GLOBAL REMITTANCES WORKING GROUP

IMPLEMENTING THE CPSS–WORLD BANK GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES

THE WORLD BANK GROUP

BARRIERS TO ACCESS TO PAYMENT SYSTEMS IN SENDING COUNTRIES AND PROPOSED SOLUTIONS

Special-Purpose Note

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The Global Remittances Working Group (GRWG) was created in February 2009 to respond to the multiple calls for coordination in the area of remittances received by the World Bank. The GRWG is a multiyear platform that aims to increase the efficiency of the remittances market and facilitate the flow of remittances by providing guidance and policy options to the global community.

The GRWG is composed of representatives nominated by the participating countries and chaired by the World Bank Vice President for Financial and Private Sector Development. The Coordinators and a small Secretariat facilitate the initiative, and an International Advisory Committee of global experts provides quality assurance and technical guidance.

Four thematic areas covering different aspects of remittances have been established around the seven G8 recommendations. These address data; interconnections with migration and development, and policy; payment and market infrastructure; and remittance-linked financial products and access to finance. The discussions in the thematic areas are conducted through participation from organizations, governments, and other entities and through the inclusion of specialists who can bring their expertise to analyzing the identified topics.

This document has been prepared by the GRWG Secretariat in consultation with the members of the Public and Private Partnership on Remittances (Thematic Area 3), and with the contribution of the GRWG International Advisory Committee. The document was drafted with the assistance of an external consultant, Developing Markets Associates Ltd (www.developingmarkets.com).

The document is published as a Special-Purpose Note and is intended to provide guidance to reform efforts in the remittances arena both nationally and globally. The findings and interpretations presented are those of the GRWG Secretariat, and do not necessarily reflect the views of the World Bank and the GRWG.

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CONTENTS

ABBREVIATIONS

AML	anti–money laundering
CFT	combating financing of terrorism
EU	European Union
FATF	Financial Action Task Force
MSB	money service business
MTO	money transfer operator
PI	payment institution
RSP	remittance service provider

All dollar amounts are U.S. dollars unless otherwise indicated.

BARRIERS TO ACCESS TO PAYMENT SYSTEMS AND PROPOSED SOLUTIONS

1 INTRODUCTION

General Principle 4 of the General Principles for International Remittance Services states: "Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry."[1]

Such access can be either direct or indirect. In the latter case, an indirect participant uses the payment system through the services provided by a direct participant, typically a bank. Both forms of access are capable of providing remittance service providers (RSPs) with suitable payment services.

Worldwide, there are numerous cases where this principle is not being met. Many nonbank RSPs do not have direct access to payment systems and cannot obtain proper services from indirect access.[2] For example, many RSPs are not able to retain the bank account they need for their remittance business. Many RSPs are not even able to open such an account.

This paper analyzes the difficulties for nonbank RSPs in their indirect access to the domestic payment system infrastructure. It presents the background (section 3) and the current situation, giving examples from a few key sending markets (section 4). The main factors underlying the current situation are outlined (section 5), and several potential pragmatic solutions are presented as a basis for further discussion along with implementable proposed action plans (section 6). The paper concludes with possible next steps (section 7).

2 METHODOLOGY

As interest in the topic is relatively new, there is a lack of documentation or research on the issue of nonbank RSPs' access to the domestic payment infrastructure. There have been a number of articles and isolated commentaries on the topic, but nothing that could be described as a research project. Thus, the Global Remittances Working Group undertook a range of primary research techniques to produce the analysis presented in this paper. These included an online questionnaire targeted at nonbank RSPs; and interviews and/or phone calls with banks, regulators, nonbank RSPs, and trade associations.

[1] "General Principles for International Remittance Services" was published in January 2007 by the Committee on Payment and Settlement Systems and the World Bank; it is available at www.worldbank.org/paymentsystems.

[2] Nonbank RSPs are here defined as nonbank organizations specialized in the provision of remittance services. In addition to money transfer operators, nonbank institutions such as microfinance institutions, cooperatives, and credit unions can provide remittance services, depending on national legislation.

An example of the online questionnaire is attached in appendix A. The questionnaire was sent to over 250 nonbank RSPs and answered by 51 money transfer operators (MTOs) and 2 credit unions. Responses were received from Europe (Belgium, Spain, Sweden, Switzerland, and the United Kingdom), the Middle East (Saudi Arabia and the United Arab Emirates), Asia (India, the Philippines), Australia, and Canada and the United States. The majority of responses were received from the United Kingdom, the United States, and the United Arab Emirates (see appendix A for a more detailed breakdown of the composition of the respondents). The results have been formulated into a series of findings and recommendations detailed in this report.

3 BACKGROUND

The General Principles are a set of standards that were developed to assist countries in improving their markets for remittance services. They have been endorsed by, among others, the G8, the G20, the Financial Stability Forum, and the Association of Southeast Asian Nations (ASEAN). The five General Principles cover elements including price transparency and consumer protection, legal and regulatory frameworks, payment system infrastructure, governance, and risk management as well as market structure and competition. They also include a set of recommendations on the roles public authorities and RSPs must play in the development of an efficient market. In certain countries, there have been initiatives that address each of the principles individually or in totality. The World Bank has led the implementation of the General Principles at the global level.

As stated above, General Principle 4 provides the context for this research paper: "Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry." The principle goes on to state that

> RSPs, like everybody else, need to be able to use domestic payment systems. In most countries, only banks are allowed to be direct participants in such systems. Nonbanks have to access the systems indirectly, as customers of banks. There are arguments for and against this arrangement.

See appendix B for more detail on these discussions.

Common sense and good business practice mean nonbank RSPs should, at a minimum, be able to access bank account facilities provided they meet appropriate standards in terms of financial probity and compliance with regulations including anti–money laundering and combating financing of terrorism (AML/CFT) legislation. In an efficient market, nonbank RSPs not only have access, but have a choice of banking service providers so they can access bank accounts at a competitive price. This competition helps ensure that operational costs are kept low and that reductions can be passed on to consumers.

Perhaps even more importantly, if nonbank RSPs are not able to use banking services, their businesses become cash-only operations. Higher reliance on cash throughout the value chain typically raises transaction costs—which are normally transferred on to customers in the form of higher prices for remittance services. Moreover, evidence from many countries shows that RSPs working on a cash-only basis without a bank account in a licensed commercial bank are often not regulated and may even be operating illegally. In such cases, regulatory authorities will not be able to monitor transactions from either an AML/CFT viewpoint or a development angle. It is essential to find solutions to this issue that work for all stakeholders: regulators, banks, and other RSPs operating in remittance markets.

As this paper discusses, current difficulties in accessing domestic payment systems affect some of the most important markets in the world and solutions are required in as short a time period as possible.

