DIRECTIONS IN DEVELOPMENT
Finance

Making Remittances Work

Balancing Financial Integrity and Inclusion

Emiko Todoroki, Wameek Noor, Kuntay Celik, and Anoma Kulathunga

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Foreword

Remittances are a critical source of financing for people in most developing countries. The importance of remittances goes beyond numbers: For many households in developing countries, they are probably the most stable source of primary or additional income. As recognized by Her Majesty Queen Máxima of the Netherlands, who is the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development and the Honorary Patron of the G20 Global Partnership for Financial Inclusion, "the impact of helping migrants and their families will be lasting and global if we link remittances to other financial services and [if we] make them more affordable and more relevant to their needs."[1]

At the same time, continuing caution is required: The terrorist attacks on September 11, 2001, exposed the potential for abuse of international remittance channels by those who are focused on financing terrorism. In response to that threat, the international community issued new standards on international anti-money-laundering and the combating of financing of terrorism (AML/CFT), which affected remittance transfers and their service providers.[2] For the first time, remittance service providers were made subject to government oversight, and were required to be either registered with or licensed by a competent authority under AML/CFT obligations.

While the Recommendations of the Financial Action Task Force (FATF) appear straightforward, regulating and supervising the money transfer business has, in practice, proven to be a very challenging task in both developed and developing countries.

Significant concerns have been raised about the implementation of these recommendations from the perspective of financial inclusion and economic development. Specifically, such concerns point to ill-designed AML/CFT requirements that may impose too great a burden on remittance service providers and thus have a negative effect on remittance flows and customers. At the same time, concerns remain about the risks of money laundering and the financing of terrorism involving the international remittance system, especially in light of the still-low level of compliance with the relevant FATF Recommendations. As a result, the money-transfer industry suffers from a perception that it is at high risk of money laundering and financing of terrorism (ML/FT), even when customers are

predominantly migrant workers and their families who rely on remittances as a lifeline.

Significant progress has been made over the past decade in reconciling these perspectives, and in highlighting the needed synergies between these two approaches, notably from a policy and risk standpoint. This study finds that the *general* perception of systematic high risk among all remittance services providers does not appear to be substantiated by the evidence. However, this does not mean that risk is entirely absent. Potential as well as real risks do exist, as they do with other financial institutions (including banks). The risk perception is further complicated when these remittances are sent to families in conflict zones or to fragile states where there are no alternative methods of sending money. In such circumstances, the government is often either absent or weak, and there is no regulator or supervisor to govern the affairs of the money-transfer businesses. All these factors increase the ML/FT risk.

A balance must be struck between maintaining financial integrity and enabling the poor to have access to basic financial services—all the more so, since financial exclusion can create greater risks of money laundering and terrorism financing. Some developing countries lack sufficient AML/CFT regulation and supervision; other countries overregulate far beyond the actual risk of specific products and transactions—with the unintended downside of driving remittance transfers and their service providers underground.

In some developed countries, AML/CFT enforcement actions on banks have sometimes resulted in banks halting their partnerships with some money-transfer businesses, as well as closing the bank accounts of those money-transfer businesses, citing AML/CFT risk concerns. These actions resulted in the cutoff of remittance services to those most in need of them, particularly in Somalia and some other East African and Middle Eastern destinations. Money-transfer businesses there serve migrant workers or ethnic communities that require an affordable and convenient way to send funds back to their poor families. Finding a solution to such situations requires a stronger regulatory and supervisory regime in the remittance-receiving countries, as well as a more differentiated approach to risks in remittance-sending countries.

The World Bank has been at the global forefront of research on remittances. A number of studies have shown that remittances play a critical and positive role in poverty reduction and in accelerating financial-sector growth and development in many developing countries. That is why protecting the integrity of remittance transfers is of vital importance.

We hope that this study will help assist policy makers, regulators, and supervisors of money-transfer businesses as they try to craft effective regulatory and supervisory frameworks governing remittances that meet international AML/CFT standards, while at the same time they aim to ensure that the neediest have access to these crucial financial services.

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Notes

1. H.M. Queen Máxima of the Netherlands, "Financial Services to Help Migrants and Their Families Get the Most From Remittances" (address at the Global Forum on Remittances, held in Bangkok, Thailand, 20 May 2013). See http://www.unsgsa.org/resources/speeches/financial-services-help-migrants-and-their-families-get-most/.
2. FATF 2001 Special Recommendation VI on Alternative Remittance Systems and Special Recommendation VII on Wire Transfers are the two recommendations most directly linked to AML/CFT requirements on remittance transfers and their service providers. A new set of revised FATF Recommendations was issued in 2012—new Recommendation 14 (renamed Money or Value Transfer Services) and Recommendation 16 (Wire Transfers) replace and update Special Recommendations VI and VII. See the regulatory section of this study (chapter 3) for further details.

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About the Authors

Emiko Todoroki, a Senior Financial Sector Specialist at the World Bank and the Task Team Leader of this project and lead author, assumed responsibility for the financial integrity and financial inclusion program in the World Bank's Financial Market Integrity Unit in 2007, where she remained until April 2013. She is frequently invited to and has also organized many international forums on financial integrity, remittances, mobile money, and financial inclusion. She has served as an advisor to many countries with regard to the regulation and supervision of remittance service providers and balancing the public policy objectives of financial integrity and inclusion. In this regard, she has been a lead staff member at the World Bank in advancing the agenda of financial inclusion while protecting the integrity of financial transactions. Ms. Todoroki has authored several publications on remittances and financial integrity and inclusion—including two Bilateral Remittance Corridor Analysis studies and "Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance" by the Consultative Group to Assist the Poor (CGAP)—and has served as a peer reviewer of other studies. Further, Ms. Todoroki is a world-recognized expert on national risk assessment of money laundering and terrorist financing. She was a pioneer in developing two sets of risk assessment tools, which are used widely in both developed and developing countries and which have been shared with more than 80 countries as part of technical assistance programs. Ms. Todoroki has worked closely with the Financial Action Task Force, the international standard-setting body for anti-money laundering/combating the financing of terrorism (AML/CFT). She served as co-chair of several Financial Action Task Force projects, including "Guidance on AML/CFT and Financial Inclusion," 2011 and its update in 2013; and authored a typologies paper on hawala, published in 2013, and "Guidance on Risk Assessment Strategies," 2008. She has also actively participated in other projects, including "Guidance on New Payment Products and Services," published in 2013; "Guidance on National Risk Assessment," 2013; "Global Threat Assessment Report 2010"; and "Risk-Based Approach Guidance for Money Service Businesses," 2009. Ms. Todoroki has more than 18 years of financial and private sector development experience and earned her BA and MA degrees studying in Japan, the United Kingdom, the Netherlands, and the United States.

Wameek Noor worked in the World Bank's Financial Market Integrity Unit from 2007 to 2012. During that time, he worked with the Financial Action Task Force and senior public sector regulators in many developing countries on effective AML/CFT regulatory and supervisory frameworks. He has authored publications on the potential money laundering and terrorist financing risks emerging from the remittance sector in key countries and potential risk mitigation techniques. He has also published on the AML/CFT implications of new payment products and services. He currently manages frontier research in the Digital Financial Services Program of the Consultative Group to Assist the Poor (CGAP). In this capacity, he advises industry, such as banks, mobile network operators, retailers, and technology companies, as well as policy makers, to catalyze markets and create an ecosystem conducive to promoting financial services among the poor. He is at the forefront of innovations in industry business practices and specializes in identifying associated AML/CFT policy and regulatory implications. Prior to joining the World Bank, Mr. Noor worked with Grameen Bank in Bangladesh, where he was extensively involved in using microfinance to spearhead technology-driven development projects through mobile phones, the Internet, and solar technology. He has also worked at the Corporate Executive Board, a strategy consulting firm. Mr. Noor holds an MA degree in Economics and International Development from the School of Advanced International Studies (SAIS) at The Johns Hopkins University, and a BA in economics from Vassar College.

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Anoma Kulathunga is an Adjunct Professor at the The George Washington University Business School in Washington, DC, and a consultant to the World Bank, specializing in financial sector development. She served as a bank supervisor at the Central Bank of Sri Lanka for 15 years and while there spearheaded a project to modernize the Central Bank. She is a co-author of "Uganda's Remittance Corridors from United Kingdom, United States and South Africa," published in 2011. In addition to her work on remittances, her research interests include financial sector development and stability, financial infrastructure, Islamic banking, and international banking. She also co-authored the "Getting Finance in South Asia:

Indicators and Analysis of the Commercial Banking Sector" series and index (2005–10) to assess the soundness of the commercial banking sector, and has published many other papers on issues related to financial stability and soundness. Her most recent publications include a chapter in *Islamic Finance: The Regulatory Challenge*, published by John Wiley & Sons in 2012. Dr. Kulathunga holds a PhD in International Finance/Development Economics and an MS in Finance from The George Washington University, and an MBA from the University of Sri Jayewardenepura, Sri Lanka. She is an associate member of the Chartered Institute of Management Accountants, U.K.

Overview

Remittances are a critical source of external financing for many developing countries, and probably the most stable source of primary or additional income for many households in those countries. Despite the 2008–09 international financial crisis, remittances continue to show resilience and growth. Remittances fell by only 5.5 percent in 2009, while foreign direct investment flows declined by 40 percent and private debt and portfolio equity flows by 46 percent (World Bank 2011).

Officially recorded remittance flows to developing countries reached an estimated US$401 billion in 2012, growing by 5.3 percent compared with 2011. Remittance flows are expected to grow at an average 8.8 percent annual rate during 2013–15 to about US$515 billion in 2015 (World Bank 2013). Whereas this vast figure is close to the gross domestic product (GDP) of Sweden, officially recorded remittance flows are often underestimated because they do not include informal transfers. If domestic remittances are also taken into account, the overall volume of remittances that support migrant families would be substantially higher. The importance of remittances goes beyond numbers. For many households in developing countries, receiving remittances is their main contact with financial service providers. These providers are also a potentially powerful enabler of financial inclusion, and ultimately broader financial sector development, which contributes to inclusive and sustainable economic development. Her Majesty Queen Máxima of the Netherlands, who is the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development and the Honorary Patron of the G20 Global Partnership for Financial Inclusion, stated that "the impact of helping migrants and their families will be lasting and global if we link remittances to other financial services and make them more affordable and more relevant to their needs."[1]

Why Is the Link between Remittances and Financial Integrity So Important and Challenging?

The September 11, 2001, terrorist attacks on the United States exposed the use and abuse of remittance channels for financing terrorism. To mitigate such terrorism financing risks, in 2001, the international community, through the

Financial Action Task Force (FATF), issued new international anti-money laundering/combating the financing of terrorism (AML/CFT) standards on remittance transfers and their service providers.[2] For the first time, remittance service providers (RSPs) were required to be brought under government oversight and either registered with or licensed by a competent authority and to be subject to AML/CFT obligations.

The enactment of these FATF Recommendations has since led to significant constructive changes in the remittance industry. At the same time, however, significant concerns have been raised about implementation of these recommendations from a financial inclusion and economic development perspective. Specifically, concerns have been voiced that ill-designed AML/CFT requirements might place too great a burden on RSPs and thus negatively affect remittance flows and customers, while at the same time, concerns continue to be raised with respect to the money laundering and financing of terrorism risks related to remittances, especially in light of the still low level of compliance with the relevant FATF Recommendations.

Significant progress has been made over the last decade in reconciling these perspectives, and in highlighting the needed synergies between these two approaches, notably from a policy and risk standpoint. However, important challenges remain with respect to how best to make the remittance market work on the ground and how to strike the right balance and risk-based approach (RBA) to AML/CFT supervision and regulation, with a view to spurring remittance flows while ensuring their integrity.

This study aims to assess current practices, draw lessons learned, and assist policy makers in designing an effective regulatory and supervisory framework governing RSPs that not only meets AML/CFT international standards, but also supports a country's overall financial inclusion objectives. This study focuses on how best to implement FATF Recommendations in a manner that does not unduly compromise financial inclusion objectives.

The study's assessments and recommendations are based on the key lessons learned from the 15 Bilateral Remittance Corridor Analyses (BRCAs) undertaken by the Financial Market Integrity Unit of the World Bank during 2004–10, and on significant research and analysis of an extensive remittance regulatory and supervisory survey conducted during 2010–11 in 26 bilateral remittance corridor sending and receiving countries, representing major global regions. The study also reflects recent developments in standards setting, notably in terms of proportionality and risk-based approaches, and will inform policy makers and practitioners of emerging good practices, while taking into account the emergence of new technologies and service providers over the last decade.

Who Is Allowed to Provide Remittance Services?

In all of the 26 countries surveyed, banks are allowed to operate as RSPs. The second-most-frequent principal service providers on both the sending and receiving side[3] are money transfer businesses (MTBs), which include entities

such as money transfer operators, money service businesses, payment service providers, mobile network operators, and exchange companies.[4] When remittance sending and receiving countries are compared, receiving countries appear as more restrictive about which entities are allowed to act as *principals*.[5] The main factors leading receiving countries to set up such restrictions are the lack of an effective regulatory environment and the limited supervisory capacity. In contrast, both sending and receiving countries allow banks and almost all MTBs to operate as *agents* of principal money service providers.

The choice of which entities are allowed to provide remittance services has a direct impact on financial inclusion. Bank-only models, for example, are more likely to constrain the remittance market due to access issues, thereby limiting competition. More stringent regulatory and operational requirements that might not always be necessary from a risk mitigation perspective may drive up costs. Opening up the market based on an assessment of risks and enabling a more diverse range of entities to act as the principal or agent is critically important, especially in countries with large informal sectors and where most population segments still cannot access basic financial transfer services through banks.

Key Findings and Specific Policy Recommendations

This section summarizes the key lessons learned from the BRCAs, the survey and additional research conducted by the team, and recent FATF developments. Three themes will be addressed: (1) money laundering and terrorist financing risks and related challenges, (2) regulatory and supervisory frameworks, and (3) market entry.

1. Money Laundering and Financing of Terrorism Risks Associated with the Remittance Sector

As noted above, there is a general perception in the AML/CFT community that remittances and wire transfers are more vulnerable to money laundering/financing of terrorism (ML/FT) risks than other financial activities such as deposit taking, lending, leasing, and money management. Further, within various RSPs, money or value transfer services—which include MTBs—are perceived as more vulnerable to ML/FT risks than banks.

The information collected for this study does not fully support these perceptions or deny them. Indeed, one key finding is that most countries do not have evidence, data, or facts proving that MTBs are more vulnerable (or less vulnerable) to ML/FT risks than other financial institutions.

Of course, the actual ML/FT risks of different RSP business models depend largely on country circumstances, conditions, and policy choices.[6] And this model choice usually reflects market conditions (for example, if there are already existing [informal] service providers in the market, it may make sense to formalize them, so that they would be regulated as money transfer operators, exchange houses, or another category of RSPs). The perception of risk by the authorities varies according to service provider. Some authorities would attach higher money

laundering and terrorist financing risk to hawalas than to other entities and would therefore prefer to "prohibit" them rather than formalize them as legitimate service providers.

The ML/FT risks linked to new payment products and services have, for instance, received significant attention, since MTBs have been increasingly developing various innovative products and service offerings for remittance transfers. This study finds that in nearly half of the sampled countries, MTBs provide remittance transfers through technological innovations. The most popular application is mobile phones. Because the ML/FT risks of these new products are not yet fully known, many countries have adopted a very conservative approach to regulating the market (for example, by not allowing mobile network operators to operate at all, or by only allowing them to provide domestic remittances while prohibiting international remittances).

At the core of this reconciliation between the two policy objectives, which are mutually reinforcing if properly addressed, is the importance of ensuring a sound understanding of the ML/FT risks, clearly for integrity objectives, but also for financial inclusion ones. Two of the key pitfalls from a financial inclusion perspective are that, on the one hand, too lax a regulatory framework (at the least, requirements not meeting international standards) would lead banks and other financial institutions to cut off business relationships with RSPs or that, on the other hand, too stringent regulations would drive RSPs underground. Examples of stringent regulations would be (a) requiring identification (ID) documents that customers do not have, (b) demanding extensive compliance requirements such as making a photocopy of each customer ID document and storing the copies for a number of years, and (c) requiring agents to be licensed when this is not practical. In each outcome, both integrity and inclusion purposes would be undermined. It is therefore crucial that ML/FT risks and a proportionate response drive policy making. This study finds that more analytical work is needed on the actual ML/FT risks in the remittance sector.

The new FATF Recommendations (FATF 2012) mandate the RBA in implementing AML/CFT requirements by both authorities and financial institutions. The logic behind the RBA is to ensure that the design and implementation of a country's AML/CFT regime is based on the identified and assessed ML/FT risks and aims at mitigating the most important ones, notably focusing the efforts and resources in accordance with the risk level of institutions, customers, and activities. The RBA concept is still new in many countries, and the move from a rules-based approach to an RBA across the board is still a work in progress.

Key Recommendation: Conduct a Risk Assessment

Authorities should undertake a comprehensive and detailed risk assessment to identify the different ML/FT risks faced by the RSPs, their channels, and their products and services. Indeed, assessing and understanding ML/FT risk is now an

international standard required under FATF Recommendation 1. Risk assessment would help determine the types of remittance business models that are best suited to the local remittance market structure and its cross-border features. An example of such risk assessment is provided in chapter 2. Such assessments might dispel misconceptions that MTBs are inherently riskier than the other RSPs or assist authorities in focusing on the specific risks that may exist within their MTBs, rather than a one-size-fits-all approach. It would also provide necessary guidance in designing an RBA to AML/CFT regulation and supervision. In conducting the risk assessment, relevant stakeholders such as regulatory and supervisory authorities, financial intelligence units (FIU), and law enforcement agencies should be involved in the process—whether the assessment is done under a broader national risk assessment or a sectoral risk assessment. The views of members of the private sector would also prove to be useful, and authorities are encouraged to engage them in the risk assessment.

2. Regulatory and Supervisory Framework and Implementation of AML/CFT Preventive Measures

One critical element in bringing together financial integrity and financial inclusion relates to customer due diligence (CDD) requirements. In many countries, certain segments of the population do not have legitimate ID documents due to an underdeveloped and inadequate ID infrastructure, creating a challenge in the design and fulfillment of CDD obligations. The FATF Recommendations actually provide a significant level of flexibility to countries, since they do not mandate types of ID documents and permit an RBA for verification if no reliable ID documents are available. However, research shows that, more often than not, the FATF guidelines are interpreted in an excessively strict way, based on practices or examples documented in the countries with more reliable ID systems. In such cases, the required customer ID and verification requirements are likely to make it difficult for MTBs and other financial institutions to provide financial services to customers without required ID documents.

As a result, the risk is that many customers will be pushed toward informal systems, which could present significant ML/FT risks.

Compliance with CDD requirements can be difficult. Requirements can easily be too stringent (by requiring ID documents for every transfer of one cent or more, for example), but countries can also easily be noncompliant. In some cases, in the same country, requirements can be too stringent and the country can still be noncompliant. The latter situation can arise when, despite regulations that require verification of a customer's ID for every transfer, the government fails to collect the minimum information required by the international standards. A review of AML/CFT assessments and mutual evaluations shows that compliance with CDD requirements is the most difficult task because both sending and receiving countries show poor compliance.

Many countries are still in the process of designing and implementing oversight mechanisms and supervision protocols of MTBs, with most receiving countries very much at the start of the process. One telling example refers to on-site supervision; most sending countries have already conducted complete on-site supervision of all their MTBs at least once or have conducted risk-based supervision, while some receiving countries have yet to commence the process. Similarly, very few countries (20 percent of the sample) have implemented risk-based supervision. Even for off-site supervision, which is usually considered easier to conduct, most countries (especially the receiving countries) are only conducting narrow off-site supervision or oversight of the MTBs, and such supervision or oversight is focused only on periodic data collection.

Key Recommendation: Ensure Risk-Based Regulation

Once a sound ML/FT risk assessment has been conducted, developing a risk-based regulatory and supervisory framework is a critical step to ensure that ML/FT mitigation measures are in place that do not create unnecessary requirements from an integrity perspective, which could create hurdles and costs impeding remittances and financial inclusion. Indeed, implementation of risk-based FATF Recommendations is the principle adopted by the FATF. There is no blueprint on how to design such risk-based regulation. Each country should design one that manages ML/FT risks, meets the minimum international standards, and is conducive in the local circumstances. Ultimately, the regulation should be effective, not just technically compliant with the international standards. Some examples are provided in chapter 3.

Key Recommendation: Adopt a Risk-Based Approach to CDD

Experience so far is that the flexibility embedded in the FATF standards regarding CDD, and in particular the possibility of introducing simplified CDD, has been used only sparingly. The regulatory authorities should make more extensive use of simplified CDD measures where there is a lower risk of ML/FT.

Similarly, very few countries in the sample have introduced a "tiered approach" to CDD, under which CDD obligations progressively tighten as the ML/FT risk increases. The nature and scope of the tiered approach to CDD has to vary widely from country to country, reflecting the ML/FT risks in the country and through the remittance channels. For example, if the average transaction size of remittances is only about US$300 or the equivalent, it may be reasonable to introduce a different tier of CDD requirements (say, introduction of verification of customers) at US$500 or the equivalent, rather than introducing at US$1,000 as allowed in the FATF Recommendations. However, if the risk of ML/FT is high in the country or MTBs are highly vulnerable to ML/FT risk, verification may be needed at US$200. If many segments of the country's population do not have a reliable official ID document, a range of verification documents could be allowed, including references from existing customers, the community chief, or others. A blueprint answer to how CDD requirements

should be designed does not exist. Such a blueprint needs to be carefully designed in each country, taking into account ML/FT risks, vulnerability of service providers to ML/FT, typical customer profiles, destination of transfers, and transfer methods, among others. Further examples are provided in chapter 3.

Key Recommendation: Adopt an Effective Supervisory Framework

Many countries still struggle to adopt an effective risk-based supervisory framework over MTBs. The larger the number of supervised entities, the more challenging it has been for the supervisors, largely due to significant resource constraints.

In that respect, the adoption of an RBA to supervision is particularly needed in countries where the number of licensed or registered entities is large. The institutions to be visited, and the scope and frequency of the on-site visits should be designed based on the findings of the risk assessment. Further, adequate off-site supervision mechanisms and trained and qualified supervisory staff would also ensure the effectiveness of supervisory regimes. Whereas this study uses the language "supervision," it is used in the same spirit as "monitoring," which is the language used in the FATF Recommendations for money or value transfer services. Therefore, oversight or monitoring of MTBs is not expected to be as extensive as supervision conducted for banks and other financial institutions that are also subject to prudential norms such as Basel core principles.

International experience shows that effective regulation and supervision requires effective sanctions regimes, notably for supervisors. Sanctions in relation to the breaches of AML/CFT should be clear and supervisors should not hesitate to exercise their power and impose sanctions in case of breaches.

Key Recommendation: Active Outreach and Communication with Market Players

In designing and implementing regulations, it is important to consult with the RSPs. This will help authorities design a regulatory framework that is workable and customized to the domestic environment. It will also provide a stronger buy-in by the industry, thanks to participation by the industry players during the creation of the regulatory process. Such buy-in will prove to be important in later stages because the industry tends to exhibit better compliance levels and greater service penetration when industry players participate in designing the regulatory framework.

3. Market Entry by Money Transfer Businesses

Although the evidence confirms the trend toward formalization of the remittance market, informal corridors persist in many countries. From the FATF perspective, the Recommendations are clear that irrespective of formal or informal status, the FATF calls for, at minimum, a registration requirement. In addition, authorities are required to be proactive in identifying informal service

providers and bringing them under government oversight and AML/CFT requirements.

Informal funds transfer systems operate in the market like other industry competitors and provide affordable financial access to unbanked households and remittance senders with minimum requirements. In many remittance corridors, informal funds transfer systems also tend to have a competitive edge over formal systems due to stronger penetration in rural regions, lower costs, and their ability to overcome cultural and language barriers of the migrants and their communities.

Unduly onerous regulations—that is, regulations that do not correspond to the risks faced by remittance flows—could stifle investment and innovation by formally regulated RSPs by raising their regulatory compliance costs. This, in turn, could affect their pricing, thereby increasing the incentives for customers to use informal systems through unregistered or unregulated RSPs. One such example is not allowing international remittances through the use of mobile money. In addition, higher regulatory compliance costs can act as a barrier to the formal market, thus inhibiting entry of the informal players. The result is that the cost of remittances continues to remain high, and informal transfers are still prevalent as the formal market struggles to expand its operation.

In formalizing informal funds transfer systems, it is therefore important to consider what requirements to impose for these entities to enter the formal system. The FATF Recommendations require that the principal service providers be either licensed or registered. Although the requirements for licensing regimes tend to be higher than for registration regimes, the survey results show that *both* sending and receiving countries prefer licensing regimes for principal MTBs over registration regimes. Even for countries that follow a registration regime, the authorities often require more than simple registration, making it closer to a licensing regime.

Key Recommendation: Encourage Innovation and Competition and Allow a Wide Range of Service Providers

Based on a sound assessment of ML/FT risks, authorities should consider allowing a wider range of RSPs to conduct remittance activities either as a principal, an agent, or both. Introducing, on a risk basis, various types of new technology remittance models, such as "e-money," can help foster innovation and competition while mitigating ML/FT risks. International remittances through mobile money should be permitted, with effective ML/FT risk mitigation measures, rather than be prohibited.

Key Recommendation: Select the Most Suitable Method of Market Entry

Authorities should carefully consider the best fit between the two choices of licensing or registration regimes, taking into account ML/FT risk mitigation requirements, incentives for formalization, cost at entry and over time, and

regulatory or supervisory capacity. Such choice might not be an either/or approach, since tiered market entry regimes might provide a sound balancing act in terms of risk mitigation and effective allocation of resources.

Such a decision process is also relevant for agents, notably in light of the flexibility allowed by the FATF standards, between a system where agents are subject to registration or licensing, or one where the principals are responsible and accountable for maintaining the list of agents. In many countries, putting the responsibility on principals is likely to be a promising approach, provided the obligations of principals are duly enforced.

Key Recommendation: Formalize the Informal Players

The FATF Recommendations are clear that no service providers offering remittance services should be left unregistered or unlicensed. As part of their ML/FT risk assessment, authorities should conduct a comprehensive assessment of the remittance market to identify the informal players. Whereas addressing the informal sector providing remittance services is most likely to require tools beyond the AML/CFT realm (such as addressing tax issues and the avoidance of government scrutiny or oversight associated with the mistrust of government bodies), this comprehensive mapping of the sector is expected to require a careful review of the AML/CFT supervisory and regulatory requirements and thresholds. Formalization is a challenging process, and the policy response cannot be expected to rely only on market entry mechanisms. Understanding the drivers of informality, notably through outreach and awareness raising, is likely to be critical. Ensuring the buy-in of informal players and their voluntary cooperation can also send powerful signals of leading by example. However, the credibility and impact of the overall incentive framework will depend largely on appropriate sanctions and enforcement mechanisms in order to have a deterrent effect on noncompliance.

In enforcing AML/CFT requirements, many countries tend to focus on financial sectors and entities that are already under government supervision or oversight. However, bringing the informal or nonregulated players under the AML/CFT roof is critical so they are not left on the side—that is, not acting against financial exclusion would ultimately only heighten the ML/FT risk. Said differently, rigorous due diligence and reporting requirements in the regulated sector only reduce the risks within the formal or regulated sector. Bringing more customers and transactions into the regulated financial system ultimately reduces the overall ML/FT risks.[7]

Encouraging informal players to join the formal market will enhance competitiveness, which will increase the efficiency of the remittance market in the form of lower prices, better technologies, and an enhanced variety of services and products. It would also bring formal consumer protection to customers. Effective regulatory management, while fostering market inclusiveness, would also bring greater stability to the financial markets. Some of these issues are beyond the AML/CFT realm, and authorities should work together to bring the informal players to the formal market.

Notes

1. Queen Máxima of the Netherlands, "Financial Services to Help Migrants and Their Families Get the Most From Remittances" (address at the Global Forum on Remittances, Bangkok, Thailand, May 20, 2013). See http://www.unsgsa.org/resources/speeches/financial-services-help-migrants-and-their-families-get-most/.
2. FATF 2001 Special Recommendation VI on Alternative Remittance Systems and Special Recommendation VII on Wire Transfers are the two recommendations most directly linked to AML/CFT requirements on remittance transfers and their service providers. A new set of revised FATF Recommendations was issued in 2012—new Recommendation 14 (renamed Money or Value Transfer Services) and Recommendation 16 (Wire Transfers) replace and update Special Recommendations VI and VII. See the regulatory section of this study (chapter 3) for further details.
3. In this study, remittance sending and receiving countries are categorized based on the 15 BRCA studies conducted. Sending countries refer to the countries from which the remittance transfers originate. The receiving countries are the countries to which remittance transfers are sent.
4. See chapter 1, and especially table 1.1, for details.
5. In the RSP agency relationship, the principal is the person or entity who gives authority to another, called an agent, to provide remittance services on their behalf.
6. Certainly, different levels of ML/FT risks exist even within the same categories of RSPs whether, for example, within money transfer operators or exchange houses; however, for the sake of discussion here, we are focusing on different business models, given that MTBs as a whole are perceived to be more vulnerable to ML/FT risks than other financial institutions.
7. Queen Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development and the Honorary Patron of the G20 Global Partnership for Financial Inclusion, "Strengthening Financial Integrity through Financial Inclusion" (address to the Plenary Meeting of the Financial Action Task Force, Oslo, June 20, 2013). See http://www.fatf-gafi.org/documents/documents/unsgsa-20-june.html.

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Abbreviations

AML	anti-money laundering
AML/CFT	anti-money laundering/combating the financing of terrorism
ATM	automatic teller machine
BHR	Bank of the Republic of Haiti
BRCA	Bilateral Remittance Corridor Analysis
CB	Central Bank
CBN	Central Bank of Nigeria
CDD	customer due diligence
CNBV	National Banking and Securities Commission
CPSS	Committee on Payments and Settlement Systems
CTR	currency transactions report/reporting
DNFBPs	Designated Non-Financial Businesses and Professions
EAG	The Eurasian Group
EFT	electronic fund transfer
EFTPOS	electronic funds transfer at point of sale
EU	European Union
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation
FI	financial inclusion
FinCEN	Financial Crimes Enforcement Network
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FIRAT	Financial Inclusion Product Risk Assessment Tool
FIU	Financial Intelligence Unit
FSA	Financial Services Authority
GCC	Gulf Cooperation Council
GDP	gross domestic product
HMRC	HM Revenue and Customs
ID	identification

iDOL	iRemit Direct Online
IFS	International Financial System
IMT	International Money Transfer
IRnet	International Remittances Network
IT	information technology
ML/FT	money laundering/financing of terrorism
M-Money	mobile money
MNO	mobile network operator
MOF	Ministry of Finance
MSB	money service business
MSP	money service provider
MTB	money transfer business
MTO	money transfer operator
MVTS	Money or Value Transfer Services
NFC	near field communication
OMTI	Orange Money Transfer International
PEPs	politically exposed persons
PRA	Prudential Regulation Authority
PSP	payment service provider
RBA	risk-based approach
RSP	remittance service provider
SAR	Suspicious Activity Report
STR	Suspicious Transactions Report/Reporting
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	tax authority
UN	United Nations

Introduction

Background

The September 11, 2001, terrorist attacks on the United States exposed the use of remittance channels for financing terrorism. Acting on this, the international community, through the Financial Action Task Force (FATF),[1] issued new international requirements on remittance transfers and their service providers.[2] This is the first international standard to require the licensing or registration of money transfer businesses (MTBs) and to make them subject to anti-money laundering/combating the financing of terrorism (AML/CFT) requirements. In the last decade, many countries have introduced new regulatory requirements to meet this international standard.

The reason these international requirements are important is that remittances grow every year, and a certain degree of illegal activity could accompany that growth. Even during the 2008–09 global financial crisis, remittance flows to developing countries were quite resilient. For example, in 2009, remittances fell by only 5.5 percent, while foreign direct investment flows fell by 40 percent and private debt and portfolio equity flows by 46 percent (World Bank 2011a). Remittance flows to developing countries quickly recovered in 2010, and increased 12.1 percent in 2011, and 5.3 percent in 2012, reaching an estimated US$401 billion in 2012 (World Bank 2013). Remittances are expected to grow to about US$515 billion by 2015 (World Bank 2013).[3] This is evidence that remittances have become even more important as a source of external financing in many developing countries, and are probably the most stable source of primary or additional income for many households in developing countries.

The regulatory regime for remittances has been evolving over the last 10 years to reflect the changes in the remittance market landscape, with the emergence of new technologies and service providers, and as regulators learn how to regulate this evolving sector under their regulatory regime.

To effectively regulate and supervise MTBs, it is critical to understand the nature of these transfers, which were previously mostly unregulated. It is also important to overcome the different views arising from two sets of actors on how to regulate remittance transfers. That is, the AML/CFT community believes that

MTBs pose a higher money-laundering and terrorist financing risk than other financial institutions and service providers, while the development community perceives that such risk associated with MTBs and their customers are overrated, given that transactions are usually low value. The development community strongly believes that the social benefits of remittances far outweigh the perceived risks. These silos can translate into uncertainty, on the country level, as to how to interpret and implement the FATF international standards and how to manage the perceived or real policy trade-offs.

Remittances provide a coping mechanism, often for poor families, and play a critical role in poverty reduction. Remittances can also be a first point of contact for many families in developing countries to access financial services, often resulting in accelerating financial sector development in many developing countries.

Remittances are typically transfers from one individual to another, usually to family members or households. They are targeted to meet specific needs of the recipients such as paying for food, daily necessities, medical expenses, education, rent, or a mortgage. In fact, earlier World Bank studies suggest that, based on household surveys conducted in the 1990s, international remittance receipts helped lower poverty by nearly 11 percentage points in Uganda, 6 percentage points in Bangladesh, and 5 percentage points in Ghana.[4] Further, in countries affected by political conflict or sudden natural disasters, remittances are often among the first and only economic lifelines to the poor. The World Bank estimates that in some areas of Somalia, remittances accounted for more than 70 percent of gross domestic product (GDP) in 2006 (Ratha 2012). In Haiti, following the devastating earthquake of January 2010, remittances were the first and largest financial flows directly transferred to remittance recipients, indicating that friends and family sending remittances are the first to be counted on in times of need. Remittance flows to Haiti increased to US$1.474 billion in 2010 from US$1.376 billion in 2009 (World Bank 2011a). Such remittance flows account for around 22.2 percent of Haiti's GDP (World Bank 2011b). On a macro level, remittances have also helped pay for imports and external debt servicing obligations, and in some countries, banks have secured overseas financing using future remittances as collateral.

Given this context, countries should facilitate secure and efficient remittance flows, a key element of which is an effective regulatory and supervisory framework, especially one designed to meet the FATF AML/CFT standards. While it is essential to preserve the integrity of MTBs and to protect them from abuse by money launderers and terrorist financiers, such regulatory framework should not *unnecessarily* constrain innovations and operations by the private sector with regard to remittances. The real focus should be on the flexibility within the framework of the regulations—that is, that it does not hinder access to formal remittance channels; and that it should be based on real, demonstrated risk rather than just perceived, hypothetical risk.

In some countries, regulation and supervision of MTBs has been so restrictive that it has hindered competition among service providers. Although it is important that MTBs have regulatory certainty, it is also important that remittance

regulations are sufficiently flexible to allow effective mitigation of any new risks that may arise from remittance flows. Further, they should remain responsive to a country's local conditions, and adapt to different contexts in which they are applied. Excessive regulatory rigidity may stifle investment and innovation by MTBs, unnecessarily raising regulatory compliance costs for providers, thereby increasing barriers to entry. If formally regulated MTBs are unduly constrained by onerous regulations that are not appropriate to the level of risks faced by remittance flows, it could affect their pricing and increase the incentives for customers to use informal systems through unregistered or unregulated MTBs. Overly restrictive customer verification processes in customer due diligence (CDD) policies that are closer to those of opening a bank account, for example, may push users toward such informal systems. Such situations would potentially jeopardize providers' and regulators' shared goal of mitigating integrity risks and reaching lower-income clients in an efficient and responsible manner. Thus, the complementary nature of financial integrity and financial inclusion should be the percept theme that guides the regulatory and supervisory framework.

Objectives

This study aims to assess current practices, draw lessons learned, and assist policy makers in designing an effective regulatory and supervisory framework governing remittances that not only meets AML/CFT international standards, but also supports a country's overall financial inclusion objectives. The study's assessments and recommendations are based on extensive research and analysis, including primary survey data received from 26 remittance sending and receiving countries.

Target Audience

The primary target audience of this study is national regulators and supervisors of MTBs. Other policy makers such as officials of central banks, ministries of finance and economy, Financial Intelligence Units, law enforcement agencies, and telecommunications regulatory bodies may find the study helpful. Researchers and experts on remittances, migration, AML/CFT, and payment systems, among others, should also find the study informative, as should private sector remittance service providers (RSPs), including bank and nonbank service providers engaging in fund transfers.

Methodology

The study is mostly based on primary research and analysis. Some existing research and publications in this area also complement the findings and recommendations expressed in the report. The report follows on the 15 Bilateral Remittance Corridor Analyses (BRCAs) undertaken during 2004–10 by the Financial Market Integrity (FMI) Unit of the World Bank and three BRCAs undertaken by the Government of the Netherlands using the methodology developed by the FMI Unit of the World Bank (box I.1).

Box I.1 Bilateral Remittance Corridor Analysis

The Financial Market Integrity Unit of the World Bank launched the Bilateral Remittance Corridor Analysis (BRCA) in 2003 to study alternative remittance systems around the world in light of FATF Special Recommendation VI on Alternative Remittance Systems,[a] which was introduced in 2001, when not many countries regulated the alternative remittance systems. The overall objectives of the BRCA studies are to elucidate the principal issues faced by policy makers in both sending and receiving countries to protect the integrity and raise the efficiency of formal remittance systems, to enhance the developmental impact of remittance flows, and to analyze how policy makers in selected countries are dealing with these issues. An underlying assumption of this work is that the "formalization" of remittance flows (that is, shifting remittance flows from informal to formal transfer systems) can discourage illegal financial flows and improve the developmental and poverty reduction impact of remittances.

Analysis of 15 bilateral remittance corridors to date, comprising nearly 26 countries,[b] has produced an extensive repository of findings related to regulation and supervision of the remittance markets. The 15 bilateral remittance corridors analyzed are as follows:

United States – Mexico
Canada – Vietnam
Germany – Serbia
Italy – Albania
United States – Guatemala
Netherlands – Suriname[c]
Netherlands – Morocco[c]
Netherlands – Afghanistan[d]
United Kingdom – Nigeria[e]
United States – Honduras
Malaysia – Indonesia
Canada – Caribbean
United Kingdom/United States/South Africa – Uganda[f]
Qatar – Nepal
Republic of Korea – Mongolia[g]

a. The FATF Recommendations were revised in 2012. Recommendation 14, renamed "Money or Value Transfer Services," replaces the section, "Alternative Remittance Systems."
b. The Caribbean remittance corridor focuses on Jamaica and Haiti.
c. Conducted by the Ministry of Finance of the Netherlands.
d. Conducted by the Ministry of Foreign Affairs of the Netherlands.
e. Partnership with the UK Department for International Development.
f. Partnership with the Central Bank of Uganda.
g. Not published.

This study combines the key lessons learned from the 15 BRCAs and an extensive remittance regulatory survey (appendix A)[5] undertaken in 26 countries during 2010–11.[6] The survey was sent to both remittance-sending and remittance-receiving countries that represented all major global regions. This enabled the study team to look at the issues discussed from both the sending and receiving perspectives. The detailed survey responses that were received, and the

significant attention to detail and frequent follow-up from the study team for additional information and clarifications from the regulatory and supervisory authorities, helped ensure that the responses were comprehensive. The information received was recorded, codified, and analyzed so that responses could be compared in a standardized manner across multiple countries.

The main survey results, including any deduced trends and patterns, have helped inform the debates throughout this study, and have ensured that the policy recommendations are based on the conditions and circumstances of remittance senders and recipients, and on the largely diverse country situations and circumstances.

The study also reflects recent developments in standards setting (FATF 2012), notably in terms of proportionality and risk-based approaches (RBAs), and will inform policy makers and practitioners of emerging good practices, while taking into account the emergence of new technologies and service providers over the last decade.

Outline of the Study

The study is organized as follows.

Chapter 1 analyzes the various business models for remittance services currently in existence, and the various types of agent networks of MTBs available for the distribution of remittances; and elaborates certain patterns and trends on how the current remittance business models are evolving and which models and related agent networks might be the most popular or the most successful in promoting financial inclusion.

Chapter 2 elaborates on AML/CFT risks related to products, market structure, regulation, and supervision; discusses how innovative products and services for remittance transfers such as mobile money and Internet-based money transfer might pose new threats and risks; and includes a discussion on the appropriate risk mitigation techniques so as not to constrain the remittance market from developing and innovating.

Chapter 3 describes the various regulatory frameworks that MTBs encounter around the world, including different types of laws and regulations affecting them, sheds light on how AML/CFT requirements could be implemented, and provides a comprehensive analysis of CDD requirements as a crucial element to effectively fight money laundering and the financing of terrorism.

Chapter 4 discusses licensing and registration regimes for, and appropriate regulatory approaches toward, MTBs; examines the conditions that must be fulfilled in order to apply for licensing or registration; and discusses the different approaches to formalizing the remittance sector.

Chapter 5 discusses the various AML/CFT supervisory models and identifies potential strengths and weaknesses in each of these models; elaborates on the supervisory practices of competent authorities, along with the challenges faced by MTBs in implementing relevant supervisory requirements; and discusses the RBA to supervision of MTBs.

Finally, chapter 6 focuses on establishing an effective AML/CFT regime while supporting broader financial inclusion and highlights key policy recommendations underlined by a risk-based approach that encourages flexible implementation of the AML/CFT framework. The purpose is to encourage market entry into the formal financial system while at the same time ensuring integrity.

Survey Participants

The following countries participated in the survey (in alphabetical order):

1. Afghanistan
2. Albania
3. Canada
4. Germany
5. Guatemala
6. Haiti
7. Honduras
8. Indonesia
9. Italy
10. Jamaica
11. Korea, Rep.
12. Malaysia
13. Mexico
14. Mongolia
15. Morocco
16. Nepal
17. Nigeria
18. Netherlands
19. Qatar
20. Serbia
21. South Africa
22. Suriname
23. Uganda
24. United Kingdom
25. United States
26. Vietnam

Developments since the Survey

The key findings and the broad policy recommendations discussed in this study are based on the results of the 2010/2011 remittance survey. The analysis of the survey therefore reflects the landscape at the time. However, four countries have introduced a new legal, regulatory, and supervisory framework since then. Also, Nigeria has moved from the bank-only model to the bank-only and postal-service-only models. These new developments are not reflected in the analysis of

the survey findings and discussion in this study but are noted here. The study team reached out to the surveyed countries to provide an opportunity for an update; however, not all countries responded. Some countries provided updates on efforts that authorities had made since 2011, including, for example, (a) increased awareness among policy makers of the importance of paying attention to remittances and (b) progress made on implementation of FATF Recommendations. However, because there were no legal, regulatory, or supervisory changes, these responses are not reflected here. Nevertheless, the study team wishes to thank the authorities for providing such encouraging information. The study team also notes that there may be other developments in the countries that have not responded to the request for updates, which are not reflected in this section.

Since the survey, changes in the legal, regulatory, and supervisory framework include the following:

- *Malaysia*[7]*:* On December 1, 2011, the Money Service Business (MSB) Act was enacted to further strengthen the safeguards against abuse of the MSB industry, comprising remittance, money changing, and wholesale currencies businesses. The MSB Act of 2011 provides a single, uniform, and dedicated regulatory framework for licensees conducting MSB, comprising any or all of the following:

  a. Money changing business
  b. Remittance business
  c. Wholesale currency business

  The MSB Act brings greater business flexibilities and opportunities, including (a) the ability to carry on multiple business activities within a single entity for qualified entities, thus promoting greater synergies between these activities and economies of scale; (b) differentiated regulatory requirements according to the nature, scale, and complexity of an entity's business; (c) strengthened safeguards to promote the professional and sound management of the industry; and (d) wide range of enforcement actions to ensure compliance with the new act.

- *Mexico:* In August 2011, the law applicable to MTBs in Mexico was modified.[8] The main changes to the law include the following: (a) the supervisory powers for MTBs in Mexico were transferred from the tax authority to the National Banking and Securities Commission (CNBV) for the AML/CFT Supervision; (b) registration with the CNBV is required for businesses to engage in remittance activities, or otherwise, they are not allowed to operate; and (c) exchange centers, which are small businesses that perform currency exchange activities at a low scale compared to exchange houses, are prohibited to provide money transfer services.

- *Suriname*[9]*:* The Supervision of Money Transaction Offices Act came into force in October 2012. Two types of money transaction offices—currency exchange

offices and money remittance offices—are under supervision of the Central Bank of Suriname. The Central Bank is the only licensing authority for these entities and has the authority to revoke these licenses. Supervision includes on-site inspection and review of annual statements of account. The Central Bank may also conduct a special investigation under specific circumstances stipulated in the act.

The act also provides requirements for directors, managers, supervisory directors, and those who have a qualified holding of these entities. Furthermore, the Central Bank has the authority to issue guidelines for the business operations and the administrative organization of the money transaction office, including the financial accounting system and the internal auditing procedures. These guidelines include regulations about the combating of money laundering and the financing of terrorism. The act requires money transaction offices to provide data or information to a government authority charged with the supervision of financial markets in another country when requested.

- *United Kingdom:* The Financial Services Act of 2012 has kick-started a new system for regulating financial services in the United Kingdom. The Financial Supervisory Authority—the competent authority for the Payment Services Directive (PSD) to which MTBs in the United Kingdom were subject—has become two regulatory authorities: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The FCA is now the competent authority for most aspects of the PSD that was implemented through the Payment Services Regulations of 2009 (PSRs), which came into effect November 1, 2009. All firms providing payment services must be FCA authorized or registered, unless they are exempt, and must meet the PSRs' conduct of business requirements.

- *Nigeria:* Whereas Nigeria is the only bank-only model reported in this study, since the survey, the Nigerian Postal Service (NIPOST) is partnering with Cash4Africa to provide domestic and international remittance services. NIPOST can use post office counter terminals in more than 1,200 post office branches nationwide for this purpose. This arrangement with Cash4Africa is not exclusive, and NIPOST has similar arrangements with other providers as well.

FATF Recommendations

The FATF Recommendations provide a comprehensive set of countermeasures against money laundering and terrorist financing, covering preventive measures required for financial institutions and designated nonfinancial businesses and professions, the criminal justice system and law enforcement, and international cooperation. These recommendations form the basis for national legislators to amend their money laundering/financing of terrorism legal and regulatory framework.

The FATF Recommendations prescribe specific countermeasures that "financial institutions" must implement. The definition of financial institutions applies to the persons or entities who conduct "the transfer of money or value" as a business. Key relevant FATF Recommendations that MTBs must implement or are subject to are the following:

- Recommendation 1 (new) on Risk-Based Approach.
- Recommendation 14 (formerly Special Recommendation VI) on Money or Value Transfer Services.
- Recommendation 16 (formerly Special Recommendation VII) on Wire Transfers.
- Recommendation 10 (formerly Recommendation 5) on Customer Due Diligence.
- Recommendation 11 (formerly Recommendation 10) on Record Keeping.
- Recommendation 20 (formerly Recommendation 13 and Special Recommendation IV) on Suspicious Transaction Reporting.
- Recommendation 18 (formerly Recommendations 15 and 22) on Internal Controls and Foreign Branches and Subsidiaries.
- Recommendation 35 (formerly Recommendation 17) on Sanctions.

These recommendations are some of the preventive measures that not only MTBs but also other financial institutions are subject to. See appendix H for further details on these recommendations and key aspects relevant to remittance services.

Notes

1. The FATF is an intergovernmental body established in 1989. Its purpose is 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. The FATF developed a series of Recommendations that are considered the international standard for combating (a) money laundering, (b) financing of terrorism, and (c) financing of proliferation of weapons of mass destruction. First issued in 1990 on money laundering, the Recommendations were revised in 1996, 2001, 2003, and 2012, expanding the scope of coverage to include the financing of terrorism in 2001 and the financing of proliferation of weapons of mass destruction in 2012. See http://www.fatf-gafi.org/pages/aboutus/ for more information about the FATF.
2. FATF Special Recommendation VI on Alternative Remittance Systems and Special Recommendation VII on wire transfers are the two most directly linked to AML/CFT requirements on remittance transfers and their service providers. Revised FATF Recommendations were issued in 2012, and Special Recommendations VI and VII were replaced with Recommendation 14 (renamed money or value transfer services), and Recommendation 16 (wire transfers), with some changes in the requirements. See the regulatory section of this study (chapter 3).
3. There are two dimensions to the growth of worldwide remittance volume: (a) increased global migration, which leads to increased remittance volume; and

(b) the formalization of remittance flows through the introduction of regulatory regimes in the last 10 years, which resulted in better recording of data.

4. For example, see the discussion presented by Dilip Ratha, World Bank Lead Economist, in "Remittances: A Lifeline for Development," in the International Monetary Fund's *Finance and Development*, December 2005, http://www.imf.org/external/pubs/ft/fandd/2005/12/basics.htm.
5. This survey also served as a basis for research led by other organizations. For example, a study on "Money Laundering and Terrorist Financing through Alternative Remittance Systems," conducted by the Eurasian Group (EAG) in 2011, built their questionnaire on this survey, which is presented in appendix A. A typologies project on the "Role of Hawala in Money Laundering and Terrorist Financing," by the FATF Working Group on Typologies (published in October 2013), also built its questionnaire on this survey.
6. The remittance survey was undertaken in 2010. There have been some developments in some countries with respect to remittance regulations and supervisory framework. The analysis of the survey does not include these new developments.
7. For further information, see http://www.bnm.gov.my/index.php?ch=fs_msb&pg=fs_msb_money_srv_bus&lang=en.
8. The General Law on Auxiliary Credit Organizations and Activities (in Spanish: *Ley General de Organizaciones y Actividades Auxiliares del Crédito*—LGOAAC) http://www.cnbv.gob.mx/OtrosSupervisados/Paginas/Descripcion.aspx.
9. For further information, see http://www.cbvs.sr/supervision/426-laws-and-regulations-on-the-supervision-of-the-financial-system.

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PART 1

How Remittance Markets Operate

CHAPTER 1

Overview of Remittances Market Business Models and Agent Networks

Preview

This chapter provides:

- An overview of the types of remittance business models that exist in the remittance market in the 26 surveyed countries.
- A discussion of the types of agent networks employed in the remittance market and whether there is a typical business model for these agent networks.
- A review of the operations of international money transfer operators in the surveyed countries.

In the recent past, the scale of remittance flows has gained widespread attention due to its impact on developing countries at both the macro and micro level. Remittance flows not only help alleviate poverty through increased financial access to recipient households, but also have a potential multiplier effect on economic growth and investment in developing countries through addressing foreign exchange constraints and providing balance-of-payment support.

Money or value transfer systems, and unregulated remittance service providers (RSPs), in particular, have received much attention since the introduction in 2001 of the Financial Action Task Force (FATF) Special Recommendation on Alternative Remittance Systems,[1] to bring them under government oversight.

This chapter will explain the different entities providing remittance services, their business models, and their agent networks operating in the 26 surveyed countries.

A Range of Remittance Service Providers

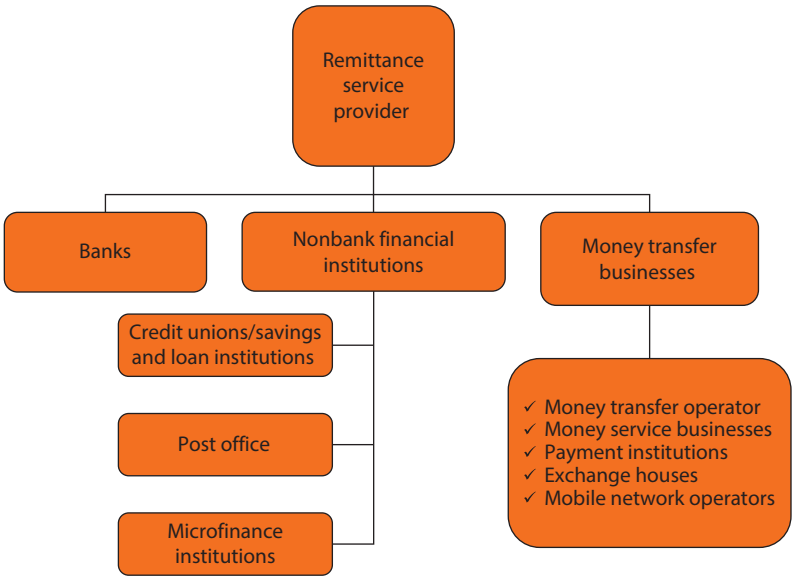
A number of players and a variety of business models for remittance services exist in remittance markets around the world. Given the complexity of the markets, it is useful to categorize different market participants. In this study, an RSP refers to "an entity, operating as a business, which provides a remittance service for a price to end users, either directly or through agents" (CPSS and World Bank 2007). An RSP could be an entity specialized in remittance services such as a money transfer operator (MTO), or could be a traditional financial institution such as a bank, credit union, or microfinance institution. Therefore, this broad category of RSPs has been divided into three groups of financial institutions: (a) banks, (b) nonbank financial institutions, and (c) money transfer businesses (MTBs)[2] (see figure 1.1 and table 1.1).

A bank or nonbank financial institution can be classified as an RSP when it:

- Offers remittance (wire transfer) services to individual account holders or walk-in customers.[3]
- Has separate business lines specializing in low-value remittances.
- Offers a specific remittance product or service catering to low-value transfers.
- Acts as an agent to other MTOs who are regulated as the principally licensed or registered entity.

Nonbank financial institutions in this categorization are those financial institutions that are not banks but provide credit or deposit services, and include savings and loan institutions, credit unions, post offices, and microfinancial institutions.

Figure 1.1 Remittance Service Provider Business Models



Money transfer businesses (MTBs) are RSPs that are licensed or registered *to provide only remittance services as their primary business or limited services such as foreign currency exchange in addition to remittance services*. In this study, MTOs, exchange houses, money service businesses (MSBs), payment institutions, and mobile network operators (MNOs) are all considered to be MTBs *only* if they provide remittance services. Such MTBs often rely on an extensive network of agents or branches; however, MTBs as the principal RSPs bear the main legal responsibility for the remittance products or services offered, either in their own locations or via agents.

Given the focus of this study on person-to-person remittance transfers and the still emerging regulatory and supervisory frameworks surrounding some of these entities, this study focuses on remittance services provided by MTBs, although other institutions such as banks and nonbank financial institutions are also discussed where relevant.

Table 1.1 Money Transfer Businesses Categorized by Nature of Business

Category	*Explanation*
Remittance service provider	**All forms of remittance service providers** A money transfer business is a form of remittance service provider Banks and nonbank financial institutions could be remittance service providers if they provide remittance services
↳ Money transfer business	**Form of remittance service provider** Remittance service providers that are not banks or nonbank financial institutions In other words, they provide only money transfer services plus limited other (foreign-exchange-type) services Money transfer operators, money service businesses, payment institutions, exchange houses, or mobile network operators could be a money transfer business Strictly speaking, the FATF definition of a financial institution includes what is defined here as money transfer businesses; however, nonbank financial institutions in this paper refers to those financial institutions that are not banks but provide credit or deposit services
↳ Money transfer operator	**Form of money transfer business** A money transfer operator is a network provider (often providing transfer services)
Money service businesses	**Form of money transfer business** A money transfer business is a group of service providers who may be money remitters, check cashers, or currency exchangers
Mobile network operators	**Form of money transfer business** Mobile network operators providing mobile phone services; in this study, mobile network operators are covered when they provide remittance services
Payment institutions	**Form of money transfer business** Payment institutions that primarily provide payment services including remittances
Exchange houses	**Form of money transfer business** Their primary business is currency exchange, but they are included here when they provide remittance services

Principal RSPs

In the RSP agency relationship, the principal RSP is the person or entity who gives authority to another, called an agent, to provide remittance services on their behalf. In many countries, principal RSPs, which are responsible to the national regulator and supervisor, must be either licensed or registered, reflecting the FATF Recommendations (see part 2 for further detail). If principal RSPs are already licensed entities such as banks, they need not be licensed separately for remittance services. The types of entities allowed to operate as the principal RSP vary among countries.

