Australian Government

New Zealand Government

TRENDS IN REMITTANCE FEES AND CHARGES

PACIFIC ISLANDS
FORUM ECONOMIC MINISTERS'
MEETING

26-29 October 2010

Trends in remittance fees and charges

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Executive Summary

Remittances are an important source of household income and foreign exchange for many developing countries, providing income directly to households to improve living standards. In the Pacific, around US$470 million was formally remitted to Forum island countries (FICs) in 2008 (Table E1). The primary sources of remittances to the Pacific are Australia, New Zealand and the United States of America. The primary remittances policy challenge is that the average cost of remitting to the Pacific is significantly higher than global averages. Reducing Pacific remittance costs to be in line with global averages would represent a significant productivity increase for the Pacific. This paper identifies recent trends and issues underlying the high cost of remittances to the Pacific, with the aim of encouraging the discussion of possible policy responses to encourage a more competitive remittance market.

Table E1: Importance of remittances to selected FICs

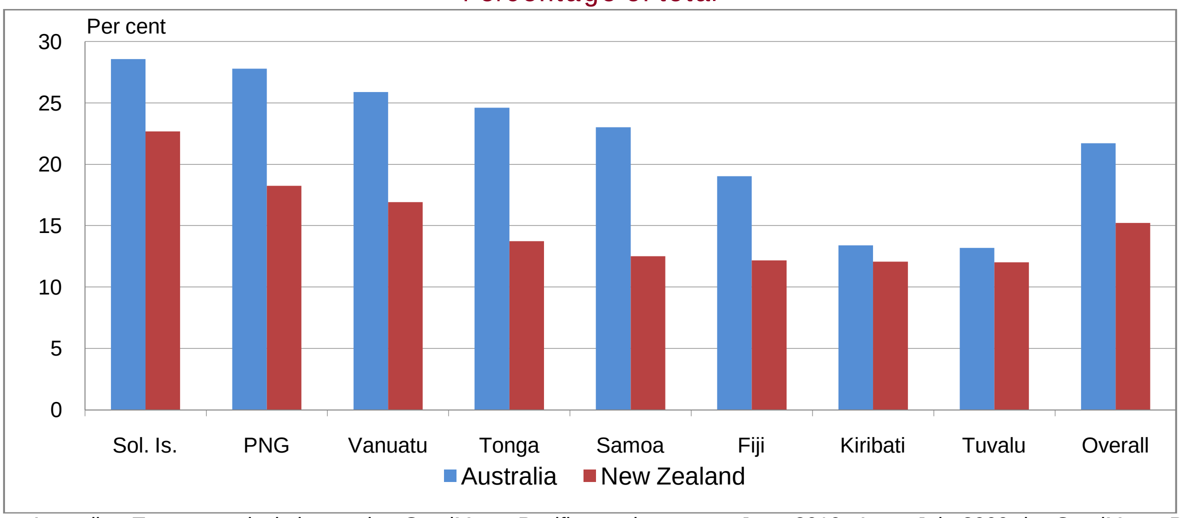
Country	Remittance Flows (US$m)	Remittances as a % of GDP	ODA Flows (US$m)	ODA flows as a % of GDP	Average cost to remit funds (%)
Fiji	175.0	4.9	45.3	1.3	18.0
Kiribati	9.0	6.6	26.9	19.7	13.9
PNG	13.3	0.2	304.4	3.7	26.7
Samoa	135.0	25.8	39.5	7.5	23.7
Solomon Islands	20.4	3.2	224.3	34.8	26.6
Tonga	99.5	35.8	25.7	9.2	20.8
Tuvalu	5.6	18.7	16.6	55.4	14.5
Vanuatu	7.0	1.2	91.7	15.5	23.3
Overall	464.9	12.0	774.3	18.4	20.9

Source: World Bank Development Indicators Database 2008. Average costs are based on January 2009 SendMoneyPacific.org data.

Across all remittance corridors to Pacific island countries surveyed, the average cost is 21.7 per cent of the amount remitted when sent from Australia and 15.2 per cent when sent from New Zealand (Chart E1). It is estimated that remitters to the Pacific pay at least US$90 million in remittance fees each year. Although there are some technical difficulties in making direct comparisons to global averages, there is international agreement to reduce the global average of remittance costs from 10 per cent to 5 per cent over the five years to 2014 (the '5x5' objective). On average, for every country surveyed by the SendMoneyPacific website, it is considerably cheaper to remit money to the Pacific from New Zealand than from Australia.

Chart E1: Average total cost of sending A$200/NZ$200 to the Pacific

Percentage of total



Source: Australian Treasury calculations using SendMoneyPacific.org data, as at June 2010. As at July 2009 the SendMoneyPacific website only measures the costs of remittances to eight FICs: Fiji, Kiribati, PNG, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

Lower New Zealand costs may be in part explained by: its larger diaspora communities that promote competition; greater disclosure of foreign exchange rates; and a regulatory change undertaken in New

Zealand to allow innovative remittance products. Australian banks have to date only shown limited interest in remittance services, minimising competitive pressures. Financial institutions (for example, commercial banks) are on average around 29 per cent more expensive than money transfer operators (MTOs, for example Western Union) in Australia and 27 per cent more expensive in New Zealand.

Costs have fallen across international corridors by 1.6 percentage points on average in the 18 months to March 2010. The cost of sending money from Australia and New Zealand to the Pacific has also declined across most corridors. Between January 2009 and June 2010, average remittance costs fell by 1.5 percentage points from Australia and 3.4 percentage points from New Zealand, although they remain above global averages.

Most of the cost reductions have been the result of reduced foreign exchange margins, rather than falls in upfront fees. MTOs saw larger falls than financial institutions. Reductions in average remittance costs across most Pacific corridors reflect a combination of factors:

- the SendMoneyPacific website has improved the transparency of fees and charges by displaying both upfront fees and exchange rates (which tend to be less transparent);
- in New Zealand, regulatory change has spurred greater competition; and
- financial capability and literacy initiatives in the region have raised awareness of the benefits of shopping around and alternative options for remittances.

While there has been some progress to date in reducing the cost of remittances, more could be done to facilitate lower costs:

- improving competition is the most effective way of encouraging lower remittance costs. This could involve examining the barriers to remittance service providers (RSPs) entering the market in both sending and receiving countries and continuing to improve transparency in fees and charges;
- further efforts to improve financial literacy could also give remitters a greater understanding of fees and charges and encourage greater use of safer formal remittance channels; and
- better data could also assist policy makers and inform potential market entrants.

