

## **The German remittance market – an overview**

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# 1 Introduction

Remittances are an important source of “income” in many developing economies and their total value is steadily increasing. At a global level, USD280 billion were officially recorded as remittance payments in 2006, following USD260 billion in 2005 and USD132 billion in 2000<sup>1</sup>. During the past few years, awareness of the importance of remittances and the related difficulties increased considerably. Thus, the G8 countries agreed to take action to promote effective private sector-led development to help alleviate poverty and – as a part of the relevant action plan decided at the Sea Island Summit in June 2004 – to facilitate remittances. One aim of this initiative has been to help families and small businesses. To achieve this aim, the most important approaches chosen were (i) to shift remittance flows into formal channels in order to strengthen the financial system in developing countries, (ii) to improve the data on remittance flows, and (iii) to help reduce the costs of sending remittances.

This paper aims to describe the situation in the German remittance market. Although more and more Germans are starting to work abroad for longer periods of time, Germany may be characterised not only as a sending country but, at EUR9.5 billion in 2006, even as one of the most important sending countries for remittances. For Germany, as a developed country, incoming remittances, which in 2006 amounted to EUR5.2 billion, or 0.4%, of total current account credits, are of minor importance.

Traditionally, major receiving countries of remittances from Germany have been Turkey, Italy, Serbia and Montenegro as well as Greece. However, this paper does not focus on these corridors only, but gives a broader overview, and thus also considers less important country corridors.

The following chapters describe the structure of the German remittance market (chapter 2) as well as the regulatory requirements relevant to remittance service providers in Germany (chapter 3). Transfer channels and products relevant to the German market are set out in chapter 4, followed by the role of the Deutsche Bundesbank (chapter 5) and an outline of further initiatives which have already been taken by German institutions and public authorities (chapter 6).

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<sup>1</sup> Migration and Remittance Factbook, World Bank 2007.

## 2 Market structure in Germany

### 2.1 Size of remittance flows

With respect to data on the size of the global and German remittance markets, it is necessary to highlight the fact that there is currently no universally accepted definition of remittances. This is also the main reason why data users often find different figures on the global amount of remittance flows in different official or private publications dealing with this subject. Furthermore, data can differ because remittance flows at the global level can be measured as total expenditures or total receipts. However, irrespective of the respective approach, the major official data source used in all publications to calculate total remittance flows are data items collected and published in the balance of payments statistics.

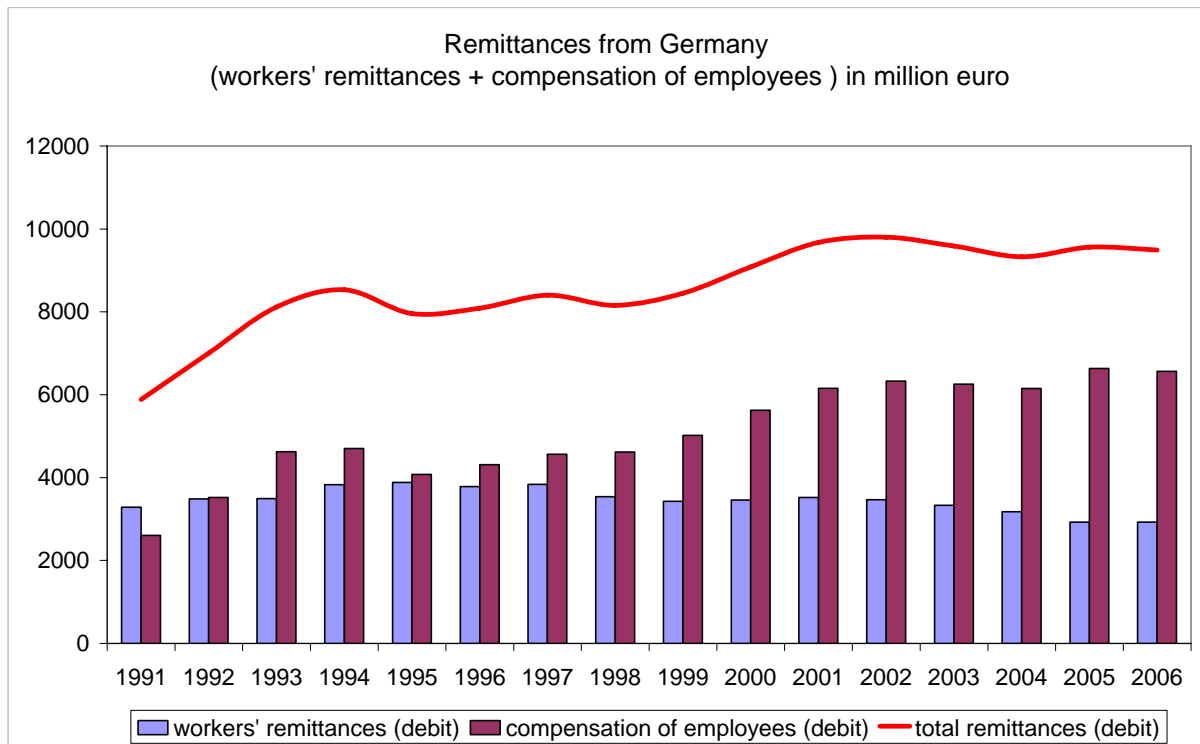
Quite commonly, data on remittances are measured as the sum of the balance of payments standard components "workers remittances", "compensation of employees" and "migrant transfers". However, owing to practical problems, data on "migrant transfers" are unavailable.<sup>2</sup> Therefore, the information in the next paragraph on flows from and to Germany reflects the total of these two standard components.

