2023 REMITTANCES REPORT

How to sustainably lower costs and achieve the UN goal of 3% by 2030

Intro

ABOUT THIS REPORT

Remittances remain too costly and while (some) governments around the world have stated their intention to tackle these high costs, they are doing too little to ease the financial strain on remittance senders. This report explores the policy choices governments have at their disposal to act and will suggest a new 'Global Standard' for remittances pricing worldwide.

National remittance volumes are adjusted for inflation and expressed in 2021 real terms. This is to enable year-on-year comparison.

This report will focus on 12 countries, all in the G20, which are considered "remittance sending countries", as defined by the World Bank. They are: Australia, Brazil, Canada, France, Germany, Italy, Japan, Saudi-Arabia, South Africa, South Korea, United Kingdom and United States*.

**Russia is excluded from this report. Due to the war in Ukraine, Russia is subject to sanctions and excluded from the conventional financial system, which would skew the analysis in this report.*

Intro

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Commentary & Analysis

Commentary Foreword by Wise

THE COST OF REMITTANCES IS STILL TOO HIGH. THE FIX IS EASY.

Magali Van Bulck
Head of EMEA Policy

Ever since Wise started in 2011, our frustration has been with hidden fees. It is grossly unfair that more than a decade on, people still face the same hurdles when they send money abroad. Financial institutions are still allowed to use the same tactics to make customers think they're getting a better deal than they are. Those fees, hidden in fine print, behind tooltips and asterisks, always end up being a nasty surprise once much less money arrives on the other side.

Hidden fees are especially painful when family and friends abroad rely on remittances to buy food, medicine or pay for education. The United Nations recognised the importance of these transfers and made lowering their cost a global priority. The recipient should be the one benefitting from a remittance payment, not the bank(s) or exchange house(s) along the payment chain. In 2015, the United Nations devised their Sustainable Development Goals (UN SDGs), formalising their commitment to lowering the cost of remittances to 3% or lower by 2030. That should have galvanised the international community, and governments should have stepped in and stepped up their actions.

Unfortunately, nearly a decade on from the inception of those UN SDGs, progress is still too slow. Remittance costs are still more than double the target. While our report shows that some countries are making progress, it's always easier to go after the low hanging fruit if you're starting from a high base. Implementing structural reforms is harder.

Europe's sending countries - the UK, Italy, France and Germany - and the US have significantly slowed down their progress or even plateaued. It becomes much harder to reduce costs if there is no incentive for providers to do this. Consumers are blindfolded. There is no fair competition and consumers aren't incentivised to shop around because providers are allowed to mislead them. Current legislation enables that behaviour. It's high time for that blindfold to come off.

In 2022, G20 sending countries sent nearly $200 billion in remittances. While the volumes went up in absolute terms compared to 2021, inflation ate away at its impact, which means those volumes go less far than they did in 2021. To help mitigate some of that effect, we need to introduce price transparency. We're not arguing for governments to step in with price interventions. We know the market can correct itself. But for that to happen, consumers need to know exactly how much their money transfer is going to cost, so they can switch to another provider if the cost is too high.

In the last year, we have witnessed a growing cost of living crisis, high inflation and continued aggression in countries like Ukraine. This means that millions of people rely on remittances even more to meet basic needs, access healthcare and education. Policymakers are slowly waking up.

In the US, President Biden announced a crackdown on "junk fees". Hidden money transfer fees are junk fees, that's a no brainer. Senator Elizabeth Warren thought so too. She wrote to the Consumer Financial Protection Bureau (CFPB) to highlight these hidden fees, urging them to take action. The CFPB confirmed that they'll look into this. The Remittance Rule, which set the norm for the money transfer industry over the past decade, is no longer good enough: it allows money transfer providers to continue using their inflated exchange rates to show fees that are much lower. It's time that we transform the rule in the way it was intended: to get people better outcomes.

Luckily, it's not just the US that's showing signs of progress. Policymakers in the European Union and the UK are all in some stage of review of legislation that could make transparency the norm. We eagerly await the outcome, but Wise and consumers across Europe have made our voices heard and our views clear: no more hidden fees.

But legislation is just the first step. Once the rules are in place, we need regulators to enforce them. This gets tricky when the rules leave room for interpretation. In 2020, rules in the EU's Cross-Border Payments Regulation came into effect which forced providers to disclose all fees in cross-border payments in Europe. Fast forward to today - fees remain hidden in inflated exchange rates and regulators are sitting on their hands. The law failed in its intention. It needs to have more teeth. We need rules that eliminate any wiggle room and won't allow providers to continue getting away with hiding fees.

The same applies to one of the most encouraging policy actions in the last year. When the European Commission and the National Bank of Ukraine launched an initiative to lower the cost of remittances between Europe and Ukraine, they included a "mark-up rule" as part of the pledge. They encouraged providers to disclose any exchange rate mark-up over the National Bank of Ukraine or the European Central Bank exchange rate. That's the kind of black and white language we need to lower remittance costs. Companies are quick to sign a pledge that enhances their image, but following through on that commitment is much harder. Additionally, the pledge was voluntary, so its impact was limited from the start. Give providers a way out and they will - mostly - take it.

We are running out of time. There are seven years till 2030. For consumers, that's seven years of overpaying billions in hidden fees. For banks and other money transfer companies, that's seven years of pocketing fees they never told their customers about. Policymakers, put your words into actions. Roadmaps, initiatives and speeches are all welcome, but they need to be followed by rules and enforcement. Remittances senders and recipients would like to see their money put to good use, not melt away along the payment chain.

Transparency will get us closer to that UN SDG. But right now, we need to speed up. Money mostly disappears in inflated exchange rates and that needs to stop. People should know what they pay.

WHERE DOES THE MONEY GO?

In 2021, G20 sending countries sent just under $200 billion in remittances. If we adjust volumes for 2022 and 2023 for inflation and express remittance flows in 2021 terms, we see a 1.4% increase in value in 2022 and a 0.75% reduction in value in 2023 compared to 2021. This means that due to inflation, the money flowing mainly to lower- and middle income countries from the biggest remittance sending countries in the world in worth less than it was in 2021. This is problematic as in many countries, such as Australia, Italy or the United States, overseas development aid (ODA) is lower than remittance volumes. This means that people sending money to friends and family abroad carry a bigger burden.

Unfortunately, their efforts to support their loved ones in different countries are hampered by the fees intermediaries take along the payment chain. In practice, a large portion of those fees remain hidden for consumers, unless they resort to mental maths to calculate exchange rate mark-ups in addition to the upfront transfer fee (usually the only fee that is disclosed).

