



Transparent Remittances

www.mandasoldiacasa.it

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How much does it cost to send 150 Euro from Italy to Morocco? And to Senegal? And to Colombia? Here is the first Italian website for the comparison of remittance costs.

Mandasoldiacasa.it is the first Italian website for the **comparison of remittance costs** to achieve an official recognition by the World Bank, whose survey **methods** are also applied through the website. To fulfil the double aim that it is set to achieve – i.e. **cost transparency** and fostering of **competition** among money transfer operators – 14 **remittance corridors** have been considered and information from a total of 26 operators have been gathered (including money transfer operators, banks and the Italian Postal Service). The peculiarity of this new Italian website is to be found in the effort that was made to include as many operators as possible, and to deliver a wider and more functional tool devoted to **financial information and education** concerning remittance transfers, in order to promote **financial inclusion** and **literacy** among migrants.

Mandasoldiacasa.it is managed by CeSPI (Centre for International Political Studies) and was developed thanks to some successful initiatives undertaken by the International Organisation for Migration (IOM) and *Laboratorio Migrazioni e Sviluppo* (Migration and Development Laboratory) sponsored by the **Directorate General for Development Cooperation** of the Italian Ministry of Foreign Affairs.

The website development was also supported by the **Directorate General for Multilateral Economic and Financial Cooperation**, within the framework of the Italian G8 Presidency and, in particular, of the *Global Working Group on Remittances* (GWGR)¹. The cooperation with the Italian Banking Association (ABI) and *money transfer operators* (MTOs) (which did not affect the website's independence), as well as with the Bank of Italy's Supervision Service for markets and payment systems, proved to be particularly useful. Throughout the project, all the players involved were driven by a common goal, that of delivering a tool aimed at ensuring more transparency on money transfer costs, together with a wide and accurate information for the benefit of migrants.

Why a *price comparison* tool?

Remittances have been playing an increasingly important **role** in the economy of many countries, by contributing to human development and sustenance of large sections of the population. The volume of sums transferred has been steadily increasing² to the point that, in Italy at least, it has been more than proportional in comparison to the growth of immigrant population residing in the country. In fact, whereas the number of foreign citizens living in Italy increased by an average of 17.4% in the 2003-2007 period, remittances sent from Italy raised by 26.8%³. Moreover, a recent survey carried out by ABI-CeSPI (2009)⁴ concerning migrants' financial needs confirmed that remittances are a recurrent feature of migrants' financial behaviour in every phase of their migration and integration experience. In fact, even though remittances are

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¹ For Italy, ABI, Bank of Italy, Ministry of Foreign Affairs, Presidency of the Council of Ministers, and CeSPI cooperate with GWGR, whose work is coordinated by the World Bank.

² At least up to the financial crisis that began in 2008.

³ Source: reprocessing of 2003-2007 ISTAT's and World Bank's data performed by Cespi.

⁴ ABI-CeSPI, "*Banche e nuovi italiani, I comportamenti finanziari degli immigrati*", ("Banks and New Italians. The Financial Behaviour of Immigrants") edited by J.L. Rhi-Sausi and M. Zupi, Bancaria Editrice, Rome, 2009.

made to satisfy different needs and strategies, nevertheless they remain a constant trait of migrant's life even 10 years after their arrival in Italy. Undoubtedly, although hard to predict, the current economic crisis is going to have a serious impact also on the size of remittance flows, whose growth is likely to slow down. However, the phenomenon is not likely to show a reversal pattern.

The **cost of remittance transfers** represents a withdrawal of resources which is still quite high and varied from country to country, but which is reasonably transparent and does not usually produce any added value in addition to the straightforward money transfer operation. On one hand, this translates into unreasonably high transfer costs and, on the other hand, into a discouragement to use formal channels instead of informal ones, and into a drawback to the use of remittances as part of a value enhancing perspective (ABI-CeSPI, 2009)⁵.

To encourage the transit of such financial flows through formal channels, and to strengthen the ability to produce financial benefits not only in the short term, are two fundamental goals to be achieved in order to enhance such resources by establishing some virtuous development processes.

Moreover, fostering competition among operators in order to reduce money transfer costs, and channelling money transfers to banks (in order to ensure that financial products and services are easily accessible to both senders and receivers), are essential aspects of the financial inclusion process for migrants and of the enhancement of remittances' role in relation to development.