At a global level, the volume of officially recorded remittances has increased steadily over the past decade. According to the International Monetary Fund (IMF) and the World Bank, the volume of worldwide remittance inflows increased from USD132 billion in 2001 to USD280 billion in 2006, of which USD207 billion, or 74%, was received by developing countries<sup>3</sup>. For Germany, remittances sent to / received from the rest of the world in 2006 amounted to a total EUR14.7 billion. Broken down by expenditures and receipts, Germany received last year EUR5.2 billion from the rest of the world and remitted EUR9.5 billion. It is, therefore, one of the most important sending countries in the world and, as such, holds fourth place. From 1991 to 2006, as the graph below shows, German remittances to the rest of the world increased (even if not continuously) by about EUR3.6 billion or 61%, with the highest value so far in 2002 at EUR9.8 billion.

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<sup>2</sup> This is due to practical collection problems as these transfers comprise offsetting-entries to flows of goods and changes in financial items that arise from the process of migration itself (eg household effects brought along by the migrant to the country of immigration).

<sup>3</sup> Migration and Remittance Factbook, World Bank 2007.



Source: Deutsche Bundesbank

## 2.2 Collection of remittance data

The collection of remittance data in Germany is embedded in the general reporting requirements for balance of payments statistics which are based on the provisions laid down in the Foreign Trade and Payments Act and the corresponding regulation. These requirements stipulate that all payments above the relevant reporting threshold (at present EUR12,500 must be reported to the Bundesbank. As the amount of remittance transfers exceeds this threshold only in rare cases, remittances of migrants, cross-border<sup>4</sup> and seasonal workers to their home countries have to be estimated by the Bundesbank applying different methods / models.

Various data sources serve as input, such as the collective reports of selected banks (some of them branches of foreign banks) which play an important role in the remittance market, data from the Federal Statistical Office, the German Labour Agency (number of foreign workers subject to social insurance contributions), the Federal Foreign Office (compensation of foreign employees working in German embassies abroad), International Organisations like the ECB, and partner country data.

<sup>4</sup> Even if, in the case of cross-border workers, a single transaction exceeds the threshold, the reporters are often not aware of their obligation to report because, from their point of view, the payments often take place between two resident accounts (for instance, wages of German employees at foreign embassies, foreign military forces, or international organisations like the ECB).

On the basis of these sources, the Bundesbank calculates flows of workers remittances and compensation of employees for its monthly balance of payments publications. To cope with the problem that not all remittances are captured by the sources mentioned and that payments for other purposes are included, it is furthermore assumed that every migrant in Germany remits a minimum amount and a maximum amount to his / her home country each year. If the reported amounts per capita for a single country are below / above these thresholds, the minimum or maximum amount is used for the calculation of the flows.

## **2.3 Remittance service providers**

Looking at the supply side of the German remittance market, at the end of 2006 there were 2,048 credit institutions with some 42,300 branches providing payment services to their customers. In addition, 37 financial service providers in Germany are currently allowed to offer money transmission services and / or non-EEA deposit brokering<sup>5</sup>. Besides well-known international money transfer companies like Western Union or MoneyGram, companies owned by members of ethnic minorities, which are specialised in transfers to selected countries, are also offering their services.

All in all, the structure of these 37 providers may be described roughly as follows: three providers are active globally, four providers serve several countries with a continental or regional focus (Commonwealth of Independent States, Africa and South America), and ten providers are specialised in transfers to the Philippines. Further regions covered by more than one specialised provider are Iran, Turkey, Ghana, Morocco and Vietnam.

