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Remittances: Background and Issues for the 118th Congress

Updated May 10, 2023

Congressional Research Service

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R43217



Remittances: Background and Issues for the 118th Congress

This report focuses on remittances, the transfers of money and capital sent by migrants and foreign immigrant communities to their home countries. At over \$626 billion annually, remittances sent home by international migrants to developing countries are larger than official development assistance (ODA) and more stable than private capital flows to these countries. The United States is the destination for the most international migrants and, according to the International Monetary Fund and World Bank, the largest global source of remittances, sending \$72.7 billion in 2021.

As remittances have grown, banks, traditional money transfer companies, and entrepreneurs have responded to increased demand by increasing the remittance channels available to migrants; these now include mobile, Internet, and card-based options.

The rise in the importance of remittances to global capital flows has also led to greater interest from Congress and other policymakers. Key remittance issues for Congress include:

Costs associated with Remittances: In recent Congresses, Members have sought legislative efforts to reduce the cost of remittance services. A number of factors affect the transfer fee charged, including the regulatory and administrative costs, the volume sent, the transfer mechanism, the receiving country's financial infrastructure, and the level of market competition (in both the sending and receiving country). In addition, the exchange rate used in the transaction can significantly affect the amount actually delivered to the recipient.

Regulation of Remittances. Members may want to review the regulatory landscape for remittance providers. Effective regulation of remittances can help reduce corruption, enhance transparency, and facilitate a more robust business environment. At the same time, additional regulatory requirements, such as consumer protection requirements included in the Dodd-Frank Wall Street Consumer Protection Act, may raise concerns about the compliance costs for remittance providers and consumers. Congress may also want to consider whether current federal and state regulation are appropriate for new and emerging payment methods such as mobile and digital payment options, which are starting to capture part of the remittance market. Members may also want to review recent efforts to improve foreign regulatory and supervisory mechanisms. Remittances are often sent to recipients in developing countries with weak regulatory systems, increasing the risk of money laundering and possible financing of terrorism.

Remittances and Cryptocurrency. Cryptocurrencies are a relatively new technology-based payment tool that can facilitate cross-border transactions without the need for banks and centralized intermediaries. To the extent money transmitters, particularly large ones such as PayPal that offer peer-to-peer (P2P) digital options for sending remittances, find ways to facilitate cryptocurrency transactions, the role of cryptocurrencies in remittance markets has the potential to grow. Given this growth, Congress may examine what role cryptocurrencies will play in remittance markets in the future, and consider whether the existing financial regulatory framework is sufficiently authorized to manage the risks of using cryptocurrency in light of other more traditional financial services, such as banking or money transmitters.

R43217

May 10, 2023

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Contents

Overview of the Global and U.S. Remittance Market.....	1
Key Institutions in the Domestic Market	2
Money Service Businesses (MSBs).....	3
Traditional Depository Institutions	4
U.S. Remittance Flows.....	5
Regulation of Remittances	5
U.S. Anti-Money Laundering/Combating the Financing of Terrorism Efforts	6
Federal Consumer Protection Provisions.....	6
ACH and FedGlobal Services.....	7
International Standards and Principles.....	8
Issues for Congress.....	8
Costs Associated with Remittances.....	9
Regulatory Issues and De-Risking	10
Remittances and Cryptocurrencies.....	12

Figures

Figure 1. Remittances, Foreign Direct Investment, and Official Development Assistance Flows to Low- and Middle-Income Countries	2
Figure 2. Overview of Remittance Channels.....	3
Figure 3. Estimated Remittances from the United States (2021)	5
Figure 4. Global Cost of Sending \$200	9
Figure 5. Total Average Cost of Sending Remittances by Traditional and Digital Money Transfer Operators (MTOs).....	10

Contacts

Author Information.....	14
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Overview of the Global and U.S. Remittance Market

Remittances are a prominent type of cross-border financial transfer.¹ Often these payments are made between migrant families. The United States has more immigrants than any other country in the world: immigrants account for 14.1% of the U.S. population and are the largest global source of remittances.²

Remittance transactions typically involve a sender from one country, a recipient in another country, financial intermediaries in both countries, and a payment system used by the intermediaries. The financial institutions involved in the \$540 billion remittances market can be banks or credit unions,³ but they are often money transmitters, such as MoneyGram, Western Union, or PayPal.

Remittances have increased steadily over the past three decades and are the largest source of external finance for low- and middle-income countries (**Figure 1**), exceeding foreign direct investment (FDI), portfolio investment, and official development assistance (ODA).⁴ In 2022, remittances to low- and middle-income countries are estimated at \$626 billion, an increase from \$597 billion in 2021 levels and up from about \$75 billion in 1990. The World Bank notes that in 2022, India was the largest remittance-receiving country (\$100 billion), followed by Mexico (\$60 billion), China (\$51 billion) and the Philippines (\$38 billion).

The World Bank had expected the combined impact of travel bans and the Coronavirus Disease 2019-related global economic downturn to have a much larger negative impact on remittance flows; however, recent research found that an impact of the pandemic's border closures shifted remittances from informal to formal channels.⁵

Official remittance figures do not include informal remittance flows (discussed in the next section). Estimates of informal remittance flows vary greatly, from between 50% and 250% of total remittance flows.⁶ The dramatic rise in the importance of remittances to global capital flows has also led to greater interest from Congress and other policymakers. Members may want to review the regulatory landscape for remittance providers. Effective regulation of remittances can help reduce corruption, enhance transparency, and facilitate a more robust business environment. At the same time, additional regulatory requirements, such as consumer protection requirements included in the Dodd-Frank Wall Street Consumer Protection Act, or new regulation on digital remittances may raise concerns about the compliance costs for remittance providers and consumers. Congress may also want to consider whether current federal and state regulation are

¹ The term “remittance” can be used in a few different contexts. Generally, a remittance is money sent somewhere to pay for something. This report discusses a type of remittance that consists of cross-border payments, where money is sent by someone in a country to someone outside that country.