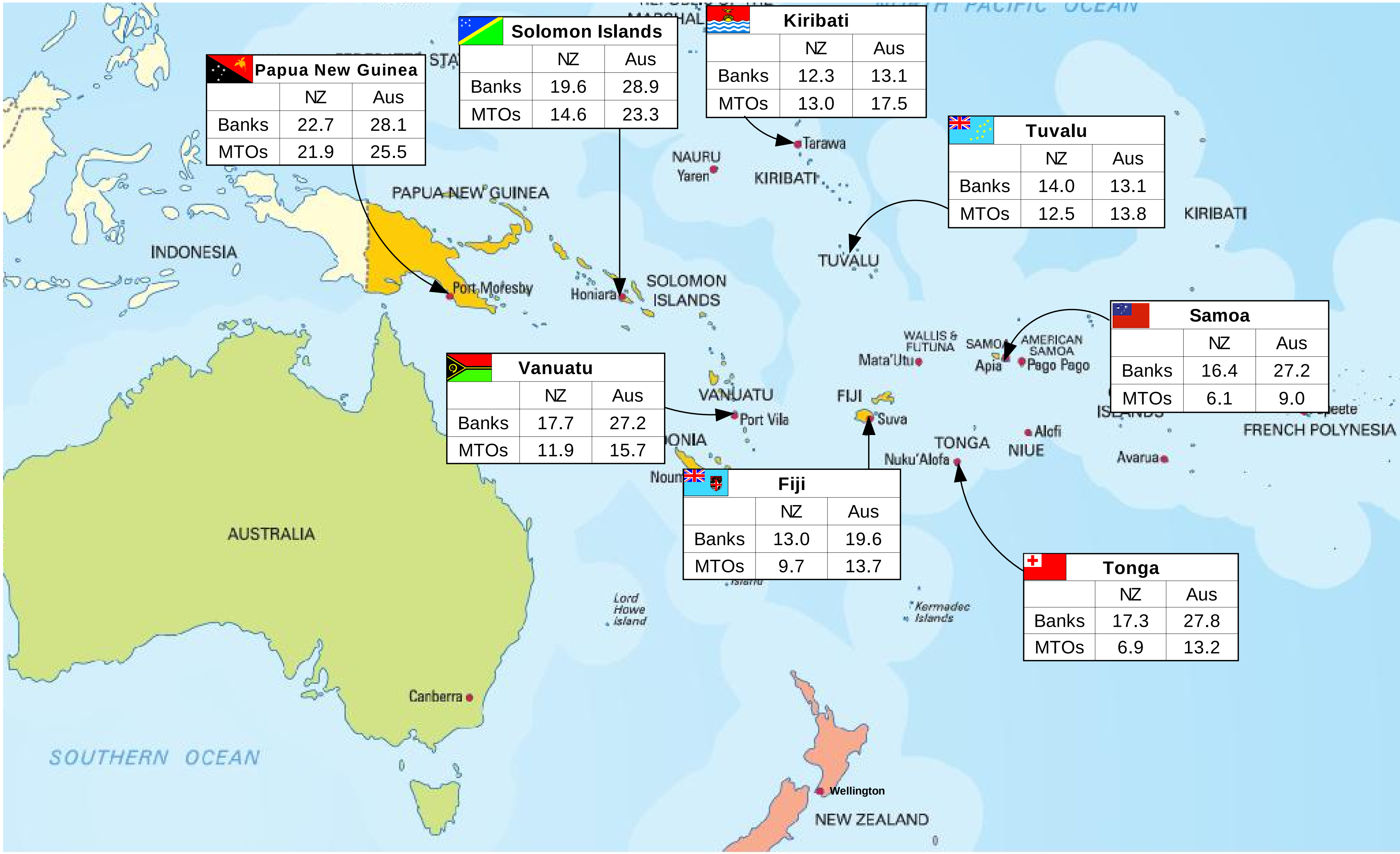
Over the next few years there is also the potential for reductions in banking costs from the introduction and adoption of new technologies such as mobile and internet banking. Inappropriate regulatory barriers can discourage firms from innovating and introducing such technologies, limiting the flow of potential benefits. These new technologies are already being applied in other countries (such as Kenya) and are being introduced in the Pacific (including in Fiji and Papua New Guinea). Given the small, dispersed and often remote nature of many communities in the Pacific, such technologies may revolutionise several aspects of Pacific life. If some of the substantial cross-border issues associated with payments systems (for example money laundering and/or terrorist financing risks) can be addressed, these technologies could also lead to significant reductions in remittance costs.

Ministers are invited to:

- promote national level awareness of the SendMoneyPacific website;
- share experiences improving financial awareness, especially in relation to remittance costs;
- explore and prioritise support for domestic initiatives in both sending and receiving countries to promote lower remittance costs, potentially in collaboration with development partners with relevant expertise such as the World Bank or the Pacific Financial Technical Assistance Centre, including but not limited to:
  - investigating whether domestic regulatory or payment system arrangements are a constraint to lower remittance costs and reporting back to FEMM 2011;
  - supporting financial awareness efforts, consistent with the MoneyPACIFIC Goals; and
  - promoting transparency in remittance costs of RSPs operating in their country.
- report back to FEMM 2011 on findings and progress achieved.

How much does it cost to send NZ$200/A$200 to the Pacific?

(calculated as a percentage of total amount sent)



Papua New Guinea

	NZ	Aus
Banks	22.7	28.1
MTOs	21.9	25.5

Solomon Islands

	NZ	Aus
Banks	19.6	28.9
MTOs	14.6	23.3

Kiribati

	NZ	Aus
Banks	12.3	13.1
MTOs	13.0	17.5

Tuvalu

	NZ	Aus
Banks	14.0	13.1
MTOs	12.5	13.8

Samoa

	NZ	Aus
Banks	16.4	27.2
MTOs	6.1	9.0

Vanuatu

	NZ	Aus
Banks	17.7	27.2
MTOs	11.9	15.7

Fiji

	NZ	Aus
Banks	13.0	19.6
MTOs	9.7	13.7

Tonga

	NZ	Aus
Banks	17.3	27.8
MTOs	6.9	13.2

Source: SendMoneyPacific.org as at June 2010

Introduction

As observed by former World Bank President James Wolfensohn, 'for too long migrants have faced unwarranted constraints in sending money to family members and relatives in their home countries, among them costly fees and commissions, inconvenient formal banking hours, and inefficient domestic banking services that delay final payment to the beneficiaries' (Maimbo & Ratha 2005).

Remittances are an increasingly important source of household income and foreign exchange for many developing countries, providing income directly to households to improve living standards. In the Pacific, around US$470 million was formally remitted to Forum island countries (FICs) in 2008, primarily from Australia, New Zealand and the United States of America (World Bank 2010a). This is equivalent to around one-third of the US$1.38 billion in total official development assistance (ODA) provided to FICs in that year (OECD 2010). For some FICs, remittances play an even larger role (Table 1); in Tonga and Samoa for example, remittances far exceed ODA receipts and are equivalent to more than 25 per cent of gross domestic product (GDP) (World Bank 2010a, OECD 2010).

Table 1: Importance of remittances to selected FICs[1]

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Vanuatu	7.0	1.2	91.7	15.5	23.3
Overall	464.9	12.0	774.3	18.4	20.9

Source: World Bank Development Indicators Database 2008, average cost numbers are based on January 2009 SendMoneyPacific.org data.

However, the Pacific region also has some of the highest remittance fees in the world. Remitters to the Pacific pay at least US$90 million in remittance fees each year, equating to approximately one-fifth of the total amount formally remitted in 2008 (Luthria 2009). Not only do these fees reduce the amount that reaches final recipients, but they could also act as a barrier to increased remittance flows, and the use of formal channels (Gibson, McKenzie & Rohorua 2006).