Three models of principal RSPs are observed among the countries surveyed:

- The bank-only model, in which only banks are allowed to provide remittance services; thus, if an MTO wishes to enter the market, it needs to partner with a bank. This is the most restrictive of the principal RSP models, and among the surveyed countries only Nigeria follows this model.[4]
- The bank-and-post-office-only model, in which, in addition to banks, postal financial services are also allowed to provide remittance services. The Republic of Korea and Serbia have adopted this approach.
- The model that allows a broad range of institutions (banks, nonbank financial institutions, and MTBs) to provide remittance services. There are some differences among countries, but all three categories of RSPs are allowed to offer remittance services. Twenty-three countries have adopted this model, making it the most common and popular approach observed among the surveyed

Table 1.2 Principal RSP Models, Number and Percentage of Countries Using Each Model

Principal remittance service providers	*Sending countries (out of 10 countries) (number and percent)*	*Receiving countries (out of 16 countries) (number and percent)*	*Combined sending and receiving countries (out of 26 countries) (number and percent)*
Banks			
Banks	10 (100%)	16 (100%)	26 (100%)
Nonbank financial institutions			
Post office	6 (60%)	8 (50%)	14 (54%)
Credit union/savings institution	5 (50%)	5 (31%)	10 (38%)
Microfinance	3 (30%)	2 (13%)	5 (19%)
Money transfer businesses			
Money transfer operator (firm)	4 (40%)	12 (75%)	16 (62%)
Money transfer operator (individual)	3 (30%)	4 (25%)	7 (27%)
Money service business and payment institution	6 (60%)	2 (13%)	8 (31%)
Exchange house	5 (50%)	5 (31%)	10 (38%)
Mobile network operator	6 (60%)	4 (25%)	10 (38%)

Source: Based on the survey; see table B.1 in appendix B.
Note: RSP = remittance service provider.

countries. Some of the 23 countries only recently liberalized the market and moved away from the bank-only or bank-and-post-office-only model.

The principle RSP models among surveyed countries are shown in table 1.2.

Banks as RSPs

In all 26 countries surveyed, banks are allowed to provide remittance services as part of their banking activities. This should come as no surprise. Banks can offer remittance services through their existing systems such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Also, Banks can offer remittance services for international MTOs acting as their agent.[5] As the survey results reveal, a few countries allow only banks to offer remittance services. The limitation of this model is that access points are often limited to the number of bank branches. In some cases, banks have established service offices and outlets to expand access points. The Internet and the automatic teller machine (ATM) system are also used to offer remittances through banks. However, this model has limited access points compared to MTOs or other models that use extensive agent networks.

In addition, as Bilateral Remittance Corridor Analysis (BRCA) studies have pointed out, remittance customers are usually not comfortable with using bank branches and access points due to unfamiliarity, different culture, language concerns, and lack of proximity to locations. In many instances, both remittance senders and recipients are much less likely to have any kind of banking relationship due to the above-mentioned reasons. In certain cases, nonbank RSPs can provide better service or greater convenience than banks can. These include providing remittance services in rural areas of the home country where access to banks may be limited, providing a "personal touch" through cultural and language affinity, and requiring less documentation.

Because of certain people's discomfort using banks, and because of bank's inaccessibility, the bank-only model could hamper the development of the formal money transfer market, thereby limiting competition and possibly encouraging informal means of remittances. A less competitive money transfer market often results in higher remittance costs and other inconveniences for remittance customers. For example, according to Remittance Prices Worldwide, a World Bank website that provides data on the cost of sending and receiving relatively small amounts of money from one country to another,[6] sending US$200 to Africa costs US$22 (or 11 percent), which is 5 percentage points more than sending the same amount to South Asia, which costs about US$13.10 (6.54 percent), the lowest in the world (World Bank 2013).

Recently there has been a movement in some countries to introduce "branchless banking" services, one component of which entails that banking services be offered through agent networks. This will indeed resolve many challenges identified above, especially with regard to access.

While the bank-only model does not seem to be the most optimal in encouraging competition and broadening financial inclusion, it is usually more

convenient for national regulators and supervisors relative to other nonbank RSP business models, since bank regulators and supervisors already have established regulatory relationships with banks and are attuned to the bank compliance culture. Hence, regulatory and supervisory functions are more cost-effective than that of nonbank RSPs. Another reason for this model choice may also stem from the risk perceptions of the authorities that MTBs face inherently higher money laundering and terrorist financing risk. This perception may compel the authorities to pursue such a conservative approach.

Nonbank RSPs

Some countries allow nonbank RSPs, such as post offices, microfinance institutions, credit unions, and savings and loan institutions, to conduct remittance activities. The survey results indicate that these nonbank RSPs are not as common in providing remittance services as expected.

The post office is allowed to provide remittance services as a principal RSP in only half of countries surveyed, credit unions and savings institutions in only 10 countries (38 percent), and microfinance institutions in only five countries (19 percent) (see table 1.2). Interestingly, between sending and receiving countries, more sending countries allow these nonbank RSPs to offer remittance services: the post office (60 percent in sending countries compared to 50 percent in receiving countries); credit unions and savings institutions (50 percent in sending countries compared to 31 percent in receiving countries); and microfinance institutions (30 percent in sending countries compared to 13 percent in receiving countries).

Many post offices are members of the Universal Postal Union, which provides the International Financial System (IFS), a tool that allows postal operators worldwide to provide money transfer services as a principal RSP.[7] In addition, post offices also act as agents of MTOs to provide money transfer services. Traditional money orders still exist, but these are slow services, and there is not much demand for them today.

From the regulatory perspective, given that most post offices are still government or quasi-government-owned-and-operated entities and countries typically have a legal and regulatory framework in place for the postal financial services, national authorities do not have much compliance risk concern in allowing these entities to operate remittance services.

Credit unions and savings institutions are allowed to offer remittance services only in five sending and five receiving countries. The World Council of Credit Unions, which has 100 members worldwide, developed an International Remittances Network called IRnet, which provides credit unions with safe and affordable money transfer products and technologies.[8]

Interestingly, in both sending and receiving countries, microfinance institutions are the least used entities to conduct remittance services as principle RSPs. While microfinance institutions are not so common in sending countries, they are in receiving countries. Considering the penetration of microfinance institutions in rural areas and among the populations that often receive remittances, it is

striking that only two receiving countries allow microfinance institutions to offer remittance services. This may be due to the fact that legal and regulatory frameworks for microfinance institutions are still absent or at nascent stages of development in many receiving countries.

Money Transfer Businesses

Survey results suggest that, apart from banks that offer remittance services as one of their financial activities, the *most frequent* service providers allowed to conduct remittance services on both the sending and receiving sides are MTBs (see table 1.2).[9] MTOs as both firms and individuals (natural persons), money service businesses (MSBs), payment institutions, exchange houses (which provide remittance services), and MNOs are included in the category of MTBs in this study (see table 1.1).

Among the countries that allow MTBs to operate, the business models vary from country to country. The most common business model is to allow MTOs (firms) to obtain a license solely for remittance services. The survey results indicate that this is the case for four sending countries (40 percent of sending countries) and 12 receiving countries (75 percent of receiving countries), with a total of 16 countries (62 percent of total countries). While it is not as common, three sending countries and four receiving countries allow natural persons to operate as MTOs. However, most receiving countries prefer that MTOs be a firm rather than a natural person. The most notable and widely operating international MTOs are Western Union and MoneyGram.

The second-most-common business model among the MTBs is exchange houses or exchange bureaus, the primary business of which, as the name indicates, is currency exchange. However, in some regions, particularly in the Middle East, South Asia, and some parts of Africa, exchange houses also offer remittance services. Among five sending and five receiving countries that allow exchange houses to provide remittance services (38 percent of total countries), two sending countries and one receiving county do not allow other forms of MTBs to operate in the country. If MTOs are interested in entering the markets, then they partner with exchange houses, which act as the MTOs' agents. In some countries, exchange houses are also known as hawaladars.

Several countries introduced the concept of "money service businesses" or, more recently, "payment institutions" (31 percent of the total). This is more common among sending countries (six sending countries compared to two receiving countries). These MSBs or payment institutions can offer a few other financial services, such as foreign exchange and redemption of money orders and checks, in addition to remittances. In sending countries, these service providers are still quite small in scale compared to traditional financial institutions such as banks. Since none of these institutions provide full financial intermediation services (that is, borrowing from consumer/savers and lending to companies that need resources for investment), which has implications for financial stability, and due to the smaller size of financial services by these not-fully-fledged financial institutions, certain regulators and supervisors prefer to "bundle" entities that provide

Box 1.1 Examples of Mobile-Network-Operator-Based Remittance Services

Mobile money (M-Money) remittances have spread rapidly around the world; however, because mobile network operators (MNOs) are new entrants into the market, many authorities have allowed them to offer only domestic remittance services. Gradually, however, some MNOs are branching out to provide international remittance services as they establish better risk mitigation measures.

In December 2008, Vodafone, Safaricom, and Western Union partnered to pilot an international M-Money transfer service between the United Kingdom and Kenya. The M-PESA International Money Transfer (IMT) service was launched in October 2009, after a three-month pilot project involving three UK-based agents (KenTV, Western Union, and Provident Capital transfers).

M-PESA IMT allows anybody living in the United Kingdom to transfer money through selected agents to persons in Kenya with the funds received in a mobile wallet on a mobile phone in Kenya. Currently, 19 outlets in the UK offer this service, located in areas with high numbers of Kenyan migrants. Safaricom is planning to increase the number of locations in the UK offering this service.

The French company, Orange, and MFS Africa in early 2013 launched an international remittance service via Orange Money Transfer International (OMTI) and other similar services have followed suit since then.

Note: See http://www.cgap.org/news/international-remittances-and-branchless-banking-2013-landscape.

these limited financial services, such as currency exchanges, remittances, and check cashing, all as a "money service business" and under one type of covered institution to regulate. In receiving countries, these service providers play a larger and more important role in the economy.

Survey results also suggest that an increasing number of countries are permitting mobile money (M-Money) providers to conduct remittance services, which has positive implications for access to finance and cost of services. This is done through either requiring MNOs to partner with existing financial institutions such as banks or introducing a new legal and regulatory framework enabling MNOs to operate. Increasingly, more countries are allowing MNOs to directly enter the market. In this case, these MNOs should be regulated as a "financial institution" in the FATF sense for the purpose of anti-money laundering/combating the financing of terrorism (AML/CFT) regulations.[10] The authors categorize MNOs as a form of MTB in this study. Box 1.1 provides examples of MNO-based remittance services.

Types of Remittance Agents

Remittance agents for the purpose of this study can be defined as *any natural or legal person providing remittance transfers on behalf of a money transfer business (MTB), whether by contract with or under the direction of the MTB.* Establishing and expanding agent networks is key to successful remittance services, as already well

documented in the BRCA studies. This section will describe who are typically allowed to act as MTB agents. The agent network is usually deployed by MTOs and MNOs.

MTBs in all the surveyed countries except one are allowed to deploy agent networks, which act on behalf of the MTBs for inbound and outbound transfers. In most cases, the principal MTB is responsible for agents' activities and for ensuring their compliance with relevant national regulations. Qatar is the only country in the survey that does not allow establishment of remittance agents by MTBs; instead, they allow the exchange houses, which act as the sole MTBs, to establish branches.

Among the surveyed countries, banks are allowed by all countries except Qatar to act as MTB agents (see table 1.3 and figure 1.2). Post offices and credit and savings institutions can act as agents in around 50–60 percent of sending and receiving countries, while this decreases to 30–44 percent for microfinance institutions. This could be due to lack of microfinance institutions in some sending countries, and lack of legislation and regulation that govern microfinance institutions in some receiving countries. With regard to MTOs (firms), MNOs, and exchange houses, 50–60 percent of countries allow them to act as agents, and in respect of MTOs (individuals), this ratio is about 20–30 percent of the surveyed countries. This figure should, however, be read with caution because these MTBs are mutually exclusive in some countries. For example, only the exchange house model is allowed in some countries, but not other MTBs. Some countries bundle some of these operations, such as remittances and foreign currency exchange, and call these entities MSBs and payment institutions.

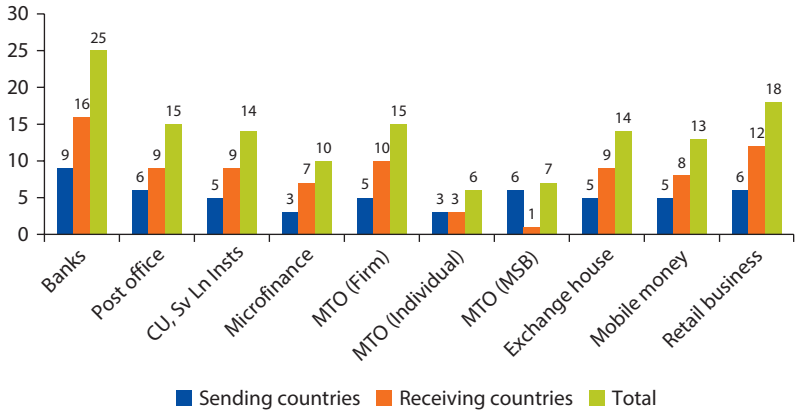
A growing number of countries also appear to allow M-Money providers, a relatively new entity in the remittance landscape, to act as MTB agents, in addition to being principal RSPs conducting remittance services (see table 1.3).

Table 1.3 Entities Allowed to Act as a Principal Remittance Service Provider and an Agent of Money Transfer Business

	Sending countries (out of 10 countries) (number and percent)		*Receiving countries (out of 16 countries) (number and percent)*	
Entity	*Principal*	*Agent of MTB*	*Principal*	*Agent of MTB*
Banks	10 (100%)	9 (90%)	16 (100%)	16 (100%)
Post office	6 (60%)	6 (60%)	8 (50%)	9 (56%)
Credit union/savings institution	5 (50%)	5 (50%)	5 (31%)	9 (56%)
Microfinance	3 (30%)	3 (30%)	2 (13%)	7 (44%)
Money transfer operator (firm)	4 (40%)	5 (50%)	12 (75%)	10 (63%)
Money transfer operator (individual)	3 (30%)	3 (30%)	4 (25%)	3 (19%)
MSB/payment institution	6 (60%)	6 (60%)	2 (13%)	1 (6%)
Exchange house	5 (50%)	5 (50%)	5 (31%)	9 (56%)
Mobile network operator	6 (60%)	5 (50%)	4 (25%)	8 (50%)
Retail business	5 (50%)	6 (60%)	1 (6%)	12 (75%)

Source: Based on the survey; see table B.1 and table B.2 in appendix B.
Note: MSB = money service business; MTB = money transfer business.

Figure 1.2 Entities Allowed to Act as MTB Agents
Number of countries



Source: Based on the survey; see table B.2 in appendix B.
Note: CU = credit union; Sv Ln Inst = savings and loan institutions; MSB = money service business; MTB = money transfer business; MTO = money transfer operator.

Furthermore, use of retail businesses, such as small supermarkets, convenience stores, or mobile phone top-up stores for the provision of financial services as agents of financial institutions, is another innovation in the remittance market. Among the surveyed countries, 60 percent of sending countries and 75 percent of receiving countries (18 out of 26 countries) allow retail businesses to act as agents. Although helpful, the use of retail agents in remittance services is not as widespread as commonly thought mainly because of the permitted business model. Bank-only and postal-service-only models do not use retail stores as agents. Exchange house models tend to establish branches rather than agents.

Few countries allow MTO individuals, as opposed to MTO firms, to conduct remittance activities, either as a principal or an agent. In Indonesia, for example, individuals are allowed to act as remittance agents, because this greatly assists policy makers in achieving financial inclusion objectives in rural areas where other types of entities have shown less interest or were operating far less frequently.[11] Another example is the United States, where anyone is allowed to be an agent without being restricted to type of business or status of incorporation.

When principals and agents are compared between sending and receiving countries, sending countries allow a wide range of entities to be both principal and agents of MTBs; however, there are more restrictions on becoming principals than agents in receiving countries. Limitations in regulatory and supervisory capacities may be the main hindrance to such market development in receiving countries, because the more entities are allowed to act as principals or agents, the more both new regulations for new types of entities and more specialized supervisory skills are needed.

Business Models of International MTOs

To understand how international MTOs operate in surveyed countries, attention is turned first to how they fit into the different business models that operate in those countries. For this purpose, the survey questions focused on ascertaining whether they partner with banks, local remittance companies, post offices, or other entities and whether they become locally incorporated. The survey results indicate that international MTOs partner the most with banks (in 23 out of 26 countries). This partnership could either be the international MTO acting as the principal RSP and banks contracted as their agents, or the banks acting as the principal RSP and international MTOs contracting as their agents. This latter contractual arrangement is less common, but it exists.[12] When entering new markets, international MTOs seem to prefer partnering with banks (as either the principal or the agent), possibly due to the credibility associated with banks because they are so highly regulated. As their overall market share increases, international MTOs may then form partnerships with other types of entities, such as local MTBs or the post office.

While the bank partnership model seems to be overwhelmingly popular, two sending countries—the United Kingdom and the Netherlands—have no such partnerships, and international MTOs are locally incorporated in these countries. One receiving country—Jamaica—also does not indicate bank partnerships, possibly because, in Jamaica, banks set up subsidiaries that exclusively focus on remittances.[13] Hence, instead of banks, their remittance-specialized subsidiaries partner with international MTOs.

Partnerships between international MTOs and local remittance companies are reported by 19 countries (73 percent). The rest (three sending and four receiving countries) do not have such partnerships. This could be due to the fact that in some countries, setting up local remittance companies is not permissible, while in others, locally incorporated international MTOs may have limited need for local partners.

Twelve countries (46 percent) indicated that international MTOs partner with post offices. This is predicated on whether the post office offers financial services in the country.

Other than the above-mentioned standard partnership models, eight countries (31percent) disclosed other ad-hoc models of operation. Among them, four sending countries indicated that international MTOs operate in their countries through European Union (EU) "passporting"[14] and in one country (South Africa) through their authorized dealers, who are allowed to operate remittance services. Two of the receiving countries indicated that international MTOs operate in their countries through credit unions and microfinance institutions (Guatemala and Uganda, respectively), and in one country through a lottery company (Honduras). The Honduras case is unique in that lottery companies serve as remittance agents' access points due to accessibility and convenience.[15]

In 11 countries (42 percent), international MTOs locally incorporate themselves as a local entity and obtain a license to operate or register with

Table 1.4 Mode of Operation of International Money Transfer Operators

	Sending countries (out of 10 countries) (number and percent)	*Receiving countries (out of 16 countries) (number and percent)*	*Combined sending and receiving countries (out of 26 countries) (number and percent)*
Partnering with banks	8 (80%)	15 (94%)	23 (89%)
Partnering with a local remittance company	7 (70%)	12 (75%)	19 (73%)
Partnering with post office	4 (40%)	8 (50%)	12 (46%)
Locally incorporating	5 (50%)	6 (37.5%)	11 (42%)
Other	5 (50%)	3 (19%)	8 (31%)

Source: Based on the survey; see table B.3 in appendix B.

a competent authority. The deciding factor to do so is the local legal and regulatory requirements. In some countries, international MTOs need to be locally established and obtain a license to operate or register with a competent authority. Countries where, for example, only banks or exchange houses are allowed to operate as RSPs, do not allow international MTOs to obtain a license or register with a competent authority. Other deciding factors could be whether the international MTO can find a reliable partner, whether there is a need to find a local hub, and whether the scale of operations and the competitive environment in the country justifies a local direct presence.

Overall, in most cases, international MTOs partner with a relevant local financial institution such as a bank or local MTO in order to meet regulatory requirements or to expand business (see table 1.4).

Notes

1. In the revised FATF Recommendations adopted in 2012, this recommendation was renamed Recommendation 14 on Money or Value Transfer Services (FATF 2012).
2. According to the definition of financial institutions in the FATF Recommendations, MTBs also fall under the definition of financial institutions.
3. This study does not cover wire transfers for business purposes.
4. In Nigeria, the national postal carrier NIPOST now offers remittance services in partnership with Cash4Africa.
5. In the contractual agreement between an MTO and a bank, usually the bank acts as an agent of the MTO. In some cases, for example, in the case of Nigeria, under domestic regulations, MTOs are an agent of the bank.
6. http://remittanceprices.worldbank.org.
7. See the Universal Postal Union website, http://www.upu.int/en/activities/financial-services.html. With 192 member countries, the Universal Postal Union is an international forum for cooperation among postal sector players. It helps to ensure a truly universal network of up-to-date products and services among countries.

8. See World Council of Credit Unions website, http://www.woccu.org/financialinclusion/remittances.
9. MTBs are RSPs that are neither banks nor nonbank financial institutions. See figure 1.1 and table 1.1 for further clarifications.
10. Typically, MNOs establish their subsidiaries for M-Money services in order to meet this requirement.
11. In Indonesia, "both individuals and corporate entities are allowed to become agents and be able to provide remittance services through their self-owned network or through the network owned or provided by operators. To ensure transparency and consumer protection, this regulation requires that collaboration between these newly recognized agents and MTOs (who provide the facilities and infrastructure to enable transfers) should be defined in a written agreement, which includes the rights and responsibilities for each party. This written agreement should also be submitted to Bank Indonesia, so that there is better tracking and monitoring and improved information disclosure arising from this regulation to the benefit of all relevant stakeholders" (Hernández-Coss *et al.* 2008, 47).
12. For example, survey results show that the latter is currently the case in Nigeria.
13. For example, Unibank in Jamaica set up Uni Transfer, a subsidiary that focuses on money transfers.
14. EU "passporting" rules allow financial institutions from across the EU to operate in each other's markets as "branches" subject to regulations in their home country, rather than as full-blown subsidiaries.
15. The financial supervisory authority in Honduras claimed that the practice has been prohibited as of now.

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CHAPTER 2

Risks Associated with Remittance Transactions

Preview

This chapter provides:

- An overview of the specific vulnerabilities of remittance channels to money laundering/terrorist financing risks.
- A discussion of regulatory and supervisory challenges when mitigating these risks.
- Guidance on key money laundering/terrorist financing risk mitigation measures for remittances.

Remittances are an important source of income for poor households in developing countries. At the same time, however, remittance channels can be a source of money laundering and financing of terrorism (ML/FT) risks. As remittance volumes grow, so do concerns about potential risks. Therefore, it is important for countries to promote accessible, efficient, but also secure remittance flows and to mitigate these risks. The most effective way to achieve this is by adopting a risk-based approach (RBA) to anti-money laundering/combating the financing of terrorism (AML/CFT) regulation and supervision. Financial institutions must ensure that such risk-based AML/CFT policies and procedures are proportionate with the ML/FT risks, and that they are relevant to the size and complexity of the institution, products offered, and customer types. Hence, to effectively regulate and supervise remittance service providers (RSPs), it is critical to understand the various risks present in the remittance market and transactions. This chapter provides a better understanding of the various types of ML/FT risks faced by RSPs by analyzing different aspects of the remittance business, and provides guidance on key risk mitigation measures.

How Vulnerable Are Remittance Channels to ML/FT Risks?

There is a general perception that remittances and wire transfers are more vulnerable to ML/FT risks than other financial activities such as deposit taking, lending, leasing, and money management. Indeed, there is a dedicated Financial Action Task Force (FATF) Recommendation to mitigate ML/FT risks arising from wire transfers (which also includes remittances). This is understandable since funds can be moved instantaneously to another country, and given the past evidence that remittances have been used in a criminal context for both money laundering and terrorism financing. Sending funds abroad makes tracing the money extremely challenging, particularly when transactions are conducted by operators not subject to or complying with AML/CFT obligations. This is even more so because reconstructing a money trail requires international cooperation, which is challenging, costly, and usually slow.

Within various remittance channels, Money or Value Transfer Services (MVTS)[1] are usually perceived as more vulnerable to ML/FT risks than banks. Given that MVTS is a broad term used in the FATF Recommendations, which include not just money transfer systems but also value transfer systems, this study uses money transfer businesses (MTBs) as the collective term for certain non-bank financial institutions providing money transfer services (see figure 1.1 and table 1.1 in chapter 1).

Risks Related to Remittance Business Models

By the mere existence of recommendations specific to MTBs (FATF Recommendation on Money or Value Transfer Services and Wire Transfers) and the exclusion of MTBs from certain optional exemptions,[2] the FATF Standards signal that they deserve special attention, as do certain other service providers or types of business relationships. Occasional or very limited activity cannot be the reason for exempting MTBs from being subject to FATF Recommendations. The other exemption clause, to prove that there is a proven low risk of ML/FT, can still be applied. Although meeting this exemption clause is certainly challenging, it is theoretically feasible.

Do we have evidentiary data to assert that MTBs are more vulnerable to ML/FT risk than other financial institutions? The short answer is that the results of the survey conducted for this study did not provide enough data to allow a definitive answer—*either way*. The survey attempted to collect information on cases and typologies where money transfer services are abused for ML/FT purposes, in order to gather fact-based evidence of possible increased exposure to ML/FT risks. Only a few countries were able to provide some responses to these questions. Where countries were able to provide information, it was available only in aggregated form that did not permit detailed analysis. For example, a total number of money-laundering cases was provided without a breakdown as to which financial institutions were used as conduits in such cases.

Based on this lack of evidentiary support, this study reaches the preliminary conclusion that a uniform and across-the-board perception of higher ML/FT

risks in the remittance sector is not warranted. As a consequence, the value and fairness of imposing higher AML/CFT requirements for every single country, every single channel, every single transaction, and every single service provider in the same manner is questionable. Rather, country-based assessments of risks are needed as a platform upon which to design and implement a genuinely risk-based AML/CFT regime for the remittance sector and transactions, in line with the RBA enshrined in the international standards.

The following two questions are analyzed to further elaborate on our arguments.

Question 1: Do MTBs face higher ML/FT risk than banks?

To the extent that countries assess the ML/FT risks in MTBs, take appropriate measures to mitigate the risks, regulate the industry by enacting laws and regulations, and enforce laws and regulations, MTBs should pose no greater risk than banks. In other words, MTBs do not necessarily face *inherently* higher ML/FT risks than banks through remittance services, nor do they pose *inherently* higher ML/FT threats than banks. The risks and threats are largely influenced by the risk mitigation measures, namely effective risk-based regulations and supervision. For example, if MTBs are unregulated, the risk of illicit flows through these MTBs increases not because of an aspect of risk that is inherent to remittances. The increase in risk occurs because of a simple consequence of the lack of regulation and supervision and, therefore, lack of internal control and due diligence measures by service providers. The risk is not related to the types of transactions but to the weakness in the supervisory regimes and supervision applicable to MTBs. Those wishing to hide illicit financial flows are likely to seek unsupervised entities to reduce their chance of detection.

Therefore, the answer in each country greatly depends on the exact business model framework, relevant national regulations, and other country circumstances and conditions, which combined define the country and sector ML/FT risk profile.

Before 2001, it was uncommon to regulate and supervise MTBs in most of the countries around the world. This informality of service providers certainly led to higher ML/FT risk. Now that most countries regulate MTBs or on a limited basis, ban MTB operations, the perceived risk generalization no longer seems justified—and, based on the available data, is not backed by a compelling typology. While 26 countries were surveyed, only 23 have MTBs that provide remittance services. Of those 23, 17 countries, or nearly 74 percent, indicated they had distinct laws, regulations, or directives regulating MTBs (see table B.9 in appendix B).[3] Moreover, AML/CFT obligations applicable to MTBs in these countries appear to cover all key areas—customer due diligence (CDD), Suspicious Transaction Reports (STRs), currency transactions reports, record keeping, training, and internal control (see table B.13 in appendix B).

The surveyed countries provided data on the number of STRs filed by the various types of RSPs. The majority of sending countries were able to produce STR statistics with a breakdown by sector or type of financial institution. However, only 20–30 percent of the receiving countries were able to provide

equivalent data. This reveals the need for an improvement in the way statistics are gathered; data segregation by sector is critical to a sound and comparative analysis, and to underpin risk analysis and risk-based supervision.

Analyzing STRs is only one method of risk analysis. Based on available STR data, in some countries (such as Jamaica), MTBs file the majority of STRs related to suspicious activity. This might indicate potentially higher ML/FT risks in MTBs, or it might simply represent defensive STR filing by MTBs, which would not indicate higher risks.

MTB involvement in ML/FT cases provides an additional perspective. Some surveyed countries provided the number of ML/FT cases involving financial institutions. However, only a few were able to point to the specific involvement of MTBs. Others did not provide disaggregated information pointing to the types of financial institutions involved in the schemes or used as a vehicle to launder money. This is an area where countries need to capture and make public more detailed information.

National regulations may also play a role in determining the overall ML/FT risk perception of banks compared to MTBs in a country. For example, regulatory requirements for CDD, Currency Transactions Reports, thresholds, and other requirements can differ between banks and MTBs, even if both types of institutions are conducting similar funds transfer/remittance transactions. While in some cases, this is important and warranted, in other cases, it is not. For example, if banks do not entertain walk-in customers[4] or the type of customers is very different from those of MTBs,[5] then having different CDD and other preventive measures may make sense. However, if the remittance market is very competitive and customers can easily go to banks or MTBs for services, then applying the same CDD and other regulatory requirements to remittances between banks and MTBs is natural.

In many sending countries, it is observed that banks view the MTBs and their agents as higher risk and even de-bank those client relationships. This de-banking has become an extremely pressing issue for regulators in those countries. One of the rationales put forward for such moves by banks is that banks are concerned about enforcement actions by regulators for serving customers whose AML/CFT standards are not compatible with or stringent enough to match banks' internal controls.[6] From this perspective, it may help banks if AML/CFT requirements for remittances are the same for banks and MTBs and this is indeed enforced. However, regulators need to carefully consider whether this move is feasible, practical, and suitable in their market and whether it will meet the overall objectives of enhancing integrity without pushing remittance transactions to the informal market. Remittance transactions are usually of smaller value, with an average of a few hundred dollars. In addition, some countries impose a ceiling on the permissible transaction value, usually around several thousand dollars. The small remittance value should be of less money-laundering concern, although there is still a debate about the risk related to terrorist financing. This debate is complex but, thus far, given the recent typology on terrorism financing, evidence of terrorist financing suggests that other channels such as banks are also often involved along with remittance channels.

Question 2: Do local MTOs generally face higher ML/FT risks than international MTOs when engaged in international remittances?

Most regulators largely consider international money transfer operators (MTOs), with their globalized operations, significant resources, and globally well-known names, to have established well-recognized regulatory compliance programs that mitigate ML/FT risks arising through their system. Local MTOs with smaller scale operations, fewer resources, and a lack of globally well-known names, are viewed as not having resources to develop effective compliance programs. This view, of course, presumes that the internal controls of international MTOs are reviewed for compliance and effectiveness by their home regulators and supervisors.

That said, the sheer number of transactions conducted by international MTOs dwarfs those of local MTOs. International MTOs also operate in a wider range of locations and countries, including in conflict zones and high ML/FT risk countries. The point here is not to favor local MTOs over international MTOs or vice versa, but to try to put things in context. Again, however, the survey provides no clear evidence on which to compare the risk profiles of local and international MTOs.

The role of agents in remittances is also an important factor in ML/FT risk assessment. As explained in chapter 1, agents may come in very different forms, ranging from established financial institutions such as banks, to nonfinancial institutions such as "mom and pop shops," grocery stores, and gas stations. That local MTOs are more likely to enter into principal-agent relationships with such a range of actors is and should be part of the risk assessment, and of the design of the regulatory/supervisory requirements to mitigate risks.

Such a survey and research cannot provide a definitive answer on the comparative level of ML/FT risks in the remittance sector. That said, and as noted above, the current lack of evidence calls for ML/FT risk assessments to be undertaken in each country, as a basis for undertaking a genuine RBA. Data are obviously needed in order to conduct an objective and accurate risk assessment; however, even with the limited data available, risk assessment can be undertaken, and this would be better than policy actions based on mere perception.

Risks Associated with New Remittance Products[7]

Many MTBs are increasingly developing various innovative products and services for remittance transfers, expanding their distribution network, and improving their marketing and promotional strategies.[8] Such developments have allowed MTBs to compete more effectively, reduce transfer costs, and improve financial accessibility and convenience for migrant workers and their families. Survey results show that nearly half of the sampled countries have MTBs that provide remittance transfers and applications through technological channels (see table 2.1). The most popular application observed in the surveyed countries is mobile phones, followed by Internet-based remittance services, use of debit or preloaded cards, and withdrawal from automated teller machines (ATMs) by the recipient.[9] The use of credit cards is more prevalent in sending than

Table 2.1 Number of Countries in which MTBs Offer Remittance Services through Technological Devices

	Internet	*Mobile phone*	*ATM*	*Credit card*	*Debit/preloaded*
Sending countries	6	5	6	4	5
Receiving countries	4	6	2	1	4
Total	10	11	8	5	9

Source: Based on the survey; see table B.4 in appendix B.

receiving countries. Table 2.1 shows that sending countries are far more advanced than receiving countries in terms of the use of various technologies, except with respect to the use of mobile phones, which is more widespread for remittances among receiving countries than sending countries.

Understanding the risks related to each of these products and services and appropriately regulating them is extremely important to ensure that ML/FT risks are mitigated, while not suppressing the growth and sustainability of these products and services in an increasingly competitive marketplace.

Mobile Money

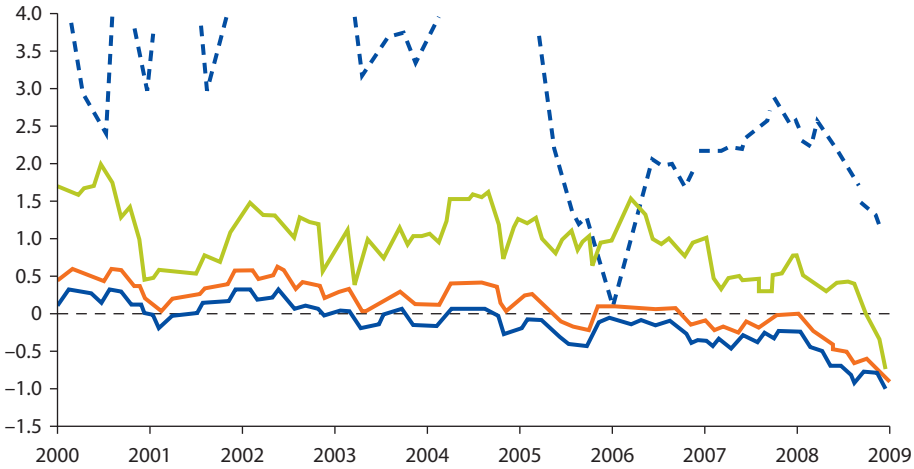
Mobile money (M-Money) is often the first noncash service that clients in developing countries are able to access. While M-Money is not without ML/FT risk, it still poses less risk than cash. The transactions are recorded and are traceable, especially if clients are identified. Even when clients are not pre-identified, if law enforcement wishes to identify a particular unidentified client, the M-Money framework generally provides them with a rich source of identifying details, such as voice recordings, patterns of communication, and patterns of transactions. In addition, a mobile phone acts as a tracking device that can lead investigators to the actual person. Individually and collectively, these facts can render M-Money unattractive for abuse, thereby reducing the likelihood of the risk materializing.

Another important mitigating factor is that usually M-Money providers impose limits on the balance and frequency of M-Money transactions. It would require a significant and costly level of smurfing to launder proceeds through such channels.

Evidence on the impact of the availability of electronic channels on the use of cash is emerging. Japan's central bank, the Bank of Japan, has already observed a correlation between the increased use of electronic channels, including M-Money, and an aggregate reduction in the level of physical cash (thus, the overall level of ML/FT risk involved with having physical cash in Japan may also have declined). The advance of electronic money systems in Japan has largely been the result of the ability to carry an electronic purse on a near field communication (NFC)-enabled[10] mobile phone. A report published by the Bank of Japan has documented this trend, showing that there has been a slowing of the rate of increase in the amount of large coins in circulation (¥500 and ¥100) and a decrease in the amount of smaller coins in circulation (¥50, ¥10, ¥5, and ¥1) (see figure 2.1).

Figure 2.1 Volume of Coins in Circulation and Their Percentage Growth Rates, Japan, 2000–08

Year-on-year percentage change



Source: "Recent Developments in Electronic Money in Japan," Payment and Settlement Systems Department, Bank of Japan, http://www.boj.or.jp/en/research/brp/ron_2009/data/ron0908b.pdf.

M-Money can therefore be used strategically to lower national ML/FT risk by facilitating the move away from "higher risk" cash transactions to relatively "lower risk" M-Money transactions (Chatain *et al.* 2011).

Prepaid Cards

During the last decade, prepaid cards have evolved rapidly and their functionalities have expanded, so that some prepaid cards can now be used to send and receive funds and to withdraw cash from ATMs.

The two main types of prepaid cards are open-loop and closed-loop cards. Prepaid cards gained popularity because they enable storing and carrying of value and substitute for carrying cash. Because closed-loop prepaid cards have limited use, open-loop prepaid cards are much more popular.[11] Open-loop prepaid cards can be used to quickly move funds around the world by using the ATM network to withdraw funds, by purchasing goods and services, or by transferring funds to another card. No face-to-face transaction is required, which makes them attractive for ML/FT purposes. Prepaid cards are also particularly vulnerable to ML/FT threats because they could be loaded with high monetary values and are easier to transport undetected than transporting equal cash value using cash couriers.

The risk posed by anonymity or not identifying the cardholder when a card is purchased, registered, loaded, or reloaded, is relative to the card's scope of use with respect to funding or purchasing limits, accessing cash, and whether the card can be used outside the country of issue. Prepaid cards can be funded in various ways—through banks, the Internet, small retail shops, or ATMs—thus,

involving different degrees of CDD. While funding prepaid cards via a bank account or through the Internet normally starts from an account or a payment instrument whose holder has been identified, cash funding can be totally anonymous (FATF 2013b).

The ML/FT risk posed by prepaid cards has increased in the last decade as prepaid cards have evolved to allow unlimited reloading and access to funds through the international ATM network. In addition, prepaid cards can easily be passed on to third parties, which is of particular concern when the card is anonymous. The risks are magnified when the prepaid card has a dual-user capability feature that allows the second card to be passed on to third parties to allow for remittance withdrawals.

The global outreach of prepaid cards for making payments or transferring funds is an important factor to consider when determining the level of risk. That is, the larger the number and wider the geographic location of the potential counterparties, the higher the ML/FT risk. In fact, regulatory and supervisory agencies in many jurisdictions worldwide have been hesitant to permit the use of prepaid cards because their vulnerability to ML/FT abuse is greater than that of traditional financial offerings.

Therefore, although prepaid cards are very useful, it is essential to have adequate AML/CFT policies, internal checks embedded in the product itself, and robust internal controls and monitoring mechanisms for transactions by service providers to ensure the cards are not used for illicit purposes.

Internet-Based Remittance Transfers

The rapid development and growth of Internet-based payment services has created opportunities for consumers and challenges for countries and private sector institutions in ensuring that these products and services are not misused for ML/FT purposes. Many Internet-based payment services have emerged globally using a variety of business models.

For large-value remittances, lack of verification of the users poses the greatest risks in terms of Internet-based remittance transfers. Fund transfers via credit card or bank account pose the least risk of ML/FT; however, this limits access only to those with a banking relationship. Nonbank wire transfers can fund online accounts via another Internet-based payment service that does not verify customer identification (ID), or by third-party funding. Some Internet-based service providers partner with prepaid card issuers and offer cash access to payment recipients via ATMs. While services that offer a cash option for both funding and payout can boost access among the unbanked, this may increase the potential threat of ML/FT risks by eliminating a paper trail on the source and use of funds transferred if no due diligence is conducted.

Not having physical contact, which is inherent to Internet-based transfers (access of service or in reloading) can lead to weaker customer verification, resulting in higher ML/FT risks. Such risks would vary with both the functionality of the product and the strength and enforcement of AML/CFT measures governing

these transactions. This poses challenges to the authorities to allow for wider financial inclusion opportunities to be gained through these innovative products while identifying and mitigating potential ML/FT risk factors.

To successfully mitigate the potential ML/FT risks related to Internet-based remittance transfers, the risk assessment should include various risk factors. Overall, Internet-based payment service providers that handle all aspects of the customer relationship (that is, registration, cash-in/cash-out, and transactions) that are subject to AML/CFT requirements are most likely to manage ML/FT risks better than decentralized service providers. The Internet-based providers can manage these risks better because they have more comprehensive information to monitor customers and their transactions and to enable better risk analysis.

Risks Related to the Informal Remittance Market

Whether the remittance market is regulated and supervised or not is one of the key factors in determining the vulnerability of the remittance sector to ML/FT risks. While many counties have moved to formalize the remittance market, the informal market still exists in many countries, albeit perhaps on a smaller scale. Informal players are commonly used by both illegal migrants who want to send remittances to their home country for legitimate needs and by criminals to move illicit money (such as proceeds from drugs, tax evasion, or other types of illegal activities) across borders. Informal channels can be used by undocumented migrants because they are usually cheaper, are faster, need less documentation than required by legal channels, and are the culturally preferred way of transferring funds. Criminals use informal channels because they lack CDD procedures, which facilitates the movement of criminal money without a paper trail.

Informal channels pose particular challenges not only because they may be used more frequently by criminals, but the informal channels may also be facilitators of money laundering and may even be controlled by criminal organizations and enterprises. There is no oversight of these informal service providers; in addition, paper trails may not be readily shared by these service providers, or the paper trails might not be easily understandable by law enforcement authorities.

While there appears to be an increasing trend toward formalization of the remittance market, many remittance corridors continue to remain less formalized (see map 4.1 in chapter 4).

Regulatory and Supervisory Challenges

Effective regulation and supervision are central to risk mitigation. This study emphasizes the need for risk-based regulation and supervision. However, in practice, it can be difficult to design the most effective RBA, but it should reflect each country's specific circumstance. Recognizing that an ill-designed regulatory framework and poor supervision can increase ML/FT risks, this section provides guidance on how best to design effective risk-based regulation and supervision.

Detailed discussions on regulation and supervision are provided in subsequent chapters.

Avoiding Overregulation of the Remittance Market

In an effort to mitigate risks associated with remittances, some countries have in fact overregulated the sector to the extent that competition has been hindered by not allowing a variety of remittance business models to operate. Whereas banks are the entity most frequently permitted to conduct remittance services in the countries surveyed, enabling of a more diverse range of entities is advisable in countries with large informal sectors where most population segments still cannot access basic financial transfer services. This is particularly so because it will help formalize the sector, which in turn assists ML/TF prevention.

The establishment of a regulatory framework should not create access hurdles (such as too stringent CDD regulation that requires a number of documents even for a small transaction, irrespective of risks) and excessively push costs up by adopting either onerous one-size-fits-all, rules-based regulations or risk-based requirements based on an inaccurate (too high) analysis of risks.

Strengthening Supervision Mechanisms

In general, on-site supervision in most of the receiving countries surveyed is weak. Only 18 percent of the receiving countries examined all the MTBs at least once, while 55 percent of countries managed to conduct on-site examination on some MTBs. Another 27 percent of countries have not yet started examinations. Though off-site examination of MTBs is more common, a majority of the countries have adopted neither risk-based supervision nor ongoing monitoring of regulated entities in order to detect the red flags and take targeted actions where appropriate.

Although the supervising authorities in many countries have appropriate sanctioning powers, such as revocation and suspension of license or registration, in practice the number of suspensions and revocations is very small. In the surveyed countries, only one receiving and one sending country had more than five revocation or suspension cases in the last five years. It is imperative for countries to strengthen enforcement action because lack of enforcement of regulations increases vulnerabilities to ML/FT risks.

Risk Mitigation Measures for Remittance Markets

This section summarizes guidance on risk mitigation measures that can be helpful in addressing ML/FT risks in remittance markets.

1. *Assess and understand ML/FT risks in remittance transfers.* Assessing and understanding risk is a prerequisite in designing risk-based regulation and supervision. If a country already has a risk-based regulatory and supervisory framework, risk assessment can be used to evaluate whether the current framework needs to be revised. As risk assessment becomes even more important, the collection

of statistics in a manner that would assist better risk assessment will be critical. It is important to explore and analyze the detected money laundering and terrorist financing cases, record the available information, and break down the information on various sectors, classify the cases, identify typologies that involve the use of MTBs, and analyze the inherent risks posed by RSPs, delivery channels, products, clients, and others involved in the remittance market. The existence of inherent risk is, in itself, not necessarily a negative factor. The important question is whether those inherent risks can be mitigated. Effective risk mitigation, however, does not necessarily mean the complete elimination of risk. An example of the ML/FT risk assessment tool for financial inclusion product including remittances can be found in appendix C.[12]

In conducting risk assessment, all the relevant stakeholders need to be involved. Among those stakeholders are the financial sector regulator and supervisor, the Financial Intelligence Unit (FIU), and law enforcement authorities (police, prosecutors, and tax authorities, among others), depending on whether the assessment is national or sectoral. Private sector (industry representatives) participation is often useful to gain insights on the products and services being offered and to reflect on ML/FT risk concerns the sector faces. At the same time, the private sector is required to undertake its own ML/FT risk assessment of its services, products, customers, and more.[13] The private sector is also required to conduct a risk assessment before the launch of new products or business practices or the use of new or developing technologies.[14] FATF issued a guidance paper on risk assessment in February 2013[15] that provides information for countries to consider when undertaking the risk assessment.

2. *Allow innovative mechanisms for customer identification and verification.* CDD through customer ID and verification is a key ML/FT risk mitigation measure. ID is essentially asking basic information about the customer. Verification is confirming whether the information provided is correct. At the verification stage, reliable, independent source documents, data, or information are required. The verification of customer ID may be difficult in countries that have no reliable national identity card scheme due to an underdeveloped, insecure, or inadequate national ID infrastructure, or lack of other appropriate alternative forms of ID. In such circumstances, alternative verification methods should be considered. International standards and practices illustrate that significant flexibility and creativity can be applied in that respect.
Examples of risk-based verification include[16]:

- Introduction of a threshold below which customer ID is done but does not require verification of customer's identity.
- Verification of customer's identity at their home and in their community in the absence of a formal ID.
- Requiring the loading or transfer of funds from a bank account or credit card.

- Using biometric ID and verification
- Corroborating information received from the customer with information in third-party databases or other reliable sources.

3. *Set limits on loading value and use.* Placing limits on the maximum value that can be held or transferred through remittance products can be an effective mechanism to mitigate ML/FT risk. To counter the heightened ML/FT risk of open-loop prepaid cards, many prepaid card programs have introduced loading, withdrawal, and duration limits. If prepaid cards are used for person-to-person funds transfers, limits imposed on possible transfers can be an effective measure to mitigate the ML/FT risk. This can be enhanced through combining transfer limits with loading or withdrawal limits. Such limits may reduce the incentive for criminals to use prepaid cards for ML/FT purposes. However, threshold limits should be determined for each product on a risk-sensitive basis, and depending on the existence of other AML/CFT measures.

4. *Ensure adequate monitoring and other internal controls of MTBs.* Service providers can use their operating systems to facilitate effective internal controls by incorporating monitoring mechanisms. Installing automated controls in their information technology systems can be an effective AML/CFT risk mitigation measure, because transaction patterns can be more easily analyzed. For example, automated controls can quickly scan name, date of birth, and other relevant ID information and compare the data with various United Nations terrorism lists and other relevant data. Effective monitoring systems can be particularly useful where adequate up-front CDD measures cannot be undertaken. When the operation of certain MTBs is limited and small in size, they may not be able to install automated controls. In that case, software such as Excel can be used, which is still more effective than paper-based monitoring. Some small MTBs or certain agents may not have the capacity for any computer-based monitoring tool, however.

5. *Strengthen supervision/licensing/registration of remittance service providers.* National authorities should ensure that all MTBs (natural or legal persons) that provide remittance services are licensed or registered. As will be explained in chapter 4, there are pros and cons of choosing a licensing versus a registration regime. All MTBs should be subject to effective monitoring systems that are in line with FATF Recommendations. Countries should identify informal MTBs that provide these services without a license or registration, and offer appropriate incentives to the informal service providers to join the formal system. It is important to build awareness among the informal MTBs about the merits of joining the formal system. At the same time, authorities should understand incentives that drive service providers to be formal rather than informal. Addressing these incentives will most likely require tools beyond the AML/CFT realm because such action could pertain to tax issues, mistrust of government agencies, and, therefore, avoidance of government scrutiny or

oversight. The AML/CFT supervisory and regulatory requirements and thresholds should also be carefully reviewed.

After all these efforts, those who do not join but continue to be informal players should be identified and sanctioned. Targeted risk-based enforcement action is a powerful tool authorities can use. Informal agents should also be legalized through licensing or registration or by making the principal MTBs maintain a list of agents. As explained in chapter 4, while there are pros and cons of the respective approaches, the listing approach seems to provide the most effective method to bring agents under regulatory mechanisms and ensure better compliance. Countries should take measures to ensure that providers that use agents include them in their AML/CFT programs and monitor them for compliance.

In principle, every country should strive to achieve a balance between financial inclusion and financial integrity objectives with respect to remittance markets through an RBA to regulation and supervision. Chapters 3, 4, and 5 discuss the regulatory and supervisory framework followed in the surveyed countries, and include a review of regulating market entry and suggest how to best design the risk-based regulatory and supervisory framework.

Notes

1. The FATF Recommendations define MVTS as follows: "MVTS refers to financial services that involve the acceptance of cash, checks, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party, and may include any new payment methods. Sometimes these services have ties to particular geographic regions and are described using a variety of specific terms, including *hawala*, *hundi*, and *fei-chen*." The concept of MTB used in this paper is similar to the concept of MVTS used in the FATF Recommendations, but is slightly narrower than MVTS in that MTB does not include the concept of "value" transfer services as opposed to "money" transfers. And the type of money transfer is limited to "person-to-person remittances."
2. See the Interpretative Note to FATF Recommendation 1 (Assessing risks and applying an RBA). Recommendation 1 provides an exemptions clause stating that "countries may decide not to apply some of the FATF Recommendations requiring financial institutions or DNFBPs [Designated Non-Financial Businesses and Professions] to take certain actions, provided: (a) there is a proven low risk of money laundering and terrorist financing; this occurs in strictly limited and justified circumstances; and it relates to a particular type of financial institution or activity, or DNFBP; or (b) a financial activity (other than the transferring of money or value) is carried out by a natural or legal person on an occasional or very limited basis (having regard to quantitative and absolute criteria), such that there is low risk of money laundering and terrorist financing." However, the latter provision does not apply to MTBs, while all other financial activities are eligible for exemption if the criterion is met under this provision.

3. Nigeria has a bank-only model and the Republic of Korea and Serbia have bank and post office models.
4. Although MTB customers are usually considered walk-in customers in the majority of the countries surveyed, MTBs have many repeat customers. In Jamaica, for example, if a customer is a repeat customer who transfers at least once every three months, this customer will not be eligible for lower due diligence. See section "Threshold for the CDD Requirements" in chapter 3.
5. Whereas banks tend to have more substantial business relations with most of their customers, MTB customers are usually walk-in customers transferring cash one way. Because of different levels of business relationships, banks necessarily tend to have more information about their customers, sources of the customer's funds, and expected transaction profile. This information provides a more solid base on which to "know your customer."
6. Reasons for de-banking may also arise simply due to market competition, including because banks are interested in starting their own remittance business or service (beyond SWIFT transfers). Under this scenario, AML/CFT can be used as an excuse to de-bank MTBs.
7. Several studies have analyzed risks of M-Money and other new payment services and products. See, for example, Chatain *et al.* 2011. The FATF has issued two typologies papers on new payment methods (FATF 2006, 2010, 2013b).
8. See appendix D for more information on private sector adaptations undertaken to compete in an increasingly competitive remittance market.
9. See appendix C for a detailed description of new remittance products.
10. Near field communication (NFC)-enabled mobile phones enable users to make payments and purchases through a mobile phone as if it was a credit or debit card, as long as participating merchants have NFC capability.
11. Closed-loop cards are merchant-specific, so they can be used for transactions exclusively with a particular merchant. Open-loop cards are associated with and bear the logo of an electronic payment network, such as Visa (2009), and they are honored wherever these networks are accepted (http://usa.visa.com/microsites/goresponsibly/pdf/pms_guide_prepaid_card.pdf).
12. The financial inclusion risk assessment tool was developed under a broader project to develop a national risk assessment methodology and its tool. Emiko Todoroki, the lead author of this study, was the project leader of the risk assessment tool, and Kuntay Celik and Wameek Noor were members of the project team sponsored by the Financial Market Integrity Service Line of the World Bank. Whereas not all remittance products may fall under the notion of "financial inclusion" product, given the focus of this study on how to balance the financial integrity and financial inclusion, appendix C focuses on the risk assessment of financial inclusion product.
13. See FATF Recommendation 1 (2012).
14. See FATF Recommendation 15 (2012).
15. See FATF 2013a. The lead author of this study was a member of this project and contributed to the drafting of this guidance paper.
16. Standard CDD measures would include identifying the customer (client) and verifying his or her identity; and identifying the ultimate beneficial owner (who would receive the money), where relevant, and verifying his or her identity.

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PART 2

Regulating and Supervising the Remittance Markets

CHAPTER 3

Regulatory Frameworks for Money Transfer Businesses

Preview

This chapter provides:

- An overview of the international standards governing the money transfer business and an analysis of countries' compliance ratings against these standards.
- A discussion of how countries have been implementing anti-money laundering/combating the financing of terrorism and other requirements for money transfer businesses.
- A review of issues including customer due diligence requirements, thresholds, and documentation.

Introduction

Remittance services outside the banking sector were either not regulated at all or only lightly regulated prior to the introduction of the Financial Action Task Force (FATF) Special Recommendations in 2001. Where there was a regulatory regime in place, it was only in a few countries such as Haiti and Vietnam, among the surveyed countries. These countries had a basic form of regulatory framework within which nonbank remittance service providers (RSPs) were to operate, mainly focusing on the requirement to obtain a license.

International standards and principles that govern remittances have emerged in the last decade for the following reasons: (a) in response to the September 11, 2001, terrorist attacks on the United States, (b) concerns about unregulated money remitters such as hawalas, (c) the expansion of international money

transfer operators (MTOs) in many countries, and (d) the emergence of new large and small remittance companies as migration grew.[1] These developments have shaped the national legislative and regulatory reforms in many countries. In turn, international standards have also evolved further.

The rapid spread of remittance services engendered the promulgation of other international principles, such as the "General Principles for International Remittance Services," discussed in the next section, and the emergence of payment institutions through new technologies. These led many countries around the world to amend their legal and regulatory frameworks to adapt to these new environments within the last decade. The legal and regulatory reform in some countries brought positive changes; RSPs have become more transparent, authorities have introduced an oversight function, and informal transfers have shifted to formal transfers. Reforms in other countries, however, seem to have stifled remittance markets and failed to address the shift from informal to formal transfers due to overregulation. The remittance sector has multidimensional aspects, including a variety of emerging and new business models (see appendix D). Hence, it stands to reason that the anti-money laundering/combating the financing of terrorism (AML/CFT) regulatory framework in countries needs to be developed considering the money laundering/financing of terrorism (ML/FT) risk that results from the products, business models, structure, and other country-specific factors. It is crucial to move away from the traditional "one-size-fits-all" approach to a more risk-based approach (RBA).

This chapter presents an overview of the international standards governing money transfer businesses (MTBs) and an analysis of countries' compliance ratings against these standards, and elaborates on the implementation of AML/CFT regulatory requirements for MTBs across the surveyed countries.

International Standards and Principles Governing MTBs

The FATF issued Nine Special Recommendations in 2001 to counter terrorist financing. Special Recommendation VI (Alternative Remittance Systems) of the Nine Special Recommendations is the first international standard that required an oversight mechanism for MTBs. The FATF Recommendations have undergone a comprehensive revision process in the last few years, and a new set of recommendations was released in February 2012.[2] After this revision, Special Recommendation VI became Recommendation 14 on Money or Value Transfer Services.[3]

In 2007, in response to the increasing volume of remittances worldwide, the international standard setting body Committee on Payment and Settlement Systems under the Bank for International Settlements and the World Bank jointly issued the "General Principles for International Remittance Services"[4] to ensure the safe and efficient transfer of remittances. General Principle 3 touches on the legal and regulatory environment, stating that "Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions." The General Principles affirm that the FATF Recommendations are key minimum requirements at the

international level with which MTBs and their agents should comply, although countries can impose higher standards if they wish. The FATF has a rigorous mutual evaluation system, and countries can be "named and shamed" if they do not comply with FATF Recommendations.

FATF Recommendations

The most relevant FATF Recommendations on remittances are the following:

- Recommendation 1 (new) on Risk-Based Approach.
- Recommendation 14 (formerly Special Recommendation VI) on Money or Value Transfer Services.
- Recommendation 16 (formerly Special Recommendation VII) on Wire Transfers.
- Recommendation 10 (formerly Recommendation 5) on Customer Due Diligence.
- Recommendation 11 (formerly Recommendation 10) on Record Keeping.
- Recommendation 20 (formerly Recommendation 13 and Special Recommendation IV) on Suspicious Transaction Reporting.
- Recommendation 18 (formerly Recommendations 15 and 22) on Internal Controls and Foreign Branches and Subsidiaries.
- Recommendation 35 (formerly Recommendation 17) on Sanctions.

These are some of the preventive measures that not only MTBs but also other financial institutions are subject to. See appendix H for further details on these recommendations and key aspects relevant to remittance services.

Increased Focus on the Risk-Based Approach in the Revised FATF Recommendations[5]

The revised FATF Recommendations focus on risks and an RBA, and this applies to preventive measures for the MTBs. Thus, Recommendation 1 mandates that authorities and covered institutions undertake a risk assessment to assess and understand risks and apply an RBA. That is, where there are higher ML/FT risks, countries should require financial institutions to take enhanced measures to manage and mitigate those risks; where there are lower risks, simplified measures may be permitted, provided there is no suspicion of money laundering or terrorist financing; and where there is low risk, exemptions of certain requirements may be permitted under certain strict circumstances. This allows countries and financial institutions to focus on high-risk areas with enhanced measures while accepting simplified measures in low-risk areas.

Risk assessments also need to be undertaken before new products or services are offered, but this is also an ongoing process. Therefore, information used in the customer due diligence (CDD) and monitoring process will also prove useful for risk assessment.