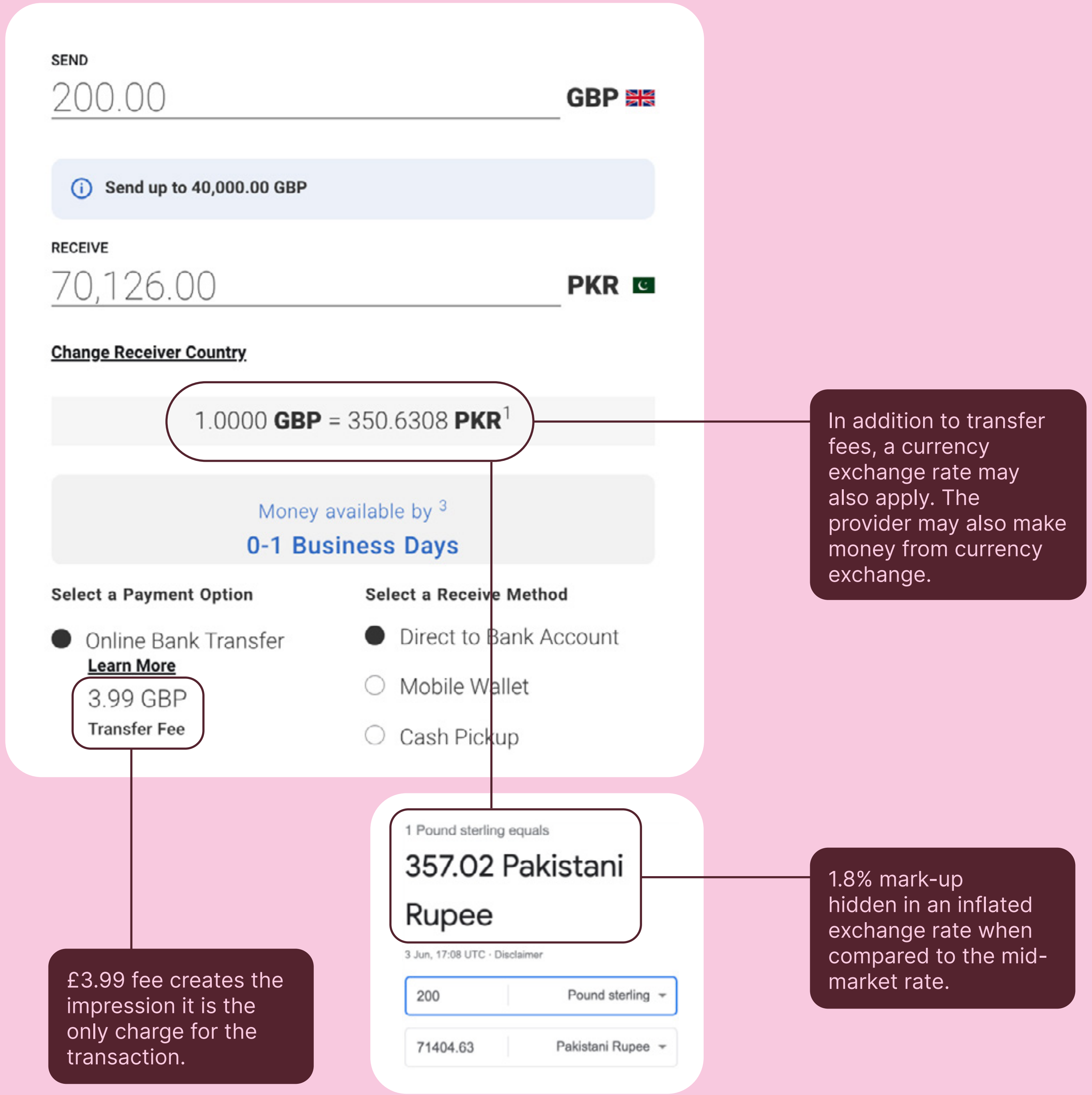
These hidden fees add up, according to independent research commissioned by Wise between 2017 and 2021. In a single year, European remitters lost €4.6 billion ($5 billion) in fees hidden in exchange rate mark-ups. American remitters paid $2.2 billion in mark-ups when sending money to loved ones abroad, while these losses added up to C$1.3 billion ($1 billion) for remitters in Canada.

While remittances remain costly to process, especially for legacy providers, due to costs related to Anti-Money Laundering (AML), Know Your Customer (KYC) and general fraud checks, there is little incentive for providers to lower their costs if they can continue hiding part of the total fee in inflated exchange rates. In Chapter 7, we'll set out what an acceptable level of FX risk is based on Wise's experience in wholesale FX markets and general volatility.

Generally, the G20 Roadmap for Enhancing Cross-Border Payments will encourage innovation. More countries and more providers will look to new technologies to solve obstacles along the payments chain - such as better AI-powered machine learning models to stop suspicious behaviour - but much of the tech is already here and has the potential to lower costs for remitters now. Mid-market rate APIs are seamless to plug in and will allow all providers to start from the same benchmark. Read more about the global standard for remittances in Chapter 6.

Evidence Money transfer market: state of play

WHERE DO THEY HIDE IT?



MACROECONOMICS IS HOLDING REMITTERS BACK. WHICH TOOLS CAN HELP MITIGATE THIS?

Sandra Sequeira
Associate Professor of Development Economics
London School of Economics

In 2023, there was a noticeable slowdown in the growth of remittances compared to the rapid growth experienced during the years of the COVID pandemic. This change in trend was primarily caused by slower GDP growth in high-income countries and by high inflation: as real wages in the US and in the EU fell precipitously, so did the ability of senders to remit money back home. Given that remittances represent a vital lifeline for billions of low-income families in the developing world, finding ways to reduce the cost of remitting money overseas to counter the effects of recurring macroeconomic shocks continues to be a pressing policy concern.

As we get closer to the 2030 sustainable development target date for reducing remittance costs to 3%, there are still significant obstacles in our way. To make progress, it is important to better understand how average costs vary across corridors, as this will allow us to identify the specific bottlenecks that need to be resolved in order to improve the efficiency and affordability of remittances.

In 2016, the World Bank introduced the SmaRT indicator, which aims to reflect the cost that an informed consumer with access to sufficient information could pay for remittance transfers in each corridor. The SmaRT indicator calculates the average cost based on the three cheapest qualifying services for sending 200 USD in each corridor. Qualifying services are those that offer transparent fees, fast transfers (within 5 days), and that guarantee user accessibility. In 2022, out of the 354 corridors analyzed by the Bank, 26 did not meet any of the SmaRT criteria, indicating insufficient competition or fee transparency. Fourteen of these corridors were in Sub-Saharan Africa, and five were in South Asia.

Commentary Article by Sandra Sequeira, London School of Economics

Corridors that receive low scores in the SmaRT index display a range of concerning features. These include limited internet access, insufficient financial literacy, a lack of trust in remittance service providers, heavy reliance on traditional banking channels, and stringent regulatory limitations that impede healthy competition among remittance service providers. Addressing these issues is crucial to improve the remittance landscape and promote greater accessibility, transparency, and competition, for the benefit of billions of individuals and families that rely on these vital financial flows.

While there is evidence that digitisation is associated with lower costs, only around 50% of remittances are currently sent through digital means. Cash-based transactions increase delivery costs as they require money transfer operators to establish extensive local agent networks who can operate with cash, driving up their expenses. Competition also plays a role, with traditional banking associated with higher costs (over 11%) compared to mobile operators, who have costs as low as 3.6%. But despite these lower costs, less than 1% of remittances go through mobile operators, while 40% still rely on traditional banks. Furthermore, compliance with anti-money laundering and counter-terrorism financing regulations restricts new money transfer operators from entering the market, hindering cost-reducing competition.

To effectively reduce average remittance costs in underperforming corridors, it is essential to prioritize several key actions. First and foremost, it is crucial to ensure that the 1.7 billion low-income households in the developing world have access to banking services. By extending financial inclusion to these households and facilitating their transition to digital platforms, we can unlock greater convenience, efficiency, and cost-effectiveness in remittance transfers. Additionally, fostering competition among remittance service providers in these lagging corridors is vital. Encouraging a more competitive landscape will not only enhance service quality but also exert downward pressure on remittance costs.

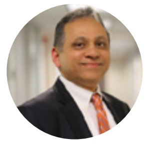
When comparing the costs estimated by the SmaRT indicator with global registered average costs, it becomes apparent that the SmaRT indicator is declining at a faster rate. This suggests that even in corridors with significant fee reductions due to increased competition and digitalization, consumers are still paying more than they should.

This points to another pervasive problem: hidden fees or inflated foreign exchange margins that can confuse even the savviest and most knowledgeable of consumers. In some cases, consumers are not able to clearly determine the fees that are associated with a given transaction. In other cases, service operators obscure fees by incorporating them into their foreign exchange margins. This appears to be an increasing practice as since 2016, foreign exchange margins have increased by 0.5 percent even though fees have declined by 1.4% during the same period.

