

The Remittance Marketplace in Europe: Competition and Pricing¹

General Characteristics

The European continent exhibits a number of businesses across the region that share some characteristics related to their presence in various migrant origin countries or the cost of sending money.

Overall, competitiveness in the money transfer industry is measured through various variables, including

- i. the number of remittance service providers (RSP) operating in a given country,
- ii. the number of countries they serve,
- iii. the diversity in the type of RSP,
- iv. the cost of sending money,
- v. the number of payout locations,
- vi. type of paying partners,
- vii. their presence or penetration in rural areas and
- viii. consumer satisfaction.²

This section analyzes the first four components. Specifically, we explore some of the dynamics of competition, reviewing the presence of remittance service providers in 10 European countries which represent more than 80% of all European flows.³

The marketplace across Europe is uneven. Although there are some 139 remittance service providers operating in these countries, some countries have more RSPs than others, the presence of banks is greater than elsewhere in the world, and costs are relatively higher than the global average. The figure below shows the number of RSPs operating in each country.

These companies include three different types of businesses according to their geographic scope. First, are global money transfer companies which operate in all countries, predominantly Western Union International and MoneyGram International. A second group has more select operations in Europe, and includes companies like Ria International and Europhil. A third group is represented by national operating businesses, including local banks offering account based transfers.

Overall, there are more than seven RSPs in each country, with the United Kingdom exhibiting the largest number (59) and Switzerland the lowest (5). Some important characteristics of these RSPs is that a larger number than elsewhere in the world is formed by banks. Specifically, the type of RSP is mostly a bank (37%), money transfer operator (60%) or post office (3%). If Russia is excluded from the group (its market includes mostly MTOs), the participation of banks increases to 41%. The presence of banks in each country is ubiquitous and may relate to different factors, including higher financial access and

¹ Manuel Orozco. An earlier version of this piece was published in Sending Money Home Europe. IFAD, 2015.

² Another measure of competitiveness relates to the financial attractiveness of these businesses to investors.

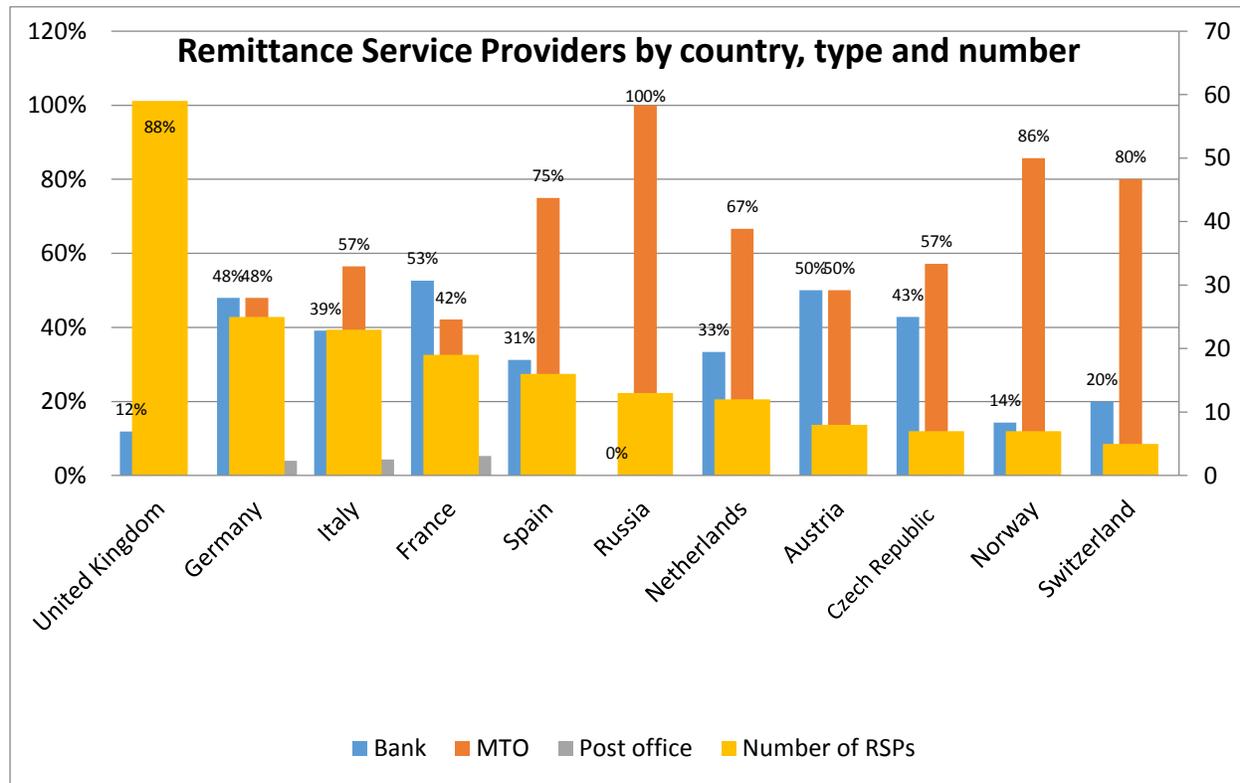
³ The source of this analysis is partly based on the World Bank pricing database.