Application of an RBA is very important for countries that want to build a more inclusive financial system—one that can bring the financially excluded

(who *may* present a lower ML/FT risk[6]) into the formal financial sector. Thus, Recommendation 1 is relevant for crafting a regulatory framework that encourages formal flows of person-to-person remittances.

Country Compliance Levels with the Recommendations

Country compliance with the FATF Recommendations is assessed as part of a mutual evaluation undertaken by the FATF and FATF-Style Regional Bodies or the Financial Sector Assessment Program by the World Bank and the International Monetary Fund.[7] In these evaluations, a single and uniform methodology to assess compliance is used. The analysis of global compliance with the previous standards (2003), which includes the assessments of 177 countries available to the World Bank as of October 2011, shows interesting results. This section provides an analysis of compliance with the previous set of FATF Recommendations (prior to the revision of the standards in 2012) at the global level and among 26 Bilateral Remittance Corridor Analysis (BRCA) countries on the following recommendations that are most relevant to remittance transfers[8]:

- Special Recommendation VI (New Recommendation 14) – Money or Value Transfer Services.
- Special Recommendation VII (New Recommendation 16) – Wire Transfers.
- Recommendation 5 (New Recommendation 10) – Customer Due Diligence.

Table 3.1 captures global compliance and compliance among 26 BRCA countries with Special Recommendation VI (New Recommendation 14), Special Recommendation VII (New Recommendation 16), and Recommendation 5 (New Recommendation 10).[9]

Figure 3.1 combines the Compliant and Largely Compliant ratings as "High Compliance" and Partially Compliant and Non-Compliant ratings as "Low Compliance" and compares the surveyed BRCA countries with the global

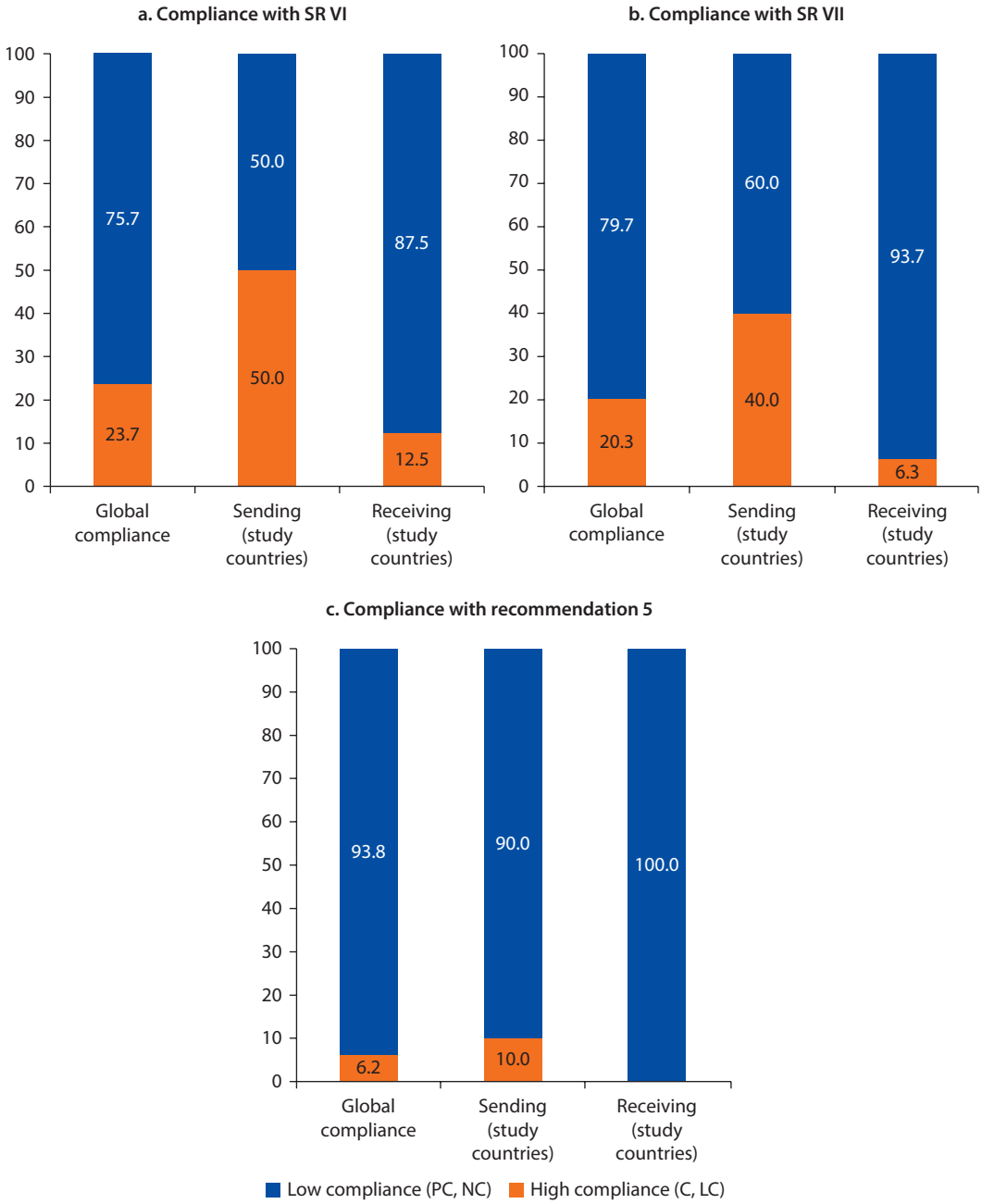
Table 3.1 Compliance Level with FATF Recommendations: Global and among 26 BRCA Countries

% of countries

Rec.		*Compliant*	*Largely compliant*	*Partially compliant*	*Non-compliant*
SR VI	Global compliance	5.1	18.6	38.4	37.3
	Sending countries	0.0	50.0	40.0	10.0
	Receiving countries	0.0	12.5	43.8	43.8
SR VII	Global compliance	5.7	14.7	34.5	45.2
	Sending countries	20.0	20.0	30.0	30.0
	Receiving countries	0.0	6.3	31.3	62.5
Rec. 5	Global compliance	0.0	6.2	50.9	42.9
	Sending countries	0.0	10.0	70.0	20.0
	Receiving countries	0.0	0.0	37.5	62.5

Source: Based on Mutual Evaluation/Detailed Assessment Report ratings (as of October 2011); see table B.5, table B.6, and table B.7 in appendix B.
Note: Rec. = Recommendation; SR = Special Recommendation.

Figure 3.1 Comparison of Compliance Level with SR VI, SR VII, and Recommendation 5
% of countries



Source: Based on Mutual Evaluation/Detailed Assessment Reports ratings (as of October 2011); see table B.5, table B.6, and table B.7 in appendix B.
Note: SR = Special Recommendation.

compliance level with reference to Special Recommendation VI, Special Recommendation VII, and Recommendation 5. The compliance level of BRCA sending countries is higher than the global compliance level for all the three recommendations. In contrast, receiving countries show a lower compliance level than the global level for all the recommendations. This is related to the higher regulatory environments in sending countries, most of which are more developed countries. Compliance at both the global level and among the study countries is extremely poor for Recommendation 5 due to the wider scope of this Recommendation with many criteria to meet, which include challenging obligations such as identification (ID) and verification of beneficial owners, using reliable, independent sources of ID documents.

Main Laws and Regulations Establishing and Governing Remittance Services

Main Applicable Laws and Regulations on Remittances

Over the last decade, many countries have issued new laws and regulations that govern remittance services. Given the capacity levels in most countries and the complexities of the new standards, implementation of the new laws and regulations seems to be a challenge. How best to regulate and supervise the remittance markets remains one of the key questions and challenges authorities face in many countries today. In addition, because of an evolving market with new technologies and innovations, the approach to the legal and regulatory framework has been evolving globally to account for new channels and products being used in the market.

Depending on a country's legal system, the MTBs are subject to a range of laws and regulations. Based on the objectives of regulating the MTBs in the FATF Recommendations, MTBs need to be subject to:

- AML/CFT requirements, which include a licensing or registration requirement, CDD, record keeping, reporting of suspicious activities, and establishing internal control systems.

In some countries, MTBs are also subject to any or all of the following:

- Prudential requirements such as capital requirements, organizational requirements, and regular reporting requirements.
- Various exchange control requirements.
- Consumer protection requirements.

Legal Basis for the Anti-Money Laundering Requirements for MTBs

Surveyed countries were asked where anti-money laundering (AML) requirements for MTBs and other RSPs are enshrined in the legal and regulatory framework. Because this sector was not regulated previously, it was common for many countries to rely on AML laws to regulate the sector as per the requirement in the FATF Recommendations. However, when there was no AML law in certain countries, which is rather rare these days, those countries used the existing power of the regulators to introduce AML requirements for this newly regulated sector.

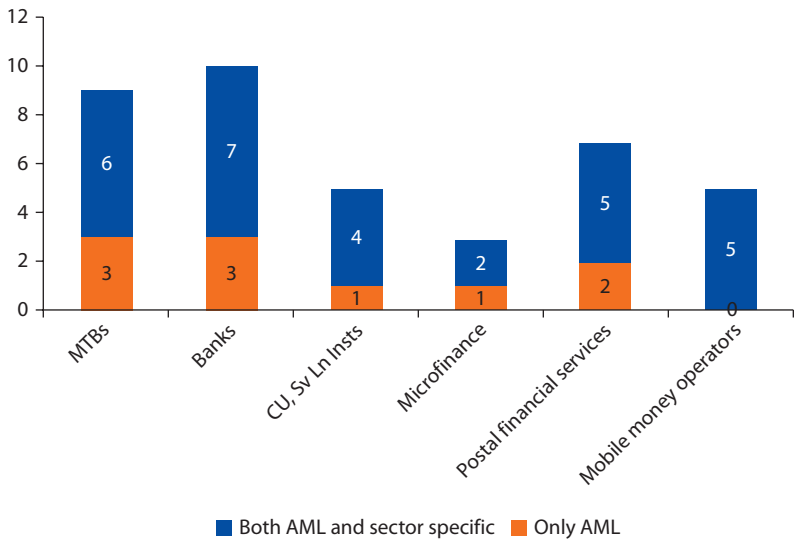
Today's picture represents a mix of the old approach and the new trend. The most common approach for sending countries is to have the AML requirements both in AML- and sector-specific law or regulation, while for receiving countries, it is the AML law or regulation. As figure 3.2 depicts, in only three sending countries do the AML requirements come solely from the AML law for MTBs, while in six sending countries, the AML requirements come from both AML law and sector-specific laws. A similar trend is observed for other RSPs such as banks, credit unions and savings and loans institutions, and microfinance and postal financial services.

Mobile money operators are the only entities where AML/CFT requirements are enshrined in both the AML and sector-specific laws or regulations. This may be attributable to the fact that the regulations for mobile money operators are relatively new and were introduced after the AML law was enacted in those countries.

This scenario changes for receiving countries, in the majority of which the AML/CFT obligations of banks and MTBs originate only from AML law. Where there are laws or regulations on remittance services, they includes AML/CFT measures; however, more detailed requirements are often found in the AML/CFT law or regulation to which RSPs are subject.

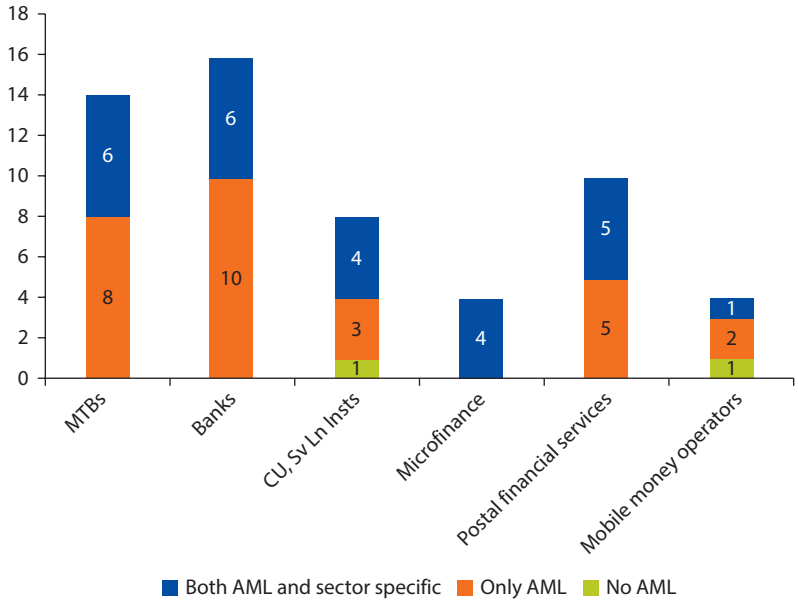
Where microfinance institutions are regulated among receiving countries, AML requirements are enshrined in both the AML law and the sector-specific law or regulation on microfinance institutions. This may be attributable to the

Figure 3.2 Legal Basis for the AML/CFT Requirements among Sending Countries
Number of countries



Source: Based on the survey; see table B.8 in appendix B.
Note: CU = credit union; Sv Ln Insts = savings and loan institutions; MTBs = money transfer businesses.

Figure 3.3 Legal Basis for the AML/CFT Requirements among Receiving Countries
Number of countries



Source: Based on the survey; see table B.8 in appendix B.
Note: CU = credit union; Sv Ln Insts = savings and loan institutions; MTBs = money transfer businesses.

fact that, despite a longer presence in many developing countries, the regulatory regime for microfinance institutions is relatively new in most countries. Figure 3.3, which shows the legal basis for the AML/CFT requirements among receiving countries, includes only the countries that have these institutions and that responded to the relevant questions in the survey.

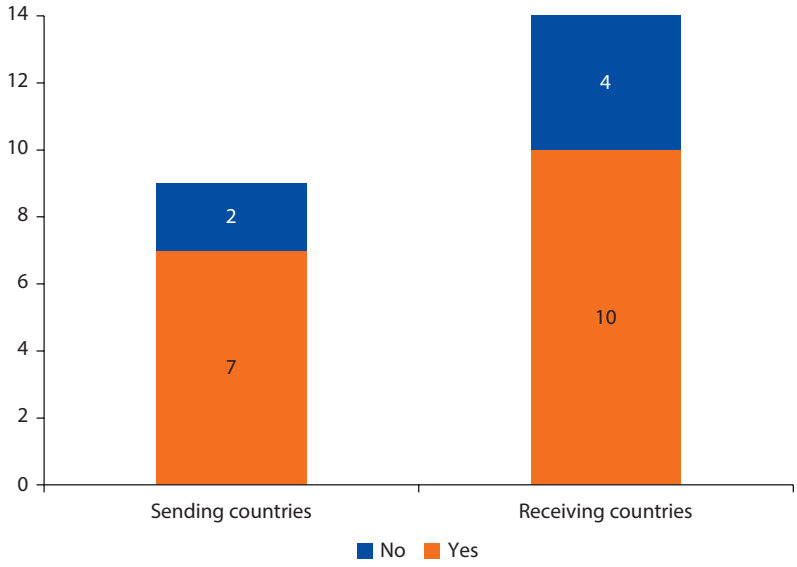
Existence of Distinct Laws or Regulations that Govern MTBs[10]

Among the surveyed countries, 23 out of 26 countries allow MTBs to operate in their jurisdictions. The remaining three countries, the Republic of Korea, Nigeria, and Serbia, do not allow MTBs to operate on their own, but only through banks in the case of Nigeria, and banks or post offices in the case of Korea and Serbia.

In regulating MTBs (money transfer operators, money service businesses (MSBs), exchange houses, and payment service providers [PSPs]), the study assessed whether the country had a distinct law, regulation, or similar legal or regulatory document that governs MTBs. The question aimed to analyze whether a dedicated law or regulation had been introduced to govern specific types of MTBs, or whether jurisdictions used existing laws to regulate them. Of the 23 countries that allow MTBs to operate in their jurisdictions, 17 countries (about 74 percent) confirmed having a distinct law, regulation, or similar legal or regulatory document that governs the MTBs (figure 3.4).

In the other six countries that allowed MTBs but did not introduce a distinctive law or regulation, the MTBs are regulated under existing laws or regulations,

Figure 3.4 Existence of Distinct Laws or Regulations Governing MTBs
Number of countries



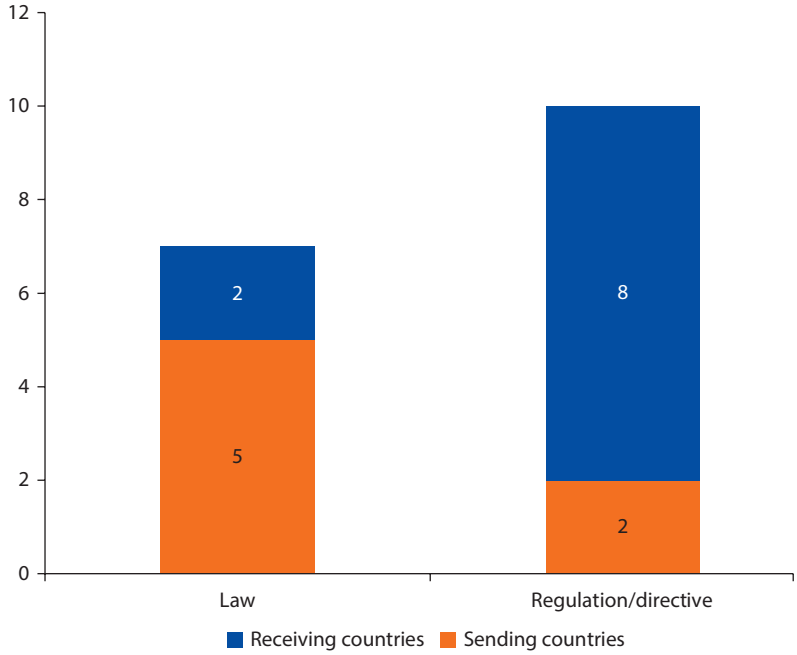
Source: Based on the survey; see table B.9 in appendix B.

such as a law on nonbank financial activities in Mongolia, laws on nonbank financial institutions in Mexico, and a law on foreign currency exchange control in South Africa.

Among the 17 countries that have a distinctive legal framework governing MTBs, further analysis was conducted on whether it was a law or a legislative decree, a regulation, or other instrument (figure 3.5). Of the seven sending countries that have a distinct law or regulation, five have laws and two have regulations as the primary source of regulatory framework applying to MTBs. Italy and the United Kingdom have issued regulations directly based on the European Union (EU) Payment Systems Directive, since for these two countries, the EU directive has the power of law (see box 3.1). Of the receiving countries, two issued a law or legislative decree and eight issued a regulation or directive. This approach seems to reflect the legal system in receiving countries, where it is much faster to issue a regulation or a directive than to enact a new law. Two receiving countries (Haiti and Vietnam) issued a legislative decree, which does not go through a parliamentary process but has the power of law. Among the five sending countries that are considered to have laws, three countries have Payment Systems Laws (Germany, Malaysia, the Netherlands) and two use the EU directive as the primary law (Italy, the United Kingdom).[11] This landmark EU legislation has inspired many developing countries to also consider following this model; thus, their legal basis governing remittance service providers may further change in the near future.

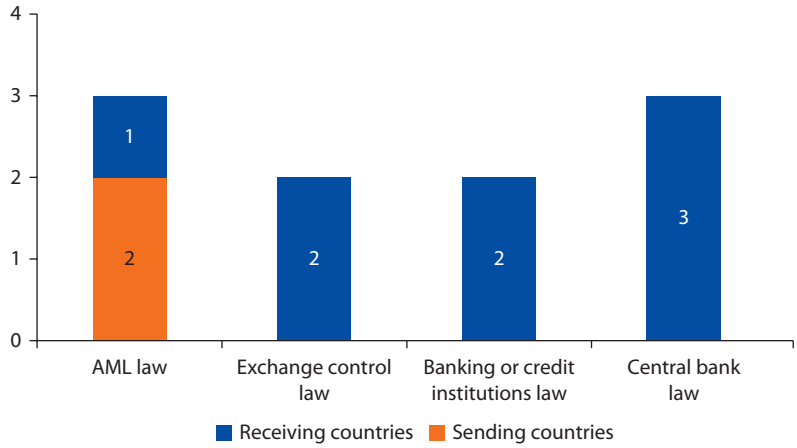
The underlying laws of two sending and eight receiving countries that chose regulations to govern MTBs were reviewed to understand the reasons for

Figure 3.5 Underlying Instruments That Govern Money Transfer Businesses
Number of countries



Source: Based on the survey; see table B.10 in appendix B for details.
Note: This figure shows a breakdown of the "Yes" responses in figure 3.4.

Figure 3.6 Underlying Law Governing Regulations/Directive of MTBs
Number of countries



Source: Based on the survey; see table B.11 in appendix B.
Note: This figure is a breakdown of the regulation/directive bar in figure 3.5. AML = anti-money laundering; MTB = money transfer business.

Box 3.1 European Union Payment Services Directive

The European Union's (EU's) Payment Services Directive, which became law on November 1, 2009, ensures that the rules on electronic payments—for example, paying by debit card or transferring money—are the same in 30 European countries (all 27 members of the EU and Iceland, Norway, and Liechtenstein). This means that customers will be able to make payments throughout Europe as easily and safely as in their home country.

The Payment Services Directive specifies the information customers should be given and aims to make payment quicker and safer. It also allows new "payment institutions," such as money remitters, retailers, and phone companies, to provide payment services similar to banks', thus increasing competition. Banks, payment institutions, and other payment bodies are collectively referred to as "payment service providers."

The Payment Services Directive covers all kinds of electronic and noncash payments, including credit transfers, direct debits, card payments (including credit card payments), and money remittance to mobile and online payments. It does not cover cash and check payments. Payments in any European currency (not only the euro) are covered as long as the payment service providers (PSPs) for both the payer and the payee are located in one of the 30 countries. Through the Payment Services Directive, PSPs are able to undertake a range of payment services including remittances.

However, often there are different license categories for entities that solely conduct remittances and others that provide additional payment services, such as loading cash on and withdrawing cash from a payment account and issuing payment instruments.

The Payment Services Directive ensures clearer information on payments, faster payments, and refund rights for the consumer, but to protect customer funds and rights, these new institutions will be regulated.

Source: For information on the European Union Payment Services Directive, see http://ec.europa.eu/internal_market/payments/framework/index_en.htm.

the choice. As figure 3.6 shows, countries use a variety of laws on which to base regulation, reflecting the lack of a standard approach to how to regulate this sector. Use of an AML law or a central bank law is the most common approach, followed by exchange control law and banking (or credit institutions) law. It is no surprise that in receiving countries, the underlying law is either banking or exchange control law. Receiving countries are likely to regulate MTBs under these laws because remittances play an important role in their economic growth, and these laws mandate better control over cross-border money flows.

Types of MTBs that Operate in Countries that Have a Distinct Law or Regulation

An examination of the MTB models in the 17 countries that have established a distinctive legal framework for MTBs reveals an interesting picture. Four categories of MTBs are being used by the countries: remittance companies, exchange houses, MSBs, and PSPs. Sending countries established either PSPs (five countries) or MSBs (two countries), in contrast to receiving countries, which

commonly established narrower and more specialized remittance companies (seven countries), followed by MSBs (two countries), and exchange houses (one country).

Despite the fact that MSBs and PSPs are allowed to conduct several financial activities in addition to remittance services (check cashing, currency exchange, and so forth), they are still very small financial institutions in sending countries. Hence, to benefit from economies of scale, regulators and supervisors prefer to bring them under one regulatory umbrella. Small financial institutions such as remittance companies play a much bigger role in the provision of financial services in receiving countries.[12] Although remittance services are their sole business activity, the volume that remittance companies handle can be significant compared to other retail financial activities in some countries. This may be due to the limited size of banking outreach and to the widespread unbanked or financially underserved population in these countries.

Implementation of AML/CFT Requirements

This section analyzes the survey outcome on how the remittance sending and receiving countries are implementing the AML/CFT requirements such as CDD, suspicious transaction reporting (STR), currency transactions reporting (CTR), record keeping, training, and compliance officer and internal control measures. It also analyzes the sanctions regimes available to supervisory authorities to enforce compliance with AML/CFT requirements.

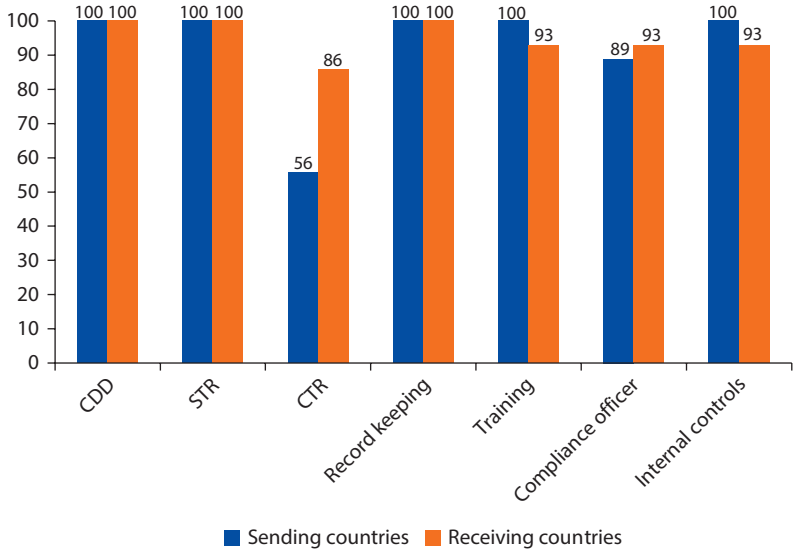
General Implementation of AML/CFT Requirements

As mentioned, the majority of formal global person-to-person remittance transactions and flows are currently channeled through MTBs. The survey data indicate that nearly all countries allowing MTBs to operate have some AML regulatory frameworks for these institutions (see figure 3.7), such as CDD, STR, and record-keeping requirements. All except one country require training of staff in AML/CFT and development and implementation of an internal control program. Two countries do not require appointment of a compliance officer, but all the other countries do. CTR is not a mandatory FATF requirement; however, 74 percent of the surveyed countries have CTR or similar requirements (such as Electronic Fund Transfer [EFT] Requirements), which aim to capture the transactions above a certain threshold. This is more common among receiving countries (12 out of 14 countries) than among sending countries (5 out of 9 countries). More receiving countries prefer to require CTR requirements partly due to the cash-based nature of their economy.

Record-Keeping Requirements

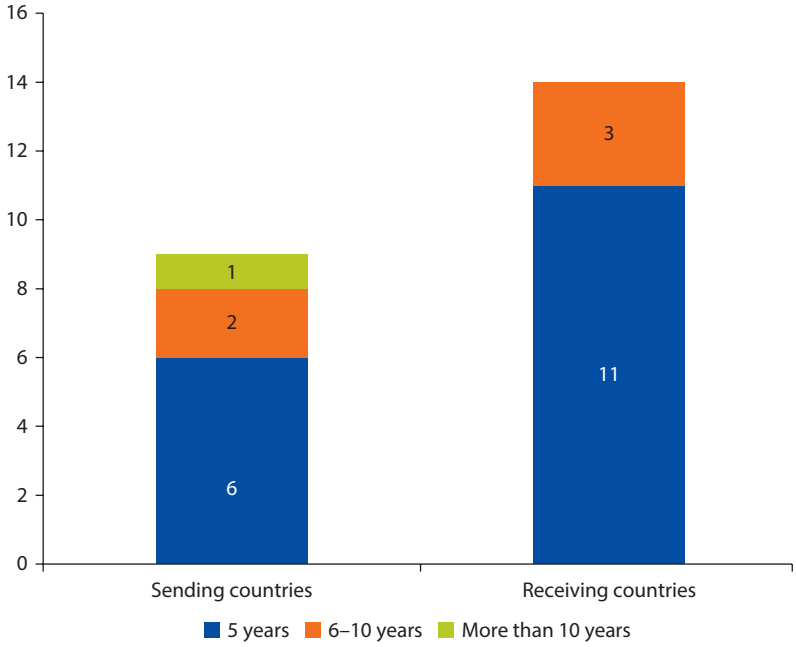
All the surveyed countries require record keeping of five years or longer. While the majority of countries require it for five years as the minimum set by the FATF requirements, five counties require record keeping of between 6 and 10 years, and one country requires record keeping of more than 10 years (15 years, in this case) (figure 3.8).

Figure 3.7 AML/CFT Requirements for MTBs
% of surveyed countries



Source: Based on the survey; see table B.13 in appendix B.
Note: AML/CFT = anti-money laundering/combating the financing of terrorism; CDD = customer due diligence; CTR = currency transactions report; MTB = money transfer business; STR = suspicious transactions report.

Figure 3.8 Record-Keeping Requirements
Number of countries



Source: Based on the survey; see table B.14 in appendix B.

Suspicious Transaction and Currency Transaction Reports[13]

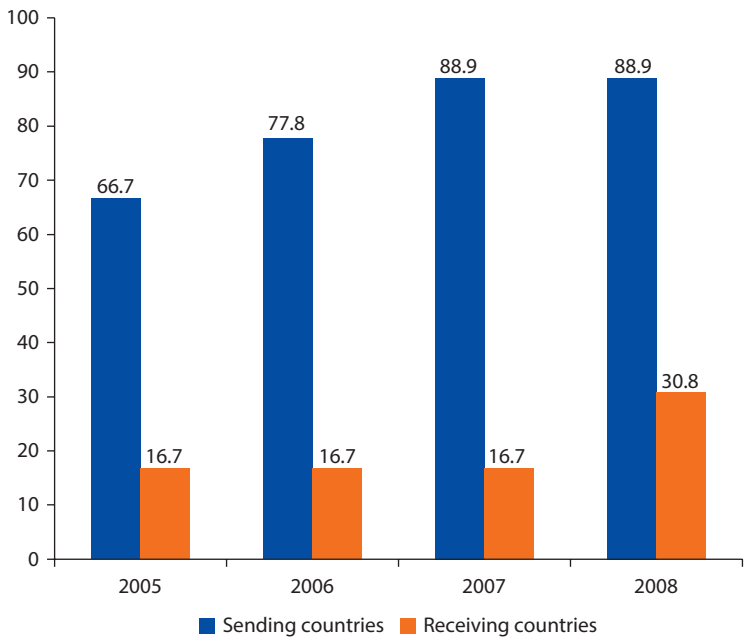
The study team aimed to collect data on the number of STRs and CTRs filed by different types of RSPs and to compare the data for MTBs against the data of other RSPs such as banks. There is an upward trend in that more countries are undertaking the analysis of the STR filing by sectors and are able to produce the data by the sectors. In addition, the number of countries implementing the STR requirements for MTBs has also gradually increased, as reflected in the statistics.

A majority of sending countries were able to produce STR statistical breakdowns by sector or type of financial institution; however, only 20–30 percent of receiving countries were able to do so (see figure 3.9).

Breakdown of the STR reports by sector is useful in analyzing which sectors are implementing STR requirements more than others, which sectors are filing STRs consistent with the threat of ML/FT faced by the sector, and which sectors are doing so by defensive filing.

The data from countries reveal an interesting but puzzling picture. Among the institutions that should report suspicious transactions to Financial Intelligence Units (FIUs) in each country, MTBs are the major reporting institutions of STRs in some countries, while in others, MTBs do the least amount of STR reporting. It is difficult to explain such lack of uniformity in the behavior of MTBs without deeper analysis, but reasons could reflect different ML/FT risks faced by MTBs

Figure 3.9 Availability of STR Breakdown by Sector
% of surveyed countries



Source: Based on the survey; see table B.15 in appendix B.
Note: STR = Suspicious Transactions Reporting.

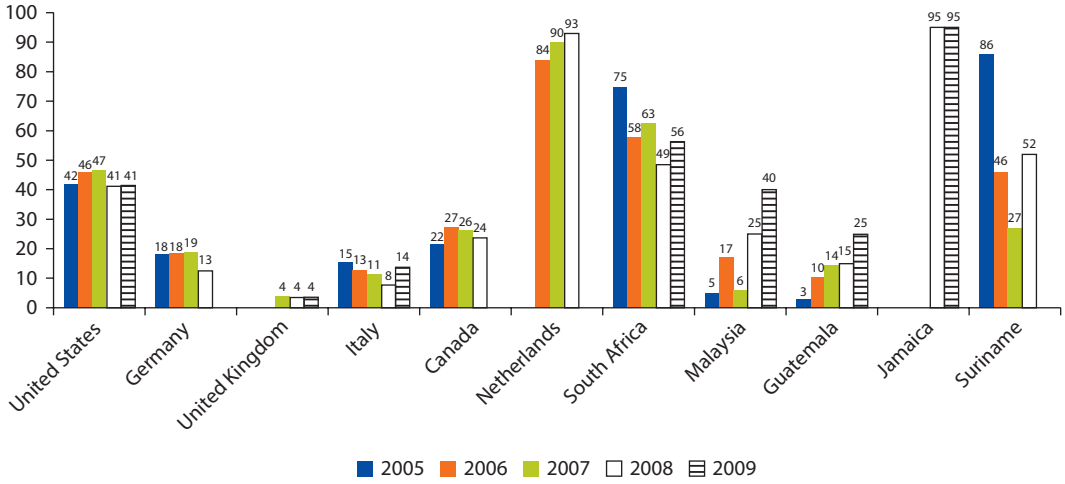
in different countries, a different level of awareness of STR reporting requirements and compliance levels of MTBs in different countries, or another reason.

Figure 3.10 shows that MTBs filed 80–95 percent of STRs to FIUs in Jamaica and the Netherlands, and that 40–70 percent of STRs were filed by MTBs in South Africa, Suriname, and the United States (although this varies per year in South Africa and Suriname). The reasons MTBs file a high number of STRs include:

- MTBs handle occasional transactions on behalf of walk-in customers (those without accounts), which makes it difficult to determine the customer's risk profile. This, in turn, results in filing more STRs on occasional transactions than account-based transactions. Anomalies in frequency and value of transactions; that is, there are countries in which MTBs are used mainly by migrant workers who send only a few hundred dollars or equivalent at a time once or twice a month. If a customer does not fit the migrant worker profile sending these relatively small amounts, an STR may be filed.
- Being located in a high-crime area may induce MTBs to file high numbers of STRs.
- Not knowing the sources of funds coming from abroad.
- Defensive filing due to the scrutiny from supervisory authorities.

In Canada, Germany, Guatemala, Italy, and Malaysia, MTBs filed 10–30 percent of all STRs received by the FIUs. In the UK, the majority of STRs were filed by banks (about 65 percent); MTBs filed only 4 percent of the STRs. Banks in Afghanistan and Indonesia filed the vast majority of

Figure 3.10 STRs Filed by MTBs
% of total STRs received by the FIU

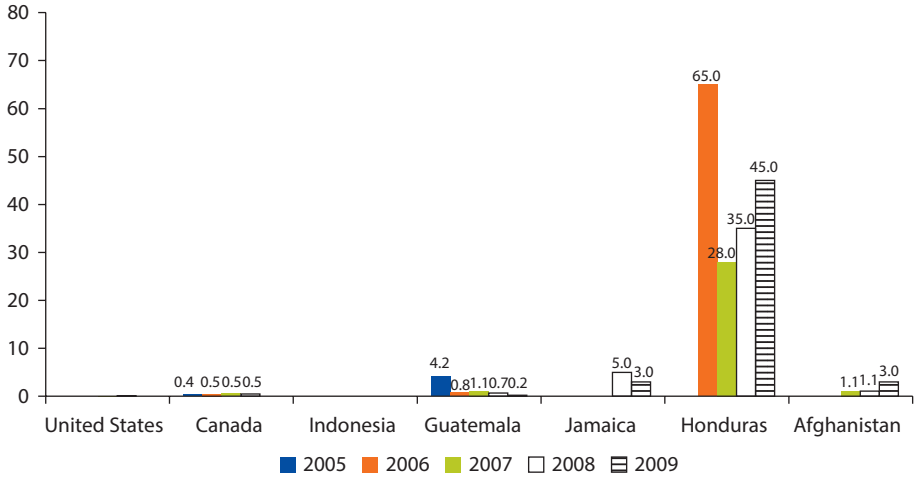


Source: Based on the survey; see table B.16 in appendix B.
Note: MTB = Money Transfer Business; FIU = Financial Intelligence Unit; STR = Suspicious Transactions Reporting.

STRs compared to MTBs, which filed only a small number or virtually no STRs, possibly because, among other reasons, MTBs are unaware of the STR filing requirements or they are yet to understand the need to comply with the STR requirements. Even in countries that could not provide a breakdown of STR filing by sectors the study team was aware that MTBs filed few STRs, probably because MTB staff was poorly trained and did not understand STR filing requirements, there was no FIUs to which STRs could be filed, and there was a lack of enforcement.

Moving to CTR or EFT reports, the MTBs file only a small share of CTRs/EFTs in almost all the countries, except Honduras, which does have CTR/EFT regimes and provided the information. The data from Honduras indicate that MTB filings are as high as 30–50 percent of CTRs filed by all financial institutions. This may be largely because CTR requirements apply to transactions above US$2,000 in Honduras, while in many other countries the threshold is much higher (but not usually above US$15,000). For all other countries, the percentages of CTR filings are very limited. In Jamaica, only 3–5 percent of CTRs/EFTs are filed by MTBs; in Afghanistan, the figure is only 1–3 percent; and in Canada, the United States, and Guatemala, less than 1 percent of CTRs/EFTs are filed by MTBs (0.48 percent, 0.02 percent, and 0.7 percent, respectively, in 2008) (figure 3.11). Given that the typical average size of transactions handled by MTBs is small and below any designated CTR threshold (which is usually set around US$10,000–15,000), this is not surprising. However, in some countries where MTBs are known to handle large transactions (such as in Afghanistan), this seems to indicate a lack of filing by MTBs.

Figure 3.11 CTR/EFT Reporting Filed by MTBs
% of the total CTR/EFT received by the FIU



Source: Based on the survey; see table B.17 in appendix B for details.
Note: CTR = currency transactions report; EFT = electronic fund transfer; FIU = financial intelligence unit.

Compliance Officer

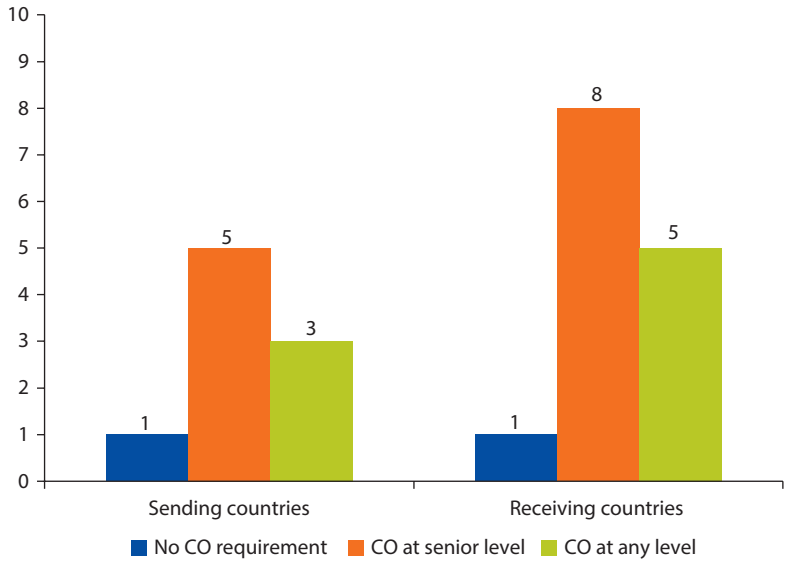
Surveyed countries were asked whether MTBs were required to appoint a compliance officer and, if so, at what level of management the compliance officer should be. All countries except one sending and one receiving country require appointment of a compliance officer. Thirteen countries require the level of the compliance officer to be at the senior management level, and eight countries do not specify the level. One sending and one receiving country have no requirement to appoint a compliance officer (figure 3.12). FATF Recommendation 18 (formerly Recommendation 15) requires financial institutions to appoint a compliance officer at a senior management level.

Guidance to Implement the AML/CFT Requirements

MTBs benefit from receiving guidance on the AML/CFT requirements they need to implement. In some countries, guidance may be binding and enforceable, but in other countries, it may not be. In this survey, the study team focused on the countries in which guidance is not binding and enforceable. The guidance is intended to provide detailed information on implementation beyond the language of laws and regulations.

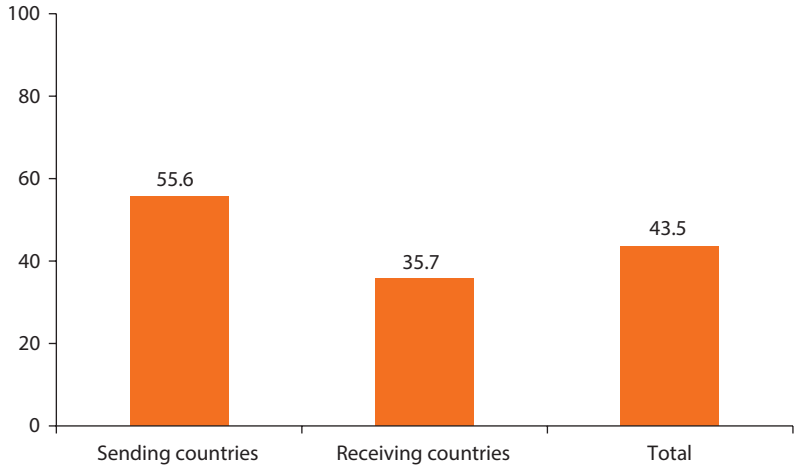
Only 56 percent of the sending countries and 36 percent of the receiving countries issued guidance specifically tailored to MTBs (figure 3.13). This seems inadequate compared to guidance provided to banks and other financial institutions, and may reflect the lower priority placed on MTBs by authorities, despite the fact that MTBs are often viewed as a higher-risk sector.

Figure 3.12 Requirement to Appoint a Compliance Officer
Number of countries



Source: Based on the survey; see table B.18 in appendix B.
Note: CO = compliance officer.

Figure 3.13 Guidance Specific to MTBs Issued by Sending and Receiving Countries
% of surveyed countries



Source: Based on the survey; see table B.19 in appendix B.
Note: MTB = money transfer business.

CDD Requirements

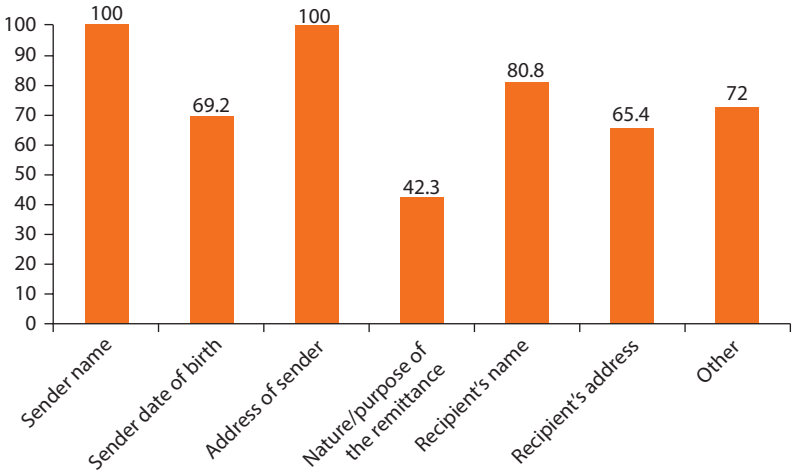
CDD Requirements

As stated earlier, FATF Recommendation 10 (formerly Recommendation 5) requires ID and verification of customers as part of CDD requirements. However, it does not specify what information needs to be collected for the purpose of ID (for example, name, address, and date of birth). Recommendation 16 (formerly Special Recommendation VII) on wire transfers does specify the information required to be attached to wire transfers, and this in turn means information that must be collected by financial institutions. Both Recommendation 10 and Recommendation 16 apply to remittances.[14]

All the countries surveyed require the collection of the sender's name and address. This could be problematic for the segment of the population in developing countries that does not have a proper address,[15] and that therefore might have difficultly accessing finance. However, Recommendation 16 states that alternative information can be collected in lieu of the sender's address, such as national identity number, customer ID number, or date and place of birth. Indeed, 69 percent of the countries also require date of birth to be collected either as additional information or as a substitute for an address. Forty-two percent of the countries require an explanation of the nature and purpose of remittances.

According to Recommendation 16, for remittance transactions below the threshold of US$/EUR 1,000, the name of the sender and recipient, and an account number or a unique transaction reference number for each transaction, need to be attached to wire transfer or related message throughout the payment

Figure 3.14 Information Collected for the Identification of Customers
% of surveyed countries



Source: Based on the survey; see table B.20 in appendix B.

chain; however, they do not need to be verified for accuracy, unless there is a suspicion of money laundering or terrorist financing. This means that the RSPs need to collect this information and send it through the payment chain, but do not need to require an ID document to be presented by the customer. Nevertheless, according to Recommendation 16, countries *may* adopt a de minimis threshold that is below US$/EUR 1,000. In such cases, the verification requirement will be below US$/EUR 1,000.

Not all countries require MTBs to collect the name or address of the recipient. While the address may not be necessary, and this is not required by the FATF, the name of the *recipient* (in addition to the name of the *sender*) needs to be collected in light of revised Recommendation 16, as specified above. While the survey questions were answered prior to adoption of the revised FATF Recommendations in 2012, the responses indicate that many countries were in fact requiring the name of the recipient to be collected prior to the revision of the standards. Requiring the name of the recipient is now mandatory, as is collecting information on the account number or unique reference number of the recipient.

Other information required varies from country to country and includes nationality of the sender, proof of the reasons for sending money (above a certain threshold), taxpayer's ID, account number of recipient, national ID number, and in some cases, information on profession and name of employer (figure 3.14).

Threshold for the CDD Requirements

The survey responses were used to analyze the threshold that triggered CDD requirements. The previous FATF standards required CDD to be undertaken on

Table 3.2 Threshold for CDD Requirement for Remittances, by Number of Surveyed Countries

Threshold	*Sending countries*	*Receiving countries*	*Combined sending and receiving countries*
No threshold	4	11	15
Threshold at or below US$/EUR 1,000	4	1	5
Threshold at US$/EUR 3,000	1	0	1
Threshold above US$/EUR 3,000 and below US$/EUR 15,000	0	1	1
Threshold at or above US$/EUR 15,000	0	1	1

Source: Based on the survey; see table B.21 in appendix B.
Note: CDD = customer due diligence.

wire transfers (that is, remittances) of US$/EUR 1,000 or more. There was no mandatory requirement for CDD below this amount, although authorities had flexibility to designate a threshold below this amount. The FATF standards after the revision in 2012 require CDD for all the transactions as stated earlier, with the following distinctions for transactions below and above US$/EUR 1,000.

For transactions below US$/EUR 1,000, ID of the customer (originator) is now required, but there is no mandatory requirement for verification of the customer (originator). This makes it practical for such clients as undocumented migrant workers because they do not need to present an ID document. They simply need to state their names and provide other information. However, as under the previous FATF standards, transactions above this amount require verification of the customer.

Another key new requirement on wire transfers is the collection of the name and account number of the recipient. This information need not be verified, regardless of transaction size, because it is almost impossible to verify the recipient's identity, given that often another financial institution will be disbursing the money to the recipient.

The survey question was asked based on the old regime. However, it is still useful to consider its findings. Among the 23 countries that allow MTBs to operate, 15 (65 percent) applied no threshold, resulting in full verification of sender information regardless of the transaction amount.[16] It is striking that most of the receiving countries (79 percent) fall into this category. This is a stricter approach, which goes beyond the standards,[17] possibly reflecting the concern that many countries view remittances to be high ML/FT risk and require stricter control. Some countries, however, required verification for consumer protection reasons and other regulatory requirements under which customer information ought to be collected. In some cases, however, this was done because authorities applied a rules-based approach where customer information is collected regardless of the transaction size or risk, as opposed to an RBA to all financial activities and transactions.

Among eight countries that introduced a threshold for CDD, three countries set the threshold higher than US$/EUR 1,000, which resulted in noncompliance

with the FATF Recommendations. One sending country has intentionally not lowered the threshold of US$3,000, which was initially set by the FATF in 2001. Two receiving countries have much higher thresholds—one at between US$/EUR 3,000 and US$/EUR 15,000, and the other at around US$/EUR 15,000. FATF Recommendations set the threshold of US$/EUR 15,000 for CDD obligations for occasional transactions that are not wire transfers (table 3.2).

Tiered Approach to CDD

Two sending and four receiving countries of the total 26 countries introduced a "tiered approach" to CDD, which aims to require more information from the customer as the transaction amount increases. However, as indicated in table 3.3, the nature and scope of the tiered approach vary widely from country to country.

Table 3.3 Tiered CDD for Remittances

Sending country	*CDD requirements*
Canada	Where a large cash transaction record is required (that is, Can$10,000 or more), financial institutions must take reasonable measures to determine whether the individual is acting on behalf of a third party. In cases where a third party is involved, service providers must obtain and keep specific information about the third party and their relationship with the individual providing the cash or the client.
Italy	If payment is larger than €2,000, evidence of financial consistency with the economic profile of the customer must be provided.
Receiving country	*CDD requirements*
Afghanistan	If the cross-border wire transfer exceeds Af 1,000,000 (about US$20,000), the sender must provide documentation on the source of the funds.
Jamaica	Below US$250 (or equivalent in foreign currency), alternative identification is allowed if it is a one-off customer. Alternative identification can include student ID (only for incoming remittances), worker's ID, and birth certificate. This does not apply to a repeat customer. A repeat customer for remittances is defined as a customer who remits funds more than once in three months (irrespective of amounts). Above US$1,000 (or equivalent in foreign currency), submit information on source of funds in addition to the name, address, date and place of birth, and contact information, plus Tax Registration Number or other reference number for natural persons. Identification tendered must be photocopied and kept in the records. In the case of remittance companies, this applies only to outbound transactions. Above US$5,000 (or equivalent in foreign currency), full banking Know Your Customer standards apply. In addition to name, address, date and place of birth (for all transactions), and source of funds plus Tax Registration Number or other reference number, nationality, two references, and contact numbers are required, and the institution may also require a photo of the person.
Mexico	Incremental requirements: above US$1,000, only identification information is required; above US$3,000, personal official ID must be presented; above US$5,000, information must be recorded in the user ID file.
Morocco	Above US$5,000, enhanced CDD applies.

Source: Based on the survey.
Note: CDD = customer due diligence; ID = identification.

Type of Documents Accepted for the Purpose of Verification

The FATF Recommendations do not specify what types of ID documents need to be used for the purpose of verifying the identity of the customer, except that the ID document should be reliable and obtained from an independent source. Some countries leave it to the financial institutions to decide what ID document should be accepted, except that the basic principles are specified (for example, a valid official ID card), but do not specifically list all the acceptable ID documents. Other countries specify the acceptable ID documents in the law or regulation (for example, only passport, driver's license, or national ID card).

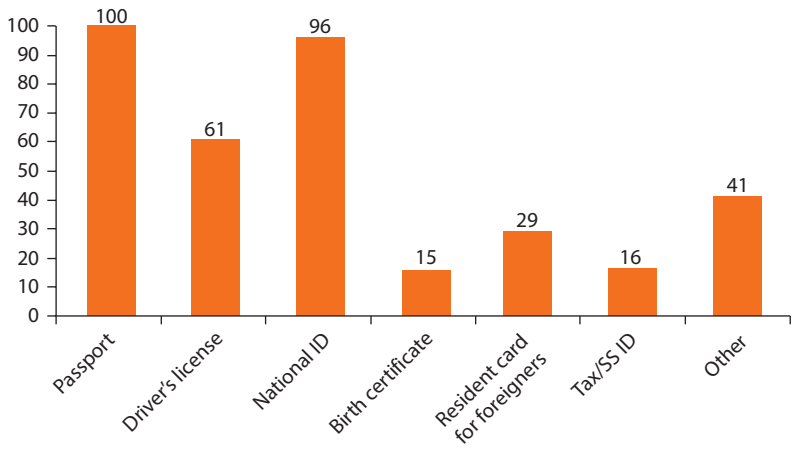
Among the surveyed countries, seven sending countries and 11 receiving countries specify in law or regulation the type of documents acceptable for verification of customer ID and two sending and two receiving countries do not specify acceptable ID documents.

Passports and national IDs seem to be the documents of choice in almost all countries. A driver's license is also acceptable (among 61 percent of countries); however, certain countries specifically prohibit the use of a driver's license due to the high level of their use in ID fraud. Fifteen to 25 percent of countries listed birth certificates and resident cards for foreigners as acceptable documents. Other acceptable documents include special documents issued for refugees, official documents issued in foreign countries, federal voting cards, professional registration cards, and employer's cards (figure 3.15).

Verification of Address

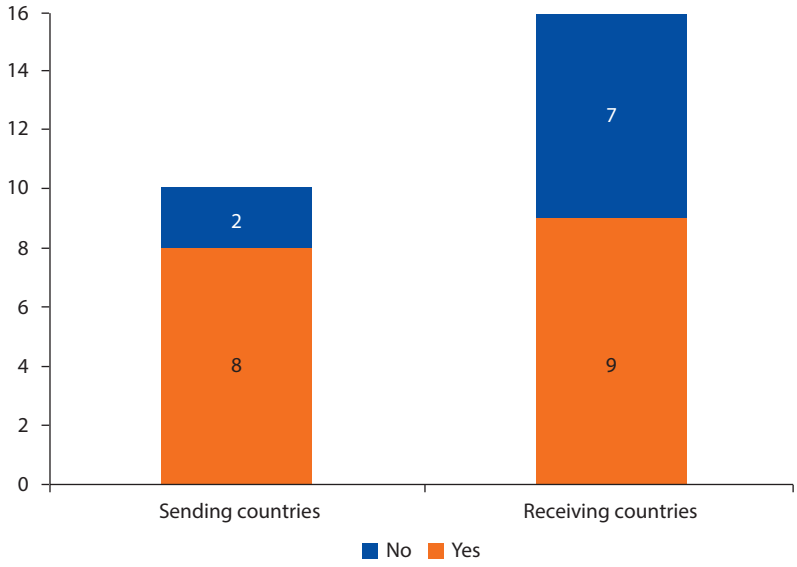
As mentioned, the address verification requirement has caused challenges in some countries where customers do not necessarily have a permanent or specific address. Most countries (eight sending and nine receiving) require address

Figure 3.15 Acceptable Documents for Verification
% of surveyed countries



Source: Based on the survey; see table B.23 in appendix B.
Note: ID = identification; SS = social security.

Figure 3.16 Requirement for Address Verification
Number of surveyed countries



Source: Based on the survey; see table B.24 in appendix B.

verification as part of the verification of the customer information, although this is more common among sending countries than receiving countries. Since FATF Recommendations allow an address to be substituted with either a national identity number, a customer ID number, or date and place of birth, regulators should carefully decide what would work in their countries (figure 3.16).

Failure to Implement AML/CFT Requirements

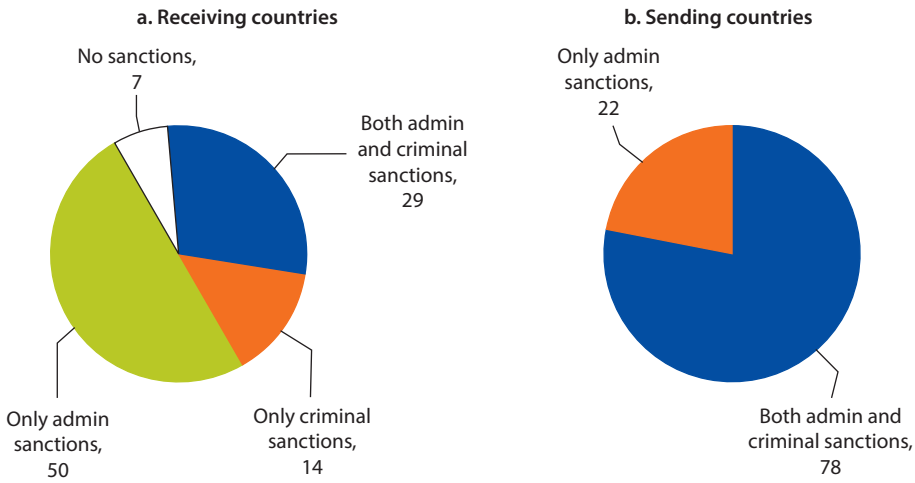
To ensure a strong AML/CFT regime, regulations must be accompanied by sanctions for failure to comply with requirements, and the sanctions should be proportionate and dissuasive (FATF Recommendation 35). Regulators should have documented evidence of sanctions imposed. This section focuses on the scope and availability of such sanctions.

Sanctions for Failure to Implement AML/CFT Obligations

The sanctions available for use by competent authorities for the failure of MTBs to implement AML/CFT requirements vary from country to country. Nearly 78 percent of the sending countries but only 29 percent of the receiving countries have both criminal and administrative sanctions (see figure 3.17). The remaining countries have either criminal sanctions or administrative sanctions, but not both. Most countries tend to have administrative sanctions rather than criminal sanctions if they do not have both.

In the receiving countries, administrative sanctions are the most common method of sanctioning, and they are the only punitive measure available in

Figure 3.17 Range of Penalties Applicable to Breaches of AML/CFT Obligations in Receiving and Sending Countries[a]
% of countries



Source: Based on the survey; see table B.25 in appendix B.
Note: AML/CFT = anti-money laundering/combating the financing of terrorism.
a. Criminal penalties include imprisonment and criminal fines; administrative penalties include revocation or suspension of license or registration, and administrative fines.