More transparency on foreign exchange margins could go a long way in reducing overall costs and allowing consumers to identify the most cost-effective options.

Ultimately, much remains to be done ranging from increasing transparency in foreign exchange margins to generating smart regulation that can safely ensure competition across services and break highly concentrated traditional banking sectors that dominate certain remittance markets. But we should also be optimistic and draw encouragement from the fact that the percentage of remittance corridors with an average cost below 5%, has substantively increased from 17% to 42% in 2022. Learning from the successes and advancements in larger corridors offers a path towards addressing the challenges faced by the corridors that are still lagging behind.

"WE HAVE NO TIME TO LOSE. GOVERNMENTS NEED TO INTERVENE TO REDUCE REMITTANCE COSTS."



Dilip Ratha
Head of KNOMAD
Lead Economist at the World Bank

While the international community is coming together at the UN-led Global Forum on Remittances, Investment and Development (GFRID) to discuss the many moving parts to improve remittances - making them faster, cheaper, more transparent and more widely available - this Remittance Report comes as a timely reminder that we have no time to lose. G20 Governments need to intervene to reduce remittance costs if we want to keep the hope of meeting the UN SDG of 3% costs by 2030 alive.

At the World Bank, we look closely at how the average cost of remittances evolves over time. Unfortunately, that cost is still more than double the target.

Lowering remittances costs is a crucial way to put more money into the pockets of people in lower and middle income countries and help them pay for food, healthcare, education and other basic needs. Price transparency will help us achieve this goal and I urge policymakers to make that happen by rallying behind a global standard that enables consumers to know exactly how much their remittances cost - including exchange rate mark-ups.

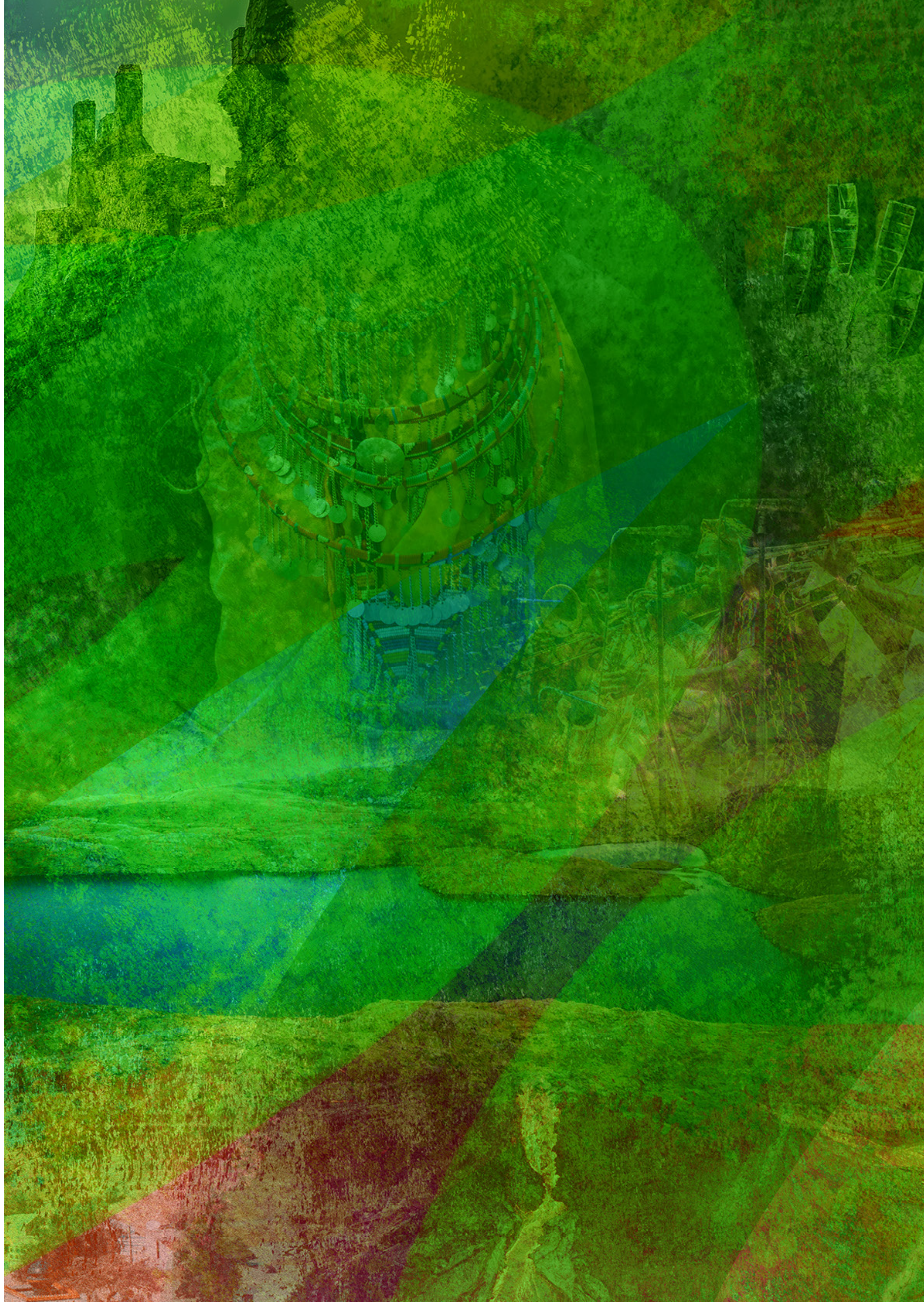
"WE OWE IT TO THEM TO ENSURE MORE MONEY ARRIVES ON THE OTHER SIDE."

Veronica Studsgaard
Founder & Chair
International Association of
Money Transfer Networks (IAMTN)

Cheaper remittances are a key enabler for financial inclusion, one of the toughest problems to solve in the cross-border payments industry. The number of people that rely on remittances to meet basic needs is always growing. We owe it to them to ensure more money arrives on the other side. IAMTN represents a wide range of companies that all aim to solve this very pressing customer problem.

We know that currency corridors only served by banks tend to be the most expensive corridors. I've witnessed a lot of innovation within the industry through the arrival of new entrants. The technology they use makes remittances more seamless and more accessible. And new developments are happening all the time: the arrival of open banking, API partnerships or even blockchain technology have endless potential. Innovation within the industry is an important aspect that will contribute to lower costs.

The international community, IAMTN and the money transfer sector should work together on making the G20 Roadmap a reality. Faster, cheaper, more transparent and more accessible cross-border payments will hugely benefit consumers all over the world - especially in uncertain times. Meeting the UN SDG is not optional, but we have a path to get there.



WHAT THE PROBLEM IS, AND WHY IT MATTERS

Remittances have been steadily rising despite difficult economic conditions. While this may be considered a positive development, as remittances represent a crucial income source for families all over the world, it could be masking the shortfall in other income streams. For example, foreign aid budgets have been declining, national budgets are stretched due to inflation and cost of living crises, and foreign direct investment flows has fallen sharply. This means remittances volumes have needed to work even harder and go even further to offset the gaps in financing in lower and middle income countries (LMICs).

In the last 12 months, many countries have experienced levels of inflation they had not seen in decades. This limited countries' ability and political capital to contribute to overseas development aid (ODA). In 2022, OECD countries spent $204 billion in ODA, when remittances volumes globally reached just under $800 billion. This is an increase of 13.6% in ODA when remittances to LMICs only rose by 5%. However, when excluding domestic costs related to hosting refugees, ODA only rose by 4.6%.

