INTERNATIONAL CONFERENCE ON REMITTANCES
G8 GLOBAL REMITTANCES WORKING GROUP PLENARY MEETING

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Immigrant workers' remittances are a substantial component of international financial flows. The total inflow to developing countries in 2008 is estimated at $330 billion, up 15 per cent on 2007 and twice as much as in 2004. This amount is more than three times the volume of aggregate official development assistance and three times net private debt inflows.

That remittances can be a powerful lever for economic development is demonstrated not only by economic theory but by economic history. Take the case of Italy. In both periods of exceptionally rapid growth (1895-1913 and 1950-1970), remittances were a crucial factor, eliminating the external constraint. In more recent times, Italian emigration has waned, and Italy – historically a source of emigration – has become an increasingly attractive destination for migrants (since the late 1980s immigration has regularly outweighed emigration). Since 1999, Italy has recorded a net outflow of migrants' remittances.

The Heads of State and Government of the G8 countries, which are the main remittance-sending economies, first dealt with remittances at the Sea Island Summit in 2004. Since then, a number of initiatives have been taken to improve information on remittance flows, to facilitate transfers and reduce fees, to ensure the safety and integrity of financial flows and to enhance their developmental impact. From the very start the Bank of Italy has contributed to this agenda, since most of the G8 goals in this sphere fall within the Bank's institutional mandate. In the last four years, for instance, our research department has produced papers on the role of remittances in the Mediterranean countries, their impact on output growth volatility and their effects on external payments crises.

As to balance-of-payments statistics, the Bank of Italy has contributed to the international effort to harmonize statistical concepts and definitions and to improve data collection methodologies. In 2006 the Bank introduced a new data gathering system based on information from money transfer operators on customers' gross remittance transfers. The new system has greatly improved data quality and is a methodological landmark internationally.

In the course of this year the G8 authorities have focused their work on immediate solutions to apply the first of the General Principles for International Remittances Services, namely: "The market for remittances should be transparent and have adequate consumer protection".

In line with this principle, many countries are developing national remittance price comparison databases in order to increase market transparency, providing information to migrants who want to send money home that should enable them to acquire the information essential to informed choice.

At present the market for remittances is not always fully transparent. Two issues are particularly relevant: total price and speed of service.

The cost of a money transfer is not actually easy to calculate due to two variable components, i.e. transfer fee and exchange rate. Consequently, the consumer may not know exactly the amount of money the receiver will get. The difficulty is compounded for migrants, who due to poor financial education, language barriers and time constraints, may have difficulty in accessing certain services, in particular bank services. This may result in the impossibility of comparing alternative remittances services and finding the most economical.

The ready availability of information fosters competitive markets, as demand will tend to concentrate on the most efficient remittance service providers, those offering quick service at lower cost.

The national websites compliant with the World Bank standards provide all the information required for informed decisions: the fees charged, the exchange rate applied and the time necessary for the money to be available.

The Bank of Italy welcomes the creation of a national price comparison website and will support its management, facilitating data collection and providing information on the most significant corridors and on the latest updates in the retail payment market.

This initiative is consistent with the overall approach taken by the Bank in performing payment system oversight, whose aim is to promote efficiency. In this particular market efficiency is all the more important in view of the enormous impact that remittances may have on the economy of an emerging country. The analysis of the pricing of a payment instrument is one of the key indicators of a market’s performance: when the price reflects the cost of the payment instrument, the market is efficient. Efficient funds transfer, with no waste of time or money, enables migrants to channel their earnings to productive ends.

In Italy the regulatory framework on transparency in the payment market will be enhanced by the Payment Services Directive. The objectives of the new legal framework are to heighten competition in the retail payment market, strengthen user protection and develop more efficient payment services. A special set of provisions is dedicated to transparency: the two main lines of action are elimination of non-explicit price mechanisms and achievement of greater certainty on the terms applied in the supply of payment services.

National legislation has to transpose the obligations laid down under these provisions with regard to "two-leg" transactions only, those in which both payment service providers (if there are more than one) are located within the EEA. But Italy has opted for broader scope, extending the transparency rules also to one-leg transactions in which only one of the service providers is located in the EEA. The information requirements concern both the conditions of the service (ex ante transparency) and the effective execution of the transaction (ex post transparency). They vary with the nature of the payment service contract and the needs of the customer.

A new category of payment service provider is also envisaged by the Directive: the "payment institution". This represents an opportunity for businesses with a network structure and extensive distribution channels, such as mobile phone operators and large retailers, who will be subjected to rules laid down by the oversight authorities to ensure adequate quality of payment services.

It goes without saying that the new regime will benefit remittances.

The Bank of Italy also monitors technological innovation in the remittances market. A study the Bank is currently conducting on mobile payments has found that most operators are interested in developing new remittance payment services using mobile phones. In fact, in the emerging countries mobile phones are already being used successfully to transfer money internationally. In the opinion of the mobile phone operators interviewed, in the medium-to-long term it will be possible to deploy mobile payments applications for remittances on a large scale in Italy as well.

To conclude, a number of initiatives in both the regulatory environment and the market may have a significant impact on the remittances industry, increasing transparency and efficiency.

The Bank will continue to support these initiatives while monitoring the remittances market as part of its institutional mandate for oversight on the payment system, economic research and supervision of financial institutions.

In view of the social and economic impact that remittances have on the everyday life of migrants and the increasing attention of the G8 authorities, we hope that along the lines of this Italian initiative, and of those in other countries, remittance price databases will be introduced in many countries around the globe.