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Using Data to Better Understand Worker Remittances

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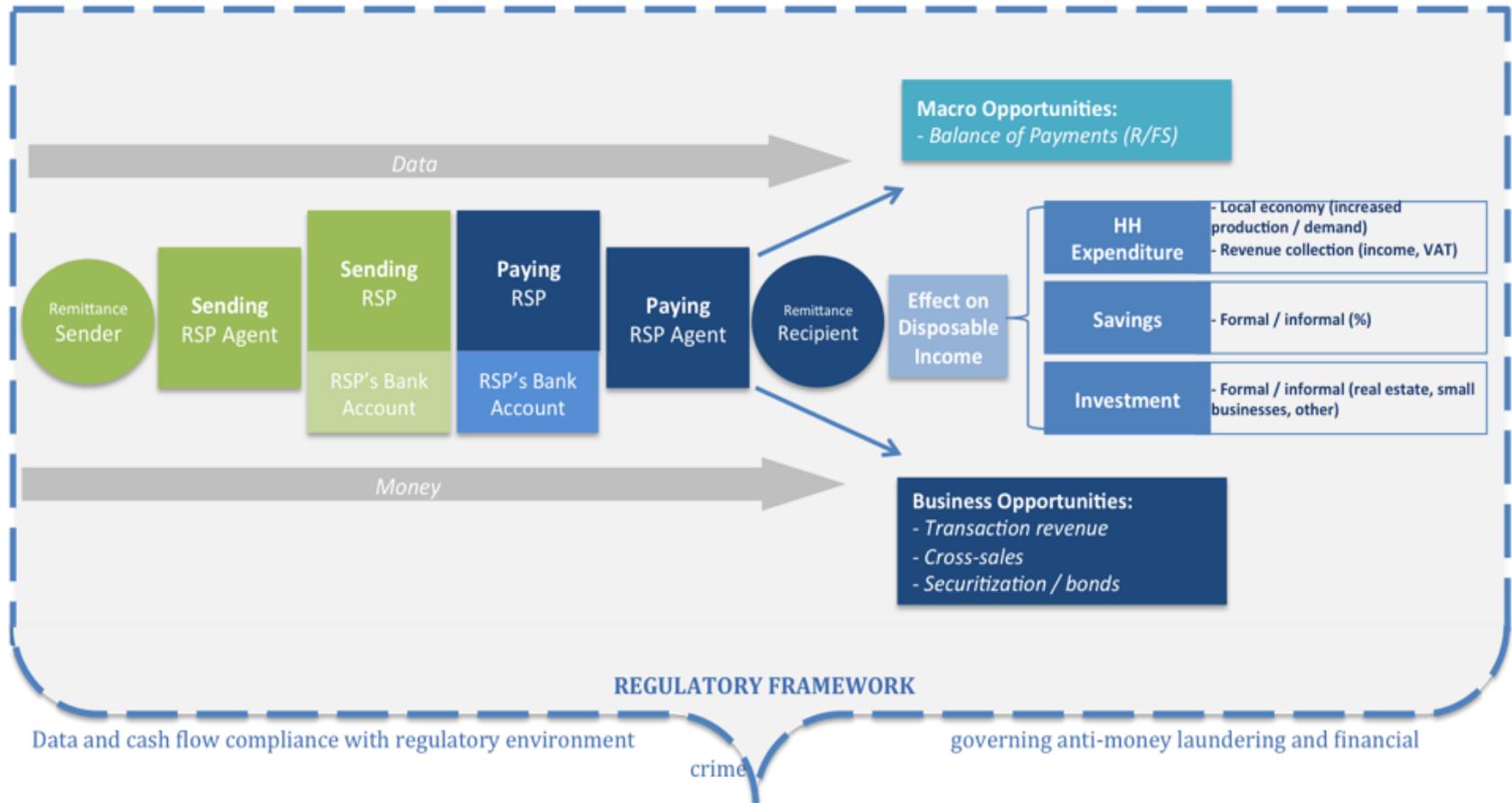
Marketplace Intermediation

Unit of Analysis: Marketplace Intermediation

- Remittance transfers are shaped by rules and the existing marketplace that intermediates the transfers. These rules, as well as supply and demand in this remittance marketplace, significantly shape the transfer process.
- Migrants buy foreign currency to send to relatives at a certain price; in this context, money is treated as a commodity, or a good for which people have a demand.
- The purchase of such currency is regulated through legislation pertaining to foreign currency controls of different kinds (authorized entities, financial crimes, consumer protection, sovereignty). These rules are one component of the transfer process, as intermediaries must deal with different issues relating to development.
- Other aspects of the money transfer include
 - The legal position of the transfer (licensed or unlicensed)
 - The sending methods (cash or account)
 - The mechanisms utilized (front-end technology or ancillary tools)
 - The extent of competition in the origin by remittance service providers
 - The destination by payers (Banks, Forex, Microfinance institutions, etc).
- In addition, there are value added elements in the transfer, such as opportunities for migrants to achieve financial access.