The political volatility and the general economic downturn makes remittances flows even more vital. Remittances often spike in times of conflict, natural disaster or financial hardship in the receiving country. For example, the World Economic Forum highlighted in February 2023 that "almost 8 million Ukrainians have fled to the European Union since Russia attacked their homeland in February 2022, and the money they've sent home has boosted total remittances to countries in Europe and Central Asia by 10.3%."*

People supporting family and friends abroad cannot afford for their remittance payments to not arrive at the other end in full. Luckily, there is a straightforward way to maximise remittances flows, but the pushback is considerable. Policymakers need to drum up the courage to face down the traditional finance industry and work with the global community to increase speed, lower costs and introduce transparency in those remittances flows.

Eight years ago, the United Nations devised with a 3% target for remittance costs by 2030, which formed a central part of its Sustainable Development Goals to reduce poverty. According to the World Bank, progress has flatlined and the average cost still hovers above 6%, more than double the target. In some countries, costs have gone up.

Analysis Why we need transparency

Why are we lagging behind?

According to the World Bank, "one of the most important factors leading to high remittance prices is a lack of transparency in the market. It is difficult for consumers to compare prices because there are several variables that make up remittance prices. [...] A lack of transparency in the market has had the impact of reducing competition, as consumers [...] are not aware of and cannot compare services, fees, and speed of their existing remittance service against other products."

This gets to the core of the problem. Most consumers don't know they have to resort to complicated maths to calculate the true cost of a money transfer, and providers exploit that lack of awareness. The real cost is hidden in the difference between the rate the provider offers and the mid-market rate at the time. The difference between those two rates is what makes up the majority of the cost the World Bank discloses on a quarterly basis and can easily add up to hundreds of dollars.

However, as long as providers are allowed to advertise "zero fees" or "no commission", when the bulk of the cost of a transfer remain hidden in inflated exchange rates, these high costs will persist. Today, providers are able to play into consumers' discount or present bias by failing to disclose their fees. A consumer is much less likely to shop around if they get the impression that their payment is free or incredibly low cost. This reduces competition and keeps information asymmetry high.

Why does transparency matter?

Generally, people make choices that are better for them when they are more informed. Remittances are no exception. In fact, research confirmed that increased transparency would empower consumers to choose the option that best suits their needs, therefore increasing competition and putting downwards pressure on prices. The UK's Behavioural Insights Team, which was created by the government, found that nearly 66% of first time consumers were unable to choose the best option under current disclosures. Once fully transparent pricing was introduced, the number of first time consumers choosing the best option doubled from 34.3% to 68.9%.

This is not a unique view and policymakers have caught on to the problem. The G20 Roadmap for Enhancing Cross-border Payments, coordinated by the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI), further highlights the importance of these remittances flows. It sets out the power the G20 has in setting the bar, as the most important remittances senders around the world. Transparency, along with access, lower cost and speed, a cornerstone of its Roadmap for enhancing cross-border payments. National governments and international rulesetters are following suit.

The latest action is coming from the US, where Senator Elizabeth Warren sent a letter to the Consumer Financial Protection Bureau (CFPB) urging them to provide consumers with greater transparency around the costs of remittance payments. As a result, CFPB Director Rohit Chopra promised to look into updating remittances rules to eliminate what US politicians refer to as "junk fees".

In Europe, the European Commission and the National Bank of Ukraine (NBU) teamed up to keep remittances to Ukraine flowing and bring the cost down by introducing the "mark-up rule". It's the first time policymakers explicitly called on providers to disclose the mark-up over a defined benchmark rate, in this case the European Central Bank or NBU rate. Unfortunately, the initiative was voluntary, but it sets a very important precedent that could bleed into future regulation.

The UK has the opportunity to close hidden fee loopholes when it updates the Payment Services Regulations, which are currently under review. It will take political courage to take on banks' hidden revenue streams, but it's the right thing to do.

Governments in the bigger sending countries have the power to positively and disproportionately impact remittance flows and how far they go. 12 countries are responsible for over a quarter of all remittance flows worldwide. If those countries introduce transparency, which will lead to lower costs, consumers will end up with billions more in their pocket. That should focus the mind.

A GLOBAL STANDARD FOR REMITTANCES

Consumers struggle and costs remain sky high today due to:

1. Different industry pricing models preventing any apples-to-apples comparison
2. Misleading advertisements of "$0" or "€0" while exchange rates are significantly inflated

BAD
Industry Today

Your total	200 USD
Fee	0.00 USD
Transferred	200 USD
Exchange rate 1 USD	19.5120 MXN
They receive	3,902.40 MXN

Provider also makes money by marking up the exchange rate.

BETTER
Transparent

Your total	200 USD
Fee	22.09 USD
Transferred	177.91 USD
Exchange rate 1 USD	21.8712 MXN
They receive	3,902.40 MXN

Transfer converted using benchmark exchange rate (via reputable independent source or central bank) with no mark-up, as required by regulation.

BEST
Transparent & Simplified

Your total 200 USD	
Fees and costs (subtracted)	22.09 USD
They receive 3,902.40 MXN	

Transfer converted using benchmark exchange rate (via reputable independent source or central bank) with no mark-up, as required by regulation. Live exchange rate was 1 USD = 21.8712 MXN at time of transfer.

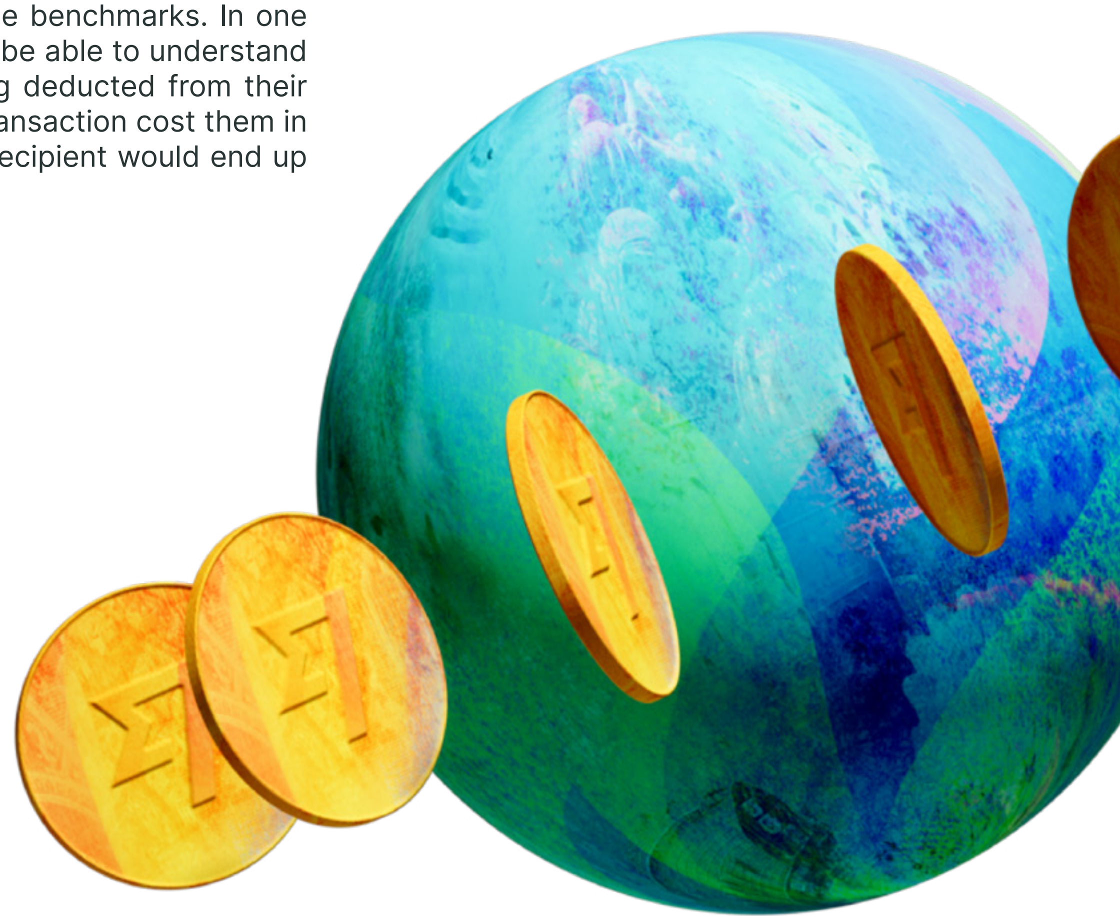
The last decade ushered in a wide range of innovation in the cross-border payment space. Newer players gave consumers access to cheaper remittances. But it's not enough. In order for prices to truly drop across the board, governments should allow for fair competition. Consumers should be able to pick a money transfer service with their eyes wide open.

