Bangladesh: Improved Access to and Reduced Costs of Migrant Remittance Flow

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Executive Summary

This report is prepared in compliance with the Terms of Reference prescribed in the contract to investigate the data on remittance inflow to Bangladesh since the beginning to Remittance Partnership Program (RPP) in the last quarter to 2006. The report examines the remittance flow from 2003-04 to 2007-08 and the share of State Owned Banks (SoB), Private Commercial Banks(PCB), Foreign Commercial Banks (FCB) and specialized financial institutions during the period. National growth of migrant remittance during this period 2003-04 to 2007-08 was evaluated in total. A Bank by bank growth pattern of remittance to the country, identification of remittance prone areas by banks was marked and the ranking of a banks performance was carried out. The banks were ranked according to competition in performance as well as district wise. The ICT infrastructure of the sample banks were evaluated, with regards to comparative information on paper Vs electronic remittance and partial automation of SoB remittance channeling. A score card based on an international study has been tried, in order to formulate the Bangladesh remittance transfer process. A discussion on a businesses model for remittance service providers has also been addressed in this report. In the absence of a detailed data structure and cost components of major RSPs, an international study has been used as a benchmark for the purpose of assumptions and estimations. Remittance and its impact on real exchange have been discussed and comparative foreign rate spread from the international study has been evaluated, which can be applied to the context of remittance business in Bangladesh. The regulatory environment for RSP businesses in Bangladesh have been evaluated including the compliance requirements of banks. Drawing arrangements with overseas RSPs and contents of the MoU between local banks and overseas RSPs have also been addressed. Compliances of Foreign Exchange Regulations of Bangladesh and problems arising there of have been evaluated. Government policy measures with regards to fees for remittance of foreign currency from different corridors have been looked out in this report as well as the general principles of international remittance services by WB committee on payment and settlement system. Fiscal incentives provided to promote remittance in official channel have been acknowledged. In addition to this, the report also takes a look at other issues such as: operating procedures for management of foreign remittance within bank, interbank, and via third banks; and consumer education for safe, sound, secure, low cost and faster remittance and investment opportunities available within the country.

Summary and findings

Growth of remittance: Bangladesh is recording an increase of remittance in the formal channel. Remittance corridors are changing from Middle-East to North America and Europe. During the years 2006 and 2007, Bangladesh registered a 25% increase in remittance.

National share of channeling remittance: The State owned Banks (SoB) share is declining from 2003-04: 59% to 55% in 2004-05, 2005-06: 46%, 2006-07: 39%, and 2007-08: 34%. On the contrary, the corresponding share of PCB is following an increasing trend and significantly capturing the market share, 2003-04: 37%, 2004-05: 40%, 2005-06: 49%, 2006-07: 57% and financial year 2007-08: 63%. This establishes DFID's funded RPP effort to create awareness among the bankers to create a competition between private sector and public sector banks in channeling of migrant remittance.

Remittance Performance of Banks: The RPP project has been conducting a series of discussions with bankers since 2006 and still it is continuing which created a positive environment and consciousness among the bankers. For example RPP could sharpen the business characteristics of remittance service perception of most bankers, which previously was different. Institutional weakness in providing competitive banking services with ICT support and automation of banking operation has come to surface since the operation of RPP. The result shows that banks are becoming competitive in attracting scarce foreign currency. Since SoBs have a tendency to be institutionally weak, these with the largest branch network are losing their market share, by contrast, comparatively, those with institutional strength and a ICT backbone and automated environments are aggressively increasing their market share from 37% in 2003-04 to 63% in 2007-08 financial year and SoBS losing market share from 59% in 2003-04 to 34% in 2007-08. This structural change is making remittance faster and safer.

Top remittance receiving locations: Based on information available top remittance receiving locations were identified for Sonali, Islami, Janata, Agrani, Uttara and South East Bank have been identified. Figures reveal that 16 districts out of 64 districts attract major position of inward remittance to Bangladesh. Ranking of districts by banks processing inward remittance was done. The entire six bank's remittance performance in Dhaka, Sylhet and Comilla ranks number one to three respectively. Chittagong, being fourth largest remittance receiving location excepting Uttara Bank all other five banks are performing, Noakhali occupies 5th national position and excepting Uttara Bank all other five banks are operating competitively in this district. Tangail occupies 6th national position with operation of Sonali, Islami, Agrani and Janata. The 7th national positon goes to Feni with operation of 5 banks with exception of Islami Bank. Brahmanbaria attractive 8th largest remittance, with operation of five banks with the exception of South East Bank. Gazipur is a nearby district of Dhaka, and occupies 9th national position in terms of remittance delivery. With the exception of Uttara Bank all other 5 banks are very much in competition. Chandpur occupies 10th position with operations of Sonali, Islami, Agrani and Janata Bank. Moulivibazar is a migrant prone district and occupies 11th national position and all 6 banks mentioned here are operating in this district. The National position of Mymensingh is 12th with major contribution of Sonali, Islami, Janata and Agrani Bank. Munshigonj captured 13th national position with operation of Sonali, Agrani, and Islami Bank. Sonali, Islami and Janata remittances channeling made Manikgonj 14th national position. Islami, Agrani and Janata operation made Narsingdi at 14th national position. Finally operations of Islami, Agrani, Janata and Uttara have made Narayangonj 15th in the National position of Remittance operation.

Since RPP emphasized on the identification of remittance receiving locations, all banks including the central bank has been very much interested to take motivational approach through identification of such branches and location and declaring incentives programs, for example, Janata Bank introduced incentives to the reward those managers of their bank. More other banks are also following similar path.

Janata Bank 5 Years Remittance Performance: Five year data of Janata Bank have been captured by source countries and by Exchange Houses to see the trend of increase from one year to the other including yearly, country, and exchange house performance and their share in the total annual remittance flow of the bank. Data up to August 2008 indicate Janata Exchnage Company Italy shared 6.47%; UAE: 40.97% comprising of Janata bank branches-27.04% and other exchange houses-13.93%. Performance and share of Janata Exchange Company located in Italy in terms of total remittance on annual basis accounts for 2003: 3%; 2004:10%; 2005:17%; 2006:26%; 2007:29%; and up to August 2008:15%. Share of remittance from UAE source as a percentage of total was in 2003: 12%; 2004:13%; 2005: 14%; 2006:15%; 2007:25%; and up to August 2008 record is 21%. Share of other countries in total Janata remittance in 2008 accounts 52.56%. Among the other countries remittance from Kuwait is 18.28% -the largest one; Saudi Arabia:7.74%; Oman emerges as the third largest with 2.49%; UK: 2.08% (4th) and Bahrain: 2.05%. By contrast, the KSA share to total remittance towards Bangladesh (2008) is 29.02%, USA: 15.56%; UK: 14.83%; UAE: 13.46%; and Kuwait: 11.39%. Remittance record from other countries showing increasing trend, for example, 2004: 16%; 2005:7%; 2006:6%; 2007:10% and 2008: (15%). Kuwait corridor recorded increase in 2004: 11%; 2005: 18%; 2006:38%; 2007: 38% and 2008 (August): (31%). UAE corridor has two sources- one is own branch and the other is exchange house. The branches recorded increase in 2004: 5.62%; 2005: 8.51%; 2006:0.51%; 2007:62.15% and 2008: (15.15%). The other exchange houses recorded increase in Kuwait corridor 2004: 15%; 2005: 6%; 2006: 27%; 2007: 62%; and 2008 (August): (15%).

ICT Infrastructure: Development of a national payments system establishing a Bangladesh Automation Clearing House (BACH), Bangladesh Electronic Fund Transfer Network (BFTN) and the campaign and training program for bankers under the RPP and central bank platfrom has created a positive impact on the automation of banks. The third generations PCBs are ahead in this race in particular. The first and second generation PCBs and SoB are also putting the ICT on their priority list. Sonali , Agrani, Janata and Rupali has embarked automation program during last two years . While Islamic, Duth-Bangla, South East and many others proceeded far ahead in automation. Remittance channeling marked an important aspect in such automation. State owned Banks: Sonali, Janata, Agrani and Rupali Banks are owned by the Government and have been corporatized recently, need capacity building in the infrastructure. In the process of such a transformation these banks are working in different areas. In the case of remittance delivery all these banks have a common weakness, their IT infrastructure but this is on the priority. All four commercial banks have taken up action programs for automation of branches; those are activities involved in remittance processing. For example, Sonali Bank's Remittance transactions from December 18, 2007 to 2nd January 2008 indicates that their remittance delivery done electronically through Instant Financial Report Management System: 18%, Remittance Management System: 67%, Third Bank: 0.77%, courier and postal services: 14.23%.

Paper Vs Electronic Remittance: Islami Bank Bangladesh Limited introduced electronic remittance service. In the month of January 2006 reduction was 20.45%, February: 14.63%, March: 18.99%, April 25.26% increase May: 0.85% increase, June: 16.70% reduction July: 20.15% reduction, August: 44.42%, September: 17.78% and October: 10.77%. In the year 2008 IBBL introduced EFI message for delivery of remittance which shows significant increase in the use of EFT for remittance delivery. The percentage increase ranges from 89.37% to 150.23% during the January – October period currently, Islamic Bank remits 65% of their transaction for remittance on the same day. The remaining 35% transaction, 18 percent are cloned by 2-3 days, 8% by 10 days, 5% by 20 days and 4% by 30 days.

Scorecard on remittance transfer: Competition between RSP/MTOs should be a contributor to the decline in transaction costs and participation of more banks and similar financial institutions as remittance players. There are nine criteria for the analysis of market performance in relation to development and consumer rights. These include, transfer fee exchange rate, commissions, mechanisms used to send the money, competitive position of the corridors, geographic coverage across corridors, levels of engagement with local consumer community, relationship with financial intermediaries, transparency and disclosing information about pricing, and compliance to regulatory rules. In Bangladesh, a detailed study is needed on the scorecard on remittance transfer.

Business model in RSP/MTO industry: Agency model employed by Western Union, Moneygram and VIGO used agent who nearly always operate other businesses in same location in the receiving and sending countries. These agents pay for all rates, personnel and other fixed and operating expenses for the location in exchange of commission. Commissions are generally a fixed percentage of MTO fee for the transfer excluding foreign exchange spreads. In the branch model used by Dolex and many of smaller MTO and small to mid size niche player, the MTO owns the sending, and often also the receiving branch and pays for all fixed and operating cost associated with each branch.

Remittance Pricing: Corridor volume, which attracts global and regional MTOs as well as small niche players that compete on price, appears to be the most significant factor driving remittance fee prices. Exclusive agency partnerships between large Global MTOs and postal systems also appear to have a major influence on remittance prices by serving as a significant entry barrier to small competitors and allowing high prices to be maintained even in the face of serious competitive challenges from other large, lower priced rivals. Restrictive regulations in the US and sending countries in the EU may also have an impact on pricing by discouraging new competition and making it easier for the large global MTOs to maintain higher prices. Other factors that appear to influence remittance pricing within a corridor include: the active participation of banks, credit unions and other non-bank financial institutions in the remittance market, migrant access to low cost alternatives offered by these organizations, technology and product/service innovations, and the strength of the informal transfer network. Government policy initiatives may have helped reduce remittance prices in selected corridors such as the US to Mexico, but the significance of their impact is difficult to ascertain.

Cost structure of MTO/RSPs: Agent commission is the dominant variable cost in the agency network model, which varies considerably by corridor and by company. Costs include identifiable cost comprising of variable cost mainly agency commission, fixed and depreciation cost that include marketing, general administration, depreciation, amortization and agency start up cost and some unidentifiable variable and fixed costs. To arrive at total cost of remittance, it is necessary to know the exchange rate applied to the conversion either at the remitter's end or while making payment to the beneficiary in home country.

Competitive foreign exchange spread: Foreign rate spreads on remittance for both Western Union and Moneygram appear to be too high, even in high volume corridors, and are not transparent to the sender. Increased consumer awareness of the high level foreign exchange spreads, could encourage more exchange rate competition and help lower overall remittance costs. Detailed investigations need to be carried out in the context of exchange rate spread for Bangladesh remittance.

Variation of remittance fees: Remittance fee pricing varies significantly by competitor, corridor and channel. Three set of factors contributing to remittance prices, corridor specific, sending country specific and receiving country specific. Driving factors for remittance fee pricing include competitive factors, technology and product factors, and government policy factors.

Regulation of MTO/RSP business: Bangladesh Bank plays important role in remittance business. Commercial banks are to comply with regulatory requirements. The trial and error techniques applied in Bangladesh for promoting RSP business in attracting safe secured, at lower cost still needs to be re-casted compared to the international practices.

Problems faced by the beneficiary of migrant through the channel: Cost of sending the remittance is based on per transaction so the small remitter have to pay the same cost of a large remittance. Sometimes the distance of migrant work and dueling place with the exchange house/bank are so far that they can not come to remit money frequently. Major portion of the migrants have little educational backgrounds and so they face problems with language and the exchange house/banks formalities. As most of the migrant remitters go abroad from the rural area the beneficiaries reside in the same area, very few of them have knowledge about the banking system. As a result, they face problems completing the banking formalities. Non-availability of bank account of the beneficiary and the remitter is another deterrent. Some times the beneficiaries are harassed and caused delay by the corrupt bank officers.

Government Policy measures to influence the flow of remittance: Remittance transactions are inherently private, and as such, regulation does not address in any way the allocation of remittance funds, which receivers clearly have the freedom to spend or invest as they choose. Within this scope, regulatory concerns are normally aimed at facilitating the provision of formal remittance service at the lowest cost possible to as many users as possible, while maintaining a high level of security in the system. By nature, remittance involves operations in various jurisdictions, under different regulatory framework. After reconciliation of the overall objectives of high security with low costs remains a major challenge. The first objective of regulation is enforcing security in remittance services from misuse for illegal transactions including financial terrorism. The second broad objective of regulation refers to facilitating the reduction of the prices of remittance. For immigrants sending money home, remittances services have traditionally been expensive, with fees of up to 20 percent of the principal sent depending on the size and type of transfer to the destination. Authorities have shied away from imposing direct price control on remittance services, favoring mechanisms aimed at increasing transparency, enhancing competition in the system, and, in some cases, reducing barriers for users to access a wider range of services providers.

National Payment System: For safe secured, at lower cost and speedy remittance to the rural people, like other countries, Bangladesh needs a national strategy for Payment System. The National Payment System needs cooperation among banks who are in constantly engaged in business competition. Out of 6500 bank branches over 60% owned by State Owned Banks who lacks automation and inter branch connectivity. Operation of National Payment System supported Automatic Clearing House (ACH), Electronic Fund Transfer Network (EFTN) and Automation of Cheque Processing can support the speedy, safe, secured, and cheaper remittance processing to the poor of the rural Bangladesh. Central Bank as supervisory authority of the national payment system, clearing operation, and cheque modernization process for the commercial banks must emphasis priority on the ICT application in its own operations. Central Bank should review its current operational and priority areas and outsource non-core functions to the other agencies.

Recommendations

1. In the absence of correct price and cost data on remittance, corridor specific study is needed to evaluate the data and then recommend for further action plan.
2. Awareness program on cost, prices, foreign exchange regulation, AML, and remittance linked new banking products should be promoted among bankers
3. Awareness program on fiscal incentives for migrant remittance should be carried forward before they proceed for their work and homecoming time in the airplane journey and TV drama specially chalked out for migrants
4. Readiness assessment of individual banks to implement the cheque modernization, BACH, and BFTN under the RPP. Separate study need to be conducted immediately to determine the eligibility participating banks with BACH and BFTN.
5. Central Bank sitting at the steering of the national payment system should embrace stakeholders of the payment system, BACH, BFTN, and cheque modernization process to make it a success.

6. Central Bank must take its pioneering role by accepting the genuine problems with foreign exchange regulation those hinder the smooth delivery of migrant remittance and create friendly environment to make lower cost, faster, safe and secured delivery.
7. Central Bank should monitor the price and cost remittance on timely interval to have control over the activities of banks and remittance service providers.

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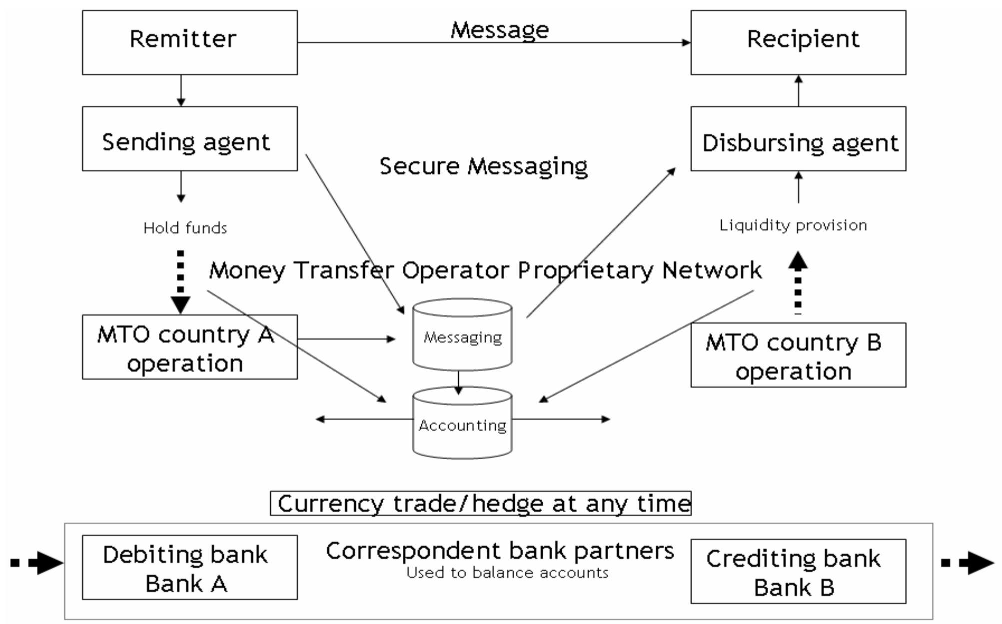
Section One: Background and Introduction

The DFID funded Remittance Partnership Program (RPP) started working at Bangladesh Bank since October 2006 to promote cheaper cost, legal means, and faster migrant remittance processing to rural Bangladesh. RPP components include development of National Payments Strategy followed by National Payments Laws and regulations, establishing modernized cheque processing system, automatic clearing and electronic fund transfer network and introduction of innovative banking products by challenge fund besides the research and promotional works to promote legal remittance to Bangladesh. Objective of this report is to make an evaluation of the current state of remittance processing in terms of volume increase, price and cost in Bangladesh compared to the findings of other studies and readiness of banks in terms of ICT application for speedy remittance. Literature on price and cost on remittance is not easily available in the absence of empirical studies in this particular area and case of Bangladesh study in this regard have not been conducted as it is very much difficult to get the information on cost and price. This report is structured into seven sections. Section two starts with basics of remittance operation with a brief on remittance transactions, structure, players, instruments, and value added by the remittance firms. Section three provides 5 years data on remittance towards Bangladesh channeled from different corridors and by banks and Remittance Service Provider firms over the period 2003-2008. Performance of banks, identification of top remittance prone areas by banks and five year data of Janata Bank from RSP and corridors have been disclosed. ICT infrastructure of local banks have been evaluated. Section four initiates discussion on business models for RSPs including cost structure. Section five details on remittance fee pricing. Section six details on the cost of remittance transactions. Section seven provides a picture on the regulatory regime on RSP in Bangladesh including fiscal incentives and Section eight provides a summary and recommendation.

Section Two: Basics of Remittance Operation

The basics of a remittance operation: A remittance transfer is a cross-border retail payment with special access requirements on the sending and receiving side.