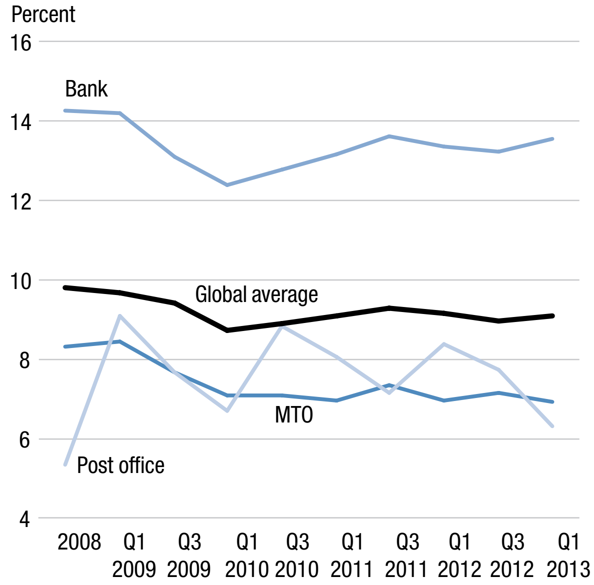
4 CURRENT SITUATION

Remittance Prices Worldwide is an online database (www.remittanceprices.worldbank.org) implemented by the World Bank that tracks the cost of remittances in 219 corridors globally. Data from the database show that MTOs—a type of nonbank RSP—are consistently cheaper than banks for sending $200 or the equivalent in local currency.[3]

According to data for the first quarter (Q1) of 2013, the total average cost of sending $200 by bank is 13.54 percent, compared to 6.92 percent for MTOs and 6.30 percent for post offices. Banks also tend to be less transparent in terms of providing the customer with the actual total cost of the service; in Q1 2013, 24 percent of banks were nontransparent compared with only 2 percent of MTOs.[4] Failure to disclose total costs affects a migrant's ability to identify and select the most competitive and convenient service. Figure 1 shows the difference in the total average cost of sending money from developed to developing countries by RSP type between 2008 and Q1 2013.

Throughout the world, migrants rely on the cheaper, more competitive services of MTOs and other nonbank RSPs in order to send money home to their families (commonly in small amounts). Nonbank RSPs play an important role in servicing this segment of the market and channeling the estimated $401 billion a year sent by immigrants back to developing countries.[5]

FIGURE 1: TOTAL AVERAGE COST OF REMITTANCE BY RSP TYPE, 2008–Q1 2013



Source: World Bank, *Remittance Prices Worldwide* 5, March 2013.

Immigrants often cannot afford the high fees banks charge; furthermore, access may be problematic when transferring money through banks, as both sender and recipient are usually required to have a bank account. Thus, in most markets, banks are not offering a service that is attractive or affordable to migrants.

It has been demonstrated that, in markets where there is a dearth of choice and few nonbank RSPs are operating, there are higher volumes of remittances moving through unauthorized means (intra-Africa transfers

[3]Note that while this conclusion is generally borne out by the data, there are a few countries where this is not the case—e.g., in the Philippines for receiving money from California, where the cost to send via Filipino banks is lower than through MTOs and U.S. banks.

[4]In this context, "nontransparent" means that it was not possible for the researchers to obtain the total price a customer pays. In all cases, this is because the bank was not able to provide the exchange rate used with the transaction.

[5]Source: World Bank, *Migration and Development Brief* 20, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationDevelopmentBrief20.pdf.

are a good example of this scenario). Unauthorized remittance operators are not only risky to use for senders and their families, but may also circumvent any AML/CFT and other regulatory restrictions, with potentially damaging consequences for the wider community. More competitive costs in sending remittances home and improvements in access to and convenience of the service encourage immigrants to use authorized channels.

For all these reasons, it is important to create an environment in which nonbank RSPs can operate transparently and efficiently to provide money transfer services. However, there is currently a mixed picture around the world with respect to nonbank RSPs being able to access bank accounts and payment system infrastructure to improve their operations. Table 1 provides a short summary of some of the major remittance-sending markets.

An interesting case is that of the Russian Federation, where MTOs have to become banks to operate. While it is expensive to become a bank in Russia, competition is still strong, and Russia is one of the cheapest markets in the world for sending remittances. Conversely, in markets such as the United States and the United Kingdom where there is a large number of nonbank RSPs, the difficulty of accessing bank accounts either increases bank charges, which makes continuing operations more difficult, or actually reduces the number of operators in certain corridors.

4.1 Examples of Difficulties in Accessing Bank Accounts

It is helpful to highlight particular examples from different sending markets to demonstrate some of the difficulties that are being experienced by MTOs and other nonbank RSPs. The following case studies highlight the situations in Australia, Norway, Spain, Switzerland, the United Kingdom, and the United States. The information presented is derived from interviews with market participants combined with responses to the questionnaire and desk research.

One of the main factors banks take into account when considering whether to offer banking services to nonbank RSPs is the current global approach to risk—and, in particular, to compliance with AML/CFT rules. Guidelines at the regional and national levels on compliance with AML/CFT legislation are driven by the recommendations of the Financial Action Task Force (FATF; see box 1), an intergovernmental entity that aims to set standards and promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system. Each country or region adapts the principles of the FATF recommendations and translates them into locally appropriate regulation.

So far, over 180 countries have committed to the FATF regulations. One of the key approaches adopted is a risk-based approach that aims to establish compliance rules that are proportional to the risk posed by the scheme being regulated.[6]

Australia

Australia is a high-priced market for remittances. The average cost of sending money from Australia in Q1 2013 was 14.9 percent of the sent amount compared with the global average (9.05 percent).[7]

All operators in Australia must provide details of every transaction to the government's anti–money laundering tracking division (AUSTRAC) for AML/CFT pur-

[6]For further information, please see "Making Remittances Work: Balancing Financial Integrity and Inclusion" (World Bank, forthcoming).

[7]Source: Remittance Prices Worldwide, http://remittanceprices.worldbank.org/.

TABLE 1: SUMMARY OF ACCESS TO BANK ACCOUNTS FOR NONBANK RSPS IN MAJOR SENDING MARKETS

Country[a]	Bank account access for nonbank RSPs	Volume of remittances sent (billion $)	FATF status
Australia	Opening bank accounts has been relatively straightforward for nonbank RSPs, although recent feedback suggests this may be changing.	3.8	Member
France	Very few nonbank RSPs have been authorized. Even though French law mandates that any legal or natural person has the right to a bank account,[b] anecdotally it would appear that a number of RSPs have had some difficulty in opening an account.	14.8	Member
Germany	Historically, there have only been a limited number of nonbank RSPs. However since the introduction of the European Commission's Payment Services Directive, around 100 nonbank RSPs have passported in. Opening a local bank account for these passported payment institutions is challenging.[c]	16.7	Member
Italy	Fewer restrictions in opening an account for nonbank RSPs than in other European Union countries.	13.0	Member
Russian Federation	Only banks are allowed to offer money transfer services. Some MTOs have become banks; as such, they have no difficulty in obtaining bank accounts.	22.7	Member
Saudi Arabia	Highly regulated market that is bank dominated. Nonbanks have extensive difficulties in opening correspondent bank accounts with U.S. banks.	28.5	MENAFATF Member
Spain	Obtaining bank accounts for businesses authorized by the Banco de España is a manageable process. Difficult practices are entailed in opening bank accounts for passported-in payment institutions.	12.6	Member
Switzerland	Highly regulated market—only nonbank RSPs that are publicly quoted on stock markets can access bank accounts, barring exceptional circumstances.	30.8	Member
United Kingdom	Only one bank will consider opening accounts and only for authorized payment institutions. It is currently not possible for small payment institutions to open bank accounts.[d]	3.3	Member
United States	Difficult practices are entailed in opening bank accounts for nonbank RSPs.	51.6	Member

Sources: Responses to questionnaires; interviews with MTOs, banks, and regulators; analysis of various statutes and regulations. Remittance data are for 2011 and were taken from World Bank, *Remittance Data Outflows*, April 2013. FATF status information is from the FATF website (www.fatf-gafi.org).