² Miriam Jordan and Robert Gebeloff, “Amid Slowdown, Immigration Is Driving U.S. Population Growth,” *New York Times*, February 5, 2022. ; World Bank, Migration and Development Brief 37, Figure 1.1b, November 2022, https://www.knomad.org/sites/default/files/publication-doc/migration_and_development_brief_37_nov_2022.pdf.

³ World Bank, “Low- and Middle-Income Countries Received \$540 billion in 2020, \$8 Billion Less Than in 2019,” May 12, 2021, at <https://www.worldbank.org/en/news/press-release/2021/05/12/defying-predictions-remittance-flows-remain-strong-during-covid-19-crisis>.

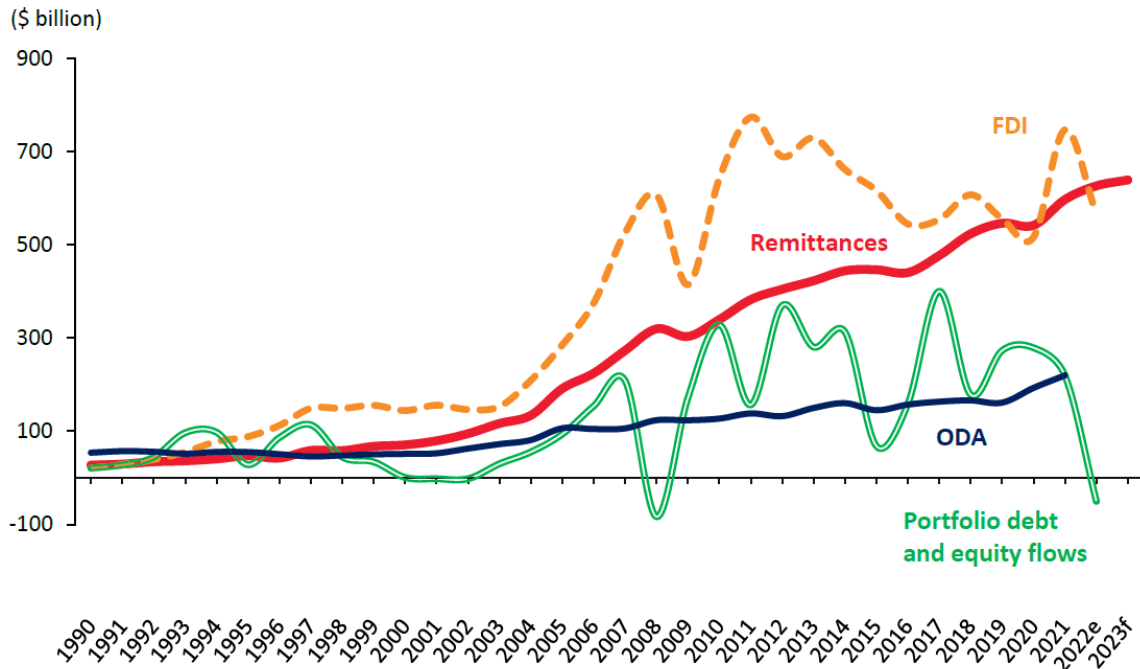
⁴ For 2021, low- and middle-income countries include those with a gross national income per capita below \$12,695, <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2021-2022>.

⁵ ⁵ Kangni Kpodar et al., “Defying the Odds: Remittances During the COVID-19 Pandemic,” International Monetary Fund Working Paper 21/186, July 2021, <https://www.imf.org/-/media/Files/Publications/WP/2021/English/wpiea2021186-print-pdf.ashx>.

⁶ Ibid.

appropriate for new and emerging payment methods such as mobile and digital payment options. Members may also want to review recent efforts to improve foreign regulatory and supervisory mechanisms. Remittances are often sent to recipients in developing countries with weak regulatory systems, increasing the risk of money laundering and possible financing of terrorism.

Figure 1. Remittances, Foreign Direct Investment, and Official Development Assistance Flows to Low- and Middle-Income Countries



Source: World Bank, Migration and Development Brief 37, Figure 1.1b, November 2022, https://www.knomad.org/sites/default/files/publication-doc/migration_and_development_brief_37_nov_2022.pdf.

Note: (e): estimated; (f): forecast; (FDI): Foreign Direct Investment; (ODA): Official Development Assistance.

Key Institutions in the Domestic Market

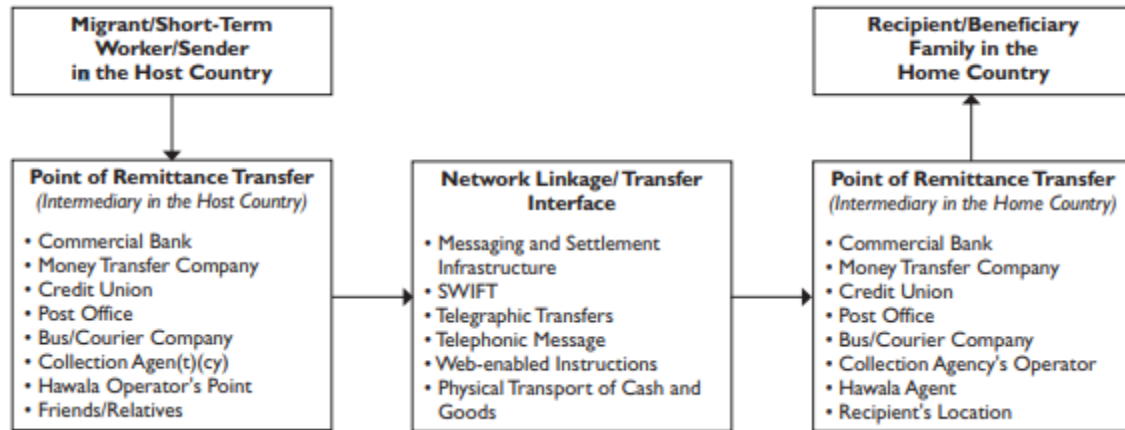
Migrants/customers can send remittances through informal or formal channels (**Figure 2**).⁷ Analysts have labeled the informal channels with various terms, including “alternative remittance systems,” “underground banks,” and “informal value transfer systems.” These services are less expensive than formal banking or money-transfer arrangements and can reach countries where there is no formal banking sector, in some cases even arranging for hand delivery of the cash. The most well-known is hawala (hawala means “transfer” in Arabic), which originated in India and has been in use in South Asia and the Middle East for several hundred years.⁸ While most remittance customers use these arrangements for legitimate purposes, these systems’ lack of documentation and their anonymity and informality can make them attractive for money laundering, terrorist financing, or other illegal purposes.