## **2.4 Remittance customers**

The demand side of the German remittance market is determined by 7.3 million non-German nationals from all over the world who live in Germany (as at the end of 2006). They constitute an extremely heterogeneous group of customers with very different needs. Furthermore, they do not live only in big cities and are not concentrated solely in certain regions, but are distributed all over Germany, with the effect that the demand for remittance services is not focused on special regions/cities in Germany. The largest ethnic group represented in Germany consists of Turkish citizens with 1.7 million persons as of 31 December 2006 com-

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<sup>5</sup> In accordance with the definitions of the German Banking Act, this is the brokering of deposit business with enterprises domiciled outside the European Economic Area.

pared with 1.9 million as of 31 December 2001, followed by citizens from the former Yugoslavia and Serbia<sup>6</sup> (1.2 million), Italy (534 thousand), Poland (361 thousand) and Greece (303 thousand). Those are traditionally the countries from which most of the migrants in Germany come (see Table 1).

<b>Table 1: Foreigners from Selected Countries Living in Germany</b>		
	<b>31 Dec 2006</b>	<b>31 Dec 2001</b>
<b>Turkey</b>	1,738,831	1,947,938
<b>former Yugoslavia<sup>7</sup></b>	949,937	---
<b>Italy</b>	534,657	616,282
<b>Poland</b>	361,696	310,432
<b>Serbia<sup>8</sup></b>	316,823	627,523
<b>Greece</b>	303,761	362,708
<b>Vietnam</b>	83,076	85,910
<b>Morocco</b>	69,926	79,444
<b>Ghana</b>	20,587	23,179
<b>Philippines</b>	20,093	23,956
<b>Albania</b>	10,126	11,702
<i>For information only</i>		
<b>all countries</b>	<b>7,318,628</b>	<b>6,751,002</b>
<b>population in Germany</b>	<b>82,314,906</b>	<b>82,440,309</b>

Source: Federal Statistical Office Germany

## 2.5 Relevant remittance corridors

For the analysis of important remittance corridors, “workers’ remittances” seems to be the most appropriate balance of payments position to look at, since the component “compen-

<sup>6</sup> The figures for the former Yugoslavia are recorded only as of 2004. Since then, figures count persons who have not opted for citizenship of one of the successor states of the former Yugoslavia. The figures for Serbia comprise, from 1993 until 2003, the number of persons who have not opted for citizenship of one of the successor states of the former Yugoslavia in addition to the number of persons with the citizenship of the territory of Serbia / Montenegro. From 2004 until the independence of Montenegro in June 2006, only persons with the citizenship of the territory of Serbia / Montenegro are counted, and, as of June 2006, only Serbian citizenship.

<sup>7</sup> See reference N° 6.

<sup>8</sup> See reference N° 6.



sation of employees” also includes taxes and other duties which have to be paid by employees in the sending country.<sup>9</sup>

It could be expected that the most important channels for remittances lead to those countries mentioned above. This assumption is proved by the value of transactions sent to these countries: out of EUR2.9 billion sent as workers remittances from Germany in 2006, the highest values were sent to these countries, namely EUR810 million to Turkey, EUR221 million to Serbia<sup>10</sup>, EUR275 million to Italy, EUR102 million to Poland and EUR148 million to Greece (see also Table 2). In other words, 53% of all workers’ remittances sent from Germany in 2006 were directed into only five countries.

All in all, an analysis of the demand side of the German remittance market produces the following findings.

- 1) The value of remittances sent from Germany is strongly correlated with the size of the respective ethnic group living in Germany.
- 2) A considerable part of remittances, namely 32% of all remittances sent from Germany, is sent to countries of the European Union.

Since financial transfers between EU countries are covered by the respective EU regulations, for example, Regulation (EC) No 2560/2001 on cross-border payments in euro<sup>11</sup>, the fees for cross-border payments in euro as well as the execution time of these transfers are not a matter of serious concern as might be the case for transfers to countries outside the EU and beyond the euro.

- 3) Another large part of remittances flows to European countries which do not belong to the EU. The most important of these countries are Turkey and Serbia, with 36% of all remittances sent and worth being subject to further analysis.

- 4) In addition to those two countries, German Technical Cooperation (*Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ*) has identified four more country corridors to be given further consideration, namely transfers from Germany to Albania, Ghana, Morocco and Vietnam. Remittance flows to those four countries amount to 4.5% of all remittances sent from Germany in 2006.

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<sup>9</sup> The new Balance of Payments Manual will take account of this fact and, therefore, define the future supplementary item "personal remittances" as "personal transfers" plus "compensation of employees" minus taxes, social contributions, transport and other expenditures in the country of employment.

<sup>10</sup> Until its independence in July 2006, payments to Montenegro are also included in those figures.