In the light of the above issues, the players who took part in the development of **Mandasoldiacasa.it** shared a common goal, i.e. that of delivering a **tool that should be available to the general public** and that should have the following features:

- 1) *for migrants*
 - clear and user-friendly
 - useful and informative
 - educational
- 2) *encouraging transparency* and, therefore, *healthy competition* among money transfer operators;
- 3) *supporting migrant financial inclusion process*;
- 4) *enhancing migrants' awareness* about the role of development actors they play through their remittance transfers.

The usefulness of such a simple tool fits in with the idea that migrants are *rational agents* (who send their money trying to match their needs – safety, confidentiality, swiftness – with the lowest possible cost), but who tend to be *habit-bound* and "*relatively informed and financially literate*" (especially on the banking front) in relation to the different options and opportunities available for money transfers and, generally, for savings management. For example, as regards to the financial behaviour of a sample of migrants residing in Italy, the ABI-CeSPI (2009) survey highlighted that the lack of banking literacy is one of the main obstacles, not only regarding poor financial integration, but also, and especially, in relation to the use of savings management tools and of more advanced payment methods⁶.

⁵ Ibidem.

⁶ For example, 71% of immigrants who were interviewed did not know what savings accumulation products are (ABI-CeSPI, 2009).

Contents of Mandasoldiacasa.it website

Mandasoldiacasa.it website was conceived within the framework of two important projects promoted by the International Organization for Migration (IOM) – i.e. Migration for Development in Africa (MIDA) and Migration for Development in Latin America (MIDLA) - and of the InfoEaS project named “Migrants for Development” (“Migranti per lo sviluppo”) implemented by *Laboratorio Migrazioni e Sviluppo* (Migration and Development Laboratory)⁷. It took one year to develop the website on the basis of a feasibility study⁸ that included: benchmarking of existing websites, definition of layout and contents for a first draft of the website, a special analysis to indentify the operators to be surveyed, two verification sessions with migrants, two (off line) test surveys.

The resulting website reflects the will to deliver a tool that should provide a service to migrants, i.e. a website where they can find useful and accessible information, offered by means of comparison of remittance costs, in addition to clear explanations of the various options and possibilities available to send money abroad, as well as other material to enhance their financial literacy. In fact, what is peculiar to the Italian website is its double nature, i.e. **informative** (remittance cost comparison) and **educational** (information on remittances and on financial tools treated in a wider, more articulated and diversified context, in relation to a broader savings management issue). In addition to remittance cost details, the **website** also includes information about the **main products offered** to migrants by different operators, and a dedicated section on "Savings" (accessible from the main menu), in order to achieve its original **double goal** – i.e. **strengthening direct competition** among operators (helping banks and money transfer operators to foster comparison and competition), and **make users aware** of the various options available to send money abroad and to manage their savings.

Based on the results obtained through benchmarking of existing websites, the Italian website **characteristics** are:

- clear and easy-to-understand information for migrant users;
- preference given to the Italian language (to foster social integration) but offering an English translation too;
- comparison details about: remittance costs, timing, exchange rate, *spread*, net amount received, for €150 and €300⁹, as per World Bank's methods;
- additional information on operators in terms of products and services offered to immigrant customers;
- combining transparency and comparison of different channels requirements with the aim of delivering a wider financial education and information tool concerning remittances (in-depth analysis of money transfer methods, remittance costs, savings, savings accumulation plans, etc.);
- combining a reliable, objective and common criterion for the selection of operators to be included for cost comparison purposes, so that they can be entered as MTOs or as banks and, therefore, more details on offers, costs, and money transfer option can be provided;
- monitoring and verification system for the information collected through occasional *mystery shopping* sessions (by sending *test remittances* to verify the accuracy of information on costs, timing/speed, net sums received, etc.)¹⁰.

⁷ The Laboratory is composed by ACLI, ARCI, IPSIA, ARCS, CeSPI, ETIMOS, *Banca Etica* e UCODEP.

⁸ “*Studio di fattibilità per la costruzione del sito web mandasoldiacasa.it*” (“Feasibility Study for the Development of mandasoldiacasa.it website”), edited by Anna Ferro, Daniele Frigeri and Giulio Giangaspero, and coordinated by Andrea Stocchiero.

⁹ Such figures are considered as the average monthly amount that immigrants send abroad.

¹⁰ To be performed at an advanced phase of website activity/surveys.