Unit of Analysis: Marketplace Intermediation

International Money Transfer Operation Value Chain



The Costs of Sending

An Issue for Debate: the Costs of Sending

- Remittance services are often considered to be expensive and inefficient. However it is important to consider three questions:
 - What drives the assumption that costs are high?
 - Can costs reasonably be lowered? What impact would this have on development?
 - Finally, are we asking the right question, given the relationship between migration and development and the role of intermediation?
- The literature on transaction costs does not say why prices are ‘high’ or ‘low’, they simply say they are expensive. The statement appears more as a normative rather than empirically founded explanation. Why is 6% to send \$200 considered expensive? Or why is it expensive to pay \$9 to send \$300? Is it an arbitrary pricing scheme or is it based competition and operating costs?

An Issue for Debate: the Costs of Sending

- It is important to unpack the attributes and properties shaping a transaction cost as they relate to the intermediation process. Thus, we find that cost operates in an interplay of supply and demand factors.

Region	Average Total cost*	Rural Population	Regulations	Competition	Economies of scale	Operating costs
Southern Africa	9%	61%	Restrictive	Weak	Limited	Expensive
Pacific	9%	68%	Moderate	Weak	Limited	Expensive
Northern Africa	9%	40%	Moderate	Moderate	Moderate	Expensive
Eastern Europe	8%	39%	Restrictive	Weak	Moderate	Moderate
South East Asia	8%	53%	Moderate	Strong	Large	Low
Middle East	7%	32%	Moderate	Moderate	Large	Moderate
Caucasus-Balkan	7%	37%	Restrictive	Strong	Moderate	Moderate
South Asia	7%	67%	Restrictive	Strong	Large	Moderate
Caribbean	7%	41%	Open	Moderate	Large	Moderate
South America	6%	33%	Open	Strong	Large	Low
Central America and Mexico	5%	40%	Open	Strong	Large	Low
Central Asia	2%	59%	Open	Strong	Large	Low

Transaction Costs: Supply Side Issues

- Remittance pricing is the byproduct of the operating costs to run a particular business. These operating costs are based on fixed and variable costs; for example, quantities, production costs to run known quantities (commissions to agents), and other cost center related expenses (administration, compliance, information and communication technology support, marketing, and call center client support, for example).
- The current and prevailing business model is predominantly demand-driven: immigrants continue to prefer cash transfers, at least on the payout.
- To break it down, this model includes costs related to origination and destination agents (typically 40% of the revenue), and operating costs related to the management of the business.
- However, as data on costs has shown, average pricing is quite variable across countries and service providers.
- Why, if remittance transfer services are sold or serviced as a commodity (a product delivered), do their prices vary across corridors and companies? What determines price differences between Haiti and Honduras, for example?