The solution is simple

A few small tweaks to existing pricing disclosures would dramatically improve remittance price transparency and drive down costs. If providers across the industry used a real-time benchmark exchange rate (provided by reputable and independent sources, central banks or other government entity) and were forced to subtract fees from the send amount (rather than add them on top), people would be able to accurate compare providers. For the first time, apples-to-apples price comparison would be possible and hidden fees would be eliminated.

The send amount, fees, and receive amount would be comparable metrics across providers, as everyone uses the same benchmarks. In one glance, a consumer would be able to understand exactly how much is being deducted from their account, how much that transaction cost them in fees and how much their recipient would end up with.

If all banks and providers adopted this practice, the market would finally be transparent with consistent pricing practices. This would help eliminate consumer confusion when they move from one provider to another. In addition, this would simplify typical remittance pricing from five variables to only three, without sacrificing any information or overwhelming the consumer. The international community should support the new global standard and governments should implement these common sense changes. Consumers would be much better served, they would be more empowered to shop around and the goal of 3% remittance costs by 2030 would become more attainable.



IS FX RISK A VALID DEFENCE FOR INFLATED EXCHANGE RATES?

As described throughout this paper, the remittance marketplace is rife with hidden fees in the form of inflated exchange rates. Many banks and providers will defend this practice by highlighting the need to protect against unexpected rate volatility. We believe these concerns are typically overstated to justify continued profiteering.

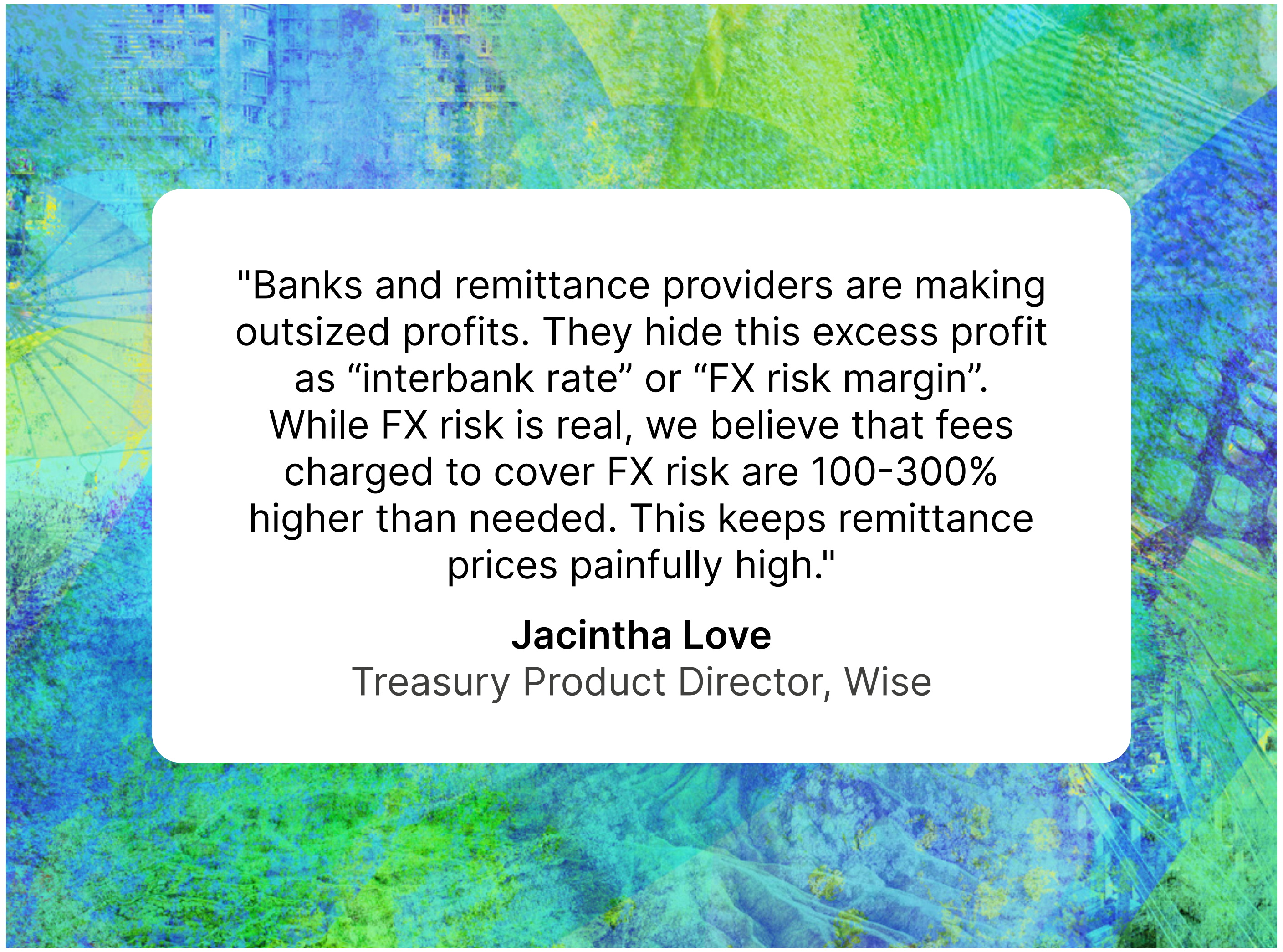
While risks and volatility may account for some margin, exchange rates (FX) are now inflated far beyond what's reasonably necessary and have instead primarily become a vehicle to charge higher costs on unsuspecting customers. A McKinsey report found that half of global cross-border payment fees are in the form of FX margin, while a recent IMF paper explained, "awareness of the cost of the foreign exchange is typically unknown... In some cases, a higher exchange rate margin reflects exchange rate risks, but there is mounting evidence that it can also conceal hidden transfer fees."

There is some element of FX margin which is reasonable - this is because providers are taking on FX risk when they provide remittance services. The risk here is that movement in the FX rates can cause outsized FX losses. Currencies that are more volatile are more likely to generate high losses, therefore the FX related risk is higher.

How much margin is actually necessary to account for volatility and avoid losses? Wise's Treasury experts manage FX risks globally, buying and selling currencies and managing liquidity to protect from losses. Do providers really need to inflate FX rates 3%, 4%, or more, to cover volatility risks? In short, no.

Looking at Wise's historical data, our Treasury team suggests the amount of FX margin conceivably needed to cover losses is roughly:

Currency Group	Reasonable FX Margin	Common industry margins → Customers overcharged	Examples	Characteristics
Major Currencies	0-10bp <0.10% £0.10 per £100	100-200bp £1.90 per £100	USD, EUR, AUD, CAD, NZD, JPY, PLN	Free floating currencies with highly liquid markets. Open 24/5.
Emerging Currencies	20-70bp <0.70% £0.70 per £100	100-300bp £2.70 per £100	TRY, INR, BRL, MYR, IDR	Somewhat restricted markets, typically open for limited hours.
Exotic Currencies	50-150bps <1.50% £1.50 per £100	200-500bp £3.50 per £100	EGP, PKR, LKR, GHS, KES, UAH	Highly restricted markets with significant government control.