Note: FATF = Financial Action Task Force; MENAFATF = Middle East & North Africa Financial Action Task Force.

a. Country selection was based on the top 10 remittance-sending countries as per the World Bank's *Migration and Remittances Factbook 2011*. Here, however, the United Kingdom, France, and Australia replace Luxembourg, Kuwait, and the Netherlands so as to reflect some of the measurement issues with remittances data and capture countries where specific bank account access challenges have been identified or addressed.

b. Article L.312 of the French *Code monétaire et financier*.

c. A payment institution is a nonbank RSP that has gained regulatory approval. As per the Payment Services Directive, an authorized payment institution is a licensed nonbank financial institution that is allowed to "passport" its approval to other European Union member states. "Passporting" is a practice whereby a financial institution authorized in one European Union member state is able to operate under that same approval in another member state. See http://ec.europa.eu/internal_market/payments/framework/index_en.htm for more information.

d. Small payment institutions—nonbank financial institutions with a lower level of regulatory approval that conduct payments that are cumulatively not more than (on average) €3 million per month—are not allowed to passport their license to another country. See http://ec.europa.eu/internal_market/payments/framework/index_en.htm for more information.

BOX 1: THE FATF RECOMMENDATIONS

Established in 1989 by the ministers of its member jurisdictions, the FATF (www.fatf-gafi.org) seeks to generate the necessary political will to bring about legislative and regulatory reforms in the AML/CFT arena. Its recommendations are recognized as the international standard for combating money laundering and the financing of terrorism and the proliferation of weapons of mass destruction. They form the basis for a coordinated response to these threats to the integrity of the financial system and help ensure transparency and a level playing field. First issued in 1990, the recommendations were revised in 1996, 2001, 2003, and—most recently—2012 to ensure that they remain up to date and relevant, as the methods used to launder the proceeds of criminal activities and finance illicit activities are in constant evolution.

To achieve global implementation of its recommendations, the FATF relies on a strong network of 36 member countries and 8 regional bodies. These latter play an essential role in promoting effective implementation of the recommendations by their membership and in providing expertise and input to FATF policy making. Over 180 countries have committed to the recommendations.

The FATF conducts peer reviews of each member on an ongoing basis to assess their levels of implementation of the recommendations, providing an in-depth description and analysis of each country's system for preventing criminal abuse of the financial system. Worldwide compliance with the standards protects the integrity of the international financial system and enhances international cooperation on AML/CFT. Public identification of noncompliance has encouraged jurisdictions to improve their AML/CFT systems.

poses. There are a number of recent examples of small MTOs that are facing increasing difficulty in accessing the payment system infrastructure. Some banks have in fact begun closing the accounts of small operators based on their analysis of the risks such operators would pose in terms of AML/CFT compliance.

Norway

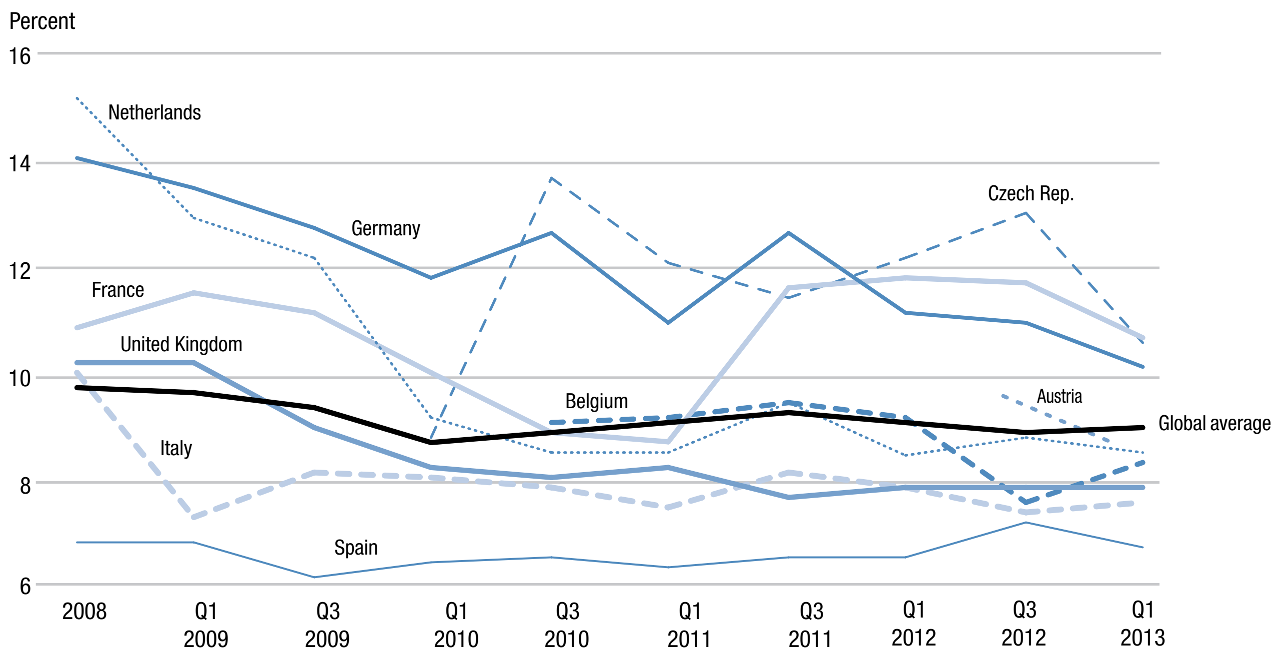
One of the largest banks in Norway recently wrote to all foreign-owned payment institutions (PIs) giving them 30 days' notice that it will stop accepting cash paid into their accounts.[8] The bank further advised that if a client tries to pay in any cash, it will close the account in total. There are no viable alternatives for these PIs, and they cannot control their existing customers to ensure that they will not pay cash in. In addition, not all of their clients can operate on a noncash basis. It would appear that this action threatens the viability of the PIs' operation in Norway and that it discriminates in favor of Norwegian-registered PIs (of which there are very few).

Spain

Spain is the most competitive money transfer market within the European Union (EU) (figure 2). The average cost of sending $200 from Spain was 6.77 percent of the amount sent in Q1 2013 compared with the 9.05 percent global average. Spain has approximately 44 authorized PIs and 122 companies that have passported their services into the country from other EU

[8] A PI is a nonbank RSP that has gained regulatory approval. As per the European Commission's Payment Services Directive, an **authorized PI** is a licensed nonbank financial institution that is allowed to passport its approval to other European Union member states. **Small PIs** are nonbank financial institutions with a lower level of regulatory approval. While the approval process involves more than simple registration, the requirements are significantly lower than for an authorized PI; e.g., there is no need to safeguard customer funds, and the businesses conduct payments that are cumulatively not more than (on average) €3 million per month. See http://ec.europa.eu/internal_market/payments/framework/index_en.htm for more information.

FIGURE 2: AVERAGE COST TO SEND $200 FROM SELECT EUROPEAN COUNTRIES



Source: World Bank, *Remittance Prices Worldwide* 5, March 2013.

states (mainly from the United Kingdom). Small PIs do not operate in Spain.

Based on discussions with the most important Spanish banks and local nonbank RSPs, it would appear that there are no particular challenges in opening bank accounts and thus in obtaining access to the payment system infrastructure. There are, however, significant challenges for businesses that have passported into Spain. The country's banks do not view non-Spanish authorized PIs as they do locally authorized ones, due to concerns regarding their understanding of the AML/CFT approach applied by each entity. Therefore, while there are few concerns with payment system access in Spain, there may exist some concerns regarding fair competition in the market between Spanish and other EU-based PIs.

Switzerland

Switzerland transfers significant volumes of remittances ($19.6 billion in 2010[9]). The market has traditionally been served by Swiss Post and nonbank RSPs rather than by banks. Until the end of 2011, the market was operating smoothly in terms of access to payment services.