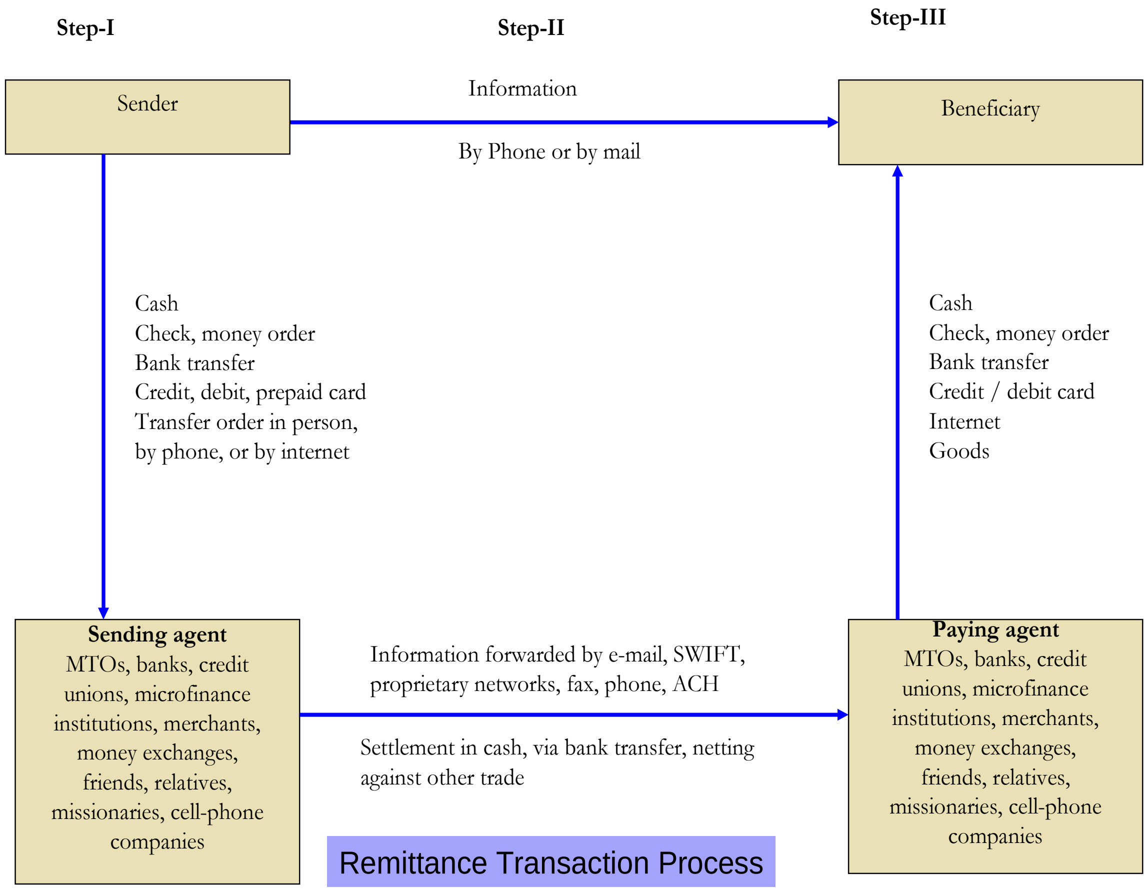
A remittance operation is initiated by a remittance service provider capturing funds from a remitter using any of a variety of instruments, either directly or through a capturing agent. The most normal instrument is cash; other instruments in use are direct debits, cheques, money orders, and credit cards. There is a large number of possible instruments; one example is stored value accounts associated with cell phones. The capture channel can be physical, such as a grocery store operating as agent for a remittance service provider, or virtual, such as the internet or a call center. An ideal capture channel is close to the remitters, trusted, can handle cash, and can easily be linked to the remittance service provider. The limitations on available capture channels tend to be associated with credit risk, compliance risk, and operating costs. For example, the internet is cost effective but it cannot handle cash, and it poses compliance challenges. An external agent may have good compliance procedures but can be costly and pose a credit risk. The capturing agent transfers the funds to the remittance service provider (or to a designated third party) using mechanisms such as a domestic payment system, transport of cash or written instruments, or the creation of liabilities to the remittance service provider. The communication between the agent and the remittance service provider can take place through a dedicated computer system, email, fax, or telephone. Credit and compliance risks are addressed at some point in this process, and the data supplied by the remitter is validated.

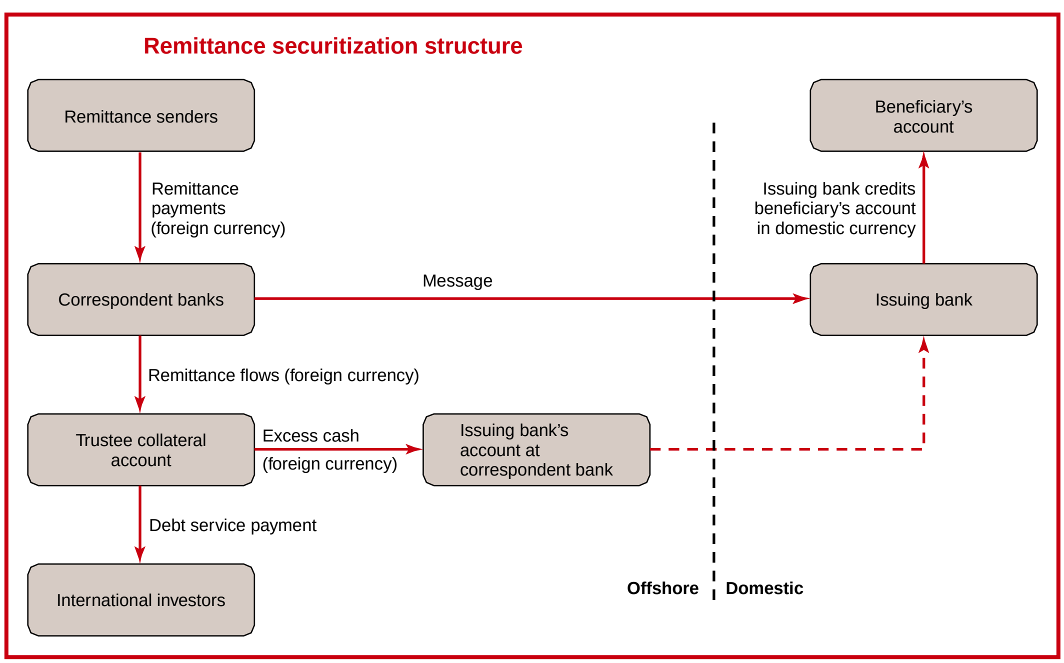
When the remittance service provider's policies on transaction validation are met, the disbursement process starts. The remittance service provider orders a disbursement agent to make funds available to the recipient. This message goes through channels such as SWIFT, a proprietary database, fax, email, or phone, and it is originated either by an entity in the country where the remittance is initiated or by a partner or subsidiary of the remittance service provider in the country of destination. In many cases, the time from funds capture to funds availability is close to instant. In other cases, the transfer can take up to several days. Often, the determinants of speed are the instruments used for capture and the means of messaging. Compliance requires the remittance service provider to check recipients against a list of barred recipients, which is a process that must be computerized in order to allow for instant transfers. The disbursement agent may use a variety of instruments. A bank or non-bank account is credited, cash is picked up, or a cheque or money order is issued. What legitimizes the remitter to pick up the remittance varies. It may be an official ID showing that the name and other identifying information is the same as in the remittance record, it can be a code communicated from the remitter to the recipient, and it can be a code sent to the recipient's cell phone by the service provider.

How the remittance service provider settles across borders varies with the nature of the operation. Smaller service providers typically use a settlement agent, such as an international bank or a bank with correspondent relationships, to wire funds to the service provider's account in the receiving country, or, alternatively, to its disbursement agent in that country. Remittance firms can also rely on disbursing partners that have accounts in the sending country. In these cases no international settlement is required from the perspective of the remittance service provider. Larger providers are able to use corporate treasuries to settle on their own books. International banks and banks with correspondent relationships settle through their usual means.

A stylized remittance transaction—structure, players, instruments

Atypical remittance transaction takes place in three steps: (1) initiation of remittances by a migrant sender using a sending agent, (2) exchange of information and settlement of funds, and (3) delivery of remittances to the beneficiary. In step 1, the migrant sender pays the principal amount of the remittance to the sending agent using cash, cheque, money order, credit card, debit card, or a debit instruction sent by e-mail, phone, or Internet. In step 2, the sending agency—which may be an MTO, bank, or other financial institution, money changer, or merchant (gas station, grocery store)—then instructs its agent in the recipient's country to deliver the remittance. In step 3, the paying agent makes the payment to the beneficiary. In most cases, there is no real time fund transfer; instead, the balance owed by the sending agent to the paying agent is settled periodically according to a mutually agreed schedule. Settlement usually occurs through commercial banks acting through the national clearing and settlement system. A portion of informal remittances is settled through goods trade.


Step-I
Step-II
Step-III
Sender
Information
By Phone or by mail
Beneficiary
Cash
Check, money order
Bank transfer
Credit, debit, prepaid card
Transfer order in person,
by phone, or by internet
Cash
Check, money order
Bank transfer
Credit / debit card
Internet
Goods
Sending agent
MTOs, banks, credit unions, microfinance institutions, merchants, money exchanges, friends, relatives, missionaries, cell-phone companies
Information forwarded by e-mail, SWIFT, proprietary networks, fax, phone, ACH
Settlement in cash, via bank transfer, netting against other trade
Paying agent
MTOs, banks, credit unions, microfinance institutions, merchants, money exchanges, friends, relatives, missionaries, cell-phone companies
Remittance Transaction Process


Remittance securitization structure
Remittance senders
Remittance payments (foreign currency)
Correspondent banks
Message
Remittance flows (foreign currency)
Trustee collateral account
Excess cash
(foreign currency)
Issuing bank's account at correspondent bank
Debt service payment
International investors
Beneficiary's account
Issuing bank credits beneficiary's account in domestic currency
Issuing bank
Offshore
Domestic

The value added by remittance firms: A remittance firm transfers funds from one person in one country to another person in another country. Often, the international remittance is the monetary fruit of migrant labor that is being transferred back to the migrant worker's family. This makes the remittance service a crucial component of the logistics of migration. There is a multitude of companies providing remittance services, of all sizes and using a large variety of technologies. They mainly add value in the following four areas, where their services are unique.

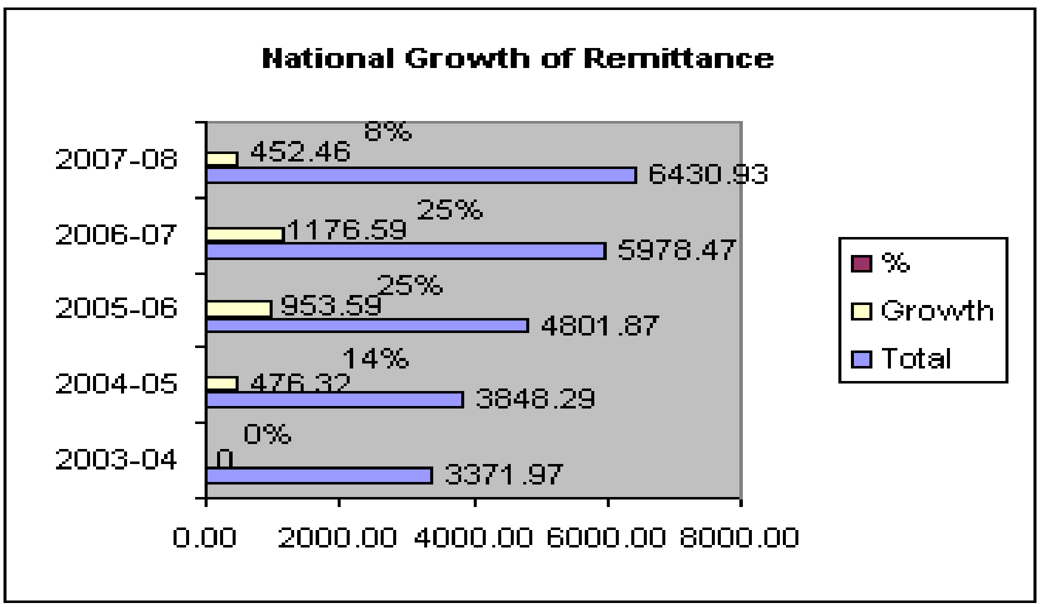
First, there is no global retail payment system. Global payments are largely effectuated by banks with correspondent relationships, or, in a variation of this, through a system of payment card processors that effectuate the retail transactions using correspondent banking relationships to settle balances. Bank wire transfers are often expensive, and the use of payment cards for remittances is in its infancy. Therefore, remittance firms perform a unique function in the cross border retail payment infrastructure. *Second*, the senders of remittances often need an interface to access the banking system. Many do not have bank accounts, and banks' opening hours are often not conducive to migrant work schedules. Cultural and language barriers can be significant, as can reluctance to engage with large financial institutions. Concerns about immigrant status can also prevent some migrants from using banks for international transfers. Similarly, migrants often have access to a more limited number of payment instruments, frequently only cash and money orders. Whereas a person with access to bank accounts, internet, payment cards, and cheques can initiate payments in a large number of ways, a person with access only to cash and not to a bank account has a limited number of options. Remittance firms provide access to payment services for individuals that would otherwise have been excluded from such services. *Third*, remittance firms offer delivery of funds through instruments and channels that the recipient can access, such as cash from a disbursing agent that is located not too far from where the recipient lives or that offers courier delivery. Since domestic payment systems in many receiving countries are underdeveloped, agent networks provide a substitute and prevent recipients from having to travel to places covered by the banking system. As the case with the senders, remittance firms increase access to payment services for the recipients. *Fourth*, remittance firms offer opportunities for cost savings. International wire transfers through banks are costly and slow. Remittance firms 'bundle' a number of transfers, send the bundled funds through the banking system, and 'unbundle' the funds at the other end. In this way, the settlement charges are spread over many remittance transactions. In this way, remittance firms reduce the cost of transferring funds.

Section Three: Five Performance of Bangladesh Remittance

National Share of Remittance: Five years data ranging from 2003-04 to 2007 – 08 have been collected from different banks and analyzed those in different perspectives total remittance flow to Bangladesh during 2003 – 2004 to 2007 – 2008 have been captured. Information revealed that in 2003 – 04 total remittance to the country was USD 3,371.79m and share of SOB are 59%, private commercial Banks: 37%, specialized financial institutions: 1%, and Foreign commercial Bank: 3% of the total remittance channeled to Bangladesh. During 2004 -05 financial year total remittance channeled to the country was USD 3848.29 m in comprising of SoB: 55%, Private sector commercial Banks: 40%, Specialized institutions: 4% and FCBs: 1% of total remittance flow. In the year 2005 – 06 total remittance flow was USD 4801.87m shared by SoB : 46%, PCBs: 49%, FCBs: 4% and specialized institutions: 1%. In this year the private commercial banks crossed the national share of SoB remittance for the first time. In year 2006 – 07 total remittance flow to the country was USD 5978.47m with share of SoB: 39% (further reduction) PCBs: 57%, FCBs: 3%, and specialized institutions : 1%. In the financial year 2007 – 2008, total flow of remittance to the country was USD 6430.93m with reduced share of SoBs : 34%, PCBs: 63%, FCBs: 2% and specialized institutions: 1%.

Bangladesh Inward Remittance Scenario : 2003-2004 to 2007-2008

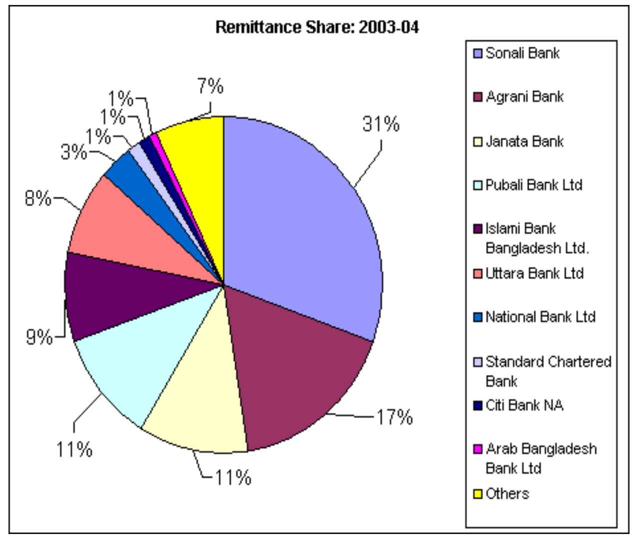
Year	Total	Growth	Percentage
2003-04	3371.97	0	0%
2004-05	3848.29	476.32	14%
2005-06	4801.87	953.59	25%
2006-07	5978.47	1176.59	25%
2007-08	6430.93	452.46	8%



Performance Rating on remittance

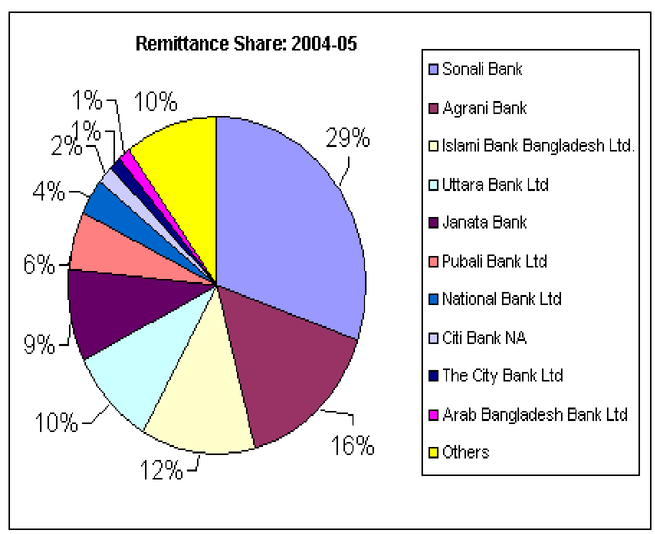
Annual performance of all banks in remittance channeling has been analyzed. Remittance performance of Banks varied from year to year and month to months. In 2003 -04 total remittance flow of USD 3371.97m share of Sonali Bank was 31% topping the legue table, Agrani Bank: 17%, Janata Bank : 11%, Pubali Bank: 11%, Islami Bank : 9%, Uttara Bank: 8%, National Bank : 3%, Standard Chartered Bank: 1%, Citi Bank N A: 1%, AB Bank : 1%, and other banks: 7%.

	Bank	*2003-04*	*%*
1	Sonali Bank	1034.55	31%
2	Agrani Bank	570.88	17%
3	Janata Bank	373.47	11%
4	Pubali Bank Ltd	360.93	11%
5	Islami Bank Bangladesh Ltd.	291.56	9%
6	Uttara Bank Ltd	279.74	8%
7	National Bank Ltd	116.17	3%
8	Standard Chartered Bank	44.03	1%
9	Citi Bank NA	33.87	1%
10	Arab Bangladesh Bank Ltd	32.2	1%
	Others	234.57	7%
	Total	**3371.97**	**100%**



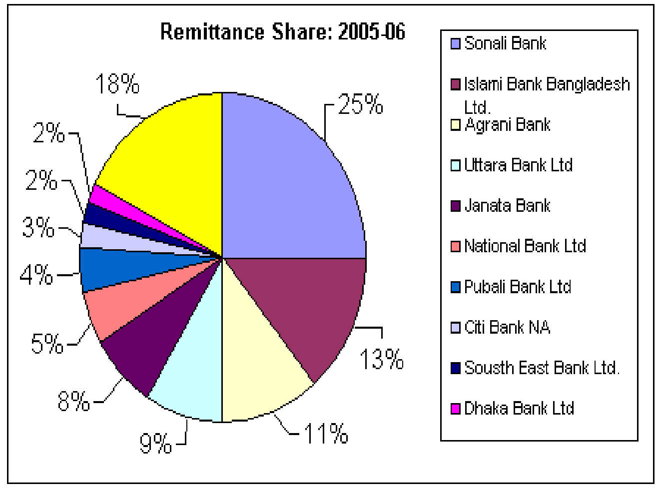
In 2004 – 05 remittance flow of USD 3848.287m was channeled by Sonali Bank: 30% with percentage point reduction from last year, Agrani Bank : 16% with reduction of 1% from the previous year, Islami Bank 12% marking 3% increase from earlier year, Uttara Bank 10% marking 2% increase from previous year, Janata Bank : 9% accounting reduction of 2% from earlier years. Pubali Bank captured 6th position with 6% share, National Bank: 4% marking 1% increase from last year, Citi Bank NA: 2%, The City Bank Ltd. : 1%, AB Bank: 1% and other banks: 10% and the Standard Chartered Bank lost their position among top 10 banks channeling remittance.