Transfer Costs to Selected Countries

Period Time	of	Brazil	Colombia	Dominican Republic	Ecuador	El Salvador	Guatemala	Guyana	Haiti	Honduras	India	Jamaica	Mexico	Peru	Philippines
2011_1Q		8.3	4.3	6.0	3.7	5.2	6.0	7.2	6.1	5.6	3.4	7.2	5.5	4.0	6.2
2011_3Q		12.4	7.5	5.9	4.0	4.7	5.4	7.3	7.7	4.9	4.6	7.0	6.0	5.0	7.0
2012_1Q		10.4	8.4	6.2	4.7	5.3	5.7	8.5	6.4	5.2	5.3	7.1	5.8	5.0	5.8
2012_3Q		11.9	7.8	8.2	4.4	5.8	6.0	5.7	6.1	5.0	4.4	6.4	7.3	6.0	6.3
2013_1Q		13.1	5.9	6.3	4.2	4.6	5.0	7.7	6.4	4.7	5.7	7.9	5.3	5.1	5.9
2013_2Q		11.9	5.2	6.3	3.9	4.5	4.9	8.0	6.5	4.9	3.9	6.9	5.7	5.4	5.5
2013_3Q		9.7	5.5	6.6	3.9	4.6	5.0	8.5	6.1	4.4	4.8	7.5	4.4	6.0	5.8
2013_4Q		5.9	4.6	6.7	4.1	4.7	4.8	6.7	6.1	4.3	3.7	6.9	5.3	4.8	5.1
2014_1Q		5.8	5.9	5.7	3.9	4.5	4.8	8.9	6.4	1.0	3.2	7.5	4.2	5.0	5.4
2014_2Q		5.6	5.3	5.5	4.1	4.4	4.6	8.7	5.7	-4.5	4.1	7.9	4.5	4.6	5.7
2014_3Q		5.4	5.0	5.7	4.1	4.1	4.7	8.7	5.7	4.4	3.5	8.1	4.5	4.7	5.4
2014_4Q		5.7	5.2	5.0	4.0	4.3	5.2	9.2	5.2	4.6	3.5	7.6	4.4	4.8	5.1
2015_1Q		5.9	5.1	6.2	4.0	4.4	5.0	8.4	5.9	2.7	3.5	7.8	4.4	4.8	4.8
2015_2Q		9.4	5.6	6.8	3.8	4.4	4.7	8.2	5.8	4.5	3.4	8.1	5.3	5.1	5.1
2015_3Q		5.7	5.4	6.0	3.8	4.2	4.7	8.3	5.6	3.3	3.0	8.3	5.6	5.4	5.8

Analyzing data: Latin America & Southern Europe

- One way to analyze costs is by considering whether price differences are influenced by some of the components that make up for the expenses (such as fee and exchange rate commissions to agents, compliance, or economies of scale).
- To assess pricing determinants, one can look at factors directly connected to the business operation: agents in the origin and destination, changes in the exchange rate (fees are typically fixed, so don't change), compliance costs resulting from higher risk locations, market share, and economies of scale.
- The following model is thus used to test some of the determinants of cost.

$$\text{Log (Pricing)} = \text{Agents} + \text{Payers} + \text{FX} + \text{Country Risk} \\ + \text{RSP market share} + \text{Country volume}$$

Analyzing data: Latin America & Southern Europe

The following assumptions are highlighted from the model:

- An RSP that has a far greater number of originating and/or paying agents will have a higher price because it has to recover its commission costs distributed to a larger group; otherwise it faces the law of diminishing returns (it can add more agents, but its 'product' will be the same, yet, it will cost more, and therefore it has to adjust its price).
- An RSP that has a higher market share in a corridor will be able to 'afford' or 'risk' offering a higher price because it can bet on losing a fraction of clients if the price is too expensive;
- An RSP that works in a country with higher financial risks will have to spend more on regulatory compliance (AML practices, for example), and thus will increase pricing.
- An RSP that works in a country with small economies of scale in its volume or number of transfers will face diminishing returns.

Analyzing Data: Latin America and Southern Europe

The data includes 9 Latin American and Caribbean countries and 26 remittance service providers. The dataset contains 77 observations from 2014 and the following variables:

Variable	Source
Fee	World Bank
Exchange rate spread	Remittance Pricing Database, 3 rd Quarter 2015
Total cost	
Fee as percent of total cost	
Total percent cost	
Exchange rate spread as percent of total cost	
Number of Agents in the US	IAD data collection
Payout Branches (number of agent locations in the destination)	
Payout locations as share of all RSP locations	
RSP Market share, 2014	
Country Market size (Volume USD Million)	World Bank Data
Number of Annual Remittance Transactions	IAD data collection
AML Index Score	Basel Anti-Money Laundering Index

Analyzing Data: Latin America and Southern Europe

- The results of a regression OLS model confirm the hypotheses of cost determinants. Specifically, *increases in price is statistically significant and positively correlated with increases in more agents in the origin and payout, with higher risk posed to a country and with the spread of the exchange rate.*
- The model shows that prices increase 7 basis points when a country risk is higher and 9 basis points when the exchange rate spread increases. Agents in the origin and destination also affect pricing, but particularly in the payout.

Transfers Costs from Southern Europe

- Southern Europe is one of the most expensive regions to send money from, with transfer costs typically around 7%
- There is a statistical correlation between costs and economies of scale, type of RSP, number of payout locations in the destination, presence outside the capital and number of RSPs in the origination.
- In addition to the number of competitors, particularly MTOs, the presence of payout locations contributes to lower costs. Consumers like to ensure that their transfers arrive as close as possible to their family's residence. The more payers and closer their locations to the beneficiary, the lower the cost because all companies seek to capture as many locations as possible.
- In South Eastern Europe there are over three hundred thousand payout locations, two thirds of which are in Ukraine. Not only are there numerous payment points, but the types of payment points are more diverse than other regions.