Since then, however, one of the main banks that provided banking facilities to MTOs decided to close

[9]Source: World Bank, *Migration and Remittances Factbook 2011*, http://data.worldbank.org/data-catalog/migration-and-remittances.

accounts for all MTOs except those that are publicly quoted on an international stock market. This decision has significantly changed the situation of appropriate access to payment services in the country. It has proved very difficult for the remaining companies to establish a bank account, as the other banks are not interested in having MTOs as customers. As a result, some MTOs are currently operating on a cash-only basis, albeit in a perfectly legitimate manner. Thus far, it is unclear how this market will develop as a result of the situation, what the impact on prices will be, and how much of the flows will be diverted toward non-regulated remittance channels.

United Kingdom

The United Kingdom hosts more than 65 percent of the nonbank RSPs defined as PIs within the 30 countries of the EU and the European Economic Area; it is therefore an important country from the perspective of nonbank RSPs. In total, there are about 1,250 PIs in the country; approximately 1,050 are small PIs, and around 200 are authorized PIs. The United Kingdom is one of only six EU countries that allow for both small and authorized PIs.

There are currently four nationwide, or large retail, banks in the United Kingdom. Interviews highlight that, of these,

- two will not open bank accounts for any form of MTO;
- one used to consider opening accounts for authorized PIs as long as they met a series of high criteria, but at the end of 2012 it made a global decision to close all bank accounts for nonbank RSPs as a result of heavy fines levied by U.S. authorities for unrelated compliance breaches; and
- the remaining bank has given notice to over 250 authorized PIs to move their accounts—previously, it had told all small PIs to close their accounts or convert to an authorized PI.

It is now virtually impossible for a small PI to open a bank account in the United Kingdom. It is possible for authorized PIs to access banking facilities, but only at a high price. The price of banking services, such as credit and debit card acceptance, is higher for nonbank RSPs than for other businesses, which are perceived as carrying a lower risk.

In addition to their difficulty in accessing bank accounts in the United Kingdom, authorized PIs that are licensed in the United Kingdom are finding it increasingly difficult to open accounts with the same bank in another EU country. As an example, one authorized PI wished to open a bank account in Swedish kronor in Sweden so that its agents could credit that account for its transactions in the local currency. Its request was refused. The PI will either have to open an account with a bank that has direct access to the Swedish clearing and payment system (which involves a series of cumbersome procedures) or, as is the current practice, request that its Swedish agents send funds in pounds to its account in the United Kingdom. This latter exposes the PI to foreign currency risk, which will in turn be passed on to the consumer as a higher-priced service. A number of similar examples were described in interviews conducted for this research.

United States

Any nonbank RSP that sends or receives U.S. dollars needs an account in dollars with a U.S. bank. While it is possible to do business without this, most operators do not want to rely on another intermediary in order to be able to access U.S. dollars.

Since the USA PATRIOT Act was introduced after the 9/11 terrorist attacks, U.S. banks have taken a significantly closer and more critical look at the accounts they offer in light of AML/CFT. As a result, it has become much harder—if not impossible—for nonbank RSPs to open or maintain bank accounts in the United States. An interview with a nonbank RSP from the Gulf States revealed that, in the last nine years, it has had 6 U.S. dollar bank accounts closed and a further 17 applications declined. In each case, the reason given was that the banks had reviewed their strategy and were no longer offering services to nonbank RSPs. Research has revealed many similar examples.

For any money service business (MSB) that wishes to offer services in the United States, the regulatory environment is highly complex.[10] Nearly every state (47 out of 50) has its own money transmission regulations. Additionally, Washington, D.C., and the U.S. Territories have regulatory jurisdictions. Thus, in order to operate throughout the United States, an MSB must be covered by 55 jurisdictions. There are many similarities among state laws, but the supervisory regimes range widely in rigor, frequently overlap, and sometimes contradict each other. This ultimately leads to uncertainty for operators and service providers to MSBs, such as banks. Under a range of regulatory pressures, banks have consistently been closing accounts for their MSB customers.[11]

U.S.-based nonbank RSPs also report several restrictions in their access to the domestic payment system infrastructure. Although a large number of nonbank RSPs do have bank accounts, interviews revealed persistent challenges in maintaining or obtaining a bank account. The situation has become almost untenable for the large Somali community in Minnesota, with people unable to send money through formal channels (box 2).

BOX 2: REMITTANCES TO SOMALIA FROM THE UNITED STATES

Migrant Somalis globally send an estimated $1.6 billion per year in remittances, which has played an important role in keeping the Somali economy afloat. Money transmitters have long provided an essential way for Somali Americans to support their families back home. In 2012, the two local banks that were providing services to registered Somali nonbank RSPs in Minnesota withdrew the account facilities because of security concerns. Some of the operators were forced to close, as they had no other options for conducting their business.

As an alternative solution for Somali migrants, the U.S. Treasury has suggested sending money through other money transfer services or through U.S.-based banks to clearing houses or hubs in Dubai that arrange for payouts in Somalia. It has also suggested that Somalis could declare the money and ship cash or money orders to those hubs for payout in Somalia. However, these are expensive and potentially risky alternatives for people who wish to send money home, and may push migrants to look for nonregulated and illegal methods to achieve their ends.

While Somalia may be considered an extreme case, it is important to note that the MSBs involved were fully approved and registered at the state level, and that there was nothing in terms of the prudential or legal compliance of these particular operators that provided any cause for their accounts to be closed.

One area in which the United States has shown some innovation is in the use of third-party compliance audits to help banks determine whether the AML/CFT approach of some MSBs is deemed to be appropriate. This approach may be advantageous if applied on a broader scale.

[10]MSB is a term used widely in the United States; in this context, it is the equivalent of a PI in Europe—a nonbank payment institution.

[11]Source: National Money Transmitters Association.

4.2 Access to Bank Accounts in Receiving Markets

Table 2 presents a summary of access to bank accounts in receiving markets. It shows that accessing bank accounts/payment systems is not a problem in the main receiving markets. To a large extent, this is because regulation in most of these markets actually prevents nonbank RSPs from operating in the market at all. Such regulations are clearly a significant issue in terms of competition in the market and therefore at odds with the General Principles. This particular issue is, however, beyond the scope of this paper.

4.3 Summary

The research finds that there are issues in accessing bank accounts and other domestic banking services in many of the sending markets surveyed. The examples discussed above provide a level of detail to some of the more consistent findings revealed. Overall, the problems can be summarized as follows:

TABLE 2: SUMMARY OF ACCESS TO BANK ACCOUNTS FOR NONBANK RSPS IN MAJOR RECEIVING MARKETS

Country[a]	Bank account access for nonbank RSPs	Volume of remittances received (billion $)	FATF status
India	Only banks and licensed institutions are allowed to operate.	63.0	Member
China	Only banks are licensed to offer remittance services.	60.2	Member
Mexico	Access to bank accounts is not a problem, and nonbank RSPs are well serviced by the commercial banks.	23.2	Member
Philippines	Access to bank accounts is not a problem. Only banks and authorized entities are allowed to provide money transfer services and have access to the payment system.	23.1	APG Member
Bangladesh	Access to bank accounts is not a problem. Only banks and authorized entities are allowed to provide money transfer services and have access to the payment system.	12.1	APG Member
Nigeria	Access to bank accounts is not a problem. Only banks and authorized entities are allowed to provide money transfer services and have access to the payment system.	20.6	GIABA Member
Pakistan	Access to bank accounts is not a problem. Only banks and authorized entities are allowed to provide money transfer services and have access to the payment system.	12.3	APG Member
Poland	No reported problems with accessing bank accounts.	7.6	EAG Member
Lebanon	No reported problems with accessing bank accounts.	7.5	MENAFATF Member
Egypt, Arab Rep.	No reported problems with accessing bank accounts.	14.3	MENAFATF Member

Sources: Responses to questionnaires; interviews with MTOs, banks, and regulators; analysis of various statutes and regulations. Remittance data are for 2011 and were taken from World Bank, "Remittance Data Inflows" sheet. FATF status information is from the FATF website (www.fatf-gafi.org).