service provision, as well as limited competition of non-banking financial institutions on money transfers.⁴

In some corridors, the presence of RSPs is smaller than in other countries and does not always correspond to the size of the market, but in part on the number of countries it operates. For example, there is a strong and positive correlation between the number of RSPs and the number of countries in which they operate.

The correlation is partly explained by the fact that at the country corridor level there exist country exclusive businesses that serve only one or two corridors.

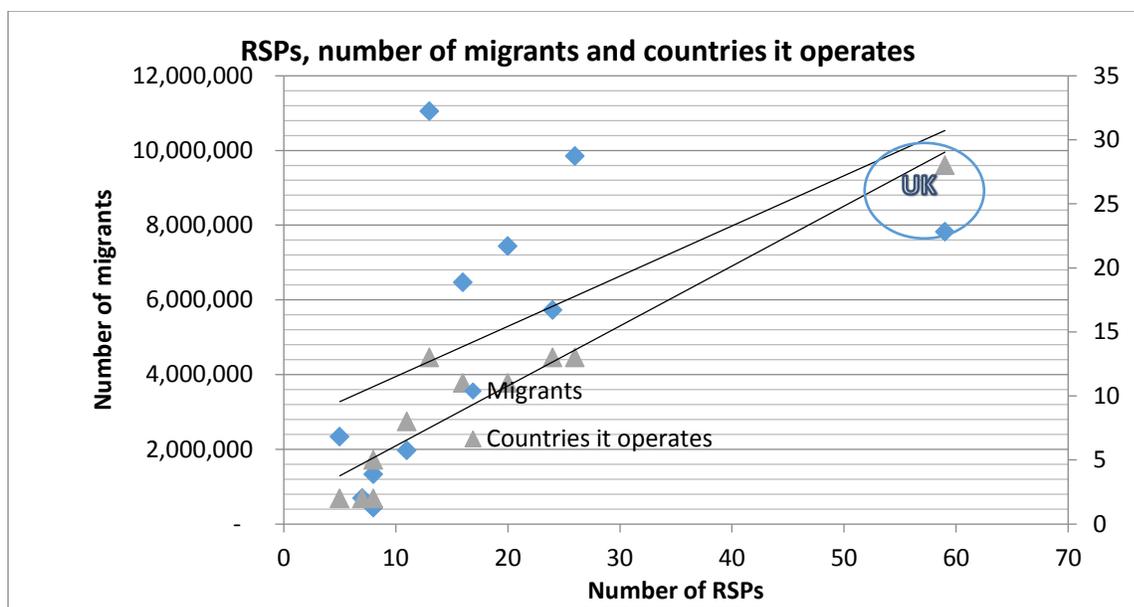
When it comes to the size of the migrant population the correlation is much smaller,⁵ indicating that the presence of RSPs is determined by other factors. For example, in some cases, and corridors the propensity to remit may be lower (see our review of Suriname), or the business case is not strong when economies of scale are not present, for example, sending from Austria to Bosnia and Herzegovina a monthly total of 70,000 transactions, may not constitute a revenue opportunity for banks.