⁷ *International Transactions in Remittances: Guide for Compilers and Users*. Washington, DC: International Monetary Fund, 2009, at <https://www.imf.org/external/np/sta/bop/2008/rcg/pdf/guide.pdf>.

⁸ Often regionally based, alternative remittance systems date back hundreds of years and were originally used to finance trade in regions where traveling with gold or other forms of payment was not safe. These systems go by various names including Hue (Vietnam), Fei-Ch’ien (China) Phei Kwan (Thailand) Hundi (South Asia), or Hui Kuan (Hong Kong).

Formal channels involve intermediaries that are officially licensed to operate money-transfer businesses. These formal channels consist of banks, nonbank financial institutions (including post offices), and money service businesses such as Western Union or MoneyGram. Increased use of technology in developing countries has also facilitated the use of mobile-phone-based and other electronic payment methods (such as PayPal), through both formal and informal mechanisms.

Figure 2. Overview of Remittance Channels



Source: International Transactions in Remittances: Guide for Compilers and Users, *International Monetary Fund*, 2009.

Notes: Not all transactions sent through these channels are remittances.

Money Service Businesses (MSBs)

The U.S. foreign remittance market is dominated by MSBs, a category of nonbank financial institutions that generally own proprietary, so-called “closed-loop” payment systems, and operate largely outside of conventional banks.⁹ A reason remittance customers may use MSBs is that the customers are often “unbanked”; that is, they do not have an account with a depository financial institution. MSBs issue money orders and traveler’s checks, transmit money, cash checks, exchange currency, and store value.¹⁰ MSBs cover a broad variety of enterprises ranging from small and simple operations to large firms. MSBs typically are private enterprises.¹¹

Money Transmitters

One of the more common types of MSBs in the United States is called a money transmitter. Americans use money transmitters to pay bills, purchase items online, or send funds to family members and friends domestically and abroad. Although some prominent companies, such as Western Union, MoneyGram, and PayPal, belong to this group of financial institutions, thousands of money transmitters in the United States operate in the background of financial services. Traditional money transmitters like Western Union and MoneyGram are often located in a wide

⁹ For example, a remittance-sender goes to a Western Union (a type of money service business called a money transmitter) agent in Chicago to send money to her uncle in Brazil, who collects the funds from one of the more than 10,000 Western Union agents in Brazil. Since there are Western Union agents on both ends of the transaction, the transaction occurs outside the conventional banking system.

¹⁰ Stored value is funds or monetary value represented in digital electronic format and stored or capable of storage on electronic media in such a way as to be retrievable and transferable electronically, such as a prepaid Visa gift card.

¹¹ Within the context of remittances, the U.S. Postal Service also acts as an MSB, because it issues money orders.

variety of other businesses, including supermarkets, check cashing agents, gas stations, liquor stores, convenience stores, and currency exchange offices. Hence, money transmission services may be an ancillary service: the remittance customer may be able to cash a paycheck, send money to family in their home country, and shop for groceries at the same location. Alternatively, many peer-to-peer (P2P) platforms, such as PayPal and Venmo, operate through mobile apps and web browsers, and so are not ancillary to another business sharing a physical location. While remittances traditionally have been channeled through brick-and-mortar MSBs, the advent of mobile apps and cryptocurrencies has facilitated a new channel for remittance flows.

Traditional Depository Institutions

Small amount remittance transactions are not a service banks and credit unions traditionally provide. More often, those institutions transfer fewer remittances with larger, average dollar value than money-services businesses.¹² International money-transfer services provided by banks are marketed primarily to corporate clients who send larger amounts than a typical migrant remitter. One constraint for bank provision of remittances is the underdeveloped financial systems in many of the largest remittance-receiving countries. Since many recipients lack a bank account, they may prefer to collect remittance money in cash. International wire transfer, however, is only an option when both the sender and receiver have access to deposit accounts at depository institutions. Unlike the “closed loop” payment system used by MSBs, banks and credit unions generally use “open loop” payment systems, such as wire-transfer systems and correspondent banking channels. Because MSBs often act through retail store locations such as grocery stores, they tend to have more extensive distribution networks in their countries of operation than traditional depositories do.

As consumer demand for remittances has grown over the past two decades, banks and credit unions have shown a greater interest in providing remittance services directly to consumers. Remittance services can be a way to bring low-income migrants into the financial mainstream and introduce them to other financial products and services, such as interest-bearing savings accounts, checking accounts for paying bills, free and secure check cashing services, and small-dollar loans, among other services. Further, a credit union network for international money transfers called the World Council of Credit Unions’ International Remittance Network has facilitated credit union participation.