Remittance costs have consequently received increased international attention. Since 2004, the G-8 have regularly referred to the importance of facilitating remittances and so established a Global Remittances Working Group. In 2009 this Working Group identified the goal of reducing the average global cost of remittances from 10 per cent to 5 per cent in five years (the '5x5' objective). If this goal was achieved in the Pacific, the potential increase in remittances to FICs could be up to 7 per cent of that country's GDP. At a meeting of Pacific central bank and commercial bank representatives in 2007, Pacific Central Bank Governors established targets to reduce the cost of remittances to 4 per cent. These efforts complement actions to improve broader financial capability in the Pacific, such as through the MoneyPACIFIC Goals (see Annex 1).

At the 2009 Pacific Islands Forum Economic Ministers' Meeting (FEMM), Ministers agreed that Australia and New Zealand would 'build on existing work to monitor trends in remittance fees and charges, including how such costs compare in the international context, and report back to FEMM 2010.' This joint Australia-New Zealand paper examines the features of remittance service providers (RSPs) and the trends in the costs of sending remittances to the Pacific, comparing Pacific developments with global changes. It then outlines Australia's and New Zealand's ongoing work to monitor and support the reduction of Pacific remittance costs, and identifies possible measures for Ministerial consideration that could further reduce

1 As at July 2009 the SendMoneyPacific website only measures the costs of remittances to eight FICs: Fiji, Kiribati, PNG, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. This paper therefore focuses on remittance trends in these eight FICs.

costs. The purpose of this paper is to identify recent trends and issues underlying the high cost of remittances to the Pacific and stimulate discussion about possible policy responses to encourage a more competitive remittance market.

REMITTANCE SERVICE PROVIDERS

Remittances to the Pacific via the formal financial system are sent through two broad types of RSPs: financial institutions (such as commercial banks) and money transfer operators (MTOs, such as Western Union).

Financial institutions allow funds to be transferred from a domestic bank account to an international account through an international funds transfer. Such transfers — particularly inter-bank transfers — require considerable administration and can take anywhere from one to five days to process. Compared to MTOs, financial institutions tend to have higher costs associated with maintaining their branch and automated teller machine (ATM) networks and meeting prudential requirements, which can flow through to higher remittance fees.

In the Pacific, there is little interoperability between bank ATM and electronic funds transfer at point of sale (EFTPOS) networks (other than some bilateral arrangements), limiting customer numbers and thereby the financial viability of these networks. In addition, branch and ATM networks are often confined to large population centres, limiting the rural reach of remittances via financial institutions. However, the advent of mobile bank branches, branchless banking, and improving infrastructure is gradually increasing access.

MTOs operate either through their own outlets or through other transfer agents such as supermarkets, pharmacies, exchange bureaus and post offices. MTO transfers are kept within the MTO's network and these RSPs act predominantly as intermediaries, facilitating the transfer of funds for customers who do not hold an account with the MTO. Because MTOs often partner with other outlets, they usually face lower operating costs as they do not need to maintain the same network infrastructure.

Larger MTOs generally make funds available within an hour and they maintain distribution networks in most FICs. In the Pacific, larger MTOs operate over-the-counter services in major population centres, supplemented with wider networks in rural and remote areas. Smaller MTOs can have limited distribution networks with only a small number of outlets in both sending and receiving countries.

There are also a number of MTOs offering remittance services to the Pacific that operate outside financial and regulatory systems. These operators are not registered and funds are not recorded in official remittance flows, but they are thought to be potentially significant. For example, unrecorded flows (including remittances transferred by informal but legal means) between Australia and Samoa are estimated to be between 40-60 per cent of the total remitted formally (Connell and Brown, 2005). Remitters using these MTOs have little or no customer protection. Remittances are also transferred informally (but legally) through private channels, for example, by hand, through the mail and in-kind (such as the shipment of goods).

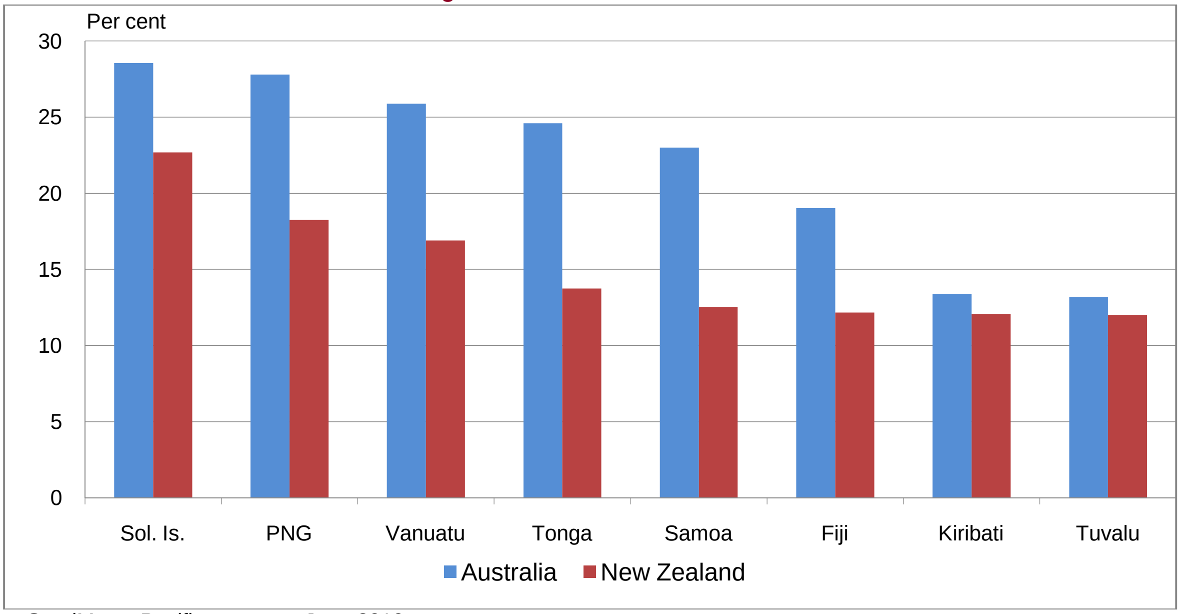
RSPs generate revenue through upfront fees, foreign exchange margins (the difference between the price at which the RSPs 'buys' the foreign currency, and the price at which they 'sell' it to the customer) and delayed transfers (to earn interest income).

REMITTANCE COSTS

The average cost of remitting to the Pacific is significantly higher than global averages. Across all corridors (such as Australia-Samoa) surveyed by the SendMoneyPacific website, the average remittance cost is 21.7 per cent of the amount remitted when sent from Australia and 15.2 per cent when sent from New Zealand. The Pacific's relatively high costs may in part reflect the small and remote nature of many Pacific economies, which could be limiting the extent to which RSPs can leverage 'economies of scale' (that is, falling average costs as the number of transactions increases) to reduce costs. However, other factors such as regulatory, competition and infrastructure issues may have a larger effect. The extent to which higher remittance fees in the Pacific are the result of 'supply' factors (such as the high cost of providing financial services) or from 'demand' factors (such as a lack of a competitive market) is unclear, and warrants further investigation.[2]

On average, it is much cheaper to remit money to the Pacific from New Zealand than from Australia. Remitters to Samoa face the largest differentials in costs, with average costs from Australia almost twice that if remitting from New Zealand (Chart 1).

