 11 of their consultation referred explicitly to the goals set by the United Nations. The Sustainable Development goals contain a consideration of the costs of remittances.

Finance Watch as well as BEUC (The European Consumer Organisation) have underlined the major remaining issues observed in the EU-28 as regard to high costs, lack of competition, the exclusive dealing arrangements and the recent cases which involves large money remitters and the competition authorities in Mauritius[10].

A dramatic and constant lack of acts, of political commitment

As it has been already said, this major societal issue is tackled by a large range of worldwide institutions as well as EU Commission and national authorities. Unfortunately, the United Nations Sustainable Development Goals, along with G8 and G20 and its Global Partnership for Financial Inclusion (GPFI) and The World Bank and the International Fund for Agricultural Development, structure their strategies and actions on the basis of voluntary involvement of national governments. No binding rules, no penalties; just goodwill is required from countries' representatives to reach ambitious targets.

Among other targets, "*the target under Sustainable Development Goal 10 to reduce remittance costs to less than 3 percent and ensure remittances can be sent at 5 per cent or less by 2030 require increased focus and momentum by the international community.*"

Considering the ambition of this goal, the EU Commission's proposal on cross-border payments shows little willingness to tackle the issue of remittances.

Finance Watch urges the EU Commission

- Develop a targeted **EU strategy to ensure that migrants are not excluded** and that they are guaranteed access to a basic payment account;
- Investigate and **remove competition barriers**, including exclusivity agreements that limit access to distribution and payment systems;
- Introduce a **3% cap on fees** as part of a regulation on remittances designed to improve user protection and ensure the proper functioning of the market.

Footnotes

1 On 1 January 2016, the number of people living in the EU-28 who were citizens of non-member countries was 20.7 million, while the number of people living in the EU-28 who had been born outside of the EU was 35.1 million, in Eurostat, March 2017; available on: http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics/fr#Principaux_r.C3.A9sultats_statistique

2 "*The target under Sustainable Development Goals 10 to reduce remittance costs to less than 3% and ensure remittances can be sent at 5% or less by 2030 will require increased focus and momentum by the international community.*" See G20, 2017 Remittance Plans Overview, p. 1; available on: https://www.gpfi.org/publications/2017-g20-national-remittance-plans-overview

3 IFAD, "Sending Money Home: European flows and markets", June 2015; available on: https://www.ifad.org/documents/10180/3594696/money_europe.pdf/5ac7733f-39e6-4b1b-a1dc-f7038b5caa0b?%20version=1.2

4 European Commission, "Annual report on the European Union's humanitarian aid policies and their implementation in 2016", November 2017, page 9; available on: https://ec.europa.eu/transparency/regdoc/rep/1/2017/EN/COM-2017-662-F1-EN-MAIN-PART-1.PDF

5 Andorra, **Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece**, Iceland, **Ireland, Italy,** Liechtenstein, **Luxembourg, Malta,** Monaco, **Netherlands,** Norway, **Portugal,** the Russian Federation, San Marino, **Slovenia, Spain, Sweden,** Switzerland and the **United Kingdom**.

6 Albania, Belarus, Bosnia and Herzegovina, **Bulgaria, Croatia, Czech Republic, Estonia, Hungary,** Kosovo, **Latvia**, **Lithuania, Poland, Romania, Slovak Republic** and the former Yugoslav Republic of Macedonia Montenegro, Republic of Moldova, Serbia and the Ukraine.

7 Frédéric Ponsot, "Transferts d'argent et inclusion financière", rapport pour le Partenariat mondial du G20 pour l'inclusion financière, FIDA et La Banque Mondiale. September 2015, p.19; available on: https://www.ifad.org/documents/10180/49e124bb-fd6c-4c8d-90d6-da45825f6e5d

8 With the exception of the Russian Federation, 0.98 per cent of its GDP.

9 Right of access to a payment account with basic features, see Directive 2014/92/EU, Art.16, 17 & 18.

10 See article "Devant la Commission de la Concurennce: Western Union et Moneygram prennent des engagements", published on 19 June 2017 in Le Mauricien; available on: https://www.lemauricien.com/article/devant-la-commission-la-concurrence-western-union-et-moneygram-prennent-des-engagements/; and Media release of the Competition Commission of Mauritius, "INV029: Western Union and MoneyGram offer Undertakings to the CCM", 13 June 2017, available on: http://www.ccm.mu/English/Documents/Investigations/INV029-MR-Undertakings.pdf

About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org

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