U.S. depository institutions have the option of using the Automated Clearing House (ACH) payments system, which can batch and process financial transfers at a lower price than traditional international wire transfers. (The Federal Reserve is one of two ACH payment system operators—this is discussed in more detail in the Regulation of Remittances section below.) Participation in the remittance market by banks and credit unions, while growing, is still limited. The Federal Reserve does not collect precise statistics on remittance transfers, but the latest available data from the Federal Reserve suggest that in 2018, the two U.S. ACH operators handled a total of 22.9 billion ACH transactions, of which 83.8 million (less than 1%) were international ACH transactions.¹³

¹² Consumer Financial Protection Bureau, *Remittance Rule Assessment Report*, pp. 63-64, October 2018, at https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_remittance-rule-assessment_report.pdf.

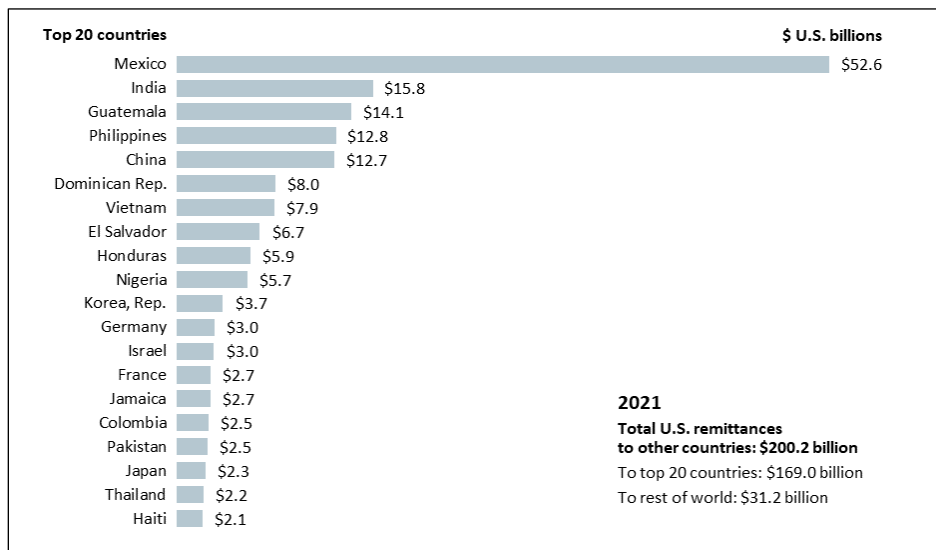
¹³ Board of Governors of the Federal Reserve System, *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries*, May 2019, at <https://www.federalreserve.gov/publications/2019-may-ach-report-other-payment-mechanisms.htm>.

U.S. Remittance Flows

The primary source for international remittances data is the International Monetary Fund (IMF), which compiles statistics submitted by its member countries. Using IMF statistics, the World Bank publishes migration and remittances data on a dedicated website.¹⁴

The IMF, World Bank, and the U.S. government do not compile and publish remittance flows from the United States (or other countries) to individual countries or regions. The World Bank estimates bilateral remittance flows between its member countries based on migration figures and historical trends.¹⁵ **Figure 3** presents the World Bank's most recent estimates for the largest recipients of remittances from the United States. The United States is consistently the largest sending jurisdiction, accounting for 26% of all remittances sent in 2021. Mexico is by far the largest recipient of remittances from the United States.

Figure 3. Estimated Remittances from the United States (2021)



Source: World Bank Bilateral Remittance Database.

Regulation of Remittances

As stated above, remittances can be made through different types of financial institutions, and these institutions are subject to different regulatory frameworks. In the United States, the operations of banks and credit unions are closely regulated and supervised at both the state and federal level. Foreign bank branches and agencies operating in the United States are also governed by a combination of state and federal statutes, the provisions of which include licensing requirements and permissible activities. State regulators also oversee other types of financial

¹⁴ <https://www.knomad.org/data/remittances>.

¹⁵ The World Bank's bilateral remittances matrices are available at <https://www.knomad.org/data/remittances>. The World Bank uses two datasets to construct the Bilateral Remittance Matrix. The first is UN Population Division estimates of migrant stock by country of origin and destination, also used by this tool. The second dataset is remittance inflows data, constructed as the sum of three components in the IMF's Balance of Payments Statistics: (i) compensation of employees, (ii) workers' remittances, and (iii) migrants' transfers. A country's total remittance inflows in a given year are allocated to its emigrant stocks, adjusting for the migrant sending and receiving countries' per capita income.

companies like MSBs.¹⁶ Regulatory efforts at the state level focus primarily on licensing and consumer protection. Currently, 49 states have legal frameworks for MSBs.¹⁷

Though the various financial institutions are subject to different frameworks, the primary focus of federal remittance regulation is generally on anti-money laundering (AML) and combating the financing of terrorism (CFT). In addition, the Consumer Financial Protection Bureau (CFPB) promulgates certain consumer protection rules implementing provisions set forth in Section 1073 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank, P.L. 111-203), which have included cross-border payments regulations.¹⁸ Additionally, the Federal Reserve operates a major payments network over which banks can process remittances. These efforts are discussed in the following sections.

U.S. Anti-Money Laundering/Combating the Financing of Terrorism Efforts

In the United States, remittance providers (including banks and MSBs), are required to take certain steps to identify, assess, design, and implement controls to comply with their obligations under the Bank Secrecy Act (BSA, P.L. 91-508). The BSA is the primary AML law in the United States.¹⁹ Congress has amended the BSA a number of times, most notably by Title III of the USA PATRIOT Act (P.L. 107-56) in 2001, which expanded the BSA framework beyond AML to also fight terrorist financing. The BSA requires financial institutions to maintain appropriate records and file reports that can be used in criminal, tax, or regulatory investigations or proceedings. The Treasury Department's Financial Crimes Enforcement Network (FinCEN) administers the BSA.²⁰ With limited exceptions, MSBs are subject to the full range of BSA regulatory controls, including requirements for maintaining financial records, conducting customer identification procedures, in particular for larger transfers, and filing reports for large or suspicious transactions.²¹

Remittances to certain foreign countries may also be subject to sanctions under various federal statutes administered by the Treasury Department's Office of Foreign Assets Control (OFAC). The U.S. government restricts remittances to countries, individuals, or companies that are subject to U.S. sanctions and embargoes.