	Bank	*2004-05*	*%*
1	Sonali Bank	1163.702	30%
2	Agrani Bank	598.969	16%
3	Islami Bank Bd Ltd.	467.405	12%
4	Uttara Bank Ltd	365.703	10%
5	Janata Bank	343.284	9%
6	Pubali Bank Ltd	214.121	6%
7	National Bank Ltd	139.594	4%
8	Citi Bank NA	66.789	2%
9	The City Bank Ltd	51.003	1%
10	Arab Bangladesh Bank Ltd	50.237	1%
	Others	387.48	10%
	Total	**3848.287**	**100%**



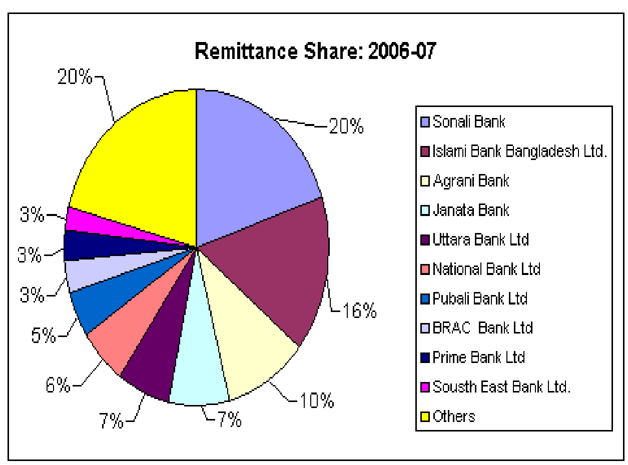
Financial year 2005 – 06 recorded USD 4801.87m remittances to Bangladesh where Sonali Bank shared 25% losing 5% compared to last financial year. Islami Bank captured 13% by increasing 1% from last year. Agrani Bank went down to 3rd position with 11% share marking reduction of 5% share in the same year, Uttara Bank: 9% recording reduction of 1% from previous year, Janata Bank: 8% recording 1% reduction this year. National Bank accounted their share at 5% by increasing 1% from the last year. Pubali Bank recorded 4% share with reduction of 1% from last year, Citi NA: 3% with 1% increase from last year. Both Dhaka Bank and South East Bank entered in the list of top 10 Banks with 2% market share each.

	Bank Name	*2005-06*	*%*
1	Sonali Bank	1220.44	25%
2	Islami Bank Bd Ltd.	643.78	13%
3	Agrani Bank	535.66	11%
4	Uttara Bank Ltd	418.19	9%
5	Janata Bank	360.47	8%
6	National Bank Ltd	251.73	5%
7	Pubali Bank Ltd	210.55	4%
8	Citi Bank NA	122.95	3%
9	South East Bank Ltd.	93.44	2%
10	Dhaka Bank Ltd	91.08	2%
	Others	**853.58**	18%
		4801.87	100%



Financial year 2006 -07 recorded USD 5978.47m retaining Sonali Bank position as number one with 20% market share and reduction of 5% share compared to previous financial year. Islami Bank recorded 16% share with 3% increase from the previous year. Janata gained 4th position with 7% share toppling, Uttara Bank 7% little margin. The National Bank share increased 6% from 5% in last year. Pubali Bank recorded 5% share by increasing 1% from last year. BRAC Bank joined the top 10 league by gaining 3% share and the same applies to PRIME Bank Limited recording 3% share. South East Bank also recorded 3% share by increasing 1% from last year. The other banks also recorded their share 21% with 3% increase from the previous year.

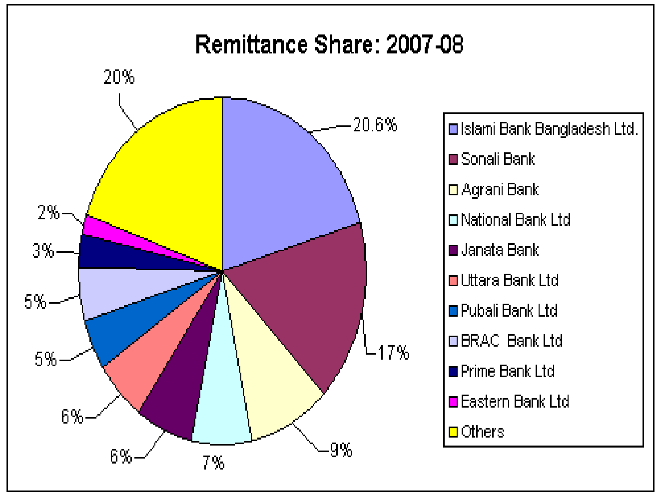
	Bank Name	*2006-07*	*%*
1	Sonali Bank	1197.20	20%
2	Islami Bank Bd Ltd.	949.76	16%
3	Agrani Bank	595.87	10%
4	Janata Bank	440.01	7%
5	Uttara Bank Ltd	393.54	7%
6	National Bank Ltd	336.27	6%
7	Pubali Bank Ltd	286.42	5%
8	BRAC Bank Ltd	207.49	3%
9	Prime Bank Ltd	175.84	3%
10	South East Bank Ltd.	150.24	3%
	Others	1245.83	21%
		5978.47	100%



Financial year 2007 – 08 recorded USD 6430.93m. Islami Bank recorded 20.6% share by capturing top position in remittance channeling by increasing 4.6% compared to last financial year. Sonali Bank dropped to second position with 17% share by reduction of 3% from last year. Agrani

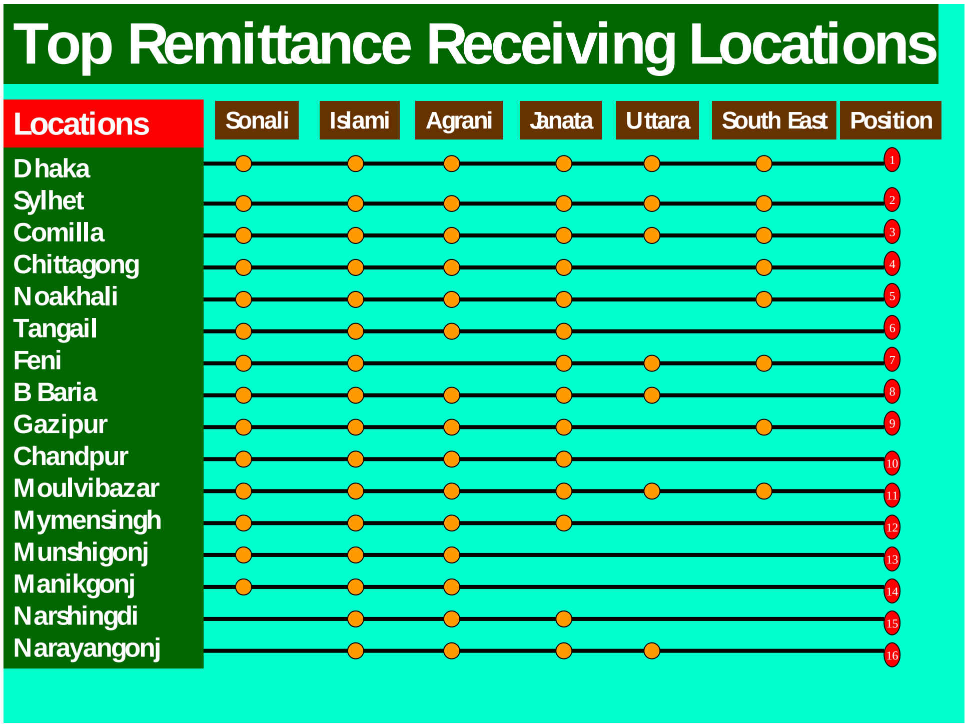
Bank recorded 9% share with reduction of 1% from last year. National Bank recorded 7% by increasing 1% share. Janata Bank gone down to 5th position with 6% share by reduction of 1% from previous year. Uttara Bank share was 6% with reduction of 1% from last year. Pubali Bank retained 5% and BRAC Bank increased its share to 5% from 3% of last year. Prime Bank retained its 3% market share and Eastern Bank graduated to top 10 banks in remittance channeling with market share of 2% and South East Bank was dropped from top 10 list this year.

	Bank Name	2007-2008	%
1	Islami Bank Bangladesh Ltd.	1322.36	20.6%
2	Sonali Bank	1080.31	17%
3	Agrani Bank	591.60	9%
4	National Bank Ltd	432.27	7%
5	Janata Bank	406.93	6%
6	Uttara Bank Ltd	375.31	6%
7	Pubali Bank Ltd	316.58	5%
8	BRAC Bank Ltd	316.09	5%
9	Prime Bank Ltd	189.82	3%
10	Eastern Bank Ltd	125.10	2%
	Others	1274.56	20%
		6430.93	100%



Top remittance receiving locations: Based on information available top remittance receiving locations were identified for Sonali, Islami, Janata, Agrani, Uttara and South East Bank have been identified. Figures reveal that 16 districts out of 64 districts attract major position of inward remittance to Bangladesh. Ranking of districts by banks processing inward remittance was done. The entire six bank's remittance performance in Dhaka, Sylhet and Comilla ranks number one to three respectively.

Chittagong, being fourth largest remittance receiving location excepting Uttara bank all other five banks are performing Noakhali occupies 5th national position and excepting Uttara Bank all other five banks are operating competitively in this district. Tangail occupies 6th national position with operation of Sonali, Islami, Agrani and Janata. The 7th national positon goes to Feni with operation of 5 banks with exception of Islami Bank. Brahmanbaria occupies 8th largest remittance, with operation of five banks with the exception of South East Bank. Gazipur is a nearby district of Dhaka, and occupies 9th national position in terms of remittance delivery. With the exception of Uttara Bank all other 5 banks are very much in competition. Chandpur occupies 10th position with operations of Sonali, Islami, Agrani and Janata Bank. Moulivibazar is a migrant prone district and occupies 11th national position and all 6 banks mentioned here are operating in this district. The national position of Mymensingh is 12th with major contribution of Sonali, Islami, Janata and Agrani Bank. Munshigonj captured 13th national position with operation of Sonali, Agrani, and Islami Bank. Sonali, Islami and Janata remittances channeling made Manikgonj 14th national position. Islami, Agrani and Janata Operation made Narsingdi at 14th national position. Finally operations of Islami, Agrani, Janata and Uttara have made Narayangonj 15th in the National position of Remittance operation.



Janata Bank 5 Years Remittance Performance: Five years data of Janata Bank have been captured by source countries and by Exchange Houses to see the trend of increase from one year to the other including yearly, country, and exchange house performance and their share in the total annual remittance flow of the bank. Data up to August 2008 indicate Janata Exchnage Company Italy shared 6.47%; UAE: 40.97% comprising of Janata bank branches-27.04% and other exchange houses-13.93%. Performance and share of Janata Exchange Company located in Italy in terms of total remittance on annual basis accounts for 2003: 3%; 2004:10%; 2005:17%; 2006:26%; 2007:29%; and up to August 2008:15%. Share of remittance from UAE source as a percentage of total was in 2003: 12%; 2004:13%; 2005: 14%; 2006:15%; 2007:25%; and up to August 2008 record is 21%. Share of other countries in total Janata remittance in 2008 accounts 52.56%. Among the other countries, remittance from Kuwait is 18.28% -the largest one; Saudi Arabia: 7.74%; Oman emerges as the third largest with 2.49%; UK: 2.08% (4th) and Bahrain: 2.05%. By contrast, the KSA share to total remittance towards Bangladesh (2008) is 29.02%, USA: 15.56%; UK: 14.83%; UAE: 13.46%; and Kuwait: 11.39%. Remittance record from other countries showing increasing trend, for example, 2004: 16%; 2005:7%; 2006:6%; 2007:10% and 2008: (15%). Kuwait corridor recorded increase in 2004: 11%; 2005: 18%; 2006:38%; 2007: 38% and 2008 (August): (31%). UAE corridor has two sources- one is own branch and the other is exchange house. The branches recorded increase in 2004: 5.62%; 2005: 8.51%; 2006:0.51%; 2007:62.15% and 2008: (15.15%). The other exchange houses recorded increase in Kuwait corridor 2004: 15%; 2005: 6%; 2006: 27%; 2007: 62%; and 2008 (August): (15%).

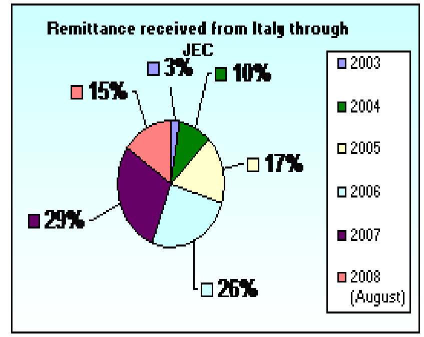
Janata Bank Limited: Remittance Performance 5 Years data

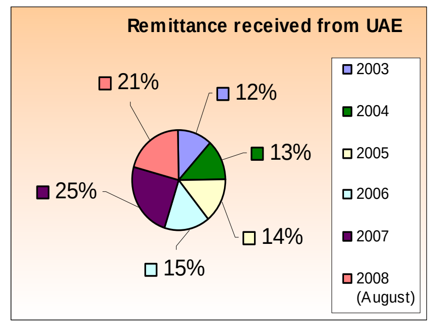
Janata Bank Limited: Country /Exchange House Annual Remittance Record

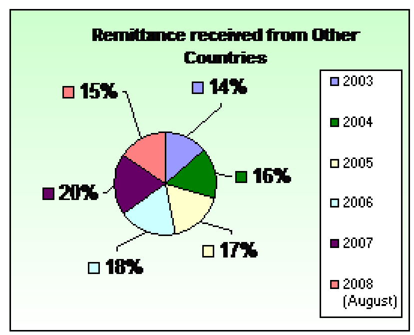
Remittance received from Foreign Bank/Exchange Co. *(Fig. BDT M)*

Sl. No.	Country/Exchange Co.	2003	2004	2005	2006	2007	2008 (August)	% to total
Remittance received from Italy through JE								
Janata Exchange Co., Italy		**350.40**	**1,182.50**	**2,077.10**	**3,102.10**	**3,513.00**	**1,856.60**	6.47%
	% Increase		**237%**	**76%**	**49%**	**13%**	**-47%**	
Remittance received from UAE								
1	Janata Bank, UAE Branches	4,919.60	5,196.00	5,638.00	5,666.70	9,188.30	7,763.70	27.04%
	% Increase		5.62%	8.51%	0.51%	62.15%	-15.50%	
2	Others Exchange Co.	1,868.40	2,143.50	2,279.50	2,901.70	4,714.00	3,998.70	13.93%
	% Increase		15%	6%	27%	62%	-15%	
	Sub Total	**6,788.00**	**7,339.56**	**7,917.59**	**8,568.41**	**13,902.92**	**11,762.24**	**40.97%**
Remittance received from Other Countries								
1	Kuwait	3,138.20	3,468.60	4,089.30	5,652.60	7,615.90	5,248.60	18.28%
	% Increase		11%	18%	38%	35%	-31%	
2	Saudi Arabia	2,866.60	4,057.90	3,762.70	3,598.30	3,025.20	2,221.50	7.74%
	% Increase		42%	-7%	-4%	-16%	-27%	
3	Oman	1,235.70	1,129.80	1,095.60	1,106.20	1,171.00	716.10	2.49%
	% Increase		-9%	-3%	1%	6%	-39%	
4	Bahrain	829.30	785.20	817.40	853.20	834.50	589.20	2.05%
	% Increase		-5%	4%	4%	-2%	-29%	
5	Greece	-	-	-	537.90	697.90	515.80	1.80%
	% Increase					30%	-26%	
6	UK	-	-	-	-	-	595.80	2.08%
	% Increase							
7	Qatar	186.30	196.10	190.80	149.20	173.60	125.30	0.44%
	% Increase		5%	-3%	-22%	16%	-28%	
8	United States	-	26.90	29.20	132.80	153.60	134.40	0.47%
	% Increase			9%	355%	16%	-13%	
9	Malaysia	1,193.10	1,139.30	623.90	264.20	208.70	94.60	0.33%
	% Increase		-5%	-45%	-58%	-21%	-55%	
10	Singapore	-	0.20	0.40	5.30	0.70	10.00	0.03%
	% Increase			100%	1225%	-87%	1329%	
11	Korea	-	-	23.20	2.50	-	-	0.00%
	% Increase				-89%			
12	Canada	119.70	166.70	-	6.60	7.20	-	0.00%
	% Increase		39%			9%	-100%	
13	Australia	30.20	14.40	-	-	-	-	0.00%
	% Increase		-52%					
14	Other sources (SWIFT/Telex)	3,814.80	4,556.40	5,945.70	5,288.00	5,484.40	4,828.90	16.82%
	% Increase		19%	30%	-11%	4%	-12%	
	Sub Total	**13,413.90**	**15,541.76**	**16,578.92**	**17,611.30**	**19,372.56**	**15,090.02**	**52.56%**
	% Increase		16%	7%	6%	10%	-22%	
	Total	**20,552.30**	**24,063.82**	**26,573.61**	**29,281.81**	**36,788.48**	**28,708.86**	
	% Increase		17%	10%	10%	26%	-22%	

N.B.: 41 Nos. of Exchange Co./Bank under Taka Drawing Arrangement.







ICT Infrastructure:

For safe, secure, and faster remittance delivery, the ICT infrastructure is an important element in the banking industry in addition to other institutional issues. At the moment there are approximately 6,500 bank branches, comprising of 4691 government owned banks, 1760 private commercial banks and 49 branches of foreign banks, with the exception 4 state owned and few specialized banks, private commercial and foreign banks do not have their branches at head quarters of 64 districts. Still automation has taken significant position in the banking industry for survival in the competition and to meet the needs of national payment system of the country.

Although automation is a nightmare in Bangladesh, there still there attempts to automate. Other than a few foreign banks automation is misnomer and needs definition. In true terminology, the automation of banks still has far to go, both in private and public sector banks. Bangladesh Bank being the regulator of the banks is still far behind the commercial banks. However, current status of IT application in the commercial banks can be categorized into: fully automated, partially automated and computerized. Fully automated banks include: AB Bank, BRAC Bank. Citi Bank NA, Dutch Bangla, Eastern Bank, First Security Bank, HSBC Bank, One Bank, Prime Bank, Shahjalal Bank, Social Investment Bank, South East Bank, Standard Chartered Bank, Trust Bank, Woori Bank, Commercial Bank of Ceylon, Dhaka Bank and Bank Asia. Only Prime Bank and BRAC Bank are in the top ten banks of remittance service provider.

Partially Automated Banks include Al-Arafa Islami Bank, Exim Bank, Habib Bank, IFIC Bank, Islami Bank, National Bank of Pakistan, NCC Bank, The City Bank, Oriental Bank, Premier Bank and United Commercial Bank. The computerized banks include BCI Bank, Jamuna Bank, Mercantile Bank, Mutual Trust Bank, National Bank, Pubali Bank, Standard Bank, Uttara and State Bank of India.

State owned Banks: Sonali, Janata, Agrani and Rupali Banks are owned by the Government and have been corporatized recently, need capacity building in the infrastructure. In the process of such a transformation, these banks are working in different areas. In the case of remittance delivery all these banks have a common weakness, their IT infrastructure but this is on the priority. All four commercial banks have taken up action programs for automation of branches, these are activities involved in remittance processing. For example, Sonali Bank's remittance transactions from December 18, 2007 to 2nd January 2008 indicates that their remittance delivery done electronically through Instant Financial Report Management System: 18%, Remittance Management System: 67%, Third Bank: 0.77%, courier and postal services: 14.23%.

Paper Vs Electronic Remittance: Islami Bank Bangladesh Limited introduced electronic remittance service. In the month of January 2006 reduction was 20.45%, February: 14.63%, March: 18.99%, April 25.26% increase May: 0.85% increase, June: 16.70% reduction July: 20.15% reduction, August: 44.42%, September: 17.78% and October: 10.77%. In the year 2008 IBBL introduced EFI message for delivery of remittance which shows significant increase in the use of EFT for remittance delivery. The percentage increase ranges from 89.37% to 150.23% during the January – October period currently, Islamic Bank remits 65% of their transaction for remittance on the same day. The remaining 35% transaction, 18 percent are cloned by 2-3 days, 8% by 10 days, 5% by 20 days and 4% by 30 days.