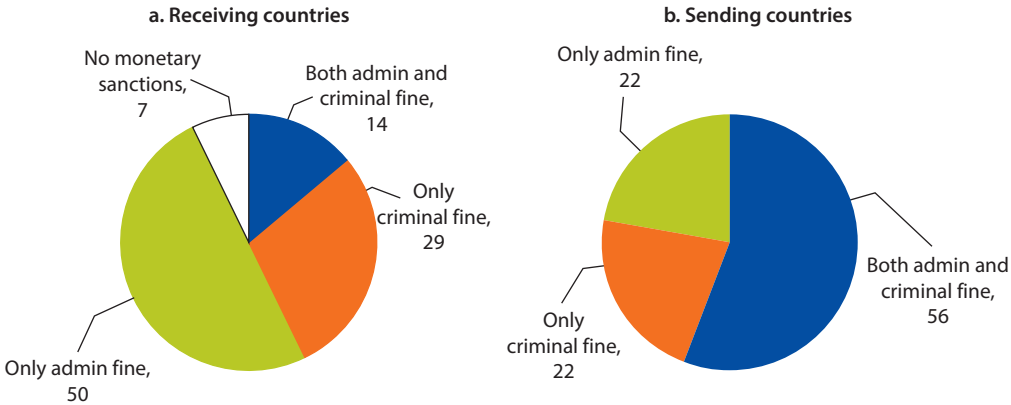
50 percent of receiving countries (compared to only 22 percent of sending countries). Administrative penalties include revocation or suspension of license, administrative fines, or both, but not all countries have the power to impose administrative fines.

While sending countries have either "both criminal and administrative sanction regimes" or "only administrative sanction regimes," receiving countries also have "only criminal sanction regimes" and "no sanctions." Indeed, 14 percent of receiving countries have only criminal sanctions (either monetary penalties, imprisonment, or both), resulting in no direct power for sanctions by the supervisory authority, thereby probably lengthening the decision process on sanctions.

Seven percent of receiving countries have no power to sanction MTBs for failure to comply with the AML/CFT requirements, indicating that supervisors in receiving countries do not have as much power as their counterparts in sending countries. Many receiving countries also have narrower choices of sanctions compared to sending countries, indicating that these countries lack the necessary effectiveness in their regulatory systems to bring about real change in the behavior of MTBs (figure 3.17).

Figure 3.18 focuses on monetary sanctions. Countries where sanctions are limited to revocation or suspension of license or there are no sanctions at all are categorized under "No monetary sanctions." Both criminal and administrative *fines* are available in a majority of the sending countries (56 percent of the total). Comparing this to figure 3.17, where 78 percent of sending countries had both criminal and administrative *sanctions*, 22 percent of the sending countries have administrative sanctions but no administrative fines. However, if countries have

Figure 3.18 Availability of Monetary Penalties
% of countries



Source: Based on the survey; see table B.25 in appendix B.

only administrative sanctions (but not criminal sanctions), they do include monetary fines.

The scenario is similar for receiving countries that have both criminal and administrative sanction regimes. When both sanction regimes are available, some countries make monetary fines possible only through criminal sanctions. In figure 3.17, where sanctions were discussed in terms of administrative and criminal, 29 percent of receiving countries had both criminal and administrative *sanctions*, but only 14 percent of receiving countries had both criminal and administrative *fines* (figure 3.18). The difference of 15 percent is reflected in the percentage of receiving countries having only criminal fines (29 percent of receiving countries [figure 3.18] compared to only 14 percent of receiving countries having criminal penalties [figure 3.17]. Thus, in certain countries where both types of sanctions are available, imposition of monetary fines can be done only through criminal sanctions.

The maximum monetary penalty that can be imposed ranges widely from country to country and according to the type and nature of violation. For example, in some countries, penalties for failure to undertake CDD are more severe than for the failure to submit STR. In addition, due to differences in methodologies that determine the fines, and to the divergence in living standards, a value comparison of fines among surveyed countries may not be useful. Hence, the following examples are randomly selected and provided for illustrative purposes only:

- Failure to implement the CDD requirement would result in maximum *administrative fines* of about US$15,000 in the Netherlands, US$25,000 per day in the United States, and US$2.7 million in Qatar, with no upper limit in the UK. In receiving countries, the same penalty would result in maximum administrative fines of about US$65 in Afghanistan, about US$7,000 in Nepal, US$50,000

in Guatemala, and approximately US$460,000 in Mexico.[18] In terms of *criminal fines* for the same violation of the CDD requirement, the maximum fines would be about US$8,000 in the UK and US$1.5 million in South Africa as sending countries, and about US$2,000 in Uganda and US$489,000 in Haiti as receiving countries.

- Severe monetary fines are issued in some countries for failure to file STRs (in the United States under administrative fines, and in Canada under criminal fines). In two countries, administrative fines for failure to file STRs are determined based on the percentage of the transaction amount (for example, 1–40 percent of the transaction in Italy, and 10–50 percent of the transaction in Albania). In Jamaica, failure to perform CDD has more severe monetary fines and imprisonment terms than the failure to file STRs.

- Maximum imprisonment terms for failure to fulfill the CDD requirements range from two years (in the United Kingdom and the Netherlands) to 15 years (in South Africa) among sending countries, and two years (in Uganda) to 20 years (in Jamaica) among receiving countries. While we do not have further details from respondent countries about imprisonment, it can be assumed that lengthy imprisonment terms are handed down for severe violations, such as a deliberate breach of AML obligations to help criminals.

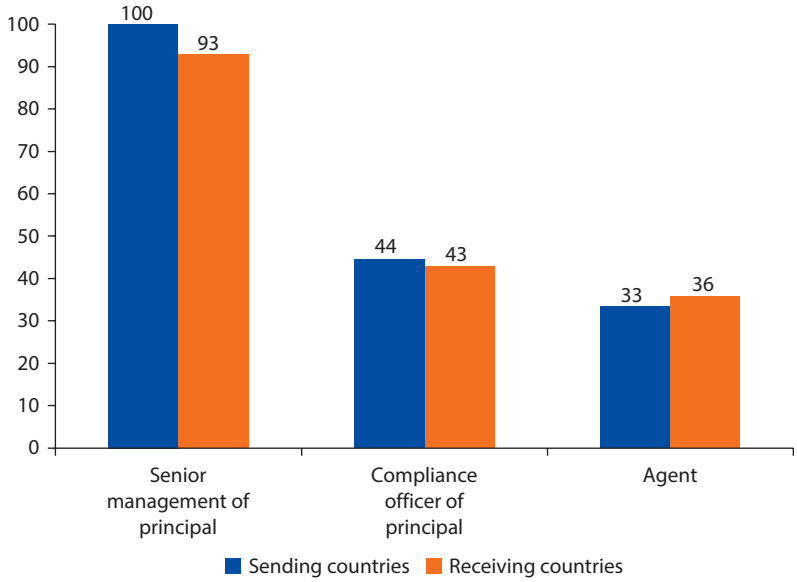
The above discussion refers to the maximum sanctions applicable to AML/CFT-related breaches. In most cases, the sanctions for a specific breach will depend on the circumstances and on the nature and consequences of the action or lack of action. For example, the fine applied for omission by staff to appropriately record customer information will be different from the fine applied for not having CDD policies and procedures in place. At the same time, fines must be sufficiently punitive that they will not be viewed by those who engage in MTBs simply as a tax or the cost of doing business.

Accountability for the Failure to Implement AML/CFT Requirements

A survey question was asked specifically about whether natural persons (as opposed to legal persons) can be held accountable for failure to implement AML/CFT requirements. The ability to force such accountability on individuals rather than legal persons is an effective way to ensure that compliance is taken seriously and, in the case of failure to implement the requirements, that specific individuals will be held accountable.

All sending countries and 93 percent of receiving countries indicated that senior management of principal RSPs are accountable for the failure to implement AML/CFT requirements. One receiving country had no sanction mechanism over MTBs, and only 43–44 percent of all surveyed countries indicated that the compliance officer of the principal RSP was accountable. In about a third of the countries, agents are also subject to sanctions if they fail to meet the compliance requirements (figure 3.19).

Figure 3.19 Accountability for Failure to Implement AML/CFT Requirements
% of countries



Source: Based on the survey; see table B.26 in appendix B.
Note: AML/CFT = anti-money laundering/combating the financing of terrorism.

Notes

1. See the discussion in chapter 1 on the range of MTBs in the surveyed countries.
2. See appendix F for a full list of the 40 new FATF Recommendations issued in 2012.
3. This recommendation focuses on the AML/CFT requirements for both formal and informal remittance services; however, the word "informal" has been removed from Recommendation 14.
4. See http://www.bis.org/publ/cpss76.pdf?noframes=1. See appendix G for a quick overview of the general principles for international remittances.
5. The FATF also issued sector-based papers on RBA. See the Risk-Based Approach Guidance that the FATF has published since 2007 in cooperation with the financial sector and all designated nonfinancial businesses and professions. The reports are available on the FATF website (http://www.fatf-gafi.org/). These guidance papers will be revised shortly to reflect the changes in the standards.
6. The financially excluded should not automatically be categorized as lower ML/FT risk customers. Categorization should be guided by the risk assessment.
7. The FATF adopted the revised assessor methodology for mutual evaluations to evaluate country compliance with international standards in February 2013. This revised methodology reflects the current revisions to the standards finalized in February 2012.
8. For ease of reference, the recommendation number given is the previous recommendation followed by the current recommendation number (2012 version).

9. These compliance ratings are based on the methodology of the previous FATF recommendations. However, since the content of the recommendations has not changed significantly, the study team believes the compliance ratings remain relevant. The compliance ratings given are Compliant (C), Largely Compliant (LC), Partially Compliant (PC), and Non-Compliant (NC).
10. There have been developments in some countries, like Malaysia, with respect to remittance business regulations, which occurred after the regulatory survey was taken in 26 countries in 2010. The paper does not reflect those developments.
11. In December 2011, the Money Service Business (MSB) Act was enacted in Malaysia thus providing a single, uniform, and dedicated regulatory framework for licensees carrying on MSB.
12. Remittance companies are called by different names from country to country, such as money transmitter, money transfer operator, money remittance service company, remittance company, money transfer and remittance agents, and agencies.
13. While this report refers to Suspicious Transaction Reports, the term includes Suspicious Activity Reports, which have a slightly broader definition. In addition, while the report refers to Currency Transaction Reports, the term includes other threshold-based reporting such as Electronic Fund Transfer Reports and other similar requirements.
14. In essence, Recommendation 16 applies to wire transfers, namely electronic transfers. In a broader use of the term "remittances," it may be understood to include nonelectronic transfers such as hand carrying of cash. Such methods still happen more commonly in domestic remittances and, to a lesser extent, international remittances; however, this study essentially focuses on remittances that are sent through electronic channels.
15. For example, some people live in an area where there is no specific designation of address or some have a nomadic lifestyle.
16. The study team found no countries that distinguished between the "identification" and "verification" requirement. Thus, for the purposes of this study, it is interpreted that CDD requirements include verification of customer information.
17. In many respects, this still seems to be the case, because these receiving countries have not distinguished the verification requirement from the ID requirement and have not made verification optional, as is possible under the revised standards.
18. The penalties for failing to implement CDD requirements in Mexico before 2011 were up to 100,000 times the minimum daily wage (which is approximately US$4.60). Since 2011, these penalties have been set between 200 and 100,000 times the minimum daily wage.

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FATF (Financial Action Task Force). 2012. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*. Financial Action Task Force, Paris, February. http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf.

CHAPTER 4

Regulating Market Entry for Money Transfer Businesses

Preview

This chapter provides:

- A review of the differences and similarities between registration and licensing regulatory regimes for principal money transfer businesses and their agents.
- An overview of the preconditions for licensing and registration.
- A discussion on the prohibition of unauthorized remittance services.
- Views on shifting informal remittance service providers to formal providers, and the impact of competition on the formalization of the remittance sector.

Market entry requirements shape the size and nature of players, competition, and integrity in the market, but they are also an important consideration in driving informal players to the formal market. According to Financial Action Task Force (FATF) Recommendation 14 (formerly Special Recommendation VI), permission to operate a money transfer business (MTB) can take two forms: licensing or registration.[1] This chapter discusses these approaches to entry into the remittance market by MTBs. The characteristics of the two approaches—registration and licensing—are discussed in detail, and the approaches chosen by the remittance sending and receiving countries in the sample are presented.

Registration vs. Licensing Regimes for Principal MTBs

Whether MTBs operate under a licensing or registration regime can help or hinder market entrance, which would subsequently impact the resources required for oversight. It can also have either a positive or negative influence on shifting informal remittance transfers to formal transfers.

Under a registration regime, an MTB must identify itself to the authorities and provide whatever information the authorities request. Authorities usually attach few or no conditions to the ability of the MTB to provide its service under a registration regime, which makes market entry easier. Although registration requirements vary, unlike a licensing system, a registration regime tends not to require anti-money laundering/combating the financing of terrorism (AML/CFT) compliance systems prior to registration, and the initial application fee for registration is lower than for obtaining a license. From the perspective of the authorities, although the initial registration process is faster and less resource consuming, more ongoing supervision and surveillance may be required due to a larger number of entities and weaker corporate governance in small-scale entities. This would result in potentially higher supervisory costs for authorities to ensure continuous compliance. Registration does not guarantee the level of competence or the genuineness of MTBs, since at the time of initial registration, MTBs are largely untested. However, countries usually introduce a registration renewal requirement, which provides an opportunity for the authorities to determine whether the registered MTB has complied with the necessary requirements before its registration can be renewed.

Under a licensing regime, there is more front-end screening by authorities and more requirements to meet certain criteria. A regulatory authority grants the licensee (the MTB) the permission to engage in remittance activities subject to specified terms and conditions. Such terms and conditions may define purpose, time period, territory, compliance requirements, and operational instructions, among others. Licensing is a much more involved process with conditions attached, making market entry more difficult. MTBs are subjected to a fairly rigorous due diligence process, and its qualifications and suitability, structure, and operational framework will be examined, as well as its operating systems and methods adopted by remittance service providers (RSPs). More important, their capacity to comply with AML/CFT regulations will also be examined. "Fit and Proper" tests of applicants are usually undertaken. This means that the authorities would have to spend dedicated time and resources to prequalify the MTBs, which apply for a license by conducting due-diligence assessments. To recuperate the cost of due diligence, there tends to be a one-time up-front application fee, as well as periodic fees. The license may also have an expiration date and may need to be renewed periodically.

A licensing regime also tends to permit fewer entities to operate compared to a registration regime, and in some cases there is a requirement for minimum capital. A smaller number of service providers under a licensing regime than under a registration regime makes the supervision of licensed entities less onerous. More important, due to the vigorous prequalification process and requirements to be fulfilled, licensing gives MTBs an imprimatur of authenticity and competency as a service provider, assuming, of course, that the prequalification process is rigorous.

With regard to ease of ongoing guidance and compliance monitoring, regulators and supervisors may find that it is easier to impose new guidelines and

conditions under the licensing regime, since all licensed MTBs have less variance in their capacity to comply with regulatory requirements (unless licensing is tiered), whereas under a registration regime, MTBs have widely different compliance capacity.

To take the middle ground, tiered licensing can be introduced for MTBs. This would allow the regulators to accommodate, under different tiers, a range of MTBs of different size, skills, risk exposures, and scope. Such a system would allow smaller and informal players to join the regulated remittance sector as legitimate market players, with entry and operating requirements much lower than those for regular, well-established MTBs. From the perspective of the market, this would allow consumers a broader choice for accessing the remittance services and, hence, wider financial inclusion opportunities.

One of the risks that a tiered licensing framework can face is regulatory arbitrage, whereby RSPs seeking a license may seek the tier with the least onerous regulation and supervision. Hence, in designing the eligibility criteria for each tier, authorities need to take steps to avoid this. Having a tiered system does not mean that the AML/CFT regime is compromised in any way. In fact, a tiered system could also allow the risk-based supervisory system to be more efficient.

From a remittance market perspective, the success of a well-defined regulatory system can also be explained by its capacity to facilitate the transition from an informal to formal status of the MTBs. Remittance markets exhibit a high level of informal service players that fill the niche market. Both types of regimes may be successful at this, and it is not easy to determine if one type of regime is better than the other. However, fewer barriers to entry and lower application fees under a registration regime would encourage informal players to enter the formal market, while the incentives would be limited under the licensing regime. In this regard, the arguments for risk-based supervision can be used to support the merits of using registration as the means to formalize the market. While there is no question that regulation of all MTBs is necessary, it should be done in a way proportionate to the risk and appropriate to particular socioeconomic and cultural environments, so that more informal players are incentivized to enter into the formal regulated market voluntarily. To be really effective, a formalization process should be pragmatic and not merely focused on an up-front demonstration of compliance. The AML/CFT compliance issues could be built in and reinforced in an annual renewal process. If a licensing regime is chosen, countries should consider a tiered licensing regime.

From the service provider's perspective, there are, however, certain benefits to being under a licensing regime rather than a registration regime. For example, a licensing regime would make MTBs much more acceptable for expansion and development across geographic or cross-border partnerships thanks to the authorities' accreditation, which comes from rigorous due diligence. A licensing regime would also make the formation of associations more feasible. This is relevant because associations are important for sustainable development of the remittance market, since they can contribute to policy dialogue and to industry guidelines on, for example, governance, transparency, compliance requirements,

Table 4.1 Characteristics of Registration and Licensing Regimes for Principal Money Transfer Businesses

	Registration	*Licensing*
Market entry requirements		
Preconditions	Fewer preconditions	Greater number of preconditions
Market entry	Easy market entry due to fewer or no preconditions	Market entry not easy; need to be prequalified
Compliance capability (AML/CFT)	Usually no need to prove AML/CFT compliance systems prior to registration	Need to prove established or planned AML/CFT compliance systems prior to license
Resource required in preparation	Initial registration easier; fewer resources are needed in terms of technical systems and expertise	Initial prequalification more difficult; more resources needed in terms of technical systems and expertise to comply
Cost of application	Less costly for the MTB (lower fees for initial registration application)	More costly for the MTB (higher fees for initial licensing application)
Capital requirement	No or limited capital requirements	Certain level of capital requirements
Image of the service provider	Registration is not a certificate of the competency or genuineness of the MTB, since the systems are untested at the time of registration	Licensing gives the imprimatur of competency and genuineness to the MTB, because the entity has been vetted through a rigorous selection process
Regulatory and supervisory authorities		
Resources required for due diligence	Initial registration easier and fewer resources are needed	Initial prequalification is more difficult and more resources are needed
Oversight/ supervision	More attention may be necessary for continuous compliance due to a larger number of entities and weaker corporate governance in small-scale entities (since there is no prequalification)	Done more to ensure that approved compliance policies are implemented
Ongoing guidance	Relatively difficult to impose new guidelines/ conditions since registration does not make all MTBs equal (they may be at different stages of expertise or compliance)	Relatively easier to impose new guidelines/ conditions since all licensed MTBs are at similar levels of expertise (unless licensing is tiered)
Remittance market		
Market entry	Easy market entry for both large and small service providers	Difficult market entry for small service providers
Shift from informal to formal market	Transition from informal to formal encouraged due to ease of entry and fewer costs (fewer barriers to participate in the financial system)	Transition from informal to formal is more difficult due to control of market entry and higher costs (higher bars to meet to participate in the financial system)
Entrance into new markets	Entering new markets (consumer/geographic/ cross-border) may be relatively more difficult if the entity is not known or credibility is not established	Ability to enter new markets (consumer/ geographic/cross-border) may be relatively easier with authority accreditation and associated due diligence of provider
Forming an industry interest group	Forming associations to further business interests and develop market practices may be difficult due to differences among the registered MTBs	Ability to form associations of licensed MTBs to further business interests and develop market practices may be easier
Business model	More flexibility with respect to scale, organization, structure, and business model	More rigorous rules and less flexibility with respect to scale, organization, structure, and business model

Source: Authors' compilation based on the survey.
Note: AML/CFT = anti-money laundering/combating the financing of terrorism; MTB = money transfer business.

business ethics, and work environment. They can also represent the industry to negotiate matters with regulators. Forming such associations may be difficult under registration regimes due to wider differences in interests among MTBs. Moreover, having a tiered approach to licensing would, to a certain extent, allow licensing regimes to address issues of compliance rigidities.

Table 4.1 summarizes the different characteristics of registration and licensing regimes for principal MTBs. The applicability would depend on specific country context.

Survey Findings: Registration vs. Licensing Regimes of Principal MTBs

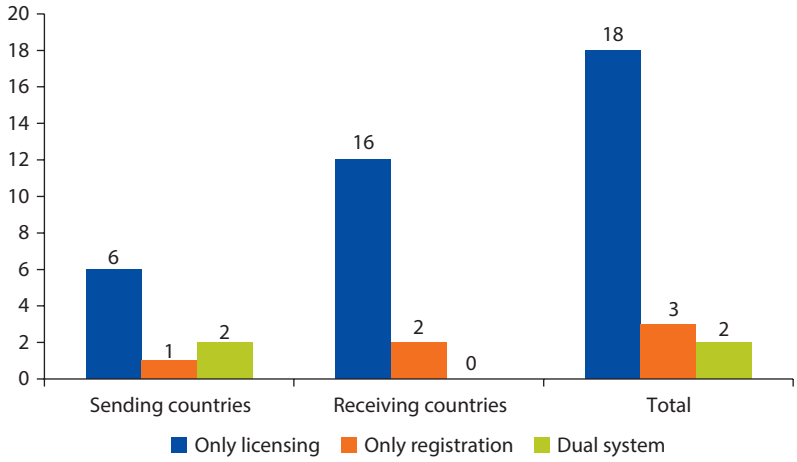
The survey of Bilateral Remittance Corridor Analysis (BRCA) countries revealed interesting results. As required by the international standards on AML/CFT, all the sampled countries that allow MTBs to operate require them to be either licensed or registered. The survey revealed that most countries (both sending and receiving) prefer a licensing regime for principal MTBs rather than a registration regime (see figures 4.1 and 4.2). Six sending countries and 12 receiving countries have a licensing regime for MTBs. One sending and two receiving countries have a registration regime. Although officially it is a registration regime, in reality, authorities in those countries with a registration regime tend to require more than simple registration, making it closer to the licensing regime (see section "Preconditions for Licensing or Registration" on preconditions for entering the remittance markets).

Two sending countries (the United Kingdom and the United States) have a dual system in which there is more than one authority in charge of the licensing or registration of MTBs. In the United Kingdom, a license (or registration if a small MTB) is required from the Financial Services Authority (FSA), as the supervisory authority for payment service providers in the UK, and registration is required with HM Revenue and Customs (HMRC), under the Money Laundering Regulation 2007.[2] In the United States, registration is required with the Financial Crimes Enforcement Network (FinCEN), which is the Financial Intelligence Unit in the United States at the federal level, and states often have their own licensing regimes. Requirements differ among states, and some states have no requirements except the federal ones.

Prior to the introduction of the EU Payment Services Directive, which came into force in November 2009, many EU countries had only a registration regime. The EU Directive strengthened the authorization of market entrants and essentially required member states to introduce a licensing regime.

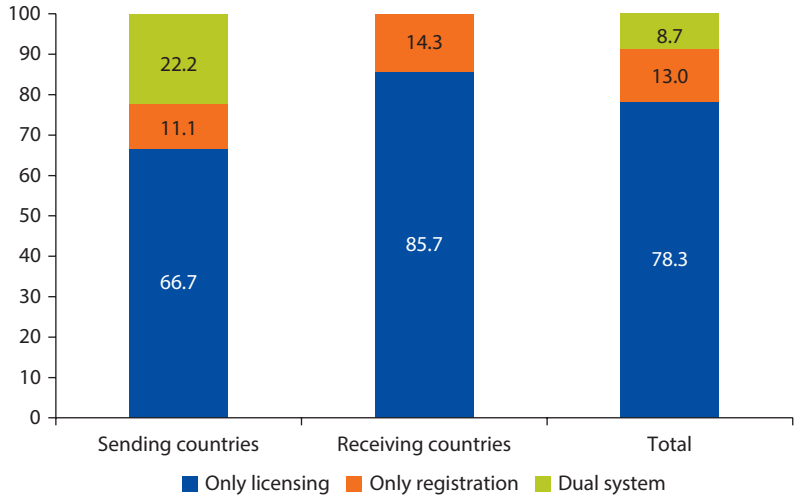
Table 4.2 presents the number of licensed or registered MTBs in surveyed countries during 2010–11, when the data were provided. The survey findings support the earlier argument that a registration regime is easier and, hence, attracts a larger number of entrants to the markets. Canada, the United States, the United Kingdom, and Mexico are the countries with registration regimes, and the number of principal MTBs is much higher than the number of principal MTBs in the countries with licensing regimes. An exception is Guatemala, which

Figure 4.1 Licensing vs. Registration Regimes of Principal MTBs in Sending and Receiving Countries, Number of Countries
Number of countries



Source: Based on the survey; see table B.27 in appendix B.
Note: MTB = money transfer business.

Figure 4.2 Licensing vs. Registration Regimes of Principal MTBs in Sending and Receiving Countries, Percentage of Total
% of total



Source: Based on the survey; see table B.27 in appendix B.
Note: MTB = money transfer business.

Table 4.2 Number of Licensed or Registered Principal MTBs in Each Country

	Country	*Licensing regime for principals*	*Registration regime for principals*	*Number of MTBs licensed*	*Number of MTBs registered*
Sending	United States	y; state specific	y	n.k.	39,365
	Germany	y	n	40	0
	United Kingdom	y	y	63	463
	Italy	y	n	33	0
	Canada	n	y	0	1,027
	Korea, Rep.	n.a.	n.a.	0	0
	Netherlands[a]	y	n	25	0
	South Africa	y	n	30	0
	Malaysia	y	n	43	0
	Qatar	y	n	20	0
Receiving	Mexico	n	y	0	2,268
	Indonesia	y	n	61	0
	Nigeria	n.a.	n.a.	0	0
	Vietnam	y	n	312	0
	Morocco	y	n	10	0
	Serbia	n.a.	n.a.	0	0
	Guatemala	n	y	0	16
	Jamaica	y	n	12	0
	Uganda	y	n	33	0
	Honduras	y	n	6	0
	Nepal	y	n	6	0
	Albania	y	n	6	0
	Afghanistan	y	n	320	0
	Haiti	y	n	8	0
	Mongolia	y	n	5	0
	Suriname	y	n	8	0

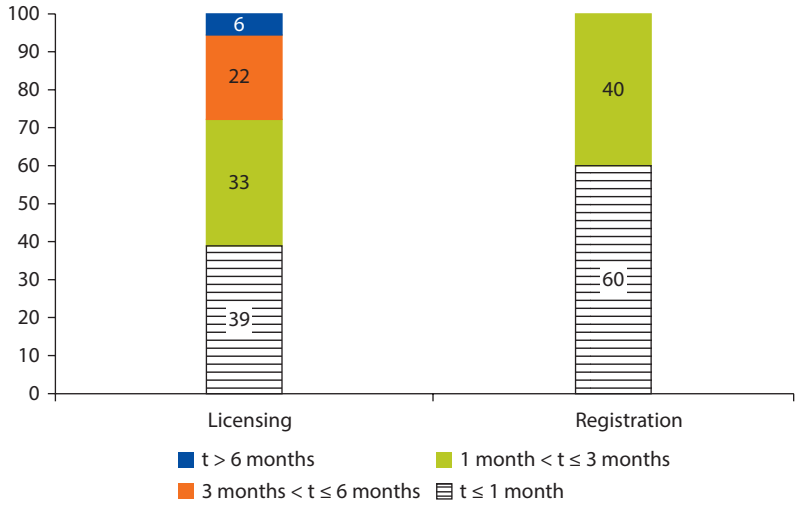
Source: Based on the survey.
Note: n = no; n.a. = not applicable; n.k. = not known; y = yes; MTB = money transfer business.
a. The Netherlands switched to implementation of the EU Payment Systems Directive, which allows licensing of principal MTBs and registration of agents.

also has a registration regime, but the number of entities is much lower. In contrast, in Afghanistan, there are 320 money service provider (MSP) headquarters and 313 branches of these MSPs licensed under the licensing regime. While there are some exceptions, it can be concluded that a registration regime means more players in the market.

Processing Time for Granting Permission to Operate an MTB

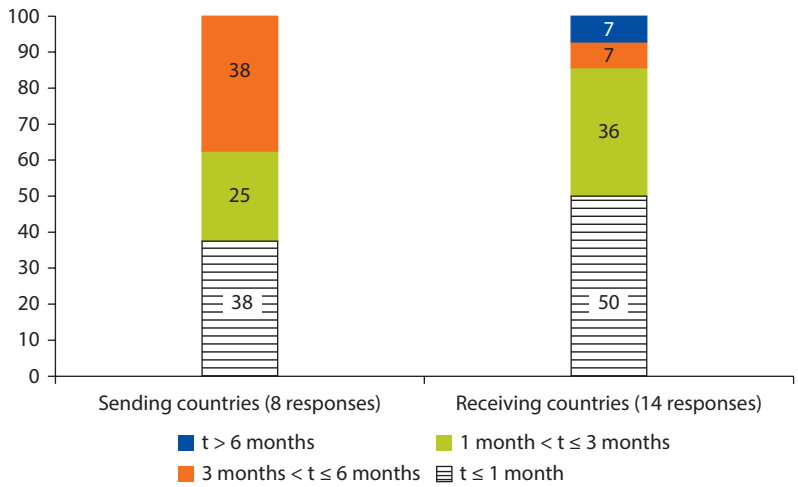
The time it takes to grant permission to operate an MTB varies greatly between licensing and registration regimes. Under the registration regime, 60 percent of the countries grant permission to operate in less than one month, and 40 percent of the countries in less than three months. This means that all countries with registration regimes take three months or less. Not

Figure 4.3 Average Time for Licensing and Registration of Principal MTBs (Licensing vs. Registration)
% of countries



Source: Based on the survey; see table B.28 in appendix B.
Note: MTB = money transfer business.

Figure 4.4 Average Time for Licensing or Registration of Principal MTBs (Sending vs. Receiving Countries)
% of countries



Source: Based on the survey; see table B.28 in appendix B.
Note: MTB = money transfer business.

surprisingly, the average time needed to grant a license to operate under a licensing regime is longer. Under a licensing regime, only about 40 percent of the countries grant a license in less than one month, about 33 percent in less than three months, 22 percent take three to six months, and 6 percent take longer than six months (see figure 4.3).

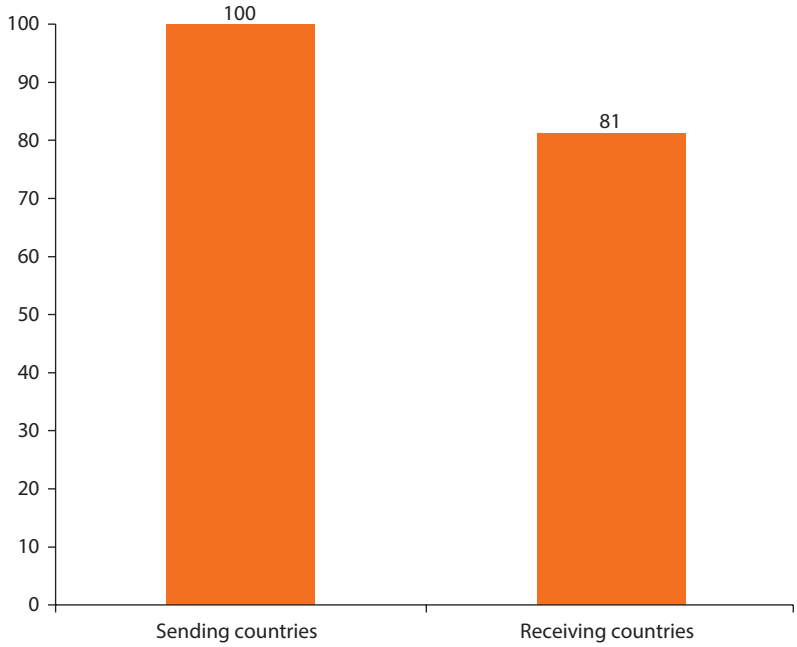
If the data are segregated into sending and receiving countries, more receiving countries take less time to grant permission than sending countries; 86 percent of receiving countries grant permission in less than three months, while only 63 percent of sending countries do so within the same time frame. In half of the receiving countries, the time needed for the licensing or registration process is less than one month. It may be that authorities in the receiving countries follow a simplified process or are more efficient, given the importance of remittances to their home economies. However, there is also one receiving country in the sample that takes more than six months to grant permission (see figure 4.4).

Prohibition of Unauthorized Remittance Services

Providing remittance services without permission from authorities is prohibited in all sending countries but in only 81 percent of receiving countries (see figure 4.5). Three countries (Guatemala, Indonesia, and Suriname) have not explicitly prohibited the unauthorized operation of remittance services.

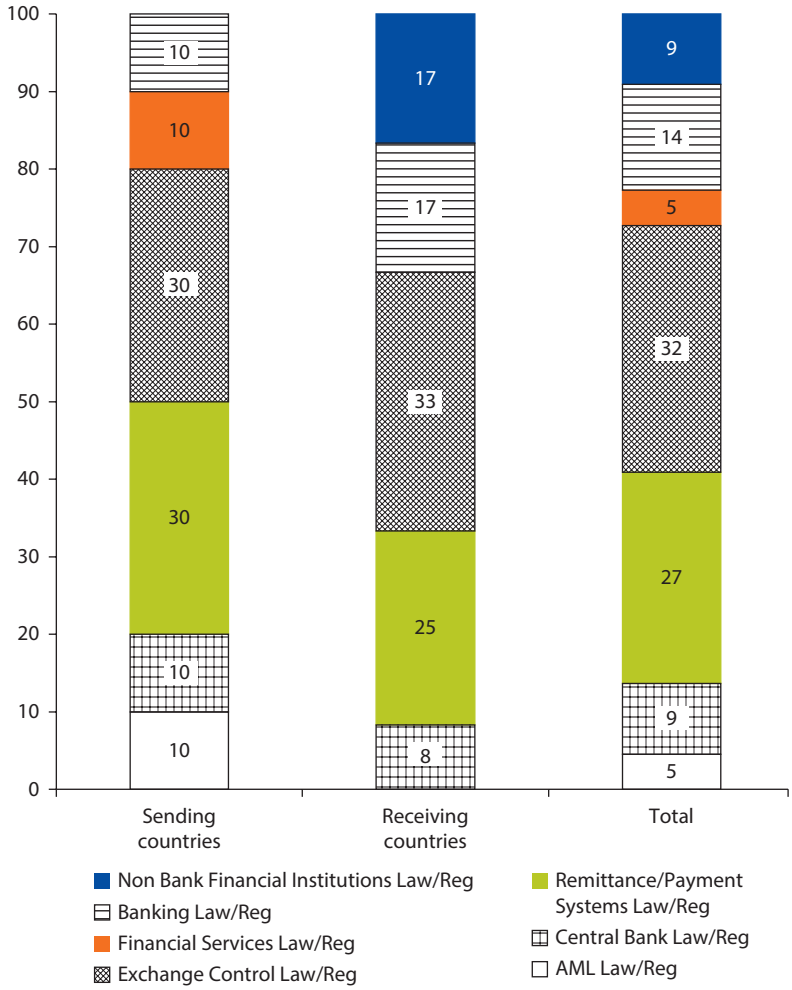
The underlying laws or regulations that prohibit operating as an unauthorized service provider differ from country to country, but generally, such provisions would be found in whatever laws or regulations authorize

Figure 4.5 Prohibition of Unauthorized Operation
% of countries



Source: Based on the survey; see table B.29 in appendix B.

Figure 4.6 Source Law or Regulation That Prohibits Unauthorized Operation
% of countries



Source: Based on the survey; see table B.30 in appendix B.

operating as MTBs in a country (see figure 4.6). The most common source law or regulation that prohibits operating as an unauthorized RSP in many receiving countries is exchange control law, because remittances are important as a source of foreign exchange for them. In sending countries, which are mostly developed, the underlying laws are either exchange control laws or even distinct remittance or payment systems laws. MTBs need to be regulated from an AML/CFT perspective, just like all other financial institutions, and therefore prohibiting the unauthorized operation of MTBs is well within the legitimate rights of the authorities. However, in doing so, authorities

should ensure access to affordable and equally efficient competitive alternatives.

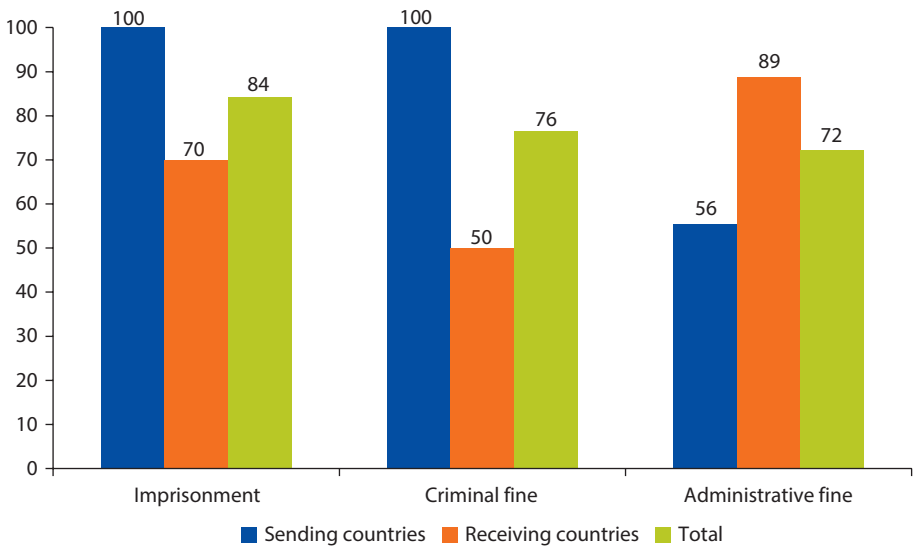
Customers may use informal services because, among other factors, the formal markets and channels are problematic in terms of cost, distribution network, and required documentation. Therefore, alternatives should be able to replace the services and efficiencies provided by the informal players. Failure to do so would drive legitimate customers underground while informal players thrive. Hence, prohibitive action could cause negative effects such as narrower access for customers and higher remittance costs, which would alienate ethnic communities; and would cause larger underground informal markets, which could be prone to higher money laundering and terrorist financing risks.

On the positive side, such prohibition, if done in concurrence with a more pragmatic regulatory framework, would add legitimacy and credibility to market players, and hence would incentivize the informal players to become formalized. Therefore, for a regulatory tool such as prohibiting informal players to be successful, it should be part of a holistic effort to genuinely develop a safer, more efficient remittance market.

Sanctions against Unauthorized Operations

Figure 4.7 analyzes the available sanctions for the unauthorized provision of remittance transfer services among the surveyed countries. The approach to sanctions differs widely between sending and receiving countries. All of the

Figure 4.7 Types of Penalties for Unauthorized Operations
% of countries



Source: Based on the survey; see table B.31 in appendix B.

sending countries see this activity as a criminal violation and apply sanctions such as imprisonment and criminal fines, while administrative sanctions are available in only 56 percent of sending countries. In contrast, far fewer receiving countries see unauthorized operations as a criminal matter (70 percent have the option of imprisonment and 50 percent criminal fines); rather, they see it as an administrative matter (89 percent of receiving countries have administrative fines). This indicates that such unauthorized activity is seen more as an administrative breach in many receiving countries.

Preconditions for Licensing or Registration

The study examined the requirements imposed for obtaining permission to operate remittance services. The following specific requirements were evaluated:

- The Fit and Proper requirement; that is, the controls to ascertain the integrity and reputation of the people who intend to operate a remittance business.
- Experience.
- The legal status; that is, whether it is a "corporation" or some other category of company.
- Capital requirements.
- The anti-money laundering (AML) compliance plan.
- Other relevant factors.

Fit and Proper Due Diligence, AML Compliance Plan and Experience

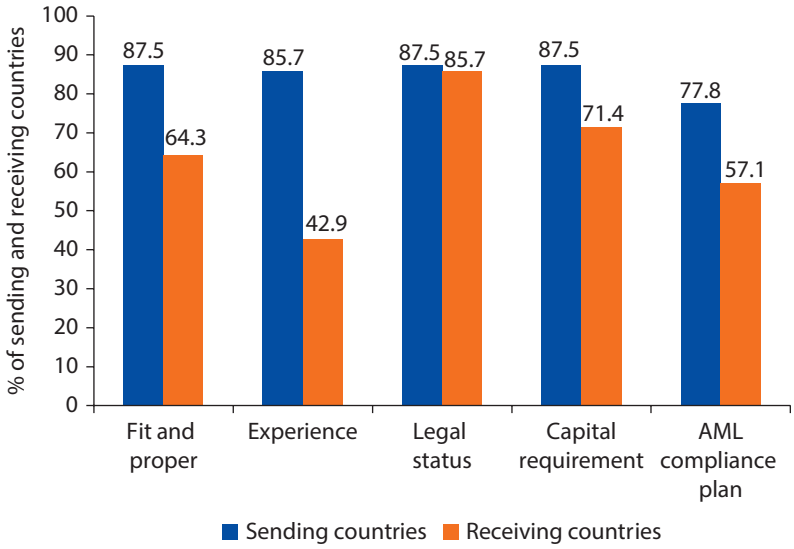
As figure 4.8 shows, more conditions for entry exist in sending countries. Despite the fact that receiving countries prefer a licensing regime over a registration regime, control of market entry is much weaker. Except the requirement for the legal status, other conditions are much weaker, especially the requirement of prior experience. Fit and Proper due diligence is also not undertaken by authorities in receiving countries as much as in sending countries. Similarly, an AML compliance plan is required in only slightly more than half of receiving countries.

Capital Requirements

The existence of capital requirements for MTBs is closely related to whether the country chose a licensing regime or a registration regime, because a certain level of capital is required for a licensing regime. However, there was one case—Guatemala—that had capital requirements, even though it was under a registration regime, although the requirement was a nominal amount.

Capital requirements can shape the size of the service providers and associated business model(s) in the manner preferred by the regulators. Regulators can use capital requirements to define the parameters of

Figure 4.8 Preconditions for Market Entry in Sending and Receiving Countries
Percent



Source: Based on the survey; see table B.32 in appendix B.
Note: AML = anti-money laundering.

the business models they wish to promote. Hence, the amount of minimum capital required also limits the number of service providers that can enter the remittance market.

A relatively high capital requirement implies that the regulator wishes to have larger-scale, well-established MTBs in the market. This would, in turn, result in a relatively lower number of players with higher institutionalization. From the regulator's perspective, it can be much more efficient to regulate and supervise a smaller number of remittance companies with a better corporate culture. Other requirements regarding the organization, management, and technical infrastructure are likely to accompany this higher capital requirement. However, this may not be the optimal solution in terms of customers.

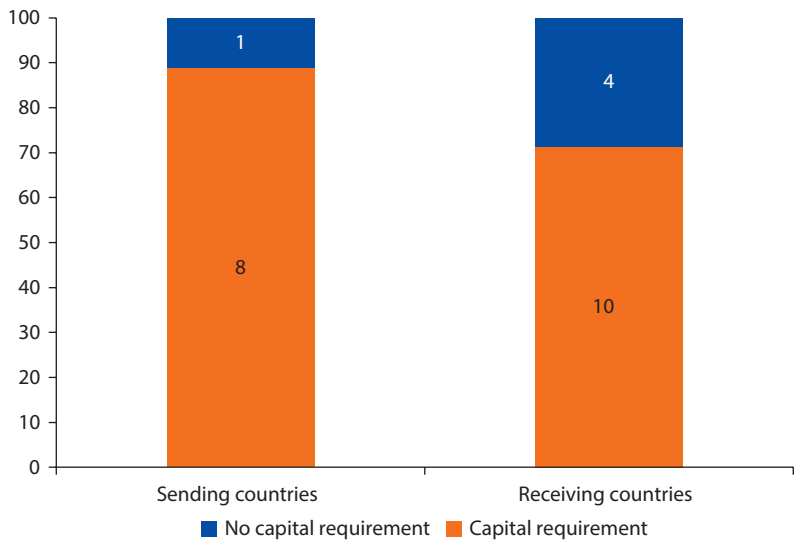
Conversely, a low capital requirement implies that the regulator's policy toward the remittance market is designed to accommodate a large number of small-scale remittance businesses. This approach could bring some challenges in terms of the supervision of the remittance market, particularly in the countries with limited resources. In many countries, only a limited proportion of professional staff and supervisory resources tend to be allocated to off-site and on-site supervision of the remittance companies. The low or no capital requirement approach does have several positive aspects, however. Increased competition due to more remittance companies entering the markets can put pressure on pricing, and that would benefit customers.

Beyond these considerations, the socioeconomic and cultural environments in a country are important inputs for the decision on acceptable business models and capital requirements. Imposing a high capital requirement in a country where the informal economy and informal remittance providers are widespread may not be the best policy approach. Higher capital requirements can make it difficult to bring informal RSPs to the formal playing field by acting as a key barrier to entry, since many of these service providers will have relatively low-scale, low-capacity operations. Furthermore, in countries with a low or no capital requirement, introducing a high capital requirement may cause many small-scale remittance service providers to close their businesses or go underground.

It is crucial for regulators to accurately analyze the economic environment and the remittance market (both formal and informal) and determine the capital requirement accordingly. The capital requirement should reflect the realities of the country and not drive the players of the remittance market to stay informal. Such informal nontransparent transfer mechanisms could be extremely vulnerable to abuse for the support of terrorism, money laundering, and other illicit activities.

Figure 4.9 and table 4.3 summarize the survey results on the capital requirements for MTBs. Eight sending countries and 10 receiving countries impose capital requirements on remittance business. The capital requirement in Qatar, where only authorized exchange offices are allowed to operate as MTBs, is by far the highest one. The capital requirements in Italy, Nepal, and Mongolia are also high.

Figure 4.9 Capital Requirements for MTBs in Sending and Receiving Countries
Number and % of countries



Source: Based on the survey; see table 4.3.

Table 4.3 Capital Requirements in the 26 Surveyed Countries

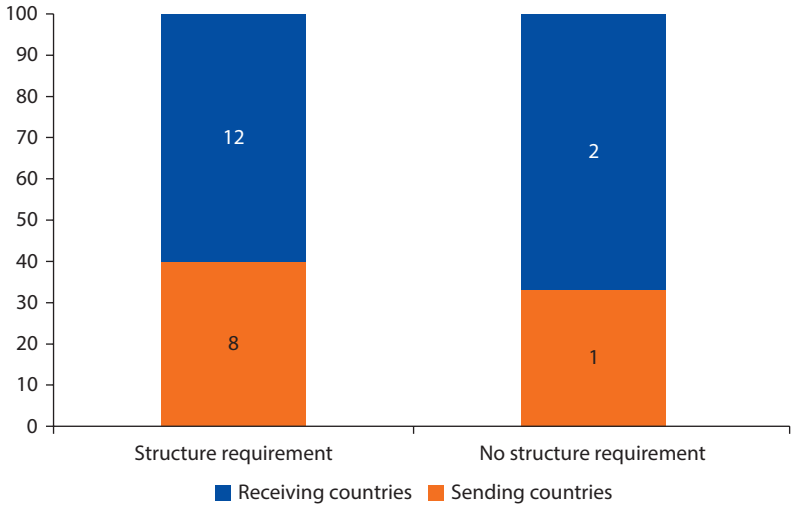
Capital requirement		*Requirement*	*US$ equivalent*
Sending	United States	y	State specific
	Germany	y	29,040
	United Kingdom	y	29,040
	Italy	y	871,207
	Canada	Registration regime	No capital requirement
	Korea, Rep.	n.a. (Bank & PO only model)	n.a.
	Netherlands	y	Calculation is according to some specific methods
	South Africa	y	37,003
	Malaysia	y	100,000
	Qatar	y	13,730,606
Receiving	Mexico	Registration regime	No capital requirement
	Indonesia	n	No capital requirement
	Nigeria	n.a. (Bank only model)	n.a.
	Vietnam	n	No capital requirement
	Morocco	y	383,858
	Serbia	n.a. (Bank & PO only model)	n.a.
	Guatemala	y (Registration regime)	660
	Jamaica	y	10,000
	Uganda	y	21,008
	Honduras	y	5,294
	Nepal	y	698,129
	Albania	y	No info on amount
	Afghanistan	n	No capital requirement
	Haiti	y	6,120
	Mongolia	y	796,813
	Suriname	y	45,593

Source: Based on the survey.
Note: n = no; n.a. = not applicable; PO = post office; y = yes.

Requirements on Legal Status of MTBs

The required legal status of service providers is also closely related to the business model selection of the regulator, which is also connected to the capital requirement and has similar implications. Eight sending countries and 12 receiving countries responded that they have requirements regarding legal status of the service providers (figure 4.10). Although the nature of the status was shared by only a small number of countries, available responses indicate that MTBs must be established as legal persons, companies, fixed capital corporations, or limited liability companies. There is no common trend with regard to the type of legal status followed by sending or receiving countries. The United States is one of the countries where legal status of MTBs is state specific, but at the federal level, both natural and legal persons are allowed to operate MTBs. The remaining two receiving countries and one sending country require no specific legal status of service providers, which means that even natural

Figure 4.10 Legal Status Requirements in 26 Surveyed Countries
Number and % of countries



Source: Based on the survey; see table B.33 in appendix B.

persons can operate an MTB as long as he or she follows the regulatory requirements.

Licensing, Registration, or List Approach for Agents

FATF Recommendation 14 requires that MTB agents must be either licensed or registered, as is the case for their principal. However, countries could also choose a third option, which is requiring the principal to maintain a current list of agents that is accessible to competent authorities.

Survey Findings on Regulatory Regime for Agents

All countries in the sample require following one of the above three approaches. For the purpose of analysis, the listing approach is further divided into two categories: listing of agents for approval by authority; and listing of agents for authority's information only, where no approval is required.

Table 4.4 and figure 4.11 indicate that all three approaches (licensing, registration, and listing) are equally common. The listing approach is, however, favored, along with registration. Of the eight countries that prefer a listing of agents, six require that authorities approve the list, and two have no requirement of prior approval. The licensing approach is the least popular with five countries. Two receiving countries (Haiti and Suriname) have no specific requirements with regard to agents.

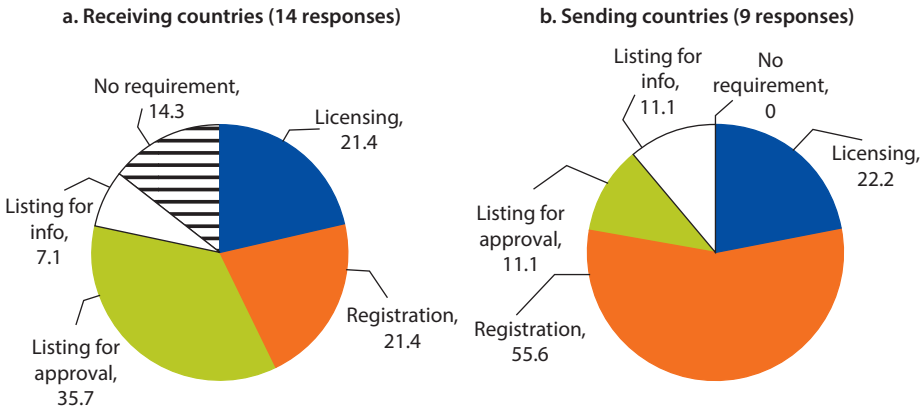
Both licensing and registration allow supervisory authorities to have close control over who can act as MTB agents, and further ensure that potential risks

Table 4.4 Type of Regulatory Regime for MTB Agents
Number of countries

			Listing of agents		
	Licensing	*Registration*	*For authority approval*	*Only for authority records/No formal approval necessary*	*No requirement*
Sending countries	2	5	1	1	0
Receiving countries	3	3	5	1	2
Total	5	8	6	2	2

Source: Based on the survey; see table B.34 in appendix B.
Note: MTB = money transfer business.

Figure 4.11 Type of Regulatory Regime for MTB Agents as a Percentage of Total Sending and Receiving Countries
% of countries



Source: Based on the survey; see table B.34 in appendix B.
Note: MTB = money transfer business.

arising from the agents may be mitigated. However, as presented above, even though many countries chose a listing approach, prior approval is required from a designated authority, making this, de facto, close to or the same level as the registration approach.

Licensing is more comprehensive and rigorous, but also more expensive, which increases regulatory compliance costs for both the authorities and the MTB, which may ultimately translate into higher pricing of remittances for MTB customers. It would tend to result in higher market entrance cost. The high cost of licensing every agent could impact the size of the agent network, because obtaining a license for each and every agent can be costly. At the same time, for the authorities, licensing each and every agent may not be practical or feasible because national authorities tend to have limited resources and capacity in developing countries. It could also affect the types of agents that may be approved (for example, large financial institutions such as banks that are already under the

regulatory regime are preferred to, for example, small retail or grocery stores, that are not financial institutions).

From a cost and access perspective, it could be argued that a registration or listing approach is superior. Allowing smaller, geographically dispersed retail agents to operate in this space is critical. Fair competition and wider choice would not only bring down the costs, but would also ensure wider accessibility. The key objective is to be able to provide accessibility in a stable environment. The higher pricing of remittances and increased costs could hamper the sustainability and growth of the RSPs, limiting its ability to access new segments of the population for remittances through a cost-effective and competitive manner. Higher costs would also discourage customers from approaching formal service providers.

Further, the registration or listing approach may be a better answer provided that the principal providers are subject to effective supervision. Agents, particularly small, retail-based agents, may have very weak AML/CFT compliance. However, FATF Recommendations require principals to be ultimately responsible for agent compliance, which is the case in many of the countries surveyed. From this perspective, the onus is on the principals to ensure agent compliance and to mitigate the AML/CFT risks as effectively as a licensing regime would. The principal MTB has an incentive to avoid any reputational or other risks that might arise if there were illicit activities or other risks running through their system. This would also make it easier for the authorities, since they can require the principal MTB to ensure agent compliance, rather than the authorities dedicating resources to train the agents to comply with regulatory requirements. Overall, taking all these into account and provided that the principal providers are subject to effective supervision, the listing approach therefore seems most favorable. It enables a large network of agents to be established.

The AML compliance risks and problems arising from principal-agency relationships are more complicated when the principal and agent reside in different jurisdictions. For example, an agent in country A could be listed by its principal in country B. In such a scenario, it is important to ensure that:

- Authorities in both country A and B can obtain the list.
- The agent follows the AML/CFT requirements applicable to the principal.
- There is good supervisory cooperation between country A and B.

Having said this, however, authorities should carefully consider the risks involved in each approach, the feasibility, and the resources required before making a final decision on whether to license, register, or require the principal to maintain a list of agents.

Shifting Informal Remittance Service Providers to Be Formal Providers

In countries where informal remittance systems do exist, identification of these informal RSPs deserves special attention. FATF Recommendation 14 requires countries to take action to identify natural or legal persons who carry out MTBs without a license or registration. Since the subject is "informal," it may not always

be clear in the laws and regulations as to which authority's responsibility it is to reach out and identify the informal service providers. Most probably, this task will be undertaken by the authority designated for the supervision of remittance services. In some cases, the authority is given to the Financial Intelligence Unit, or even to the (financial) police. Taking into account the complexity of the task, authorities in charge may need to consider adopting gradual and multifold approaches.

First, the authorities need to conduct a comprehensive assessment of the remittance market with special emphasis on the informal markets to identify the informal service players, conduct outreach and awareness programs, explain (new) licensing or registration requirements, allow reasonable time to meet deadlines to submit applications for license or registering with the competent authorities, and to continue to engage with them for a reasonable period of time. If this is not effective, the authorities should consider sanctions, including possible closure of business. An overly aggressive regulatory approach would inhibit the informal players who would otherwise consider entering the formal market, and can create mistrust among certain ethnic groups and communities. To encourage informal market players to become formal participants, authorities should therefore be prepared to rethink their strategies and make adjustments where necessary; this is a dynamic, continuous process.

In identifying informal service providers, the following steps may be useful:

- Undertake a comprehensive assessment to understand the nature of informal remittance systems (including what is the size of the informal sector, what types of transfer methods are used and through which corridors, who comes to informal service providers, and what are the incentives to offer as well as use informal channels).
- Depending on the assessment, the authorities should design a strategy to formalize the informal market. A component of this strategy is the decision on licensing vs. registration, which is discussed broadly at the beginning of the chapter. It may also involve issues that go beyond the AML/CFT realm such as addressing tax incentives and overall trust in the government oversight.

Following this strategy, a supervisor may first focus on awareness raising and encouraging voluntary cooperation among informal remittance providers. If formalization requires more than AML/CFT issues, relevant authorities should collaborate to address this matter. As final steps, these efforts may need to be supported by sanctions and enforcement. Box 4.1 presents an example of how Canada approached formalizing the remittance sector.