Federal Consumer Protection Provisions

Section 1073 of the Dodd-Frank Act amended the Electronic Fund Transfer Act (EFTA, P.L. 95-630) to create a consumer protection regime for remittance transfers sent by consumers in the

¹⁶ For more on the regulation of MSBs, see CRS Report R46486, *Telegraphs, Steamships, and Virtual Currency: An Analysis of Money Transmitter Regulation*, by Andrew P. Scott.

¹⁷ According to the CSBS, Montana is the sole state without an MSB legal framework. For more, see CSBS, "Chapter Four: Overview of Money Services Business," 2019, p. 4, at <https://www.csbs.org/system/files/2020-08/Chapter%20-%20MSB%20Final%20FINAL.pdf>.

¹⁸ For example, see *Remittances: Access, Transparency, and Market Efficiency: A Progress Report*, hearing, House Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, 110th Congress, May 17, 2007; and *Remittances: Regulation and Disclosure in a New Economic Environment*, hearing, House Committee on Financial Services, Subcommittee on Financial Institutions and Consumer Credit, 111th Congress, June 3, 2009.

¹⁹ Office of the Comptroller of the Currency, "Bank Secrecy Act (BSA) & Related Regulations," accessed January 15, 2020, at <https://www.occ.treas.gov/topics/supervision-and-examination/bsa/bsa-related-regulations/index-bsa-and-related-regulations.html>.

²⁰ For more on FinCEN, see <https://www.fincen.gov/resources/statutes-regulations/fincens-mandate-congress>.

²¹ U.S. Department of the Treasury, *Report to Congress in Accordance with Section 359 of the USA PATRIOT Act*, November 2002, p. 8, at <https://www.fincen.gov/sites/default/files/shared/hawalarptfinal11222002.pdf>.

United States to individuals and businesses abroad. In 2012 and 2013, the CFPB implemented Section 1073 through its Remittance Transfer Rule.

The rule requires companies that offer remittances to provide consistent, reliable disclosure of the price of a transfer, the amount of currency to be delivered to the recipient, and the date of availability prior to the consumer making any payment. The rule also aims to increase consumer protections by requiring remittance providers to investigate disputes and remedy errors related to the transaction, and to provide disclosures that explain the impact fees and taxes will have on the transfer amount.²²

In May 2020, the CFPB issued a final rulemaking to amend the Remittance Transfer Rule to impose requirements on entities that send international money transfers, or remittance transfers, on behalf of consumers.²³ Under the rule, remittance transfer providers generally must disclose the exact exchange rate, the amount of certain fees, and the amount expected to be delivered to the recipient (accounting for fees and exchange rate). The final rule also increases the threshold that determines whether an entity makes remittance transfers covered under the rule: entities making 500 or fewer transfers annually in the current and prior calendar years would not be subject to the rule. According to the CFPB, the rulemaking impacts over 400 banks and almost 250 credit unions that send a relatively small number of remittances—less than 0.06% of all remittances.

ACH and FedGlobal Services

U.S. depository institutions have the option of transmitting remittances through the ACH system. The ACH system clears and settles batched electronic transfers for participating depository institutions. Since financial transfers are batched together and sent on a fixed schedule, banks can charge a lower price than for traditional international wire transfers, which are sent individually. The originating institution combines the payment instructions from its various customers and sends them in a batch to an ACH operator—the Federal Reserve’s FedGlobal Payments Service or the Clearing House’s Electronic Payments Network—for processing. In addition to remittances, international ACH transfers are used for various small, recurring, cross-border payments, such as Social Security and other benefit payments; business transactions, such as vendor payments; and consumer transactions, such as bill payments and remittance transfers.

Since 2001, the Federal Reserve has provided so-called “account-to-receiver” FedGlobal services that allow funds from accounts at a U.S. depository financial institution to be sent to unbanked receivers for retrieval at either a bank location or a trusted, third-party provider. FedGlobal services are available to several countries in Europe and Latin America.²⁴

²² Consumer Financial Protection Bureau (CFPB), “Electronic Fund Transfers (Regulation E),” 78 *Federal Register* 30661, 2013.

²³ CFPB, “Consumer Financial Protection Bureau Issues Final Remittance Rule,” May 11, 2020, at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-final-remittance-rule/>.

²⁴ The European service includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom. The Latin American service includes Argentina, Brazil, Columbia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, and Uruguay. The Latin American service, which only involves account-to-receiver ACH transfers, is in addition to the account-to-account service for Mexico.

International Standards and Principles

Global standards for remittances have emerged over the past decade, largely due to concerns about unregulated money transfer services and their use in planning the September 11, 2001, terrorist attacks. International efforts have been negotiated at the Financial Action Task Force, an inter-governmental body comprising 34 countries, including the United States, and two regional organizations, that develops and promotes policies and standards to combat money laundering and terrorist financing.²⁵ FATF was established in 1989 by the G-7 countries to implement the Vienna Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the first international agreement to criminalize money laundering. FATF is housed at the Organization for Economic Cooperation and Development (OECD) in Paris, France.

FATF sets minimum standards and makes recommendations for its member countries. Each country must implement the recommendations according to its particular laws and constitutional frameworks. In 2001, FATF issued nine special recommendations to counter terrorist financing. For example, FATF Special Recommendation VI required FATF member countries to regulate all MSBs. In 2012, FATF substantively revised its recommendations and Special Recommendation VI became FATF Recommendation 14 on Money or Value Transfer Services.²⁶ Several other recommendations are relevant for remittance providers, including recommendations 10 and 16 on wire transfers, recommendation 11 on record keeping, recommendation 18 on internal controls and foreign branches and subsidiaries, and recommendation 20 on suspicious transaction reporting.²⁷

International efforts have also focused on improving the operational aspects of remittance transfers. In 2007, the BIS and the World Bank jointly issued *General Principles for International Remittance Services*, to “help to achieve the public policy objectives of having safe and efficient international remittance services, which require the markets for the services to be contestable, transparent, accessible and sound.”²⁸ General Principle 3 states that “Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions,” and affirms the FATF recommendations advocating that remittance providers comply with all relevant FATF recommendations. FATF maintains a mutual evaluation system and provides oversight of nonmember countries’ AML/CFT regimes.