<sup>11</sup> "Charges levied by an institution in respect of cross-border credit transfers in euro up to EUR50,000 shall be the same as the charges levied by the same institution in respect of corresponding credit transfers in euro transacted within the Member State in which the establishment of that institution executing the cross-border transfer is located." Further conditions are the use of the beneficiary's IBAN and the BIC of the beneficiary's credit institution.

5) Furthermore, the Germany–Philippines country corridor seems to be very well established, as it is served by ten specialised financial service providers, although the population of the Philippines in Germany is relatively small with some 20,000 persons at the end of 2006. This might also be due to the fact that the Philippine authorities provide information including remittance topics to emigrants before their departure.

<b>Table 2: Workers' remittances to selected countries</b>								
	<b>2006</b>		<b>2005</b>		<b>2004</b>		<b>2003</b>	
	<b>EUR million</b>	<b>%<sup>1</sup></b>	<b>EUR million</b>	<b>%<sup>1</sup></b>	<b>EUR million</b>	<b>%<sup>1</sup></b>	<b>EUR million</b>	<b>%<sup>1</sup></b>
<b>Albania</b>	18	0.6	17	0.6	17	0.5	17	0.5
<b>Ghana</b>	12	0.4	12	0.4	13	0.4	13	0.4
<b>Morocco</b>	49	1.7	35	1.2	42	1.3	42	1.3
<b>Philippines</b>	21	0.7	19	0.6	15	0.5	14	0.4
<b>Serbia<sup>12</sup></b>	221	7.6	243	8.3	240	7.5	110	3.3
<b>Turkey</b>	810	27.7	837	28.6	879	27.6	1,000	30.0
<b>Vietnam</b>	32	1.1	33	1.1	34	1.1	33	1.0
<i>For information only</i>								
<b>European Union</b>	947	32.4	973	33.3	1,186	37.3	1,425	42.8
<b>Europe</b> (incl. Turkey and Russian Federation)	2,323	79.4	2,392	81.7	2,617	82.3	2,796	83.9
<b>all countries</b>	<b>2,927</b>	<b>100.0</b>	<b>2,926</b>	<b>100.0</b>	<b>3,180</b>	<b>100.0</b>	<b>3,332</b>	<b>100.0</b>

<sup>1</sup> Percentage of all remittances sent from Germany

Source: Deutsche Bundesbank

## 3 Regulatory requirements for remittance service providers

### 3.1 Present regulatory requirements

By law, only licensed institutions are allowed to offer remittance services in Germany. The requirements for the provision of giro business and money transfer services by credit institutions as well as for money transfer services by financial services institutions (non-

<sup>12</sup> See reference N° 10.

banks) are laid down in the German Banking Act (*Kreditwesengesetz*) and the German Money Laundering Act (*Geldwäschegesetz*). The inclusion of money transfer services as financial services subject to the regulatory framework has been in force since 1 January 1998. Consequently, all providers of money transfer services are supervised by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) – referred to below as BaFin – and need to obtain, *inter alia*, a written licence before performing these services.

Pursuant to Article 1 (1) German Banking Act, credit institutions that offer their customers cross-border credit transfers to send money home or have business partnerships with international money transfer operators providing money transfer services may do so within the terms of their general banking licence. In Germany, it is a punishable offence to conduct banking business without a licence. Otherwise, BaFin may request the company and the members of its executive bodies to cease business operations immediately and to wind up these business transactions promptly.

BaFin may grant a banking licence only if various mandatory conditions are fulfilled. Furthermore, pursuant to the German Banking Act as well as the Money Laundering Act, credit institutions are obliged to observe the provisions regarding the combating of money laundering, the financing of terrorism, and fraudulent activities to the detriment of institutions.

Besides credit institutions, other financial services providers, too, such as money transfer companies, can offer the execution of remittance transactions. They need to apply for a licence as a provider of financial services pursuant to Article 1 (1a) Banking Act. The granting of this licence is also subject to a number of requirements. A key criterion for obtaining the licence is the ability and competency of the firm's management (ie the 'fit and proper' test). Additional criteria for the licensing include the provision of a business plan, adequate internal controls and safeguards regarding electronic data processing. The regulation places considerable emphasis on the need to prevent money laundering. Thus, record keeping and maintenance of paper trails are also key features of the licensing requirements. Records need to indicate who has transferred funds, when funds were transferred, the volume of these funds, the recipient of funds and by whom the funds were ordered. Having been granted a licence, money transfer companies are also subject to ongoing supervision for both anti-money laundering and prudential reasons.

BaFin is responsible not only for the supervision of legally operating money transfer businesses, but also for the administrative prosecution of unlicensed operation of money

transfer services. If money transfer services are conducted without the required licence, BaFin may require that the institution and the members of its governing bodies stop their business operations without delay. Conducting the business without a licence is a (criminal) offence that shall be punished by a term of imprisonment not exceeding three years or by a fine.

