



GAFIC - FELABAN FORUM

NEED TO REGULATE ACTIVITIES ON “REMITTANCES”

San José, Costa Rica, 23 November 2007

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ANTECEDENTS

- **Remittance flow in Latin America and the Caribbean**

Due to several factors Latin America and the Caribbean have become regions which host large amount of remittances and, therefore, are the remittance markets that witness greatest growth and volume worldwide.

To date, no country in the region may ignore the steady growth of remittances along the past years. Statistically, this growth is shown on comparative figures from 2001 to 2006, which period experienced a percentile increase of 38%.

Year	Amount in millions (*)
2001	23,361
2002	30,897
2003	36,860
2004	43,804
2005	52,608
2006	61,282

(*) Source: Inter-American Development Bank (IDB)

From the amount of remittances received during 2006 in Latin America and the Caribbean, we highlight that 5 countries in the region represent 67.8% (USD \$41,552 million) of the total remittances received; these countries are the following, listed from higher to lesser amounts received:

Country	Amount in millions (*)
Mexico	23,053
Brazil	7,373
Colombia	4,200
Guatemala	3,610
El Salvador	3,316

(*) Source: Inter-American Development Bank (IDB)

Under the statistics produced and related to countries in Central America, the Caribbean and Venezuela, we find 12 countries that in 2006 hosted remittances totaling 17,802 million US Dollars, as per the detail below:

Country	Amount in millions (*) 2006
Belize	93
Costa Rica	520
Dominican Republic	2900
El Salvador	3316
Guatemala	3610
Haiti	1652
Honduras	2359
Jamaica	1700
Nicaragua	950
Panamá	292
Trinidad and Tobago	110
Venezuela	300
TOTAL	17,802

(*) Source: Inter-American Development Bank (IDB)

In the average, remittances received by those 12 countries represent 30% of the total remittances received by countries in Latin America and the Caribbean.

For the decade between 2001 to 2010, the Inter-American Development Bank foresees that accumulated remittances in Latin America and the Caribbean will be close to Five Hundred Thousand Million US Dollars (USD \$500,000 million); according to the analysis of statistics carried out by IDB for such period, we may infer that the IDB forecast is likely to be accurate, since the period between 2001 to 2006 already reached a total of near Two Hundred Forty-Eight Million Eight Hundred Twelve Thousand Million US Dollars (USD \$248,812 million).

Near seventy-five percent (75%) of the remittances to Latin America and the Caribbean come from the United States, although in the past years, Western Europe had become the fastest-growing destination for Latin American immigrants.

According to IDB statistics, during 2006 Spain's share in the market of remittances amounts to Three Thousand Seven Hundred Thirty Million Euros (€3,730 million).

On the other hand and according to IDB statistics, remittances are transferred from 48 States in the United States towards countries in Latin America and the Caribbean; in 2006 such remittances amounted to Forty-Five Thousand Two Hundred Seventy-Six Million US Dollars (USD \$45,276 million).

- **Significance of Remittances:**

No country in the region may deny the significance of remittances in their respective economies. In that respect it may be said that remittances are crucial for the subsistence of thousands of families and for the safety of many domestic economies in Latin America and the Caribbean.

In countries aware of their relevance, remittances may be used as a tool for development; therefore, these should be regarded positively if channeled towards the development of our people, instead of becoming mere means of consumption for our fellow citizens. For remittances to become a tool of development, our governments should promote adequate conditions and climate to appropriately use them, by creating investment fields and business opportunities.

Remittances are a relatively stable income and in the past 20 years have grown steadily despite international financial crisis and violent events; accordingly, remittances are a stable source for reducing poverty, compared with other capital flows likely to be handled in our countries.

In their paper headed “***Close to Home: The Development Impact of Remittances in Latin America***”, the World Bank analysts Messrs. Pablo Fajnzylber and Humberto López pointed out some key elements concerning remittances, to wit:

- Remittances are of major relevance in the Latin American context, and consequently, these must be taken into account.
- Remittances contribute to improve a great number of development indexes.
- The impact of remittances depends on policies implemented by the countries.
- Summarizing, remittances are opportunities rather than the substitute of suitable development policies.