IT Infrastructure of Private and Foreign Banks

- Private banks 1760 branches and foreign 49 branches
- Do not cover even all the district towns

Fully Automated Banks

AB, BRAC, CITY Bank N.A, Dutch-Bangla, Eastern, First Security, HSBC, One, Prime, Shahjalal, Social Investment, Southeast, St Chartered, Trust, Woori, Commercial Bank of Ceylon, Dhaka, Bank Asia.

IT Infrastructure of Private and Foreign Banks

Partially Automated	Computerized
Bank Alfalah, Exim, Habib, IFIC, Islami, National Bank of Pakistan, NCC, The City, Oriental, Premier, and UCBL	Al-Arafh, Bangladesh Commerce Bank, Jamuna, Mercantile, Mutual Trust, National, Pubali, Standard, State Bank of India, Uttara

Some private banks have started to make the bank fully automated. Some of the branches are now fully automated and some are partially automated. Such as IFIC, NCC Islami Bank

Remittance Processing: Sonali Bank

Remittance Transactions 18 Dec 07 to 2 Jan 08	No of messages	%
Instant Financial Report Management System (IFRMS)	4, 594	18
Remittance Management System (RMS)	17,181	67
Third Bank	198	0.77
Courier and Postal Services	3,644	14.23
Total	25,617	100

Paper Vs Electronic Remittance: Islami Bank

Months	Paper Message %Incre/Decre From 2006	EFT Message %Incre/Decre From 2006
January	(20.54)	150.23
February	(14.63)	135.83
March	(18.99)	117.05
April	25.26	130.41
May	0.85	92.73
June	(16.70)	118.01
July	(20.51)	122.38
August	(44.42)	89.37
September	(17.78)	153.11
October	(10.77)	120.75

Sonali Bank Remittances prone locations

	Tk Crore Oct 2007
Wage earner Dhaka (corporate branch)	946.30
Local office Dhaka (corporate branch)	634.36
Tangail principal	553.13
Gazipur	541.91
Comilla	522.64
Mymenshing	520.08
Shagarghat(Dhaka)	430.98
Sylhet	430.59
Munshigonj	404.80
Ramna(Dhaka)	404.10
Noakhali	375.35
B Baria	370.44
Chandpur	368.39
Madharipur	304.17
Manikgonj	292.93
Chittagong south	285.43
Maulavibazar	218.47
Laxmipur	212.25

Sonali Bank

In Bangladesh : 1181 Branches

Target fixed for Computerization of Branches for the year 2007 :

Self financing	- 200
IDA credit No. 3917	- 125
Self financing (Special approval)	- 15
Total	- 340

Establishment of online real time Banking system in 45 branches is under process.

Sonali Bank

In Bangladesh : 1181 Branches

Program for Other Jobs :

IFRMS (Inter-branch Financial Reconciliation Messaging System):

Sonali Bank has established a Wide Area Network connecting 300 branches located in important business area by a third party vendor. These branches send/receive their own internal remittance instruments instantly and beneficiary's account is credited on the same day.

Sonali Bank

In Bangladesh : 1181 Branches

Program for Other Jobs :

RMS (Remittance Management System):

Apart from IFRMS Sonali Bank has developed a new package (RMS) for quick disposal of foreign remittance. On getting remittance data from aboard RMS prepare disbursement instrument for distributing the same electronically in more than 100 outlets located in important remittance prude area.

Remittance data capture and processing will require 15 to 30 minutes to complete its operation. The concerned outlets will take a print copy of the related disbursement instruments and will distribute the same among the respective beneficiary's branches by hand. The remittance proceeds are credited to the beneficiary's account within 4 hr to 24 hr.

Sonali Bank, Bangladesh

Total No. of Branches : 1181

RMS (Remittance Management System):

• Sonali Bank has developed a new package RMS for quick disposal of foreign remittances.

Disposal Steps :

At Wage Earner's Corporate Branch, Dhaka :

• On getting remittance data from abroad RMS prepare disursement instrument.

• Distributing the same electronically in more than 100 outlets located in important remittance prude area.

• Remittance data capture and processing will require 15 to 30 minutes.

At Outlets :

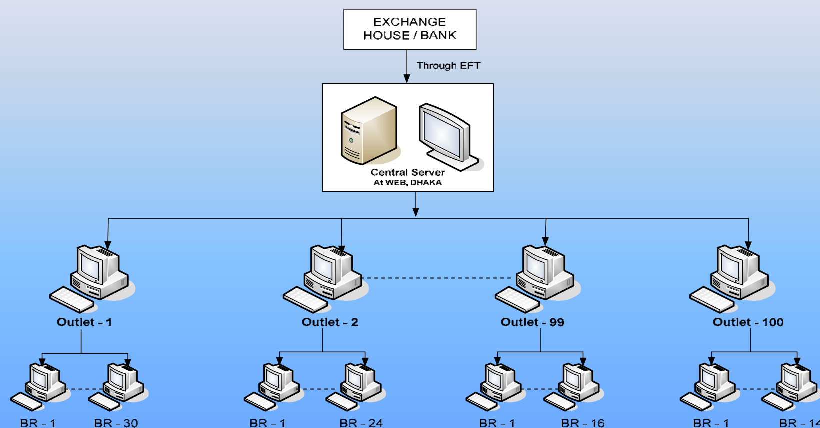
• The concerned outlets will take a print copy of the related disbursement instruments and will distribute the same among the respective beneficiary's branches.

• The remittance proceeds are credited to the beneficiary's account within 4 hr to 24 hr.

• Auto feedback of remittance status is available.

Sonali Bank, Bangladesh

Operation flow for disposal of Foreign Remittance Instruction



* Outlet No depends on the flow of Remittance

* Br. No depends on the number of branches under respective outlet

Sonali Bank, Bangladesh

Time required for disposal of Remittance Instruction

Sl. No.	Receipt of remittances by beneficiary's Branches	Beneficiary of Sonali Bank		Beneficiary of other Bank
		Volume of remittances	Credit date	Deposit date within other Bank's Branch
1	Within 4 hours	30% of total remittance	Same day	Additional 24 hours required.
2	Within 8 hours	Rest 50% of total remittances	Same day	Additional 24 hours required.
3	Within 24 hours	Rest 20% of total remittances.	Within the same day	Additional 24 hours required.

Section Four: Remittance Fees and Pricing

Two basic business models are used in the MTO industry: The "agency" model employed by Western Union, Moneygram and Vigo, who uses agents who nearly always operate other businesses in the same location in the receiving and sending countries. These agents pay for all rents, personnel and other fixed and operating expenses for the location in exchange for a commission. Commissions are generally a fixed percentage of the MTO fee for the transfer, excluding foreign exchange spreads. However, in some countries, including Mexico, commissions to paying agents are negotiated at a fixed price per transaction. In the "branch" model used by Dolex and many of the smaller regional MTOs and small to mid-sized niche players, the MTO owns the sending, and often also the receiving branch and pays for all fixed and operating costs associated with each branch.

Detailed cost data is not available, but some components of the cost structure for major MTOs using the agency model can be estimated: Agent commissions, the dominant variable cost in the agency network model, vary considerably by corridor and company. Total commissions for both sending and receiving agents appear to be in the range of 40% to 60% of the remittance fee (excluding foreign exchange commission) for most MTOs, and 25% to 45% of the premium priced remittance fees charged by Western Union. Marketing costs for First Data's Payment Services reporting segment, which is nearly all Western Union, were disclosed as 7%-8% of segment revenue, approximately $300 million. This number is included in selling, general and administrative costs, which totaled 16% of total revenue at the corporate level. Depreciation and amortization on capitalized costs, including the costs associated with building or purchasing software and systems to handle transactions and transfers, is approximately 3%-4% of total cost. Agency start-up costs have been estimated by Piper Jaffray at $1000-$1500 per new Agency. Licensing and regulatory compliance costs were not quantified in the study, but were considered a major problem by the small MTOs interviewed in the World Bank Andreassen study.

A model was developed to estimate Western Union's cost structure and capacity to lower remittance fees: Information disclosed in SEC filings and the agency cost component estimates were used develop a rough model of the cost structure for the international portion of Western Union's MTO activity that is most relevant to worker remittances. A simple model (assuming that a 35% commission on fees is the only variable cost and that all other costs are fixed) was used to illustrate the impact that transfer fee price reductions would have on Western Union's international operating margins. This model was also used to demonstrate how costs could be lowered by operating low cost regional hubs and increasing transaction volume

Estimated Cost Structure for Western Union International Transactions Related to Remittances

Millions	*Total*	*Average*
Estimated Elements of Cost Structure		
Number of Transactions	**76**	**1**
Revenue		
Fee Revenue	$1,746	$22.91
Foreign Exchange Fee Revenue	$485	6.37
Total Revenue	$2,231	$29.28
Identifiable Costs		
Variable Costs:		
Agency Commissions @ 35% of Fee Revenue	$(611)	$(8.02)
Fixed and Discretionary Costs:		
Marketing @ 8% Total Revenue	$(178)	$(2.34)
General and Administrative Costs @ 8% of Total Revenue	$(178)	$(2.34)
Depreciation and Amortization @ 3% of Total Revenue	$(67)	$(0.88)
Agency Start-up Costs (37K new agents @ $1500/agent)	$(56)	$(0.73)
Total Identifiable Costs	$(1,090)	$(14.31)
Unidentifiable Variable and Fixed Costs	$(468)	(6.14)
Operating Profit	$673	$8.83
Operating Margin (Operating Profit as % of Total Revenue)	**30%**	**30%**

Source: George R. Kalan (Orien Ventures) Dilek Aykut   (The World Bank) (July 2005) *Assessment of Remittance Fee Pricing*. The World Bank Washington DC.

Remittance and Real Exchange Rate: Literature supported that remittance number of beneficial effects for the welfare of receiving countries, higher remittances inflows tend to be associated with lower poverty indicators and higher growth rates. Beyond these typical income dimensions of welfare, remittances seem to reduce output volatility to some countries and some socio-economic groups. For a while remittance inflows may ease external financing constraints and therefore hold the potential for higher investment by developing countries. Workers' remittance can be viewed as capital inflow and therefore the theory of Dutch Disease phenomenon associated with a surge in inflows can also be applied in this context. Remittance additional demand for non-tradables in the domestic economy due to additional demand or so called spending effects. Remittance is considered to have impact on the resource movement effect and output growth in non-tradables production more profitable. Output growth in the non-tradables pushes factor demands. The price shift and resources relocation in favor of non-tradables erode the competitiveness of export oriented sectors and hurt import competing sectors. The final result of this real exchange rate appreciation is normally increased import flows and lower export sales. There are number of connected macroeconomic effects that can result from a real exchange rate appreciation associated with remittance flows which include; (a) adverse effects on the tradable sectors; (b) widening the current account deficit; and (c) weaker monetary control, inflationary pressures and sectorial allocation of investments. Thus remittance can potentially affect the real exchange rate through three main channels. First: remittance may affect the external equilibrium of the economy by raising the net foreign asset position of the country. Second: remittance can also affect internal equilibrium of the economy in a situation where domestic capital and labor are efficiently utilized. Third: for remittance to affect the real exchange rate is through their impact on growth.

Exchange Rate: A remittance transfer will usually involve a foreign exchange transaction, typically conversion from the currency of the remitting country to the currency of the receiving country. Sometimes it may involve more than two currencies in case the remitter is located in a under developed market from where he converts his local currency into US Dollar and thereafter it is converted again into Taka at the Bangladesh end as direct quotations between the local currency of the remitter and the Taka may not be available in many centers in Africa, Central Europe etc. To arrive at the total cost of the remittance, it is necessary to know the exchange rate applied to the conversion either at the remitters' end or while making payments to the beneficiary in home country.

Typically in some of the centers in the Middle East, where Exchange Companies are engaged in making such remittances, the local currency gets converted into home country currency for payment through the Vostro accounts of the concerned Exchange Companies. It will depend on the competitiveness of the market at that centre, whether the remitter is getting a market related competitive price. The remitting agency adds a margin over the interbank rate while quoting the price to the remitter. Such margins will vary depending on the uncertainty about the inter bank rates available to the remitting agency. Small Money Transfer Operators (MTOs) may not be able to access competitive rates for covering their remittance. However in case of remittance through larger banks information on margins, fees etc. are always made available to the customer. It is very difficult to compare the exchange rates between various remittance service providers and therefore arrive at a very definite cost for remittances.

At the home country end, both for inward and outward remittances, while special interbank linked rates are being quoted by the remitting bank for valued customers, however in a majority of small value remittances, the "Card Rate" of exchange is being used. The margin could range from 0.25% to 1% in such cases. However, if the remittance amount is small, the exchange cost in absolute terms would be marginal.

Comparative Foreign Exchange Spreads: Actual daily foreign exchange spreads (for Western Union transfers to 22 countries from the US and the UK and for Moneygram transfers from the US to the same countries) were calculated for four consecutive business days early in June 2005. Spread calculations for each corridor were based on the difference between the average wholesale commercial market exchange rates for that corridor published daily on Bloomberg and the actual exchange rates charged by Western Union and Moneygram. Four-day average spreads were used in the analysis to smooth out the daily fluctuations, such as the ones illustrated below:

Western Union Exchange Rate Spreads As % Of Market Rate for selected US Corridors (%)

Local currency	*June-1*	*June-2*	*June-3*	*June-4*	*June-5*
Indian Rupees	3.38	2.97	3.17	3.13	3.23
Mexican Peso	2.33	2.26	2.34	2.31	2.42
Philippine Peso	2.76	2.73	2.66	2.74	2.70
Pakistani Rupees	1.77	1.65	1.65	1.68	1.60
Morocco Dirham	4.78	4.73	4.65	4.22	4.04
CFA Franc-Senegal	2.17	3.21	2.58	3.04	3.24

George R. Kalan (Orien Ventures) Dilek Aykut (The World Bank) (July 2005) Assessment of Remittance Fee Pricing. The World Bank Washington DC.

Janata Bank: Exchange Rate given to Exchange Houses

Year/Date	*Buying Rate 1USD=BDT*	*Selling Rate 1USD=BDT*	*Gain/(Loss) %*
2006-Nov-30	69.67	70.47	1.15
2006-Dec-5	69.97	70.97	1.43
2006-Dec-13	69.47	70.97	2.16
2006-Dec-26	69.22	70.47	1.81
2007-Jan-8	69.02	70.47	2.10
2007-Jan-15	69.22	70.47	1.81
2007-Jan-18	69.40	70.65	1.81
2007-Jan-24	69.20	70.45	1.81
2007-Feb-2	69.00	70.20	1.74
2007-Feb-7	68.70	70.00	1.89
2007-Mar-21	68.50	69.60	1.61
2007-Apr-26	68.70	69.50	1.16
2007-Jul-7	68.50	69.50	1.46
2007-Aug-1	68.40	69.25	1.24
2007-Sept-29	68.60	69.40	1.17
2007-Oct-25	68.75	69.40	0.95
2007-Oct-28	68.65	69.40	1.09
2007-Dec-26	68.50	69.40	1.32
2008-Mar-25	68.60	69.40	1.17
2008-May-15	68.80	69.40	0.87

To summarize the Foreign exchange rate spreads on remittances for both Western Union and Moneygram appear to be too high, even in high volume corridors, and are not transparent to the sender. Increased consumer awareness of the high level of foreign exchange spreads, could encourage more exchange rate competition and help lower overall remittance costs.

Float: Findings of Ole E. Andreassen (June 2006) sponsored by World Bank on Remittance Service Providers in the United States: How remittance firms operate and how they perceive their business environment found that the level of float in a remittance system depends on the structure of how funds flow through the system. The average transfer time in our sample is 14.72 hours; the median is 3, and the funds move between several institutions in the course of a transfer. This means that there is little opportunity for a net float income. This is consistent with firms settling cross-border on average once per weekday. The more funds move from institutions to institutions, the less opportunity there is for creating float. In a best-case scenario, where a firm has the control of funds for the entire process and funds are available to the recipient in 12 hours, a firm with the average volume per month from our sample, $36.3mn, which could earn 10% on float, will have a float income of only around $3,500 per month. Of the firms interviewed, 16.33% report some float income, 83.67% report that they have no float income, and 73.47% report float loss. Of the firms that report float income, one is very small and settles with its overseas partner every month, one has an agreement with its partners allowing it a day of float, and the majority are subsidized by their owners in that the owner is in charge of disbursement and collects money less frequently than technically feasible, thereby carrying the cost of working capital on the disbursement side. The net effect for the latter type of operation depends on the cost of capital in the receiving country versus the return on capital in the sending country.

In most cases, pre-funding takes place by transferring money to a bank account in the receiving country, ready for disbursement. This means that any float is most likely to accrue to the financial institution providing the account, bar a possible interest rate on the bank account. The only real option for investing float in such a case, is where the bank owns, or is the same entity as, the remittance operation.

Currency conversion: Andreassen (June 2006) study indicated a sample, 8.82% of the firms disburse in USD only, 48.53% disburse in local currency only, and 42.65% disburse in both currencies, normally at the discretion of the recipient. This means core component of most remittance services includes a currency conversion. Remittance firms solve this in different ways. Only 19.70% of firms do these themselves; in 62.12% of the cases, the overseas partner (or parent/subsidiary/sister company) does the currency conversion. In 7.58% of the cases, the currency conversion is outsourced to a third party. The average spread that a remittance firm charges over the rate it obtains is 1.63%, the median is 1%. The firms that exchange currency themselves gain a 3.31% spread on average, the firms that have the partner exchange currency gain a 1.24% spread, and the ones that outsource gain 1.01%. Note that this rate is the spread that accrues to the remittance firm; it is not the spread over the wholesale rate. Since the firms typically do not do the currency conversion themselves, it is likely that the entity that does the conversion charges a spread over the wholesale rate, which means that the exchange rate spread over a wholesale rate faced by the remitter, is higher than the numbers reported above. Where the remitter is quoted a rate, the remittance service provider runs the risk of covering that rate. Many firms take on such risk, and assume that the spread they quote will cushion them from currency fluctuations, but there are many variations. One firm, for example, notifies agents of the rate its disbursing partner is able to obtain several times per day, but if it turns out the agent promises a rate that the disbursing partner is not able to cover, the agent carries the risk.

Firms that consider their comparative advantage in commercial relationships and strong finances tend to also have a higher spread, perhaps related to their bargaining power in the relationship. They tend to settle internationally more frequently, which also allows them to match their buy and sell rates better, and they use banks and credits to payment cards more frequently than the average company for disbursement. Higher spreads are significantly correlated with the perception that exchange controls are an obstacle to doing business, which might indicate that exchange controls give opportunities for charging higher spreads.

The exchange revenue is shared in 29.09% of the cases. There is no significant correlation between the size of the spread and whether it is shared or not. Firms that perceive an increasingly competitive environment are more likely to share their foreign exchange revenues than the sample average. Sharing the exchange gain with a partner can be a way of buying oneself out of trouble. Firms that share foreign exchange gain have fewer problems with corruption and reporting requirements abroad. The firms that share the foreign exchange need on average 20.13 hours to make the funds available to the recipient, the firms that do not share exchange gain need 9.59 hours on average. A possible explanation of this is that the gain is realized immediately during the transaction (which takes time) rather than being settled after the transaction has taken place.

Transfer time: Andreassen (June 2006) study findings reported that companies spend on average 14.72 (median: 3) hours getting a remittance to the recipient. Transfer times vary within the different products that a company offers. The minimum transfer time reported by companies is 7.34 hours on average (0.58 hours median), while the longest is 32.06 hours on average (5 hours median). The average difference between the longest and shortest transfer time reported is 25.17 hours (1 hour median). When we look for factors in the firms' business environment that might be correlated with longer transfer time, we find that firms with longer transfer times perceive competition both in the U.S. and abroad as a higher obstacle than other firms. We also find that longer transfer time tends to be associated with higher average transaction sizes. There can be several explanations for this. Remitters may send transactions less frequently if it takes longer, or firms that principally send higher amounts may not face the pressure to transfer fast. There is no apparent relationship between transfer time and fee or exchange rate spread, even if we control for destination region.

