REDUCING REMITTANCE TRANSFER COSTS
The United States of America

Background

The United States is the world’s largest remittance-sending country; total remittances sent by immigrants residing in the United States were estimated at more than $61 billion in 2015\(^1\). Roughly 13 percent of the U.S. population (or over 40 million people) is foreign born\(^2\). The top corridors for the United States in terms of remittance outflows are Mexico, China, India, the Philippines, and Vietnam. The average cost of sending remittances from the United States was 5.68 percent as of the second quarter of 2017, below the global average of 7.32 percent and down from 6.3 percent in 2015\(^3\).

Money transfer operators (MTOs) are the main registered channels that immigrants residing in the United States access to send remittances. Although major international MTOs currently have a large share of the market, smaller MTOs also operate in immigrant destination cities. As of mid-2015, there were 260 MTO principals registered in the United States and 230,000 agents; many of the registered principals are also agents. The use of mobile payment technology in remittance transactions, while increasing, remains limited.

Supervision and oversight of the sector occurs at both the national and state level. At the Federal level, the Consumer Financial Protection Bureau (CFPB) also supervises large banks and money transmitters for their compliance with federal consumer finance laws. MTOs must register with the Financial Crimes Enforcement Network (FinCEN) as money transmitters and comply with applicable requirements; states also issue licenses and act as the primary regulator for non-bank money transmitters and other money services businesses (MSBs). FinCEN works with the Conference of State Bank Supervisors (CSBS) to increase state-to-state and federal-state supervisory coordination to create a stronger but also simpler and more efficient supervisory regime for money transmitters.

The greatest challenges to increasing efficiency and reducing costs in the remittance environment in the United States include consumer preference for legacy methods to transfer remittances in the top outflow corridors, as well as pressure on bank access for some providers. The U.S. Treasury Department works to strengthen the AML/CFT supervisory regime for MSBs and to clear up misperceptions that may have contributed to bank risk aversion towards certain MSBs in the past.

Call to Action on Remittances

The Money Remittances Improvement Act of 2014 allows FinCEN to rely on state examinations of MTOs, reducing duplicative oversight of MSBs by enabling regulators to share information about MSBs and other financial institutions not subject to federal functional regulation and increasing the effectiveness of overall supervision. FinCEN also works closely with state authorities and the Internal Revenue Service (IRS) on examination coordination on supervision of the MSB industry.

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\(^1\) World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and the World Bank

\(^2\) Based on 2014 census data and subsequent American Community Survey (ACS) data

\(^3\) World Bank data
FinCen publicy encourages state regulators to work with Treasury to create more transparency in the MSB industry. In March 2016, FinCEN released guidance to make regulatory expectations related to MTO principal supervision of agents clearer and to eliminate misunderstandings about what principals are expected to do. In addition, Treasury has continued a campaign of public outreach to deliver the message that Treasury expects MSBs and banks to operate responsibly within a risk-based framework for AML/CFT, rather than making overly broad rules-based judgements. Treasury engages with both the U.S. interagency and international partners to improve available data on the impact of the withdrawal of correspondent banking relationships on MSBs and other final clients.

### Reducing Remittance Transfer Costs

**INCREASE REMITTANCE MARKET COMPETITIVENESS AND CONSUMER CHOICE:** The CFPB’s remittance rule requires covered entities to provide consumers who send remittance transfers with information on the exchange rate utilized as well as on certain fees and U.S. taxes. The rule does not apply to entities that send fewer than 100 annual remittances. Federal banking agencies and the National Credit Union Administration (NCUA) have developed guidelines to help credit unions provide lower-cost remittance transfer services in the United States. Federal banking authorities continue to work with financial institutions under their respective jurisdictions on ways to offer low-cost remittance transfers and no-cost or low-cost basic consumer accounts.

**IMPROVE FINANCIAL SYSTEM INFRASTRUCTURE:** The Federal Reserve’s Faster Payments Task Force issued a report in 2017 identifying effective approaches for implementing a safe, ubiquitous, and faster payments capability in the United States by 2020. The report encourages collaboration among all stakeholders, including competing faster payments solution operators, payment service providers, and end users. The Reserve Banks and Clearing House (TCH) plan to implement the ISO 20022 payment format standard for their domestic and cross-border wire payments systems beginning in 2020. This same standard is also being considered for the domestic retail ACH system.

Treasury’s Office of Technical Assistance (OTA) will continue to provide technical support to jurisdictions that are seeking to ensure that innovative forms of digital payments may be passed easily from person to person (P to P) and government agencies to persons (G to P), including promoting interoperable arrangements between unrelated payment service providers. USAID also makes global and market level investments focused on expanding inclusive digital finance ecosystems through improved infrastructure, policy, and regulation, including the use of digital technologies to lower costs, improve prospects for integration with formal financial services, and build cross border digital economies. In addition to making remittance transactions faster and cheaper, these investments harness remittance flows to deepen financial inclusion in both sending and receiving communities.

**DISCOURAGE TAXES ON TRANSFERS:** The U.S. Federal Government does not tax remittances.

**IMPROVE TRANSPARENCY AND CONSUMER PROTECTION:** The CFPB examines large banks and non-bank participants of the international money transfer market for compliance with the Remittance Rule, which includes disclosure requirements, error resolution, and cancellation rights for consumers who send remittances. Overall, remittance transfer providers have implemented changes to address compliance with that rule. The CFPB continues to exercise its supervisory jurisdiction to ensure that banks and non-banks comply with federal consumer financial laws. The CFPB issued a final rule that provides comprehensive consumer protection for prepaid accounts with respect to remittance.
transfers, and has initiated efforts to support industry implementation. CFPB has also launched an assessment of the impact of its remittance rules and expects to issue a final report on it in late 2018.