Issues for Congress

Key issues that Congress may consider regarding remittances include:

²⁵ Members of FATF are Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, the European Commission, Finland, France, Germany, Greece, the Gulf Cooperation Council, Hong Kong, Iceland, India, Ireland, Italy, Japan, Korea, the Netherlands, Luxembourg, Mexico, New Zealand, Norway, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. On February 24, 2023, Russia was suspended from FATF. See CRS Report RS21904, *The Financial Action Task Force: An Overview*, by James K. Jackson.

²⁶ The Financial Action Task Force, *The FATF Recommendations: International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*, February 2012.

²⁷ Ibid.

²⁸ Bank for International Settlements and the World Bank, *General Principles for International Remittance Services*, January 2007.

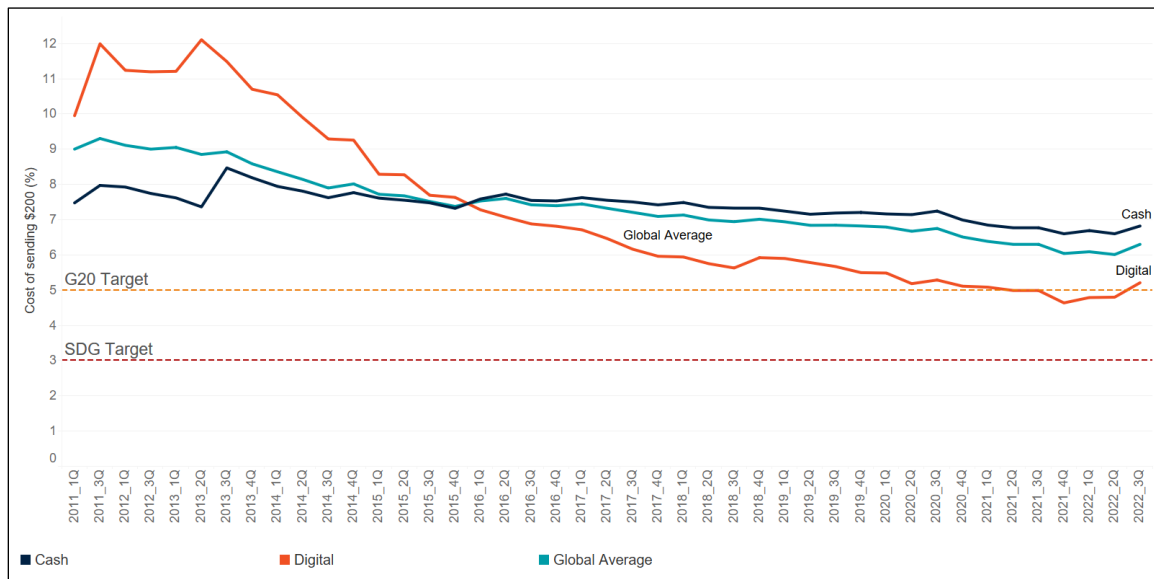
Costs Associated with Remittances

In recent Congresses, Members have sought legislative efforts to reduce the cost of remittance services. A number of factors affect the transfer fee charged, including the regulatory and administrative costs, the volume sent, the transfer mechanism, the receiving country’s financial infrastructure, and the level of market competition (in both the sending and receiving country). In addition, the exchange rate used in the transaction can significantly affect the amount actually delivered to the recipient.

In 2009, the G8 set a target, later adopted by the G20, to reduce the average cost of a \$200 international remittance from 10% of the remittance amount to 5% within five years. The target was dubbed the “5x5 Objective.” The 2030 Agenda for Sustainable Development, adopted in September 2015, included a target to reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%.²⁹

According to the World Bank, the global average cost for sending \$200 in remittances was 6.30% in Q3 2022 (**Figure 4**); the global average for digital remittances was recorded at 5.21%, while the global average for non-digital remittances was 6.82%. According to the World Bank, “A digital remittance must be sent via a payment instrument in an online or self-assisted manner, and received into a transaction account, i.e. bank account, transaction account maintained at a non-bank deposit taking institution (say a post office), mobile money or e-money account.”³⁰

Figure 4. Global Cost of Sending \$200



Source: World Bank Remittance Prices Worldwide Quarterly, September 2022.

Notes: SDGs: United Nation’s Sustainable Development Goals.