Remittance fee pricing: This exercise is both complex and non-uniform and remittance fee pricing varies significantly by competitor, corridor and channel. Major fee pricing differences can also be observed between different sending countries-even for the same competitors sending remittances to the same receiving countries. Fees also vary with the size of the remittance. Fees can also vary significantly for a single competitor by type of service offered, sending city, and individual sending agent.

Fees by Competitor, Corridor and Channel for Sending $200 from US (NYC)

Corridor	*US-China*	*US-India*	*US-Mexico*	*US-Philippine*	*US-Pakistan*
Global-MTOs					
Western Union					
Phone quote immediate	14.00	14.00	10.00	22.0	14.00
Moneygram					
Phone quote immediate	10.00	9.99	9.99	9.99	9.99
Regional & Smaller MTOs					
Figo					
Phone quote-immediate		12.00	10.00	15.00	10.00
Phone/Agency Alternate Distribution					
Max				15.00	
Min				10.00	
Dolex					
Agency quote-immediate			4.00		
Phone/Agency Alternate Distribution					
Max			7.00		
Min			3.00		
Comments: No service within US or outside US-Latin America					
Small MTOs-WB Study-1					
Max		10.00	9.50	15.00	5.00
Min		4.5	7.5	7.00	5.00
Comment: Data does not distinguish between instant delivery and next day delivery					
Banks					
Citi Bank					
Global Transfer	10.00	10.00	5.00	10.00	
Comments: Need Citi Bank A/C					

Corridor	***US-China***	***US-India***	***US-Mexico***	***US-Philippine***	***US-Pakistan***
Bank of America					
Safe send transfer card			8.00		
Comments: Mexico only. USD8 Per transfer up to USD 1500. UASD-0 in Chicago need VISA/ Master Card/ Chk card					
George R. Kalan (Orien Ventures) Dilek Aykut (The World Bank) (July 2005) Assessment of Remittance Fee Pricing. The World Bank Washington DC.					

Variation of Remittance Fees: Remittance fee pricing varies significantly by competitor, corridor and channel. Major fee pricing differences can also be observed between different sending countries- even for the same competitors sending remittances to the same receiving countries. Fees also vary with the size of the remittance. Fees can also vary significantly for a single competitor by type of service offered, sending city, and individual sending agents. Comparative Remittance fees varies largely across different corridors, channels and competitors described in suggest that remittance fees are higher than necessary in the EU, the higher priced corridors within the US and, with a few exceptions, for the services offered by Western Union. Small remittance transfers are particularly costly due to the fee pricing policies of most MTOs

Major Global MTO Fees For Sending $200 To Mexico

Sending City	***NYC***	***DC***	***LA***	***Chicago***
		Western Union		
Fees				
Online	9.50	11.99	11.99	11.99
Phone Credit Card	14.99			14.99
Phone Quote-Immediate	10.00	14.99	14.99	14.99
Next day	9.99	9.99	9.99	9.99
Agency Quote-Immediate	10.00	14.99	14.99	
Next day	9.99	9.99	9.99	
		Moneygram		
Fees				
Online	20.00			20.00
Phone Credit Card-N/A				
Phone Quote-Immediate	9.99			8.99
Next day				
Agency Quote-Immediate	9.99			
Next day				
George R. Kalan (Orien Ventures) Dilek Aykut (The World Bank) (July 2005) Assessment of Remittance Fee Pricing. The World Bank Washington DC.				

Sending $200 To Mexico From Selected US Cities

Sending City	*NYC*	*DC*	*LA*	*Hartford*
		Vigo		
Fees				
Online				
Phone Credit Card				
Phone Quote-Immediate	10.00			
Next day				
Agency Quote-Immediate	10.00			
Next day				
		Dolex		
Fees				
Online				
Phone Credit Card-N/A				
Phone Quote-Immediate				
Next day				
Agency Quote-Immediate	3.00		4.00-7.00	
Next day				
		Others		
LaNaciones-Agency quote immediate				6.00
	Small MTOs –WB Study			
Maximum	9.50		11.00	
Minimum	7.50		3.00	
George R. Kalan (Orien Ventures) Dilek Aykut (The World Bank) (July 2005) Assessment of Remittance Fee Pricing. The World Bank Washington DC.				

Factors Contributing to Remittance Prices: The potential impact of three sets of factors on remittance prices were analyzed quantitatively wherever possible, and qualitatively using anecdotal Examples**,** Corridor-Specific Factors, Sending Country-Specific Factors and Receiving Country-Specific.

Corridor-Specific Pricing Factors: Corridor volume appears to be the single most important factor contributing to remittance prices. The next most influential price determinant is the extend to which global MTOs' partner with national postal systems to expand their agency networks in either the sending or receiving end of the corridor and other factors that appear to have an impact on corridor pricing include: active participation of banks, credit unions or other non-bank financial institutions in the remittance market; cultural and geographic commonality with group of countries that includes one highly competitive, high volume corridor with lower prices; the strength of informal transfer network in the corridor and government policy initiatives within a corridor Factors.

Sending Country-Specific Pricing Factors: A restrictive regulatory climate may be discouraging competition from smaller MTOs and enabling large players to maintain higher fee prices in the EU and, to less of an extent, the US corridors. Other sending country factors that appear to have an impact in pricing include: migrant access to low cost alternative remittance options through banks and non-bank financial institutions and the level of competition from the informal transfer network within the sending country

Receiving Country-Specific Pricing Factors: There are several specific cases in which the access to modern, efficient, low cost transfer, payment and clearing systems in the receiving country may have been a factor in remittance prices, Like Analik, Bancomer, Credit union access to payment/clearing systems. In receiving countries with high levels of mobile phone, Internet, ATM and POS usage, product and service innovations utilizing these technologies are beginning to offer low cost remittance alternatives that could have a significant impact on remittance pricing in the future are Smart communication and Xoom.

To summarize corridor volume, which attracts global and regional MTOs as well as small niche players that compete on price, appears to be the most significant factor driving remittance fee prices. Exclusive agency partnerships between large Global MTOs and postal systems also appear to have a major influence on remittance prices by serving as a significant entry barrier to small competitors and allowing high prices to be maintained even in the face of serious competitive challenges from other large, lower priced rivals. Restrictive regulations in the US and sending countries in the EU may also have an impact on pricing by discouraging new competition and making it easier for the large global MTOs to maintain higher prices. Other factors that appear to influence remittance pricing within a corridor include: the active participation of banks, credit unions and other non-bank financial institutions in the remittance market, migrant access to low cost alternatives offered by these organizations, technology and product/service innovations, and the strength of the informal transfer network. Government policy initiatives may have helped reduce remittance prices in selected corridors such as the US to Mexico, but the significance of their impact is difficult to ascertain.

Remittance Fee Pricing Trends and Driving Factors: Remittance fee prices have declined dramatically in corridors such as the US to Mexico and Hong Kong to the Philippines in recent years. The study findings were used to identify the competitive, technological and policy factors that appear to be most influential in driving these price reduction trends and to make some observations on the future direction of remittance fee.

Competitive Factors: The proliferation of new, small and mid-sized niche MTOs that compete by offering the lowest prices. Intensified competition in high volume corridors between global and regional MTO's seeking additional volume and increased market share. Increased competition in emerging corridors, such as the Gulf to South Asia, as global, and some large regional MTOs implement aggressive expansion programs in these areas. The active participation of banks such as Bank of America, and ICICI offering low or negligible transfer fees to attract migrant accounts. The activities of banks such as Bancomer and Analik, that focus on low priced remittance services as a major source of revenue. The participation of credit unions and other non-bank financial institutions offering low fees for their members

Technology and Product Factors: Investment in low cost transfer, processing and settlement systems employing modern technology. The introduction of innovative, low cost alternative remittance products and services using the internet, mobile phones, ATMs, credit/debit cards or POS devices, such as those offered by Xoom, Ikobo, Smart Communications and others.

Government Policy Factors: Migrant education programs that include information on remittance options and their costs, such as those provided by the Philippines Government. Unilateral policy initiatives in receiving countries, such as Mexico's "Matricula Consular" identity card program that provides migrants with access to lower cost remittance services offered by banks and other financial organizations. Bilateral policy initiatives such as the joint US-Mexican program that linked the automated clearinghouse (ACH) systems used by their central banks to reduce the cost of remittance transaction

Future Fee Pricing: After a rapid rate of decline from 1999-2003, remittance fees in the US-Mexico corridor appear to be stabilizing, and major decreases are not expected in the near future. The remittance industry appears to be consolidating. Global MTOs are acquiring large regional players (Western Union's pending acquisition of Vigo). Regional players are being acquired as growth platforms by large financial service organizations (Global Payments acquisition of Dolex). Mid-sized MTOs are merging with or acquiring other midsized firms and small niche players in high volume corridors such as the US to Mexico. Industry consolidation could significantly reduce the number of small to mid-sized competitors and lead to less price

To Summarize Competition within the higher volume corridors, particularly among the small to mid-sized niche players that compete by offering the lowest prices, is most responsible for the trend toward lower remittance fees. Technology and product /service innovations are expected to have a major influence on prices in the future, but so far have only had a significant impact in a few areas. Policy initiatives appear to have been helpful in some corridors, but the significance of their impact is difficult to access. After any major drop, prices in most high volume corridors are likely to stabilize, particularly if the trend toward industry

Remittance fees are high, regressive, and nontransparent

Remittance fee pricing is complex, and rarely are senders informed about the full and precise price of a remittance transaction. Fees may be as high as 20 percent of the principal, depending on the remittance amount, channel, corridor, and transaction type. The average price is reported to have been around 12 percent of the principal in 2004 (Taylor 2004; Kalan and Aykut 2005). Prices are believed to have declined recently but are still very high in low-volume corridors. Currency- conversion charges are even less transparent than remittance fees; they, too, vary depending on the competitor, corridor, and channel, ranging from no charge in dollarized economies to 6 percent or more in some countries (Orozco 2004; Hernández-Cos 2004; Kalan and Aykut 2005).

Major MTOs such as Western Union and MoneyGram apparently charge higher remittance fees than banks and other financial institutions that offer remittance services to attract migrant customers. Informal channels such as hawala are reported to be cheaper than formal services. Some heavily traveled remittance corridors, such as United States–Mexico and South Africa– Mozambique, are much cheaper than others. Urgent transactions delivered in minutes cost much more than next-day transfers, and electronic transfers cost more than bank checks or drafts, because they also clear much faster than the latter.

The fee amount also depends on the remittance amount. Average remittance fees, as a percentage of money sent, decline rapidly as the transaction size increases, indicating scale economies and the potential advantage of bundling remittances—that is, the advantage of sending more funds, but less frequently. According to one firm's fee schedule, the cost of sending money from Belgium to Africa drops from 21 percent to below 4 percent as the transaction amount increases from 40 euros to 900 euros. Similarly, the cost of remittances from the United States to Mexico (through the major MTOs) is more than 10 percent for $100, but less than 3 percent for $500.

In recent years, remittance fees have declined in high-volume corridors in response to several factors. First, global and regional MTOs have intensified their competition in mature corridors (United States–Latin America, for example), as new competitors have been attracted by high and growing remittance volumes. In the United States– Mexico corridor, for example, remittance fees have dropped nearly 60 percent since 1999. Second, Bank of America and other banks in source countries are using minimal transfer fees to attract migrant accounts, while a growing number of banks in recipient countries (including ICICI and Bancomer) are competing for remittance customers. Third, the use of Internet-based technology for messaging and advanced clearing and settlement has reduced the cost of remittance transactions. In some countries, new remittance tools have emerged based on cell phones and smart cards. Finally, government policies to improve transparency in remittance transactions (as in the United Kingdom), provide financial training to migrants (as in the Philippines), and establish bilateral initiatives (such as the Partnership for Progress between the United States and Mexico) have helped reduce remittance costs. These positive developments remain the exception. In most corridors, particularly the low-volume corridors, remittance fees continue to be very high. In the New Zealand–Tonga corridor, for example, fees are about three times as high as those in the United States–Mexico corridor. The wide gap between remittance fees and costs shows that both should be reduced.

Fees for transferring EURO 300 from Germany to Serbia-2005

German Financial Institutions	***Money Transfer Product***	***Fees paid by Remitter-EURO***	***Max time to complete transaction***
Commerzbank	Electronic transfer-swift	12.5	5-10 Days
Deutche Bank	Electronic transfer-swift	15.0	Max 7 days
Deutche Postbank	Postal money order	20.0	2-4 days
HypoVereinsBank	Electronic transfer-swift	25.0	Max 5days
Western Union-Postbank	Service in minutes	26.0	15 minutes
Western Union-Reisebank	Service in minutes	26.5	15 minutes
Dresdner Bank	Electronic transfer-swift	54.0	Max 7 days

Jose De Luna Martinez, Esaku Endo, and Corrado Barberis (2006): The German Serbia Remittance Corridor-Challenges of Establishing a Formal Money Transfer System. The World Bank.

Remittance Fees paid by Recipients in case of immediate withdrawal of funds in Serbia

Selected banks in Serbia	Remittance-EUR: 100	Remittance-EUR: 500	Remittance-EUR: 1000	Remittance-EUR: 10000	Remittance-EUR: 100000
Hypo-Alpe- Adria	10	10	10	100	1000
Nacionalna Banka	3.5	5	10	40	300
Raiffeisenbank	3.5	3.5	3.5	30	300
Siciete Generale	0	5	5	125	1250
HVB Bank	0.5	2.5	5	50	500
Procredit Bank	0.5	2.5	5	50	As agreed

Jose De Luna Martinez, Esaku Endo, and Corrado Barberis (2006): The German Serbia Remittance Corridor-Challenges of Establishing a Formal Money Transfer System. The World Bank

The main challenge for authorities is to ensure the integrity of the system by reducing the opportunities for misuse, while also aiming at minimizing the disruption and cost of the service for bonafide participants. In March 2006, a task force including the World Bank and the Committee on Payments and Settlement Systems (CPSS) released a set of General Principles for international remittance services. These include, first: ***Transparency and consumer protection***-the market for remittance services should be transparent and have adequate consumer protection. Second: ***Payment System Infrastructure***-improvements to the payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged. Third: ***Legal and regulatory environment***-remittance service should be supported by a sound, predictable, nondiscriminatory, and proportionate legal and regulatory framework in relevant jurisdictions. Fourth: ***Market structure and competition***-competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry. Fifth: ***Governance and risk management***-remittance service should be supported by appropriate governance and risk management practices.

Types of Remittance Service and Accessibility Considerations

Types of Services	*Provider*	*Price*	*Accessibility Constraints*
Physical delivery	Informal providers and courier services	Difficult to monitor and quantify due to informal nature of the service	Lowest: No identification or reporting requirements and arguably few constrains to amounts
Cash-to-cash	Money Transfer Organizations (MTO)	Usually highest among formal Remittance Service Providers (RSP)	Low: Identification usually required only for transactions above certain limit
Account-to-cash	Financial institutions with disbursing agent	Usually cheaper than many MTOs	High: Requires that sender has a bank account.
Account –to account	Financial institutions only	Cheapest-can be zero due to cross-selling of other financial services	Highest: Requires that both sender and recipient have bank accounts.

Remittance and Development-Lessons from Latin America (2008)-edited by Pablo-Fajnzylber and J. Humberto Lopez (pp 311), The World Bank.

Section Five: Cost of Remittance

The cost of a remittance transaction appears to be far lower than the price: Service providers' remittance costs appear to be much less than the fees charged to customers. Domestic transfer fees are only a fraction of the cross-border remittance fees (net of the currency-conversion charge). The cost of a domestic automated clearinghouse (ACH) payment in the United States is one-third of a cent. Domestic transfers using Visanet cost 2 cents per transaction, as opposed to 51 cents per transaction for international transfers (Brocklehurst, 2004). In some corridors, fees for international remittances are as low as $1.80 per transaction (London-Manila), which hints at a falling lower bound for the cost of remittances. The fact that some banks have been offering free remittance services as loss-leaders to attract new business suggests that the actual cost of remittances is modest. Courier services that offer remittances also charge small fees for this additional service. Finally, industry cost estimates as well as other calculations presented below suggest that remittance costs are not very high.
The cost of providing remittance services varies with the business model used by the service provider. Western Union, MoneyGram, and Vigo use agents who pay all operating costs in exchange for their franchise and a commission on sales. In the "branch" model used by Dolex and many of the smaller regional MTOs, the fixed and operating costs associated with each branch are paid by the MTO. By leveraging existing businesses on a commission basis, the agency model is much less capital-intensive than the branch model and can be expanded rapidly through partner- ships, but it has higher variable costs.4 In both models, relatively high fixed costs are associated with transaction-processing operations, compliance with regulatory requirements, marketing, and administration.5

Data on MTOs' costs of providing remittance services are hard to obtain. However, an analysis of profitability of the market leaders using publicly available financial statements suggests that remittance costs are significantly lower than the fees charged to customers. Western Union has sustained operating margins that are at least 50 percent higher than other MTOs and industry peers in the payments and electronic processing market (table 6.2).7 Its operating profit per remittance transaction may have averaged $8 to $9 in 2004. This is consistent with an earlier annual report (Western Union 2000) that put the company's operating profit at $684 million (or 30 percent of its $2.3 billion revenue). The operating profitability of the other major market players (MoneyGram and Dolex) has been in the range of 15–20 percent (table 6.2). A very simple model for Western Union (which assumes that agency commission costs are 35 percent of revenues after deduction of fixed costs and that all other costs are fixed costs) suggests that average transaction fees could be reduced by as much as one-third while maintaining operating margins within the same range as those of other major MTOs and peers. Reducing these operating profits to zero would provide a rough estimate of the break- even cost for these firms. Such an exercise reveals that the break-even fee for Western Union is probably around $9 per transaction and would fall below $5 if the volume of transactions were to double (box 6.2). Although it would be unreasonable to suggest that any company reduce its prices to cost, this simple model does appear to indicate that there is considerable latitude for reductions in transaction fees within the higher-priced corridors. A more direct way of estimating the cost of a remittance transaction in a hypothetical MTO is to add up plausible cost components, such as staff to process the transaction and provide security, rental of the premises, fixed costs (including franchise licensing), the cost of network and technology, and administrative costs for regulatory compliance. This methodology yields a cost estimate of $5.50 for the first remittance transaction (table 6.3). Because most remittance transactions tend to be repetitive—the same amount is remitted from the same location to the same beneficiary—the cost for subsequent transactions drops to $3.60 (less staff time is required). It drops to under $3 per transaction if electronic processing is used.

Admittedly, the calculations in table 6.3 are based on a theoretical model of a basic remittance transaction that does not capture the global network and diversified services provided by major MTOs. Moreover, the model's assumptions are subject to considerable uncertainties, the greatest of which is that average costs would be higher if the number of transactions were smaller. It is worth noting, however, that many independent agents provide remittances as a side business: for them, fixed and variable costs could be significantly lower than for dedicated remittance service providers. Indeed, there may be a case for providing free remittance services in order to draw customers for other products and services, as practiced by certain banks. Remittance costs should continue to fall under the influence of increased competition and better technology. Large MTOs may have considerable latitude to reduce fees while maintaining reasonable profit margins. In corridors where costs have already fallen significantly, further decline may be modest; but elsewhere there is scope for significant decline, especially with the volume of transactions rising rapidly.

A scorecard on remittance transfers: Competition between MTOs has been a major contributor to the decline in transaction costs and the emergence of many financial institutions as remittance payers. For the most part, money transfer companies have been proven to work in a competitive environment with financial institutions. In this section we examine those companies that have had the best performance within the realm of money transfers. Industry officials and observers of this market argue that it is important to look at factors other than transaction costs as indicators of a company's importance to consumers, advocates and development players. For example, some argue that including information about geographic distribution as well as legal compliance, it is also critical in understanding performance. Our industry scorecard was based upon a quantitative framework that served as the basis of measurement for evaluating the ways in which money transfer companies respond to a range of important factors associated with remittance transfers.