Impact of Competition on Formalization of the Remittance Sector

As the formal remittance market becomes more competitive, partly as a result of better regulatory policies implemented by countries, there would be fewer incentives among migrant workers to use informal transfer systems for sending and receiving remittances. It appears that the increasingly competitive

Box 4.1 Approaches to Formalizing the Remittance Sector, an Example from Canada

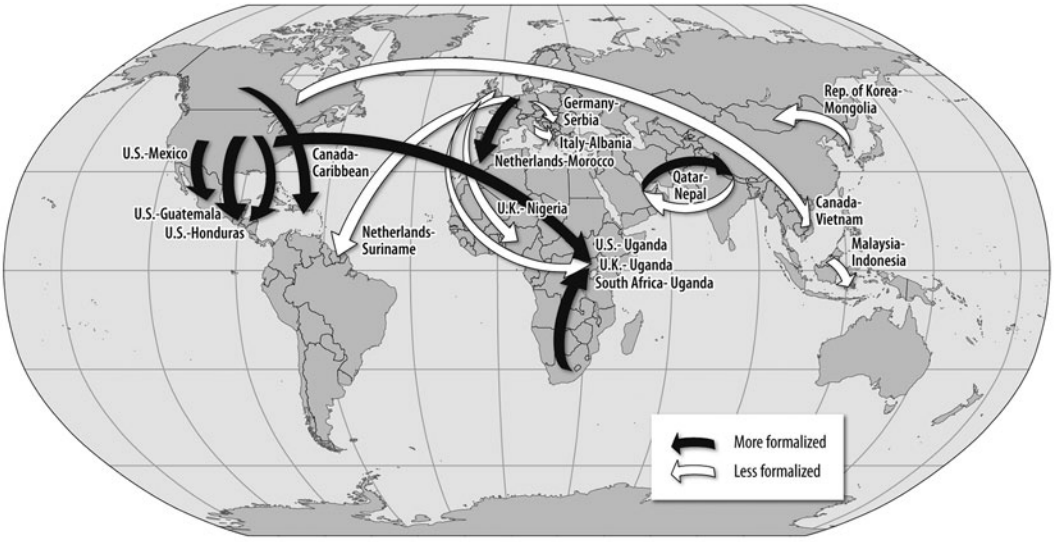
Canada: Canada created a federal registration regime for remittance service providers, which came into force on June 23, 2008. The Department of Finance decided to adopt a registration regime for money service businesses (MSBs) rather than licensing, because licensing regimes normally fall within the sphere of provincial governments, which had not yet established a licensing regime for MSBs. Individuals and entities engaged in remittance services were required to register with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), which is Canada's Financial Intelligence Unit, at no cost. The registration was implemented over a period of one year prior to the regime coming into force in June 2008. This gave FINTRAC sufficient time to reach out, and for MSBs to prepare themselves for registration. FINTRAC also pursued a cooperative approach to MSBs with regard to registration. They provided each MSB with a welcome package, which explained the obligations under the *Proceeds of Crime (Money Laundering), and Terrorist Financing Act* and regulations, and also monitored their compliance with the regulations. The result has been a relatively successful compliance level among Canadian MSBs.

landscape of the remittance market also means that there is a shift in the preferences of migrant workers. That is, as formal transfer operators are compelled to reduce their transfer costs, increase their service offerings, expand access, and ensure secure deliveries, migrant workers have begun to prefer formal transfer mechanisms and to reduce their use of informal transfer mechanisms.[3]

While there appears to be an increasing trend toward formalization of the remittance market, many remittance corridors continue to remain less formalized (map 4.1). Survey work from corridors around the world suggests that informal funds transfer systems operate in the market like any other industry competitor. They fill the vacuum for financial services to unbanked households among remittance senders, and they fill the vacuum for funds transfer services in rural regions in remittance-receiving countries, where formal penetration is weak. In some remittance corridors, informal funds transfer systems also tend to have a competitive advantage over formal systems because they more easily conform to the cultural traditions of migrants and receiving communities and also have lower compliance costs.

To ensure continued competitiveness in the formal remittance markets, various activities and reforms should be undertaken to improve the attractiveness of the formal channels. For example, the authorities may consider allowing more service providers to enter the formal markets at different levels in a tiered approach. Formal MTBs and banks could also be allowed to offer additional innovative products. These actions would lead to lowered transaction costs and increased marketing efforts. At the same time, national authorities should increase the transparency of remittance market

Map 4.1 Degree of Formality of Remittances among Bilateral Remittance Corridor Analysis Case Studies



Source: World Bank.

players, remittance products and services, and regulatory and supervisory provisions and requirements. Having fewer providers would raise the costs and limit the money remitted, thereby reducing the positive economic effects in developing countries.

Notes

1. If a service provider already has a license to operate or is registered with a competent authority, they do not need to obtain a separate license or registration. As a general practice, banking and credit institution laws mandate that banks have the right to deal with the transfer of money and with deposit taking, loans, and a wide range of other financial activities. There are also specific clauses in the laws that allow post offices, the other traditional providers of financial remittance services in many countries, to provide such services.
2. On April 1, 2013, the FSA was abolished, and the majority of its functions were transferred to two new regulators: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The FCA is now the competent authority for most aspects of the Payment Services Directives. All payment service providers need to be FCA authorized and registered, unless they are exempted.
3. Typically, figures for remittances are based on recorded remittance flows. However, the true size of these financial flows is estimated to be even larger due to extensive unrecorded flows through informal channels. While remittances are an important source of income for many families in developing countries, the relatively unregulated nature of informal flows poses security risks to both developed and developing countries, and can also be easily abused for illegal purposes. Hence, one of the key goals of this report is to encourage the use of formal remittance transfer mechanisms.

Reference

FATF (Financial Action Task Force). 2012. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*. Financial Action Task Force, Paris, February. http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf.

CHAPTER 5

Supervisory Frameworks for Money Transfer Businesses

Preview

This chapter provides:

- An analysis of different country supervisory frameworks for money transfer businesses.
- A discussion of how countries could apply a risk- and evidence-based approach to supervision in relation to specific supervisory aspects such as on-site and off-site examinations, monitoring, and training.
- A discussion of how authorities can extend supervisory capabilities to informal remittance providers such as hawalas.

Supervisory Framework

Financial Action Task Force Requirements with Respect to Supervision of Money Transfer Businesses

Financial Action Task Force (FATF) Recommendation 26 (formerly Recommendation 23) requires countries to ensure that financial institutions are subject to adequate regulation and supervision and are effectively implementing the FATF Recommendations. Acknowledging that the "financial institution" definition captures institutions of various natures and scales, the Recommendation adopts a two-pronged view rather than a "one-size-fits-all" approach.

For the financial services subject to the Core Principles—that is, banking and other deposit-taking businesses, insurers and insurance intermediaries, and collective investment schemes and market intermediaries—the regulatory and supervisory measures that apply for prudential purposes and which are also relevant to money laundering should be applied in a similar manner for anti-money laundering/combating the financing of terrorism (AML/CFT) purposes. In other

words, similar to their prudential supervision, these institutions should be subject to a range of AML/CFT compliance supervision proportionately with their operations, scales, and risks. Such supervision is expected to include on-site examinations in addition to ongoing off-site supervision.

For other financial services, including money and value transfers, Recommendation 26 (formerly Recommendation 23) refers to "supervision or monitoring"[1] for AML/CFT purposes, providing the authorities with the flexibility to decide on the intensity of the supervision based on sector risk. While a risk-based approach (RBA) to supervision also applies to the financial institutions that are also subject to the Core Principles, monitoring refers to something not as intensive as supervision. Thus, the bottom line for authorities is to at least "monitor" money and value transfer services after ensuring that they are registered or licensed. Monitoring should be good enough to understand and assess the AML/CFT risks of the sector and individual institutions, so that authorities can focus the limited resources on more risky areas or institutions.

Examination Teams for Supervising Money Transfer Businesses in Surveyed Countries

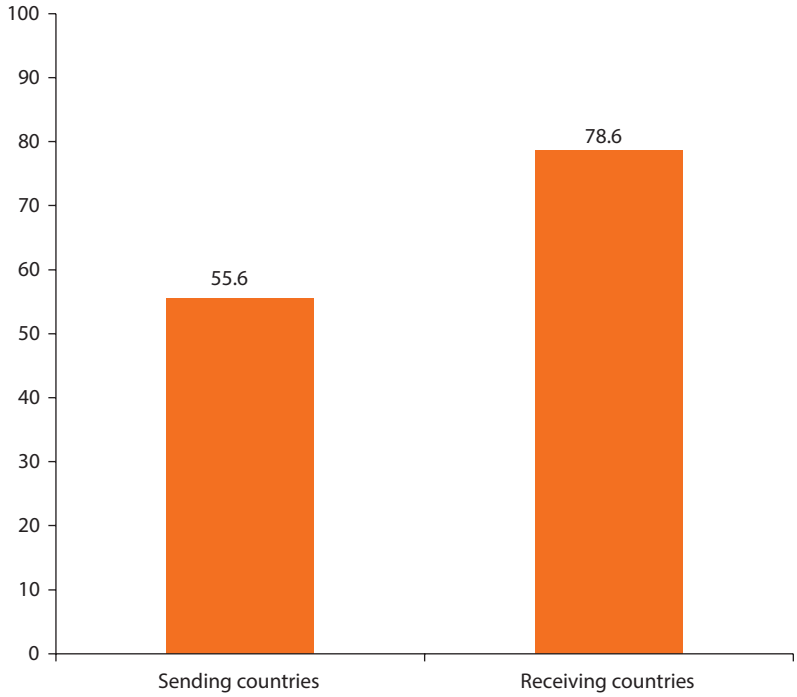
Due to the limited-value transactions and the nature of operations of the remittance companies, systemic, credit, and interest rate risk of money transfer businesses (MTBs) can be very low compared with traditional financial institutions such as banks and credit institutions.[2] However, other types of risks to MTBs do exist, such as money laundering/financing of terrorism (ML/FT) risks; and fraud, operational, liquidity, and settlement risk. The general perception is that MTBs face higher ML/FT risks than other financial institutions.

If there are no appropriate AML/CFT controls in place, the ability to transfer funds abroad instantly can facilitate the concealment of illicit fund transfers. The convenience of the nonbank remittance transfers through money transfer operators and mobile money providers, which brings speed, simplicity, and larger networks, may render these remittance services attractive to organized crime or terrorist groups if effective provider and regulator controls are absent.

Importantly, no system is totally immune to ML/FT risk, and while adequate resources should be allocated for the supervision of the remittance sector, it is not feasible to supervise every single entity with the same intensity. Such an attempt would only stretch thin supervisory resources and capacities and undermine economic development activities by curtailing remittance transfers. The risk-based supervisory approach proposed by the FATF would allow for the optimum use of supervisory resources and capacities in innovative and flexible ways. Such an approach would allow the authorities to take into account specificities of various economies and regions, as well as institutions, in designing their own supervisory approach for their jurisdictions while following international standards.

Given the importance of remittances, especially to receiving countries, and given the fact that MTBs are essentially different from conventional financial institutions, many countries prefer to establish a dedicated unit or a team focused on the supervision of MTBs. Five sending countries and 11 receiving countries

Figure 5.1 Separate Examination Teams for Supervising MTBs
% of countries



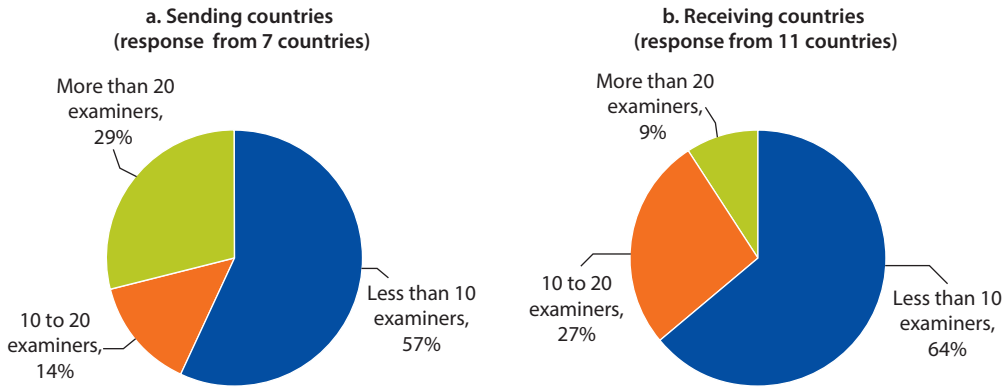
Source: Based on the survey; see table B.35 in appendix B.
Note: MTB = money transfer business.

responded that they have separate examination teams for remittance businesses (see figure 5.1). More receiving countries have set up specialized teams than sending countries, probably because traditional financial supervisors (such as central banks) tend to also be responsible for supervision of MTBs, while in sending countries, there are more models of supervisory authorities.

In many countries, these dedicated examination units or teams are actually small, because there are a limited number of examiners who conduct specialized on-site and off-site supervision of MTBs. Figure 5.2 compares the number of staff responsible for on-site and off-site supervision of MTBs in sending and receiving countries. While the supervision team for MTBs is smaller in receiving countries than in sending countries, usually this is the case for other financial institutions, as well. In some receiving countries, supervision teams for banks, insurance, and other financial institutions tend to be smaller than their counterparts in sending countries.

The MTB supervision team is not always dedicated only to the remittance sector in all cases. In some countries it is the same team as those that are responsible for supervision of other financial institutions. With regard to separation of on-site and off-site supervision, some countries have a separate team for each, but in others, the same team conducts the on-site and off-site examinations.

Figure 5.2 Size of Examination Team in Supervising MTBs in Sending and Receiving Countries
% of countries



Source: Based on the survey; see table B.35 in appendix B.
Note: MTB = money transfer business.

Regulatory and Supervisory Authorities

The supervisory authorities responsible for MTBs vary somewhat from country to country. With a few exceptions, such as the United Kingdom, the United States, and the Netherlands, in most of the countries the same agency is responsible for both regulation and supervision of the remittance market. There are basically four MTB regulatory and supervisory models:

- Central bank
- Financial Supervision Authority
- Financial Intelligence Unit (FIU)
- Tax authority

Having the central bank as the regulator and supervisor of MTBs is the most common model in both sending and receiving countries, because in many jurisdictions, the central bank is the default supervisor of the financial sector and one of the most established state agencies. The central bank is also often responsible for payment systems oversight and macroeconomic data management, both of which also relate to remittance operations.

The second-most-common regulatory and supervisory authority is the Financial Supervision Authority. In Honduras, the Financial Supervision Authority is the sole regulator and supervisor of MTBs. In the United Kingdom, Germany, and Mongolia, the Financial Supervision Authority[3] is responsible for the supervision of MTBs in cooperation with another competent authority, such as the tax authority, central bank, or FIU.

Although it is not usually considered a financial regulator or supervisor, the FIU or the tax authority fills the gap and undertakes the role as regulator and supervisor of MTBs in some countries.

Table 5.1 Regulatory and Supervisory Authorities of MTBs in Selected Countries

		Regulatory authority	*Supervisory authority*
Sending	United States	FIU, TA and State Supervisors	TA and State Supervisors
	Germany	FSA	FSA in cooperation with CB
	United Kingdom	Treasury	FSA and TA (only on AML/CFT)
	Italy	CB	CB
	Canada	FIU	FIU
	Korea, Rep.	n.a.	n.a.
	Netherlands	CB and MOF	CB
	South Africa	CB	CB
	Malaysia	CB	CB
	Qatar	CB and FIU	CB
Receiving	Mexico	CB and FIU	CB and TA[a]
	Indonesia	CB	CB
	Nigeria	CB	CB
	Vietnam	CB	CB
	Morocco	CB	CB
	Serbia	CB	CB
	Guatemala	FIU	FIU
	Jamaica	CB	CB
	Uganda	CB	CB
	Honduras	FSA	FSA
	Nepal	CB	CB
	Albania	CB	CB
	Afghanistan	CB	CB
	Haiti	CB	CB
	Mongolia	FIU and FSA	FIU and FSA
	Suriname	CB	CB

Source: Based on the survey.
Note: n.a. = not applicable; AML/CFT = anti-money laundering/combating the financing of terrorism; CB = Central Bank; FIU = Financial Intelligence Unit; FSA = Financial Supervision Authority; MOF = Ministry of Finance; MTB = money transfer business; TA = tax authority.
a. In August 2011, the supervisory powers of MTBs in Mexico were transferred from the tax authority to the National Banking and Securities Commission (CNBV).

In Canada and Guatemala, the FIU is the sole regulator and supervisor of MTBs. In some other countries, such as Mexico, Mongolia, Qatar, and the United States, the FIU is part of a joint regulatory authority or a joint supervisory authority. This seems to reflect the fact that AML/CFT is a strong driver of regulation and supervision of MTBs. This may also reflect that there was no prudential regulatory or supervisory authority in this area (especially if the FIU is the sole responsible institution). Often the pressures that come from noncompliance with FATF requirements also push the FIU (that usually take a more central role in fighting ML/FT some countries) to assume responsibility for the MTBs.

An alternative approach is having the tax authority act as supervisor. This model uses the existing capacity of the tax authority to examine the AML/CFT compliance of MTBs. All three countries (Mexico, the United Kingdom, and the

United States) in which the tax authority is involved have a large number of small-scale MTBs.[4] As a unique practice, in Italy, the central bank occasionally delegates the on-site examination of remittance companies to the Financial Police (Guardia di Finanza). The United States has a complicated regulatory and supervisory structure, with multiple regulatory and supervisory agencies at the federal and state level. Table 5.1 summarizes the survey responses regarding the regulatory and supervisory agency in Bilateral Remittance Corridor Analysis countries.

On-Site Inspections

FATF Recommendations require that countries have systems in place to monitor money and value transfer services and ensure their compliance with applicable FATF Recommendations.

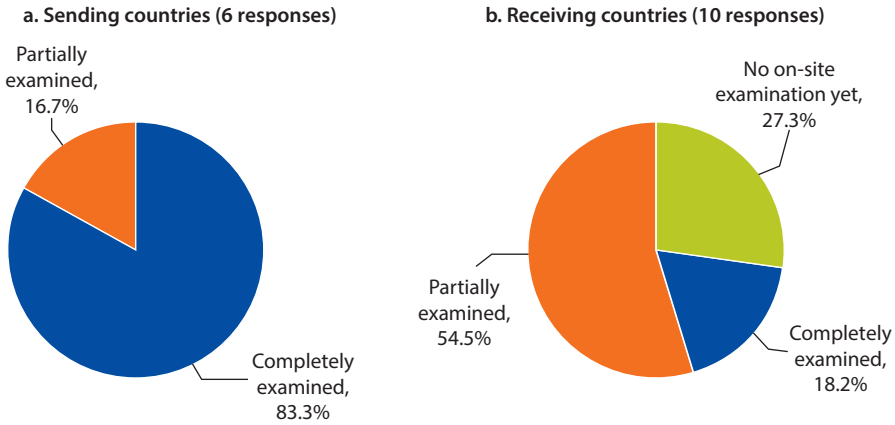
Many countries have at least an annual on-site inspection schedule for MTBs. This is particularly the case for countries with licensing regimes. It is easier to commit to annual inspection of MTBs in licensing regimes, because the number of licensed operators is usually within a manageable level. With regard to the registration regime, authorities tend to conduct risk-based examinations, because the number of registered MTBs is sizable—up to hundreds, thousands, or more registered MTBs.

Figure 5.3 summarizes the responses of the countries indicating the share of MTBs that have gone through on-site examination. Although the cutoff date varies from country to country, the data provided was for 2010/11. Many of the sending countries have examined all MTBs at least once. Fewer on-site examinations have taken place in receiving countries, however, and some have not started supervision at all. Only 18 percent of the receiving countries examined all the MTBs at least once, and 55 percent of countries managed to conduct on-site examinations on only a partial number of MTBs, while another 27 percent of countries have not started examinations.

Table 5.2 summarizes the frequency of on-site examinations of MTBs. The data show that remittance-sending countries have a more or less streamlined approach toward on-site examinations, clearly moving toward an RBA, while receiving countries are conducting on-site examinations at lower frequency. The differences between sending and receiving countries in frequency and intensity may be directly attributable to the resource availability and capacity. Developed countries that are the main sending countries have far more resources and more sophisticated regulatory authorities with experienced supervisors than receiving countries do.

During on-site inspections, authorities interview senior management; check internal policy and procedures; verify the remittance transfer information reported to the regulator; examine transfer documents, accounts, and other relevant materials; and conduct sample testing.[5] Canada, the Netherlands, and the United States, among sending countries, and Indonesia among receiving countries, apply an RBA in their supervision, based on their self-declaration in their answers to the survey. Italy has a unique system whereby on-site

Figure 5.3 On-Site Supervision of MTBs
% of countries



Source: Based on the survey; see table B.36 in appendix B.
Note: MTB = money transfer business.

Table 5.2 Frequency of On-Site Examinations of MTBs

	Sending countries	*Receiving countries*
Risk based	3	1
Complained based	2	0
Annual	3	4
More frequent than annual	0	1
Less frequent than annual	1	2
No on-site examination	0	3
No response	0	3

Source: Based on the survey; see table B.36 in appendix B.
Note: MTB = money transfer business.

examination is conducted based on complaints or specific concerns. This means that unless there is a particular complaint or concern about specific MTBs, no on-site examination is undertaken.

In most countries, AML/CFT compliance is one of the main components of the supervision framework.

Considering the country experiences above and the characteristics of remittance services, the following procedures are useful in the supervision of MTBs:

- Risk-based planning of supervision.
- Document-based checks of the organization, AML/CFT-related policies and procedures, internal control systems, reports filed, and so forth.
- Sample testing can be useful to examine whether the customer due diligence, suspicious transactions reporting, currency transactions reporting, and record-keeping requirements are being fulfilled appropriately.

- Interviews can help in understanding the commitment, awareness, and knowledge of management and staff, and in assessing the effectiveness and sufficiency of the AML/CFT training.
- Agents should be included in the on-site visit programs on a selective or risk-based approach.

Especially in countries with a large number of small-scale remittance companies and agents, an RBA can be a powerful tool to allocate supervisory resources in the most efficient manner.

Off-Site Supervision and Monitoring

Off-site supervision or monitoring of remittance service providers is rather limited to receiving periodic reports on transaction volume and analyzing statistical information on suspicious transactions reporting.

When compared with on-site supervision, more countries, particularly on the receiving side, conduct off-site supervision of the remittance sector. This seems to be associated with the fact that many receiving countries collect monthly or other periodic data on remittance transactions for macroeconomic and balance-of-payment purposes. The data can be used to analyze ML/FT risks as well at a broader level; however, these data are usually aggregated.

Table 5.3 summarizes the responses on the frequency of off-site supervision or monitoring.

Of the seven sending countries that conduct off-site supervision, four adopted off-site supervision on an ongoing basis compared to only one receiving country, Jamaica. Only one sending country, Canada, conducts off-site supervision with a risk-based approach. About 50 percent of the receiving countries conduct off-site supervision on a monthly or weekly basis. One receiving country has not conducted off-site supervision at all and has no examination schedule.

Off-site supervision or monitoring usually depends on monthly, quarterly, semiannual, and annual reporting. However, quarterly, semiannual, and annual reporting may not be adequate to monitor the remittance sector in real time and on an ongoing basis. Off-site supervision or monitoring has particular importance

Table 5.3 Frequency of Off-Site Supervision and Monitoring

	Sending countries	*Receiving countries*
Ongoing	4	1
Risk-based	1	0
Monthly	0	5
More frequent than monthly	0	2
Less frequent than monthly	1	1
No off-site examination/monitoring	0	1
No response	1	4

Source: Based on the survey; see table B.37 in appendix B.

for the remittance market. Thus, it is essential to conduct risk-based or ongoing monitoring of regulated entities in order to detect the red flags and take targeted actions where necessary.

Training of Supervisors

Both the on-site and off-site examiners need to have adequate qualifications and knowledge to allow them to effectively conduct supervision or monitoring of this unique sector. Almost all countries provide AML/CFT training to examiners. Some supervisory agencies receive technical assistance from international organizations and more advanced or experienced countries in training their staff.

On-the-job training is a common method used by many countries. Relying solely on on-the-job training, however, may not be adequate, since examination of the remittance market is a relatively new field and business models, the regulatory environment, and market players have been evolving. Therefore, in most cases, there may not be senior examiners specialized in remittance services to convey their experience to junior examiners.

Training is also important for MTBs themselves. In this context, after improving its own capacity, the supervisory agency should provide training to management, compliance officers, and internal control units of the remittance companies, to enhance their capacity to apply self-examination.

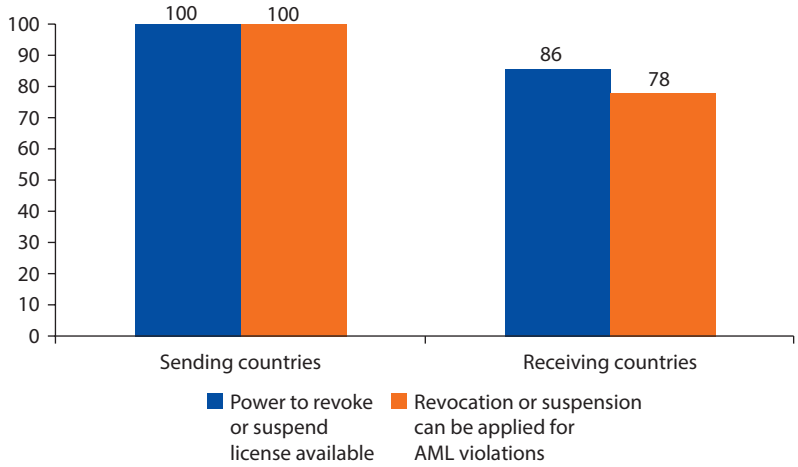
Revocation Powers

To ensure the effectiveness of the supervision, the competent authority should have appropriate sanctioning powers. A broader discussion of the sanctions for breaches of AML/CFT obligations can be found in section "Failure to Implement AML/CFT Requirements" in chapter 3. Figure 5.4 and table 5.4 present the country responses on revocation and suspension of license or registration as part of the sanctioning powers of supervisory authorities.

Most countries that allow MTBs to operate (nine sending countries and 14 receiving countries) responded that the competent authorities have the power to revoke or suspend the license or registration. In six sending countries and seven receiving countries, failing to comply with AML/CFT obligations constitutes one of the reasons for revocation and suspension. Violation of other legal and regulatory requirements, failing to begin operation in a prescribed time period, losing the required licensing or registration conditions, and involvement in ML/FT and other crimes are other breaches for which a license or registration will be suspended or revoked.

However, in practice, the number of suspension and revocation cases is small. Germany, Italy, and the Netherlands among sending countries, and Afghanistan, Nepal, Uganda, and Vietnam among receiving countries, are the only countries that indicated that they had applied revocation or suspension procedures. In Italy, 4,311 agents' licenses were revoked due to failure to fulfill the annual renewal of registration requirement. In Afghanistan, over 100 money service providers were temporarily closed down for operating without a license.

Figure 5.4 Authority to Revoke or Suspend the License or Registration of Money Transfer Businesses
% of countries



Source: Based on the survey; see table B.38 in appendix B.
Note: AML = anti-money laundering.

Table 5.4 Number of Countries That Have Revocation or Suspension Experience in the Last Five Years

Number of countries	*None*	*5 or fewer*	*More than 5*	*No response*
Sending countries	5	2	1	1
Receiving countries	6	3	1	2

Source: Based on the survey; see table B.38 in appendix B.

Risk-Based Approach to Supervision of MTBs

The previous section indicated that only four out of 20 countries are currently implementing an RBA to the supervision of MTBs (see table 5.2). The larger the number of licensed or registered MTBs countries have, the more reason to adopt an RBA, as can be observed in Canada and the United States. This does not mean, however, that having a large number of entities to supervise is a prerequisite to adopting risk-based supervision. An RBA to supervision will enable supervisors to be more attuned to the risks of the service providers they supervise.

The FATF mandates the RBA in implementing AML/CFT requirements by both authorities and financial institutions. The logic behind the RBA is to ensure the efficient allocation of the resources by identifying and assessing the ML/FT risks and focusing the efforts and resources in accordance with the risk level of institutions, customers, and activities. RBA is a broad concept, which includes not only the supervision but also the regulation of obliged sectors and entities, in

particular, the adoption of risk-based policies and processes. The discussion in this section will focus on a risk-based approach to supervision.

In the context of MTBs, the FATF published "Risk-Based Approach Guidance for Money Service Businesses" (FATF 2009).[6] Although the title of the guidance refers to money service businesses (MSBs), MTBs, which are the focus of this study, can be considered equivalent to MSBs.

An RBA comprises three components: recognizing the existence of the risk(s), undertaking an assessment of the risk(s), and developing strategies to manage and mitigate the identified risks (FATF 2009, 15). These components can be applied to the supervision of MTBs as follows:

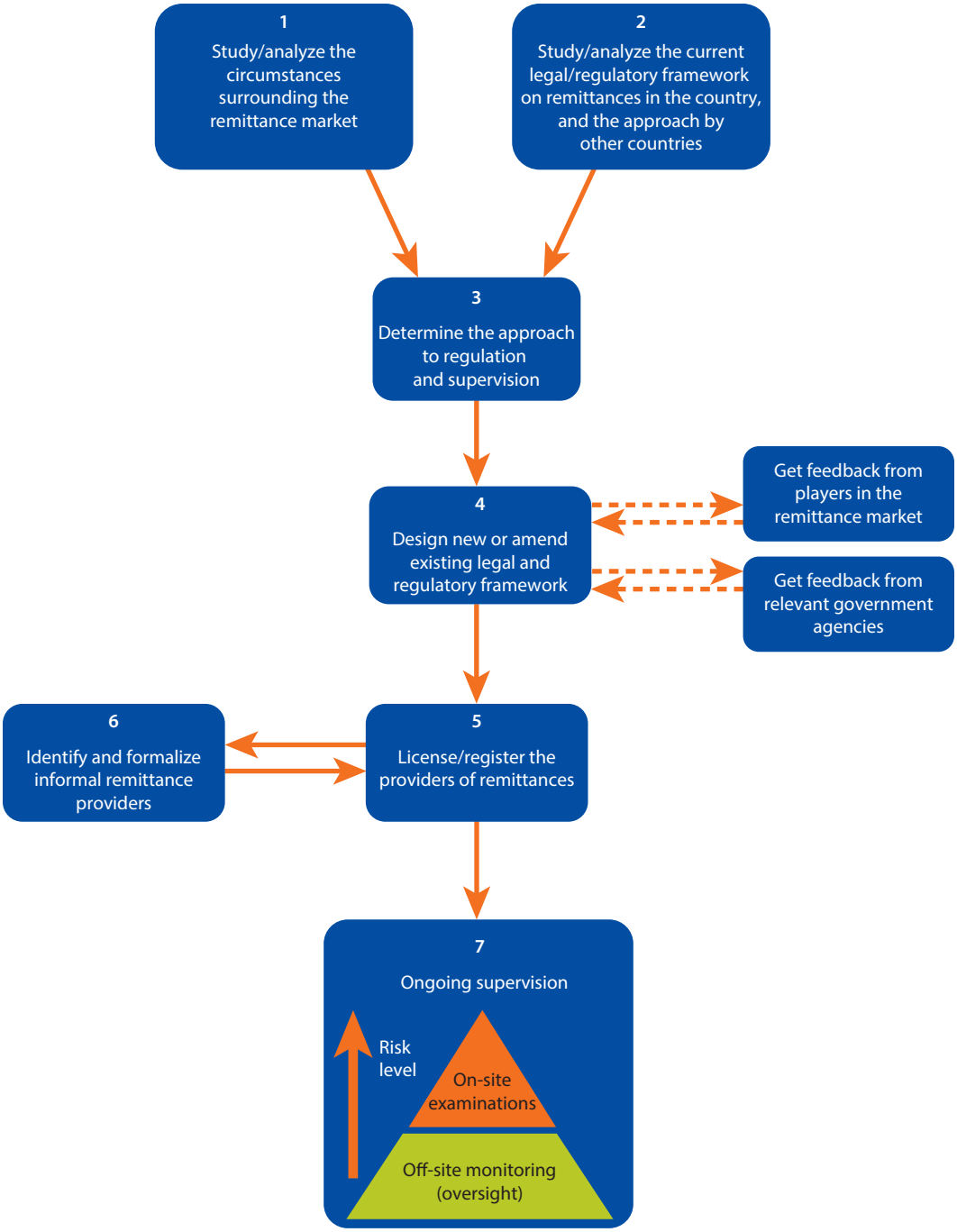
- The supervisor should recognize that some MTBs (in terms of both categories and institutions) may be riskier than others.
- The supervisor should recognize that some remittance products and services may be riskier than the others.
- The supervisor should undertake the assessment of risk of institutions, products, and services, among others. The supervisor should design the supervisory approach and annual supervisory plans in accordance with the identified risk.
- Using the supervisory powers, the supervisor should take the necessary actions to manage and mitigate risks. The measures to manage and mitigate risks should include measures to guide or force the obliged entities to manage their risks.

A second level of the RBA relates to implementation by the obliged entities themselves. MTBs themselves can also adopt an RBA in managing the AML/CFT risks. Under the revised FATF Recommendations, this is mandatory as per Recommendation 1 (FATF 2012). MTBs will need to assess the risk of customers, products, and services, including delivery channels and geographic locations, and these assessments should be repeated over time, depending on the circumstances and evolution of threats (FATF 2009, 16).

Both risk-based supervision and supervision of risk-based implementation of policies and procedures by financial institutions will require supervisors with the appropriate capacity and expertise. Supervisors need to be well equipped for on-site and off-site examinations, since implementation of an RBA mostly depends on "well-trained judgment" (FATF 2009, 26). The existence of good practice guidance, supervisory training, industry studies, and other available information and materials will assist supervisors in determining whether an MTB has made sound risk-based judgments.

This study includes a tip sheet in appendix I that provides a step-by-step framework for national regulators and supervisors to implement an effective regulatory and supervisory regime for remittance service providers. A summary is provided in figure 5.5, and a detailed checklist for each of the steps in the process of formulating and implementing a regulatory or supervisory framework is provided in appendix I.

Figure 5.5 Steps for Regulating and Supervising Remittance Markets



Cross-Border Supervisory Cooperation

Remittance services are increasingly being offered across borders, and supervising remittance service providers located in a different jurisdiction can be challenging, as can taking regulatory action against them. International cooperation among regulators and supervisors in relation to MTBs is not as developed as it is with other financial institutions such as banks. Further, application of FATF standards for international operations of MTBs is not always clear. But some explicit requirements exist, such as Suspicious Transactions Reporting when an MTB controls both ends of transactions (see FATF Recommendation 16 on wire transfers). MTBs tend to operate internationally through "branding" in partnerships and agent relationships rather than by establishing foreign branches and subsidiaries.

A brief explanation of the need for supervisory cooperation is provided in section "Licensing, Registration, or List Approach for Agents" in chapter 4 under the principal-agency relationships when the principal and agent reside in different jurisdictions. The European Union (EU) model for home- versus host-country responsibilities provides some insights and guidance; however, the EU model is unique because it operates under a unified and single European Union Payment Services Directive[7] that allows passporting a license. Because of this model, EU countries have no choice but to cooperate closely between home and host supervisors. No other countries have this arrangement for MTBs.

Cross-border supervisory cooperation is important especially in financial transactions such as remittances where funds move across jurisdictions instantaneously. How best to achieve this cooperation will require further guidance and discussion.

Notes

1. This study uses the term "supervision" to include both supervision and monitoring of MTBs in reference to Recommendation 26.
2. In general, the money transfer sector imposes fewer systemic risks than the traditional financial sectors. In contrast with other major financial sector categories such as the banking sector, the securities sector, and the insurance sector, the remittance sector holds the funds of customers for a very short period of time—from a few minutes to a few days, at most. The balance sheet of a remittance company is much leaner than that of other financial institutions. The income is derived from transfer and foreign exchange commission fees. Due to the nature of the remittance business, major financial risks such as credit, interest rate, and market risk is much lower compared to other financial institutions. The constant flow of funds does not allow the accumulation and concealment of financial problems. In addition, the nature of the business—usually low amounts per transaction and the particular client profile—results in a low level of concentration of risk. The focus of this study is AML/CFT-related risk.
3. In the United Kingdom, the Financial Conduct Authority (FCA) is responsible for the Supervision since April 2013, taking over from the Financial Services Authority (details given in the Introduction section under Developments since the Survey).
4. In August 2011, the supervisory powers of MTBs in Mexico were transferred from the tax authority to the National Banking and Securities Commission (CNBV).

5. Sample testing includes selecting a number of transactions randomly or based on some criteria and examining the AML/CFT compliance of the selected transactions.
6. This guidance paper is being updated.
7. For information on the European Union Payment Services Directive, see http://ec.europa.eu/internal_market/payments/framework/index_en.htm.

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FATF (Financial Action Task Force). 2009. *Risk-Based Approach: Guidance for Money Service Businesses*. Financial Action Task Force, Paris, July. http://www.fatf-gafi.org/media/fatf/documents/reports/RBA%20Guidance%20for%20Money%20Service%20Businesses.pdf.

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CHAPTER 6

Broader Policy Conclusions for Enabling the Promotion of Financial Inclusion while Achieving Financial Integrity

Preview

This chapter provides:

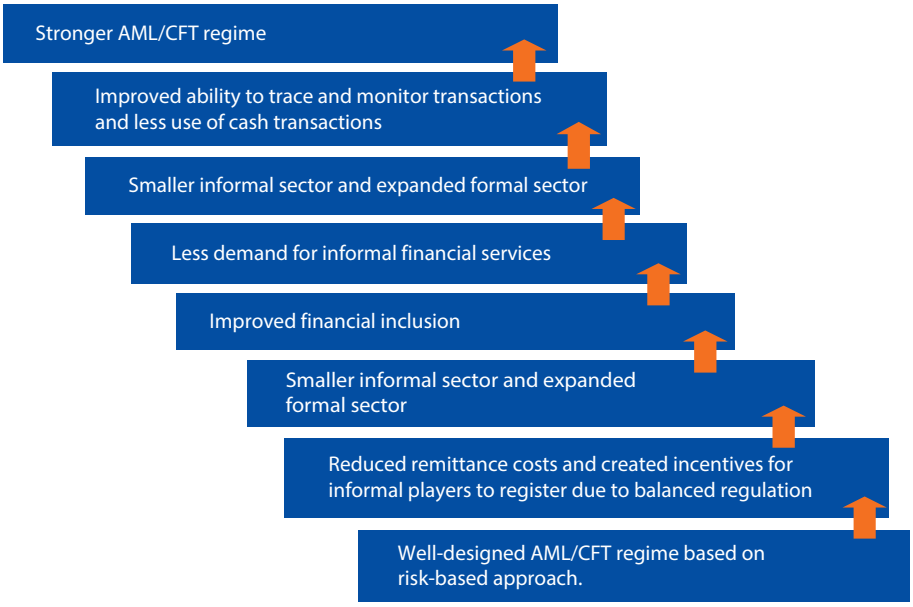
- A discussion of key policy objectives for achieving financial integrity and financial inclusion for the remittance sector.
- Key policy recommendations for regulators and other authorities.

Key Policy Objectives for Achieving Financial Integrity and Financial Inclusion for the Remittance Sector

Financial integrity and financial inclusion are mutually reinforcing and interdependent public policy objectives. When they are complimentary, they reinforce their respective objectives and contribute positively toward economic development. To this end, financial integrity and financial inclusion will benefit from greater coordination within governments and across sectors.

A well-designed anti-money laundering/combating the financing of terrorism (AML/CFT) regulatory regime creates an environment that fosters greater financial inclusion; similarly, improved financial inclusion leads to a stronger AML/CFT regulatory regime (see figure 6.1). Ill-designed and overly rigid AML/CFT regulatory frameworks,[1] however, unnecessarily increase costs and create other disincentives for remittance service providers (RSPs), other financial institutions, and consumers, and curtail financial inclusion efforts. Financial exclusion cultivates conditions that enable informal financial service providers to thrive and informal

Figure 6.1 Complimentary Effect of Strong AML/CFT Regime and Improved Financial Inclusion



Note: AML/CFT = anti-money laundering/combating the financing of terrorism.

financial channels to be more competitive.[2] Informal financial channels cannot easily be traced, recorded, or monitored, thus increasing the likelihood of suspicious and illicit transactions through these channels. Hence, they undermine the very objective of AML/CFT efforts. Financial inclusion is therefore a multidimensional challenge, of which AML/CFT requirements are an important aspect.

While it is not the only cause of financial exclusion, regulatory challenges in some countries may have created barriers to the capacity of financial institutions to conduct business and innovation, thus undermining their ability to promote greater financial access. For example, many citizens in poor countries do not have legitimate identification (ID) documents that fulfill AML/CFT requirements established by domestic authorities due to an underdeveloped and inadequate ID infrastructure. This makes it difficult for money transfer businesses (MTBs) and any other financial institutions to provide financial services to customers without the required ID documents.

The fact that policy makers, regulators, MTB supervisors, and MTBs themselves do not have a clear understanding of the flexibility of Financial Action Task Force (FATF) standards on AML/CFT has led many countries to overregulate certain financial services and products that may not pose high money laundering/financing of terrorism (ML/FT) risk. At the same time, many countries have not introduced a risk-based approach (RBA) to AML/CFT requirements, which has added unnecessary regulatory compliance costs and created other disincentives for MTBs and other financial institutions. This study argues that to the extent that countries bring the industry under AML/CFT regulatory and oversight

mechanisms with enforcement, understand ML/FT risks posed to the sector, and the industry conducts ML/FT risk assessment and complies with regulatory requirements, MTBs should pose no greater risk than any other financial institution.

In addition, policy makers in some countries are still unsure of how to address the AML/CFT implications for new financial service providers such as mobile network operators and their agents (such as retail businesses and retail outlets in the provision of financial services). Often, regulators are not yet familiar with these new entities or products. Hence, many countries are taking cautious approaches in regulating these new service providers, resulting in preventing such businesses from entering the markets, or entering markets with limited functionalities (such as a prohibition on international remittances). These entities could and should be leveraged to assist in achieving financial inclusion targets, and in doing so, a risk-based approach to AML/CFT regulations should be considered.

It is therefore imperative to address these regulatory challenges in order to create a regulatory regime that is effective in risk mitigation while also conducive to financial inclusion goals.

The FATF has tried to explain the flexibility of the standards by issuing a guidance paper on AML/CFT and financial inclusion in June 2011 and a revised guidance paper on AML/CFT and financial inclusion in February 2013 to reflect the 2012 changes in FATF Recommendations.[3] This seems to be having a positive impact, since regulators around the world feel more comfortable introducing simplified due diligence for lower-ML/FT-risk scenarios.

Based on the discussions and findings in this study, the key policy recommendations are presented to national regulators and supervisors of remittance markets, with the objective of achieving a balance between financial integrity and financial inclusion. These policy recommendations are presented under three themes: (a) money laundering and terrorist financing risks and related challenges, (b) regulatory and supervisory frameworks, and (c) market entry.

Key Policy Recommendations

1. **Money Laundering and Financing of Terrorism Risks Associated with the Remittance Sector**
   - *Conduct a detailed risk assessment of the remittance sector,* which will assist in risk-based supervision and facilitate applying the AML/CFT measures in a manner proportionate to the identified risks. In this regard, it is important to explore and analyze the identified ML/FT cases and classify them in order to identify typologies that involve the use of RSPs. These assessments will identify the different ML/FT risks faced by the RSPs, their channels, and their products and services. If regulators are contemplating who should be allowed to operate remittance services, the risk assessment would help determine the types of remittance business models that are best suited to local remittance market structure, and its cross-border features. Moreover, such assessment would help remove the misconception that all MTBs are

uniformly riskier. As such, the authorities can focus on the specific risks that may exist within their MTBs, beyond a one-size-fits-all approach. This will in-turn help alleviate debanking of MTBs by the banking sector, as seen in certain countries, which occurred due largely to the fear of heavy enforcement actions on the banks. Risk assessment should help both the supervisors and the supervised (in this case, banks) to understand that different MTBs pose different ML/FT risks. It would also provide necessary guidance in designing an RBA to AML/CFT regulation and supervision.

2. **Regulatory and Supervisory Framework and Implementation of AML/CFT Preventive Measures**
   - *Adopt a risk-based regulatory framework.* Once a sound ML/FT risk assessment has been conducted, developing a risk-based regulatory and supervisory framework is a critical step. The objectives and approach of laws and regulations governing remittance services may differ among countries based on development level, economic environment, and other factors. Nevertheless, there should be risk-based regulation that reduces barriers to formally serving customers, while still ensuring that customers are adequately protected. Large volumes of informal remittances still exist in many countries, which is partly associated with the existence of undocumented migrant workers and of populations with no ID documents. Thus, regulations need to accommodate, on a risk-sensitive basis, those segments of the population whose source of money for remittances may be legal but who are not able to use formal channels due to regulatory requirements relating to strict interpretation of customer due diligence (CDD).

   - *Ensure an RBA with respect to CDD obligations.* The FATF Recommendations allow for simplified CDD measures where there is a lower risk of ML/FT. It is advisable to introduce "proportionate" risk-based regulation for CDD to enable customers to access formal channels and present information that is necessary to mitigate ML/FT risks according to its transaction size. In this regard, introducing a "tiered-approach" to CDD would be advisable, under which CDD obligations progressively tighten as the ML/FT risk increases. Simplified due diligence can also be used for opening low-value/lower-risk accounts into which remittances can be transferred and easily accessed. Simplified due diligence may also consider differentiating between the ID and verification process, to determine an area where flexibility could be better accorded. The scope and level of the simplified CDD can be decided in regulations or at the financial institution level. If decided at the financial institution level, authorities should assess the validity of the RBA undertaken by the financial institutions.

     It is also recommended to balance regulatory concerns about agents with the financial inclusion objective. Agents of RSPs should be allowed to perform ID and verification obligations, which would enhance financial inclusion by expanding the geographic outreach.

- *Ensure an effective supervisory framework*. To achieve effective supervision, consider adopting an RBA to the supervision of the remittance market, especially in countries where the number of licensed or registered remittance service providers is large. The institutions to be visited, and the scope and periods of the on-site visits, should be designed based on the findings of prior risk assessment. An RBA also forces examiners to focus on actual risks as opposed to perceived risks.

  On-site supervision should be complemented by adequate off-site monitoring mechanisms. This is important since risk-based design of on-site visits will largely depend on findings and on the analysis of off-site supervision or monitoring. Supervisors should have adequate resources and skills to perform their duties.

  In many countries, MTBs heavily depend on agent networks in providing services. It is unlikely that the supervisors can make on-site visits to all agency locations, but rather conduct sample testing. In this regard, it is essential to assess the internal control systems of principal MTBs to ensure that their agents follow adequate internal AML/CFT policy and procedures.

  It is critical that appropriate sanctioning powers are available to supervisors. Sanctions, particularly in relation to breaches of AML/CFT, should be clear, and supervisors should not hesitate to exercise their power and impose sanctions when necessary.

- *Encourage active communication with market players*. Undertake more institutionalized and regular communication with remittance market players. Designing laws and regulations without consulting the private sector could bring unintended negative consequences if regulators did not understand the market well. Therefore, it is advisable to ensure that there is regular and proactive consultation and outreach with institutions subject to AML/CFT regulations, before laws and regulations are introduced or amended, to ensure that the proposed laws and regulations are practical, and also to secure buy-in from the private sector. The private sector is often in a position to offer constructive solutions to regulatory challenges from a practitioner's point of view. Such a consultation process among all relevant stakeholders leads to proactive adaptation of relevant laws and regulations and achieves effective implementation of the laws and regulations in the market. Providing proactive guidance to regulated institutions is important in assisting them to implement AML/CFT laws and regulations.

3. Market Entry by MTBs

- *Encourage innovation and competition by allowing a wide range of service providers*. Consider permitting a wider range of entities to conduct remittance activities either as a principal and/or as an agent of an RSP. Be flexible enough to experiment with various types of new technology remittance models such as "e-money," mobile money, and other remittance business models. Explore permitting the use of retail "agents" for mobile money

cash-in and cash-out functions. This might facilitate the distribution of remittances, especially in remote or hard-to-reach areas. It could also accelerate the access of unbanked customers to basic financial services in a manner that otherwise might not be possible, and would facilitate electronic tracking and monitoring of greater numbers of financial transactions in the event law enforcement authorities need to do so to fight crimes. It may be useful for authorities to issue guidelines for e-money and other innovative remittance products, such as prepaid cards and Internet-based remittance services. As long as the risks are appropriately mitigated, regulators and regulations should not be a hindrance to the development of the private sector and private sector innovation.

- *Consider the best fit between the two choices of licensing or registration regimes as the appropriate method of market entry.* In doing so, authorities should take into account ML/FT risk mitigation requirements, incentives for formalization, cost at entry and over time, and regulatory or supervisory capacity. Such choice might not be an either/or approach, since tiered market entry regimes might provide a sound balancing act in terms of risk mitigation and effective allocation of resources. Such a decision process is also relevant for agents, notably in light of the flexibility allowed by the FATF standards, between a system where agents are subject to registration or licensing, or one where the principals are responsible and accountable for maintaining the list of agents. In many countries, putting the responsibility on principals is likely to be a promising approach, provided the obligations of principals are duly enforced.

  When an informal market is relatively large, instituting a registration regime rather than a licensing regime may be more appropriate for principal RSPs, as would listing of agents by the principal for agents of the RSPs.

- *Bring the informal players into the formal system*. Today, a still significant portion of remittance flows passes through informal systems. To encourage informal market players to become formal participants, authorities should conduct a comprehensive assessment of the remittance market to identify the informal service players, design a regulatory framework including market entry requirements whose bar is not too high for informal players, develop awareness programs to explain the formalization process, allow reasonable time for licensing or registration with competent authorities, and continue to engage with them for a reasonable period of time. Sanctions should be used only as a last resort in this process.

Notes

1. For a detailed discussion on key regulatory impediments to financial inclusion, see appendix J.
2. As the formal remittance market becomes more competitive, there is less cost advantage for informal channels; however, in many countries, informal channels are still

extremely cost-efficient and fast in processing cash transactions, with little or no process for verifying the ID of money senders or recipients. Usually these informal systems are outside the regulatory parameters, and the nontransparent nature of these systems is a weak link in AML/CFT regimes focused on financial transactions. This informal alternative means that such funds transfer providers are often not licensed or registered with authorities, and that the funds transfers and related transactions are usually not recorded, cannot be traced, and therefore pose higher integrity risks.

3. See FATF 2011, http://www.fatf-gafi.org/topics/financialinclusion/documents/fatfguidanceonanti-moneylaunderingandterroristfinancingmeasuresandfinancialinclusion.html. This paper has been revised and updated to reflect the changes in the FATF recommendations adopted in 2012. The revised guidance paper, published in February 2013, is available at http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf. The lead author of this report, Emiko Todoroki, provided substantial inputs to these guidance papers as a co-project leader of these projects.

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APPENDIX A

Remittance Regulatory Survey

Questionnaire on Regulating and Supervising Remittance Service Providers

I. Definition of Terms Used in This Questionnaire

a) "Remittance Service" means *a service that enables end users to send and/or receive remittances.*[1]

b) "Remittance Service Provider" (RSP) means *an entity, operating as a business, that provides a remittance service for a price to end users, either directly or through agents.*[2] Therefore, RSP is a broad term used to refer to all the remittance service providers. An RSP could be, for example, an entity specialized in remittance services (money transfer operator [MTB]), a bank, a credit union, or a microfinance institution. However, once again, please note that this questionnaire focuses on person-to-person remittance transfers. Thus, a bank or a bank-like institution's role is captured in the following scenarios in this questionnaire: (a) when they have a separate business line specialized in low-value remittances, (b) when they offer a specific remittance product or service catering to low-value transfers, or (c) when they act as an agent to money transfer operators. Accordingly, it is not meant to capture large remittances (e.g., Society for Worldwide Interbank Financial Telecommunication [SWIFT] transfers for individual remittance requests), which are sent, for example, for the purpose of business transactions.

c) "Money Service Business" (MSB) means *an entity, operating as a business, that is allowed to provide financial services as a nonbank entity, including a remittance service and other services such as money exchange and redeeming of money orders and checks.*

d) "Independent Money Remittance Service Providers" means remittance service providers *who are licensed or registered to provide only remittance services or limited other services such as foreign currency exchange*. This service provider bears the main legal responsibility for the remittance products or services offered either in its own locations or via agents. They may be referred to as money transfer operators or exchange companies but not as such institutions as banks and bank-like institutions.

Addendum: In the study, we refer to "Independent Money Remittance Service Providers" as "money transfer businesses (MTBs)."

II. The General Framework of Remittance Service Providers

1. Which of the following are allowed to offer remittance services either as a principal **remittance service provider** or as an agent of the **remittance service provider**? If both, mark in two columns. In addition, please specify the underlying law or regulation which allows the provision of the service.

   Note: This question has been jointly formulated by the Financial Market Integrity Unit and the Payment Systems Unit of the World Bank. Thus, a similar question also appears in the section on cross-border payments and international remittances (question V.2) of the payment systems questionnaire.

Entities	*As a principal service provider Check (✓) if allowed*	*As an agent Check (✓) if allowed*	*Underlying law/ regulation*
• Money transfer operators (firm)			
• Money transfer operators (individual)			
• Money transfer operators (as part of money service businesses)[3]			
• Exchange bureaus/companies			
• Banks			
• Credit unions/savings and loan institutions			
• Microfinance institution			
• Postal financial service or post offices			
• Retail businesses (supermarkets, pharmacies, gas stations, travel agencies, etc.)			
• Mobile money transfer operators			
• Specify the others			

2. Please provide the number of entities licensed or registered as a **principal independent money remittance service provider** in the relevant column.

   Note: Please note that this question focuses on an "independent money remittance service provider" that is an entity which is distinctively licensed or registered to provide remittance service and bears the main legal responsibility of the remittance products or services offered either in its own locations or via agents. Accordingly, the entities such as banks and bank-like institutions which provide the remittance services under their primary licenses are excluded from this question.

	Select the relevant column	
Entities	*Number of entities licensed*	*Number of entities registered*
• Money transfer operators (firm)		
• Money transfer operators (individual)		

table continues next page

(continued)

Entities	*Select the relevant column*	
	Number of entities licensed	*Number of entities registered*
• Money transfer operators (as part of money service businesses)[4]		
• Exchange bureaus/companies		
• Postal financial service or post offices		
• Specify the others		

3. Please provide the number of entities or individuals licensed, registered, or listed as **agents** of an **independent money remittance service provider** in the relevant column.

   Note: For the purpose of this question, "agent" means the entity or person who acts for the principal independent money remittance service provider and is authorized to offer remittance services or products which originally belong to the principal.

Entities	*Select the relevant column*		
	Number of agents licensed	*Number of agents registered*	*Number of agents listed*[5]
• Exchange bureaus/companies			
• Bank branches			
• Credit union/savings and loan institution branches			
• Microfinance institution branches			
• Postal financial service or post office			
• Retail businesses (supermarkets, pharmacies, gas stations, travel agencies, etc.)			
• Individuals specialized in remittances			
• Specify the others			

4. Is there a "distinct" law or regulation (or similar legislative document) which governs the operation of money remittance services (i.e., registration or licensing requirement, reporting requirements, among others)? If so, please provide the name of the law or regulation. (Please provide a copy of this regulation in English, if available.)

	Check (✓)
• Yes	
• No	

If yes, please provide the name of the law or regulation (or similar legislative document)

5. Following on question 4, if it is a regulation (or similar legal document), what is the underlying primary legislation? (i.e., which law gives the power to the designated authority to issue the regulations regarding money remittance services?)

6. Following on question 4, is there any special terminology (term, name, phrase) used in legislation to describe the natural or legal persons who provide remittance products or services? If so, please provide the mentioned name, term, or phrase (for example, remittance company, money service provider, money transfer operator, exchange company, etc.)

7. How does an international money transfer operator such as Western Union and MoneyGram operate in your country?

Check (✓) the answers that apply
• By partnering with a local remittance company
• By partnering with banks
• By partnering with post office
• By locally incorporating itself
• Other (specify)

8. Is there any legislation prohibiting the "Exclusivity Agreements" between principals and agents? If yes, when was this prohibition introduced? Please also provide the name of related law and number of exact article. If no, is there any plan to eliminate the "Exclusivity Agreements"?[6]

Prohibition of exclusivity agreements	*Check (✓)*	*Year introduced*
• Yes		
• No		

If yes, please provide the name of the law or regulation

Any plan to eliminate exclusivity agreements	*Check (✓)*
• Yes	
• No	

III. Services Provided by Independent Money Remittance Service Providers

9. Following on question 6, what services other than the remittance service are allowed by **independent money remittance service providers**?

Services	*Check (✓) ALL the answers that apply*
• Only the remittance transfer service	
• Foreign currency exchange	
• Check cashing	
• Short-term safe keeping of money	
• Other (specify)	

10. Do the **independent money remittance service providers** offer remittance services through the use of new instruments?

New technologies	*Check (✓) ALL the answers that apply*
• Internet	
• Mobile phone	
• Automatic teller machine (ATM)	
• Credit card	
• Debit and pre-loaded card	
• Other (specify)	

11. Do the following institutions offer a specific (proprietary) remittance product/service targeting migrant workers for sending small values? If so, please indicate the name of product.[7]

Institution	*Unique remittance product*
• Banks	
• Credit union	
• Savings and loan institutions	
• Microfinance institutions	
• Other (specify)	

IV. AML/CFT Legislation Applicable to Remittance Service Providers

12. What is the basis for AML/CFT requirements which are applicable to all the **remittance service providers**? (Please provide a copy of this law/regulation in English, if available.)

	Check (✓) the best that applies					
Basis for AML/CFT requirements applied to remittance service	*Independent money remittance service providers*	*Banks*	*Credit unions/ savings and loan institutions*	*Microfinance institutions*	*Postal financial service*	*Mobile money transfer operator*
• Remittance service is not subject to AML/ CFT laws or regulations.						