Operator selection methods

To set up a list of operators to be included in the survey we adopted the **World Bank's method** (remittanceprices.worldbank.org) for the identification of the main agents from different remittance channels through prior **market knowledge** (among experts and representatives of immigrant communities), in order to include about **60% of the market for each corridor that was considered**¹¹. The application of such criterion enabled us to detect an almost exclusive prevalence of the main **MTOs** and a tendency of the banking segment to be absent¹².

In the Italian case, the lack of data concerning remittance flows handled by different operators (since non cumulative data are not collected or provided by any surveillance authority or statistical body) does not allow for proper quantification of the actual size of the market in question, as well as of the related market shares of the various operators on such flows. However, a rough estimate of the phenomenon (based on reprocessing of data supplied by some money transfer operators - MTOs), enabled us to understand that the latter operators deal with the majority of money transfer transactions carried out through formal channels from Italy. MTOs, therefore, are the main source of data for any website devoted to remittances in our country.

The selection and identification of **MTOs** to be involved in the survey for each corridor included a combination of several evaluation criteria, such as:

- interviews with sector experts;
- data provided by operators;
- studies and literature review (in particular, on migrant banking and remittances, and the ABI-CeSPI survey);
- information gathered from members of Rome's and Milan's immigrant communities about which operators (MTOs and banks) are used for the selected countries;
- comparison with World Bank's website.

A more marginal role (although important in order to diversify the sample and to perform a wider and more variegated comparison for the benefit of users) is the one played by two kinds of operators within the remittance market, i.e. **Banco Posta** (a division of the Italian Postal Service) and **commercial banks** that, in addition to money transfer services, also offer savings management products (aimed at promoting and improving savings management at large) including remittance transfers. Since the financial services offered by **Poste Italiane** (Italian Postal Service) are very important and widely used, we felt it was essential to include them too, especially in relation to the agreement they entered into with MoneyGram.

As far as banks are concerned, the collection of data on money transfer conditions within the selected corridors does not seem to be an easy task. Money transfers through the **bank channel**, in fact, are made by means of **international bank transfers** ("bonifico internazionale") which

¹¹ Due to the lack of official data that would allow for a proper evaluation of remittance flows per each corridor, the task produced rough estimated data.

¹² The underlying reasons for such a phenomenon are mainly to be found in the fact that migrants tend to be habit-bound in their use of MTOs, and are definitely more familiar with them, compared to other available operators, as well as in the tool itself that is generally clearer and easier to use compared to other money transfer options. The speed which is typical of such methods that ensures that sums are promptly (almost immediately) available for collection, is the primary reason for the use of MTOs, in addition to poor "bankability" of the migrant fragment, migrants' lack of familiarity with banking services, and to scanty diffusion of banks (hence, poor accessibility) in the destination countries. With regard to banks, in addition to their tendency to offer money transfer services only to current account holders (a serious drawback when bank usage is so poor), up to now they do not seem to be very interested in offering the service in question. That is probably due to the high management costs of the service and to the fact that the role of remittances might have been underestimated.

involve one or more counterparts, according to direct **interbank agreements** that may exist with one or more banks based in the destination country. Money transfers may require the intermediation of some so-called "correspondent" banks, and only when an interbank agreement is in place such transfers can be performed in a direct manner. That kind of transaction makes conditions (and costs) highly variable and hard to predict not only according to countries, but also in relation to counterparts (different banks in the same destination country may offer different conditions) depending on whether there are special agreements in place between the banks involved.

For such reasons we felt it would be useful to select a **limited number of banks for our survey**. Due to the lack of reliable data that would allow us to identify the most relevant and more active banks for each remittance corridor, we decided to carry out the selection according to a **combination of three criteria** (two quantitative and one strictly qualitative) in order to describe (although roughly) the relationship between banks and immigrant customers and, in particular, the role played by banks within the money transfer segment in the two areas considered for the survey (Milan and Rome). The criteria adopted to identify bank operators for our survey on remittance costs concerned what follows:

1. **number of foreign current account holders** for each bank, calculated nationwide (to simplify the selection, only banks with a minimum of 1,000 foreign current account holders were considered);
2. **number of branches** for every single bank out of the total number of branches for all the banks in the surveyed area (Rome and Milan province);
3. **specific products offered** by the bank to immigrant customers and, in particular, in relation to remittance transfers.