The framework synthesis provided here includes nine criteria for an analysis of market performance in relation to development and consumer rights. The criteria includes transfer fees and exchange rate commissions, mechanisms used to send money, competitive position in the corridor, geographic coverage across corridors, levels of engagement with the local consumer community, relationships with financial intermediaries, transparency in disclosing information about pricing, and compliance to regulatory rules. We collected data from more than 50 money transfer companies on issues relating to costs, locations in the U.S., types of payers in Latin America and the Caribbean, consumer satisfaction with companies, and the relationship between the geographic locations of payers and of the households that receive remittances. The methodology employed was based on field work data collection on pricing, interviews with money transfer companies about their locations and payers, and surveys on consumer satisfaction. Companies were scored according to whether their activity was above or below the average. Furthermore, data was not collected for all of the indicators listed in Table 7 (see below). Specifically, data was not collected for three criteria relating to disclosure practices, compliance to the regulatory environment and corporate philanthropy, because the appropriate methodology is still being discussed with money transfer companies.

Scoring criteria and their measurable indicators

Criteria	*Indicator*
1. Transfer fee	Cost of sending money as reported by an MTO
2. Exchange rate used	Exchange rate reported by an MTO agent for the conversion of the dollar into local currency
3. Transfer mechanism	Type of sending method home delivery, money order, electronic transfer: debit card, bank to bank, internet, courier agency transfer, other
4. Marketplace competition (supply side)	Number of companies in any market
5. MTOs location geographic coverage in the U.S.	Number of MTO agents in each state they operate and ratio of these to the average MTO agents in each state
6. Consumer convenience and satisfaction	Extra features that meet consumer need and preference over the product. (complimentary phone cards to complete the transaction, hours of Operation, choice of delivery methods or pay-out currency, etc.); Extent of satisfaction with MTO.
7. Type of payer in Latin America and the Caribbean	Payers that such as banks, credit union, microfinance institution, retail store, post office, or home delivery; concentration ratio of MTO payers in the recipient country's capital vis a vis percent of remittance reception in those capitals.
8. Development support	Support to the local community adds value to the product and loyalty to the company
9. Transparency	A company that advertises its exchange rates cultivates or promotes more trust from the customer.
10. Compliance to regulations	A company that meets all the requirements to operate as a remitter.

Manuel Orozco (May 12, 2006) *International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean—toward an industry scorecard Inter-*American Dialogue Washington, DC

Reducing remittance fees will increase remittance flows to developing countries

Reducing remittance fees would increase the disposable income of remitters, encouraging them to remit more. It also might encourage smaller and more frequent remittances. And lower prices in a particular channel might encourage remitters to shift from other channels—notably informal ones. The degree to which a fee reduction would result in an increase in flows depends on the purpose of the remittance. At one extreme, where the purpose is to meet a specific need— payment for tuition, a medical emergency, a social ceremony, or the purchase of a gift item—the amount of remittance may not be sensitive to the remittance fee. At the other extreme, remittances by a poor, cash-strapped remitter may be highly cost elastic. Similarly, remittances meant for investment are likely to be cost elastic. In reality, most remittance transactions fall between these two extremes. Even when remittances are driven by altruism, they will tend to be cost elastic, as evidenced by the literature on charity, which shows that people tend to donate more as the cost of donating declines.

In a recent survey of Senegalese migrants in Belgium, two-thirds of the migrants said they would send more if the cost of sending went down. In a survey of Tongan migrants in New Zealand, 30 percent of remitters said they would increase the amount of remittances by 0.74 percent (on average) if costs fell by 1 per- cent (Gibson, McKenzie, and Rohorua 2005). That survey found the overall cost-elasticity of remittances with respect to the fee (averaging the elasticity over those who would increase remittances and those who would not) to be –0.22. Based on this estimate, Gibson and others (2005) calculate that lowering the fixed cost of sending money through banks and MTOs from New Zealand and Tonga to competitive levels in the world market would result in a 28 percent increase in remittances from existing remitters. It might also induce some non-remitters to start remitting.

If the cost elasticity (–0.22) of the New Zealand–Tonga study were applicable to all developing countries, a reduction in remittance cost from 12 percent to (say) 6 percent could result in an 11 percent increase in annual remittance flows to developing countries. One caveat to this calculation is that the cost elasticity applies only to high- cost corridors, which also tend to have low volumes. In corridors where the remittance cost is already low, further decreases may not increase flows. For example, a fee reduction by a major MTO may not produce much effect if a major part of the flows is already moving through low-cost informal channels. This is confirmed by the World Bank survey of Senegalese migrants in Belgium; half of the respondents who paid remittance fees of 20 percent or more said they would send more if costs were halved; not even one-fourth of those who paid less than 10 percent said they would send more. Almost 75 per- cent of the Senegalese migrants who send money through the large MTOs said that they would send more if the costs were lowered, a result confirmed by findings from a World Bank survey of the Nigerian diaspora in Belgium.

An indirect implication for cost elasticity may be drawn from Yang's (2004) finding of an elasticity of 0.6 for remittance receipts denominated in Filipino pesos with respect to the peso–dollar exchange rate. Applying this elasticity to a remittance transaction of $150, if the remittance fee were halved from (say) 12 percent to 6 percent, remittance receipts would rise by 3.6 percent, or $5.4, while the remittance fee would decline from $18 to $9.31.10 If the same elasticity were to apply to the entire flow of remittances to developing countries, remittance receipts, in response to a halving of costs would increase significantly, by more than $5 billion using only recorded flows, and more than $8 billion using both recorded and unrecorded flows. Reductions in remittance fees would also be likely to increase other cross-border retail flows such as transfers from public and private institutions to individual beneficiaries (pensions, child-care payments), small-value payments in exchange for goods and services, acquisitions of assets, and debt servicing. In more developed countries, migrant remittances are only a small share of retail payments, which, in turn, are a fraction of wholesale payments. But in developing countries, especially in smaller and poorer countries, remittances are a significant source of funding in relation to the size of the economy and, therefore, of the retail payment system. A reform of the retail payment system to facilitate remittances would probably benefit other (not easily quantifiable) components of retail payments.

Based on the evidence presented above, notably the finding that the cost elasticity of remittances is negative, policies that aim to lower remittance costs by increasing access to banking services, promoting competition, and disseminating information have the potential to provoke sizeable increases in remittance flows to developing countries.

Policies to reduce remittance costs

Measures to reduce remittance costs should aim to improve the efficiency of remittance transactions by (a) enhancing market competition to reduce high profit margins; (b) helping remittance service providers' access to new payments technology; and (c) devising ways to encourage remitters to send larger amounts. As a way to enhance competition, governments can encourage postal systems and other state-owned distribution alternatives to open their networks to multiple MTO partnerships on a nonexclusive basis. In addition, they should avoid overregulation, excessive monitoring, or reporting requirements that could drive out smaller competitors that lack the economies of scale to absorb the cost of compliance. Developing a shared network would be a powerful way to increase competition. Cooperation on infrastructure and competition in service provision would allow network benefits to accrue to the consumer. The technology required to set up a payment- processing infrastructure with large capacity is no longer an expensive proposition. A functioning payment infrastructure could be extended to a new country at a minimal cost and in a matter of weeks. There have been some attempts to set up shared networks in the remittance-source countries. Also some governments in remittance-receiving countries have facilitated the establishment of payment net- works that are shared by savings banks, credit unions, and microfinance institutions operating in poor and remote areas (for example, BANSEFI in Mexico and Apex Link in Ghana). Another way to address the issue of high fees in the remittance industry would be to develop best-practice guidelines for remittance service providers. Several such guidelines have been is- sued by Credit Union National Association, Inter-American Development Bank, and World Savings Bank Institute, which urge service providers to disclose fees, exchange rates, and the time of delivery. At the end of 2004, the World Bank and the Bank for Committee on Payment and Settlement Systems (CPSS) set up a task force, with participation from the IMF, to develop voluntary principles for remittance service providers, regulators, and supervisors for im- proving transparency in the market.

Such guidelines would have to be voluntary. Central banks generally are not willing to impose such guidelines or to cap remittance fees and foreign-exchange commissions. A recent survey (de Luna Martinez 2005) revealed that in only 9 of 40 countries—Brazil, Bulgaria, Indonesia, Pakistan, Philippines, Russian Federation, Thailand, Tunisia, and República Bolivariana de Venezuela—did central banks even have the legal power to do so. All 40 central banks indicated that even if they had the power to limit fees, they would not do so, preferring to leave fee-setting to financial institutions in response to market competition.

Policies to reduce costs, regulate informal providers, and provide remittance- linked financial services

Reducing Costs	***Source Country***	***Recipient country***
Increase competition	X	X
Avoid exclusive arrangements	X	X
Harmonize regulation and capital *requirements (same policy for all players)*	X	
Introduce and harmonize electronic payment systems (card-based products)	X	
Improve data on corridors	X	X
Voluntary code of conduct	X	X
Bundling of transactions	X	X
Regulating informal providers		
Make formal sector operations more convenient and user friendly	*X*	*X*
Improve banking access	*X*	*X*
Leveraging remittances		
Improve banking access	X	X
Encourage microfinance institutions and credit unions to provide remittance services	X	X

World Bank Report (2006) Economic Implications of Remittances and Migration

Approximate cost of remitting $200: Percent of principal amount

	Major MTOs	**Banks**	**Other MTOs**	***Hawala***
Belgium to Nigeria*	12	6	9.8	—
Belgium to Senegal*	10	—	6.4	—
Hong Kong, China, to the Philippines	4.5	—	—	—
New Zealand to Tonga ($300)	12	3	8.8	—
Russia to Ukraine	4	3	2.5	1–2
South Africa to Mozambique	—	1	—	—
Saudi Arabia to Pakistan	3.6	0.4	—	—
United Arab Emirates to India	5.5	5.2	2.3	1–2
United Kingdom to India	11	6	—	—
United Kingdom to the Philippines	—	0.4–5.0	—	—
United States to Colombia	—	17	10	—
United States to Mexico	5	3	4.7	—
United States to Philippines	1.2–2.0	0.4–1.8	—	—

Source: Brocklehurst 2004; Orozco 2004; Gibson, McKenzie, Rohorua 2005; Hernandez-Coss 2004; Ratha and Riedberg 2005; Kalan and Aykut 2005; Andreassen and others 2005. *World Bank survey of African diasporas in Belgium. *Note:* Figures do not include currency-conversion charge. — Data not available

Estimating the cost of a remittance transaction

Cost in dollars

	First transaction	**Subsequent** transaction	**Electronic** processing	Explanation
Sending staff	2.50	0.83	0.50	10 minutes of staff time at $15 per hour
Receiving staff	0.17	0.17	0.17	10 minutes of staff time at $1 per hour
Fixed costs	0.27	0.27	0.27	$40 million system cost recovered over 10 years; 2,000 branches with 20 transactions per day
IT, telecommunications	0.60	0.60	0.60	1 minute international phone call
Rent	1.50	1.50	1.50	$30 rent per day; 20 transactions per day
Administrative costs	0.50	0.50	0.50	Compliance, general overhead
Total costs	5.54	3.60	2.94	

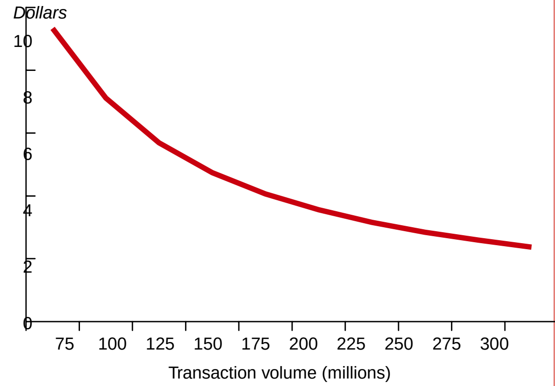
Source: Ratha and Riedberg 2005.

Box: Estimating remittance industry costs

Remittance industry costs are difficult to obtain. Isolating the cost of remittance services is difficult in the case of financial institutions that provide other services as well. Estimating costs is not easy even in the case of dedicated remittance service providers because of the differences in the quality and reliability of remittance services (only some providers give customers legal redress). In Remittance industry costs, therefore, we have used publicly available information on Western Union, the largest MTO that is also a publicly listed company.

We used a simple model to estimate a break-even fee for Western Union's international money transfer operations. The model suggests that for Western Union's operating margins on its international money transfers to drop to the peer group average of 17.8 percent (table 6.2), the average transaction fee would have to be lowered from $22.90 to $15.30 (column 2 of the table below)—very close to the company's current fee in several U.S. corridors. The model also indicates that the break-even fee at which the operating profit becomes zero is $9.30 (column 3). This price is in the same range as MoneyGram's standard flat price in the U.S. corridors. A sensitivity analysis using this model suggests that the break-even fee would be $6.50–$7.00 if agency commissions were 25 percent, and around $11 if commissions were 45 percent.

Western Union: Operating profit break-even price vs. volume



Source: Kalan and Aykut 2005.

The figure illustrates how the break-even fee shown in the table decreases as the number of transactions increases. If transaction volume doubled from the current 76 million to 150 million, the lowest fee at which the international operation would remain profitable would be $4.74

	2004 data	Calculation assuming peer group margin of 18%	Calculation assuming break-even margin
Operating margin (operating profit over revenue) (%)	30	18	0
Operating profit per transaction (revenue minus costs) ($)	8.8	3.9	0.0
Costs ($)	20.4	17.7	15.7
Agency commission, 35% of fee	8.0	5.3	3.3
Fixed costs	12.4	12.4	12.4
Revenue ($)	29.3	21.6	15.7
Foreign-exchange commission	6.4	6.4	6.4
Fee	22.9	15.3	9.3

Source: Western Union financial statement for 2004.
Note: Reflects 76 million transactions in 2004. Fixed costs include marketing, administration, depreciation, and amortization, agency start-up, and other unidentified costs. Figures may not add up due to rounding errors.

Section Six: Remittance Regulatory Environment in Bangladesh

Regulation and Monitoring of remittance service business between a Local commercial bank and foreign exchange house: Bangladesh commercial banks are the authorized institutions for receiving foreign remittances. For this purpose they have to establish drawing arrangement to the foreign exchange house. It may be mentioned here that the banks can make drawing arrangement to the foreign exchange house or they themselves can open overseas branches in the foreign country. In both cases they have to take permission from Bangladesh Bank. The pre-conditions for establishing drawing arrangements and procedures are stated below:

Pre-requisitions for a foreign exchange to enter in a drawing arrangement with a Bangladeshi Bank: A certificate of Her/His Majesties custom for UK, certificate of state Reserve System for USA and certificate or license from the Central bank in other cases. Enclose registration certificate with application along with certificate from Chamber of Commerce of the country where the exchange house situated, Memorandum of Association & Article of Association. The application should include three year's audited financial statement of the exchange house, Bankers or credit agency's credit report, Identification & profile of the Board of Directors of the exchange house, whether they are the national of the concern country, Positive comments or certificate from Bangladesh Embassy. In compliance of all the prerequisites in order to access the eligibility of the exchange house application for permission should be sent to Bangladesh Bank.

It is to be mentioned that the minimum limits in a drawing arrangement has been re-fixed vide Foreign Exchange Policy Department circular no – FEPD (LDA-1) 147/2007-1468. The present limits are as follows:

Country/Area	**Previous limits**	**Present limits**
1)U.S.A	$ 3.00 million	$3.00 million
2)U.K	2.00 million pound starling	2.00 million pound starling
3)ITALY	……………………	Euro -2.00million
4)CANADA	$ 2.50 million	$ 2.50 million
5) MIDDLE EAST (KSA,UAE Qatar, Oman, Bahrain, Kuwait.)	……………………..	$3.00 million
6) Middle EAST-(another country)	……………………..	$1.50 million
7) Another country/area	………………….	$1.50 million

Methods of drawing arrangement between a local bank and a foreign exchange house: The procedures include, the local bank have a Nostro account with a bank of the country where the exchange house is situated. The local bank enters into an agreement to receive and delivery of worker's remittance with the foreign exchange house. Then the local bank opens a non resident foreign currency (NRFC) account in the name of foreign exchange house in US dollar, EURO or pound starling and a non resident non convertible (NRNT) BDT account in the name of exchange house. The foreign exchange houses have to maintain US dollar 25000.00 in his non resident FC account and a bank guarantee of TK.500000.00 as security deposit for electronic fund transfer. For the draft arrangement, US dollar 50000.00 in cash and taka 1000000.00 as bank guarantee have to be done. The Local banks with all the per-requisite paper & completing the above steps apply to BB for an approval to work with that foreign exchange house to receive and delivery the workers remittances to their beneficiary.

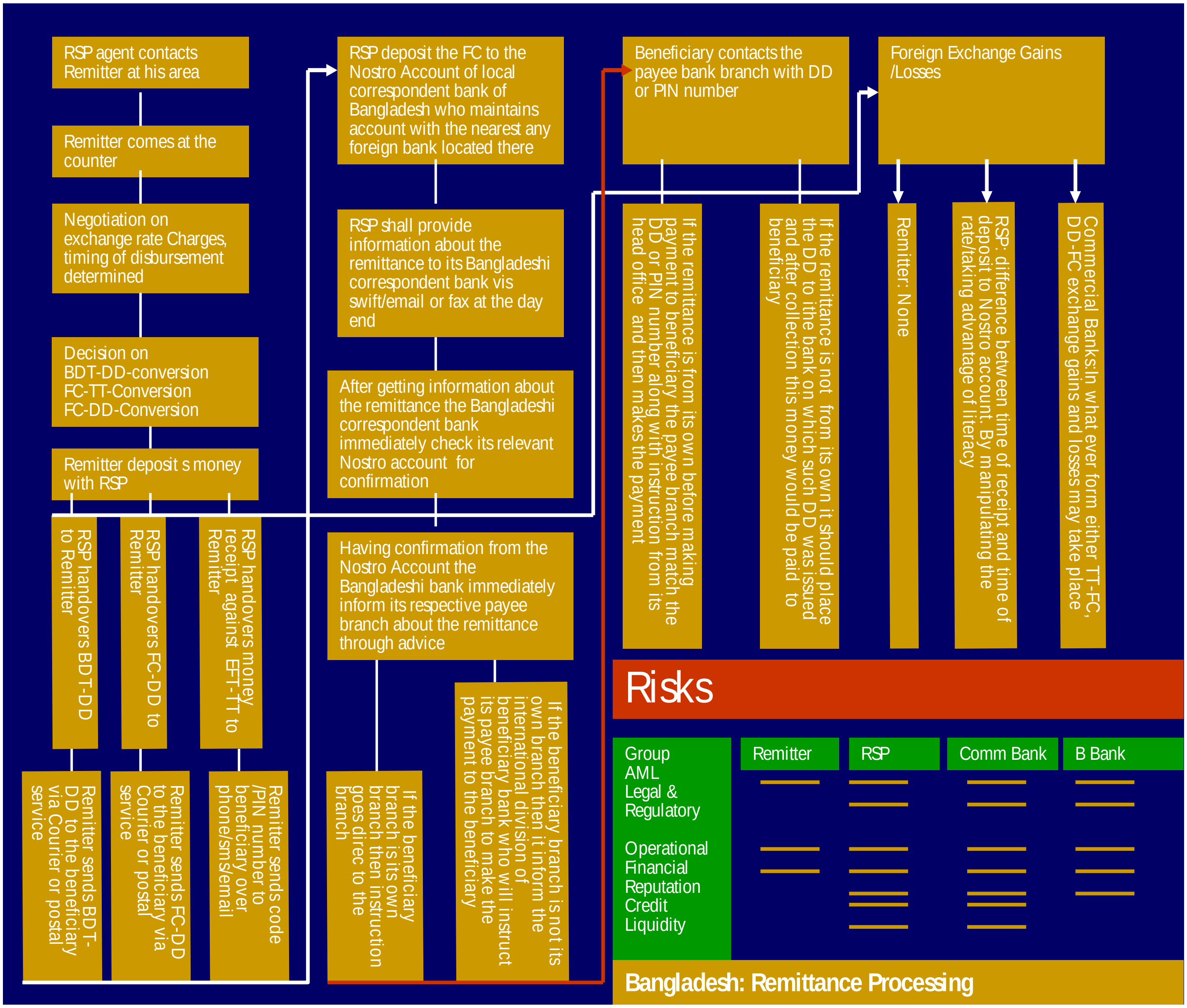
Terms & conditions to be followed by the Exchange house and local Bank entered in a drawing arrangement: The *Exchange House has to follow*: To send remittance the organization should follow the exchange rate quoted by the Bangladeshi Bank. The Remittance Service Provider (RSP) should ensure deposit of remittance money/cover fund within 24 hours of receiving the remittance to the Nostro account of the concerned Bangladeshi bank. The RSP is required to send regularly the number and the amount of remittance to the concern Bangladeshi bank. The RSP should not use the monogram ``Approved by Bangladesh Bank`` on their advertisement. The RSP should not run their activities through a Sub-Agent. To collect remittance from more than one country specified permission should be obtained. The RSP should follow the present rules and regulation to send remittance as well as transaction.