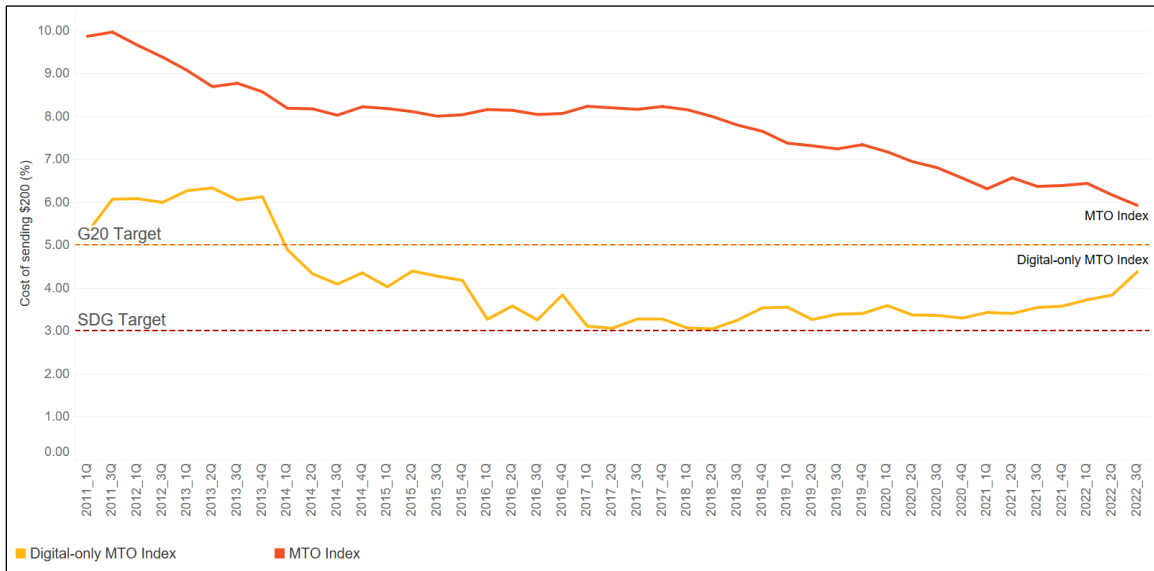
²⁹ Gloria M. Grandolini, “Getting SmARt about Reducing Remittances Costs,” World Bank, June 16, 2015, <https://blogs.worldbank.org/voices/getting-smart-about-reducing-remittances-costs>. Historically, the World Bank has used the cost of sending \$200 as the baseline for its remittance cost data. Supplemental statistics for higher transaction amounts (\$500) show that the cost is lower as a percentage of the total than the cost of \$200, but follows the same overall trend.

³⁰ World Bank Remittance Prices Worldwide Quarterly, September 2022.

The 2021 G20 Rome Leaders Declaration called for the monitoring of National Remittance Plans, the gathering of more granular data, and continuing facilitation of the flow of remittances and reduction of average remittance transfer costs.³¹ Among the major economies, the United States is among the least costly from which to send money.³²

The World Bank also tracks the cost of sending remittances from the main remittance service providers. Recent data show that banks continue to be the most expensive providers, followed by post offices. The data show a substantial cost difference between traditional MTOs (Money Transfer Operators, such as Western Union and Moneygram) and digital mobile operators and MTOs such as Transferwise (Wise), Remitly, WorldRemit, InstaReM and Xoom. In Q3 2022, the World Bank’s International MTO Index recorded a decrease to 5.93% from the previous value of 6.17% in Q2 2022. The cost of digital remittances, on the other hand, has increased in recent years. In Q3 2022, the World Bank’s digital-only MTO Index was recorded at 4.38% (Figure 5).

Figure 5. Total Average Cost of Sending Remittances by Traditional and Digital Money Transfer Operators (MTOs)



Source: World Bank Remittance Prices Worldwide Quarterly, September 2022.

Notes: SDG: United Nation’s Sustainable Development Goals.

Regulatory Issues and De-Risking

Some industry observers assert that the current regulatory framework is generally effective and comprised of proportional regulation of remittances and reduces corruption, enhances transparency, and facilitates a more robust business environment. However, other observers raise concerns about the costs for remittance providers (and subsequently consumers) of navigating the patchwork of banking and anti-money laundering regulation, and ask whether these costs are unnecessarily high, resulting in an undue reduction in the provision of legitimate remittances.³³

³¹ G20 Rome Leaders Declaration, <https://www.g20.org/wp-content/uploads/2021/10/G20-ROME-LEADERS-DECLARATION.pdf>.

³² World Bank Remittance Prices Worldwide Quarterly, September 2022.

³³ See CRS Report R46486, *Telegraphs, Steamships, and Virtual Currency: An Analysis of Money Transmitter*

In the past decade, legislation has sought to improve the efficiency of remittance regulation. The *Money Remittances Improvement Act of 2014* (P.L. 113-156) allows federal regulators, including FinCEN and the IRS, to rely on examinations conducted by state financial supervisory agencies if (1) the category is required to comply with federal requirements, or (2) the state supervisory agency examines the category for compliance with federal requirements. To date, state supervisory regimes for MBS are varied, and the framework for examining these institutions is likely less robust than, say, the existing supervisory regime for banking organizations.

Other proposals focus on prioritizing access to remittance services for communities with specific needs. This may mean more money for technical assistance to boost the capacity of poorly regulated foreign jurisdictions. One such example would be Somalia. In this case, the U.S. Treasury Department could help integrate Somali American MSBs into an ACH payment system; help improve training of MSBs to improve monitoring of their agents; and/or help Somalia regulate its payment systems.³⁴

Congress may examine the impact of the current regulatory regime on the development of emerging payments systems for sending remittances, such as mobile, card, or other systems like cryptocurrency. Some observers have argued that current federal and state money transmission laws may be inappropriate for new and emerging payments systems.³⁵ Remittance payments already touch multiple regulatory agencies, and as mobile remittances services increase, the Federal Communications Commission (FCC) and the Federal Trade Commission (FTC) could play an increasing role in regulating parts of the market, particularly as mobile payments increase in popularity.³⁶

Some large international banks have opted to shed their correspondent banking relationships with some smaller banks in emerging markets viewed as “high-risk” for AML reasons (or “from an AML perspective”), citing concerns about regulatory compliance with AML and customer due diligence (CDD) requirements.³⁷ According to the Federal Reserve:

[R]eports suggest that large depository institutions may be reducing or restricting correspondent banking relationships, which in turn may limit the ability of smaller depository institutions to provide remittance transfer services. Reports also suggest that depository institutions may be terminating the accounts of some nonbank payment providers that offer financial services to consumers, such as money services businesses. Without accounts at depository institutions, some nonbank payment providers may be unable to access the financial system and therefore may be unable to continue providing services, including remittance transfer services.³⁸

This activity is frequently referred to as *de-risking*.³⁹ Banks cite rising costs and uncertainty about how far CDD should go in order to avoid regulatory sanction as among the main reasons for

Regulation, by Andrew P. Scott. See also, Clay Lowery and Vijaya Ramachandran, *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, Center for Global Development, Washington, DC, 2015.