Note: APG = Asia/Pacific Group on Money Laundering; EAG = Eurasian Group on Combating Money Laundering and Financing of Terrorism; FATF = Financial Action Task Force; GIABA = Inter-Governmental Action Group against Money Laundering in West Africa; MENAFATF = Middle East & North Africa Financial Action Task Force.

a. The selection of countries is based on the World Bank's *Migration and Remittances Factbook 2011*. The countries listed here are the same as in that publication except for excluding Belgium, France, Germany, and Spain, as these countries include items such as pension transfers, which are not relevant to this study.

- Some banks are making a strategic decision not to open bank accounts for nonbank RSPs.
- Some banks are closing already existing bank accounts for nonbank RSPs.
- Costs charged by banks are increasing for services provided to nonbank RSPs.
- Nonbank RSPs from outside the United States are facing challenges in opening accounts in that country and trading in U.S. dollars.
- International banks are not always applying the same criteria in opening accounts for existing corporate clients in countries where they have subsidiaries.
- Challenges exist for nonbank RSPs passporting into other EU countries in opening local bank accounts.
- In general, banks are providing an inconsistent and declining approach in terms of the services they offer to nonbank RSPs.

The next section provides an explanation for why many banks believe they have no option but to place restrictions on the services they offer nonbank RSPs.

5 REASONS FOR THE EXISTING SITUATION

Based on interviews with banks and regulators, it is clear that risk management is the primary reason behind the difficulties nonbank RSPs are experiencing in trying to obtain and retain bank accounts and other banking services.

The survey results and interviews with banks and nonbank RSPs highlight a number of reasons behind nonbank RSPs' difficulty in accessing bank accounts, some of which are common to several markets and others that are specific to one or two. The five most common factors are as follows; these are delineated in the remainder of this section:

- Lack of consistency in AML/CFT standards across countries
- Banks' attitude toward risk
- Ongoing regulation/supervision
- Country's high-risk status
- Conflict of interest.

5.1 Lack of Consistency in AML/CFT Standards

In general, banks have been fully involved in the development of the FATF recommendations, while money remitters have only recently begun to contribute to the discussions. Many of the recommendations concern bank account to bank account transactions, although there are a few recommendations and guidelines on using the risk-based approach for specific nonbank RSPs. Thus, some national regulations have adopted thresholds and limits that do not take into consideration the characteristics of the market segment served by nonbank RSPs. A key area in this regard is the level at which enhanced due diligence is undertaken. The FATF recommendations use a threshold of 1,000 (euros, U.S. dollars, or pounds) for application of enhanced due diligence to transactions, but many countries have adopted different levels—both higher and lower—into local regulations.

The translation of the risk-based approach has been welcomed by all market participants, but many nonbank RSPs feel they would benefit from more precise guidance from local regulators as to what would be acceptable and what would not. It is often a challenge for regulators to find the right balance between prescriptive regulation and discretionary elements, which frequently results in an ambiguous gray area. This ambiguity regarding appropriate application of the risk-based approach needs clarification.

Differences and inconsistencies in AML/CFT requirements mean that banks do not always trust foreign standards when dealing with nonlocal nonbank RSPs. Work to harmonize regulations across the European Union through the Payment Services Directive is undermined by differences in the AML/CFT requirements contained in another piece of EU regulation (the Third Money Laundering Directive). Thus, a PI that can passport its regulatory authorization to other European Economic Area countries has to comply with up to 30 different interpretations of AML/CFT regulations and in the United States with up to 55 different sets of legislation.

5.2 Banks' Attitude toward Risk

The banking system is built on trust. As such, it is imperative for large financial institutions to protect their reputation in order to ensure the public's trust in holding and managing their money. In recent years, banks have become more cautious and conservative, particularly in the wake of the financial crisis, when a number of large, well-respected financial institutions were the subject of highly publicized investigations of fraud, financial mismanagement, and money laundering. Subsequently, banks have adopted many measures to protect their reputation and keep themselves away from public scrutiny. The more prosecutions (and resulting press coverage) banks endure, the more likely they are to take a more risk-averse approach to new or existing customers.

While some national and international authorities formally report that money transmitters do not present a uniform or unacceptably high risk of money laundering, terrorist financing, or sanctions violations, most institutions perceive nonbank RSPs as a high-risk business. For example, the Serious Organised Crime Agency (SOCA) in the United Kingdom reports that the majority of its serious crime investigations involve nonbank RSPs and money laundering at some stage.

Because the remittance volumes processed by nonbank RSPs and the revenues they bring to banks are relatively small, the potential reward for a bank in servicing nonbank RSPs is often not worth the perceived or actual risk. This is especially true for the smaller nonbank RSPs. This risk-reward assessment means that a number of banks are choosing not to operate in this market.

5.3 Ongoing Regulation/Supervision

One of the main reasons behind the tendency of banks to deny access to nonbank RSPs to the payment system infrastructure is the perceived difference in approach and systems used, and compliance standards maintained, by banks and nonbank RSPs. While regulation for both is based on a risk-based approach, the level of risk is left to interpretation. This subjectivity presents its own challenges with regard to consistency and trust (box 3).

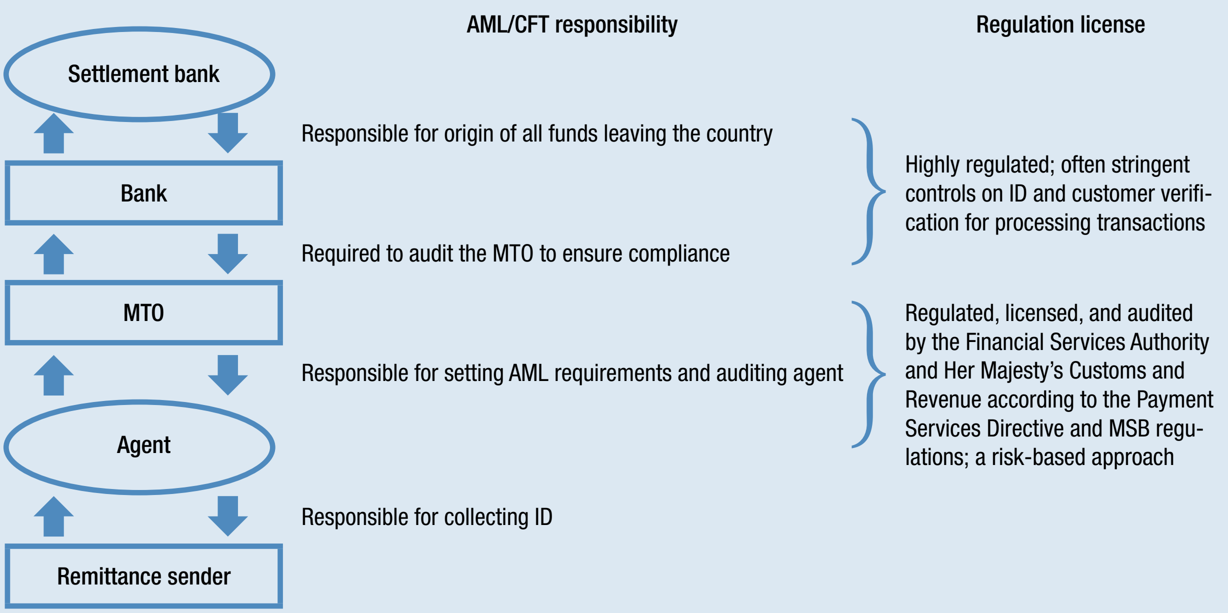
It is apparent that, for a number of the large commercial banks interviewed, each individual transaction is treated identically, irrespective of value: a transfer of $10 is treated in exactly the same way—with the same ID requirements, security checks, and processes—as a transfer of $100,000. The bank's level of controls thus may be unnecessarily high for low-value transactions (including remittances) and not proportionate to the level of risk for criminal activity posed. In contrast, the risk-based approach taken by MTOs, which are dealing with low-value transactions, means that their requirements may not be as stringent.