Chart 1: Average total cost of sending A$200/NZ$200 to the Pacific
Percentage of the total amount remitted[3]



Source: SendMoneyPacific.org, as at June 2010.

Lower New Zealand costs may be in part explained by historical factors: New Zealand has traditionally closer ties to the Pacific and larger diasporas, leading to greater demand for remittance services and so a more competitive RSP market. More New Zealand banks are also disclosing their foreign exchange rates, allowing customers to compare total costs (DMA 2010). New Zealand has also undertaken regulatory change to allow innovative remittance products (discussed in Box 1 below). In addition, Australian banks have to date shown only limited interest in providing remittance services, minimising competitive pressures. Anecdotally, some financial institutions view remittance services as a niche product outside their core banking business. Reinforcing this, community outreach work has indicated that the Samoan and Tongan communities in Australia are more likely to remit using a MTO than a financial institution, providing weakened incentives for Australian banks to reduce their fees, even when their competitors are doing so (DMA 2010).

Average remittance costs naturally mask a wide range of costs that vary by corridor and RSP. By corridor, Solomon Islands, Papua New Guinea (PNG) and Vanuatu have the highest average fees from both Australia and New Zealand. Average costs vary from 12.0 per cent (New Zealand-Fiji), to 28.6 per cent (Australia-Solomon Islands).

2 In competitive markets, fees imposed on remittance services should reflect their cost of provision by RSPs, allowing for a profit margin. More competitive markets are usually associated with low profit margins and prices to consumers that closely reflect the cost of providing this service, as firms are unable to charge fees greatly in excess of their costs without losing market share to competitors.

3 Data is reported using source country currencies, reflecting the data collected by SendMoneyPacific. The Australian and New Zealand data are therefore not strictly comparable, as there could be different fee outcomes if equivalent amounts were compared (for example, using September 2010 exchange rates, A$200 equals approximately NZ$250). SendMoneyPacific also does not collect information on the volume of transfers through each RSP, and therefore cannot weight its averages by volume.

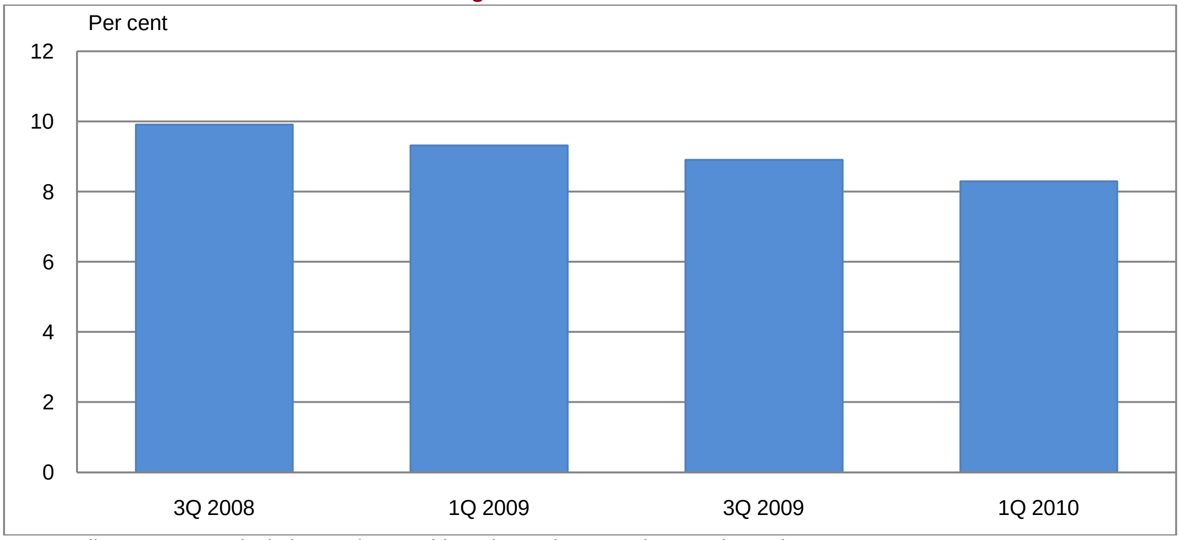
By RSP, financial institutions are on average around 29 per cent more expensive than MTOs in Australia and 27 per cent more expensive in New Zealand[4], although at an individual RSP level, the lowest cost provider in some New Zealand remittance corridors is actually a bank facility. The spread of costs by RSP in each corridor regularly exceeds 10 percentage points. The highest cost RSPs from Australia in each corridor regularly exceed 30 per cent of the amount remitted.[5]

More competitive corridors, such as those to Samoa, Tonga and Fiji, also tend to have a larger number of MTOs, with lower fees relative to financial institutions. As MTOs are generally more engaged in remittance markets than financial institutions, their presence is associated with more competition and lower costs. While there appears to be little correlation between the total number of RSPs operating in a corridor and lower average costs, a larger number of MTOs as a proportion of total RSPs *does* appear to be associated with lower average costs.

Changes in costs [6]

The cost to remit money has fallen across international corridors in recent years. World Bank remittances data indicates that in the first quarter of 2010, costs were 1.6 percentage points lower on average than they were in the third quarter of 2008 (Chart 2).[7]

Chart 2: Global average total cost to send US$200
Percentage of total amount remitted



Source: Australian Treasury calculations using World Bank Remittance Price Database data.

However, this fall was not consistent across all regions. According to the World Bank, while some of the lowest cost regions stagnated, there were significant falls in some of the higher cost regions, including the East Asia and Pacific and the Middle East and North Africa regions. These regions tend to have higher than average costs as a result of low volumes, low competition, and the high pervasiveness of exclusive arrangements for individual RSPs. In contrast, the South Asia region has tended to have some of the lowest