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(continued)

Basis for AML/CFT requirements applied to remittance service	*Check (✓) the best that applies*					
	Independent money remittance service providers	*Banks*	*Credit unions/ savings and loan institutions*	*Microfinance institutions*	*Postal financial service*	*Mobile money transfer operator*
• Remittance service is subject to AML/CFT laws or regulations as one of obliged entities, and this is the only obligation which remittance service has. In other words, remittance service is otherwise not subject to other specific laws or regulations.						
• AML/CFT requirements are directly covered by the law/regulation which specifically governs remittance service and this is the only law/regulation directly governing remittance service (for example, regulation on money remittance service providers).						
• Remittance service is explicitly covered both in the AML/CFT laws or regulations and in the law or regulation on remittance service.						

13. Which AML/CFT obligations are applicable to **remittance service providers**? Please leave the column empty if the category is not allowed to provide remittance services.

	Check (✓) all that apply					
AML/CFT obligation	*Independent money remittance service providers*	*Banks*	*Credit unions/ savings and loan institutions*	*Micro-finance institutions*	*Postal financial service*	*Mobile money transfer operator*
• Customer due diligence (CDD)						
• Suspicious transaction reporting (STR)						
• Currency transaction reporting (CTR)						
• Record keeping						
• Training						
• Compliance officer						
• Internal controls						
• Other (specify)						

14. Is there any guideline issued specifically to explain the AML/CFT obligations applicable to **Independent Money Remittance Service Providers**? If so, please specify the name/number and issuance date of the guideline.

Guideline	*Check (✓)*
• Yes	
• No	

If yes, please specify the name/number and issuance date

15. Are there CDD, STR, CTR, and record-keeping thresholds for **remittance service providers**? If so, please specify the threshold. Please leave the column empty if the category is not allowed to provide remittance services.

	Threshold					
Obligation	*Independent money remittance service providers*	*Banks*	*Credit unions/ savings and loan institutions*	*Microfinance institutions*	*Postal financial service*	*Mobile money transfer operator*
• Exemption for CDD						
• STR[8]						
• CTR						
Record Keeping						

16. Do you have the statistics of STRs and CTRs submitted by **independent money remittance service providers** for the last 5 years? Please fill in the table as much as it is available.[9]

		Number submitted by independent money remittance service providers	*As a percentage of total reporting by all the reporting entities*
Year 2009	• STR		
	• CTR		
Year 2008	• STR		
	• CTR		
Year 2007	• STR		
	• CTR		
Year 2006	• STR		
	• CTR		
Year 2005	• STR		
	• CTR		

17. What information needs to be obtained by the **independent money remittance service providers** when a customer requests to remit money? Are there applicable thresholds? If the requirements differ depending on the service provider, please specify the service provider.

CDD requirements	*Check (✓)*	*Threshold if applicable*
• Name of the sender		
• Birthdate of the sender		
• Address of the sender		
• Nature or purpose of the remittance		
• Name of the recipient		
• Address of the recipient		
• Specify the others		

18. Does the law or regulation specify which documents can be accepted for CDD purposes by **the independent money remittance service providers**? If so, please indicate what those documents are.

	Check (✓) all that apply
• Passport	
• Drivers license	
• National identification (ID) card	
• Specify others	

19. Is any document asked for (sender) address verification? If one of the above documents is used for the address verification, please indicate so.

Address verification	*Check (✓)*
• Yes	
• No	

If yes, please specify the acceptable documents.

20. How long is the record-keeping requirement applied to **independent money remittance service providers**?

_____ *years.*

21. What are the types of sanctions applicable to **independent money remittance service providers** in case of failing to comply with AML obligations? What is the law or regulation which provides the sanction?

	Sanction	*Related law/regulation/article*
• CDD		
• STR		
• CTR		
• Record keeping		
• Training		
• Compliance officer		
• Internal control program		

22. Who will be held accountable in case of failing to comply with AML regulations?

	Check (✓) all that apply
• Senior management of principally licensed business	
• Compliance officer of principally licensed business	
• Agent or subagent	
• Specify the others	

23. If a compliance officer is required for the **independent money remittance service providers**, at what level must the compliance officer be?

	Check (✓) all that applies
• Senior level in principally licensed business	
• There must be a compliance officer in principally licensed business but not necessarily at the senior level	
• Other (specify)	

V. Registration/Licensing

Please note that this section concerns only the independent money remittance service providers.

24. Who is the designated authority to conduct the licensing or registration procedures of **independent money remittance service providers**? Please fill in the applicable boxes.

Note: In some countries, agents may be called "subagents" since primary service providers are considered agents of international money transfer operators.

Licensing/Registration	*Authority*
• Licensing for **primary service provider**	
• Licensing for **agents**	
• Registration of **primary service provider**	
• Registration of **agents**	

25. If licensing/registration applies only to principal **independent money remittance service providers**, is there any listing requirement regarding agents or subagents?

	Check (✓)
• No listing requirement	
• Listing – submitted to authority	
• Listing – kept by the primary service provider	

26. What is the fee requirement for licensing/registration? Is the requirement one time or annual (or another frequency)? Are agents also subject to the fee requirement? Please fill in the applicable boxes.

		One time	*Annual (indicate if other)*
• Licensing	For principals		
	For agents		
• Registration	For principals		
	For agents		

27. What are the requirements/conditions for licensing or registration?

	Check (✓) All the answers that apply		*Please provide the details of this requirement*
Requirement	*For principal*	*For agent*	
• Fit and proper[10]			
• Experience			
• Structure[11]			
• Capital requirement			
• AML compliance plan			
• Specify the others			

28. How long does the licensing or registration process take on average?
_____ months

29. Please indicate the main reasons for selecting licensing or registration regime. Please check the primary one(s).

Licensing	*Check (✓)*	*Registration*	*Check (✓)*
• Due diligence of service providers upfront		• For a softer transition	
• Better for AML purposes		• Easier to enforce	
• Ensuring the compliance of all		• More flexible	
• Cost		• Cost	
• Please specify the other primary reason or reasons		• Please specify the other primary reason or reasons	

VI. Unlicensed/Unregulated Remittance Services

30. Is operating a remittance business without a license or a registration prohibited in your jurisdiction? If yes, please provide the law and exact article prohibiting unregistered/unlicensed remittance services. (Please provide a copy of related article in English, if available.)

Prohibited	*Check (✓)*
• Yes	
• No	

If yes, please specify the related law and article

31. What is the procedure for entities or people operating a remittance business without license or registration? Please explain briefly. (For example, the authority may first warn and give a certain deadline for compliance. Or business may be closed until they register or obtain a license, etc.)

Please explain

32. What are the applicable sanctions if an entity or person keeps operating remittance business without license or registration despite the warnings and other initial procedures?

Sanction	*Years or amount*
• Imprisonment	
• Criminal fine	
• Administrative fine	
• Other	

33. Following on the previous question, how many enforcement actions have been taken in the last 5 years? Please specify for each type of sanction.

(For example, Administrative Fine imposed on 5 companies with the total fine of US$1 million.)

34. What is your view on the size of **unlicensed/unregistered** remittance service providers in your jurisdiction?

Handling _____% of all the remittance transfers

35. In your view, did the registration or licensing help to formalize the remittance market successfully? Please indicate briefly the grounds for your answer.

	Check (✓)	*Why*
Yes		
No		

VII. Regulation and Supervision

36. Which competent authority is authorized to **regulate independent money remittance service providers**? Please indicate the related law and exact article.

    Note: This question was jointly formulated by the Financial Market Integrity Unit and the Payment Systems Unit of the World Bank. Thus, a similar question also appears in the section on cross-border payments and international remittances (question V.2) of the payment systems questionnaire.

Competent authority	*Related law and exact article*

37. Which competent authority is authorized to **supervise independent money remittance service providers**? Please indicate the related law and exact article.

    Note: This question was jointly formulated by the Financial Market Integrity Unit and the Payment Systems Unit of the World Bank. Thus, a similar question also appears in the section on cross-border payments and international remittances (question V.2) of the payment systems questionnaire.

Competent authority	*Related law and exact article*

38. Is there a separate team of examiners/inspectors for examination of **independent money remittance service providers**? What is the number of examiners/inspectors in charge of on-site/off-site examinations of **independent money remittance service providers**?

Separate team	*Check (✓)*
• Yes	
• No	

Number of examiners	*Number*
• On-site	
• Off-site	

39. What type of training do the examiners/inspectors receive?

40. What proportion of the **independent money remittance service providers** has been subject to on-site examination so far? How frequently is on-site examination undertaken?

	On-site	*Off-site*
Number of entities supervised		
Proportion of entities supervised (%)		
Frequency of supervision		

41. How are the on-site and off-site supervisions conducted?

On-site	*Off-site*
(What is examined during the on-site supervision? i.e., financial viability, large transactions, suspicious transactions, etc.)	(i.e., Which documents are collected and which information is monitored?)

42. Is there any legislation enabling the authority to revoke or suspend the license of **independent money remittance service providers**? If yes, please indicate the related law and articles. In which cases will the license be revoked or suspended?

Revocation or suspension	*Check (✓)*
• Yes	
• No	

	Explanation
• If yes, please specify the related law and article	
• Cases where the license will be revoked or suspended	

43. Following on the previous question, how many Revocations or Suspensions have been made in the last 5 years?

VIII. Other

44. Did any of the STRs reveal areas of high risk or vulnerability among the **remittance service providers**? If so, please discuss any tends or areas of risk/vulnerabilities demonstrated by STRs.

Please describe

45. How many money laundering or terrorist financing investigations that involved the use of money **remittance service providers** have been conducted and how many resulted in successful conviction?

	Number of investigations	*Number of convictions*
• Money laundering cases which involved the use of money remittance service providers		
• Terrorist financing cases which involved the use of money remittance service providers		

46. Has law enforcement identified typical predicate offenses associated with laundering through **money remittance service providers**?
47. Have authorities in your country acted on the recommendations of Special Recommendation VI or other related FATF Recommendations after the most recent assessment (whether carried out under the FSAP or mutual evaluations of FATF/FSRBs)? Please indicate the major developments in bullet points.
48. Is there any survey or research undertaken in your country regarding the remittance services? If so, could the survey/research be shared with the study team? Please provide a copy, if available.

Notes

1. This is the definition used in the "General Principles for International Remittance Services." For further reference, see http://www.bis.org/publ/cpss76.pdf?noframes=1.
2. Ibid.

3. In some countries, firms specialized in remittances are included in the "Money Service Business" (MSB) definition, which also covers other activities such as money exchange dealing or issuing/redeeming money orders and traveler's checks. Such countries should fill the MSB row rather than "Money Transfer Operator (Firm)" row in the table. Please consider these instructions in Question 3 and Question 4 also.
4. Please include only those MSBs that deal with the remittance business. If no statistics are maintained separately for MSBs that are providing only remittance services, please provide the number of MSBs and indicate that there is no separate count.
5. In some countries, the agents are only required to be listed with the principal service provider instead of either licensed or registered with authorities.
6. *Exclusivity agreement* is an agreement whereby an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service. For example, an international MTO prohibits a local MTO from engaging in remittance businesses through any other international MTO.
7. Please note that the question here is not intended for regular wire transfers such as use of SWIFT, or for remittance products offered as an agent of independent money remittance service providers. Rather, the question focuses on special remittance products developed by banks mainly to compete with international money transfer operators (MTOs). For example, Wells Fargo, which is a bank, offers a convenient and economical remittance service for particular corridors under "ExpressSend" brand. "ExpressSend" targets the major migrant groups in the United States and, due to the specialization in remittances, asks prices lower than a regular bank transfer.
8. Many countries do not introduce a threshold for STR. However, some countries decided to do so.
9. In the case of MSBs, please report the number of STRs and CTRs submitted by those providing remittance services. If no statistics are maintained separately for them, please provide the number of STRs and CTRs submitted by all the MSBs and indicate that there is no separate counting.
10. The controls to ascertain the honesty, integrity, and reputation of the people who intend to operate a remittance business.
11. For example, the remittance business may have to be established in the form of a "corporation" or "limited liability company" or other category of company.

APPENDIX B

Source Tables

Table B.1 Number of Countries in which a Certain Entity Is Allowed to Operate as a Principal Remittance Service Provider

Institutions allowed to provide remittance services as principals		*MTO (firm)*	*MTO (individual)*	*MSB/payment institution*	*Exchange house*	*Banks*	*Credit union, savings and loan institutions*	*Microfinance institutions*	*Post office*	*Retail business*	*Mobile money*
Sending	United States	y	y	y	y	y	y	y	y	y	y
	Germany	–	–	y	–	y	y	–	–	–	y
	United Kingdom	y	y	y	y	y	y	y	y	y	y
	Italy	–	–	y	–	y	n.a.	n.a.	y	y	y
	Canada	y	y	y	y	y	y	n.a.	n.a.	y	y
	Korea, Rep.	–	–	–	–	y	–	–	y	–	–
	Netherlands	–	–	y	–	y	–	–	–	–	–
	South Africa	–	–	–	y	y	–	–	y	–	–
	Malaysia	y	–	–	–	y	y	y	y	y	y
	Qatar	–	–	–	y	y	–	–	–	–	–
Receiving	Mexico	y	y	–	y	y	y	y	y	–	–
	Indonesia	y	y	–	–	y	y	y	y	y	y
	Nigeria	–	–	–	–	y	–	–	–	–	–
	Vietnam	y	–	–	–	y	y	–	y	–	–
	Morocco	–	–	–	y	y	–	–	y	–	–
	Serbia	–	–	–	–	y	–	–	y	–	–
	Guatemala	y	y	–	–	y	–	–	–	–	–
	Jamaica	y	–	–	–	y	–	–	–	–	–
	Uganda	y	–	–	y	y	–	–	y	–	y

table continues next page

Table B.1 Number of Countries in which a Certain Entity Is Allowed to Operate as a Principal Remittance Service Provider *(continued)*

Institutions allowed to provide remittance services as principals		*MTO (firm)*	*MTO (individual)*	*MSB/payment institution*	*Exchange house*	*Banks*	*Credit union, savings and loan institutions*	*Microfinance institutions*	*Post office*	*Retail business*	*Mobile money*
	Honduras	y	–	–	–	y	–	–	–	–	–
	Nepal	y	–	–	y	y	y	–	–	–	–
	Albania	–	–	y	–	y	–	–	y	–	–
	Afghanistan	y	y	y	–	y	–	–	–	–	y
	Haiti	y	–	–	–	y	y	–	–	–	–
	Mongolia	y	–	–	y	y	–	–	–	–	y
	Suriname	y	–	–	–	y	–	–	y	–	–
Number of responses[a]	Sending	10	10	10	10	10	9	8	9	10	10
	Receiving	16	16	16	16	16	16	16	16	16	16
	All	26	26	26	26	26	25	24	25	26	26
Yes (number)	Sending	4	3	6	5	10	5	3	6	5	6
	Receiving	12	4	2	5	16	5	2	8	1	4
	All	16	7	8	10	26	10	5	14	6	10

Note: – = no; y = yes; n.a. = not applicable; MSB = money service business; MTO = money transfer operator.
a. Not applicable (n.a.) are not included in the sum.

Table B.2 Number of Countries in which a Certain Entity Is Allowed to Act as an Agent on Behalf of MTB

Institutions allowed to provide remittance services as agents		*MTO (firm)*	*MTO (individual)*	*MSB/ payment institution*	*Exchange house*	*Banks*	*Credit union, savings and loan institutions*	*Microfinance institutions*	*Post office*	*Retail business*	*Mobile money*
Sending	United States	y	y	y	y	y	y	y	y	y	y
	Germany	–	–	y	y	y	y	–	y	y	–
	United Kingdom	y	y	y	y	y	y	y	y	y	y
	Italy	–	–	y	–	y	n.a.	n.a.	y	y	y
	Canada	y	y	y	y	y	y	n.a.	y	y	y
	Korea, Rep.	–	–	–	–	y	–	–	–	–	–
	Netherlands	y	–	y	–	y	–	–	–	–	–
	South Africa	–	–	–	y	y	–	–	–	–	–
	Malaysia	y	–	–	–	y	y	y	y	y	y
	Qatar	–	–	–	–	–	–	–	–	–	–
Receiving	Mexico	y	y	–	y	y	y	y	y	y	y
	Indonesia	y	y	–	–	y	y	y	y	y	y
	Nigeria	–	–	–	–	y	–	–	–	–	y
	Vietnam	y	–	–	–	y	y	–	–	y	–
	Morocco	y	–	–	–	y	–	–	y	–	–
	Serbia	–	–	–	–	y	–	–	y	–	–
	Guatemala	–	–	–	y	y	y	–	–	y	–
	Jamaica	y	–	–	y	y	y	y	y	y	–

table continues next page

Table B.2 Number of Countries in which a Certain Entity Is Allowed to Act as an Agent on Behalf of MTB *(continued)*

Institutions allowed to provide remittance services as agents		*MTO (firm)*	*MTO (individual)*	*MSB/ payment institution*	*Exchange house*	*Banks*	*Credit union, savings and loan institutions*	*Microfinance institutions*	*Post office*	*Retail business*	*Mobile money*
	Uganda	y	–	–	y	y	y	y	–	y	y
	Honduras	y	y	–	–	y	y	y	–	y	y
	Nepal	y	–	–	y	y	y	–	y	y	–
	Albania	–	–	y	y	y	–	–	y	y	–
	Afghanistan	–	–	–	–	y	–	y	y	y	y
	Haiti	–	–	–	y	y	y	y	–	y	y
	Mongolia	y	–	–	y	y	–	–	–	–	y
	Suriname	y	–	–	y	y	–	–	y	y	–
Number of responses[a]	Sending	10	10	10	10	10	9	8	10	10	10
	Receiving	16	16	16	16	16	16	16	16	16	16
	All	26	26	26	26	26	25	24	26	26	26
Yes (number)	Sending	5	3	6	5	9	5	3	6	6	5
	Receiving	10	3	1	9	16	9	7	9	12	8
	All	15	6	7	14	25	14	10	15	18	13

Note: – = no; y = yes; n.a. = not applicable; MSB = money service business; MTB = money transfer business; MTO = money transfer operator.
a. Not applicable (n.a.) are not included in the sum.

Table B.3 Mode of Operation of International Money Transfer Operators

How do the international MTOs operate in the country?		*Partnering with local remittance company*	*Partnering with banks*	*Partnering with post office*	*Locally incorporating*	*Other*
Sending	United States	y	y	–	y	–
	Germany	y	y	y	y	y
	United Kingdom	–	–	–	y	y
	Italy	y	y	y	–	y
	Canada	y	y	y	y	–
	Korea, Rep.	–	y	–	–	–
	Netherlands	y	–	–	y	y
	South Africa	–	y	–	–	y
	Malaysia	y	y	y	–	–
	Qatar	y	y	–	–	–
Receiving	Mexico	y	y	–	y	–
	Indonesia	y	y	y	–	–
	Nigeria	–	y	–	–	–
	Vietnam	y	y	y	–	–
	Morocco	y	y	y	–	–
	Serbia	–	y	y	–	–
	Guatemala	y	y	–	y	y
	Jamaica	y	–	–	–	–
	Uganda	y	y	–	y	y
	Honduras	y	y	–	y	y
	Nepal	y	y	y	y	–
	Albania	y	y	y	–	–
	Afghanistan	y	y	y	–	–
	Haiti	y	y	–	–	–
	Mongolia	–	y	–	–	–
	Suriname	–	y	y	y	–
Number of responses	Sending	10	10	10	10	10
	Receiving	16	16	16	16	16
	All	26	26	26	26	26
Yes (number)	Sending	7	8	4	5	5
	Receiving	12	15	8	6	3
	All	19	23	12	11	8

Note: – = no; y = yes; MTO = money transfer operator.

Table B.4 Number of Countries in which MTBs Offer Remittance Services through the Use of Technological Devices

Provision of remittance services through new technologies		*Internet*	*Mobile phone*	*ATM*	*Credit card*	*Debit/ pre-loaded*
Sending	United States	y	y	y	y	y
	Germany	y	–	–	y	–
	United Kingdom	y	y	y	y	–
	Italy	–	y	y	–	y
	Canada	y	–	y	y	y
	Korea, Rep.	–	–	–	–	–
	Netherlands	y	–	y	–	y
	South Africa	–	y	–	–	–
	Malaysia	y	y	y	–	y
	Qatar	–	–	–	–	–
Receiving	Mexico	y	–	y	–	y
	Indonesia	–	y	y	–	–
	Nigeria	y	y	–	–	–
	Vietnam	–	–	–	–	–
	Morocco	–	–	–	–	y
	Serbia	–	–	–	–	–
	Guatemala	–	–	–	–	–
	Jamaica	–	–	–	y	y
	Uganda	y	y	–	–	y
	Honduras	–	–	–	–	–
	Nepal	–	–	–	–	–
	Albania	n.k.	n.k.	n.k.	n.k.	n.k.
	Afghanistan	y	y	–	–	–
	Haiti	–	y	–	–	–
	Mongolia	–	y	–	–	–
	Suriname	–	–	–	–	–
Number of responses[a]	Sending	10	10	10	10	10
	Receiving	15	15	15	15	15
	All	25	25	25	25	25
Yes (number)	Sending	6	5	6	4	5
	Receiving	4	6	2	1	4
	All	10	11	8	5	9

Note: – = no; y = yes; n.k. = not known due to no or limited response; ATM = automatic teller machine; MTB = money transfer business.
a. Not known (n.k.) are not included in the sum.

Table B.5 Compliance Level among BRCA 26 Countries: Special Recommendation VI (New Recommendation 14)

Special Recommendation VI compliance		*Compliant (C)*	*Largely compliant (LC)*	*Partially compliant (PC)*	*Non-compliant (NC)*
Sending	United States		LC		
	Germany		LC		
	United Kingdom		LC		
	Italy		LC		
	Canada				NC
	Korea, Rep.			PC	
	Netherlands		LC		
	South Africa			PC	
	Malaysia			PC	
	Qatar			PC	
Receiving	Mexico			PC	
	Indonesia				NC
	Nigeria			PC	
	Vietnam				NC
	Morocco			PC	
	Serbia			PC	
	Guatemala		LC		
	Jamaica		LC		
	Uganda			PC	
	Honduras				NC
	Nepal			PC	
	Albania			PC	
	Haiti				NC
	Mongolia				NC
	Suriname				NC
	Afghanistan				NC
(Number)	Sending	0	5	4	1
	Receiving	0	2	7	7
	Total	0	7	11	8
(%)	Sending	0.0%	50.0%	40.0%	10.0%
	Receiving	0.0%	12.5%	43.8%	43.8%
	Total	0.0%	26.9%	42.3%	30.8%

Source: Authors' compilation based on Mutual Evaluation/Detailed Assessment Reports (MER/DAR) ratings.
Note: BRCA = Bilateral Remittance Corridor Analysis.

Table B.6 Compliance Level among BRCA 26 Countries: Special Recommendation VII (New Recommendation 16)

Special Recommendation VII compliance		*Compliant (C)*	*Largely compliant (LC)*	*Partially compliant (PC)*	*Noncompliant (NC)*
Sending	United States		LC		
	Germany	C			
	United Kingdom			PC	
	Italy				NC
	Canada				NC
	Korea, Rep.			PC	
	Netherlands	C			
	South Africa			PC	
	Malaysia		LC		
	Qatar				NC
Receiving	Mexico			PC	
	Indonesia				NC
	Nigeria				NC
	Vietnam				NC
	Morocco				NC
	Serbia			PC	
	Guatemala		LC		
	Jamaica			PC	
	Uganda				NC
	Honduras				NC
	Nepal			PC	
	Albania				NC
	Haiti				NC
	Mongolia				NC
	Suriname				NC
	Afghanistan			PC	
(Number)	Sending	2	2	3	3
	Receiving	0	1	5	10
	Total	2	3	8	13
(%)	Sending	20.0%	20.0%	30.0%	30.0%
	Receiving	0.0%	6.3%	31.3%	62.5%
	Total	7.7%	11.5%	30.8%	50.0%

Source: Authors' compilation based on Mutual Evaluation/Detailed Assessment Reports (MER/DAR) ratings.
Note: BRCA = Bilateral Remittance Corridor Analysis.

Table B.7 Compliance Level among BRCA 26 Countries: Recommendation 5 (New Recommendation 10)

Recommendation 5 compliance		*Compliant (C)*	*Largely compliant (LC)*	*Partially compliant (PC)*	*Non-compliant (NC)*
Sending	United States			PC	
	Germany			PC	
	United Kingdom			PC	
	Italy			PC	
	Canada				NC
	Korea, Rep.			PC	
	Netherlands			PC	
	South Africa			PC	
	Malaysia		LC		
	Qatar				NC
Receiving	Mexico			PC	
	Indonesia			PC	
	Nigeria				NC
	Vietnam				NC
	Morocco				NC
	Serbia			PC	
	Guatemala			PC	
	Jamaica			PC	
	Uganda			PC	
	Honduras				NC
	Nepal				NC
	Albania				NC
	Haiti				NC
	Mongolia				NC
	Suriname				NC
	Afghanistan				NC
(Number)	Sending	0	1	7	2
	Receiving	0	0	6	10
	Total	0	1	13	12
(%)	Sending	0.0%	10.0%	70.0%	20.0%
	Receiving	0.0%	0.0%	37.5%	62.5%
	Total	0.0%	3.8%	50.0%	46.2%

Source: Authors' compilation based on Mutual Evaluation/Detailed Assessment Reports (MER/DAR) ratings.
Note: BRCA = Bilateral Remittance Corridor Analysis.

Table B.8 Legal Basis for the AML/CFT Requirements among Sending and Receiving Countries

The base for AML/CFT requirements *– No AML Obligation (NO)* *– Only AML Law (OA)* *– Sector Specific Law (SL)* *– Both AML and Sector Sp. (BT)*		*Money transfer businesses*	*Banks*	*Credit union, savings and loan institutions*	*Microfinance*	*Postal financial services*	*Mobile money operators*
Sending	United States	BT	BT	BT	n.a.	BT	BT
	Germany	BT	BT	BT	n.a.	n.a.	BT
	United Kingdom	BT	BT	BT	BT	BT	BT
	Italy	BT	BT	n.a.	n.a.	BT	BT
	Canada	OA	OA	OA	OA	OA	n.k.
	Korea, Rep.	n.a.	BT	n.a.	n.a.	BT	n.a.
	Netherlands	BT	BT	n.a.	n.a.	n.a.	n.a.
	South Africa	OA	OA	n.a.	n.a.	OA	n.a.
	Malaysia	BT	BT	BT	BT	BT	BT
	Qatar	OA	OA	n.a.	n.a.	n.a.	n.a.
Receiving	Mexico	OA	BT	BT	BT	BT	n.a.
	Indonesia	BT	BT	NO	BT	BT	NO
	Nigeria	n.a.	OA	n.a.	n.a.	n.a.	BT
	Vietnam	OA	OA	OA	n.a.	OA	n.a.
	Morocco	OA	OA	n.a.	n.a.	OA	n.a.
	Serbia	n.a.	OA	n.a.	n.a.	OA	n.a.
	Guatemala	OA	OA	OA	n.a.	n.a.	n.a.
	Jamaica	BT	BT	BT	BT	BT	n.a.
	Uganda	BT	OA	n.a.	n.a.	OA	OA
	Honduras	BT	BT	BT	n.a.	n.a.	n.a.
	Nepal	BT	BT	BT	BT	BT	n.a.
	Albania	BT	BT	n.a.	n.a.	BT	n.a.
	Afghanistan	OA	OA	n.a.	n.a.	n.a.	OA
	Haiti	OA	OA	OA	n.a.	n.a.	n.a.
	Mongolia	OA	OA	n.a.	n.a.	n.a.	n.a.
	Suriname	OA	OA	n.a.	n.a.	OA	n.a.
Total sending countries[a]	No AML Obligation (NO)	0	0	0	0	0	0
	Only AML Law (OA)	3	3	1	1	2	0
	Sector Specific Law (SL)	0	0	0	0	0	0
	Both AML and Sector Sp. (BT)	6	7	4	2	5	5
Total receiving countries[a]	No AML Obligation (NO)	0	0	1	0	0	1
	Only AML Law (OA)	8	10	3	0	5	2
	Sector Specific Law (SL)	0	0	0	0	0	0
	Both AML and Sector Sp (BT)	6	6	4	4	5	1

Note: n.a. = not applicable; n.k. = not known; AML/CFT = anti-money laundering/combating the financing of terrorism.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.9 Existence of a Distinct Law or Regulation Governing Money Transfer Businesses

Is there any distinct law, regulation, directive, etc., regulating money transfer businesses?		*Distinct law, regulation, directive, etc.*
Sending	United States	y
	Germany	y
	United Kingdom	y
	Italy	y
	Canada	y
	Korea, Rep.	n.a.
	Netherlands	y
	South Africa	–
	Malaysia	y
	Qatar	–
Receiving	Mexico	–
	Indonesia	y
	Nigeria	n.a.
	Vietnam	y
	Morocco	y
	Serbia	n.a.
	Guatemala	–
	Jamaica	y
	Uganda	y
	Honduras	y
	Nepal	y
	Albania	–
	Afghanistan	y
	Haiti	y
	Mongolia	–
	Suriname	y
Number of responses[a]	Sending	9
	Receiving	14
	All	23
Yes (number)	Sending	7
	Receiving	10
	All	17

Note: – = no; y = yes; n.a. = not applicable.
a. Not applicable (n.a.) are not included in the sum.

Table B.10 Underlying Instruments That Govern Money Transfer Businesses

Is it a law (or similar), regulation (or similar), directive/ circular (or similar) that governs MTBs with dedicated legal framework?		• *Law and equivalent (L)*[a] • *Regulation (R)* • *Directive (D)*
Sending	United States	R
	Germany	L
	United Kingdom	L
	Italy	L
	Canada	R
	Korea, Rep.	n.a.
	Netherlands	L
	South Africa	n.a.
	Malaysia	L
	Qatar	n.a.
Receiving	Mexico	n.a.
	Indonesia	R
	Nigeria	n.a.
	Vietnam	L
	Morocco	D
	Serbia	n.a.
	Guatemala	n.a.
	Jamaica	D
	Uganda	R
	Honduras	R
	Nepal	R
	Albania	n.a.
	Afghanistan	R
	Haiti	L
	Mongolia	n.a.
	Suriname	R
Total sending countries[b]	Law or similar	5
	Regulation and similar	2
	Directive/circular and similar	0
Total receiving countries[b]	Law or similar	2
	Regulation and similar	6
	Directive/circular and similar	2

Note: n.a. = not applicable; MTB = money transfer business.
a. Includes legislative decrees.
b. Not applicable (n.a.) are not included in the sum.

Table B.11 Underlying Law Governing Regulations/Directive of MTBs

If it is a regulation, directive, circular, and similar, what is the underlying law?		• *AML Law (A)* • *Exchange Control Law (E)* • *Banking or Credit Institutions Law (B)* • *Central Bank Law (C)* • *Payment Systems Law (P)*
Sending	United States	A
	Germany	n.a.
	United Kingdom	n.a.
	Italy	n.a.
	Canada	A
	Korea, Rep.	n.a.
	Netherlands	n.a.
	South Africa	n.a.
	Malaysia	n.a.
	Qatar	n.a.
Receiving	Mexico	n.a.
	Indonesia	C
	Nigeria	n.a.
	Vietnam	n.a.
	Morocco	B
	Serbia	n.a.
	Guatemala	n.a.
	Jamaica	C
	Uganda	E
	Honduras	A
	Nepal	E
	Albania	n.a.
	Afghanistan	C
	Haiti	n.a.
	Mongolia	n.a.
	Suriname	B
Total sending countries[a]	AML Law	2
	Exchange Control Law	0
	Banking or Credit Inst. Law	0
	Central Bank Law	0
	Payment Systems Laws	0
Total receiving countries[a]	AML Law	1
	Exchange Control Law	2
	Banking or Credit Inst. Law	2
	Central Bank Law	3
	Payment Systems Laws	0

Note: n.a. = not applicable; MTB = money transfer business.
a. Not applicable (n.a.) are not included in the sum.

Table B.12 Type of Distinct Law/Regulation/Directive That Governs MTBs

If there is a distinct law, regulation, directive, etc. (L/R/D), what type of L/R/D is it?		• *Remittance L/R/D (R)* • *MSB L/R/D: (M)* • *Exchange L/R/D: (E)* • *Payment Service L/R/D: (P)*
Sending	United States	M
	Germany	P
	United Kingdom	P
	Italy	P
	Canada	M
	Korea, Rep.	n.a.
	Netherlands	P
	South Africa	n.a.
	Malaysia	P
	Qatar	n.a.
Receiving	Mexico	n.a.
	Indonesia	R
	Nigeria	n.a.
	Vietnam	R
	Morocco	R
	Serbia	n.a.
	Guatemala	n.a.
	Jamaica	R
	Uganda	E
	Honduras	R
	Nepal	R
	Albania	n.a.
	Afghanistan	M
	Haiti	M
	Mongolia	n.a.
	Suriname	R
Number of sending countries[a]	Remittance L/R/D: (R)	0
	MSB L/R/D: (M)	2
	Exchange L/R/D: (E)	0
	Payment Service L/R/D: (P)	5
Number of receiving countries[a]	Remittance L/R/D: (R)	7
	MSB L/R/D: (M)	2
	Exchange L/R/D: (E)	1
	Payment Service L/R/D: (P)	0

Note: n.a = not applicable; MSB = money service business; MTB = money transfer business.
a. Not applicable (n.a.) are not included in the sum.

Table B.13 AML/CFT Requirements for Money Transfer Businesses

AML/CFT obligations applicable to money transfer businesses		*Customer due diligence*	*Suspicious transaction report*	*Currency transaction report*	*Record keeping*	*Training*	*Compliance officer*	*Internal controls*
Sending	United States	y	y	y	y	y	y	y
	Germany	y	y	–	y	y	y	y
	United Kingdom	y	y	–	y	y	y	y
	Italy	y	y	y	y	y	y	y
	Canada	y	y	y	y	y	y	y
	Korea, Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Netherlands	y	y	y	y	y	–	y
	South Africa	y	y	y	y	y	y	y
	Malaysia	y	y	–	y	y	y	y
	Qatar	y	y	–	y	y	y	y
Receiving	Mexico	y	y	y	y	y	y	y
	Indonesia	y	y	y	y	y	y	y
	Nigeria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vietnam	y	y	y	y	y	y	y
	Morocco	y	y	–	y	y	y	y
	Serbia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Guatemala	y	y	y	y	y	y	y
	Jamaica	y	y	y	y	y	y	y
	Uganda	y	y	–	y	y	y	y
	Honduras	y	y	y	y	y	y	y
	Nepal	y	y	y	y	y	y	y
	Albania	y	y	y	y	y	y	y
	Afghanistan	y	y	y	y	y	y	y
	Haiti	y	y	y	y	y	y	y
	Mongolia	y	y	y	y	y	y	y
	Suriname	y	y	y	y	–	–	–
Number of responses[a]	Sending	9	9	9	9	9	9	9
	Receiving	14	14	14	14	14	14	14
	All	23	23	23	23	23	23	23
Yes (number)	Sending	9	9	5	9	9	8	9
	Receiving	14	14	12	14	13	13	13
	All	23	23	17	23	22	21	22
Yes (%)	Sending	100%	100%	55.6%	100%	100%	88.9%	100%
	Receiving	100%	100%	85.7%	100%	92.9%	92.9%	92.9%
	All	100%	100%	73.9%	100%	95.7%	91.3%	95.7%

Note: – = no; y = yes; n.a. = not applicable; AML/CFT = anti-money laundering/combating the financing of terrorism.
a. Not applicable (n.a.) are not included in the sum.

Table B.14 Record-Keeping Requirements for Money Transfer Businesses

Record keeping for money transfer businesses		*Years*
Sending	United States	5
	Germany	5
	United Kingdom	5
	Italy	10
	Canada	5
	Korea, Rep.	n.a.
	Netherlands	5
	South Africa	5
	Malaysia	6
	Qatar	15
Receiving	Mexico	10
	Indonesia	5
	Nigeria	n.a.
	Vietnam	5
	Morocco	10
	Serbia	n.a.
	Guatemala	5
	Jamaica	5
	Uganda	5
	Honduras	5
	Nepal	5
	Albania	5
	Afghanistan	5
	Haiti	5
	Mongolia	5
	Suriname	7
Sending[a]	5 years	6
	6–10 years	2
	More than 10 years	1
Receiving[a]	5 years	11
	6–10 years	3
	More than 10 years	0

Note: n.a. = not applicable.
a. Not applicable (n.a.) are not included in the sum.

Table B.15 Availability of STR Breakdown by Sector for Money Transfer Businesses

Availability of STR breakdown for money transfer businesses		*2005*	*2006*	*2007*	*2008*	*2009*
Sending	United States	y	y	y	y	y
	Germany	y	y	y	y	n.k.
	United Kingdom	n.k.	n.k.	y	y	y
	Italy	y	y	y	y	y
	Canada	y	y	y	y	n.k.
	Korea, Rep.	n.a.	n.a.	n.a.	n.a.	n.a.
	Netherlands	n.k.	y	y	y	n.k.
	South Africa	y	y	y	y	y
	Malaysia	y	y	y	y	y
	Qatar	n.k.	n.k.	n.k.	n.k.	n.k.
Receiving	Mexico	n.k.	n.k.	n.k.	y	y
	Indonesia	n.k.	n.k.	n.k.	n.k.	y
	Nigeria	n.a.	n.a.	n.a.	n.a.	n.a.
	Vietnam	n.k.	n.k.	n.k.	n.k.	n.k.
	Morocco	n.k.	n.k.	n.k.	n.k.	n.k.
	Serbia	n.a.	n.a.	n.a.	n.a.	n.a.
	Guatemala	y	y	y	y	y
	Jamaica	n.a.	n.a.	n.a.	y	y
	Uganda	n.k.	n.k.	n.k.	n.k.	n.k.
	Honduras	n.k.	n.k.	n.k.	n.k.	n.k.
	Nepal	n.a.	n.a.	n.a.	n.a.	n.k.
	Albania	n.k.	n.k.	n.k.	n.k.	n.k.
	Afghanistan	n.k.	n.k.	n.k.	n.k.	n.k.
	Haiti	n.k.	n.k.	n.k.	n.k.	n.k.
	Mongolia	n.k.	n.k.	n.k.	n.k.	n.k.
	Suriname	y	y	y	y	y
Number of responses[a]	Sending	9	9	9	9	9
	Receiving	12	12	12	13	14
Yes (number)	Sending	6	7	8	8	5
	Receiving	2	2	2	4	5
Yes (%)	Sending	66.7%	77.8%	88.9%	88.9%	55.6%
	Receiving	16.7%	16.7%	16.7%	30.8%	35.7%

Note: y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; STR = Suspicious Transaction Reporting.
a. Not applicable (n.a.) is not included in the sum, while "n.k." is included.

Table B.16 STR Reporting Filed by Money Transfer Businesses
Percent

STR reporting filed by money transfer businesses (% of total STRs received by FIU)		*2005*	*2006*	*2007*	*2008*	*2009*
Sending	United States	42	46	47	41	41
	Germany	18	18	19	13	n.k.
	United Kingdom	n.k.	n.k.	4	4	4
	Italy	15	13	11	8	14
	Canada	22	27	26	24	n.k.
	Korea, Rep.	n.a.	n.a.	n.a.	n.a.	n.a.
	Netherlands	n.k.	84	90	93	n.k.
	South Africa	75	58	63	49	56
	Malaysia	5	17	6	25	40
	Qatar	n.k.	n.k.	n.k.	n.k.	n.k.
Receiving	Mexico	n.k.	n.k.	n.k.	n.k.	n.k.
	Indonesia	0	0	0	0	0
	Nigeria	n.a.	n.a.	n.a.	n.a.	n.a.
	Vietnam	n.k.	n.k.	n.k.	n.k.	n.k.
	Morocco	n.k.	n.k.	n.k.	n.k.	n.k.
	Serbia	n.a.	n.a.	n.a.	n.a.	n.a.
	Guatemala	3	10	14	15	25
	Jamaica	n.a.	n.a.	n.a.	95	95
	Uganda	n.k.	n.k.	n.k.	n.k.	n.k.
	Honduras	n.k.	n.k.	n.k.	n.k.	n.k.
	Nepal	n.a.	n.a.	n.a.	n.a.	0
	Albania	n.k.	n.k.	n.k.	n.k.	n.k.
	Afghanistan	n.k.	n.k.	0	0	0
	Haiti	n.k.	n.k.	n.k.	n.k.	n.k.
	Mongolia	n.k.	n.k.	n.k.	n.k.	n.k.
	Suriname	86	46	27	52	n.k.

Note: n.a. = not applicable; n.k. = not known due to no or limited response; FIU = Financial Intelligence Unit; STR = Suspicious Transactions Reporting.

Table B.17 CTR/EFT Reporting Filed by MTBs
Percent

CTR Obligation and percentage of CTRs filed by Money Transfer Businesses compared to total CTR reporting		*CTR obligation exist or not*	*2005*	*2006*	*2007*	*2008*	*2009*
Sending	United States	y	n.k.	n.k.	0.0	0.0	n.k.
	Germany	–	n.a.	n.a.	n.a.	n.a.	n.a.
	United Kingdom	–	n.a.	n.a.	n.a.	n.a.	n.a.
	Italy	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Canada	y	0.4	0.5	0.5	0.5	n.k.
	Korea, Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Netherlands	y	n.k.	n.k.	n.k.	n.k.	n.k.
	South Africa	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Malaysia	–	n.a.	n.a.	n.k.	n.k.	n.k.
	Qatar	–	n.a.	n.a.	n.a.	n.a.	n.a.
Receiving	Mexico	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Indonesia	y	0.0	0.0	0.0	0.0	0.0
	Nigeria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vietnam	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Morocco	–	n.a.	n.a.	n.a.	n.a.	n.a.
	Serbia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Guatemala	y	4.2	0.8	1.1	0.7	0.2
	Jamaica	y	n.k.	n.k.	n.k.	5.0	3.0
	Uganda	–	n.a.	n.a.	n.a.	n.a.	n.a.
	Honduras	y	n.k.	65.0	28.0	35.0	45.0
	Nepal	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Albania	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Afghanistan	y	n.k.	n.k.	1.1	1.1	3.0
	Haiti	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Mongolia	y	n.k.	n.k.	n.k.	n.k.	n.k.
	Suriname	y	n.k.	n.k.	n.k.	n.k.	n.k.

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; CTR = currency transaction reporting; EFT = electronic fund transfer; MTB = money transfer business.

Table B.18 Requirement for Compliance Officer for Money Transfer Businesses

Requirement for compliance officer for money transfer businesses		*Is there a compliance officer requirement?*	*Compliance officer at senior level*	*Compliance officer at any level*
Sending	United States	y	–	y
	Germany	y	y	–
	United Kingdom	y	y	–
	Italy	y	y	–
	Canada	y	–	y
	Korea, Rep.	n.a.	n.a.	n.a.
	Netherlands	–	n.a.	n.a.
	South Africa	y	–	y
	Malaysia	y	y	–
	Qatar	y	y	–
Receiving	Mexico	y	–	y
	Indonesia	y	–	y
	Nigeria	n.a.	n.a.	n.a.
	Vietnam[b]	y	–	y
	Morocco	y	y	–
	Serbia	n.a.	n.a.	n.a.
	Guatemala	y	y	–
	Jamaica	y	y	–
	Uganda	y	y	–
	Honduras	y	y	–
	Nepal	y	y	–
	Albania	y	y	–
	Afghanistan	y	–	y
	Haiti	y	y	–
	Mongolia	y	–	y
	Suriname	–	n.a.	n.a.
Number of responses[a]	Sending	9	8	8
	Receiving	14	13	13
	All	23	21	21
Yes (number)	Sending	8	5	3
	Receiving	13	8	5
	All	21	13	8

Note: – = no; y = yes; n.a. = not applicable.
a. Not applicable (n.a.) are not included in the sum.
b. We don't consider board of directors being involved in routine compliance activities. Hence, don't take it as senior level compliance requirement.

Table B.19 Guidance Issued to Implement the AML/CFT Requirements for MTBs

Is there any guideline issued for money transfer businesses?		*Guidelines*
Sending	United States	y
	Germany	–
	United Kingdom	y
	Italy	–
	Canada	y
	Korea, Rep.	n.a.
	Netherlands	y
	South Africa	–
	Malaysia	y
	Qatar	–
Receiving	Mexico	y
	Indonesia	y
	Nigeria	n.a.
	Vietnam	–
	Morocco	–
	Serbia	n.a.
	Guatemala	–
	Jamaica	y
	Uganda	y
	Honduras	–
	Nepal	y
	Albania	–
	Afghanistan	–
	Haiti	–
	Mongolia	–
	Suriname	–
Number of responses[a]	Sending	9
	Receiving	14
	All	23
Yes (number)	Sending	5
	Receiving	5
	All	10

Note: – = no; y = yes; n.a. = not applicable; AML/CFT = anti-money laundering/combating the financing of terrorism; MTB = money transfer business.
a. Not applicable (n.a.) are not included in the sum.

Table B.20 Information Collected for the Identification of Customers by MTBs

Information collected for the identification of the customers		*Sender name*	*Sender date of birth*	*Address of sender*	*Nature/ purpose of the remittance*	*Recipient's name*	*Recipient's address*	*Other*
Sending	United States	y	–	y	–	y	y	y
	Germany	y	y	y	–	y	–	y
	United Kingdom	y	–	y	–	–	–	–
	Italy	y	y	y	y	y	–	y
	Canada	y	y	y	–	y	y	y
	Korea, Rep.	y	y	y	–	y	–	y
	Netherlands	y	y	y	y	y	y	–
	South Africa	y	y	y	–	–	–	n.k.
	Malaysia	y	y	y	–	–	–	y
	Qatar	y	y	y	–	y	y	–
Receiving	Mexico	y	y	y	–	y	y	y
	Indonesia	y	y	y	y	y	y	y
	Nigeria	y	y	y	y	y	y	y
	Vietnam	y	–	y	y	–	–	y
	Morocco	y	y	y	–	y	–	–
	Serbia	y	–	y	y	y	y	y
	Guatemala	y	y	y	–	y	y	y
	Jamaica	y	y	y	y	y	y	–
	Uganda	y	–	y	y	y	y	y
	Honduras	y	–	y	–	y	y	–
	Nepal	y	–	y	y	y	y	y
	Albania	y	y	y	y	y	y	y
	Afghanistan	y	y	y	–	y	y	y
	Haiti	y	–	y	–	y	y	–
	Mongolia	y	y	y	y	y	–	y
	Suriname	y	y	y	–	–	–	y
Number of responses[a]	Sending	10	10	10	10	10	10	9
	Receiving	16	16	16	16	16	16	16
	All	26	26	26	26	26	26	25
Yes (number)	Sending	10	8	10	2	7	4	6
	Receiving	16	10	16	9	14	13	12
	All	26	18	26	11	21	17	18
Yes (%)	Sending	100%	80.0%	100%	20.0%	70.0%	40.0%	66.7%
	Receiving	100%	62.5%	100%	56.3%	87.5%	81.3%	75.0%
	All	100%	69.2%	100%	42.3%	80.8%	65.4%	72.0%

Note: – = no; y = yes; n.k. = not known due to no or limited response; MTB = money transfer business.
a. Not known (n.k.) are not included in the sum.

Table B.21 Threshold for CDD Requirement for Money Transfer Businesses

CDD threshold for money transfer businesses		*Is there a threshold for CDD?*	*CDD threshold local currency*	*CDD threshold equivalent to US$*
Sending	United States	y	3,000	3,000
	Germany	–	0	0
	United Kingdom	y	1,000 EUR[a]	724
	Italy	–	0	0
	Canada	y	1,000	1,020
	Korea, Rep.	n.a.	n.a.	n.a.
	Netherlands	–	0	0
	South Africa	–	0	0
	Malaysia	y	3,000	1,000
	Qatar	y	4,000	1,000
Receiving	Mexico	y	n.k.	1,000
	Indonesia	–	0	0
	Nigeria	n.a.	n.a.	n.a.
	Vietnam	–	0	0
	Morocco	–	0	0
	Serbia	n.a.	n.a.	n.a.
	Guatemala	–	0	0
	Jamaica	–	0	0
	Uganda	–	0	0
	Honduras	–	0	0
	Nepal	–	0	0
	Albania	–	0	0
	Afghanistan	–	0	0
	Haiti	y	200,000	4,896
	Mongolia	y	20,000,000	15,936
	Suriname	–	0	0

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; CDD = customer due diligence.
a. Threshold imposed by EU directive.

Table B.22 Source of Acceptable Documents for Verification

Is acceptable documents for customer due diligence specified in law or regulation?[a]		*Responses*
Sending	United States	y
	Germany	–
	United Kingdom	–
	Italy	y
	Canada	y
	Korea, Rep.	y
	Netherlands	n.k.
	South Africa	y
	Malaysia	y
	Qatar	y
Receiving	Mexico	y
	Indonesia	y
	Nigeria	y
	Vietnam	y
	Morocco	y
	Serbia	y
	Guatemala	n.k.
	Jamaica	y
	Uganda	y
	Honduras	n.k.
	Nepal	n.k.
	Albania	–
	Afghanistan	y
	Haiti	–
	Mongolia	y
	Suriname	y
Number of responses[b]	Sending	9
	Receiving	13
	All	22
Yes (number)	Sending	7
	Receiving	11
	All	18

Note: – = no; y = yes; n.k. = not known due to no or limited response.
a. This question was not included in the questionnaire. Table reflects the findings of team's follow-up and research.
b. Not known (n.k.) are not included in the sum.

Table B.23 Acceptable Documents for Verification

Acceptable document for verification		*Passport*	*Drivers license*	*National ID*	*Birth certificate*	*Resident card for foreigners*	*Tax/SS ID*	*Other*
Sending	United States	y	y	y	–	–	–	–
	Germany	y	–	y	–	–	–	–
	United Kingdom	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Italy	y	y	y	–	–	–	–
	Canada	y	y	y	y	y	–	y
	Korea, Rep.	n.k.	n.k.	y	n.k.	y	n.k.	n.k.
	Netherlands	y	y	y	n.k.	y	n.k.	y
	South Africa	y	y	y	–	–	–	–
	Malaysia	y	–	y	–	–	–	y
	Qatar	y	–	y	–	–	–	–
Receiving	Mexico	y	y	y	–	–	y	y
	Indonesia	y	y	y	–	–	y	–
	Nigeria	y	y	y	–	y	–	–
	Vietnam	y	y	y	n.k.	n.k.	n.k.	y
	Morocco	y	–	y	–	y	–	–
	Serbia	y	–	y	–	–	–	–
	Guatemala	y	–	y	–	–	–	–
	Jamaica	y	y	y	y	n.k.		y
	Uganda	y	y	–	–	–	y	y
	Honduras	y	–	y	–	y	–	–
	Nepal	y	–	y	–	–	–	n.k.
	Albania	y	y	y	y	–	–	–
	Afghanistan	y	y	y	n.k.	n.k.	n.k.	y
	Haiti	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Mongolia	y	–	y	–	–	–	–
	Suriname	y	y	y	–	–	–	y
Number of responses[a]	Sending	8	8	9	7	9	7	8
	Receiving	15	15	15	13	12	12	14
	All	23	23	24	20	21	19	22
Yes (number)	Sending	8	5	9	1	3	0	3
	Receiving	15	9	14	2	3	3	6
	All	23	14	23	3	6	3	9
Yes (%)	All	100%	60.9%	95.8%	15.0%	28.6%	15.8%	40.9%

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; ID = identification; SS = social security.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.24 Requirement for Address Verification, Documents Accepted

Documents accepted for address verification		*Yes/No*	*National ID*	*Drivers license*	*Utility bill*	*Other*
Sending	Unite States	y	y	y	–	–
	Germany	y	y	–	–	–
	United Kingdom	y	–	–	–	y
	Italy	y	y	y	–	–
	Canada	–	n.a.	n.a.	n.a.	n.a.
	Korea, Rep.	y	y	n.k.	n.k.	n.k.
	Netherlands	y	n.k.	y	n.k.	n.k.
	South Africa	–	n.a.	n.a.	n.a.	n.a.
	Malaysia	y	y	–	–	y
	Qatar	y	y	–	–	–
Receiving	Mexico	y	y	–	y	–
	Indonesia	y	y	y	–	–
	Nigeria	y	–	–	y	y
	Vietnam	y	y	–	–	y
	Morocco	y	y	–	–	–
	Serbia	y	y	–	–	y
	Guatemala	–	n.a.	n.a.	n.a.	n.a.
	Jamaica	y	–	y	y	n.k.
	Uganda	–	n.a.	n.a.	n.a.	n.a.
	Honduras	–	n.a.	n.a.	n.a.	n.a.
	Nepal	–	n.a.	n.a.	n.a.	n.a.
	Albania	y	y	y	y	y
	Afghanistan	–	n.a.	n.a.	n.a.	n.a.
	Haiti	y	y	–	–	–
	Mongolia	–	n.a.	n.a.	n.a.	n.a.
	Suriname	–	n.a.	n.a.	n.a.	n.a.
Number of responses[a]	Sending	10	7	7	6	6
	Receiving	16	9	9	9	8
Yes (number)	Sending	8	6	3	0	2
	Receiving	9	7	3	4	4

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; ID = identification.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.25 Range of Sanctions for Breaches of AML/CFT Obligation for MTBs

General approach to sanctions[a]		*Explanation*
Sending	United States	Both administrative and criminal sanctions
	Germany	Only administrative monetary sanctions to certain obligations
	United Kingdom	Both administrative and criminal sanctions
	Italy	Mix of administrative and criminal fines but not both on the same obligation
	Canada	Both administrative and criminal sanctions
	Korea, Rep.	n.a.
	Netherlands	Both administrative and criminal sanctions
	South Africa	Only criminal monetary sanctions; administrative sanctions are limited to suspension or revocation of license
	Malaysia	Only criminal monetary sanctions; administrative sanctions are limited to suspension or revocation of license
	Qatar	Only administrative monetary sanctions to all obligations; criminal sanctions do not apply for the breach of AML
Receiving	Mexico	Only administrative monetary sanctions to all obligations; criminal sanctions do not apply for the breach of AML
	Indonesia	Only criminal monetary sanctions; administrative sanctions are limited to suspension or revocation of license
	Nigeria	n.a.
	Vietnam	Only administrative monetary sanctions to only certain obligations; criminal sanctions do not apply for the breach of AML obligation
	Morocco	Only administrative monetary sanctions to only certain obligations; criminal sanctions do not apply for the breach of AML obligations
	Serbia	n.a.
	Guatemala	Only administrative monetary sanctions; criminal sanctions do not apply for the breach of AML obligations
	Jamaica	Only criminal monetary sanctions; administrative sanctions are limited to suspension or revocation of license
	Uganda	Both administrative and criminal sanctions although the range of administrative fines is not specified
	Honduras	Only administrative sanction
	Nepal	Only administrative sanction
	Albania	Only administrative sanction
	Afghanistan	Mainly administrative sanction but criminal for STR
	Haiti	Only criminal sanctions apply to only certain obligations; not clear whether The Bank of the Republic of Haiti (BHR) administrative sanctions apply or are enforceable
	Mongolia	No sanctions apply
	Suriname	Only criminal sanctions apply to only certain obligations

Note: n.a. = not applicable; AML/CFT = anti-money laundering/combating the financing of terrorism; MTB = money transfer business; STR = Suspicious Transactions Reporting.
a. Criminal sanctions include imprisonment and criminal fines, and administrative sanctions include revocation and suspension of license/registration and administrative fines.

Table B.26 Accountability for the Failure to Implement AML/CFT Requirements for MTBs

Responsibility in case of AML obligation breaches		*Senior management of principal*	*Compliance officer of principal*	*Agent*
Sending	United States	y	y	y
	Germany	y	–	–
	United Kingdom	y	–	–
	Italy	y	y	y
	Canada	y	–	–
	Korea, Rep.	n.a.	n.a.	n.a.
	Netherlands	y	y	y
	South Africa	y	–	–
	Malaysia	y	y	–
	Qatar	y	–	–
Receiving	Mexico	y	y	y
	Indonesia	–	–	–
	Nigeria	n.a.	n.a.	n.a.
	Vietnam	y	–	–
	Morocco	y	y	y
	Serbia	n.a.	n.a.	n.a.
	Guatemala	y	–	–
	Jamaica	y	y	–
	Uganda	y	–	y
	Honduras	y	–	–
	Nepal	y	y	y
	Albania	y	y	y
	Afghanistan	y	y	–
	Haiti	y	–	–
	Mongolia	y	–	–
	Suriname	y	–	–
Number of responses[a]	Sending	9	9	9
	Receiving	14	14	14
	All	23	23	23
Yes (number)	Sending	9	4	3
	Receiving	13	6	5
	All	22	10	8

Note: – = no; y = yes; n.a. = not applicable; AML/CFT = anti-money laundering/combating the financing of terrorism; MTB = money transfer business.
a. Not applicable (n.a.) are not included in the sum.