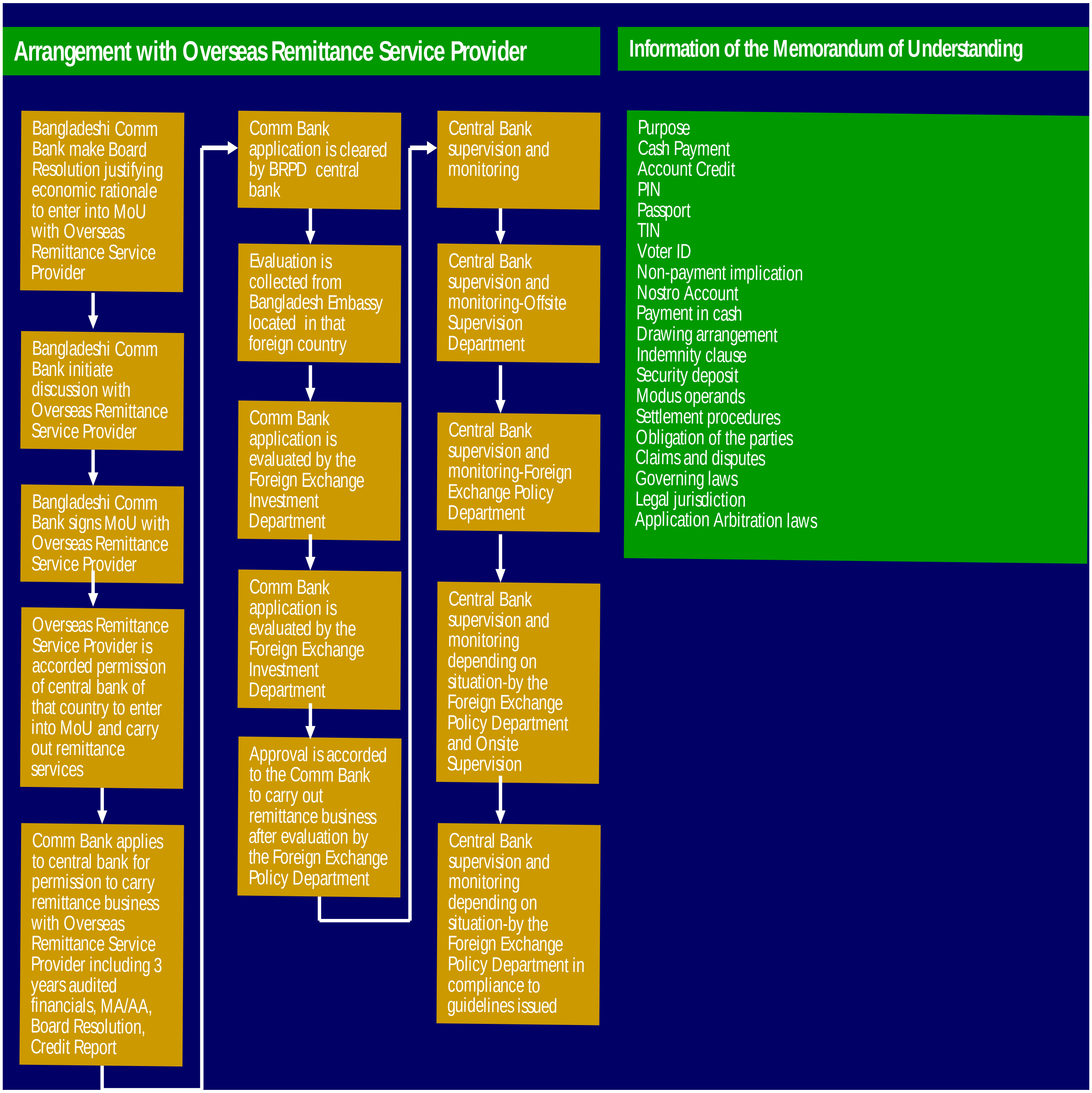
Banks to comply with: The Commercial Banks should follow the terms and conditions stipulated in the permission letter at the time of signing of agreement with the exchange house. In the banks book one or more NRFC and a NRTA account may be opened at exchange houses name; subject to permission from Bangladesh Bank. The security deposit stipulated in the BB's permission letter should be ensured before starting transaction within the drawing arrangement. The local bank shall pay the beneficiary from the NRT A/C of the exchange house after confirming that his Nostro A/C has been credited by the same amount of remittance. There shall be no overdrawn facility and any lead time allowed in favor of the exchange house A/C. As exchange house have to follow the quoted rate of the local bank, so the local bank should inform the exchange house, the foreign currency exchange rate regularly. The local bank shall monitor the deposit of remittance on its Nostro A/C on a daily basis. The local banks shall submit a certificate that there are no overdue in cover fund to FEPD's licensing and drawing arrangement (LDA) section on 10th of the next month. The local bank shall submit a statement regarding the number and the amount of remittance sent by the foreign exchange house on a monthly basis. The local bank shall submit such data along with FCS-7 to the LDA section. One copy of agreement should be submitted to the LDA section after signing the agreement and once the remittance and drawing arrangement is effective. The effective date, full address with Phone, Fax E-mail. The drawing arrangement shall not be renewed until and unless the Registration/license is renewed. The banks should follow the instruction of delivering the receipt remittance time limit (72 hours). Moreover regulation regarding AML (Anti-Money Laundering) should be followed strictly along with the present transaction rules and for better customer service, pre-caution should be taken. To prevent fraud and forgery of foreign demand draft approved by exchange house officers specimen signature (latest) should be kept at each branch of the bank. Reporting should be ensured correctly and timely. If any irregularity is observed it should be reported to the FEPD. Any violation of the permission letter and present laws relating to foreign exchange, immediate action should be taken to cancel the permission.

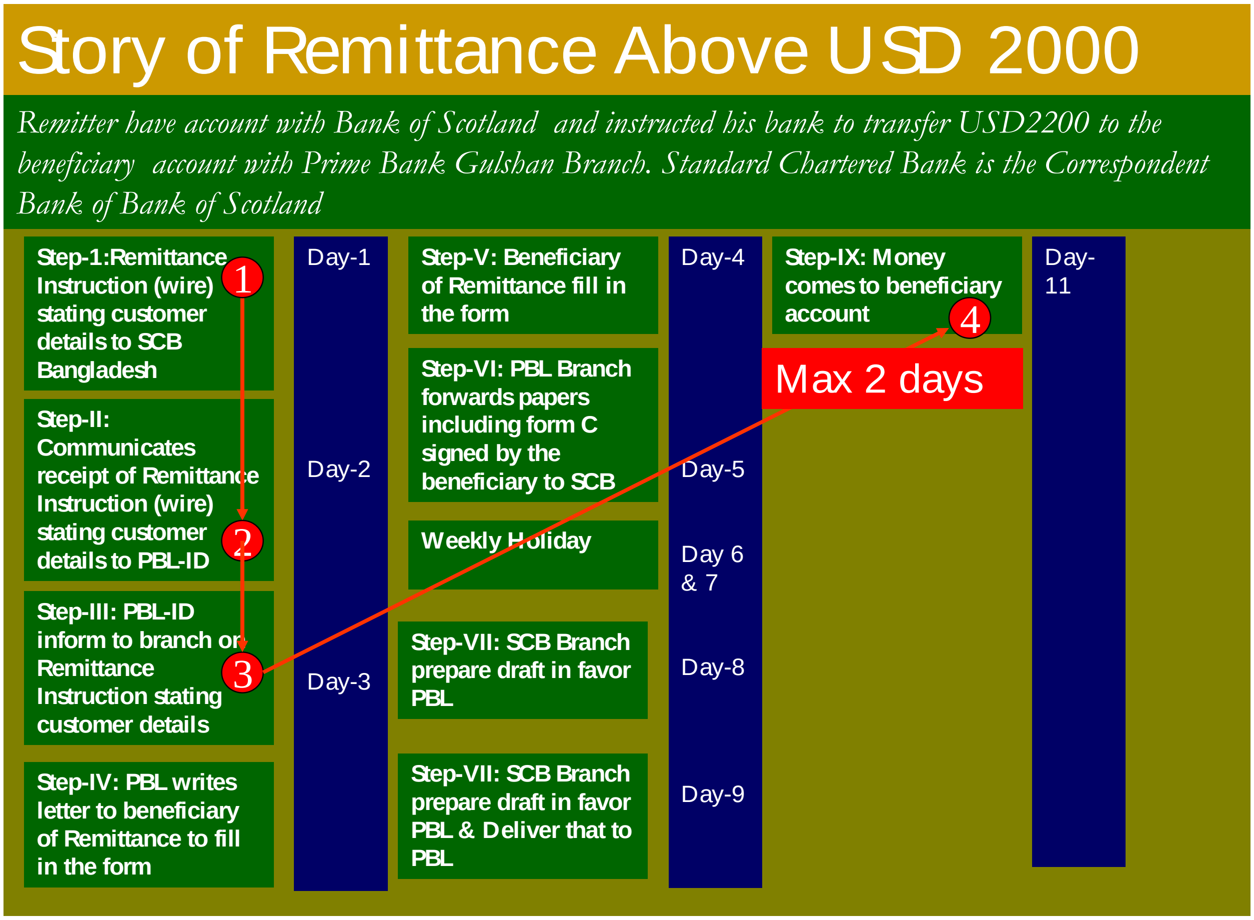
Process flow of inward remittance: The process of sending and delivering the foreign remittance can be divided in to two parts. One is the process of remittance comes in to Bangladeshi bank & other is the process of delivering such remittance.

From abroad to Bangladesh: Here the step by step process of flow for inward remittances is sent to Bangladesh. *Step one:* A remitter comes to the foreign exchange house to negotiate the exchange rate and pays the remittance amount and charges, the exchange house issues him a draft, in the case of draft arrangement or a personal identification number (PIN) incase of electronic fund transfer. *Step two:* The exchange house deposits the remittance amounts in the Nostro account of the local bank and informs/advices the local bank about the remittance. In the case of draft, particulars of the draft, name of the branch where payable and in case of electronic fund transfer the PIN number and amount through e-mail or other faster way. The remitter sent the draft to its beneficiary or inform the PIN number and the name of branch where the money is payable. *Step three*: Local bank after having the information/advice, immediately checks his respective Nostro account, if it is as per the information/advice of the exchange house, its credited to the NRFC account of the exchange house in the arranged currency then by debiting the NRFC account credit the NRNT account of the exchange house, from where the remittance is to be delivered to its beneficiary. The local bank immediately informs his branch or outlet about the remittance from where the exact delivery is made.

Step four: Having drafted via the mail or other way or having the PIN number through telephone or e-mail, the beneficiary goes to the nominated bank and presents the draft or PIN number to the local bank branch from where the money is payable.




Arrangement with Overseas Remittance Service Provider
Bangladeshi Comm Bank make Board Resolution justifying economic rationale to enter into MoU with Overseas Remittance Service Provider
Bangladeshi Comm Bank initiate discussion with Overseas Remittance Service Provider
Bangladeshi Comm Bank signs MoU with Overseas Remittance Service Provider
Overseas Remittance Service Provider is accorded permission of central bank of that country to enter into MoU and carry out remittance services
Comm Bank applies to central bank for permission to carry remittance business with Overseas Remittance Service Provider including 3 years audited financials, MA/AA, Board Resolution, Credit Report
Comm Bank application is cleared by BRPD central bank
Evaluation is collected from Bangladesh Embassy located in that foreign country
Comm Bank application is evaluated by the Foreign Exchange Investment Department
Comm Bank application is evaluated by the Foreign Exchange Investment Department
Approval is accorded to the Comm Bank to carry out remittance business after evaluation by the Foreign Exchange Policy Department
Central Bank supervision and monitoring
Central Bank supervision and monitoring-Offsite Supervision Department
Central Bank supervision and monitoring-Foreign Exchange Policy Department
Central Bank supervision and monitoring depending on situation-by the Foreign Exchange Policy Department and Onsite Supervision
Central Bank supervision and monitoring depending on situation-by the Foreign Exchange Policy Department in compliance to guidelines issued
Information of the Memorandum of Understanding
Purpose
Cash Payment
Account Credit
PIN
Passport
TIN
Voter ID
Non-payment implication
Nostro Account
Payment in cash
Drawing arrangement
Indemnity clause
Security deposit
Modus operands
Settlement procedures
Obligation of the parties
Claims and disputes
Governing laws
Legal jurisdiction
Application Arbitration laws



Bangladesh Bank wants banking and remittance transfer to be efficient and on the other hand wants to stop the use of banking channels for illegal transaction. For this reason, Bangladesh Bank issues foreign exchange guidelines in 1995 in addition to the Foreign Exchange Regulation act, of 1991 to monitor the foreign exchange activities of the country. Earlier the first and only law was the Foreign Exchange Regulation Act,1947.Later another law, 'Money Laundering prevention act,2002' came into effect to comply with the general norms and conditions of the international monitoring institutions.

Problems faced by the beneficiary of migrant through the channel: Cost of sending the remittance is based on per transaction so a small remitter for the small amount like a large remitter have to pay the same cost. Sometimes the distance of migrant work and dueling place with the exchange house/bank are so far that they can not come to remit money frequently. Major portion of the migrants have little educational backgrounds and so they face problems with language and the exchange house/banks formalities. As most of the migrant remitters go abroad from the rural area, the beneficiaries reside in the same area; very few of them have knowledge about the banking system. As a result, they face problems completing the banking formalities. Non-availability of bank account of the beneficiary and the remitter is another deterrent. Some times, the beneficiaries face harassment by the corrupted bank officer & it make delay to remit the money.

Government Policy measures to influence the flow of remittance: Remittance transactions are inherently private, and as such, regulation does not address in any way the allocation of remittance funds, which receivers clearly have the freedom to spend or invest as they choose. Within this scope, regulatory concerns are normally aimed at facilitating the provision of formal remittance service at the lowest cost possible to as many users as possible, while maintaining a high level of security in the system. By nature, remittance involves operations in various jurisdictions, under different regulatory framework. After reconciliation of the overall objectives of high security with low costs remains a major challenge. The first objective of regulation is enforcing security in remittance services from misuse for illegal transactions including financial terrorism. The second broad objective of regulation refers to facilitating the reduction of the prices of remittance. For immigrants sending money home, remittances services have traditionally been expensive, with fees of up to 20 percent of the principal sent depending on the size and type of transfer to the destination. Authorities have shied away from imposing direct price control on remittance services, favoring mechanisms aimed at increasing transparency, enhancing competition in the system, and, in some cases, reducing barriers for users to access a wider range of services providers.

Government of Bangladesh encourages to increased facilities to remit money through official Channels. Five National Banks have extended its five corresponding branches abroad to facilitate remittance of money for the Bangladeshi Expatriates. Fifteen-money exchange branches have been established so far. At present 1051 numbers of correspondent banks of five Commercial National Banks are working for transaction of remittances. The Government has passed a new law titled "Money laundering Prevention Activity 2002"in which, provision has been made to punish the act of money laundering. Maximum Punishment is 7 years imprisonment. Bank has taken effective measures to ensure disbursement of remittances to the family members of the migrants within 2/3 days. All remittances are tax free, if sent through banking channels. Bank charges have been reduced for sending remittances in the home country. Different announcement of the disadvantage of money laundering systems have been published in order to motivate overseas workers and strengthening the receiving system of remittances by introducing electronic transfer systems. Mission's officers are motivating the overseas workers/ employees for sending remittances through official channels. The Government has introduced a new Dollar Bond to discourage the money laundering system and for earning remittances through regular banking channel at a 5% interest rate. This bond will be made available in the commercial banks. Interest and deposited money will be paid in local currency.

Utilization of Remittances: Remittance in rural area generally boosts consumption. A significant portion is used for purchase of land and home construction. They also help to expand business in agricultural products and construction materials. It may be mentioned here that, while going abroad a migrant worker generally collects the fund for his migration either by selling or by mortgaging land. So to retrieve the sold or mortgaged land and also to purchase additional land, remittances play an important role. A very small portion of the remittance is used by the recipient for investment in business or other savings. While returning home, the migrant workers bring some luxurious products like color TV, CD player, cosmetics or other electronic items which reduce the actual remittances that could be sent by them. It will be mentioned here that if utilization of remittance can be categorized as productive and non productive, then it will be found that most of the remittances are used for non productive purposes and a very insignificant portion of it is used for productive purpose.

Siddique and Abrar (2003) have made a study on sector wise use of remittances. According to their study 20.45% of remittances has been used for food and clothing; 16.43% for investment in land (i.e. agricultural land purchase, homestead land purchase, release of mortgaged land etc.); 15.02% for home construction and repair; 10.55% for repayment of loan that they had to take for migration purposes; 9.7% for social ceremonies such as wedding, naming of the child, Eid etc. The study also found that 7.19% of the total remittance was used for financing migration of other family members. Besides these, 4.75% of remittance has been utilized for investment and 3.40% for savings.

Tools for Investment of remittance: The Government is offering different savings instruments for the non-resident Bangladeshi to attract remittance that will boost the local economy. The Government is offering the following savings instruments:

1. Non-resident Foreign Currency Deposit (NFCD)

2. Resident Foreign Currency Deposit (RFCD)
3. Non-resident Investor's Taka Account(NITA)
4. Wage Earner' Development Bond
5. US dollar Investment Bond,2002
6. US dollar Premium Bond,2002

Non Resident Foreign Currency Fixed Deposit Account (NFCD) : Expatriate Bangladeshi Nationals and persons of Bangladesh origin, including those having dual nationality may open non-resident Foreign Currency Fixed Deposit Account with any authorized dealer in Bangladesh for a period of one month, three months, six months or twelve months on renewable basis depositing minimum US Dollar 1000/- or Pound Sterling 500/- . The eligible persons may open this account at any time of their return to Bangladesh. Interest on NFCD Account is applicable on the basis of Euro currency interest rate which is tax free in Bangladesh. Principal amount including accrued interest is convertible in local currency as well as repatriable to the account holder abroad. This account may be maintained as long as the account holders' desire. NFCD account opening Forms are available with authorized dealer, branches of Commercial Banks in Bangladesh and Embassy/ High Commission Offices of Bangladesh abroad.

Resident Foreign Currency Deposit (RFCD): Persons ordinarily resident in Bangladesh may open RFCD Accounts with the foreign currencies brought in at the time of their return from abroad. This account may be opened with any authorized dealer, branches of Commercial Banks in US Dollar and Pound Sterling. Interest is payable if the deposit is maintained for a term of not less than one month and the balance is not less than US Dollar 1000/- and Pound Sterling 500/-. RFCD account may be maintained as long as the account holders' desire. Balances of such accounts are repatriable abroad.

Non-Resident Investor's Taka Account (NITA): Expatriate Bangladeshis may invest their hard earned money in the Stock Exchange for purchase of Bangladeshi shares and securities. For this purpose, the expatriates may open NITA account with any authorized dealer, branches of the Commercial Banks. Dividend earned from shares/securities is tax-free in Bangladesh. Balance of NITA account is repatriable abroad at the prevailing rate of exchange. NITA account may be operated by the nominee. The account holders may nominate their bank to act as nominee also.

Wage Earners Development Bond (WEDB): Expatriate Bangladeshi Wage Earners may invest their hard earnings in five years WEDB on renewable basis for denomination of Taka 25,000/-, Taka 50,000/- and Taka 100,000/- or any multiple of these amounts at attractive rate (Present rate 12% per compoundable in every six months) of interest and the accrued interest is tax free in Bangladesh. Principal amount of WEDB is repatriable to the bond holder abroad.

US Dollar Investment Bond: The Government of the People's Republic of Bangladesh has introduced US Dollar Investment Bond to facilitate investment of hard -earned foreign currency by the non-resident Bangladeshis.