4 Australian Treasury calculations, based on SendMoneyPacific.org data collected 1 July 2010.

5 Due to the absence of volume information, it is unclear just how many people actually incur this fee.

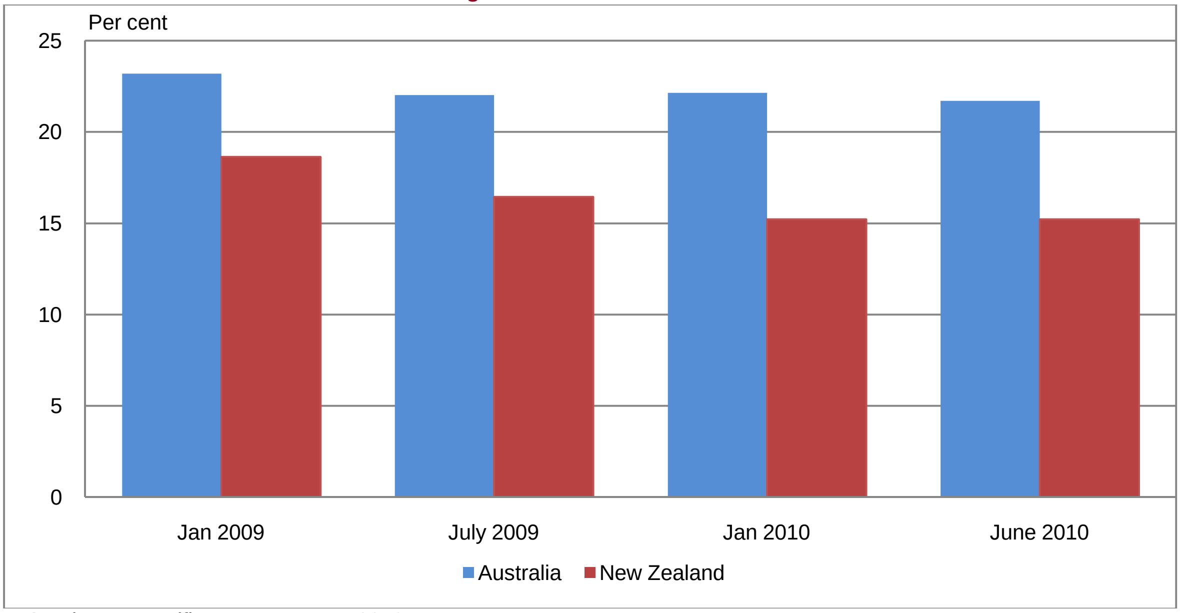
6 The global financial crisis in 2008, and the subsequent global recession, may have affected remittance costs. This may have affected the cost trends reported in this paper, but the magnitude and direction of any effect is uncertain.

7 As the World Bank has increased the scope of its surveys since the establishment of the World Remittance Price Database, this measure does not capture the effect of additional providers being added to the sample over time. The World Bank attempts to survey the major providers in each of the corridors it covers but cannot cover all providers, nor does it weight its sample by volume of transfers. The World Bank only reports an exchange rate margin if one is provided by the RSP — otherwise it is reported as zero. Given the large number of non-transparent RSPs, this can cause the World Bank's average costs to be lower than those reported by other databases (such as SendMoneyPacific.org) that estimate non-transparent exchange rate margins.

costs due to their large volumes, and their costs have continued to trend down as a result of investment in payment systems and government subsidies for RSPs (World Bank 2010b).

Whilst not directly comparable to the World Bank's data due to different collection methodologies, data from the SendMoneyPacific website indicates the cost of sending money from Australia and New Zealand appears to have also declined across most Pacific corridors. Between January 2009 and June 2010, the average remittance cost fell by 1.5 percentage points from Australia and 3.4 percentage points from New Zealand (Chart 3).[8]

Chart 3: Trend in Pacific remittance costs: average cost to remit A$200/NZ$200 to the Pacific
Percentage of total amount remitted[9]



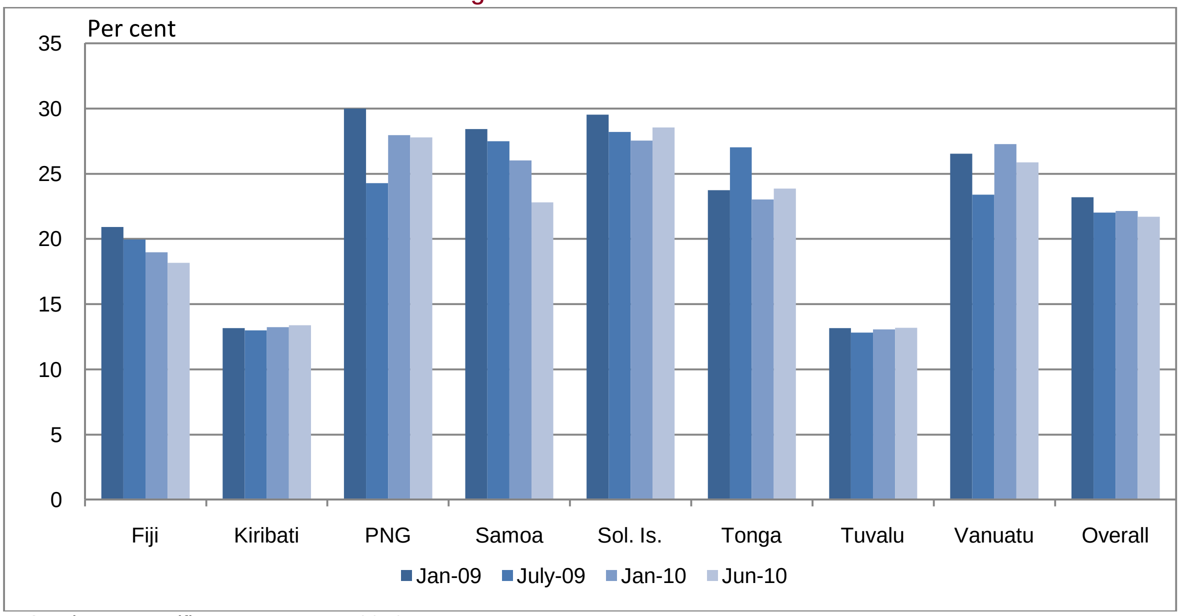
Source: SendMoneyPacific.org, as at June 2010.

Like international corridors, the Pacific's downwards cost trend has not been consistent across corridors. From Australia, the Fiji and Samoa corridors experienced the largest falls, whilst others saw only minimal change (Chart 4). New Zealand corridors experienced significant reductions in average total costs across all its corridors between January 2009 and June 2010 (Chart 5). Both Australia and New Zealand have experienced some volatility in the cost of remitting to a number of corridors since January 2009.

8 These numbers reflect the change in price of only those remitters that were surveyed at the launch of the SendMoneyPacific website and so do not take into account the addition of new providers to the surveys.

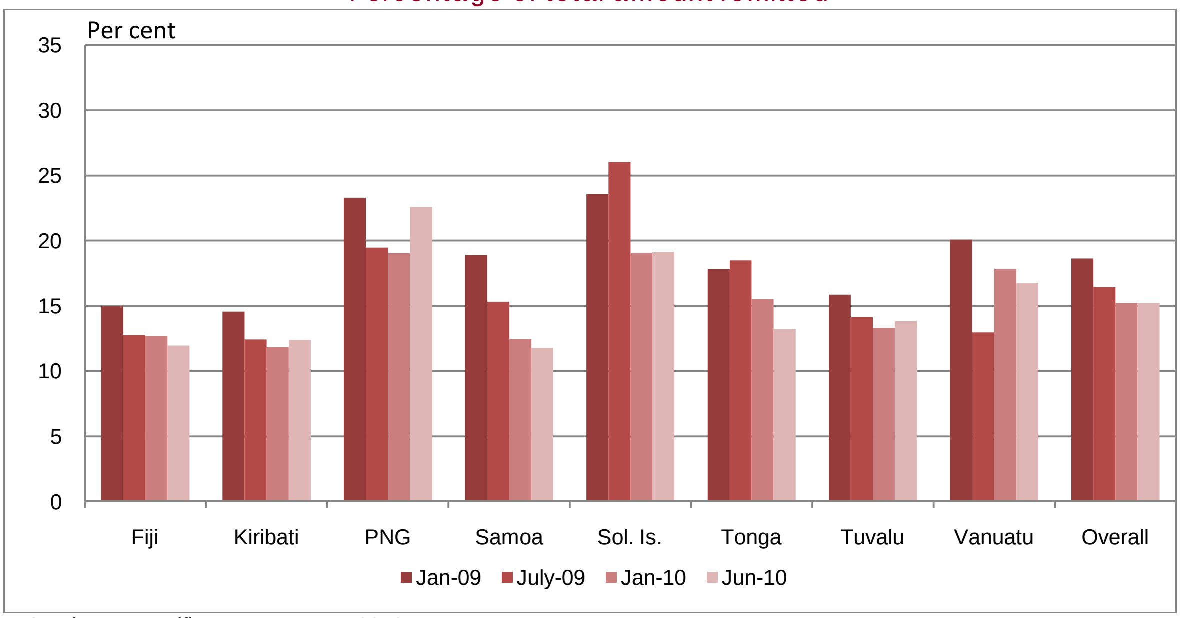
9 Average costs in this chart are not directly comparable to the average costs described in Chart 1 as SendMoneyPacific.org uses a different methodology to that used by the World Bank Remittance Price Database. Although this difference means the World Bank may understate Australia (13.9 per cent) and New Zealand's (10.6 per cent) average costs, they remain above world averages (8.9 per cent). SendMoneyPacific has increased the scope of its survey since launch, and so aggregate changes do not capture the possibility that existing providers may have been included in subsequent, more extensive surveys and reported as new market entrants.