Transfers Costs from Southern Europe

If the...	Cost will
Size of the market is larger	↓
Originator is an MTO	↓
Number of partner locations is widespread	↓
Larger share of payout locations are in the capital	↑
Number of RSPs is large	↓

Source: Manuel Orozco, The Remittance Marketplace in Europe, 2015. See <http://www.thedialogue.org/resources/the-remittance-marketplace-in-europe-competition-and-pricing/>

Understanding Transaction Costs: Consumer Side Issues

- Although the destination country is a significant factor in the cost, there are some consumer-side characteristics that help differentiate between those that pay more and those that pay less.
- Those who send to their closest relatives pay less. Part of the reason is that the more one remits, the less one is paying relative to the principal amount. Therefore, those sending over US\$300 will pay \$9 compared to those sending \$250, for example (closest relatives receive more).
- Those who have full time employment also pay less, relative to what they send.
- Moreover, the choice of company determines cost. Those who think their RSP is inexpensive and transparent in its pricing pay up to 10% less, but those who say their RSP is easy to use pay up to 7% more for the service.
- Those who send more often and for longer will be paying 5-10% more. However, if they are sending more they will pay less as a percentage.

Beyond Remittances: The Units of Analysis in Migration and Development

- One of the problems with the analysis of transaction costs is the assumption that it is a key development policy issue. Instead, we need to start by validating the intersecting issues between migration and development.
- The engagement or links that migrants establish through transnational economic activities, such as family remittances, are accompanied by several processes that together constitute or a ***development chain***. These activities include
 - Money transfers (family remittances),
 - Entrepreneurship,
 - Capital investment
 - Philanthropy,
 - Consumption of home-country products (the nostalgia trade), and
 - Knowledge transfer.
- These activities occur at various stages in the migration process, and relate to the host country, to intermediation, and to the home country. They represent central units of analysis.
- These activities and moments are what form the value chain.
- At least two critical development factors, financial and market access are present in this relationship, and the efficient performance of these two ensures the success of the value chain.

Beyond Remittances: The Units of Analysis in Migration and Development

The scope of engagement is more complex and goes beyond costs:

	Adult Migrants Participating	Host Country	Intermediation	Home country
		Activity associated with ...		
Family remittances	60%-80%	The decision to remit a share of the workers' income	Remittance service providers	Effect of remittances on family household economics
Consumption	80%-90%	Consumption of home-country goods or services	Supply chain of products and services	Production chain of home country goods
Philanthropy	10%-20%	Raise funds to donate to the hometown	Transfer and donation implementation mechanisms	Funds received and projects implemented
Entrepreneurship	5%-10%	The decision to create or maintain a minority owned business	The enabling environment to form a business	Creating a micro or small enterprise by an immigrant or family member in homeland
Investment	5%-10%	The effort to allocate capital for a particular investment or business venture	The investment environment	Allocating capital for a particular asset or venture in the hometown
Knowledge transfer	5%	Information and skills acquired as development tools	Institutions forming skills in the knowledge economy	Methods to share information, knowledge and skills that enhance local and national development

Competition & Financial Access

- An alternative way to look at remittance marketplace intermediation: competition and financial access

	Variable	Metric
Scope of services and operation	Competitors	Number of RSPs in a country corridor
	Products	Number of products offered by the RSP
	Countries in which it operates	Number of all countries served
Consumer transaction costs	Fee charged	Average fee for all countries
	FX charged	Average Fx for all countries
	Total cost	Average fee plus Average Fx
Network of operation	Payment points	Sum of an RSP's total payment points
	Payment points / Country	Sum of an RSP's total payment points divided by the number of countries in which the RSP operates
	Payment points / Network	Average percentages for each country
Financial access	Rural/Urban Ratio	Percent of all payment points that are rural
	Bank partners as ratio of all payment points	Banks payment points / All payment points
	MFI partners as ratio of all payment points	MFI payment points / all payment points
	Client support	Extent to which call centers or tellers are helpful to clients