Table B.27 Licensing vs. Registration Regime of Principal Money Transfer Businesses in Different Countries

Licensing vs. registration for principal MTBs		*Licensing for principal*	*Registration for principal*	*Licensing vs. registration*
Sending	United States	y	y	Dual system
	Germany	y	–	Licensing
	United Kingdom	y	y	Dual system
	Italy	y	–	Licensing
	Canada	–	y	Registration
	Korea, Rep.	n.a.	n.a.	n.a.
	Netherlands	y	n.a.	Licensing
	South Africa	y	–	Licensing
	Malaysia	y	–	Licensing
	Qatar	y	–	Licensing
Receiving	Mexico	–	y	Registration
	Indonesia	y	–	Licensing
	Nigeria	n.a.	n.a.	n.a.
	Vietnam	y	–	Licensing
	Morocco	y	–	Licensing
	Serbia	n.a.	n.a.	n.a.
	Guatemala	–	y	Registration
	Jamaica	y	–	Licensing
	Uganda	y	–	Licensing
	Honduras	y	–	Licensing
	Nepal	y	–	Licensing
	Albania	y	–	Licensing
	Afghanistan	y	–	Licensing
	Haiti	y	–	Licensing
	Mongolia	y	–	Licensing
	Suriname	y	–	Licensing
Sending countries total[a]	Only licensing			6
	Only registration			1
	Dual system			2
Receiving countries total[a]	Only licensing			12
	Only registration			2
	Dual system			0
All total countries[a]	Only licensing			18
	Only registration			3
	Dual system			2

Note: – = no; y = yes; n.a. = not applicable; MTB = money transfer business.
a. Not applicable (n.a.) are not included in the sum.

Table B.28 Average Time for Licensing/Registration of Principal Money Transfer Businesses

Average time for licensing or registration of principal money transfer businesses		*Licensing (months)*	*Registration (months)*
Sending	United States	State specific	1
	Germany	3	n.a.
	United Kingdom	3	3
	Italy	4	n.a.
	Canada	n.a.	0.5
	Korea, Rep.	n.a.	n.a.
	Netherlands	3–6	n.a.
	South Africa	up to 6	n.a.
	Malaysia	1	n.a.
	Qatar	n.k.	n.k.
Receiving	Mexico	n.a.	1
	Indonesia	2	n.a.
	Nigeria	n.a.	n.a.
	Vietnam	0.5	n.a.
	Morocco	4	n.a.
	Serbia	n.a.	n.a.
	Guatemala	n.a.	3
	Jamaica	3	n.a.
	Uganda	2	n.a.
	Honduras	1	n.a.
	Nepal	0.5	n.a.
	Albania	2	n.a.
	Afghanistan	0.5	n.a.
	Haiti	1	n.a.
	Mongolia	1	n.a.
	Suriname	6–12	n.a.
	Regime	Licensing (months)	Registration (months)
Sending countries[a]	t ≤ 1 month	1	2
	1 month < t ≤ 3 months	2	1
	3 month < t ≤ 6 months	3	0
	t > 6 months	0	0
Receiving countries[a]	t ≤ 1 month	6	1
	1 month < t ≤ 3 months	4	1
	3 month < t ≤ 6 months	1	0
	t > 6 months	1	0
All countries[a]	t ≤ 1 month	7	3
	1 month < t ≤ 3 months	6	2
	3 month < t ≤ 6 months	4	0
	t > 6 months	1	0

Note: n.a. = not applicable; n.k. = not known due to no or limited response.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.29 Prohibition of Unauthorized Operation

Is providing remittance services without license or registration prohibited?		*Response*
Sending	United States	y
	Germany	y
	United Kingdom	y
	Italy	y
	Canada	y
	Korea, Rep.	y
	Netherlands	y
	South Africa	y
	Malaysia	y
	Qatar	y
Receiving	Mexico	y
	Indonesia	–
	Nigeria	y
	Vietnam	y
	Morocco	y
	Serbia	y
	Guatemala	–
	Jamaica	y
	Uganda	y
	Honduras	y
	Nepal	y
	Albania	y
	Afghanistan	y
	Haiti	y
	Mongolia	y
	Suriname	–
Number of responses	Sending	10
	Receiving	16
	All	26
Yes (number)	Sending	10
	Receiving	13
	All	23
Yes (%)	Sending	100%
	Receiving	81.3%
	All	88.5%

Note: – = no; y = yes.

Table B.30 Source Law/Regulation for the Prohibition of Unauthorized Operation

Source law/Regulation for the prohibition		*Law/Regulation*	
Sending	United States	RP	
	Germany	RP	
	United Kingdom	RP	
	Italy	BN	
	Canada	AML	
	Korea, Rep.	EX	
	Netherlands	FS	
	South Africa	EX	
	Malaysia	EX	
	Qatar	CB	
Receiving	Mexico	NB	
	Indonesia	n.a.	
	Nigeria	BN	
	Vietnam	EX	
	Morocco	BN	
	Serbia	EX	
	Guatemala	n.a.	
	Jamaica	n.k.	
	Uganda	EX	
	Honduras	RP	
	Nepal	EX	
	Albania	CB	
	Afghanistan	RP	
	Haiti	RP	
	Mongolia	NB	
	Suriname	n.a.	
		Number	*Percentage*[a]
Sending countries	AML Law/Reg (AML)	1	10.0
	Central Bank Law/Reg (CB)	1	10.0
	Remittance/Payment Systems Law/Reg (RP)	3	30.0
	Exchange Control Law/Reg (EX)	3	30.0
	Financial Services Law/Reg (FS)	1	10.0
	Banking Law/Reg (BN)	1	10.0
	Non-Bank Financial Institutions Law/Reg (NB)	0	0.0
Receiving countries	AML Law/Reg (AML)	0	0.0
	Central Bank Law/Reg (CB)	1	8.3
	Remittance/Payment Systems Law/Reg (RP)	3	25.0
	Exchange Control Law/Reg (EX)	4	33.3
	Financial Services Law/Reg (FS)	0	0.0
	Banking Law/Reg (BN)	2	16.7
	Non-Bank Financial Institutions Law/Reg (NB)	2	16.7

table continues next page

Table B.30 Source Law/Regulation for the Prohibition of Unauthorized Operation *(continued)*

Source law/Regulation for the prohibition		*Law/Regulation*	
All countries	AML Law/Reg (AML)	1	4.5
	Central Bank Law/Reg (CB)	2	9.1
	Remittance/Payment Systems Law/Reg (RP)	6	27.3
	Exchange Control Law/Reg (EX)	7	31.8
	Financial Services Law/Reg (FS)	1	4.5
	Banking Law/Reg (BN)	3	13.6
	Non-Bank Financial Institutions Law/Reg (NB)	2	9.1

Note: n.a. = not applicable, n.k. = not known; AML = anti-money laundering.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.31 Sanctions for Unauthorized Operations of Remittance Services

Sanctions for unauthorized provision of remittance services		*Imprisonment*	*Criminal fine (US$ equivalent)*	*Administrative fine (US$ equivalent)*
Sending	United States	y- 5 years	y- amount not prescribed	y- amount not prescribed
	Germany	y- 3 years	y- Fine that corresponds to the imprisonment. Fine calculation is based on daily units	–
	United Kingdom	y- 2 years	y- 8,191	y- appropriate amount
	Italy	y- 4 years	y- 14,997	–
	Canada	y- 5 years	y- 515,729	y- 103,145
	Korea, Rep.	y- 3 years	y- 277,443	–
	Netherlands	y- 2 years	y- 27,588	y- 2,904,022
	South Africa	y- 5 years	y- 37,003	–
	Malaysia	y- 3 years	y- 3,333	y- 1,666
	Qatar	n.k.	n.k.	n.k.
Receiving	Mexico	–	–	up to 100,000 days of minimum wage (approx. US$$460,000)
	Indonesia	n.a.	n.a.	n.a.
	Nigeria	n.k.	n.k.	y- 12,901
	Vietnam	n.k.	n.k.	n.k.
	Morocco	y- 6 months–3 years	y- 12,795	–
	Serbia	n.k.	n.k.	y
	Guatemala	n.a.	n.a.	n.a.
	Jamaica	y- 5 years	y- 590	y- 1,181
	Uganda	y- 2 years max	y- 1,680	y
	Honduras	–	–	y
	Nepal	y- 3–6 months	y- Fine equal to three times the amount involved in the offense	n.k.
	Albania	y- 2years	n.k.	n.k.
	Afghanistan	y	n.k.	n.k.
	Haiti	y- 3 months–1 year	–	y- 611
	Mongolia	–	–	y- 3,442
	Suriname	n.a.	n.a.	n.a.
Number of responses[a]	Sending	9	9	9
	Receiving	10	8	9
	All	19	17	18
Yes (number)	Sending	9	9	5
	Receiving	7	4	8
	All	16	13	13
Yes (%)	Sending	100%	100%	55.6%
	Receiving	70.0%	50.0%	88.9%
	All	84.2%	76.5%	72.2%

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.32 Preconditions for Market Entry for Money Transfer Businesses

Pre-requirements for establishing money transfer businesses		*Fit and proper*	*Experience*	*Legal status*	*Capital requirement*	*AML compliance plan*
Sending	United States	n.k.	n.k.	n.k.	n.k.	y
	Germany	y	y	y	y	y
	United Kingdom	y	y	y	y	y
	Italy	y	y	y	y	–
	Canada	–	–	–	–	y
	Korea, Rep.	n.a.	n.a.	n.a.	n.a.	n.a.
	Netherlands	y	y	y	y	y
	South Africa	y	–	y	y	y
	Malaysia	y	y	y	y	y
	Qatar	y	y	y	y	–
Receiving	Mexico	y	y	y	–	y
	Indonesia	–	–	–	–	y
	Nigeria	n.a.	n.a.	n.a.	n.a.	n.a.
	Vietnam	–	–	y	–	–
	Morocco	y	y	y	y	y
	Serbia	n.a.	n.a.	n.a.	n.a.	n.a.
	Guatemala	–	–	y	y	–
	Jamaica	y	y	y	y	y
	Uganda	y	y	y	y	–
	Honduras	y	y	y	y	y
	Nepal	y	–	y	y	y
	Albania	y	y	y	y	y
	Afghanistan	y	–	–	–	–
	Haiti	–	–	y	y	–
	Mongolia	–	–	y	y	y
	Suriname	y	–	y	y	–
Number of responses[a]	Sending	8	7	8	8	9
	Receiving	14	14	14	14	14
	All	22	21	22	22	23
Yes (number)	Sending	7	6	7	7	7
	Receiving	9	6	12	10	8
	All	16	12	19	17	15
Yes (%)	Sending	87.5%	85.7%	87.5%	87.5%	77.8%
	Receiving	64.3%	42.9%	85.7%	71.4%	57.1%
	All	72.7%	57.1%	86.4%	77.3%	65.2%

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; AML = anti-money laundering.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.33 Legal Status Requirement for Remittance Service Providers in Different Countries

Structure requirement		*Requirement*
Sending	United States	y
	Germany	y
	United Kingdom	y
	Italy	y
	Canada	–
	Korea, Rep.	n.a.
	Netherlands	y
	South Africa	y
	Malaysia	y
	Qatar	y
Receiving	Mexico	y
	Indonesia	–
	Nigeria	n.a.
	Vietnam	y
	Morocco	y
	Serbia	n.a.
	Guatemala	y
	Jamaica	y
	Uganda	y
	Honduras	y
	Nepal	y
	Albania	y
	Afghanistan	–
	Haiti	y
	Mongolia	y
	Suriname	y
Number of responses[a]	Sending	9
	Receiving	14
	All	23
Yes (number)	Sending	8
	Receiving	12
	All	20

Note: – = no; y = yes; n.a. = not applicable.
a. Not applicable (n.a.) are not included in the sum.

Table B.34 Type of Regulatory Regime for Agents of MTBs in Different Countries

Licensing/Registration/Listing regime for the agents		*Regime*	
Sending	United States	Listing for info	
	Germany	Registration	
	United Kingdom	Listing for approval	
	Italy	Registration	
	Canada	Registration	
	Korea, Rep.	n.a.	
	Netherlands	Registration	
	South Africa	Licensing	
	Malaysia	Registration	
	Qatar	Licensing	
Receiving	Mexico	Registration	
	Indonesia	Listing for approval	
	Nigeria	n.a.	
	Vietnam	Registration	
	Morocco	Listing for approval	
	Serbia	n.a.	
	Guatemala	Registration	
	Jamaica	Listing for approval	
	Uganda	Licensing	
	Honduras	Listing for info	
	Nepal	Listing for approval	
	Albania	Licensing	
	Afghanistan	Listing for approval	
	Haiti	No requirement	
	Mongolia	Licensing	
	Suriname	No requirement	
Sending countries	Licensing	2	22.2
	Registration	5	55.6
	Listing for approval	1	11.1
	Listing for info	1	11.1
	No requirement	0	0.0
Receiving countries	Licensing	3	21.4
	Registration	3	21.4
	Listing for approval	5	35.7
	Listing for info	1	7.1
	No requirement	2	14.3

Note: n.a. = not applicable; MTB = money transfer business.
a. Not applicable (n.a.) are not included in the sum.

Table B.35 Separate Examination Team for Supervising MTBs

Do the countries have separate examination team for money transfer businesses?		*Separate examination team*	*Number of examiners*[a]
Sending	United States	y	385
	Germany	y	8
	United Kingdom	–	0
	Italy	–	19
	Canada	–	50
	Korea, Rep.	n.a.	n.a.
	Netherlands	y	8
	South Africa	y	2
	Malaysia	y	6
	Qatar	–	0
Receiving	Mexico	y	56
	Indonesia	y	4
	Nigeria	n.a.	n.a.
	Vietnam	–	0
	Morocco	y	3
	Serbia	n.a.	n.a.
	Guatemala	y	11
	Jamaica	y	9
	Uganda	y	12
	Honduras	y	15
	Nepal	y	6
	Albania	y	2
	Afghanistan	y	4
	Haiti	y	6
	Mongolia	–	0
	Suriname	–	0
Number of responses[b]	Sending	9	
	Receiving	14	
	All	23	
Yes (number)	Sending	5	
	Receiving	11	
	All	16	

Note: – = no; y = yes; n.a. = not applicable; MTB = money transfer business.
a. In some countries, although there is no separate examination team for MTBs, a group of examiners does examine MTBs, in addition to their primary sectors and tasks.
b. Not applicable (n.a.) are not included in the sum.

Table B.36 Frequency of On-Site Examinations of MTBs

On-site supervision		*Examined proportion (%)*	*Frequency*
Sending	United States	n.k.	Risk based
	Germany	100	Annual
	United Kingdom	n.k.	Complaints based
	Italy	13	Occasionally – upon complaints
	Canada	n.k.	Risk based
	Korea, Rep.	n.a.	n.a.
	Netherlands	100	Risk based
	South Africa	100	Annual
	Malaysia	100	2 RSPs per month
	Qatar	100	Annual
Receiving	Mexico	n.k.	n.k.
	Indonesia	5	Risk based
	Nigeria	n.a.	n.a.
	Vietnam	0	No supervision yet
	Morocco	50	n.k.
	Serbia	n.a.	n.a.
	Guatemala	81	Annual
	Jamaica	100	Semiannually
	Uganda	100	Annual
	Honduras	0	No supervision yet
	Nepal	60	At least 1 time in 2 years
	Albania	50	Annual
	Afghanistan	50	Annual and targeted
	Haiti	n.k.	n.k.
	Mongolia	n.k.	Once in 2 years
	Suriname	0	No supervision yet

Note: n.a. = not applicable; n.k. = not known due to no or limited response; MTB = money transfer business; RSP = remittance service provider.

Table B.37 Frequency of Off-Site Supervision and Monitoring of MTBs

Off-site supervision		*Examined proportion (%)*	*Frequency*
Sending	United States	n.k.	n.k.
	Germany	100	Ongoing
	United Kingdom	n.a.	n.a.
	Italy	100	Based on semiannual reporting
	Canada	n.k.	Risk based
	Korea, Rep.	n.a.	n.a.
	Netherlands	100	Ongoing
	South Africa	n.a.	n.a.
	Malaysia	100	Ongoing
	Qatar	100	Ongoing
Receiving	Mexico	n.a.	n.k.
	Indonesia	100	Monthly
	Nigeria	n.a.	n.a.
	Vietnam	0	n.k.
	Morocco	100	n.k.
	Serbia	n.a.	n.a.
	Guatemala	100	Monthly
	Jamaica	100	Ongoing
	Uganda	100	Weekly
	Honduras	n.k.	Monthly
	Nepal	100	Monthly
	Albania	100	Quarterly
	Afghanistan	n.k.	n.k.
	Haiti	100	Weekly
	Mongolia	100	Monthly
	Suriname	0	No examination yet

Note: n.a. = not applicable; n.k. = not known due to no or limited response; MTB = money transfer business.

Table B.38 Authority to Revoke or Suspend the License/Registration of Money Transfer Businesses

Revocation-suspension		*Authority to revoke or suspend the license/registration of money transfer businesses?*	*Revocation or suspension in case of AML/CFT breaches?*	*Number of revocations or suspensions in the last 5 years due to AML/CFT or other regulatory breaches?*
Sending	United States	y	y	n.k.
	Germany	y	y	5
	United Kingdom	y	y	0
	Italy	y	n.k.	Suspension of operations of agents due to pending charges: 3, Revocation (agents) due to failure to renew annual registration requirement: 4,311
	Canada	y	y	0
	Korea, Rep.	n.a.	n.a.	n.a.
	Netherlands	y	y	5
	South Africa	y	n.k.	0
	Malaysia	y	y	0
	Qatar	y	n.k.	0
Receiving	Mexico	y	n.k.	n.k.
	Indonesia	y	y	0
	Nigeria	n.a.	n.a.	n.a.
	Vietnam	y	y	4 suspension cases
	Morocco	y	n.k.	0
	Serbia	n.a.	n.a.	n.a.
	Guatemala	–	n.a.	n.a.
	Jamaica	y	y	0
	Uganda	y	–	1
	Honduras	y	y	0
	Nepal	y	n.k.	2 Revocation, 1 Suspension
	Albania	y	–	0
	Afghanistan	y	y	Revocation of three MSP licenses, more than 100 MSPs were temporarily closed down because they were operating without having been granted MSP license
	Haiti	y	y	n.k.
	Mongolia	y	y	0
	Suriname	–	n.a.	n.a.
Number of responses[a]	Sending	9	6	
	Receiving	14	9	
	All	23	15	
Yes	Sending	9	6	
	Receiving	12	7	
	All	21	13	

Note: – = no; y = yes; n.a. = not applicable; n.k. = not known due to no or limited response; AML/CFT = anti-money laundering/combating the financing of terrorism; MSP = money service provider.
a. Not known (n.k.) and not applicable (n.a.) are not included in the sum.

Table B.39 Existence of Prohibition of Exclusivity Agreements

Exclusivity agreements		*Prohibited*	*Planning to prohibit*
Sending	United States	–	–
	Germany	–	–
	United Kingdom	–	–
	Italy	–	–
	Canada	–	–
	Korea, Rep.	–	–
	Netherlands	–	–
	South Africa	–	–
	Malaysia	–	–
	Qatar	–	–
Receiving	Mexico	–	–
	Indonesia	y	n.a.
	Nigeria	y	n.a.
	Vietnam	–	–
	Morocco	–	–
	Serbia	y	n.a.
	Guatemala	–	–
	Jamaica	–	–
	Uganda	–	–
	Honduras	y	–
	Nepal	y	n.a.
	Albania	–	–
	Afghanistan	–	–
	Haiti	–	–
	Mongolia	y	n.a.
	Suriname	–	–
Number of responses[a]	Sending	10	10
	Receiving	16	11
	All	26	21
Yes (number)	Sending	0	0
	Receiving	5	0
	All	6	0

Note: – = no; y = yes; n.a. = not applicable.
a. Not applicable (n.a.) are not included in the sum.

APPENDIX C

An Example of an ML/FT Risk Assessment Tool for Remittances

This risk assessment tool is modified from the Financial Inclusion Product Risk Assessment Tool (FIRAT).[1] National authorities should have a framework or tool to evaluate money laundering and terrorist financing risks arising from financial inclusion (FI) products targeted to low income population segments such as basic bank accounts, mobile money accounts, pre-paid cards, sending and receiving remittances, funds storage, and other basic and limited financial transactions.

If authorities wish to allow simplified due diligence or exemption of certain elements of due diligence, they need to prove that the financial product, service, or channel poses a lower money laundering and terrorist financing risk for the purpose of simplified due diligence, or a low risk for the purpose of exemption as per Financial Action Task Force (FATF) Recommendations.

The FIRAT assists national authorities with a logical framework to evaluate money laundering and terrorist financing risks arising from both existing and emerging or new financial products, services, or channels. In guiding national authorities the risk assessment tool takes into account the revised international standards on anti-money laundering/combating the financing of terrorism (AML/CFT), namely FATF Recommendations (2012).

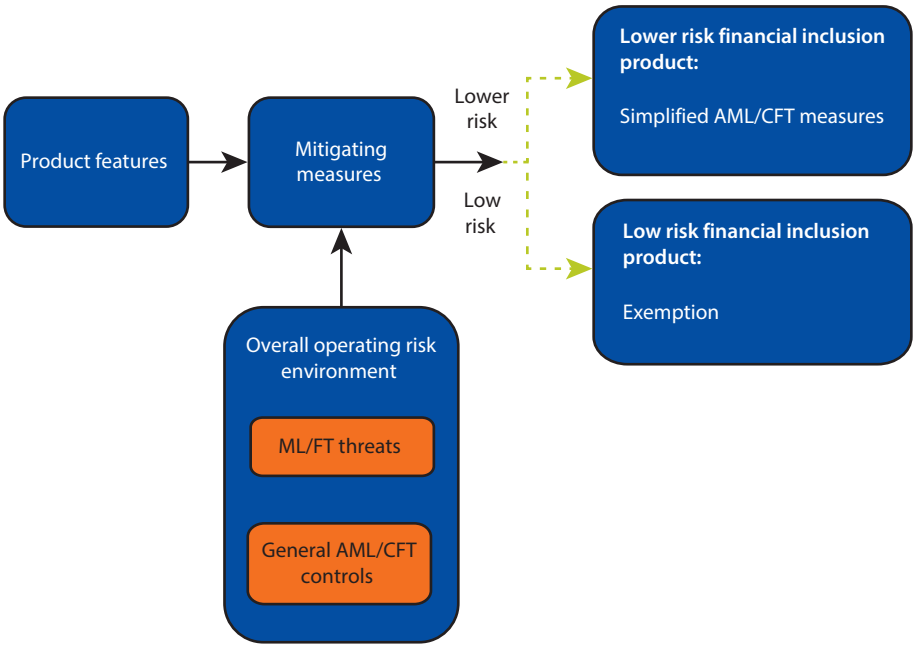
The risk assessment will lead to designing AML/CFT counter-measures which are proportionate to the identified ML/FT risk. This, in turn, may lead to developing and designing new FI products that effectively facilitate FI while mitigating potential ML/FT risks.

The general structure of the FIRAT is provided in figure C.1. The tool is designed to identify the features of a current or potential FI product, to assess their risks and develop, as necessary, appropriate mitigating measures that can help control the possible ML/FT risks arising from identified features.

In the first part of the tool, key questions about the specific product features of the FI product need to be answered. In the second part, key questions about the overall ML/FT risk environment in the country need to be answered, taking into account the potential threats of ML/FT in the country and the associated control measures in place.

Given the inputs received from these two sections, the third section requires an assessment of an initial ML/FT risk level for each specific product feature. Following this risk assessment, the tool offers guidance questions to authorities on how any potential high risk level can be mitigated, for example, by limiting transaction value, frequency of transaction, and amount of stored value.

Figure C.1 FIRAT Process



Part I: Evaluating Product Features

Table C.1 is an example of the list of variables that could affect ML/FT risk of a product (for example, remittances) and issues to consider. The variables below should not be taken as synonymous as prohibition. In some cases, such would be prudent (for example, anonymous account), but in others, the focus should be on managing risk rather than prohibition (for example, international remittance transfers, acceptance of nonresident and/or noncitizen customers.)

Table C.1 Variables That Affect ML/FT Risk

Question	*Issues to consider*
Is the value of transactions unlimited?	Unlimited transaction value could certainly increase ML/FT risk. Usually financial inclusion products have limits on the value of the transaction whether required by law or regulation or as part of the product feature.
Is the number of transactions unlimited?	Unlimited frequency of transactions could certainly increase ML/FT risk. Usually financial inclusion products have limits on the number of transactions that can be conducted within a given time period whether required by law or regulation or as part of the product feature.

table continues next page

Table C.1 Variables That Affect ML/FT Risk *(continued)*

Question	*Issues to consider*
Is the anonymous use of the product possible?	Anonymous accounts are usually considered an enemy of AML/CFT effort. Anonymous accounts are explicitly prohibited by the FATF Recommendation. Usually financial inclusion products do not allow an anonymous usage of the product whether required by law or regulation or as part of the product feature. This means that some type of customer due diligence (CDD) on the customer needs to be performed, although the extent of it (for example, simplified due diligence) is determined through a risk-based approach to CDD (see CDD discussions in chapter 3).
Is non-face-to-face account opening permitted?	Non-face-to-face account opening could increase an ML/FT risk if there is no risk mitigation measures accompanied. For the initial CDD when first using the financial inclusion product, some providers have allowed account opening through non-face-to-face medium—for example, through a phone or a video streaming interview. Accounts may also be opened non-face-to-face when the provider already has information on the customer through his/her previous registration (for example, through the purchase of a SIM card for the mobile phone) or the provider is able to verify the customer relying on identification infrastructure. Regulators will have to determine whether providers are seeking to implement such provisions in their country and evaluate the risks accordingly based upon local circumstances and conditions.
Are non-face-to-face transactions permitted?	Some financial inclusion products allow non-face-to-face transactions such as sending and receiving remittances after the initial CDD of the customer. However, some products require CDD when cash is deposited into the product or removed from the product (cash-in/cash-out process).
Has there been any suspected financial crime being perpetrated using the product?	Suspected financial crime penetrating the financial inclusion product would be a serious concern. Although it may not be as common, these types of products could still be abused. In addition, there are incidences of consumer fraud and other petty crimes using financial inclusion products in some countries. ML/FT risks should be differentiated from consumer fraud risks, but all cases of abuse should be taken into consideration when determining the appropriate risks and controls. Vulnerability to fraud may imply vulnerability to ML/FT crimes.
Are cross-border transactions allowed?	There may be possible additional risks arising from cross-border transfers. Some financial inclusion products allow customers to send and receive money across borders.
If cross-border transfers are allowed, are they sent to high-risk jurisdictions or if new products, are they expected to be sent to high-risk jurisdictions?	Cross-border transfers to high-risk jurisdictions may increase ML/FT risks. Some countries require additional due diligence on transfers to high-risk jurisdictions.
If cross-border transfers are allowed, have they been received from or if new products, are they expected to be received from high-risk jurisdictions?	This is similar to the question above, but focuses on financial transfers *received from* across borders rather than sent. Some countries require additional due diligence on transfers from high-risk jurisdictions.
Is the product offered to and used by non-resident and/or non-citizen customers?	Non-resident or non-citizen customers may pose additional risk if it is difficult to collect satisfactory information about customers. For example, in many countries, there is a large population of "undocumented" workers who are neither national citizen nor permanent residents. They may simply be temporary immigrants or workers employed in the country either formally or informally. Financial inclusion products may greatly improve access to financial services for these population segments. Consideration should be given to the fact that having these population segments use formal channels instead of informal ones reduces ML/FT risk.

table continues next page

Table C.1 Variables That Affect ML/FT Risk *(continued)*

Question	*Issues to consider*
Is the use of the product by non-resident and/or non-citizen customers significant?	This item questions the actual level of the use by non-resident and/or non-citizen customers, while the above item questions the "availability". In some cases, although the use of the product by non-resident or non-citizens is possible, the actual use may be limited due to the limited number of immigrants in the country.
Are businesses allowed to open an account of financial inclusion products?	While there is usually higher due diligence required for business customers than individual customers, the financial inclusion products may indeed be a useful financial product which enables micro businesses to have better access to financial services.
Are business customers allowed to use financial inclusion products?	Business customers, especially micro business customers, may still benefit from access to financial inclusion products. Businesses other than micro businesses may not find it practical to use financial inclusion products that limit the range of services offered. It is advisable to separate the business account from the personal account.
Does the financial inclusion product use banking correspondents or agents?	Use of banking correspondents or agents in itself may not increase risk of ML/FT, but if they are not well trained on AML/CFT measures and do not follow internal policy and procedures, it could raise ML/FT risk. An increasing number of countries are allowing banking correspondents or agents, such as mom and pop stores, grocery stores, and mobile airtime sellers, to cash in/cash out for financial inclusion products as well as conduct initial and/or ongoing KYC (each country differs on what exactly is permitted depending on local circumstances and conditions). Banking correspondents or agents can be an effective and efficient way to increase a provider's distribution network and access more customers, ultimately expanding financial inclusion to greater segments of the population.

Part II: Assessing Overall ML/FT Risk Environment

Table C.2 is an example of the list of variables that could affect ML/FT mitigation measures of a particular product.

Table C.2 Variables That Affect ML/FT Mitigation Measures

Threats of ML/FT

Question	*Issues to consider*
Are there significant amounts of proceeds of crime generated in the country?	Significant proceeds of crime in the country would make the operating environment highly vulnerable to ML/FT. For example, it should be assessed whether the country has an environment that is vulnerable to drugs, narcotics, human trafficking, corruption, and other factors that make it prone to generating significant amounts of proceeds of crime, which would require effective controls and limitations. While assessing this please refer to the predicate offences list of FATF.
Is there any significant terrorist activity in your country?	Significant terrorist activity in the country would make the operating environment highly vulnerable to ML/FT. The risks from terrorist or terrorist financing activities in the country should be assessed.
Are there market entry controls (including fit and proper) for the providers of financial inclusion (FI) products?	This item questions whether the regulatory framework imposes certain standards (including fit and proper) for market entry. Having such standards will block the criminals from penetrating into the financial market as the suppliers of the FI products.
Are potential or existing providers of FI products obliged to establish monitoring mechanisms to detect unusual and suspicious transactions?	Lack of monitoring mechanisms to detect unusual and suspicious transactions would increase risk of ML/FT. The legal/regulatory framework of the country should require covered institutions to have ongoing monitoring and supervision procedures to mitigate risks, including those arising from FI products.

table continues next page

Table C.2 Variables That Affect ML/FT Mitigation Measures *(continued)*

General AML/CFT Control Measures

Question	*Issues to consider*
Do potential or existing providers of FI products actually have appropriate monitoring mechanisms to detect unusual and suspicious transactions?	Supervisory examiners from the designated authority should ensure that FI product providers have effective transaction monitoring and pattern systems in place, corresponding to the risk level, to detect unusual and/or suspicious transactions. The previous question is on the existence of "obligation" while this one is related to implementation.
Does the supervisory agency have policies/procedures and guidelines to examine/monitor the risks arising from FI products?	The supervisory agencies must have adequate powers as defined in the legal/regulatory frameworks to conduct their activities as they relate to supervising FI products effectively. The supervisors need to have policies and procedures toward the supervision and oversight of FI products.
Does the supervisory agency have an appropriate level of resources allocated for the oversight and/or supervision of FI products?	The supervisory agency should have an appropriate level of resources for supervision of FI products. But a risk-based supervisory approach could be employed, especially if comparatively lower/low levels of risk are exhibited from FI products.
Does the staff of relevant financial institutions receive adequate training to distinguish and report unusual/suspicious customers/transactions when dealing with FI products?	In an environment where the risk-based approach will be implemented and simplified CDD will be applied, the role of the staff of financial institutions becomes even more important. The staff, particularly those who take part in delivery/provision of FI products, should have adequate knowledge and skills that will help them distinguish any suspicious transaction from an ordinary one. In this regard, the supervisor should ensure that the institutions train their staff on AML/CFT adequately and appropriately.
Do the managements of institutions offering FI products have the awareness and commitment regarding AML/CFT?	Supervisors must ascertain adequate commitment from providers of FI products to comply with all relevant AML/CFT regulations; however, these AML/CFT regulations should be drafted and applied in a risk-based manner for the FI products. The guidance and awareness efforts by the supervisory agencies are crucial to ensure this commitment. And as necessary these should be accompanied by enforcement.
Are there any guidelines to assist the financial institutions to be able to distinguish and report unusual/suspicious customers/transactions when dealing with FI products?	Authorities must ensure clarity of guidelines, and update guidelines accordingly, so that FI product providers can understand clearly all their AML/CFT obligations, including those related to distinguishing/reporting unusual/suspicious customer transactions.

Note

1. The Financial Inclusion Risk Assessment Tool was developed under a broader project to develop a national risk assessment methodology and its tool. Emiko Todoroki, the lead-author of this study, was the project leader of the risk assessment tool, and Kuntay Celik and Wameek Noor were members of the project team sponsored by the Financial Market Integrity Service Line of the World Bank. While not all remittance products may fall under the notion of "financial inclusion product," given the focus of this study on how to balance the financial integrity and financial inclusion, this appendix focuses on the risk assessment of financial inclusion product.

Reference

FATF (Financial Action Task Force). 2012. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*. Financial Action Task Force, Paris, February. http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf.

APPENDIX D

New Remittance Transfer Mechanisms

This section provides a discussion on new remittance products.

Remittances through Mobile Money

The deployment of mobile money schemes[1] is expanding rapidly around the world. The mobile money providers[2] and the specific services of mobile money may vary greatly from country to country. For example, in some countries, only mobile-based payment services are offered, whereas in other countries, only domestic (and in some cases international) person-to-person transfers are available. A few countries have mobile money providers that allow a range of mobile money services, from mobile-based payments to domestic person-to-person transfers, and even international cross-border remittance transfers (box D.1).

The business model and extent of involvement between different entities involved in mobile money transactions can vary greatly from country to country. For example, banks may play a larger role in mobile money transactions in some countries, while the mobile network operator or third-party provider (nonbank, nontelco[3]) may have comparatively larger roles in other countries.

The extent of involvement between the different entities in mobile money transactions often depends on current regulations in the country. In Bangladesh and India, for example, where mobile money has already been deployed, banks are required to play a larger role in the various stages of a mobile money transaction than the mobile network operators or intermediary institutions. This often means that banks offer some type of mobile financial service (such as viewing a customer's bank account information on their mobile phone), and sometimes also mobile transaction enabling services among its own customers who already have bank accounts. Legally, the bank is also considered the principal or focal entity for regulation and supervision, and assumes liability for any breach of regulatory requirements. Hence, these types of mobile money business models have been regarded as "bank led" or "bank-centric." Under these models, both schemes

Box D.1 Cross-Border Mobile Remittance Schemes

While still limited, an increasing number of mobile money operators are providing the ability for users to send and receive money across international borders, tapping into the over US$400 billion market.

For example, M-Pesa accounts in Kenya (which opened in March 2009) allow international remittances between Kenya and the United Kingdom. It is not a purely telephone company-to-telephone company (telco-to-telco) cross-border mobile remittance model, but senders go to brick-and-mortar remittance transfer agents in the UK, and the money is then remitted directly into the recipient's M-Pesa accounts (of Telco Safaricom).

New mobile-money-based international remittance corridors also started in Southeast Asia. Cross-border remittances are possible between the Telco Maxis in Malaysia and Telco G-Cash in the Philippines, and between Telco Smartone in Hong Kong and Telco G-Cash in the Philippines. These two corridors possess pure telco-to-telco cross-border mobile remittance models currently known. In addition, what is unique about the Maxis-G Cash model is that a customer can cash in/cash out in both Malaysia and the Philippines, enabling the sending of remittances from the Philippines to Malaysia via purely mobile person-to-person (P2P) channels. However, in reality, this is rarely used, given that most remittances flow from Malaysia to the Philippines.

Mobile money operators G-Cash and Smart are also determining the feasibility of cross-border mobile remittance corridors between the Philippines and countries of the Gulf Cooperation Council (GCC), where many Filipino migrants reside. Currently, mobile payment solutions companies such as Germalto are conducting discussions with mobile network operators operating extensively in the Middle East and North Africa, including the United Arab Emirates (Dubai), to potentially enable South Asian migrant workers (Bangladeshi, Indian, and Pakistani, for example) to send remittances home via mobile-based technologies.

are observed where the money is in the customer's bank account and/or the bank's prepaid/e-money accounts, and they use a mobile phone as a device to execute a transaction. In these models, the bank is legally liable for any compliance breaches in these accounts irrespective of whether the account is operationally managed by the bank or not.

There are, however, signs that this might be changing in India and other countries, where mobile network operators are being allowed to play a larger role in mobile money transactions. Often, this has been the result of national authorities becoming more aware of the intricacies of a mobile money transaction, and learning how other countries might be regulating and supervising principal mobile money entities that are not banks to mitigate integrity, prudential, and other associated risks with using such channels. The business models in which mobile network operators are the principal or focal entity of regulation and supervision by authorities, and assume liability for any breach of regulatory requirements, are called "telco led" business models (box D.2).

Box D.2 Mobile Money Providers as "E-Money Issuers" and/or "Payment Systems Providers"

In some countries, mobile money is regarded as an "e-money" issuance, and mobile money providers, irrespective of the type of lead entity (bank, mobile network operator, third party), are considered "e-money issuers." E-money issuers are regulated as payment systems providers. E-money is considered simply cash stored in an electronic device, like a stored value instrument acting as a surrogate for cash. Thus, e-money is defined as a retail payment systems platform.

E-money issuers are not considered to be "deposit-taking" entities. Even though a traditional bank may issue "e-money," its specific "e-money" accounts are not considered to be "deposit taking." Such legal distinctions have allowed entities other than banks to issue mobile money, since they are regulated and supervised based only on the specific service provided—which in this case is "e-money" and/or "payment systems."

Because e-money is not a deposit-taking activity, it is usually not eligible for a deposit insurance scheme in many countries. This is not the case in the United States, however, where the U.S. Federal Deposit Insurance Corporation (FDIC) has ruled that e-money is eligible for a deposit insurance scheme, as long as the deposits are insured via a pass-through insurance mechanism from a covered institution.

Source: Authors' research and fieldwork.

ATM Cards

A common feature offered by money transfer businesses is the use of automatic teller machine (ATM) cards to retrieve cash and transfer remittances to anywhere in the world. In some countries, like India, money transfer businesses offer an ATM-cum-debit card, which can be used across a wide range of ATMs and merchants in India without the requirement of either a payment or bank account. Despite the ease of use, ATM cards are the least preferred mode of remittance transfers in the surveyed countries. One of the reasons could be the limited functionality of ATM cards and the availability of other instruments such as prepaid cards and mobile money for remittances. This is particularly true for developing countries where access to ATMs and bank branches is limited.

Prepaid Cards

Like mobile money, prepaid cards can also be used to send remittances, although, based on the survey, this method of sending remittances appears to be much less frequently used globally than mobile phone remittance services.

The market for prepaid cards is one of the fastest-growing segments of the retail financial services industry. A prepaid card similar to a debit card is generally issued to the person who deposits funds into an account of the issuer.

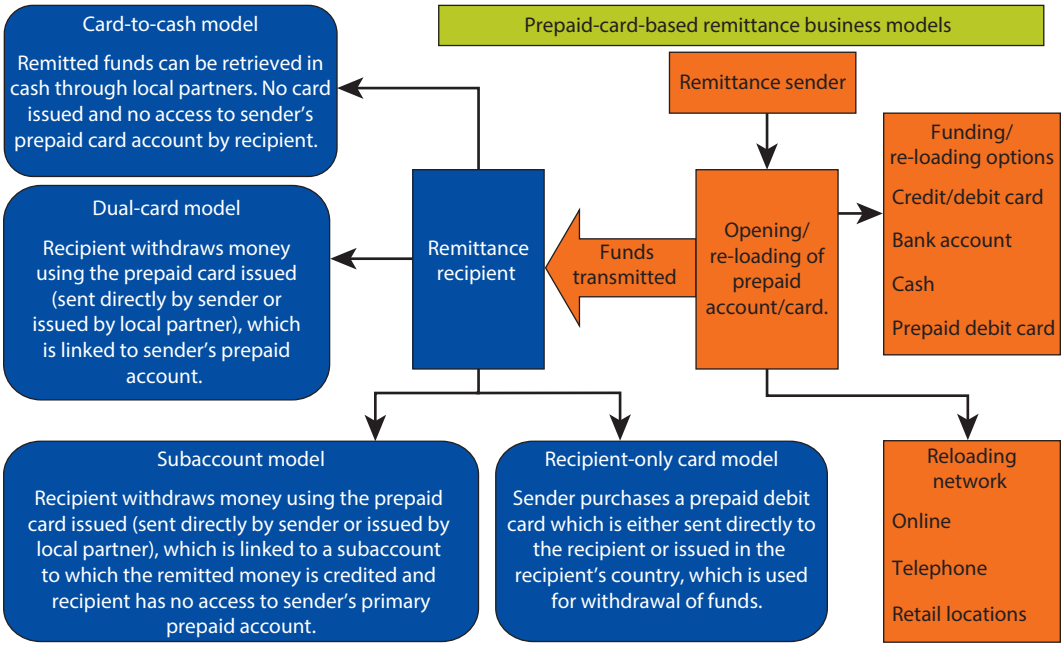
With prepaid cards, the data are maintained on computers affiliated with the card issuer. They are usually issued in the name of individual account holders.

Prepaid cards can be used for remittance transfers. The essential feature that defines prepaid-card-based remittances is the use of a card on the sending or receiving end (or both) of a funds transfer from an individual to friends or family in another country. There is significant variation in how the sender initiates the transaction. For some card-based remittance companies, the sender must already have a credit or debit card, which he or she uses to purchase and reload a prepaid card for use by the recipient of the funds. Similar products allow the sender to use cash to purchase and reload a prepaid card for the recipient to use. Other companies in this segment issue a prepaid debit card to the sending cardholder, which is then used to remit the funds.

Several of the entrants into this market are payroll card issuers, who are enhancing the ability to transfer funds as an additional method by using the funds that have been loaded onto the payroll card by an employer.

The commonly used methods by which the recipient can access the funds sent are illustrated in figure D.1 and are (a) the "card-to-cash" model, in which the recipient does not have a card of his or her own but has the ability to retrieve the transferred funds directly in cash, which is disbursed by local partners like banks, retail outlets, and post offices; (b) the "dual-card" model, in which two cards are issued with access to the same account. The disadvantage of this approach is that the recipient is able to withdraw the full amount of funds

Figure D.1 Prepaid-Card-Based Remittance Business Models



in the account; (c) the "subaccount" model in which two cards are issued, but the primary cardholder can transfer specified amounts of funds to the subaccount, which is accessible to the recipient cardholder; and (d) the "recipient-only" card model in which the sender purchases a prepaid debit card in his or her country, like the United States, which is either sent directly to the recipient or issued in the recipient's country. The sender can then reload funds onto the card.

Prepaid cards are not the same as debit cards. Debit cards are linked to a bank account, allowing consumers to access the funds to make purchases at stores, by phone, and online. A prepaid card allows the user to access a pre-deposited amount that is not linked to a bank account, and to refill the card once the funds are used.

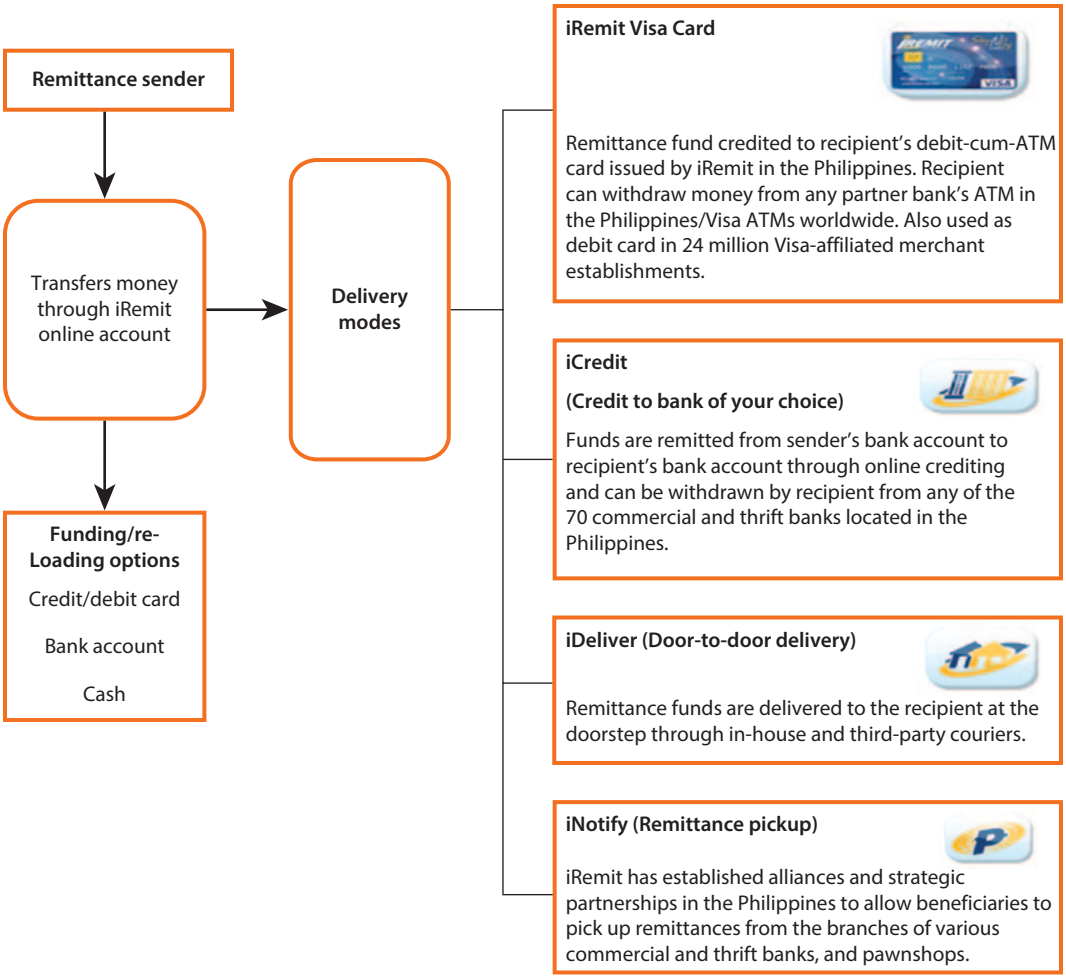
Internet-Based Remittance Transfers

Another recent mechanism used to transfer remittances is the Internet. Given the tremendous growth of the Internet worldwide, it is likely that there will be more worldwide consumers using the Internet for Internet-based remittance transfers in the future. Internet-based remittance transfers could be attractive to migrant workers and their families because they are typically cheaper than money transfer operators and banks, and those familiar with the Internet can avail themselves of a secure and convenient platform for sending remittances. Internet-based remittance services provide mechanisms for customers to access, via the Internet, prefunded accounts held at banks or nonbank institutions, which can then be used to transfer the electronic money (e-money) or value to other individuals who also hold such accounts. While, typically, funds are held in prepaid accounts, customers are not required to hold funds with the provider. If funds are not held with the provider, money can be debited from a bank account or payment card account or supplied via another funding source, as needed. To access these payment services, customers subscribe to the service, typically using an email address as identification, and fund these accounts using other payment mechanisms such as regular bank accounts or prepaid cards. Customers can then transfer funds, or make payments, to recipients who are also subscribed to the service. The recipient then redeems the value from the issuer by making payments or withdrawing the funds. Withdrawals occur by transferring the funds to a regular bank account, a prepaid card, or another money or value transfer service.

One of the major roadblocks for the rapid spread of Internet-based remittance transfers has been that beneficiaries still need to confront "last mile" issues in accessing bank branches or ATMs, especially in rural areas. But this is not the case anymore in some countries where Internet-based remittance companies have introduced innovative remittance delivery mechanisms, as highlighted in the example and figure D.2.

An interesting example of the use of an Internet platform for remittance transfers is a Philippines-based nonbank remittance company, iRemit, which uses the iRemit Direct Online (iDOL) Remittance System, an Internet-based

Figure D.2 iRemit's Delivery Modes



Source: http://www.myiremit.com.

remittance facility that allows the sender to send money to beneficiaries in the Philippines from anywhere in the world. The remittances are transferred through the following four service modes:

1. *iRemit Visa Card:* A personalized debit and ATM card all in one, which is the fastest service mode of iRemit, Inc., with real-time crediting of remittances from abroad. The remittance sender transfers money through an online account with iRemit, which gets credited to the beneficiary's Visa card, which is associated to one of the partnership banks of iRemit in the Philippines. The beneficiary in the Philippines can withdraw the money from any Bancnet, Megalink, or Expressnet ATM terminal, and also has access to Visa ATMs worldwide. As a debit card, it is accepted in more than 24 million Visa-affiliated merchant establishments worldwide.

2. *iCredit (credit to a bank of choice):* iRemit's bank-to-bank online crediting facility guarantees that remittances received by iRemit will be credited to the bank accounts of designated beneficiaries and can be withdrawn from any of 70 commercial and thrift banks located in the Philippines.
3. *iDeliver (Door-to-Door Delivery):* iRemit has the capability to deliver remittances in cash literally to the doorstep of the beneficiary through in-house and third-party couriers. In this service, the beneficiary does not need to have a bank account, visit a bank branch, use an ATM, or locate a local partner to access remittance funds. The remittance money is received by the beneficiary at home either through the remittance company's in-house courier or through an outsourced courier company. iDeliver has the widest coverage nationwide and can deliver remittances within the same day in Metro Manila and nearby provinces, and within two days or more in other areas, depending on the specific location of the beneficiaries.
4. *iNotify (Remittance Pickup):* iRemit has established alliances and strategic partnerships to allow the beneficiaries to pick up remittances from the branches of various commercial and thrift banks, post offices, local retail outlets, and pawnshops upon notification. With iNotify transactions, the beneficiaries can claim the remittances from any of the 8,507 pickup centers nationwide within 24 hours after receipt of the transaction from the foreign offices of iRemit. The wide range of delivery channels offered by iRemit is helping it tap the unbanked recipients in the country.

Notes

1. By mobile money, we mean transaction-enabling services, such as domestic or international person-to-person funds transfers or mobile-based payment services. However, it is quite common in most jurisdictions worldwide to have providers, such as commercial banks, offer some type of mobile banking services that may not be transactional in nature (such as viewing financial or bank account information on a customer's mobile phone).
2. Mobile money schemes always include a variety of providers from mobile network operators to a bank and possibly a third type as an intermediary. The term "mobile money provider" is used to describe the lead entity in the mobile money transaction, and the principal entity that assumes legal liability for any regulatory breaches. They are the principal entity to be regulated and supervised by national authorities.
3. The most famous third-party provider is Celpay, which classifies itself as a "payment service provider." Others call themselves "technology platforms" or "mobile payment solutions companies."

APPENDIX E

Private Sector Adaptation Leading to Greater Financial Inclusion

The increasingly competitive market for remittances worldwide has also compelled the private sector to adapt and innovate. The changes in dynamics in the private sector have resulted in more favorable outcomes for expanding financial inclusion.

Based on analysis from 14 remittance corridor studies and the survey work, this appendix summarizes several of the effects of an increasingly competitive remittance market.

Formal Remittance Service Providers Expanding Their Distribution Networks

Increased remittance market competition has compelled remittance service providers (RSPs) to determine alternative avenues to keep their businesses sustainable and profitable, and for many larger money transfer businesses (MTBs), this has meant actively increasing their distribution networks, often via the employment of national post offices or retailer outlets such as "mom and pop" shops, small grocery stores, and other such entities, as their agents.

For example, Western Union and MoneyGram, the two key international money transfer operators, provide remittance infrastructure to agents in Malaysia that include both banks and courier companies. They also partner with the post office in Indonesia to maximize the potential distribution network for the remittance corridor between Malaysia and Indonesia.

Formal RSPs Enhancing Their Internal Processes and Payment Systems

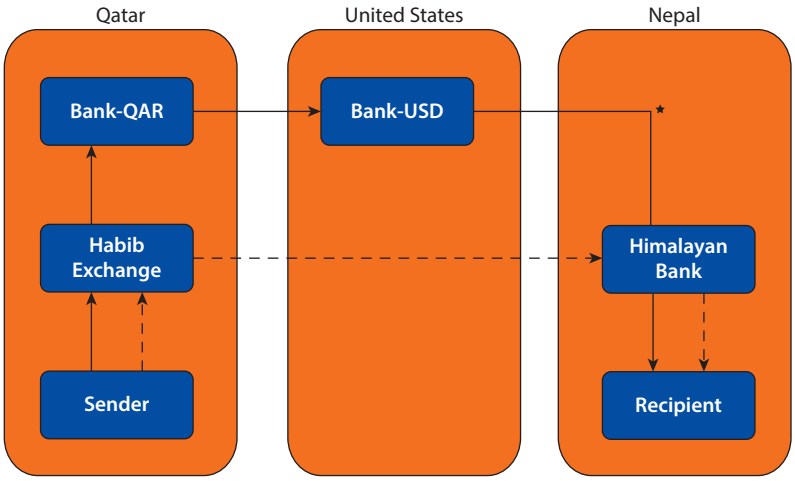
A more competitive remittance marketplace has prompted operators to develop payment systems that allow remittances to be sent faster, more cheaply, and more securely.

For example, an innovative partnership exists between Habib Exchange in Qatar and Himalayan Bank in Nepal. They have jointly developed an Internet-based remittance transfer mechanism called HimalRemit. This mechanism works as follows: in the Habib Exchange main office, there are three representative staff members from Himalayan Bank acting as service promoters. The Himalayan Bank staff[1] in Habib Exchange accepts remittance instructions from customers and inputs data for a transaction. As soon as the data are entered, a confirmation number is provided to the customer while the information is transmitted to Himalayan Bank in Nepal. Staff can execute the transaction for a customer at the point of entry in less than a minute. As soon as the instruction arrives at Himalayan Bank, the bank is ready to disburse the payment (box E.1).

Box E.1 HimalRemit Mechanism

Nepal's Himalayan Bank developed its own Internet-based system for remittance transactions (figure BE.1.1). The bank staff at point of entry logs into the system and sends instructions for remittance. The instructions are received instantly in Nepal. Himalayan Bank can disburse payments to the beneficiary as soon as it receives instructions, and does not need to wait for its account to be financially credited by the sending institution, as is the case for traditional telegraphic transfers. Partnerships between Qatar's Habib Exchange and Himalayan Bank guarantee settlement between the two institutions within two days, and currencies are exchanged through American Express Bank in New York.

Figure BE.1.1 Himalayan Bank's Internet-Based System for Remittance Transactions



Source: Isaku Endo, Gabi Afram, and Wameek Noor, *The Qatar-Nepal Remittance Corridor*, World Bank, Washington, DC, 2011. http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Nepal-Qatar.pdf.
Note: Funds are not necessarily transferred to Himalayan Bank in Nepal. In some cases, Himalayan Bank chooses to keep funds in U.S. dollars in its account in a U.S. bank for expediting transactions or for other purposes.

Such partnerships have shown that banks establishing an online remittance service could have higher returns relative to commissions received from MTBs if a shared partnership is established. Since the introduction of Himalayan Bank's online remittance service, the bank has experienced a paradigm shift in the remittance pattern under which more than 90 percent is now an over-the-counter cash payment instead of account credit. The speed at which the payment is transferred can be less than 10 minutes through this mechanism, compared to an average of 36.48 hours if the disbursing RSPs wait for its account to be credited.

However, the success of this type of product depends on the presence of a network, a good pricing structure, and effectively meeting migrant needs. In this regard, both financial institutions have worked on improving their own financial infrastructure to increase the volume of remittance transfers, so as to provide better financial access to migrant workers and their beneficiaries, and to scope potential opportunities for further investment. In addition, the presence of Himalayan bank staff in major originating remittance markets such as Qatar (to further promote their business) has resulted in long-term sustainable growth among both financial institutions.[2]

Formal RSPs Improving Their Marketing and Promotion Activities

The more competitive global marketplace has also compelled RSPs to better market and promote their *existing* products and services as a way of protecting their market share and demographic segment from potential or existing competitors.

For example, in the Philippines, one of the largest remittance receiving countries, Western Union appeared "money oriented" and "cold," warned an internal Western Union marketing document at the time that called for a more empathetic image (Malaysia-Indonesia Remittance Corridor 2008). The goal was to capture a "share of mind" and a "share of heart" to preserve a "share of wallet." As a result, and in order to remain competitive in the Philippines remittance market, Western Union, having once stressed the efficiency of their services, began to emphasize and market the devotion money represents. In one poster observed at the time of the change, a Filipino nurse in London was paired with her daughter back home in a cap and gown, making Western Union an implicit part of the family's achievements. "Sending so much more than money" became the common tag line throughout the country (DeParle 2007).

In addition, Western Union has sponsored hundreds of ethnic festivals, concerts, and sporting events in the countries where it operates, from cricket matches for Indians in Dubai to sack races for Jamaicans in Queens, New York. In 2006, it paid a Filipino pop star to record a Tagalog song urging migrants to send money home. In Jamaica, Western Union has made the largest community investment in the country, organizing nine major activities in 14 different parishes. Further, Western Union and other international RSPs offer loyalty cards in many jurisdictions that allow customers to gain points the more often they use

the company. These additional points provide remittance recipients with various discounts in supermarkets, select retail stores, and phone cards (Canada-Caribbean Remittance Corridor 2009; DeParle 2007).