Chart 4: Average total cost to send A$200 from Australia to the Pacific
Percentage of total amount remitted



Source: SendMoneyPacific.org, as at June 2010.

Chart 5: Average total cost to send NZ$200 from New Zealand to the Pacific
Percentage of total amount remitted

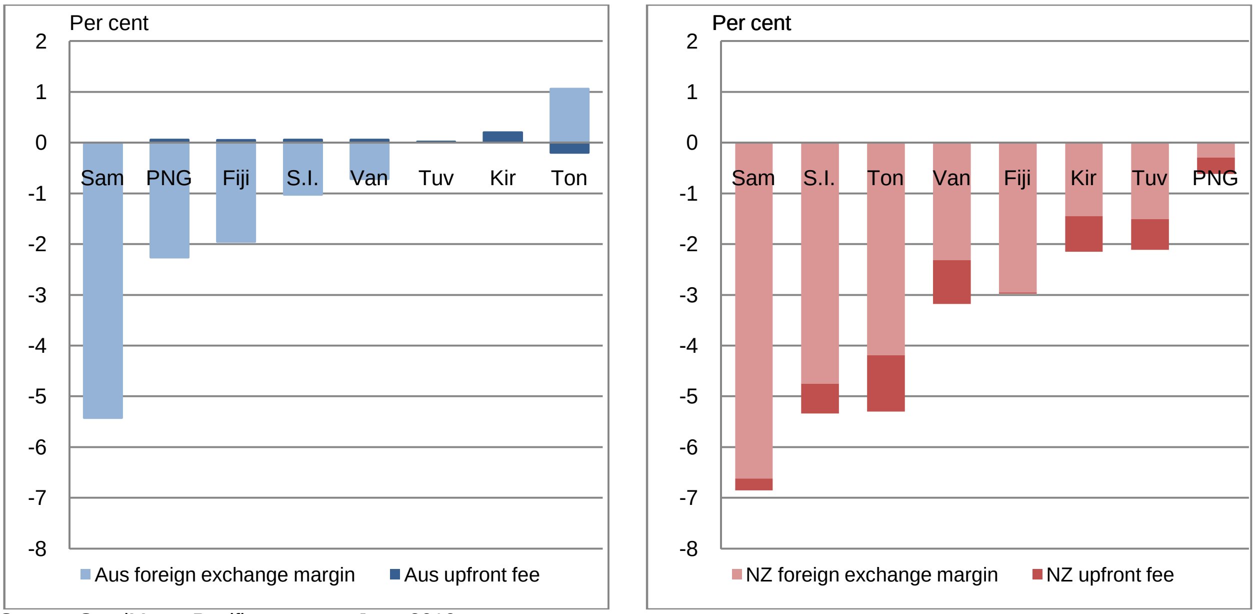


Source: SendMoneyPacific.org, as at June 2010.

Most of the cost reductions have been the result of reduced foreign exchange margins, rather than falls in upfront fees (Chart 6). In Australia, foreign exchange margins have fallen in five of the six markets that have their own currencies, while upfront fees have increased slightly in six of the eight markets surveyed. Tuvalu and Kiribati (that use the Australian dollar and so do not have an exchange rate margin) experienced only minimal changes in total costs. In New Zealand, both exchange rate margins and upfront fees have fallen in all eight markets surveyed, with exchange rate margins typically experiencing larger falls.

Chart 6: Change in the average cost of sending A$200/NZ$200
January 2009 to June 2010

Australia | New Zealand

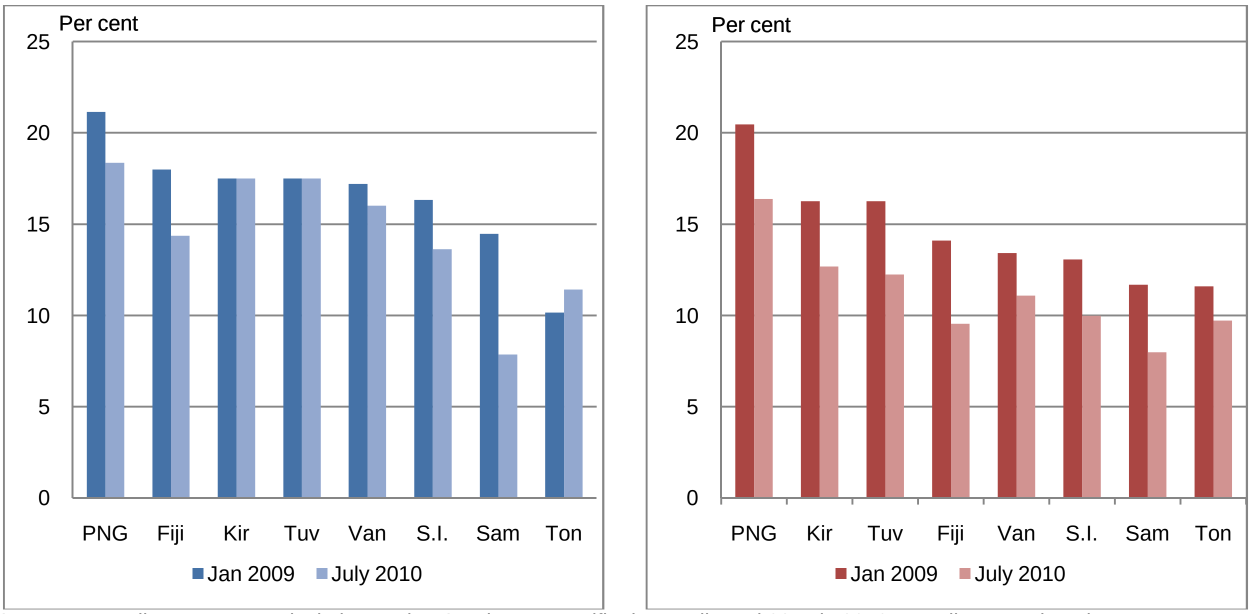


Source: SendMoneyPacific.org, as at June 2010.