Facilities of US Dollar Investment Bond: i) Period : 3(three) years. Renewable for further one term. ii) Rate of Interest : a. On completion of 3 years (full term) -6.5%; b. On completion of 2 years - 6%; c. On completion of 1 year - 5.5%; d. No interest before completion of 1 year.. iii) Repayment of interest on 6(six) months basis; iv) Interest is payable in US Dollar. Interest and Principal amount are also repayable in Bangladesh Taka at the request of the purchaser of bonds; and v) Both Principal amount and interest are repatriable.

US Dollar Premium Bond: This instrument has also been introduced by The Government of the People's Republic of Bangladesh to facilitate investment of foreign currency by the non-resident Bangladeshis.

Facilities of US Dollar Premium Bond: i) Period: 3(three) years. Renewable for further one term; ii) Rate of interest: a. On completion of 3 years (full term) -7.5%; b. On completion of 2 years - 7%; c. On completion of 1 year-6.5%; d. No interest before completion of 1 year. iii) Repayment of interest on 6(six) months basis; iv) Interest is payable in Bangladesh Taka only. Principal amount is also repayable in Bangladesh Taka at the request of the purchaser; v) Death-risk-benefit for purchase of Premium Bonds at least USD.10,000/- at the first instance and increase investment subsequently will qualify for a free de*ath-risk-benefit @15% to 25% on* fulfillment of certain terms and conditions; vi) Principal amount is repatriable.

Eligibility to purchase these Bonds: Non-resident Bangladeshis are eligible to purchase US Dollar Investment Bond and US Dollar Premium Bond with the foreign currency sent to his F. C. account or with the cheque/draft in foreign currency (after collection of cheque/draft).

Income Tax Facilities for Non-Resident Bangladeshis: The National Board of Revenue (NBR) of the Bangladesh Government has undertaken various initiatives in the income tax rules for Non-Resident Bangladeshis to increase the flow of remittances. The Government has taken the following steps to provide income tax rebate to nonresident Bangladeshis. The amount of remittance transferred by a non-resident Bangladeshis through banking channel enjoys full exemption from income tax (Finance Law, 2002). No Tax Identification Number (TIN) Certificate is required upon purchase of fixed assets by non-resident Bangladeshis (Finance Law, 2002). From July 01, 2002 to June 30, 2005; within this time the sources of capital for investment in business, industries and commerce will be accepted without any query for sources of investment capital and this rule is also applicable for non-resident Bangladeshis (Finance Law, 2002). From July 01, 2002 to June 30, 2005; within this period, the agricultural processing industry is fully tax exempted. This advantage is also applicable for same industries established by non-resident Bangladeshis (Finance Law, 2002). The interest income of non-resident Bangladeshis from 'non-resident foreign currency deposit account' is fully exempted from tax. The 'Wage Earners Development Bond' purchased by non-resident Bangladeshis is exempted from income tax as well. The non-resident Bangladeshi and foreign passport holders Bangladeshis and their family members don't require income tax clearance before leaving the country after visiting Bangladesh.

Remittance Regulatory instruments: Foreign Exchange Regulation Act, 1947 is the primary regulatory instrument of Bangladesh with respect to all kinds of foreign exchanges including that of a foreign currency transfer like remittance.
General: The term "Inward Remittances" includes not only remittance by T.T., M.T., Drafts etc., but also purchases of bills, Travelers' Cheques, drafts under Travelers' Letters of Credit etc.

Inward remittance no restrictions: The Authorized Dealer(AD)s may freely purchase foreign currencies or raise debits to non-resident Taka Accounts of the respective bank branches and correspondents. Remittances equivalent to US$ 2000 and above should be reported in From C. However, declaration on From C by the beneficiary is not required against remittances sent by Bangladesh nationals working abroad. The purpose of remittances should be clearly stated on the From C. Where the country of origin of funds and currency in which remittances received are the same, the ADs may submit a consolidated From C in respect of those remittances attaching therewith a separate list showing details of remittances comprising the amount reported on From C.

Reimbursement in foreign currency for taka bills and drafts: There is no objection to the Ads in obtaining reimbursement from non-resident banks in freely convertible foreign currency in respect of Taka bills and drafts purchased by them under instructions from such a non-resident bank whether under Letters of Credit or under other arrangements.

Cancellation of inward remittances: If an inward remittance already reported to the Bangladesh Bank is cancelled, either in full or in part, because of non-availability of beneficiary, the ADs must report the cancellation of the inward remittance as an outward remittance on a TM from. The return in which the reversal of the transaction is reported should be supported by a letter giving the (a) reference of the return in which the inward remittance was reported (b) name and address of the beneficiary (c) amount and the reason for cancellation and (d) amount of the purchase as effected originally.

In Bangladesh, worker remittances are sent through two types of institutions; these are private foreign exchange house and the representative office of Bangladeshi bank at overseas. Both of the institutions have to take prior permission from BB as per sub-section 03 of section 04 of the Foreign Exchange Regulation Act 1947 Presently worker remittances are sent to Bangladesh in two different process one is Electronics Fund Transfer and the other is Draft. As per section 05 of chapter 02 of Volume 02 of the Foreign Exchange Guidelines, Authorized Dealers shall report to the Bangladesh Bank particulars of all their foreign exchange transactions, i.e., all outward and inward remittances affected, whether through their accounts in foreign currencies or through the Taka accounts of non-resident banks. In Bangladesh, only commercial banks are eligible to make an arrangement with a foreign exchange houses to receive and deliver the worker remittances to their relatives. Besides this, the banks are given permission to open overseas branches/subsidiaries/exchange houses for the same reason. In both cases Bangladesh Bank framed a set of guidelines for the banks.

Money Laundering Prevention Act, 2002 also acts as an instrument for regulating remittance. According to this guideline each bank and financial institution shall preserve correct and full information of their customer. In case of a request to remit money through draft/T.T from any person other than the account holder, correct information with regard to full name and address of the person requesting for such remittance should also be preserved. There are provisions for giving punishments in case of violation of both the acts –Foreign Exchange Regulation Act, 1947 and Money Laundering Prevention Act, 2002.

Delivery of remittances by receiving banks: For preparation of this report, we have studied two major banks in Bangladesh on how they deliver the foreign workers remittances to their beneficiaries. We have chosen one nationalized and a private sector bank to understand the process. we studied Sonali bank in nationalized sector and National bank limited in private sector.

Sonali Bank: Sonali bank is the largest bank in Bangladesh having 1184 branches all over the country; it has 02 overseas branches in India. The bank has 15 subsidiaries/booth in UK and USA and 03 repetitive offices in KSA. As per Sonali bank, it covers 30% of the total remittance of Bangladesh. Sonali bank receives 60-70% of its total remittance from Middle East. The system used for receiving foreign remittance by Sonali bank is mainly SWIFT message and as per Sonali bank's information, out of 1186 branches 300 branches are presently on line. The wage earner branch of Sonali bank takes necessary steps for delivering the remittance. It is to be mentioned that presently Sonali bank receives 50% of the remittance through EFT and 50% through DD. The bank has a special arrangement with 05 other banks for remittance clearing. To deliver such remittance to its beneficiary the following steps are required:

EFT Remittance paid through Sonali Bank: Sonali bank receives a taka remittance through EFT & it is to be paid to a branch of sonali bank, sonali bank delivers the remittance within 24 hours of receiving the remittance (as per Sonali bank's information). Sonali have an arrangement with Bank Al Raji .Any draft from a Bank Al Raji the draft is directly paid by the beneficiary's branch (Sonali bank branch) after verifying the specimen signature.

Remittance received by Sonali Bank and paid by other bank's branch: Sonali bank receives a taka remittance & the remittance is to be paid to a branch of another bank, the bank then makes a taka draft and sends the same to the beneficiary's bank branch on the next day of receiving the remittance, by courier if the branch located in Dhaka urban area .Sonali sends the draft by messenger. If they fail to locate the branch it sends the draft to the nearer district/thana level branch. Here approximate time taken to deliver the instrument 2-3 days if the draft sent directly to the beneficiary's bank branch, it takes 3-4 days to reach the beneficiary's bank branch if the draft is sent through the nearer district/thana level branch.

Sonali bank receives a foreign currency remittance and the remittance is to be paid to a branch of another bank: Sonali bank makes a counter foreign currency (F.C) draft and sends the same to the concern bank's foreign currency branch/designated branch for wage earner's remittance on the same day of receiving the remittance by messenger if the amount is equivalent 2000 USD. If the amount is more than 2000 USD Sonali bank sends a letter of intimation with from-C to the beneficiary's branch. After receiving the from-C signed and fill up Sonali bank issues an FDD to the beneficiary's branch.

***Time frame to reach money to the beneficiary's account*:** As the remittance is within the bank, the beneficiary's account is credited in 24 hours. When the beneficiary's bank is not Sonali & receive the draft from Sonali it takes it to the clearing house if the branch in participate the clearing house. After getting the draft cleared it credits the beneficiary's account, it takes approximately 1-2 days for clearing. If the branch does not participate in the clearing house, then the instrument is sent to the district level branch for clearing, it takes approximately 3-4 days for clearing and crediting the amount to the beneficiary's account. (Total time step1 & step2 =10 days)

Receiving Foreign Currency Draft: When a bank's foreign currency branch/designated branch for wage earner's remittance receives a F.C. draft, it informs the beneficiary's branch to collect a fill-upped and signed from-C from the beneficiary, if the amount is more than 2000 USD. After collection of the documents from the beneficiary the F.C. draft is sent to the International Division (I.D) of the concerned bank. I.D. of the bank takes the F.C. draft to the Bangladesh Bank for foreign exchange clearing; it takes more than 04 days for BB clearing. After getting the draft cleared from BB I.D. of the concerned bank sends advice to the concerned branch. (Total time step1 & step2 =25 days).

Process for a remittance comes in draft from: As per Sonali bank, all of their branches have the specimen signature of the issuer of a draft from any exchange house with whom they have a drawing arrangement. When a draft is placed in a branch of Sonali bank, the branch immediately checks and verifies the signature of the issuer and makes the payment. When a foreign Draft is drawn on a bank and it is presented to a branch of another bank, the time and process is the same for a cheque drawn and presented on two different bank branches. Time and cost depends on location of the bank branches.

Consumer Education

Migrants

- ❑Rights and Obligation
- ❑Benefits of formal remittances
- ❑Banking System
- ❑Problems of Informal remittances

Beneficiaries

- ❑Banking System
- ❑Capacity Building

Foreign Missions

- ❑Co-operation to the Migrant
- ❑Development of Corridor

Bank Officials

- ❑Remittance Business

Licensing Requirements for Remittance Service Providers

Country	*Net worth($)*	*Audited Financial Required*	*Bond*	*Comments*
United States				
California	Min. $500,000 in equity	If available	Discretionary depending on size of business. Min. $200,000.	Fee $5,000 plus $50 per agent
Florida	100,000 plus $50,000 per location up to $500,000	Yes	1% of annual turnover, max $250,000; can be set at $500,000 in exceptional circumstances; may be waived upon request	Application fee $500 plus $50 per agent; renewal $1,000 plus $50 per agent up to $20,000.
Illinois	Depending on locations: 1 _ $35,000 25_ _ $500,000	Yes	Greater of $100,000 or the average daily outstanding for 12 months, maximum $2,000,000	Fee $100 Licensing _ $100 $10 per location; $100 renewal
Massachusetts	None	No	$50,000 (or 2x amount of outstanding transactions)	Fee $250
New Jersey	(1) Min. $100,000 plus $25,000 per location (or agent) in NJ up to $1,000,000 (2) $50,000 for foreign money transmitter plus $10,000 per location (or agent) up to $400,000		(1) Not less than $100,000 and not more than $1,000,000 (2) Foreign remitters: depending on business volume, $25,000 to $100,000; commissioner may require up to $900,000 In general: investments not less than outstanding payment instruments; this can be waived by the commissioner	Application fee $1,000 Licensing fee up to $4,000 Biennial fee $25 per location up to max. of $5,000
New York	Liquidity equivalent to outstanding payments	Yes, 2 years	$500,000 unless the superintendent lowers the amount	Fee $500 Licensing _ $1,000 investigation.
Pennsylvania	$500,000		$1,000,000	Application fee $1,000 Renewal fee $300
Texas	$25,000 per location up to $1,000,000	Yes	$100,000 for first location, $50,000 for each additional, max. $400,000	Fee $500 licensing _ $2,500 investigation fee

Country	Net worth($)	Audited Financial Required	Bond	Comments
Virginia	$100,000–$1,000,000 as determined by the commission		$25,000–$1,000,000 as determined by the commission	Licensing fee $500 Renewal fee $750
Wisconsin	"Suitable to conduct business" Should not be lower than $10,000	No	$10,000 for 1st location _ $5,000 for each additional Max. $300,000	Fee $500 license (annual) _ $300 investigation _ $5 per location (annual)
Canada	None	No	None	Reporting threshold: Can$3,000 STR and CTR above Can$10,000
France	Min. €2,400,000 plus capital to cover first year's expenses	Yes, 3 years	None	Full bank license; the ownership structure must be adequate AML procedures scrutinized
Germany (federal legislation)	€125,000 capital Net worth must be sufficient to cover exposures	Yes	None	Reporting threshold: €2,500 STR; AML laws must be followed; 2 managing directors must have suitable backgrounds
Italy	€750,000	Yes	None	Reporting threshold: €12,500 STR; the license is only required by the service provider, not by his agents
United Kingdom	None	No	None	Register normal business; Moneys may not be held for more than 3 days, as a bank license (deposits) would be required in this event

Source: For United States, www.rubinsanchez.com; Canadian Bankers Association; French Central Bank, Banque de France, Comité des Etablissements de Crédit et des Entreprises, d'Investissement (CECEI), Committee for Credit Institutions and Investment Companies; German Financial Supervisory Board, Bundesanstalt für Finanzdienstleistungsaufsicht; Italian Law 106; Bank of England. Note: Licensing and registering approaches may differ. See FATF Typologies Report (FATF 2005). STR _ suspicious transaction report; CTR _ currency transaction report; SAR _ suspicious activity report; AML _ anti-money laundering.

Annex: Survey instrument

In the following are the main questions asked by the interviewers. In most cases, when a question asks *how* or *what*, the interviewer was also instructed to follow up with a *why* as well as inquire about associated costs. Many of the questions were followed by further explanations. The full instruction sheet can be obtained from the author. Note that, the questions below are not part of a written questionnaire. Developing a written questionnaire requires a different methodology than structuring oral interviews.

Questions about the company and its remittance operations:

1. What is the ownership structure of the company?

2. There are several steps in the chain of sending a remittance. Examples are: receiving money from remitters, disbursing to recipients in another country, exchanging currencies, providing settlement services across borders, carrying messages among the various participants in this process. Where does your company best fit in?

3. Some companies providing remittance services are independent, some are franchises, and some are part of larger corporations. Some operate only here in the US and have partners abroad; some also operate in the receiving countries. Which describes best your firm?

4. In which year did you start to provide remittance services?

5. Do you only provide remittance services, or do you also provide other services?

6. Are you engaged in remittance services in order to profit from these services directly – or indirectly through customers' use of other services?

7. If you do not make a profit from remittances directly, what is the business that remittances facilitate?

Questions about how money is sent and received:

8. From which states can people send remittances through your remittance operation? To where can people send remittances from these locations?

9. What are the main "corridors" of transfers?

10. What is your primary strategy in having chosen these locations and countries?

11. From what kind of stores, outlets, branches, etc., can people send remittances through the remittance operation you are a part of?

12. In the remittance operation that you are a part of, how do the remitters send funds?

13. How and when does the agent/branch transfer money to the part of your operation that sends the funds on to the recipient country? How does the agent/branch notify your company that there is a transfer initiated?

14. What steps do u take, if any, documentation or verification is required to verify the identification of the individual sending the funds?

15. Do you keep record for remitters' identity and/or the remittance transaction?

16. How many and which forms must the remitter fill in when sending money?

17. From the time the remittance transaction is initiated, how much time it takes to have the funds available to the recipient.

18. How does the recipient receive the funds?

19. What is the geographical extent of the network where funds can be received?

20. Do you require your partners not to work with other remittance businesses (exclusivity agreements)?

21. How does the recipient know that he/she is receiving a remittance and where to pick it up or how to go about receiving it?

22. Does the place where the recipient picks up the remittance, is there cross-sell of other financial products?

Questions about infrastructure:

23. How does the receiving remittance firm/bank that is going to disburse the remittance know that a remittance has been initiated at the sending remittance firm/bank from where the remittance was sent?

24. Please describe how settlement takes place between your companies here in the US and the receiving company abroad (or your branch in the receiving country)?

25. How often does settlement take place?

26. When the money is paid to the recipient, how does the agent/bank that pays out the money have the funds (liquidity) to do so? Does the agent/bank that pays out the money wait for settlement, or does it pre-fund the disbursement?

27. Is there any float income in the remittance operation you are a part of, and who benefits from the float?

28. How much do you estimate that the float returned given last year & how it is normally invested?

29. How much of the total remittance volume that passes through your remittance operation. Do you estimate it is used for float at any time (%)?

30. How often do you experience that funds are lost (total lost funds as a percentage of transactions)? What part of this are fraud, and what part is due to technical and human error?

31. What are the main reasons of funds lost?

32. When funds are lost, who carries the risk?

Please explain the procedure for sharing losses:

Questions about currency conversion:

33. In what currencies are funds made available to the recipient?

34. Within the remittance operation that you are a part of, who performs the currency exchange operation?

35. How do you protect yourself against currency fluctuations?

36. How do you determine the exchange rate to offer for a transaction?

37. What is the exchange rate spread charged to the customer?

38. Does the remitter know the exchange rate before engaging in the transaction?

39. Does the recipient know the exchange rate?

Questions about price and volume:

40. How much does it cost to send remittances through your company, both for the remitter and the recipient? (For this question, a standardized data sheet was filled in by the respondent.)

41. Have the fees to the remitter or to the recipient have over the last three years?

42. Are the remitter and recipient told explicitly about the fees before engaging in the transaction?

43. How much of the total fee and exchange rate spread accrues to you (as opposed to other partners with which you share the revenue)?

44. How many transactions do you process on average per month in numbers, and what is the total volume of remittances you process on average per month in dollars?

45. What is the country with the highest number of transactions, and how many transactions do you send there?

46. How much transaction volumes changed over the last three years?

47. How do you market your services to remittance senders?

Questions about firm structure and competitive environment:

48. Which companies do you consider your competitors?

49. In the U.S., is the market that you address, in other words your customers, dominated by some few remittance firms, or is it a field of many firms with similar services?

50. Has there been any change in the number or types of competitors to your business over the last three years? If so, what have the changes been and how has this changing competitive landscape affected your firm and the market?

51. Have these changes in the competitive environment made you start using any new technologies, or made you plan to start using any new technologies?

52. What are the advantages of your firm over your competitors? In other words, why do your customers come to you for remittance services rather than going to your competitors?

53. What are the disadvantages of your firm compared to your competitors? In other words, why do the customers that use your competitors prefer using them (competitors) to rather than using your firm?

54. What are the barriers to entry in your segment of the remittance market? In other words, what prevents an entrepreneur from setting up a firm competing with you?

55. What is your market share?

56. What are the most important laws and regulations governing your remittance business?

57. Have any legal, regulatory changes over the last five years affected your business?

58. If there is a dispute between the remitter/recipient and your company, how do you resolve such disputes?

59. Do you believe money laundering is a concern for your business? What, if any, mechanisms do you have in place to avoid money laundering through your company?

60. The World Bank often advises governments on improving the environment for doing business. What would you like to see the government, regulators, state authorities – both in the U.S. and in the receiving countries – do for you to be able to provide better and less expensive services to your customers?

61. Lastly, let me see if I have understood where your revenue and your expenses come from.(Interviewers summarizes income statement)

62. What is the most important source of income among these?

63. What are the largest expense items (and what % of the transaction do they account for)?

64. What is the firm's total after tax revenues and operating net income from providing remittance services for your most recent fiscal year? What percentage of total revenues and net income come from providing remittance services?

65. Finally, we would like you to indicate, on this sheet, how the listed obstacles to doing business affect your company. (Interviewer presents a written questionnaire with the obstacles)