The other multinational RSP competitor of Western Union, MoneyGram, has undertaken initiatives, such as from time to time introducing "corridor pricing" to attract business in markets where they may not have had a strong foothold. Corridor pricing gives reduced fees for remittances in particular jurisdictions. In Suriname, the following advertisement at the airport and train station was addressed especially to the Surinamese remittance-sending customer: "Send money to family and friends in Suriname. Now—for a limited time—only 9.99 Euro no matter how much you send, your money can be fetched within 10 minutes in Suriname, and payment is possible in US dollars and local currency."[3]

Formal RSPs Offering Innovative Products and New or Customized Service Offerings

Accelerated market competition has prompted RSPs to diversify their product and service offerings, and in many corridors have customized these products and service offerings to the needs and requirements of migrant workers. Based on the survey results, it was found that about half of all banks of both sending and receiving countries have developed a specific (proprietary) remittance product or service targeting migrant workers for sending small values of remittances. In addition, certain RSPs, such as Western Union, are now continuing the sustainability of their remittance business by being involved with new technological innovations such as mobile banking.

For example, Western Union has launched a remittance card in recent years (Suriname has had it since January or February 2006), which allows a cardholder to present the card to a Western Union agent and then all of their information appears on their computer screen. The money can be paid out without an identification, which makes transactions less cumbersome. For Western Union and other multinational RSPs, innovations such as this are especially important because services can be provided to any person (as long as they have proper identification), irrespective of whether they have a bank account.

In addition, in Mexico, it was found that several financial institutions have been reportedly studying ways to diversify into new products and services and determine ways to enter the remittance markets. For example, several Mexican financial institutions have been studying ways to use a client's remittance history in risk assessments for loans based on future remittances flows. On a similar note, Banco Industrial in Guatemala has provided short-term credit for home improvements guaranteed on future remittance flows.

Finally, in Nigeria, when distributing remittances, the banks pay out remittances in both foreign and local currency.[4] Most remittance recipients in Nigeria prefer to collect remittances in U.S. dollars. If a bank cannot provide this service, information will travel via word of mouth throughout the remittances

community that the particular bank is not a good agent for distributing remittances. This message would reflect negatively on the MTB partner; hence, it is essential that Nigerian banks (which dominate the remittance disbursement landscape in Nigeria due to regulatory requirements) have this provision in place.

Notes

1. Himalayan Bank staff also assists Nepalese workers who are illiterate and unable to fill in a remittance order form.
2. C.E.O. of Himalayan Bank Limited. http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20890132~pagePK:41367~piPK:51533~theSitePK:40941,00.html.
3. GWK Travelex (MoneyGram agent), The Netherlands-Suriname Remittance Corridor, *Prospects for Remittances When Migration Ties Loosen*, Brigitte Unger and Melissa Siegel, 2006, Ministry of Finance of the Netherlands. http://siteresources.worldbank.org/EXTAML/Resources/396511-1146581427871/Netherlands-Suriname_Remittance_Corridor.pdf.
4. BRCA fieldwork has found that regulation on permission to disburse foreign currency varies depending on the corridor.

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Malaysia-Indonesia Remittance Corridor. 2008. *Making Formal Transfers the Best Option for Women and Undocumented Migrants*. World Bank. https://openknowledge.worldbank.org/handle/10986/6515.

APPENDIX F

Latest Financial Action Task Force Recommendations

Table F.1 presents a complete list of the 40 Financial Action Task Force (FATF) Recommendations, which were adopted on February 15, 2012. Information in the "Old Number" column refers to the corresponding elements of the 2003 FATF Recommendations. Footnoted recommendations have interpretive notes, which should be read in conjunction with the recommendation.

Table F.1 FATF Recommendations, 2012

New number	*Old number*	
		A – AML/CFT POLICIES AND COORDINATION
1	—	Assessing risks and applying a risk-based approach[a]
2	R.31	National cooperation and coordination
		B – MONEY LAUNDERING AND CONFISCATION
3	R.1 & R.2	Money-laundering offence[a]
4	R.3	Confiscation and provisional measures[a]
		C – TERRORIST FINANCING AND FINANCING OF PROLIFERATION
5	SRII	Terrorist financing offence[a]
6	SRIII	Targeted financial sanctions related to terrorism and terrorist financing[a]
7		Targeted financial sanctions related to proliferation[a]
8	SRVIII	Nonprofit organisations[a]
		D – PREVENTIVE MEASURES
9	R.4	Financial institution secrecy laws
		Customer due diligence and record keeping
10	R.5	Customer due diligence[a]
11	R.10	Record keeping
		Additional measures for specific customers and activities
12	R.6	Politically exposed persons[a]
13	R.7	Correspondent banking[a]

table continues next page

Table F.1 FATF Recommendations, 2012 *(continued)*

New number	*Old number*	
14	SRVI	Money or value transfer services[a]
15	R.8	New technologies
16	SRVII	Wire transfers[a]
		Reliance, controls and financial groups
17	R.9	Reliance on third parties[a]
18	R.15 & R.22	Internal controls and foreign branches and subsidiaries[a]
19	R.21	Higher-risk countries[a]
		Reporting of suspicious transactions
20	R.13 & SRIV	Reporting of suspicious transactions[a]
21	R.14	Tipping-off and confidentiality
		Designated non-financial businesses and professions (DNFBPs)
22	R.12	DNFBPs: Customer due diligence[a]
23	R.16	DNFBPs: Other measures[a]
		E – TRANSPARENCY AND BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND ARRANGEMENTS
24	R.33	Transparency and beneficial ownership of legal persons[a]
25	R.34	Transparency and beneficial ownership of legal arrangements[a]
		F – POWERS AND RESPONSIBILITIES OF COMPETENT AUTHORITIES AND OTHER INSTITUTIONAL MEASURES
		Regulation and supervision
26	R.23	Regulation and supervision of financial institutions[a]
27	R.29	Powers of supervisors
28	R.24	Regulation and supervision of DNFBPs
		Operational and law enforcement
29	R.26	Financial intelligence units[a]
30	R.27	Responsibilities of law enforcement and investigative authorities[a]
31	R.28	Powers of law enforcement and investigative authorities
32	SRIX	Cash couriers[a]
		General requirements
33	R.32	Statistics
34	R.25	Guidance and feedback
		Sanctions
35	R.17	Sanctions
		G – INTERNATIONAL COOPERATION
36	R.35 & SRI	International instruments
37	R.36 & SRV	Mutual legal assistance
38	R.38	Mutual legal assistance: Freezing and confiscation[a]
39	R.39	Extradition
40	R.40	Other forms of international cooperation[a]

Note: AML/CFT = anti-money laundering/combating the financing of terrorism; DNFBPs = designated non-financial businesses and professions; R = Recommendation; SR = Special Recommendation; — = not applicable.
a. Footnoted recommendations have interpretive notes that should be read in conjunction with the Recommendation.

APPENDIX G

General Principles for International Remittance Services

The *General Principles for International Remittance Services* were issued by the Committee on Payment and Settlement Systems of the Bank for International Settlements and the World Bank in 2007, with a view to achieving safe and efficient international remittance services. The general principles are designed to provide guidance rather than prescriptive rules, to all remittance service providers (RSPs) except those whose services are based purely on physical transportation of cash. Box G.1 presents the five General Principles and a more detailed discussion about the principles follows.

Box G.1 General Principles for International Remittance Services

The General Principles and Related Roles

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To that end, the markets for the services should be contestable, transparent, accessible, and sound.

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

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.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

box continues next page

Box G.1 General Principles for International Remittance Services *(continued)*

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Roles of remittance service providers and public authorities

A. *Role of remittance service providers*. Remittance service providers should participate actively in the implementation of the General Principles.

B. *Role of public authorities*. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

General Principle 1: Transparency and Consumer Protection

Transparency in remittance services, combined with adequate consumer protection, helps to foster a competitive and safe market for remittances.

Transparency by individual RSPs

This principle is important from the perspective of remittance senders and receivers. The overall cost of sending remittances, which comprises the exchange rate and other fees, should be clearly communicated to customers and clearly displayed in storefronts. While transfer fees are often clearly communicated and displayed, exchange rates are not. Thus, customers may choose agents who charge lower transfer fees, not knowing that the agents are charging costly exchange rate fees and that the remittance recipient is receiving less money than the sender thought.

Appropriate consumer protection

Consumer protection is another important element in the regulation of remittance businesses. Those who send remittances through RSPs are often from the vulnerable segment of society, with low income and lack of access to dispute resolution. Thus, consumer protection is even more important for them to ensure that hard-earned money is safely sent to their families. To this effect, both senders and receivers should have adequate rights as consumers of remittance services, including error resolution procedures. Individual RSPs may have their own procedures. In addition, many countries have national schemes to resolve domestic consumer disputes, although the cross-border nature of remittances and cultural and language barriers can make such procedures complex. Authorities may therefore wish to encourage individual RSPs to evaluate the adequacy of their error resolution procedures. Where appropriate, they may also want to review whether national schemes provide adequate protection to remittance services customers.

General Principle 2: Payment System Infrastructure

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

Domestic payment infrastructure

Improving accessibility is very important in providing remittance services in rural areas. Often, there are a number of locations where one can send or receive money in urban areas; it is much more limited in rural areas. Sometimes, a recipient needs to travel a few hours or more just to collect remittances. Where payment system infrastructure lags, the number of products and services available is limited and transaction fees tend to be high due to the high cost of managing cash.

Improvements in transaction infrastructures such as automatic teller machines (ATMs) or electronic funds transfer at point of sale (EFTPOS) networks can be achieved through the adoption of common and preferably internationally agreed standards for instruments (for example, payment cards), the adoption of common equipment and software standards to allow interoperability at point of sale among competing networks (for example, 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. New services and products using new or improved payment systems should be encouraged, and this is certainly critical in making the remittance markets more efficient, which can lead to reducing the cost of sending money home.

Cross-border payment arrangements

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 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.

There are several initiatives in progress to evaluate ways to expand the use of existing international networks and platforms (for example, the major international card networks, the Society for Worldwide Interbank Financial Telecommunication [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 3: Legal and Regulatory Environment

Remittance services should be supported by a sound, predictable, nondiscriminatory, and proportionate legal and regulatory framework in relevant jurisdictions.

Prerequisites for a well-founded legal and regulatory framework

The legal and regulatory framework shapes remittance markets in countries. It determines who can operate a remittance business and what requirements RSPs have to meet.

The legal and regulatory framework should address important public policy objectives in remittances, which typically are:

- To increase the transparency of remittance flows.
- To protect consumers/customers.
- To create a level playing field for competitive markets.
- To counter abuse of remittance channels by criminals.

On the last point, the Financial Action Task Force (FATF) recommendations are the international standards that need to be implemented.

Countries should develop a proportionate, predictable, sound, and nondiscriminatory regulatory framework. Any regulations must balance the benefits of increased safety and soundness against the potential costs in lost efficiency, competition, and innovation. Regulations that are too tight and that do not correspond to the reality will encourage service providers to go underground or informal, while regulations that are too lax do not serve public policy objectives. Further, the remittance industry should be consulted when designing the regulation of remittances to help ensure that the regulation is proportionate and effective.

General Principle 4: Market Structure and Competition

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. The licensing requirements for RSPs can shape the competitive landscape of the industry to a large extent. If, for example, prudential regulation such as capital requirement is in place, the service providers are required to be of certain size. The higher the capital requirement, the bigger the service provider is, and this will likely limit the number of players in the market. The opposite is true when there is no capital requirement. Many small players can enter the market.

Thus, creating a market with low barriers to entry is important as long as the regulatory risks are appropriately and effectively managed. This means that prevalent practices, such as exclusivity agreements, should be highly discouraged in the market and, if necessary, outlawed. Experience has shown that markets with exclusivity agreements have been slow to reduce remittance transaction costs.

Laws and regulations can also play a role in creating a competitive remittance market by preventing monopolistic practices and ensuring a level playing field for

all players in the market. To increase competition, authorities need to ensure that the entry barriers are not too high. The level of market competition also affects the accessibility and affordability of remittance services to customers. Informal transfers still exist in many countries, and they need to be brought under the regulatory framework. At the same time, authorities also have an interest in ensuring that people providing services meet the Fit and Proper requirements. Further, if the remittance volume to the country is relatively sizable (some countries have inward remittances equal to 20–40 percent of gross domestic product), authorities may be interested in ensuring the stability of the RSPs. Thus, appropriate balance needs to be found that suits each domestic circumstance.

General Principle 5: Governance and Risk Management

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

Appropriate governance and risk management practices by RSPs can improve the safety and soundness of remittance services and help protect consumers, and can help RSPs meet their fiduciary responsibilities to their customers. For small RSPs, the concept may sound a little alien, but their governance and risk management systems do not need to be as sophisticated as those of larger firms. As is the case for the payments industry, generally, the remittance industry faces legal, financial, operational, fraud, and reputational risks. In establishing risk control measures, RSPs should conduct risk-level assessments to ensure that proposed risk control measures are appropriate to the level of the risks and the size of the business. Countering money laundering/terrorist financing risks should also be integrated into the overall risk management framework adopted by service providers.

One of the most important objectives that shape the laws and regulations governing remittance services is the protection of these services from money laundering and terrorist financing risks and other financial crimes. This objective has two purposes: (a) preventing the misuse of remittance services by RSP owners, management, and staff by establishing appropriate Fit and Proper criteria and performing ongoing oversight; and (b) preventing the misuse of the remittance services by customers by imposing customer due diligence, suspicious transactions reporting, record keeping, and other applicable AML/CFT measures and ensuring RSP compliance with these requirements.

All of these principles are important to make remittance markets competitive, efficient, predictable, sound, and safe.

APPENDIX H

FATF Recommendations Relevant to Remittance Services

The descriptions of the Financial Action Task Force (FATF) Recommendations in table H.1 are based on the current FATF standards and on selected relevant changes from the previous version of the recommendations.

Table H.1 FATF Recommendations Relevant to Remittance Services

Recommendation	*Aspects relevant to money transfer businesses*
Recommendation 1 (new) – The Risk-Based Approach	This is a new and overarching requirement that applies to the implementation of the FATF Standards as a whole. The main requirements are that money transfer businesses need to identify, assess, and understand the risks and apply measures in a way that is commensurate with those risks (with enhanced measures required where the risks are higher, and simplified measures allowed where the risks are lower).
Recommendation 9 (formerly Recommendation 4) – Financial Secrecy	The secrecy rules must not inhibit implementation of the FATF Recommendations.
Recommendation 10 (formerly Recommendation 5) – Customer Due Diligence (CDD)	The money transfer businesses should (a) identify the customer and verify customer's identity using reliable, independent source documents, data, or information; (b) identify the beneficial owner; (c) obtain information on the purpose and intended nature of remittances; and (d) conduct ongoing due diligence on the continuing business. The extent of these CDD requirements may vary depending on level of risk. KEY CHANGES from previous Recommendation 5: The main requirements are unchanged; however, there is more guidance on lower-risk areas and simplified due diligence measures.
Recommendation 11 (formerly Recommendation 10) – Record Keeping	Money transfer businesses should maintain, for at least five years, all necessary records on transactions and CDD documents, both domestic and international, to enable them to comply swiftly with information requests from the competent authorities. The identification data and transaction records should be available to domestic competent authorities upon request.
Recommendation 12 (formerly Recommendation 6) – Politically Exposed Persons (PEPs)	Money transfer businesses should, in relation to PEPs, conduct the following activities in addition to CDD: (a) have appropriate risk management systems to determine whether the sender or recipient is a PEP, (b) obtain senior management approval for establishing business relationships with such customers, (c) take measures to establish the source of remitted funds, and (d) conduct enhanced ongoing monitoring of the business relationship, if any. KEY CHANGES from previous Recommendation 6: The requirements for domestic PEPs have been introduced.

table continues next page

Table H.1 FATF Recommendations Relevant to Remittance Services *(continued)*

Recommendation	*Aspects relevant to money transfer businesses*
Recommendation 13 (formerly Recommendation 7) – Cross-border Correspondent Relationships	In relation to cross-border correspondent relationships, in addition to CDD, money transfer businesses should (a) gather sufficient information about a respondent institution to understand its business, reputation, and quality of supervision, particularly in terms of money laundering and financing of terrorism (ML/FT); (b) assess the respondent institution's anti-money laundering and terrorist financing controls; (c) obtain approval from senior management before establishing new correspondent relationships; (d) document the respective responsibilities of each institution; and (e) be satisfied that the respondent bank has appropriate CDD controls on "payable through accounts." KEY CHANGES from previous Recommendation 7: Financial institutions should be prohibited from entering into, or continuing, a correspondent banking relationship with shell banks. Financial institutions should be required to satisfy themselves that respondent institutions do not permit their accounts to be used by shell banks.
Recommendation 14 (formerly Special Recommendation VI) – Money or Value Transfer Services	Countries should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTS) are licensed or registered, and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations. Countries should identify natural or legal persons that carry out MVTS without a license or registration and apply appropriate sanctions. Any natural or legal person working as an agent should also be licensed or registered by a competent authority, or the MVTS provider should maintain a current list of its agents accessible by competent authorities in the countries in which the MVTS provider and its agents operate. Countries should take measures to ensure that MVTS providers that use agents include them in their AML/CFT programs.
Recommendation 15 (formerly Recommendation 8) – Non-Face-to-Face Transactions, New Technologies	If they provide such products, money transfer businesses should pay special attention to any money laundering threats that may arise from new or developing technologies that might favor anonymity, and take measures, if needed, to prevent their use in money-laundering schemes. In particular, money transfer businesses should have policies and procedures to address any specific risks associated with non-face-to-face business relationships or transactions. KEY CHANGES from previous Recommendation 8: This risk assessment of ML/FT also applies to (a) new business practices, including new delivery mechanisms; and (b) in the case of financial institutions, such a risk assessment should take place prior to the launch of the new products, business practices, or use of new or developing technologies.
Recommendation 16 (formerly Special Recommendation VII) – Wire Transfers	Countries should take measures to require money remitters to include accurate and meaningful originator information (name, address, and account number) on funds transfers and related messages sent, and the information should remain with the transfer or related message through the payment chain. Countries should take measures to ensure that money remitters conduct enhanced scrutiny, and monitor for suspicious activity, of such funds transfers which do not contain complete originator information (name, address, and account number). Note: Substitute information is allowed for address and account number. KEY CHANGES from previous SRVII: 1. Countries should ensure that, in the context of processing wire transfers, financial institutions take freezing action and should prohibit conducting transactions with designated persons and entities, as per the obligations set out in the relevant United Nations Security Council resolutions, such as Resolution 1,267 (1999) and its successor resolutions, and Resolution 1,373 (2001), relating to the prevention and suppression of terrorism and terrorist financing. 2. Recommendation 16 is applicable to credit or debit cards only when a credit, debit, or prepaid card is used as a payment system to effect a person-to-person wire transfer, and the necessary information should be included in the message.

table continues next page

Table H.1 FATF Recommendations Relevant to Remittance Services *(continued)*

Recommendation	*Aspects relevant to money transfer businesses*
	3. Countries may adopt a de minimis threshold for cross-border wire transfers (no higher than US$/EUR 1,000), below which the following requirements should apply: (1) countries should ensure that financial institutions include with such transfers: (a) name of originator; (b) name of beneficiary; and (c) an account number for each, or a unique transaction reference number. Such information need not be verified for accuracy unless there is a suspicion of money laundering or terrorist financing, in which case, the financial institution should verify the information pertaining to its customer; (2) countries may, nevertheless, require that incoming cross-border wire transfers below the threshold contain required and accurate originator information.
Recommendation 17 (formerly Recommendation 9) – Intermediaries/ Introduced Business Reliance on Third Parties	Money transfer businesses may be permitted to rely on intermediaries or other third parties to perform elements (a) through (c) of the CDD process as set out in Recommendation 10 or to introduce business, provided that the criteria set out below are met. Where such reliance is permitted, the ultimate responsibility for customer identification and verification remains with the financial institution relying on the third party. The criteria that should be met are as follows: (a) a financial institution relying on a third party should immediately obtain the necessary information concerning the CDD process. Financial institutions should make sure that copies of identification data and other relevant documentation relating to the CDD requirements will be provided by the third party; (b) the financial institution should satisfy itself that the third party is regulated and supervised for, and has measures in place to comply with, CDD and record-keeping requirements in line with Recommendations 10 and 11. KEY CHANGES from previous Recommendation 9: When determining in which countries the third party that meets the conditions can be based, countries should have regard to information available on the level of country risk. However, this is not a necessary precondition to reliance when higher country risk is adequately mitigated by the group AML/CFT policies.
Recommendation 18 (formerly Recommendation 15) – Internal Policies/Compliance Officer/Training	Money transfer businesses should initiate AML/CFT efforts, which should include (a) the development of internal policies, procedures, and controls, including appropriate compliance management arrangements, and adequate screening procedures to ensure high standards when hiring employees; (b) an ongoing employee training program; and (c) an independent audit function to test the system. The type and extent of measures to be taken should be appropriate with regard to the risk of ML/FT and the size of the business. KEY CHANGES from previous Recommendation 15: (a) financial groups should be required to implement group-wide AML/CFT programs, including policies and procedures for sharing information within the group for such purposes; and (b) financial institutions should be required to ensure that their foreign branches and majority-owned subsidiaries apply the same AML/CFT standards as that of the home country requirements through its groups' AML/CFT programs.
Recommendation 18 (formerly Recommendation 22) – Application to Foreign Branches and Subsidiaries	Money transfer businesses should ensure that the principles mentioned above are also applied to branches and majority-owned subsidiaries located abroad, especially in countries that do not or insufficiently apply the FATF Recommendations to the extent that local applicable laws and regulations permit.
Recommendation 19 (formerly Recommendation 21) – Special Attention to Transactions from Higher-Risk Countries	Money transfer businesses should give special attention to remittances sent to and received from countries that do not or insufficiently apply the FATF Recommendations. Whenever these remittances have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, and the findings established in writing and available to help competent authorities. Financial institutions should be required to apply enhanced due diligence measures to business relationships and transactions with natural and legal persons, and financial institutions, from countries for which this is called for by the FATF. The type of enhanced due diligence measures applied should be effective and proportionate to the risks.

table continues next page

Table H.1 FATF Recommendations Relevant to Remittance Services *(continued)*

Recommendation	*Aspects relevant to money transfer businesses*
	KEY CHANGES from previous Recommendation 21: Countries should be able to apply appropriate countermeasures when called upon to do so by the FATF, and should also be able to apply countermeasures independently of any call by the FATF to do so. Such countermeasures should be effective and proportionate to the risks.
Recommendation 20 (formerly Recommendation 13 and Special Recommendation IV) – Suspicious Transaction Reporting	If a money transfer business suspects or has reasonable grounds to suspect that funds being remitted are the proceeds of a criminal activity or are related to terrorist financing, it should be required, directly by law or regulation, to promptly report its suspicions to the Financial Intelligence Unit (FIU).
Recommendation 21 (formerly Recommendation 14) – Protection for Suspicious Transaction Reporting/Tipping Off	Money transfer businesses and their directors, officers, and employees should be (a) protected by law from criminal and civil liability if they report their suspicions in good faith to the FIU, and (b) prohibited by law from disclosing the fact that an STR or related information is being reported to the FIU.
Recommendation 26 (formerly Recommendation 23) – Supervision, Regulation/ Prevention of Criminals from Positions	Countries should ensure that money transfer businesses are subject to adequate regulation and supervision and are effectively implementing the FATF Recommendations. Competent authorities should take the necessary legal or regulatory measures to prevent criminals or their associates from holding or controlling a money transfer business. Businesses providing a service of money or value transfer should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national requirements to combat ML/FT. KEY CHANGES from previous Recommendation 23: Countries should not approve the establishment, or continued operation, of shell banks.
Recommendation 35 (formerly Recommendation 17) – Sanctions	Countries should ensure that there is a range of effective, proportionate, and dissuasive sanctions, whether criminal, civil, or administrative, available to deal with money transfer businesses whether natural or legal persons, that fail to comply with AML/CFT requirements. Sanctions should be applicable not only to a money transfer business as a legal entity, but also to its directors and senior management. KEY CHANGES from previous Recommendation 17: Directors and senior management of financial institutions including money transfer businesses are explicitly mentioned as subject to the sanction regime.

Note: AML/CFT = anti-money laundering/combating the financing of terrorism; FAFT = Financial Action Task Force; STR = Suspicious Transaction Report.

APPENDIX I

Tip Sheet for Regulation and Supervision of Remittance Market

This appendix provides a tip sheet—a detailed framework for national regulators and supervisors to implement an effective regulatory and supervisory regime for remittance service providers (RSPs). The tip sheet aims to provide a full range of issues to be considered. While it would be more comprehensive to address all the issues raised here, countries could also select the most relevant issues to be addressed.

1. **Study/analyze the circumstances surrounding the remittance market**
   - ✓ What are the current size and characteristics of the remittance market?
   - ✓ What are the expected future trends?
   - ✓ Demand side: Current and potential customers of remittances.
   - ✓ Supply side: Current and potential providers of remittances.
   - ✓ Do the existing remittance services successfully address the needs of the market?
   - ✓ Any findings/information on the presence of informal remittance systems?
   - ✓ Any potential for informal remittance systems?
   - ✓ How many access points are there? How many more are needed to meet the demand?
   - ✓ What are the remittance costs in the corridors between the country and various other countries?
   - ✓ Are the remittance and exchange fees applied by the RSPs high or low compared to other countries?
   - ✓ Are the remittance costs high or low compared to average household income?
   - ✓ Are there any monopolistic players in the market?
   - ✓ Other problems in access, efficiency, competition, fee structure, etc., in the remittance market.
   - ✓ How is the identification (ID) environment in the country? Do most people have proper ID documents? Which types of ID documents are available? How protected are they against counterfeiting?

- ✓ How is the crime environment in the country? What is the risk of remittance services being abused for criminal purposes?
- ✓ How strong is public confidence in the financial systems and financial institutions conducting remittances in the country? If not good, what are the underlying reasons?
- ✓ Is physical transportation of cash across the borders widespread? If so, what are the underlying reasons?
- ✓ What are the migration facts of the country? What are the migrant inflows, outflows, and future trends? What are the financial habits of immigrant communities?
- ✓ What are the facts about the financial systems of home countries of immigrants?

Potential tools for analyzing and gathering answers to the above-mentioned questions:

- ✓ Surveys/interviews among:
  - Senders of formal remittances
  - Recipients of formal remittances
  - Potential users of informal remittance systems:
    - Immigrant communities (particularly those with status problems)
    - Business people, entrepreneurs (particularly the ones involved in international trade)
    - Accountants
    - Others
  - Formal remittance service providers
  - Informal remittance service providers.
- ✓ Information from academics, international organizations, consultants, or pooling institutions
- ✓ Other information/intelligence sources
- ✓ Information from law enforcement agencies (where unauthorized remittance provision constitutes a criminal act and volunteer cooperation of the informal service providers cannot be provided)
- ✓ Approaching informal service providers under the appearance of customers (as much as the legal framework allows).

2. **Study/analyze the current legal/regulatory framework**
   - ✓ Analyze whether the current laws and regulations can realistically address the needs of the remittance market in the country.
   - ✓ Beyond regulating the remittances, is there adequate guidance to illuminate the remittance service providers in regard with their legal and regulatory responsibilities?
   - ✓ Are there any impediments that reduce the efficiency of the remittance market?
   - ✓ Are the responsibilities regarding the regulation and supervision of the remittance market clearly defined?
   - ✓ Analyze the overlaps among various laws and regulations applying to remittances in order to eliminate contradictory and repetitive provisions to

reduce the legal/regulatory burden on market participants, and consult with them as necessary.

- ✓ Beyond the actual players, analyze how accommodative the legal/regulatory framework is to various institutions and business models.
- ✓ Identify other problems in the legal/regulatory framework that hinder access, efficiency, and competition in the remittance market.
- ✓ Analyze whether the current legal and regulatory framework meets the relevant international standards (particularly the FATF Recommendations).

3. Determine the approach to regulation and supervision

- ✓ Should be realistic.
- ✓ Should fit the conditions of the current market and future trends.
- ✓ Should take into account the resources of regulators/supervisors.
- ✓ Should balance the use of incentives, voluntary cooperation, enforcement, and sanctions.
- ✓ Examples of possible vision/philosophy options include:
  - Gradual formalization of informal service providers
  - Zero tolerance of informal service providers
  - Balancing financial inclusion and financial integrity
  - Promoting competition and reducing costs
  - Promoting the entry of new players and new business models for remittances, as long as they fulfill compliance requirements designated in international standards
  - Limiting the entry of small players (which have a low level of institutionalization)
  - A combination of some of the approaches listed above.

4. Design new or amend existing legal and regulatory framework

- ✓ Coordinate AML/CFT efforts with other legislation that applies to the remittance market.
- ✓ Get feedback and review from the players in the market.
- ✓ Get feedback and review from relevant government agencies.
- ✓ Decide whether registration or licensing for principals and agents fits the country conditions better.

What should the laws/regulations capture?

- ✓ Designate and identify the regulatory and supervisory agency clearly. Various agencies may have responsibility for the regulation/supervision of various types of remittance institutions. Make sure that all RSPs are covered.
- ✓ Institutions that could be the regulator or supervisor for the remittance businesses include:
  - Central bank
  - Financial Intelligence Unit
  - Financial Services Authority
  - Tax authorities
  - Other state authorities.

- ✓ Decide which institutions will be allowed to carry out money transfer services as the principal RSP:
  - Banks
  - Post offices
  - Credit institutions (credit union, microfinance)
  - Exchange houses
  - Stand-alone remittance companies
  - Money service businesses (MSBs)
  - Payment institutions
  - Mobile network operators
  - Others.
- ✓ Decide the approach to agents and subagents. Which agency model is the one that can achieve market efficiency and provide effective supervision? There are mainly two options:
  - No agents; the remittance services will be provided by their own RSP offices/branches.
  - Agents and subagents can be assigned, provided that they meet certain conditions.
- ✓ Also consider following issues:
  - Can banks, credit savings institutions, or microfinance institutions be agents?
  - Can travel agencies, super stores, pharmacies, gas stations, etc., be agents?
  - Can individuals be agents?
  - Can other types of entities be agents?
- ✓ Specify the licensing/authorization/registration conditions, procedures, and application/approval process for principals.
- ✓ Specify the licensing/authorization/registration/listing conditions, procedures, and application/approval process for agents and subagents.
- ✓ Specify the one-time or annual, licensing/authorization/registration fees.
- ✓ Specify Fit and Proper requirements for the owners and management of remittance businesses.
- ✓ Specify the capital requirement for the principal and agent remittance businesses. Authorities may decide to have various categories of licenses and various levels of capital for each category.
- ✓ Specify allowed activities. Which other products and services can be provided by the remittance businesses?
- ✓ Specify the legal status requirement for the remittance businesses. For example:
  - It should be established as a company
  - It should be established as a limited company
  - It should be established as a corporation
  - It should be established as a hybrid entity that fits the specific needs of the country.
- ✓ Specify the organizational requirements:
  - The management and staff of the businesses

- Physical requirements for outlets (such as security measures and accessibility)
- Technical requirements (particularly if the MTB will operate a payment system)
- Other requirements in response to specific circumstances and needs.

✓ Specify AML requirements:
- Internal AML compliance/control systems
- Customer due diligence
  - Decide on the threshold for the remittance transactions
  - Decide what are acceptable ID documents
  - Information to be collected during customer due diligence
- Suspicious Transaction Reporting
- Currency or Cash Transaction Reporting
- Compliance Officer
- Record keeping
- Training.

✓ Ensure that the agents and subagents are covered under the AML regime. Clearly resolve whether the principal or the agent has the legal responsibility with regard to AML compliance.

✓ Specify the powers of the supervisory agency and the procedures for the supervision.

✓ Sanctions and sanctioning procedures for breaches of AML obligations and violations of other provisions.

✓ Revocation and suspension of the license/authorization/registration: Conditions and procedures.

✓ Some institutions may already be authorized to provide money transfer services based on the legislation they are subject to. In that case, specify how and to what extent the provisions of remittance laws and regulations will apply to them.

✓ Issue guidelines, which further provide practical guidance to remittance businesses including principals and agents. Ideally, guidelines should clarify and explain the provisions of laws and regulations rather than impose new requirements.

5. Licensing/registration of money transfer businesses (MTBs)

✓ Main components of legal/regulatory framework applying to licensing/authorization/registration of remittance businesses are explained in the previous stage.

✓ Where necessary, design transition periods that realistically allow the remittance market players to comply with new laws/regulations.

✓ Based on the approach adopted, license/authorize/register the principal remittance businesses.

✓ Before the remittance business is licensed/authorized/registered, conduct the prescribed entry checks:
- Fit and Proper tests
- Capital, structure, organizational requirements

- AML compliance plan and infrastructure to comply with AML requirements
- Consider onsite visits
- Consider interviewing the owners and management of the business.

✓ Give additional time to comply with the laws/regulation if not fully compliant.

✓ Based on the approach adopted, license/authorize/register/list the agents and subagents in the remittance market.

✓ Make sure that all the agents and subagents are known to the authorities, or the list of agents made available upon request by authorities.

✓ Obtaining the agency contracts may be a good way to allow authorities to monitor agency networks and their relationship with the principal remittance businesses.

✓ For purposes of transparency, place a list of licensed/authorized/registered/listed principal remittance businesses, their agents, and subagents in the public domain, where it can be seen by all citizens. Alternatively, the principal businesses themselves may be required to post the list of its agents on their websites or in other appropriate forum.

✓ In addition to formal players, identify and formalize (by licensing/authorization/registration) or eliminate informal providers of remittance services.

6. Identifying and formalizing informal RSPs

✓ Consider launching public awareness campaigns to reduce the demand for informal RSPs.

✓ Consider launching a campaign to convince informal service providers to reveal themselves and become formalized businesses.

✓ Consider applying a gradual strategy, first to identify and reach out to informal service providers, and then to convince them to voluntarily formalize themselves and at the last stage, to force them to do so.

Tools to identify and formalize informal RSPs:

- Meeting with immigrant communities
- Meeting with other groups that have the potential to use informal remittances
- On-site visits to identified informal businesses
- Meetings, seminars with identified informal businesses
- Transition periods, guidance
- Penalties – enforcement
- Cooperation with banking supervision agencies and financial intelligence agencies to detect the informal remittance providers based, for example, on the unusual transactions in their bank accounts (if they have one), which are usually used for settlement purposes
- Cooperation/support of law enforcement, if necessary, including undercover operations.

✓ Make sure authorities have the power to supervise both informal and formal remittance providers. Support from law enforcement may be necessary in some cases.

7. Ongoing supervision

- ✓ Taking into account the ML/FT risks, decide on a general approach to the supervision of remittance businesses (should be done at the legislation/regulation stage).
- ✓ Clearly define how the remittance institutions will be supervised. What are the procedures for oversight/supervision of RSPs?
- ✓ Coordinate with other supervisory agencies; make sure that all players in the remittance market are brought under supervision.
- ✓ Consider applying a risk-based approach. Design the risk assessment process:
  - Risk-based design for on-site vs. off-site supervision
  - Customize the supervision plans based on the risk levels of different institutions
  - Guide the institutions in developing risk-based AML compliance systems
  - Focus on riskier products and services
  - Focus on riskier customers
  - Focus on riskier geographic locations.
- ✓ Assign adequate staff that will allow adoption of the supervision approach.
- ✓ Train the supervision staff.
- ✓ Ensure that agents and subagents are included in supervision.
- ✓ Design supervision manuals/guidelines for supervision staff.
- ✓ Train the remittance businesses to conduct self-supervision.
- ✓ Design annual oversight/supervision programs, with more focus on riskier institutions.
- ✓ Specify the reporting/documents that will be collected on an ongoing basis.
- ✓ Where necessary, apply sanctions, depending on the findings of the supervision.
- ✓ Revoke or suspend license/authorization/registration where the legal/regulatory conditions are not met or not maintained by the remittance businesses.

APPENDIX J

Balancing Financial Integrity and Financial Inclusion

Key Regulatory Impediments to Financial Inclusion

Approximately 2.5 billion adults—half the world's adult population—lack access to credit, insurance, savings accounts, and other formal financial services.[1] While account penetration is high in high-income economies, with 89 percent of adults reporting that they have an account at a formal financial institution, only 41 percent have such an account in developing economies (Demirguc-Kunt and Klapper 2012). The differences in account ownership by individual characteristics are particularly large in developing economies. While 46 percent of men have a formal account, only 37 percent of women do (Demirguc-Kunt and Klapper 2012). Indeed, there is a persistent gender gap of 6–9 percentage points across income groups within developing economies. Among all adults in the developing world, those in the richest quintile (the top 20 percent of the income distribution within an economy) are on average more than twice as likely as those in the poorest quintile to have a formal account (Demirguc-Kunt and Klapper 2012). Worldwide, only 23 percent of the people who live on less than US$2 a day have access to formal financial services, because their income is not only low, but also irregular, and they are therefore more vulnerable to external shocks and cash flow uncertainties (Demirguc-Kunt and Klapper 2012).

The number of unbanked adults is estimated to be 2.61 billion (64 percent of adults) in developing countries and 138 million (17 percent of adults) in developed countries. It is estimated that 1.29 billion people, or 22 percent of the population of the developing world, lived below an absolute poverty level of US$1.25 a day in 2008.

Because national policy makers may not have clearly understood the flexibility in the anti-money laundering/combating the financing of terrorism (AML/CFT) international standards and the effective use of such standards within their country, or due to other regulatory objectives such as foreign exchange control, they may have enacted policies that constrain access to finance objectives. This can

result in an aggregate reduction in benefit to remittance senders, especially those who are from low-income brackets and who are undocumented migrant workers. It also negatively impacts remittance recipients (usually family members of the senders, who often rely on this supplemental income to make purchases vital to living or to make investments to sustain themselves).[2] Some regulatory policies can be both ineffective and act as impediments to financial inclusion. The AML/CFT regulations that could be adapted to address these impediments and advance financial inclusion are explained below.

Regulatory Barriers to Entry for Small or New Types of Money Transfer Businesses

Perhaps due to overly stringent regulations, some countries may have created barriers to entry for smaller money transfer business (MTBs) interested in entering the remittance market. For example, some countries allow only banks or post offices to provide remittance services. This automatically disqualifies many small MTBs from entering the remittance business. Another limitation of this restrictive model from the consumer's perspective is that access points are often limited to the number of banks and post office branches and, as Bilateral Remittance Corridor Analyses have pointed out, remittance customers are often not comfortable with bank branches and access points due to unfamiliarity, different culture, language concerns, lack of proximity to locations resulting in limited competition, higher remittance costs, and informal means of remittance transfers.

High capital requirements could also be a regulatory barrier for entry into the remittance market for small players. The survey results on the capital requirements for MTBs indicated that 7 sending countries and 10 receiving countries impose capital requirements for remittance business. Qatar, where only authorized exchange offices are allowed to operate as MTBs, has the highest capital requirement by far. The capital requirements in Italy, Mongolia, and Nepal are also high. It is crucial for regulators to analyze the economic environment and remittance market (both formal and informal) accurately and determine the capital requirement, accordingly. The capital requirement should reflect the realities of the country and not drive the players of the remittance market to go or stay underground.

Before opening the remittance market to various players, countries should conduct a risk assessment of their national remittance sector, and determine the types of entities best placed to enable greater segments of the population to access financial transfers, such as remittances through formal channels. Authorities should be confident that risks arising from MTBs can be effectively mitigated. Any regulatory development should be based on local circumstances and conditions. For example, it is possible that the potential benefits of permitting retail businesses and individuals to act as principal MTBs in a specific country may not outweigh the potential costs of oversight and of the risk factors, or of effective risk mitigation techniques with respect to money laundering and terrorist financing risks and other risks.

Rules-Based (versus Risk-Based) AML/CFT Regulatory Provisions

Often, countries follow uniform regulatory and supervisory policies for different types of institutions, leading to sometimes overly restrictive and at times lax regimes, with no consideration to risk profile of the remittance service provider. Ill-designed and overly rigid AML/CFT regulatory frameworks unnecessarily increase costs and create other disincentives for MTBs and other financial institutions that discourage conversion from the informal to formal sector and foster financial exclusion. As discussed in section "Threshold for the CDD Requirements" in chapter 3, most of the receiving countries (79 percent) applied no threshold for customer due diligence (CDD), resulting in the full verification of customer information regardless of the transaction amount and risk profile of the customer.

Regulators of MTBs in a few countries in the surveys have implemented risk-based approaches to CDD requirements. For example, they introduced a "tiered-approach" to CDD, which aims to require more information from the customer as the transaction amount increases. However, as can be observed in table 3.3, the application of tiered CDD varies enormously from country to country. In some cases, the tiered CDD focuses more on tackling higher risk, but ignores considerations for lower-risk scenarios. In other cases, the approach may not conform to minimum FATF requirements.

Therefore, application of a risk-based approach is crucial and needs to be further explored, but how to apply it needs to be carefully thought through.

Inadequate Private Sector Consultation in Designing Laws and Regulations and Guidance to the Private Sector

Designing laws and regulations without consulting the private sector could bring unintended negative consequences if regulators have not understood the market well. Therefore, some countries have ensured that there is regular and proactive consultation with covered institutions subject to AML/CFT regulations before laws and regulations are introduced. This helps ensure that the proposed laws and regulations are practical and secures buy-in from the private sector. The private sector is often in a position to offer constructive solutions to regulatory challenges that national authorities may not consider. Such a consultation process among all relevant stakeholders leads to the proactive adaptation of relevant laws and regulations and achieves effective implementation of the laws and regulations among regulated entities.

Providing proactive guidance to covered institutions subject to AML/CFT regulation is important in assisting them to implement AML/CFT laws and regulations. Working with the private sector and other relevant stakeholders, the national authorities of some countries have promoted various events to share information and catalyze possible partnerships. Such events will increase awareness of international experiences and "good practices" in ensuring financial access, often through the use of risk-based AML/CFT regulations.

In this regard, many countries have specifically targeted Home Town Associations in host countries, because they are a useful avenue for remittance

senders to have a growing voice and influence on regulatory policies in their home communities.

Effects of Regulatory Liberalization on Competition and Remittance Costs

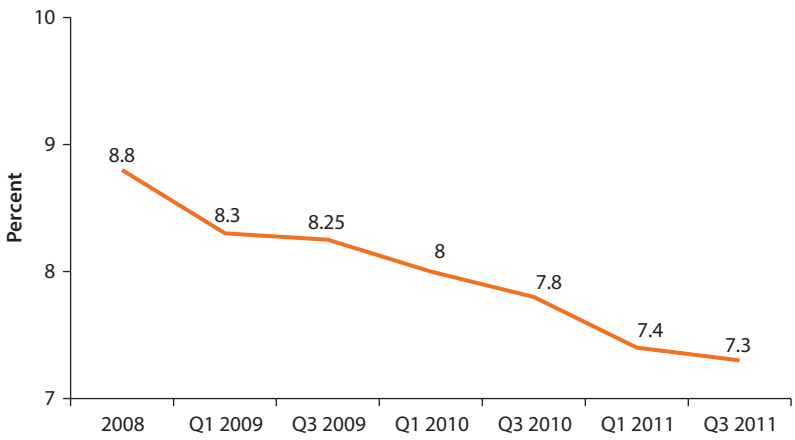
Current analysis suggests that there has already been a moderate reduction in the average remittance transfer costs globally over the long term.[3] The World Bank's Remittance Prices Worldwide Database[4] shows that the global average remittance cost, weighted by bilateral remittance flows, has steadily declined. Global average remittance costs fell from 8.8 percent in 2008 to 7.3 percent in the third quarter of 2011 (see figure J.1). There is evidence that costs have been falling in high-volume remittance corridors, such as from the United States to Mexico, the United Kingdom to India and Bangladesh, and France to North Africa. The increasing push for financial inclusion through, for example, regulatory allowance and provider usage of agent networks and new types of business models beyond banks and "traditional" money transfer operators, may have played a role. Such supply-side regulatory liberalization helped increase competition in the remittance markets, and allowed greater segments of the population to be aware of providers, thus allowing them better access to sending and receiving remittances.

Exclusivity Agreements and Noncompetition Clauses

Exclusivity agreements and noncompetition clauses continue to exist without limits in many countries and restrain remittance market competition from its full potential.

While exclusivity agreements prohibit local transfer companies from acting as primary agents of other money transfer companies, noncompetition clauses

Figure J.1 Global Weighted Average Remittance Costs



Source: World Bank 2011.
Note: Q = Quarter.

prohibit local transfer companies, at least in the first few years of signing the agreement, from offering their own remittance services.

Exclusivity agreements can take various forms, but generally speaking, they constrain one or more MTBs to exclusive contractual agreements with another MTB. Principal MTBs can prohibit their agents from acting as agents of other MTBs, creating oligopolistic conditions in the market. Thus, the market becomes dominated by only a few MTBs. In some countries, this could greatly constrain financial access given the smaller number of MTB players operating in the market and the higher fees charged due to limited competition. For new MTBs, such impediments greatly increase both the perceived and real barriers to entry, which is unfortunate, because the entrance of new MTBs could make the remittance market more competitive.

Survey results suggest that the majority of countries have no legislation prohibiting exclusivity agreements between principals and agents (see table J.1). The countries that do prohibit exclusivity agreements are receiving countries. A possible explanation for this is that the national authorities in receiving countries have an interest in ensuring that the remittance market remains competitive and sustainable, because many households in the country may be dependent on remittances sent from family members abroad. Mandating the elimination of exclusivity agreements would potentially enable a greater choice of both providers and access points for funds withdrawal. It would also suggest that average transfer fees are competitive and affordable to most population segments.

It was also observed that for those countries that do not already prohibit exclusivity agreements, there is no plan to eliminate these agreements in the future through legislation.

This study concludes that the elimination of exclusivity agreements and noncompetition clauses should be encouraged,[5] because doing so would encourage competition and expand the formal sector in the remittance market. However, if it is important to ensure that MTBs are not discouraged to make initial investments in the market, such exclusivity agreements and noncompetition clauses may be allowed, but only for a limited time, for example, a few years.

In Canada, for example, an agent is legally permitted to offer remittance services through different companies, allowing customers to compare services and fees on the spot and to select a preferred company. Clearly, for customers, the more options they have, the lower the cost. Service providers should be encouraged to attract customers by offering lower fees, different and unique services, and more convenience.

Table J.1 Existence of Prohibition of Exclusivity Agreements

	Yes	*No*	*Total*
Sending country	0	10	10
Receiving country	6	10	16

Source: Compilation based on the survey; refer to table B.39 in Appendix B for details.

Positive Effects of AML/CFT Regimes on Fraud Risks and Consumer Protection

Effective AML/CFT policies not only reduce money laundering and terrorist financing risks but also fight fraud risks. Therefore, there can be significant overlap among AML/CFT, consumer protection, and overall remittance sector policies. If these policies are coordinated and well aligned, consumers will feel more confident to engage in transactions in the formal remittance market because they will feel their transactions are more secure.

In Indonesia, for example, the Bank of Indonesia published a list of authorized remittance agents for public viewing. A similar practice is followed by other countries such as Jamaica, Uganda, and the United States. This allows customers to be aware of "formal" service providers that are officially licensed by or registered with competent authorities. This gives confidence to consumers not only that they are dealing with authorized service providers, but also that their funds will be safe from fraudulent remittance operators.

In Nigeria, regulators have encouraged innovative practices for consumer protection, given the frequent incidences of remittance fraud in that country. For example, the Central Bank of Nigeria (CBN), in partnership with the Ethics and Professional Subcommittee of the Bankers' Association (which includes all directors of banks and the CBN Director of Banking Supervision), meet at least once a month to discuss and assess customer complaints about bank services, which includes remittance payments. To ensure that complaints are legitimate, customers can make a complaint but are required to make a refundable deposit of Nira 50,000. When a claim is determined to be legitimate, the CBN authorizes the bank to refund the customer that amount.

Consumers in the United States send billions of dollars in remittance transfers each year. Federal consumer protection rules had not applied to most of these transfers until enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the Consumer Financial Protection Bureau to issue rules on remittance transfers. The Bureau issued remittance transfer rules, which took effect on February 7, 2013, to protect consumers who send money electronically to foreign countries.

The major focus of the remittance transfer rules is on better disclosure requirements, clear provisions regarding cancellation of transactions, the refund process, and the error resolution process. Such integrated policies increase transparency, reduce transfer costs, increase reliability, and provide incentives for remittance transfers to move from informal to formal channels.[6]

Notes

1. Of course, access to sophisticated financial services (such as having a bank account at a financial institution) may not be the ultimate objective, and financial inclusion can be achieved through other means.
2. Different studies show different uses of remittances. It is widely acknowledged that, generally, remittances have had a positive impact on poverty reduction. However,

it has been noted in previous work that often remittances may not be used for the most productive purposes (such as housing or children's education), but rather on, arguably, unsustainable and/or unnecessary consumption (such as purchase of alcohol and entertainment). But, for unsustainable or unnecessary consumption to occur, basic survival expenses must be met, because households are at a baseline level of survival and well-being (for example, if a family were hungry, they would most likely use the remittances for food first before making other purchases).

3. This finding is supported by BRCA studies and the World Bank's Remittances Prices Database that records overall remittance transfer costs from 14 major remittance-sending countries to 72 remittance-receiving countries, representing more than 60 percent of total remittances to developing countries.
4. The World Bank's Remittance Prices Worldwide database (http://remittanceprices.worldbank.org/) has the most comprehensive indicators on remittance transfer costs, and evaluating such costs can provide insight into the trends in remittance market competition. The database currently covers 212 "country corridors." These corridors flow from 31 major remittance-sending countries to 90 remittance-receiving countries, representing more than 60 percent of total remittances to developing countries. However, since global remittance price data have been available only since 2008, predictions on global patterns and trends are preliminary, at best.
5. For more information on exclusivity agreements, see "Guidance Report for the Implementation of the CPSS-World Bank General Principles for International Remittance Services," World Bank, October 2012, http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1360600536890/WB2012_CPSS.pdf.
6. For detailed information on remittance transfer rules, see http://www.consumerfinance.gov/regulations/final-remittance-rule-amendment-regulation-e/.

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Glossary

Customer due diligence (CDD): A financial institution's policies, procedures, and processes for obtaining customer information for the purpose of understanding the customer profile, nature of transactions, and ultimately detecting, monitoring, and reporting suspicious activity.

E-money: Electronically stored (including magnetically) monetary value as represented by a claim on the issuer, which is issued on receipt of funds for the purpose of making payment transactions and, which is accepted by a natural or legal person other than the electronic money issuer. This is in line with the definition used by the Financial Action Task Force.

Exchange House: A financial service provider whose main service is currency exchange from one currency to another. Depending on countries or regions, it may be called "currency exchange," "exchange bureau," "money changer," "casa de cambio," or "bureau de change," among others. In some countries, the exchange house provides remittance services using its own network or branches.

Financial Action Task Force (FATF): The FATF is an intergovernmental body established in 1989. Its purpose is 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. The FATF developed a series of Recommendations that are considered the international standard for combating money laundering and the financing of terrorism and the financing of proliferation of weapons of mass destruction.

Mobile Money (M-Money): Financial services in which customers send and receive monetary value via a mobile phone. This includes retail payments, remittances from one person to another, or between businesses. Mobile money accounts can be provided by a variety of institutional types including banks and nonbanks, such as mobile network operators and payment service providers. Mobile money services are part of the retail payment industry and are covered by oversight policy of the national payment system.

Money service business (MSB): A nonbank business entity that is allowed to provide limited financial services, including remittance services, money exchange, and redemption of money orders and checks. MSB is often a

collective term to refer to a group of service providers that may be providing only money remittances (money remitters), check cashing (check cashiers), or currency exchanges (exchange bureaus), depending on a respective country's legal framework. In this study, MSB is a business model of money transfer businesses (MTBs).

Money transfer businesses (MTBs): Remittance service providers licensed or registered to provide only remittance services as their primary business or limited services such as foreign currency exchange in addition to remittance services. They do not provide lending or deposits services. Hence, banks and nonbank financial institutions are not considered MTBs.

In this study, Money Transfers Operator (MTOs), Exchange Houses, Money Service Businesses (MSBs), payment institutions and Mobile Network Operators (MNOs) are all considered to be Money Transfer Businesses *only* if they provide remittance services. Such MTBs often rely on extensive network of agents or branches however; MTBs as the principal RSPs bear the main legal responsibility for the remittance products or services offered, either in their own locations or via agents.

The concept of MTB used in this paper is similar to the concept of money or value transfer services (MVTS) used in the FATF Recommendations but slightly narrower than MVTS in that MTB in this study does not include the concept of "value" transfer services as opposed to "money" transfers. And the type of money transfer is limited to "person-to-person remittances." MVTS in the FATF Recommendations is defined as follows[1]: "MVTS refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party, and may include any new payment methods. Sometimes these services have ties to particular geographic regions and are described using a variety of specific terms, including *hawala*, *hundi*, and *fei-chen*."

Money transfer operator (MTO): An MTO is a business model of an MTB and is "A non-deposit-taking payment service provider whose services involve payment per transfer (or possibly payment for a series of transfers) by the sender to the payment service provider (for example, by cash or bank transfer) – ie as opposed to a situation where the payment service provider debits an account held by the sender at the payment service provider."[2]

MTO is a business model of MTB. Broadly speaking, there are two types of MTO. One is an international (or multinational) MTO where the MTO establishes its own network of agents on both sending and receiving ends. Another is a local MTO where the MTO is set up as a local remittance company. The local MTO can offer remittance services by partnering with either international MTOs or local MTOs at the same or

corresponding end of the corridor. The local MTO develops a network of agents in the local market.

Principal Remittance Service Provider: In the remittance service provider agency relationship, the principal is the person/entity who gives authority to another, called an agent, to provide remittance services on their behalf.

Remittance: Remittance is a fund transfer of any amount through a financial institution including MTBs. A broader definition may include person-to-person payment or transfer of funds that may not go through a financial institution (for example, hand-carrying). Remittances may also be a domestic or international transfer. This study focuses on cross-border person-to-person remittances that are of relatively small value sent through a financial institution.[3]

Remittance agent: Any natural or legal person providing remittance transfers on behalf of an MTB, whether by contract with or under the direction of the MTB. This is in line with the definition used by the Financial Action Task Force (FATF).

Agents can be small local businesses such as convenience stores, gas stations, supermarkets, among others; they can also be banks and other financial institutions. At times, a local MTB can partner with an international MTB and acts as an "agent" of the international MTB. In some countries, this local MTB is the principally licensed or registered business itself, but is still considered "agent" of an international MTB.

Remittance service: A service that enables end users to send and/or receive remittance.[4] This study only focuses on domestic or cross-border person-to-person remittance transfers that are of relatively low value.

Remittance service provider (RSP): An entity, operating as a business, that provides a remittance service for a price to end users, either directly or through agents.[5] RSPs can be either banks, nonbank financial institutions, or MTBs. Because this study focuses on person-to-person remittance transfers, focus is largely on the role of MTB as RSPs.

Banks' or nonbank financial institutions' (NBFIs) role as RSP is only captured in the following scenarios in this study:

- offer remittance (or wire transfer) services to individual account holders or walk-in customers;
- have separate business lines specializing in low value remittances;
- offer a specific remittance product or service catering to low value transfers; or
- act as an agent to other money transfer operators who are regulated as the principally licensed/registered entity.

Suspicious Transaction Report (STR): Reports on suspected money laundering or terrorist financing transactions sent by financial institutions and other covered institutions to the country's Financial Intelligence Unit. Some countries use the concept of Suspicious Activity Report (SAR) which is a broader

concept than STR because instead of mere transactions, it covers activities of customers. In this paper, STR is used; however, it does not distinguish from SAR regime.

Notes

1. See the glossary of the FATF Recommendations at http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf.
2. This definition is given in the "General Principles for International Remittance Services." For further reference, see http://www.bis.org/publ/cpss76.pdf?noframes=1.
3. These types of remittances are also the focus of the "General Principles for International Remittance Services." For further reference, see http://www.bis.org/publ/cpss76.pdf?noframes=1.
4. Ibid.
5. Ibid.

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[T]he impact of helping migrants and their families will be lasting and global if we link remittances to other financial services and make them more affordable and more relevant to their needs.

—H.M. Queen Máxima of the Netherlands

United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

Remittances are a critical source of financing in most developing countries. Their importance cannot be measured in numbers alone: many households in developing countries rely on remittances as their most stable source of primary or additional income. Migrant workers regularly send their hard-earned few hundred dollars to their families, despite the process being far from simple. The service may be denied to them; they may have no choice but to rely on informal channels, which could be costly, insecure, or unreliable; and service fees may be quite expensive even when sending small amounts of money. Therefore regulation and supervision play a vital role in making money transfers less complicated but still secure and reliable.

At the same time, the September 11, 2001, terrorist attacks exposed the use and abuse of remittance channels for financing terrorism. In response to this threat, in October 2001 the international community issued new international anti–money laundering/combating the financing of terrorism (AML/CFT) standards on remittance transfers. For the first time, remittance service providers were required to be registered with or licensed by a competent authority, and to be subject to other AML/CFT obligations.

While the Financial Action Task Force (FATF) Recommendations appear straightforward on paper, regulating and supervising the money transfer business in practice has proved to be a very challenging task in both developed and developing countries alike.

In this context, *Making Remittances Work: Balancing Financial Integrity and Inclusion* assists policy makers, regulators, and supervisors of money transfer businesses in crafting regulatory and supervisory frameworks governing remittances so that they meet international AML/CFT standards, while at the same time ensuring that the neediest have access to these crucial services.

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