"Banks and remittance providers are making outsized profits. They hide this excess profit as "interbank rate" or "FX risk margin". While FX risk is real, we believe that fees charged to cover FX risk are 100-300% higher than needed. This keeps remittance prices painfully high."

Jacintha Love
Treasury Product Director, Wise

When might volatility occur?

There are three common occasions when FX volatility risks increase and might require Wise to prefund currencies in anticipation or take quick action in response to limit losses:

Weekends: markets close over the weekend and rates can snap in either direction when markets reopen.

Holidays: prolonged market closures increase the risk of volatility and market changes.

Major geo-political or economic events: Elections in the US (2016), Brazil (2023), and Turkey (2023), geopolitical events like the invasion of Ukraine (2022), and economic events like the UK mini-budget (2022) all required extraordinary FX risk management to protect against losses.

FX risk management is the cost of business when operating international payments. Industry FX margins today are far beyond what could be conceivably justified. On most transfers, the amount of FX margin related to volatility is a few basis points, but the markup might be hundreds of basis points. It's resulted in a distorted marketplace that is at times exploitative and predatory. We believe this is why the mid-market rate, or something close to it, needs to be displayed to customers with all costs shown as a separate fee. That's been our model since Wise was founded. It's the only way to make the market transparent.

In 2022, all **OECD** countries combined spent

$204BN

in Overseas Development Aid (ODA), when remittance volumes reached just under

$800BN

This is an increase of 13.6% in ODA when remittances to Low and Middle Income Countries (LMICs) only rose by 5%.

However, when excluding domestic costs related to hosting refugees, **ODA only rose by 4.6%**.

By comparison, in 2022 the 12 **G20** net sending countries alone sent nearly

$200BN

in remittances.

In 2022, the **International Fund for Agricultural Development (IFAD)** estimated that money sent home by over

200M

migrant workers around the world provided a lifeline for more than

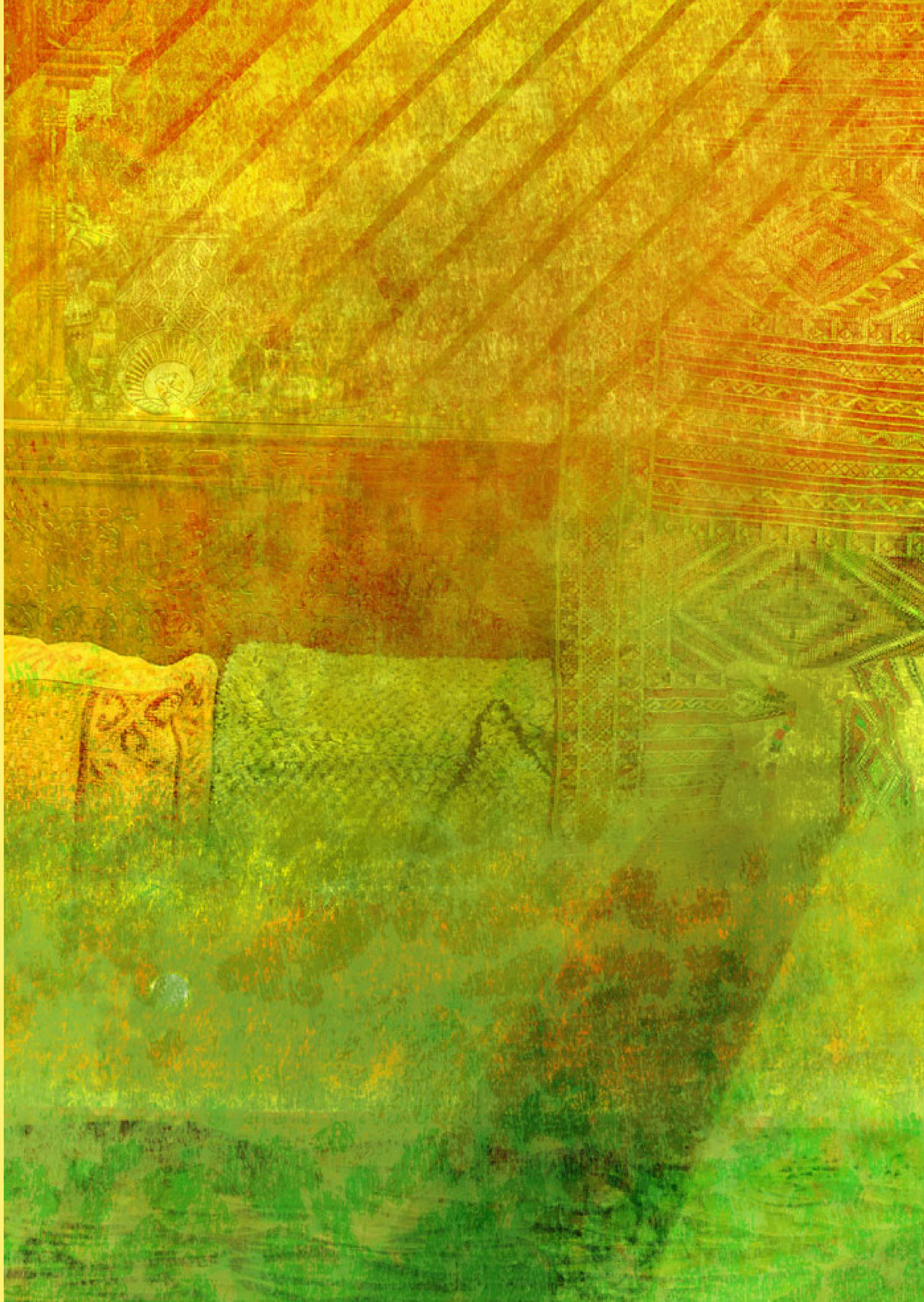
800M

family members

Unicef estimates that

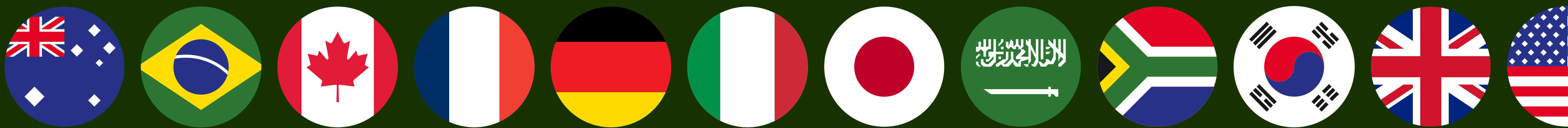
75%

of remittances are used for the essentials – to keep children in school, to feed families, to keep a roof over their head.



COUNTRY OVERVIEWS

REAL
EURO
YEN
RIYAL
RAND
RUPEE
WON



DOLLAR

All numbers are adjusted for inflation and are reflected in 2021 money.

AUSTRALIA

Key numbers

$5.3bn USD	2022 Remittance volume (estimated)
$3.1bn USD	2022 Net Overseas Development Aid
$5.2bn USD	2023 Remittance volume (forecast)

Australia's remittances flows are estimated to outstrip its overseas development aid, amplifying the importance of remittance flows, especially to the Pacific Islands.

Australia, as a country where half of the population has at least one parent born overseas, has a high proportion of those remitting money home to their families. Given the cost of living pressures and inflation running at 7% per annum, more needs to be done to help reduce these costs for Australian families during a period of significant economic strain. The Australian Competition and Consumer Commission's (ACCC) is reviewing their Best Practice Guidance and its impact will be monitored by the Australian Treasury. This is an opportunity for the ACCC to reflect the need to inform customers about the hidden fees contained within FX markups, ensure a more competitive market and also meet a stated foreign policy goal expressed in the most recent G20 Global Partnership on Financial Inclusion National Remittance Plan.