### **3.2 Payment Services Directive**

The Payment Services Directive will create a new EU-wide licensing regime for “payment Institutions” (ie providers of payment services that are not credit institutions or E-money issuers, eg money remitters) will be created. Currently, there are significant differences between the regulatory regimes for payment services in EU member states. Payment institutions will be licensed under a new licensing regime to process payments but will not be permitted to accept deposits. They will be granted permission to conduct business in host countries on the basis of a licence obtained in any other EU country (known as an “EU passport”). The authorisation requirements are considerably less onerous than for credit institutions, but payment institutions will, nevertheless, be required to fulfil a variety of qualitative and some quantitative requirements. Member states are allowed to waive some or all authorisation requirements for small payment institutions. All member states will have to establish a public register of all authorised payment institutions.

The Payment Services Directive was finally adopted by the European Council on 15 October 2007. All member states are now to transpose the Directive into national law by 1 November 2009.

## **4 Channels and products available in the marketplace**

In 2005, the Bundesbank interviewed selected remittance service providers to gain some insight into the German remittance market. Although the Bundesbank obtained valuable data about the business, the findings should be considered an overview rather than a detailed picture. Nevertheless, they turned out to be valuable for establishing an understanding of how the remittance business is conducted in Germany. The different products and channels for transferring money are described below. Since the Bundesbank has no reliable information on the processing of remittances outside the financial system – for example, re-

mittances delivered directly by hand or by relatives or friends – these payments are not considered in this paper.

## 4.1 Channels

In general, it can be said that almost all payments from Germany to EU countries within and outside the euro area are executed by the banking sector: Accordingly, migrants from EU countries – especially the euro area – mostly use cross-border credit transfers via their bank accounts to send money home. The heavy use of services provided by credit institutions is not surprising since a well-functioning market infrastructure and cost-effective payment services are in place. The fees charged for those remittance transfers are quite low and payment execution is quite efficient in terms of the time it takes. Regulation (EU) No 2560/2001 which provides that, under certain conditions, the charges for providing cross-border payments in euro have to be the same as those for corresponding domestic payments is one factor explaining why there is no cause for concern about the level of remittance fees.

In addition, money – also in other currencies – can, of course, be transferred from the senders' accounts to recipients' accounts in non-EU countries. Since there are generally no payment systems for the execution of such transfers, they are handled, for example, via correspondent banks or bilateral arrangements or via intrabank transactions. Usually, the execution times for these kinds of transfer are longer and the fees charged are higher than for the above-mentioned transfers within the euro area.

As for remittances to third countries, money transfer companies, ie non-bank remittance service providers play an important role. They usually offer good services in terms of the time by which the funds become available in the receiving country. Those providers operate both with and without their own local agencies. In the latter case, agreements are concluded with sub-agents, usually banks with a widespread branch network. One provider has even concluded a framework agreement with a German banking association, under which additional agreements with individual institutions are concluded. Remittances through this channel are, in most cases, initiated in cash. Nevertheless, customers who hold current accounts with an agent can also request the transfer to be debited to their account. If the relevant service is offered, the transfer might even be initiated electronically or via telephone banking. Remittances can, at best, be collected within minutes by the recipient in cash from a disbursing agent. Although the disbursement of the payment usually takes place in the currency of the receiving country, exceptions are occasionally made, particularly in countries with hyperinflation, where a pay-out, say, in USD is possible. Reasons for the frequent use of

money transfer operators, especially for certain country corridors, may, for instance, be attributable to the fact that bank penetration in the receiving country is limited or that high fees are charged for using the products offered by credit institutions.

For certain destinations, such as Turkey, the Philippines and Croatia, remittances are processed mainly by foreign banks or financial services providers, which usually belong to large institutions with an extensive branch network in their home country. To facilitate the transfer of remittances they have installed 'collective accounts'. Financial services providers usually hold these accounts with domestic credit institutions with a widespread branch network in Germany. This method enables the sender to initiate a remittance transfer without having to visit a branch of the commissioned institution. Instead, the procedure works as follows.

- First, the money is transferred to the remittance service provider's collective account (domestic payment), a procedure which can be initiated at any bank by cash deposit or by a credit transfer from the sender's current account.
- After the money has been credited to the collective account, it is finally sent to the country of destination via the remittance service provider's internal settlement procedures.
- Finally, it can be collected by the recipient in cash. Furthermore, the recipient has the possibility of having the money credited to his / her account with the remittance service provider or to an account with another bank by means of a further domestic credit transfer if need be.