More specifically, the average size of a nonbank RSP transaction is around $500, which is under the mandatory enhanced due diligence level in the FATF recommendations. For banks, the average international payment size for all classes of payment is higher than the enhanced due diligence level.

BOX 3: EXAMPLE OF REGULATION/SUPERVISION IN THE U.K. MARKET

As was brought out in interviews, banks in the United Kingdom are not comfortable with the level of regulation/supervision imposed on smaller MTOs under the country's small PI regulation and their auditing by the Financial Services Authority and Her Majesty's Customs and Revenue (the responsible supervisory authorities). The diagram below shows the flow of funds and the flow of compliance responsibility.

FLOW OF FUNDS IN A MONEY TRANSFER AND CHANNELS OF AML/CFT RESPONSIBILITY



According to the Financial Services Authority, any party involved in the transfer of money from start to finish must take responsibility for the source of those funds and in ensuring that they meet and comply with all international and national laws with regard to AML/CFT. This implies that each nonbank RSP's bank is ultimately responsible for each transfer that is processed through the nonbank RSP (even though they are bulked). Banks are increasingly concerned with being reliant on third-party nonbank RSPs and agents to ensure they adhere to their AML/CFT requirements.

For banks, it is only financially feasible to audit and provide financial services to the larger nonbank RSPs where they are more regulated and where they bring in larger volumes. Smaller, corridor-specific nonbank RSPs that tend to offer the most competitive services to senders do not process the volume of transactions to make audits by the bank worthwhile. Banks are currently, in effect, being made to duplicate the work of the regulators.

The situation in the United Kingdom had, as of May 2013, escalated to the point that none of the four main retail banks were prepared to open new accounts for MTOs—and indeed were closing accounts for all operators except the largest 10 MTOs.

This would not pose a problem if there was guidance from the authorities as to where the responsibilities of banks start and stop: whether the bank has to assume ultimate responsibility for all funds it processes, or whether the regulatory authorities should take responsibility for ensuring compliance. The compliance levels banks adhere to are more stringent than those for MTOs, yet the MTOs rely on banks in order to conduct their business.

5.4 High-Risk Countries

Generally, banks are reluctant to deal with companies that transfer money to high-risk countries, such as Somalia and Sudan. When someone sends money outside of the country, banks must have proof that the company receiving the funds knows its customer and can validate the identification of the person picking up the cash. Banks have a responsibility to adhere to the laws and ensure that the money transmitted ends up in the right hands.

In some countries, such as Somalia, there is no formal market regulation to support this requirement, and therefore a number of governments worry that such an environment could assist in funding terrorism.

In the United States, the USA PATRIOT Act and amended Bank Secrecy Act make it increasingly difficult for financial institutions to be in full compliance with AML/CFT regulations. Instead of trying to comply, many are electing to opt out so as not to incur heavy federal fines.

Banks have deemed nonbank RSPs offering money transfer services to Somalia too risky and have therefore terminated accounts. However, these nonbank RSPs are filling an important gap in the market that no one else is currently servicing. Economic migrants need to send money home to support their families in times of political turmoil and disruption.

Further examples of this are currently being observed in the United Kingdom–China market and in some payments to countries like Armenia that share a land border with Iran.

5.5 Conflict of Interest

In offering money transfer services, nonbank RSPs compete with banks' own service lines. While the banks interviewed emphatically rejected this competition as a factor in their decision to deny accounts to nonbank RSPs, it is worth noting that there is the potential conflict of interest and that banks are perhaps less incentivized to find a solution to the current challenges.

6 POTENTIAL SOLUTIONS

Many efforts have been made through the implementation of the General Principles to improve the competitiveness of the money transfer market, reduce the cost of sending remittances globally, and bring and keep nonbank RSPs in the regulated market. Other efforts at the global level have been made to ensure that AML/CFT requirements are appropriate to the risk involved. However, the current situation undermines much of this work, and a solution needs to be found that will foster a healthy global remittances market.

6.1 Create Country-Level Task Forces

There are a variety of stakeholders involved in the money transfer business. At the sending and receiving ends, there are migrants and migrant families. Agents, money transfer businesses, foreign exchange brokers, and banks are involved in processing the payments. Also involved—because of risks with regard to money laundering and terrorist financing—are regulatory and licensing bodies, ministerial departments such as treasury and customs, and law enforcement authorities. Development agencies are also involved to a certain extent in light of the significant developmental impact of remittances.

Each of these stakeholders has its own agenda and prerogatives—which are not always aligned. It is evident that the current market situation in many countries presents several bottlenecks and constraints, and ultimately affects senders and recipients. Uncertainties and high perceived levels of risks are forcing nonbank RSPs out of the regulated sphere, with detrimental consequences at a global level. Actions need to be taken in order to resolve these challenges.

Given the number of stakeholders involved, it may be worth considering the possibility of creating a task force within each country with the objective of finding and implementing a workable set of solutions for all parties involved. One of the key objectives of such a task force would be to develop incentives to encourage the adoption of its recommendations. Potential conflicts of interest among the stakeholders in the private sector require this initiative to be coordinated by a respected third party, possibly a public authority. Moreover, the World Bank is available to support and assist countries in the establishment and management of a task force of this kind.

Also, because a number of stakeholders, including banks, have made decisions on this topic on a global basis, there would be value in establishing a global task force to provide guidance to the local task forces and ensure that solutions are addressed at the global level.

6.2 Improve Enforcement/Supervision/ Monitoring

Given their role, regulators are perceived as being responsible for setting industry standards that are clear for each stakeholder. The authorities thus should provide further detailed guidance on how existing laws and regulations are to be interpreted; this will aid banks in managing/enforcing risk in this area.

Regulatory bodies need to take a more proactive role, especially with regard to regulatory enforcement. They need to ensure that legal requirements are met. Their increased vigilance will assure financial institutions of nonbank RSPs' compliance with the most relevant regulations.

In some cases, insufficient resources are allocated to auditing and policing nonbank RSPs, making authorities reliant on informal or intermittent information in determining whether to launch an investigation. A more sophisticated level of enforcement and auditing (either by regulators or trusted third parties) would discourage illegal activity and would reassure banks when considering the risk involved in providing services to nonbank RSPs. Further, allocating more resources to enforcement and compliance checks would likely reduce the temptation for MTOs to perform illegal activities and help eliminate some of the risk management burden from banks.

It should be noted that such measures would likely increase compliance costs for nonbank RSPs. However, this increased cost would likely be counterbalanced by a reduction in the compliance costs required by banks to provide access to the payment system infrastructure.

A second-best solution would be for each nonbank RSP to be required to have a certified third-party compliance audit by a registered organization. Such an audit would increase bank confidence in the MTO audited, just as it does with any other entity banks audit in advance of other financing decisions. In some countries, this facility is in place and is being successfully used; the United States already has a well-developed compliance auditing industry, although it is currently not widely used for MSBs.

6.3 Enact Common AML/CFT Standards

The lack of consistency and coordination between regulators in different countries and regions increases compliance costs, and creates problems when financial institutions in one country are asked to process transactions originating in countries where the AML/CFT requirements are not as stringent. Harmonizing AML/CFT regulations regarding remittances and setting some commonly understood global standards in a more prescriptive manner would help mitigate these problems. The country-level task forces proposed above might take the necessary steps at the national level. For example, it might be desirable for a task force to issue voluntary guidelines for MTOs/RSPs and assess compliance every three to five years. Coordination with the FATF would be essential.