The combination of the three above-mentioned criteria enabled us to identify those banks which may be considered, quite reasonably, as the most important and more active ones within the market in question. Needless to say, the picture is not accurate and some single bank operators (which may be actively involved in a given corridor) may have been left out, but, however, they can be included at a later stage of the website development.

Collection of data supplied by MTOs and banks

In order to collect data in the field, some website representatives need to visit money transfer agencies and bank branches (identified according to the above-mentioned criteria) – randomly selected within Rome and Milan financial territory – to collect information on remittance costs (to send €150 and €300 abroad, as specified in the World Bank's methods) broken down as follows: commission applied (to be paid by sender and receiver), exchange rate applied, transaction timing/speed, sending method, and amount of money received at destination. Moreover, other financial products or services offered by the operator in question to migrant customers may also be considered – such as insurance or savings management products. Rome and Milan were the two areas we included in this first phase of our survey.

With reference to banks, details of specific interbank agreements that might be in place are also gathered during the visits in question and, in particular, the name of correspondent banks involved in such agreements. In fact, interbank agreements may affect costs and timing of remittance transfers made through bank channels and, therefore, information concerning correspondent banks becomes relevant in order to know where the transferred sum can be collected at destination and the related conditions. Moreover, for each operator, details of financial products and services offered to migrant customers are also collected.

Conclusions

The survey on the financial needs of immigrants, together with other analyses carried out by CeSPI over the years, highlighted the fact that remittances fulfil a number of requirements and strategies in relation to savings and investments, which greatly differ and which are much more complex than what is generally thought of – i.e. a straightforward transaction to transfer money that is going to be spent. Within a saving allocation perspective, **remittances** can be considered as **a possible strategy** and, for such a reason, a financial evaluation of remittance costs should take into consideration the **opportunity cost of the different saving options available**.

On the basis of the above arguments, we felt that the added value of a website devoted to remittances is to be found in the possibility offered to users to compare different money transfer options, and in the provision of information about other possible ways to **use available savings**. Therefore, we decided to include the range of products and services offered by operators to migrant customers, keeping in mind some further development for our website – so that from an initial, small scale version, it may become a broader, richer, and more updated tool in the future.

Bank operators play a special role within the context of our survey, where money transfer transactions are associated to a wide range of products and services allowing for better allocation and optimization of savings, together with opportunities to improve financial integration.

We believe that it is possible to combine **transparent information** on explicit and implicit costs of remittances with some elements of financial literacy and education to support the link between remittances and development. Such knowledge should foster and improve an awareness about the **potential of migrants' resources**, not only among those who send remittances, but also among the other subjects involved (operators, financial organizations, government and surveillance authorities). On the other hand, the use of **formal channels** is also encouraged, as well as the transit of remittances through financial networks - something that can be seen as first a step towards a multiplying effect that remittances may have, and that may lead to envisage innovative tools for finance development.

To conclude, the website offers information on various initiatives aimed at recognizing the migrants' role in the development of their countries of origin. In fact, there are several programmes at multilateral, European and Italian levels that were set up to promote and support initiatives coming from migrants and directed at improving social and economic conditions of their community of origin.

The International Organisation for Migration, *Laboratorio Migrazioni e Sviluppo* (Migration and Development Laboratory) and *Cooperazione Italiana* (Italian Cooperation) are some of the players involved in the process.

The website is meant to be a portal designed to provide information, as well as to enable migrants and other players engaged in the cooperation process to connect online.

ACRONYMS

ABI = *Associazione Bancaria Italiana* – (Italian Banking Association)

ACLI = *Associazioni Italiane Lavoratori Cristiani* - (Italian Associations of Christian Workers)

ARCI = *Associazione Ricreativa Culturale Italiana* – (Italian Cultural and Recreational Association)

ARCS = ARCI Cultura e Sviluppo – (ARCI's Culture and Development Association)

CeSPI = *Centro Studi di Politica Internazionale* – (Centre for International Political Studies)

ETIMOS = Italian-based financial consortium specialized in microcredit for developing countries

GWGR = Global Working Group on Remittances

IOM / OIM = International Organisation for Migration / Organizzazione Internazionale per le Migrazioni

IPSIA = *Istituto Pace Sviluppo Innovazione ACLI* – (ACLI's Peace Development Innovation Institute)

MIDA = Migration for Development in Africa

MIDLA = Migration for Development in Latin America

UCODEP = Unity and COoperation for the DEvelopment of Peoples