The time required for the whole process varies from two to four days, depending on the time needed for the processing of domestic credit transfers in Germany and/or the receiving country. The fees charged by those remittance service providers are usually low and should not give rise to any concern.

In particular, Turkish banks with a location in Germany offer remittance transfers to one of their local branches in their home country via internal online systems. Also, with this model neither the sender nor the recipient of the payment needs to hold an account with the bank in question, but only has to present a valid form of identification. The data of the sender and recipient are recorded in the remittance operator's online system, and since the receiving branch of the operator has immediate access to the data, the money can be paid out the same day, in some cases even within minutes.

Another way of sending remittances is the postal money order. This was formerly the traditional instrument used by migrants from Turkey, Spain, Italy etc, but some years ago

there took place a shift in demand to cross-border credit transfers, especially to EU countries. Today, the German Postbank offers the postal money order as a means of transferring money to countries with a EUROGIRO member<sup>13</sup>, with which payment messages can be exchanged entirely electronically. The sender may choose between initiating the payment in cash at a postal office or having his / her Postbank account debited (electronic transfer or transfer via telephone is also possible). On t+1 and t+2, respectively,<sup>14</sup> after the payment information was dispatched (referred to as the settlement day), the foreign EUROGIRO partner sends either the cash or a payment instrument (cheque or domestic money order) by post to the recipient.

The fees for remittances sent from Germany vary, not only according to the channel used but also to the respective remittance service provider's business considerations. All in all, there are indications that the competition ruling the German remittance market brings about a quite reasonable pricing of services, especially for remittances sent via heavily used country corridors with a high transaction value. The charges of some remittance operators depend on the transferred amount, whereas others charge fees on a 'per transaction' basis. Even 'no fee at all' could be observed, which was said to be motivated by, among other things, cross-selling considerations.

## 4.2 Products

As described above, the common way to initiate remittances from Germany is related to cash payments or cross-border credit transfers of the sender. Other means, such as the transmission of an international payment card linked to a current account in the sending country or the transmission of an international prepaid card without any link to a current account, both of which would enable the recipient to withdraw cash from local ATMs in his / her home country, are not relevant for the German market. Nor are, as things stand at present, the initiation of remittances by mobile phones / SMS messages or by means of other technological innovations.

Nevertheless, there is evidence and growing awareness of the business potential inherent in remittances. From this, a new wave of innovations has been triggered and the launching of new products and strategic partnerships at global level can be observed. Such

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<sup>13</sup> EUROGIRO Network A/S is a company owned by 15 European financial institutions. It acts as a club with the goal to strengthen the cooperation of electronic payment solutions between giro and postal banks, on the one hand, and commercial banks, on the other, and aims to facilitate money transfers. Currently, the worldwide network consists of members from 51 countries.

<sup>14</sup> One day is applicable for payments which are to be delivered in euro, two days for payments in other currencies.

initiatives seek to provide customers with convenient, secure and easy-to-use transfer methods for low-value, but high-frequency transfers offered at transparent and low prices. One example is SWIFT (Society for Worldwide Interbank Financial Telecommunication), which, together with banks, is considering the creation of a common and efficient platform for the transfer of workers' remittances, supporting interbank authorisation as well as the clearing and settlement of these payments. Furthermore, there are strategic partnerships that bring together banks and money transfer operators with mobile phone companies with the aim of enabling people to make increasing use of mobile phones to send money back to their families. Although the situation in Germany seems quite satisfactory at present, these new initiatives might also enter the German remittance market and gain more and more importance.

### **4.3 Access to financial services**

Germany is a country in which credit institutions have achieved almost universal coverage since, generally, employers pay wages into bank accounts (current accounts). Opening a bank account in Germany is a straightforward process. In general, a current account allows financial transactions including international money transfers. As most of the migrants in Germany come from countries in which well-established banking infrastructures exist which allow cross-border payments (EU member countries, Turkey), remittance transfers appear to be made, to a large extent, through accounts held with credit institutions.

However, the degree of confidence in the banking system in the migrants' home country seems to be of utmost importance in terms of the decision whether to choose a provider within or outside the banking industry, such as remittance service providers offering cash disbursement by agents outside the banking sector. Generally, the safe and reliable processing of payments is of such importance for customers that some are even willing to pay higher service fees or accept a somewhat slower transfer.