MTOs experienced larger falls than traditional financial institutions, with average costs on a $200 remittance falling 2.0 percentage points for Australian MTOs and 3.4 percentage points for New Zealand (Chart 7).

Chart 7: Change in cost of sending A$200/NZ$200 through MTOs
January 2009 to July 2010

Australia | New Zealand



Source: Australian Treasury calculations using SendMoneyPacific data, collected 28 July 2010. Baseline sample only.

Reductions in average remittance costs across most Pacific corridors reflect a combination of factors, including increased transparency of cost information, financial literacy initiatives, and regulatory change in New Zealand that has increased competition among RSPs (see Box 1 below).

The SendMoneyPacific website, funded by Australia and New Zealand, has improved the transparency of fees and charges, allowing customers to see the full cost of sending a remittance by displaying both the upfront fees and exchange rates for the major RSPs serving each corridor. Exchange rate margins tend to be less transparent and more difficult to understand than upfront fees, but may be easier to adjust on a day to day basis. The website allows customers to shop around, which places pressure on RSPs to both display their margins up-front, and to decrease their margins to match the competition. Several RSPs now provide their latest fees and foreign exchange rate margins daily to SendMoneyPacific. As was seen in Chart 6, most of the falls in total remittance costs were from reduced foreign exchange margins.

In New Zealand, regulatory change has also spurred greater competition. The introduction of a two-card remittance product has increased competition for remittance business, placing pressure on other RSPs to adjust their pricing accordingly. The prospect of further engagement by financial institutions in the remittance market and further innovation in remittance products may be placing additional pressure on MTOs in particular to pre-emptively reduce fees to protect their market share. The emergence of this competitive threat in the New Zealand remittance market may also partially explain why New Zealand's costs are falling faster than Australia's.

Financial capability and literacy initiatives in the region have also raised awareness of the benefits of shopping around and alternative options for remittances in what have traditionally been brand loyal markets. These efforts also appear to be complementary. Outreach work conducted in Tonga, for example, suggests the community has become more aware of alternative remittance options and the benefits of shopping around since the introduction of SendMoneyPacific and the Westpac two-card account (DMA 2010).

Box 1: Actions taken by Australia and New Zealand to reduce remittance costs

Both Australia and New Zealand have acted to address the high cost of remitting funds to the Pacific.

In July 2007, the Reserve Bank of New Zealand established the cross-government New Zealand-Pacific Remittance Project, which includes representatives from the Ministry of Pacific Island Affairs and the Ministry of Foreign Affairs and Trade (which manages the New Zealand Aid Programme), in cooperation with the World Bank. The Project aimed to reduce the total transaction cost of remittances to 7 per cent by July 2008 and to less than 5 per cent by July 2009 by encouraging competition (including access to banking services and products), promoting transparency in disclosing fees, and building financial capability about the money transfer methods available and their associated costs.

Changes to New Zealand regulation permit financial institutions to now offer a two-card remittance facility within particular guidelines, without requiring stringent verification of the identity of people receiving funds. This facility allows funds to be loaded onto the account by a New Zealand-based remitter (up to NZ$10,000 per annum), while the second card can be used by a second person for ATM and EFTPOS withdrawals in another country (including the Pacific). Westpac launched a two-card remittance facility in late 2008 and others are expected to follow suit.

Activity on remittances has also focused on increasing the transparency of fees and charges. Australia and New Zealand co-funded the development of a website (www.sendmoneypacific.org) that allows people to easily compare the total costs and services of different MTOs. The website is updated fortnightly and provides information on the costs of sending A$200/NZ$200 and A$500/NZ$500 to eight FICs, giving a total coverage of 16 corridors. The SendMoneyPacific initiative also develops promotional material and supports community events and workshops to increase awareness of the site and enable those without internet access to also benefit from the information available.

Both Governments have also acted to improve financial literacy. The New Zealand-Pacific Remittance Project is developing financial education material and awareness-raising programs to encourage financial awareness in Pacific households. The first example of this was an annual wall calendar for Samoan and Tongan communities incorporating SendMoneyPacific cost comparisons for remittances and financial/budgeting tips. The calendar was provided to 35,000 households in Tonga, Samoa and New Zealand in late-2009. New Zealand is also piloting a training program for Pacific workers in New Zealand under the Recognised Seasonal Employer scheme that includes financial literacy as a key component.

Australia, through the AusAID-Westpac Partnership, provides financial literacy training to Pacific seasonal workers prior to their mobilisation on Australia's Pacific Seasonal Worker Pilot Scheme, and is delivering financial literacy training with community organisations in the Pacific to reach rural and vulnerable groups. AusAID also supports separate financial literacy training with a focus on women's participation in economic activity. Australia also co-funds financial literacy through the Pacific Financial Inclusion Program, aimed at increasing access to financial services for low income and rural households. Activities include designing financial literacy programs, capacity development of financial service providers and regulatory bodies and awarding small grants to financial service providers to implement pro-poor financial services.

Australia and New Zealand, through partnerships with the International Finance Corporation (IFC) and the wider World Bank Group, also focus on improving the efficiency of payments systems in FIC economies. The Pacific Payments, Remittances and Securities Settlement Initiative, supported by several Pacific central banks as well as the Reserve Banks of Australia and New Zealand, have undertaken preliminary assessments for Samoa, Tonga, Solomon Islands, and Vanuatu. The findings of these studies should be available in late 2010.

STRATEGIES TO FURTHER REDUCE REMITTANCE COSTS

Actions taken by Australia and New Zealand to increase transparency, competition and consumer awareness appear to have placed some downward pressure on remittance prices, but more could be done to facilitate lower costs.

Annex 2 lists the General Principles for International Remittance Services, developed by the World Bank and the Bank for International Settlements, that should be considered by both remittance sending and receiving countries. Experience in the region and evidence from others such as the World Bank indicate that improving competition in the remittance market is the most effective method for policymakers to encourage lower costs, through some combination of encouraging more MTOs and also greater bank engagement with remittance markets.

In both remittance sending and receiving countries, this could include an examination of what barriers might be keeping RSPs from entering the market. For example, exclusive contracts between RSPs and owners of major distribution networks, such as post offices, in sending and receiving countries may be preventing lower-cost competitors from entering and taking advantage of existing distribution networks. In sending countries, financial system regulations (such as prudential requirements for banks and anti-money laundering rules) could be unintentionally hindering further entrants or even encouraging the use of informal RSPs. Changes to these regulations would need to be carefully evaluated, however, to ensure any benefits obtained through greater remittances did not undermine well-grounded regulations. Sending and receiving countries could also consider further improvements to transparency in fees and charges, such as encouraging RSPs to display clearly (and then adhere to) their foreign exchange margins to senders.