BRAZIL

Key numbers

$1.8bn USD	2022 Remittance volume (estimated)
$1.7bn USD	2023 Remittance volume (forecast)

While Brazil is mainly a remittance and overseas development aid recipient, it features among the G20 remittance sending countries as defined by the World Bank. Despite these dynamics, Brazil can be a rulemaker when it comes to transparency in remittances. Brazil's diaspora is large with 4.4 million Brazilians living abroad; increased price transparency would have a positive impact on those on either end of the payment chain.

Unfortunately, new laws ("VET") came into force in 2022, which require providers to show fees on foreign transactions. The exchange rate to be used is not defined within the law, allowing providers to continue to hide FX mark-ups by showing fees against the exchange rate of their choosing. This keeps the status quo of inflated exchange rates in place and dampens any competitive incentive to lower remittances costs. The Central Bank of Brazil has the power to clarify the VET law and require all fees - including any exchange rate mark-up - to be shown to the consumer.

CANADA

Key numbers

$7.7bn USD	2022 Remittance volume (estimated)
$7.5bn USD	2022 Net Overseas Development Aid
$7.5bn USD	2023 Remittance volume (forecast)

Given the record number of new migrants arriving in Canada in 2022 — and the trend over the last decade of increased immigration to the country — remittance flows from Canada are significant. Despite these large volumes, the cost of sending remittance payments remains high. It will require policy intervention to ensure Canada can meet the UN SDG by 2030. Policymakers have an opportunity to tackle this with its recently announced "junk fees", initiative similar to the US' initiative launched in 2022. Much like in the US, hidden cross-border payments fees should be considered junk fees that need to be eliminated.

The vast majority of Canadians are in the dark about how much they are overcharged — only 20% of consumers could correctly identify exchange rate markups as part of that cost. This means consumers lose money unwittingly, while also not being able to easily identify where the cheapest service is being provided. The junk fees initiative is an opportunity to change that.

FRANCE

Key numbers

$15.7bn USD	2022 Remittance volume (estimated)
$17.4bn USD	2022 Net Overseas Development Aid
$15.6bn USD	2023 Remittance volume (forecast)

In contrast to other European countries, France has intervened strongly in its energy markets, which kept inflation at lower levels than its peers. This has sheltered its population from an excessive financial hit in the short term, but the hit will be felt nonetheless - especially for those sending money to friends and family abroad. According to national statistics agency INSEE, 10.3% of France population are considered immigrants and a third of the population has links to immigration over three generations. This helps explain the prevalence and importance of remittance flows from France.

However, France doesn't equip its consumers with the necessary tools to shop around and compare providers. In most banks, customers need to call up customer support, go into branch or have a mandatory cooling off period of up to 72 hours before they can add a recipient overseas. This, in combination with the general lack of transparency in FX fees, means consumers are deterred from looking for better deals. When consumer organisation Que Choisir highlighted this issue by filing a complaint against MoneyGram and Western Union, change seemed imminent. Unfortunately, the status quo remained in place and Que Choisir's president lamented the persistence of hidden fees again when the European Commission and National Bank of Ukraine's initiative did not include a single French signatory. In 2023, France could take a leading role in pushing for price transparency in remittances when the EU's PSD2 negotiations kick off in earnest.

GERMANY

Key numbers

$21.4bn USD	2022 Remittance volume (estimated)
$37.2bn USD	2022 Net Overseas Development Aid
$21bn USD	2023 Remittance volume (forecast)

While the pandemic has accelerated Germany's switch to other payment methods, cash is still preferred by more than half the population. This, in combination with the strongly regional financial landscape in the country, mean German consumers don't reap the full benefits of increased digitisation and products by newer, innovative players - especially if compared to economies similar in size like the UK.

Germany is one of the few countries where overseas development aid outperforms remittance flows. However, a very large proportion of Overseas Development Aid (ODA) is spent on refugees within Germany. Much like in 2015, Germany has seen a big influx of refugees in recent times. More than one million Ukrainians have sought refuge in the country since the start of the war, many of whom continue to send money home to support those they left behind. Importantly, when the EU looked to recognise the importance of remittance flows from Europe to Ukraine and set out to lower their costs through a joint initiative with the National Bank of Ukraine, not a single German provider committed to joining. Mandatory price transparency can create true momentum to generate lower costs.

ITALY

Key numbers

$11.3bn USD	2022 Remittance volume (estimated)
$7bn USD	2022 Net Overseas Development Aid
$10.1bn USD	2023 Remittance volume (forecast)

According to the Banca d'Italia, the three main recipient countries of remittances sent by foreign workers from Italy in 2022 were Bangladesh, Pakistan, and Philippines. Lombardy, Italy's northern region with Milan as its capital, accounts for over a fifth of all remittances outflows. Italy's foreign-born population was 6.16 million in 2022, around 10% of its total population size of 59 million. Italy's central bank recognises the cost which may be hidden in inflated exchange rates and aims to educate consumers on this issue through its comparison website mandasoldiacasa.it. It details that remitters should look out for the 'spread' - the difference between the exchange rate their provider offers and the mid-market rate.

While Italy held the G20 presidency in 2021, it rightly focused on pandemic recovery, but overlooked the importance of remittances in rebuilding economies around the world. Now, it has another opportunity to play a leading role in setting the standard for transparency in remittances as a way to reduce remittance costs. Italy should look to share its recommendations available on mandasoldiacasa.it with European policymakers to ensure they're taken into account when the Payment Service Directive is reviewed.

JAPAN

Key numbers

$7.8bn USD	2022 Remittance volume (estimated)
$21bn USD	2022 Net Overseas Development Aid
$8.1bn USD	2023 Remittance volume (forecast)

With a growing migrant workforce (close to 2 million workers), Japan will only see remittance outflows increase in coming years. Traditional remittance routes are being overtaken by routes servicing the newer migrant workers from Vietnam, the Philippines and China. In combination with a weaker yen, people's purchasing power - and that of the remittances they send - is severely limited. This makes the need for policy intervention even more pressing.

Japan's G20 remittance report identified the need to provide "relevant information regarding commission fees to customers". It would be encouraging to see this information include an expression of the fees contained in the markups, as this is likely to unlock further competition in the market. In addition, the opening of the Zengin network to non-banks is a major step forward for more competition in the remittances space, as is the development of new eKYC requirements that are better crafted for non-banks. This will make accessing new providers or switching between providers a much more seamless process, adding further pressure to reduce costs for customers.

SAUDI ARABIA

Key numbers

$37.2bn USD	2022 Remittance volume (estimated)
$6.2bn USD	2022 Net Overseas Development Aid
$37.2bn USD	2023 Remittance volume (forecast)

Saudi's Vision 2030 is an ambitious economic & social reform programme intended to diversify the economy and economic growth in emerging industries. Its financial sector is the backbone and key enabler of the reform. The new King Abdullah Financial District (KAFD) is central to making the Kingdom a new financial and fintech hub in the region. As the fastest growing nation in the Middle East in 2022, there is real opportunity for growth and innovation to drive reform, competition, and ultimately foster downward pressure on remittance costs as global players enter and compete in the market.

Saudi Arabia has set up a Financial Sector Development Programme (FSDP) that aims to develop a diversified and effective financial sector to support the development of the national economy and stimulate savings, finances and investments. The focus of its new fintech licensing regime is targeted at payments, insurance and financing markets - with payments a priority, if it achieves its goal of attracting at least 230 fintech firms to the Kingdom by 2025 we could see genuine progress towards achieving UN SDG 10c by 2030.