## **5 Role of the Deutsche Bundesbank**

### **5.1 Cashless payment operations**

In cashless payments, the Bundesbank fulfils its statutory mandate, pursuant to section 3 of the Bundesbank Act, to arrange for the execution of domestic and cross-border payments and to contribute to the stability of payment and clearing systems. Thus, it promotes efficient and secure payment transactions both within Germany and in the international context. Furthermore, the Bundesbank has a vital function in the provision of clearing



and settlement services. The focal point of its operational role is to provide RTGS services to banks and to support the banking industry's existing retail payments market infrastructures in a complementary manner and to execute payments as the Federal Government's fiscal agent. In its function as payment system overseer, the Bundesbank, *inter alia*, observes and analyses developments in the field of payments and maintains contact with market participants. This is also true of remittance services.

## 5.2 Participation in international fora

In the performance of its tasks regarding payment issues, the Bundesbank is, among others, also engaged in discussions concerning remittances. Thus, it takes an active part in various international fora and activities.

First, there is the elaboration of a joint report of the G10 Committee on Payment and Settlement Systems (CPSS) and the World Bank entitled "General Principles for International Remittance Services", issued in January 2007. The principles were developed by a task force comprised of payment system experts from central banks of both sending and receiving countries and from international financial institutions. The Bundesbank also participated in this task force, which prepared the report for CPSS and World Bank. The creation of the task force to develop principles for international remittance services was one of the action points on which the G8 countries agreed at their summit at Sea Island in June 2004 in order to help reduce the cost of making remittances. The report provides an analysis of the payment systems aspects of remittances and outlines five principles covering transparency and consumer protection, payment system infrastructure, the legal and regulatory framework, market structure and competition, as well as governance and risk management. The report also highlights the roles of both public authorities and remittance service providers in implementing the general principles.

Second, at the statistical level, the Bundesbank participated in two international expert groups which were founded on the initiative of the World Bank, the IMF and other authorities. The expert groups have been in charge of developing new definitions and guidelines to achieve better and more coherent statistical data on remittances. In 2005, the Technical Sub-Group on the Movement of Natural Persons of the UN Interagency Task Force on Statistics of International Trade in Services issued a proposal with alternative definitions to better measure the economic impact of remittances in the balance of payments framework. The proposals have since been adopted by the relevant international body and have been

incorporated into the draft of the new IMF Balance of Payments Manual, which is scheduled to be published in 2009.

The second group, the "Luxembourg Group on Remittance Data", was created in June 2006 with the objective of drafting a guide for compiling statistics on remittances consistent with the improved concepts and definitions. The purpose of the guide is not to recommend a single method for the measuring of remittances, as the structure of remittance markets and, accordingly, remittance flows differs widely from country to country. The guide instead aims to give compilers a comprehensive overview of different approaches to collecting data in order to enable them to use an adequate method mix depending on the specific country situation, thereby improving the accuracy, completeness and timeliness of remittance data nationally and, subsequently, at the global level. A draft version of the guide will be published soon on the IMF's website for annotation by the international community.

To improve its own remittance statistics, the Bundesbank has already begun an analysis of the weaknesses of its current collection system. Measures will be taken in the upcoming months to better incorporate remittance flows which are sent through channels other than the banking sector. At the international level, the Bundesbank will continue to bring its expertise to bear on the work of the Luxembourg Group as well as other international statistical bodies which deal with this topic.

Third, there is the Financial Action Task Force (FATF) whose purpose is the development and promotion of international standards to help combat money laundering and the financing of terrorism. In order to meet this objective, the FATF has published 40 + 9 Recommendations that are a particularly relevant part of the regulatory framework for the remittance industry. The Bundesbank contributes to the work of the FATF in financial and legal matters through a representative in the German delegation headed by a representative of the Federal Ministry of Finance.

Finally, the Bundesbank is also involved in high-level meetings, such as the G7 and G20. Given the increasing importance of remittance flows, the member countries have intensified the international dialogue on this issue and called for international cooperation to improve remittance services and reduce transaction costs.

## 6 Initiatives in Germany

### 6.1 Website on remittances

People wanting to send money home are interested, *inter alia*, in obtaining information about the fees for sending small amounts, the amount of money that will actually arrive at the recipient, and the different options for transferring money. Often, it is not easy for them to obtain a full breakdown of the cost of the money transfer or to compare the various remittance services offered in the host country and to work out the best option or most suitable provider for their purposes. Furthermore, it may be time-consuming to gather such information.

The general principles proposed for international remittance services in the above-mentioned report “General Principles for International Remittance Services” of CPSS and World Bank include transparency and consumer protection. Accordingly, full information – ie transparency – is important because it enables individuals to make well-informed decisions on which services to use and, thus, helps to increase the efficiency of the remittance market as a whole. Apart from information on fees and service features offered by the individual remittance service providers themselves, the provision of comparative information may enable end-users to gain an overview of the market for remittances.