Competition in Latin America & Caribbean

	2016	2012	2009	2006
Number of RSPs	31	37	31	40
Number of Products offered	4	3	2	2
Countries Operating	52	31	4	
Fee	3.7%	4.4%	4.1%	4.7%
FX	1.2%	1.3%	1.3%	2.4%
Total cost	5.1%	5.7%	5.4%	7.1%
Payment points	15,602	5,809	4,860	4,047
Points Network	5%	7%	19%	
PP per country	2,509	2,208	1,570	
Rural ratio	68%	74%	58%	
Bank ratio	38%	54%	78%	72%
MFI ratio	8%	21%	27%	16%
Consumer Support [1-4]	3	3	3	3

RSP	Scope		Cost (%)			Payment Network			Inclusiveness		
	Products	Countries	Fee	FX	Total cost	Payment Points	Points/Country	Points/Network (%)	Rural ratio (%)	Bank ratio (%)	MFI ratio (%)
Barri International	10	17	4	0	4	19379	2768	5.84%	72.45%	38.02%	4.86%
CAM	4	5	4.75	1.53	6.28	1411	470	7.22%	63.83%	9.57%	5.24%
Choice Money Transfer	7	134	2.98	0.66	3.64	10526	5263	4.28%	58.58%	45.24%	1.43%
Cibao Express	3	14	3.44	0.27	3.71	1799	450	2.34%	50.23%	76.43%	3.61%
Delgado Travel	3	32	2.5	0	2.5	8464	2116	2.37%	62.34%	33.78%	2.97%
Dolex	6	63	4.5	1.01	4.51	27067	3007	5.27%	68.59%	38.76%	5.31%
Giromex	4	11	2.92	1.71	4.63	18170	2596	3.51%	71.31%	38.24%	5.07%
Girosol	2	38	3	0	3	3035	607	3.58%	59.00%	51.99%	13.21%
Intermex	7	16	4.36	1.72	6.08	29803	4258	4.91%	69.67%	33.66%	4.96%
JNBS	3	16	5	0.33	5.33	71	71	11.62%	70.42%	0.00%	35.21%
La Nacional	5	85	4	0	4	16631	1848	3.61%	71.10%	45.69%	7.37%
MoneyGram	7	200	4.95	1.34	6.29	26899	2445	8.88%	64.74%	38.04%	12.99%
Order Express	6	15	4.25	0.505	4.76	21446	3064	3.23%	68.90%	31.17%	1.25%
Orlandi Valuta	4	7	4	2.11	6.11	507	254	0.95%	62.06%	90.53%	0.00%
Pangea	2	5	2.48	1.89	4.37	5174	5174	2.17%	67.44%	27.83%	0.00%
Remitly	2	10	1.99	1.01	3	11457	11457	4.80%	71.15%	33.02%	15.07%
Ria	7	144	3.38	1.41	4.79	32341	2940	8.78%	68.75%	29.67%	9.76%
ShareMoney	2	22	2.92	1.71	4.63	27363	3420	4.42%	70.67%	30.79%	5.54%
Signe	7	104	4.5	0	4.5	18931	1893	4.44%	61.51%	57.38%	3.63%
Transfast	3	51	2.5	0.49	2.99	11574	2894	5.60%	79.55%	26.18%	6.75%
Uniteller	2	16	5	0	5	22528	2253	4.75%	62.89%	50.24%	5.06%
Unitransfer	3	6	4	0	4	437	146	2.38%	77.60%	9.38%	1.83%
Univisión/BTS	2	24	2.495	1.536	4.031	22225	2469	5.37%	72.31%	40.19%	5.18%
USPS Sure Money	2	28	5.5	1.5	7.003	7587	948	1.96%	69.60%	40.41%	0.11%
Viamericas	4	36	3	1.47	4.47	30107	3011	6.22%	70.96%	28.84%	10.08%
Vigo	5	21	3.64	1.03	4.67	10542	1318	6.10%	70.05%	35.78%	15.50%
Wells Fargo	11	13	3.5	1.1	4.6	18009	2251	3.93%	62.37%	49.33%	0.97%
Western Union	5	241	4.27	1.88	6.14	17291	1572	7.51%	63.70%	14.92%	10.14%
WorldRemit	3	127	2.72	1.45	4.17	18562	1688	4.53%	73.62%	33.91%	5.99%
Xoom	3	53	3.5	1.03	4.53	28732	2612	7.95%	71.07%	33.63%	9.02%

Additional Resources

- For more on remittance costs in the Latin American context, see <http://www.thedialogue.org/resources/remittance-costs-latin-america-the-caribbean/>
- For more on remittance costs in the European context, see <http://www.thedialogue.org/resources/the-remittance-marketplace-in-europe-competition-and-pricing/>



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