A key component would be greater adoption of a more consistent risk-based approach and a common understanding of what the key legal components are and what acceptable risk management measures look like. Specifically, better guidance on a global and country basis would be a major aid for banks and MTOs.

6.4 Establish Specialized MTO-Focused Banks

From discussions with many banks, it emerged that their level of understanding about the nonbank RSP business model is not as complete as it could be: they are consequently not able to see nonbank RSPs as profitable clients; instead, they view them as high-risk enterprises.

A solution may be for authorities to encourage the development of a financial institution whose main purpose is the provision of payment and other financial services to nonbank RSPs. Such an entity would need to become a bank and have access to payment infrastructures. This form of bank would set operational and risk-based criteria specifically for nonbank RSPs and would consequently fill a gap in the current marketplace, enabling nonbank RSPs to operate more efficiently. While it is possible that such a bank may carry the risk of creating a monopoly in the remittance transfer market, appropriate regulation could be developed to mitigate this risk.

Significantly more work would be required to make this solution a reality, and it ultimately may not be financially feasible. However, in markets with many nonbank RSPs—such as the United Kingdom and the United States—this option might be worth exploring.

6.5 Allow Microfinance Institutions to Offer Remittances

In many receiving markets, remittances are only allowed to be offered by banks and other authorized entities—a situation that often excludes microfinance institutions and cooperatives. It is recommended that, where appropriate, microfinance institutions should be permitted to offer remittances.

Banks have not tended to exclude access to banking facilities for microfinance institutions. Indeed, in many cases, they wish to partner with these organizations to extend their network in a more efficient manner in remote and rural areas. This practice should be encouraged in order to deepen remittance networks.

7 NEXT STEPS

The research conducted for this paper has led to a number of conclusions and potential solutions. It is clear that addressing the issue of access to bank accounts and payment systems for nonbank RSPs is not a simple matter due to the number of stakeholders involved and the number of influences pertaining, some of which are conflicting.

The Global Remittances Working Group looks forward to structuring appropriate measures to further address this topic and begin possible pilot projects to tackle constraints in interested countries.

APPENDIX A

RESULTS FROM SURVEY OF NON-BANK FINANCIAL INSTITUTIONS

A short questionnaire (presented at the end of this appendix) was sent to over 250 nonbank RSPs by e-mail using a database of international nonbank RSPs. In total, 53 responses were collected; 51 from MTOs and 2 from credit unions (table A.1).

Figure A.1 shows the percentage of respondents who reported recently opening a bank account; the majority had done so within the previous 12 months.

Figure A.2 shows the numbers of nonbank RSPs that have attempted to open bank accounts in the surveyed countries.

Table A.2 shows where business accounts have been shut down by a bank.

TABLE A.1

Country	Number of responses	Type of organization	
		MSB	Credit union
Americas			
Canada	1	1	n.a.
United States	16	14	2
Europe			
Belgium	1	1	n.a.
Spain	2	2	n.a.
Sweden	1	1	n.a.
Switzerland	1	1	n.a.
United Kingdom	14	14	n.a.
Middle East			
Saudi Arabia	2	2	n.a.
United Arab Emirates	6	6	n.a.
Asia			
India	2	2	n.a.
Philippines	4	4	n.a.
Australia	3	3	n.a.
Total	53	51	2

Note: n.a. = not aplicable.

FIGURE A.1

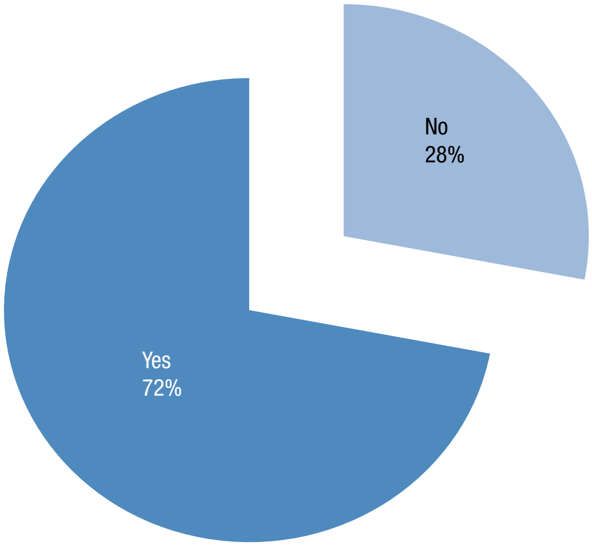
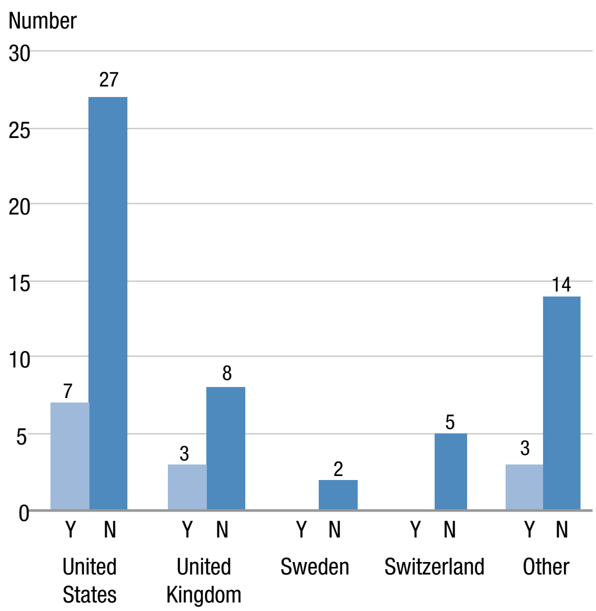


FIGURE A.2



Note: Y = successful; N = not successful.

TABLE A.2

	Country	Currency	Name of bank	Date
1	United States	USA	n.a.	2003–12
2	Canada	CAD	n.a.	2010–12
3	Germany	EUR	n.a.	2009–12
4	Switzerland	CHF	n.a.	2011–12
5	United Kingdom	GBP	n.a.	2011–12

Note: n.a. = not aplicable.

Bank Access Questionnaire

Name of Company: ______________________

Country of Operation: ____________________

Type of Organization: ____________________

All answers are totally confidential and will not be attributed to any person(s)

1. Have you recently tried to open a business bank account for your organization?

☐ Yes ☐ No

2. If so, when? __________(Year) _______ (Month)

3. Please provide details on the country(ies), currency(ies) and name of the bank(s) that you have tried to open accounts in / with?

	Country	Currency	Name of Bank	Successful (Yes / No)
1				
2				
3				
4				
5				
6				
7				
8				

4. If no, can you please provide the reason why?

	Bank	Reason Why?
1		
2		
3		
4		
5		
6		
7		
8		

5. Have you recently had any of your business bank accounts closed by your bank? If yes, please give name of the Bank, the currency of the account and the country the account is based in?

	Country	Currency	Name of Bank	Date
1				
2				
3				
4				
5				
6				
7				
8				

6. If you have been advised that your bank account will be closed or it has already been closed what was the reason given by your Bank?

7. Please briefly outline your banking requirements in respect of the following:

- Domestic services, e.g. Cash deposit, direct debits etc.
- International Payments, e.g. Currency accounts, payments, etc.

1	Domestic Services	
2	International Services	

APPENDIX B

PAYMENT SYSTEM INFRASTRUCTURE

GENERAL PRINCIPLE 2. IMPROVEMENTS TO PAYMENT SYSTEM INFRASTRUCTURE THAT HAVE THE POTENTIAL TO INCREASE THE EFFICIENCY OF REMITTANCE SERVICES SHOULD BE ENCOURAGED.