Currently, there is a German initiative to collect information in order to foster transparency and to allow migrants in Germany to better compare the various services. By the end of November 2007, the German website [www.geldtransfair.de](http://www.geldtransfair.de) will be launched. This is a cooperation between Frankfurt School of Finance & Management and the GTZ commissioned by the German Federal Ministry for Economic Cooperation and Development (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung* – BMZ). The realisation and maintenance of the website will be carried out by the independent facility efiport AG, a company of Frankfurt School of Finance & Management.

Initially, the website will focus on money transfers from Germany to the following six selected countries: Albania, Ghana, Morocco, Serbia, Turkey and Vietnam. By visiting the website, information can be gained about providers (banks and money transfer operators) offering money transfer services to these countries and comparisons can be made. The informational charts present fees, time required to complete a transfer, ways to transfer money, such as electronic or cash transfers, and, where required, other aspects of sending money abroad which are worth mentioning. Extending the activities to other destination countries (remittance corridors) is planned for the future.

## **6.2 Dialogue at national level**

Much of the debate surrounding the remittance issue in the past few years has focused on the high costs of remittance services. Consequently, there have also been repeated calls for greater cooperation nationally and internationally, which have also been echoed by the G8 and G20. As a result of the increased interest in the topic of remittances, the GTZ organised two round tables in 2007 (January and May). The round tables provide an opportunity for private and public sector representatives to discuss strategies and opportunities, identify possible actions and exchange views on remittances. Following the positive experience of the round tables, it is envisaged that this form of cooperation will be continued at national level.

The Bundesbank welcomes the various initiatives for fostering transparency in remittance fees and services as well as the dialogue between interested parties at national level. Persons wishing to send money home can benefit from the new website by gaining an overview of the various options available for making a money transfer and not just continuing to use a method which they already know or which has been recommended by family and friends. With regard to the round tables, the Bundesbank participates itself in this forum and brings to this group its expertise in payment systems and statistical matters.

## **7 Conclusions**

From the point of view of a sending country and with regard to the relevant country corridors, the German remittance market seems to offer customers at reasonable fees a variety of products which are designed to fulfil their various needs. By doing so, the providers which offer their services are regulated by the relevant authorities, whereas an unlicensed activity is an offence which leads to the business in question being closed down. It is expected that the implementation of the Payment Services Directive introducing a new category of payment services providers will further strengthen competition in the payments market and, in all probability, in the market for remittances as well. It should also be mentioned that the existing legal framework for consumer protection also applies to remittance payments.

The European experience has shown that, even in a market with a single currency and within a setting of strong political integration, improvements with regard to cross-border

payments and the associated fees are difficult to achieve in terms of time and the effort expended.

In the EU, regulatory requirements defined, for instance, by the Directive on Cross-Border Credit Transfers of 1997 (Directive 97/EC/5) have contributed to greater transparency, which is a key condition for competition. Therefore, the above-mentioned German website [www.geldtransfair.de](http://www.geldtransfair.de) is a welcome approach to fostering transparency in remittance fees, which could have positive effects on competition and enhance awareness of the remittance issue. Much the same applies to the necessary improvement of statistical methods, which is currently under development.

There are also indications that the general level of competition in the remittance markets will increase further as remittances gain ever greater importance. In particular, banks with a global reach might undertake new initiatives to explore additional business opportunities.

However, the measures taken within the EU initially had no more than a limited impact on the reduction of end-users prices. It has to be taken into consideration that providers might not commit themselves without a sufficient business case since changes in cross-border payments infrastructures, common processing standards always requires considerable initial investment and because the proportion of remittances constitutes an even smaller share of all retail credit transfers than the already comparably low percentage represented by the sum of cross-border retail credit transfers. A marked reduction in remittance fees towards fees which are more in line with those for domestic payments, for example, might require substantial changes in infrastructure.

The introduction of Regulation (EC) N° 2560/2001 requesting European banks to apply the same charges to domestic and cross-border credit transfers created the need for the banking industry to deploy EU-wide infrastructures in order to cut costs and improve the level of service for cross-border credit transfers.

In contrast to the European situation, changes in the global payments infrastructure for cross-border credit transfers might be even bigger challenges, although, making payments via mobile phone companies and networks might provide some new opportunities with regard to remittances. However, a number of experts believe that these developments are mainly aimed at countries with a less developed payment infrastructure. Therefore, it remains

to be seen how future technological developments might re-shape the global payment landscape.

In the case of remittances, the infrastructure of two countries, namely the one of the sender as well as that of the recipient, must always be taken into account when trying to move to improvements in terms of costs, execution times and transparency. Therefore, even if Germany offers the best possible conditions for sending remittances, enhancements might still be needed in receiving countries.