³⁴ Orozco, Manuel and Julia Yansura, “Keeping the Lifeline Open: Remittances and Markets in Somalia,” *Oxfam America, African Development Solutions, and the Inter-American Dialogue*, July 2013.

³⁵ Tu, Kevin, “Regulating the New Cashless World,” *Alabama Law Review*, vol. 65, issue 1, 2013.

³⁶ Mark E. Budnitz, *The Legal Framework of Mobile Payments: Gaps, ambiguities, and overlap*, Pew Charitable Trust, Washington, DC, February 10, 2016.

³⁷ The term customer due diligence (CDD) in broad terms refers to a bank’s legal requirement under anti-money laundering rules to verify the identities of those holding customer accounts.

³⁸ Board of Governors of the Federal Reserve System, *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries*, May 2015.

³⁹ As the IMF notes in a 2016 report, derisking covers, at one extreme, a set of actions on the part of banks, with respect

cutting back their correspondent relationships, according to the Bank for International Settlements (BIS).⁴⁰ Banks may choose to close an account rather than manage the risks of the business relationship.⁴¹

While de-risking is not a new concept for banks, it has increased as a policy concern over the past several years. In December 2019, the Government Accountability Office (GAO) reported to Congress on BSA examinations and how compliance controls impact money-transmitter accounts. This report found that from 2014 to 2015, almost 40 of 86 financial institutions surveyed by GAO had money-transmitter accounts and had terminated at least one account for money-laundering concerns.⁴² In April 2023, Treasury released the 2023 Derisking Strategy, mandated by Congress in the Anti-Money Laundering Act of 2020. The Strategy noted that Treasury has limited authority to address many of the private sector drivers of derisking, the report recommends, among other things, that policymakers:

- Promote consistent supervisory expectations, including through training to federal examiners, that consider the effects of de-risking;
- Expand international cooperation and consider creative options, such as regional consolidation projects, with international counterparts to address the decline in correspondent banking relationships, especially for small foreign banks;
- Support efforts by institutions, including the IMF and the MDBs, to address de-risking through related projects and technical assistance.⁴³

Remittances and Cryptocurrencies

Cryptocurrencies are a relatively new technology-based payment tool that can facilitate cross-border transactions without the need for banks and centralized intermediaries. There is potential for increased use of cryptocurrency in the future. One study found that over half of consumers making these payments held cryptocurrency, compared to 12% of the general population. Another showed that nearly a quarter of consumers who sent remittances used a cryptocurrency and one in 10 preferred to use cryptocurrency for their remittance transactions. Further, in October 2020, the State of New York, which issues charters to a range of money transmitters and virtual currency firms, announced its conditional approval of a partnership between PayPal and Paxos Trust to engage in virtual currency business activity.⁴⁴ To the extent money transmitters, particularly large

to correspondent banking relationships (CBRs), to effectively avoid the business and reputational risks altogether. This risk avoidance would typically occur on a wholesale basis, without a case-by-case assessment of the risk associated with individuals or countries and/or analysis of the profitability of CBRs. At the other extreme, this term has been used more broadly to refer to any form of withdrawal of financial services. For more information, see Michaela Erbenova, Yan Liu, Nadim Kyriakos-Saad, et al., *The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action*, International Monetary Fund, SDN/16/06, Washington, DC, June 2016.

⁴⁰ Bank for International Settlements (BIS), Committee on Payments and Market Infrastructures, *Correspondent Banking*, July 2016, p. 1, at <http://www.bis.org/cpmi/publ/d147.pdf>. In order to avoid AML penalties and related reputational damage, some correspondent banks have cut back on such banking relationships particularly for jurisdictions perceived as risky from an AML/CFT (“countering the financing of terrorism”) standpoint; or for customers that pose high risks of money laundering or terrorism financing; or when transaction volumes are insufficient to cover compliance costs.

⁴¹ Department of the Treasury, 2023 Derisking Strategy, April 25, 2023.

⁴² Government Accountability Office, *Bank Secrecy Act: Examiners Need More Information on How to Assess Banks’ Compliance Controls for Money Transmitter Accounts*, December 3, 2019, <https://www.gao.gov/products/gao-20-46>.

⁴³ Department of the Treasury, 2023 Derisking Strategy, April 25, 2023.

⁴⁴ New York Department of Financial Services, “Superintendent Linda A. Lacewell Announces PayPal to be the First

Approved Entity for DFS Conditional BitLicense,” October 21, 2020, at https://www.dfs.ny.gov/reports_and_publications/press_releases/pr202010211.

ones such as PayPal that offer P2P digital options for sending remittances, find ways to facilitate cryptocurrency transactions, the role of cryptocurrencies in remittance markets has the potential to grow.

Given this growth, Congress may examine what role cryptocurrencies will play in remittance markets in the future, and consider whether existing the financial regulatory framework is sufficiently authorized to manage the risks of using cryptocurrency in light of other more traditional financial services, such as banking or money transmitters. One general concern is that transacting with cryptocurrencies may carry higher fees, services charges, and an array of transaction costs.

In addition, the volatility of cryptocurrency poses a significant amount of risk to the parties involved in the remittance. While the advent of stablecoins,⁴⁵ which peg their value to a fiat currency (such as the U.S. dollar) or a basket of assets, may provide a more stable value for some cryptocurrencies, there remains the issue of how cryptocurrency remittance could be regulated, and whether the consumers and businesses holding cryptocurrency can put their money in a bank for safekeeping.

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⁴⁵ For more on stablecoins, see CRS In Focus IF11968, *Stablecoins: Background and Policy Issues*, by Eva Su.