Domestic payment infrastructure

Remittance services, except perhaps those that are entirely cash-based, depend at some stage on the domestic payment infrastructure for settlement (and sometimes also for transfer of information). In some countries, in particular many receiving countries, such infrastructure remains underdeveloped. For example, non-cash payment services may be available only in urban locations. RSPs could often make better use of the payment infrastructure that has been developed if there were greater standardization of payment instruments, more automation of their processing, and increased interoperability of the associated networks.

As discussed in *General guidance for national payment system development*, improvements in transaction infrastructures such as ATM or EFTPOS networks can be achieved through the adoption of common and preferably internationally agreed standards for instruments (e.g., payment cards), the adoption of common equipment and software standards to allow interoperability at point of sale among competing networks (e.g., ATMs, card readers) and the facilitation of interconnectivity among the proprietary networks for handling the transactions. Greater automation may be able to reduce costs and provide improved services to users. It may also be possible to make improvements in the clearing and settlement infrastructures through the use of common information technology which makes it easier to interconnect existing infrastructures or even centralize or consolidate them. Such action could help achieve improved national coverage in a receiving country and reduce the effective cost to end users of a remittance (i.e., in addition to the direct price charged by the RSP, the cost of transport to urban centers to receive a remittance, as well as the time spent in such tasks and other related costs). Where relevant, the authorities in countries where infrastructure is weak or has limited geographical coverage may therefore want to encourage improvements to their domestic payment infrastructure, which may include new infrastructures or better use of existing infrastructures. Such improvements would of course be of general benefit, not just for remittances.

Cross-border payment arrangements

The safety and efficiency of remittance services can be affected by payment systems in the relevant markets and the way that these systems are accessed and used by RSPs or by banks acting for RSPs. In addition to improvements in the domestic payment infrastructure as noted above, the safety and efficiency of cross-border remittances may be further improved by the coordination and/or adoption across the relevant payment systems of, for example, communication standards and payment message formats that facilitate greater interoperability as well as rules, procedures and operating hours that support straight through processing.

It may also be possible to link the relevant domestic retail payment systems of sending and receiving countries, particularly where the domestic payment systems in both countries are well developed and have wide geographical coverage and where remittance volume between the countries is high. However, given the complexity of such links, it is important that there is a careful analysis of whether the likely benefits will justify the costs. Sometimes such initiatives may be undertaken by the market itself. However, given, first, the diverse nature of the institutions involved and thus the potential for conflicting interests and, second, the uncertainty about the scale of future flows and thus whether investment in the initiative is justified, in many cases the authorities, and in particular central banks, may want to facilitate the consideration of these possibilities. In general, cross-border or cross-system initiatives require a high level of bilateral (or possibly multilateral) cooperation on technical, regulatory and oversight matters and, accordingly, the involvement of central banks, regulators, payment system operators, RSPs and industry associations from both jurisdictions. In some cases, central banks themselves have established bilateral cross-border links between the payment systems they operate.

There are several other initiatives in progress to evaluate ways to expand the use of existing international networks and platforms (e.g., the major international card networks, SWIFT) with a view to providing new or improved remittance services. Also particularly important could be international initiatives to standardize the message formats used by individual payment systems and the international banking community generally, since, even without direct links between domestic payment systems, standardized formats could do much to enable banks and other RSPs to process payment instructions without the need for expensive manual intervention.

GENERAL PRINCIPLE 4. COMPETITIVE MARKET CONDITIONS, INCLUDING APPROPRIATE ACCESS TO DOMESTIC PAYMENT INFRASTRUCTURES, SHOULD BE FOSTERED IN THE REMITTANCE INDUSTRY.

The efficiency of remittance services depends on there being a competitive business environment. Competitive markets can help limit monopolistic practices and lead to lower prices and improved service levels. In some places, or for certain remittance corridors, the demand for remittance services may be insufficient to support multiple RSPs but even here, provided the market is contestable—i.e., with only low barriers to entry—the benefits of competition should be felt. Competition can be assisted by discouraging RSPs from imposing exclusivity conditions on agents. This is important in both sending and receiving countries, but it is particularly important in receiving countries if a local market such as a small village has only one potential agent (e.g., the local shop) so that there is only one remittance service available if an exclusivity condition is imposed. As discussed under General Principle 3, authorities also need to be aware that their own regulatory regime may itself lead to market distortions and impose unnecessary costs, thus causing imperfect competition. To provide remittance services, RSPs usually need to be able to make use of the domestic payment infrastructure. Access to this infrastructure can be either direct or indirect.

Both forms of access are capable of providing RSPs with suitable payment services, and their advantages and disadvantages vary according to specific circumstances. Whichever form access takes, it is important that it is available to RSPs on a fair and competitive basis, not least because RSPs are in competition with each other and access may be a factor in their ability to compete. RSPs without direct access to core payment infrastructures should be able to use the payment services provided by institutions having direct access. Institutions with direct access to such infrastructures should provide all relevant payment services, including foreign exchange services, on an equitable basis to RSPs. In this respect, AML/CFT requirements such as know-your-customer requirements should be equivalent for Direct access means that the RSP is itself a direct participant in the system, submits its payment instructions directly to the system, and is responsible for settlement. Indirect access means that the RSP is not itself a direct participant in the system but instead uses another institution, which is a direct participant, to act on its behalf—i.e., the RSP is a customer of the direct participant. For more on this issue, see "The role of central bank money in payment systems", ibid. In addition, banks and other institutions should not apply these requirements inappropriately to discriminate against other RSPs when providing payment services.

EXTRACTS FROM THE GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES

Perhaps more serious are cases where non-bank RSPs face undesirable obstacles to indirect access to the payment infrastructure—i.e., where banks are reluctant to offer payment services to non-bank RSPs or will only do so under unduly onerous conditions. This may occur in individual cases if particular banks are reluctant to have competitors as customers. Banking markets are often sufficiently competitive that even if one bank will not provide such services others will, but the situation may be more problematic if the reluctance is the result of tough regulations concerning, for example, anti-money laundering and combating the financing of terrorism (AML/CFT) or exchange controls, or the result of the way such regulations are interpreted. Banks may have concerns about their ability to comply with regulations when their customers are RSPs and may therefore decide it is preferable to simply not provide services to them.

Institutions with direct access to such infrastructures should provide all relevant payment services, including foreign exchange services, on an equitable basis to RSPs. In this respect, AML/CFT requirements such as know-your-customer requirements should be equivalent for all RSPs. In addition, banks and other institutions should not apply these requirements inappropriately to discriminate against other RSPs when providing payment services.

RSPs, like everybody else, need to be able to use domestic payment systems. In most countries, only banks are allowed to be direct participants in such systems. Nonbanks have to access the systems indirectly, as customers of banks. There are arguments for and against this arrangement. On the one hand, non-bank RSPs sometimes argue that it puts them at a competitive disadvantage compared to bank RSPs. This could be the case if, for example, indirect access were more expensive (because of the extra cost of having to use a bank to gain access) or perhaps if there were confidentiality problems (because the bank, as a result of providing payment services to the non-bank RSP, obtains useful confidential information about the latter's competing remittance service). On the other hand, the basic rationale for restricting access is that it achieves an appropriate balance between safety and efficiency in the provision of payment services. Moreover, it is not necessarily more expensive to have indirect access. Indeed, in many countries, some banks themselves (especially small banks) choose indirect access because it is cheaper. The arguments for and against allowing direct access to non-bank RSPs thus need to be considered case by case in the light of the specific circumstances in each country.

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