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Financial market regulation must also help refugees and migrants

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Bonn, 13 April 2015. The plight of refugees and displaced persons continues to captivate public attention and dominate political discourse in Germany and Europe. This is for instance seen in the ongoing dispute between the German central government and the federal states over supposedly unrealistic forecasts of refugee numbers, the public debate in Germany on xenophobia following an arson attack on a future refugee home in Saxony-Anhalt or the Greek defence minister's threat to send refugees to Germany.

At first glance, this has little to do with the European Union (EU)'s efforts to re-regulate the financial markets. The European Economic and Social Committee is currently deciding on the re-writing and expansion of the guidelines for payment services, and the regulation of transnational payments (Payment Settlements Directive II). This will also affect remittances, that is, the transfer of cash by migrants and refugees to their families back home. A re-writing of these regulations would reduce remittance fees, which can be very high, thereby potentially making a major contribution to international development. Germany in particular should take on a key role in this regard.

The volume of remittances to developing countries is forecast to reach USD 450 billion in 2015, far exceeding international development aid. Refugees themselves also contribute to these cash flows by making remittance payments to support their relatives back home and in neighbouring countries where they have been granted asylum. Lebanon, Jordan and even Syria itself have seen marked increases in remittances since 2011 as a result of the Syrian civil war. And these payments are not only used to buy groceries, but also to cover health and education costs and to compensate for damage and losses caused by conflict, economic crises or environmental disasters. Remittances tend to be anti-cyclical, increasing in times of political and economic crises when migrants need to provide greater support to their families back home. This is vital to the survival of those living in countries affected by long-term instability.

If the legal status or the living and working conditions of migrants are uncertain, then it is difficult for them to support the development of their home countries through remittance payments. At the same time, the positive effects of these payments are significantly reduced by high transaction fees, which in Germany average nine per cent, only slightly above the eight-per-cent average for the G20 countries as a whole. And the cost of sending money to some other countries is considerably higher. For example, the average fee for transferring 140 Euro from Germany to Lebanon at the end of 2014, calculated by comparing a range of financial service providers, was 23 Euro. This greatly reduces the amounts transferred, which are often relatively small to begin with.

Most remittance payments are made using the cash-transfer services of providers such as Western Union. To process payments, these institutions require access to the domestic payment system. This is achieved directly or indirectly via an account at a bank that is part of that payment system. Consequently, improving access to these payment systems for cash-transfer providers and ensuring that all payment-service providers are consistently regulated could further reduce the cost of remittances, not least because it would increase competition. As such, re-writing the regulations for payment services would offer tremendous potential in this regard and also send a signal to the rest of the world.

Germany should set a positive example and lead the way on this issue. After all, according to the World Bank, it ranks an impressive fifth in the list of countries from which the largest amounts of money are transferred back home by migrants, with over USD 20 billion in remittances leaving its borders in 2012 alone. This answers the long-debated question of whether Germany is an immigration country with another resounding "yes". It also shows the enormous significance of immigration to the home countries of migrants and refugees. Unfortunately, Germans in particular tend to only observe the social and economic impacts that immigration has on Germany. Reducing transaction costs for remittances would send out a key signal in terms of development policy, underscoring the fact that Germany understands its commitment to assume greater global responsibility in more than just military terms. For Europe, meanwhile, it would represent a move away from a refugee policy based solely on deterrence.