Continued endeavours to improve the efficiency of payment systems in the Pacific could also assist by driving reductions in the cost of providing financial services (including remittances), which could flow through to reduced fees. Further efforts to improve financial literacy could also give remitters a greater understanding of fees and charges associated with different RSPs and the associated benefits of shopping around. These efforts could also include outreach work to encourage the use of formal remittance channels, to reduce the risks associated with informal operators and provide a gateway to broader engagement with the formal financial system. Improved data on remittance flows could also assist policy makers to understand the dynamics of remittance markets and better inform potential market entrants.

Many of these initiatives align with the toolbox of initiatives to reduce the cost of remittances identified when the International Conference on Remittances developed the 'Rome Road Map for Remittances' in November 2009 (see Annex 3). These initiatives also align with the G-20 Principles for Innovative Financial Inclusion (Annex 4) developed and announced by Leaders at the Toronto Summit in July 2010. The Principles are aimed at creating an enabling policy and regulatory environment for innovative financial inclusion, and embody the common objective of the G-20 countries to increase access to financial services for the two billion people who are currently financially excluded. The Principles will inform the development of an action plan to be delivered to Leaders at the Seoul Summit in November 2010.

Over the next few years there is also the potential for reductions in banking costs as a result of the introduction and adoption of new technologies such as mobile and internet banking. Mobile banking allows consumers to access low-cost basic banking services through their mobile phones (primarily within countries); an innovation that would appear well suited to the Pacific as mobile phone penetration rapidly improves with telecommunication reform in many FICs. Inappropriate regulatory barriers can discourage firms from innovating and introducing such technologies, limiting the potential flow of benefits. These new technologies are already being used for low-cost banking in other countries (such as Kenya) and are being introduced in the Pacific (including in Fiji and PNG). Given the small, dispersed and often remote nature of many communities in the Pacific, such technologies may revolutionise several aspects of Pacific life. If some of the substantial cross-border issues associated with these payment systems (for example, money laundering and/or terrorism financing risks) can be addressed, these technologies could also lead to significant reductions in remittance costs.

CONCLUSION

Remittances have received increasing global attention in the last decade, reflecting a growing appreciation of their importance to households in many developing countries. Much more is being done to monitor remittance costs, which appear to have fallen globally in recent years. Remittance costs to the Pacific have fallen over the past 18 months, but still remain very high.

Australia and New Zealand have taken steps to reduce the cost of sending remittances to the Pacific by working to increase the transparency of RSPs and through improved consumer awareness and financial literacy. New Zealand has gone further, changing regulatory arrangements to allow the development of competitive, low-cost remittance products. These efforts are helping to reduce remittance costs from Australia and New Zealand.

It is encouraging to see greater awareness of the importance of remittances, but more can be done by both sending and receiving countries. To that end, and in keeping with the MoneyPACIFIC Goals endorsed by FIC Economic Ministers in October 2009 and Pacific Central Bank Governors in December 2009, Ministers are invited to:

- promote national level awareness of the information provided by the SendMoneyPacific website;
- share national experiences with improving financial awareness, especially in relation to remittance costs;
- explore and prioritise support for domestic initiatives in both sending and receiving countries to promote lower remittance costs, potentially in collaboration with development partners with relevant expertise such as the World Bank or PFTAC, including but not limited to:
  - investigating whether domestic regulatory or payment system arrangements are a constraint to lower remittance costs and reporting back to FEMM 2011;
  - actively supporting financial awareness efforts, consistent with the MoneyPACIFIC Goals; and
  - promoting transparency in remittance costs of RSPs operating in their country.
- report back to FEMM 2011 on findings and progress achieved within countries.

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ANNEX 1: MONEYPACIFIC GOALS

In each Pacific Island nation by 2020, through the combined actions of public and private sectors, our goals are:

- all schoolchildren to receive financial education through core curricula;
- all adults to have access to financial education;
- simple and transparent consumer protection to be in place; and
- to halve the number of households without access to basic financial services.[10]

10 Coombs Declaration Working Party, Building Financial Capability in the Pacific: Status Report, Pacific Islands Forum Secretariat, September 2009, available online at: http://www.forumsec.org.fj/resources/uploads/attachments/documents/FEMM%2009%20Update%20on%20Financial%20Sector%20Deve%20-%20Report.pdf.

ANNEX 2: GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES

In 2006, the Bank for International Settlements' Committee on Payment and Settlement Systems and the World Bank developed a set of general principles for remittance policy, aimed at achieving safe and efficient international remittance services.[11] The general principles are:

2. The market for remittances should be transparent and have adequate consumer protection.

3. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

4. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

5. Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance service industry.

6. Remittance services should be supported by appropriate governance and risk management practices.

These general principles (Bank for International Settlements & World Bank 2006) have been endorsed by the G-8, the G-20 and the Financial Stability Forum. Both sending and receiving countries have been urged to adopt them.

11 Committee on Payment and Settlement Systems & World Bank, General Principles for international remittance services, January 2007, available online at: http://www.bis.org/publ/cpss76.pdf.

Annex 3: International Conference on Remittances — Policy Toolbox

The International Conference on Remittances in Rome has identified a set of possible initiatives according to a 'tool box' approach, embracing various means to lower the costs of remittances and to improve their developmental impact:[12]

I. improvement of data accuracy, for example through the use of migration and remittances modules in household surveys;

II. promotion of transparency and consumer protection in the market;

III. creation of national databases to inform customers and other interested parties on the costs of sending remittances;

IV. activities of moral suasion, advocacy and monitoring by relevant authorities;

V. participation to international initiatives and working groups, such as the Global Remittances Working Group;

VI. establishment of codes of conduct for remittance operators;

VII. creation of sound, predictable, non-discriminatory and proportionate legal frameworks on remittances;

VIII. implementation of best practices to increase the access to finance through remittances;

IX. elaboration and financing of projects in the field of remittances, including those that encourage innovative instruments of payments to facilitate the transfer of remittances;

X. efforts to continue monitoring the impact of financial crisis on migration and remittances;

XI. global survey of Central Banks on various areas to be updated, at least every two years; and

XII. analysis of impact of remittances on development including their role post-natural disasters, labour market participation, poverty reduction, education and health outcomes, and role in providing financing for small business investments.

12 International Conference on Remittances, Rome Roadmap for Remittances, November 2009, available online at: http://www.esteri.it/mae/approfondimenti/20091230_Rome_Road_Map_for_Remittances_fin.pdf.

ANNEX 4: G-20 PRINCIPLES FOR INNOVATIVE FINANCIAL INCLUSION

Innovative financial inclusion means improving access to financial services for poor people through the safe and sound spread of new approaches. The following principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. These principles for innovative financial inclusion derive from the experiences and lessons learned from policymakers throughout the world, especially leaders from developing countries.

1. Leadership: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.

2. Diversity: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.

3. Innovation: Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.

4. Protection: Encourage a comprehensive approach to consumer protection that recognises the roles of government, providers and consumers.

5. Empowerment: Develop financial literacy and financial capability.

6. Cooperation: Create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.

7. Knowledge: Utilize improved data to make evidence based policy, measure progress, and consider an incremental 'test and learn' approach acceptable to both regulator and service provider.

8. Proportionality: Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.

9. Framework: Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.[13]

13 G-20, Principles for Innovative Financial Inclusion, available online at: http://www.g20.utoronto.ca/2010/ to-principles.html.