THE RELEVANCE OF REGULATING PERSONS ENGAGED IN REMITTANCE ACTIVITIES

The increasing number and volume of remittances, as well as their significance for the development of GAFIC country members’ economies also entail an increased risk of such activities being performed as vehicle for money-laundering and the subsequent raise of delinquency and corruption in our countries, in addition to the risk of jeopardizing their reputation and sustaining international consequences.

On the contrary, an adequate State regulation of remittances would support the fight against delinquency and corruption, besides enhancing the financial institutions stability and promoting economic development in our countries.

- **FATF-GAFI Recommendations**

FATF-GAFI Special Recommendation VI provides the following:

Each country should take measures to ensure that persons or legal entities, including

agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF-GAFI Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

Even in the absence of a definition on “alternative systems for fund transfers”, these are described by their common characteristics. Generally, such systems have been developed from concrete ethnical, cultural or historical factors. More than often these are seen as “parallel” or “secondary” systems that operate outside the mechanisms of payment established domestically and internationally. Occasionally, the alternative systems use official systems as vehicles for the movement of funds.

Transfer of remittances through these alternative systems may be less costly and equally safe; and, eventually, it is possible to elude restrictive regulations governing the exchange of currency. Furthermore, these systems may serve remote zones that traditional or formal institutions do not reach.

Alternative systems are useful for those involved in money-laundering and terrorism financing, since these leave no traces on the communications concerning the transfers. Generally, these are not subject to external audits or controls, nor to the supervision by the authorities.

These systems, commonly known as alternative or informal systems for funds transfer or remittance are vulnerable to being unduly used for money-laundering or for the funding of terrorism, especially in view of the increased controls exercised by financial institutions.

On its part, the FATF-GAFI issued an Interpretative Note to define the extent of those international conditions contemplated under Recommendation VI. This is an additional guidance on the minimum requirements to apply the Special Recommendation, which three core elements are described in the terms below:

- Governments should require the authorization or registry of any legal persons or individuals providers of money or value transfer services, informal systems included.

- Governments should secure that all money or value transfer services, informal systems included, abide by the FATF-GAFI Recommendations, particularly, Recommendations 10 to 21 and 26 to 29, and to the 8 Special Recommendations on terrorism financing.
- Governments should be capable to impose penalties on money or value transfer services, informal systems included, failing to observe the requisites on authorization or registry or the applicable FATF-GAFI Recommendations.
- **Measures adopted by some countries**

In view of the FATF-GAFI Recommendations, some countries have undertaken the regulation of remittance activities, like the European Communities, through Directive 2001 which also includes “money transfer enterprises” within the definition of Financial Institution; it therefore requires implementation of policies and procedures concerning the combat against money-laundering, as required from other financial institutions. Particularly, Article 36 of the mentioned Directive, provides that “... all Member States shall provide that those offices engaged in money transfer or remittance shall be subject to the obligation of obtaining an authorization or registry to legally perform their activities”. On the other hand, some country members of GAFIC, have also undertaken the regulation of persons engaged in such activities and require – not only to legal persons, but also to physical persons like it is the case in Panama – to hold “... in their operations, diligence and care conducive to prevent that any such transactions may be carried with funds or on capital funds and to prevent their commission¹.”

CONCLUSIONS

- The FATF-GAFI Recommendations clearly provide the measures that countries should adopt to secure that all physical and legal persons engaged in remittance activities are authorized or registered and subject to the FATF-GAFI Recommendations applicable on banks and non-bank financial institutions. The challenge is now the pursuance of homogenized regulations in the region, given our common features and similarities.

¹ Article 1, Financial Act No. 42, from the Republic of Panama.

- Harmonizing the region's regulations will in turn contribute to the development of a competitive framework, that is to say, the same conditions required for all providers of remittance services. For example, equal requisites on information for forwarders and beneficiaries, among others.
- Often, terrorists and other offenders make use of alternative systems for the transfer of remittances to transmit illegal funds, since generally those systems leave no documentary traces. To secure adequate control and, if necessary, to break-up those systems, it is necessary to regulate all physical and legal persons engaged in remittance activities, with the aim of homogenizing the region's regulations.
- Adoption of a risk-based approach concerning remittance activities confirms that remittance are at-risk of being used for money-laundering purposes; therefore, it is required that all physical and legal persons engaged in such activities are duly regulated and supervised.