SOUTH AFRICA

Key numbers

$1bn USD	2022 Remittance volume (estimated)
$991m USD	2023 Remittance volume (forecast)

South Africa is the largest remittance send-market in Africa, but a large proportion of remittance flows are intra-Africa, which is plagued by higher costs. It's hard to put a precise number on South Africa's remittance flows, as a large proportion flows through informal channels. We expect volumes to be higher than advertised, especially as South Africa is an important destination for foreign workers. Making it more transparent for remitters to send money, enabling them to find the best deal, might move some of these volumes into formal channels.

While South Africa has a tiered licensing framework allowing Authorised Dealers in foreign exchange with Limited Authority (ADLAs) in four licensing categories, there are strict limits in the thresholds on the amounts consumers can send in each category. The objective of this new regime is to allow more competition in the FX market without the need for a full banking licence, as is standard practice in many advanced markets around the world.

However, these currency controls have stifled competition in the remittance market, keeping costs high. This, combined with South Africa's recent addition to the Financial Action Task Force (FATF) Grey List has made attracting investment and competition in the country's remittance market more challenging. But increased transparency can lead to increased competition and lower remittance costs. Unless this is effectively achieved in South Africa, it will not be on track to achieve 3% remittance costs for all corridors by 2030.

SOUTH KOREA

Key numbers

$10.5bn USD	2022 Remittance volume (estimated)
$3.1bn USD	2022 Net Overseas Development Aid
$10.4bn USD	2023 Remittance volume (forecast)

South Korea's remittances volumes are roughly three times as large as its overseas development aid. As the South Korean economy continues to grow, the composition of the workforce is itself changing as well, with migrants now making up 3.1% of the South Korean population. This number is set to grow as demographic pressures promote the need for more semi-skilled and skilled workers to undertake work in this dynamic economy, which will likely increase remittances flows.

Positive work from the Korean Federation of Banks to collate in one place the costs of remittances across 19 separate banks is a useful tool and its creation should be applauded. Unfortunately, it is not dynamic nor does it illustrate the costs contained within exchange rate markups. More price transparency needs to be implemented. This is especially important as inflation is eating away at the value of Korea's outward remittance flows. While this report estimates remittances flows will trend upwards, the level of inflation means that they go less far than 2022 volumes.

UNITED KINGDOM

Key numbers

$7.8bn USD	2022 Remittance volume (estimated)
$21bn USD	2022 Net Overseas Development Aid
$8.1bn USD	2023 Remittance volume (forecast)

The UK's high levels of inflation have limited the value of remittances sent to friends and relatives abroad. Despite this, the UK made significant cuts to its overseas development aid, moving away from the 0.7% of GDP target for the first time in 2021. While ODA remains higher than remittance volumes, the double whammy is likely to impact lower and middle income countries.

The UK's Consumer Duty, which promises to ensure the finance industry offers fair price and value for its services, could help to bring transparency to the market if the Financial Conduct Authority, the UK's main financial services regulator, choses to enforce it in this way. The regulator has not yet indicated how it plans to enforce this element of the Consumer Duty.

The real opportunity comes with HM Treasury's current review of the Payment Services Regulations (PSRs), the UK's transposition of the EU's Payment Services Directive (PSD2). This review of payments legislation could introduce binding rules to require firms to show up-front the total cost of currency conversion services, including any foreign exchange mark-ups that are still widespread across the industry. It is a crucial moment to fix hidden fees and introduce transparency to the cross-border payments industry, creating a competitive environment that will put downwards pressure on prices for consumers and remitters.

Only significant policy reform such as this will significantly help the UK's efforts in making progress towards the 3% goal.

USA

Key numbers

$70bn USD	2022 Remittance volume (estimated)
$51.7bn USD	2022 Net Overseas Development Aid
$67.8bn USD	2023 Remittance volume (forecast)

The United States is by far the biggest remittance sending country in the world, with Mexico receiving the largest share of those remittances. While remittance flows are expected to go up in absolute numbers, forecasts indicate that they'll be worth less than in 2021 if they follow the trajectory of the previous years. Luckily, overseas development aid increased significantly since 2019 at a much higher rate than inflation, which could minimise the dynamic in remittance volumes. Regardless, remittance fees remain high due to non-transparent pricing.

Although the Dodd-Frank Act of 2010 created fee disclosure rules for remittances, banks and providers can still inflate the cost of remittances through hidden fees in the exchange rate. This has hindered progress on lower remittance costs. Americans cannot make apples to apples comparisons on their transfers, making it almost impossible to choose the cheapest option. This is due to the fact that most upfront fees are added on top of the amount that consumers send - i.e. the amount that gets debited from their account - which artificially inflates the amount their recipient receives on the other side. The Consumer Financial Protection Bureau (CFPB) has the authority to put a stop to this. Encouragingly, the CFPB has now committed to taking a closer look at exchange rate transparency in response to a letter from Sen. Elizabeth Warren (D-MA). As the biggest remittance sending country in the world, the US could set a policy direction that has the biggest impact on remitters globally.

REMITTANCE TESTIMONIALS FROM CUSTOMERS

"My daughter started her studies at Vienna University in 2015. Obviously we supported her, we transferred some money to her regularly. In the beginning we did it through banks, and surprisingly the costs of the remittances were so high..."

Hungary

"I'm from Brazil. I'm living Amsterdam in the Netherlands. So I moved from South America, from the countryside of Sao Paulo to Europe to Amsterdam almost four years ago. When I moved here, one thing that was clear to my family and was clear to me was that they could not support me. It was unaffordable for them to support me and actually the other direction become important. If they had a financial issue, I would become someone that could help them. When I moved to Europe, I realized a problem. It's hidden. Hidden fees.

People don't talk about, people don't know about. But when you daily need to move money across borders you're like what the hell is going on here? We're not asking to move money abroad for free because that has financial costs and that's a much bigger problem. We're just asking tell us how much we are paying, what we are paying for, when we are going to receive the money and why. Some banks and some institutions can send money in seconds and some institutions send money in weeks."

Netherlands

"I am using Wise to transfer money every month from Germany, where I reside, to my son in Canada. Before Wise, I was paying fees that were 4 times higher and the transfers were cumbersome to set up."

Germany

"I have a "second" family in Africa, where I support children and it is outrageous when you feel like you are using the best service only to find that everything you have been sending was not received fully, but 10% less due to the hidden fees, than it could be."

Germany

"As an early retired couple with strong ties to both Australia and Malaysia, international financial exchange plays a crucial role in our lives. My wife, a proud Malaysian, maintains strong connections to her homeland. Through our international transactions, we are able to provide direct support to her father in Malaysia and her mother in Indonesia. These connections reaffirm our commitment to family bonds that transcend borders.

I encountered hidden fees that impacted both my professional life and my family's finances. One area where these hidden fees had a significant impact was international transfers. Foreign exchange fees and undisclosed charges would often eat into a large portion of the transferred amount, leaving clients frustrated. Even domestic transactions within Australia incurred unexpected fees, placing an additional burden on customers."

Australia

"I send money to help families in the Philippines that I met on medical missions receive an education and survive. Over the past 17 years I sponsored youths who are now in college or working. The pandemic left many destitute with many overdue bills. I have been helping them regain what they lost."

USA

METHODOLOGY

- Net Overseas Development Aid (ODA) is based on the OECD's net official development assistance flows. OECD (2023), Net ODA (indicator). doi: 10.1787/33346549-en (Accessed on 02 June 2023)
- Remittance volumes for 2022 are based on KNOMAD's estimate of remittance volumes for 2022 and the percentage share of a country's outflow (KNOMAD) in 2020 and 2021.
- Remittance volumes for 2023 are based on KNOMAD's forecast of remittance volumes for 2022 and the percentage share of a country's outflow (KNOMAD) in 2020 and 2021.

THANK YOU

If you have any questions about this report, please get in touch with the team at policy@wise.com.