Source: Manuel Orozco, Inter-American Dialogue.

⁴ As a reference, in the United States, 80% of RSPs are MTOs, and less than 20% are banks.

⁵ R² 0.29.



Source: Manuel Orozco, Inter-American Dialogue.

Paying to Send Money from Europe

The European remittance intermediation marketplace is relatively expensive, with the exception of Russia.

Money transfers from Europe historically have stood at 9% of the value of an average transaction of US\$200 or its Euro equivalent. These costs have remained relatively unchanged over a period of five years since the World Bank recorded these prices. The table below compares pricing from Europe and other regions in the world, Russian Federation included. In five years unweighted average costs have dropped to 8%.

Table 1: Cost of sending US\$200 worldwide

REGION OF ORIGIN	2009	2010	2011	2012	2013	2014
North and Southern Africa	15.6%	16.7%	14.7%	12.1%	10.6%	15.3%
Oceania	10.8%	10.8%	11.4%	9.0%	8.1%	9.6%
Canada	10.4%	10.0%	9.7%	8.3%	8.5%	9.5%
Caribbean	17.2%	12.2%	10.2%	10.1%	10.0%	9.1%
South, Central and South East Asia	8.6%	7.3%	7.8%	8.1%	8.7%	8.6%
Europe (European Union)	9.6%	8.9%	9.0%	9.1%	8.9%	8.4%
World	8.7%	7.9%	8.2%	7.8%	7.9%	8.3%
United States	7.0%	6.7%	6.3%	6.5%	6.9%	5.7%
Gulf Governing Council countries	5.8%	4.2%	4.2%	4.3%	4.2%	4.1%
Central America	3.5%	3.6%	3.6%	3.7%	3.3%	4.1%
South America	11.5%	9.0%	8.9%	9.1%	7.7%	3.9%
Russian Federation	2.7%	2.5%	2.7%	2.4%	2.4%	1.9%

Source: The World Bank.

These costs have also varied across countries and have lowered significantly, with some exceptions.

For example, Spain, Italy, Belgium and Norway have shown substantial declines in pricing. Once weighted against market size these averages drop at a lower rate to 7.4% as of the second quarter of 2014.

Table 2: Transfer cost among 10 European countries

	2009	2010	2011	2012	2013	2014
Russia	2.7%	2.5%	2.7%	2.4%	2.4%	1.8%
Spain	6.6%	6.2%	6.6%	6.9%	6.8%	5.4%
Austria	.	.	.	11.0%	10.6%	6.4%
Italy	7.9%	7.9%	8.4%	8.5%	8.0%	6.8%
Belgium	.	9.7%	9.5%	8.9%	9.6%	7.5%
Norway	.	9.3%	13.5%	10.0%	10.1%	7.6%
Great Britain	9.6%	8.2%	8.1%	8.0%	8.2%	7.7%
Netherlands	12.4%	8.7%	9.9%	9.2%	9.0%	8.1%
Czech Rep.	.	9.6%	8.9%	9.5%	7.3%	9.6%
Germany	13.1%	13.6%	12.5%	12.4%	11.3%	11.4%
Switzerland	.	10.0%	10.9%	14.2%	14.0%	12.3%
France	10.3%	9.2%	10.5%	11.6%	10.8%	12.8%

Source: the World Bank.

When looking at pricing, it is important to keep in mind that most transfers are carried out by two different kinds of RSPs, banks and MTOs. In most cases, MTOs are the primary providers, in turn pricing in the marketplace for consumers is relatively below the average. The weighted average for MTO transfers comes to 6.4%. This average is almost comparable to the U.S. outbound market of 5.7% in 2014.

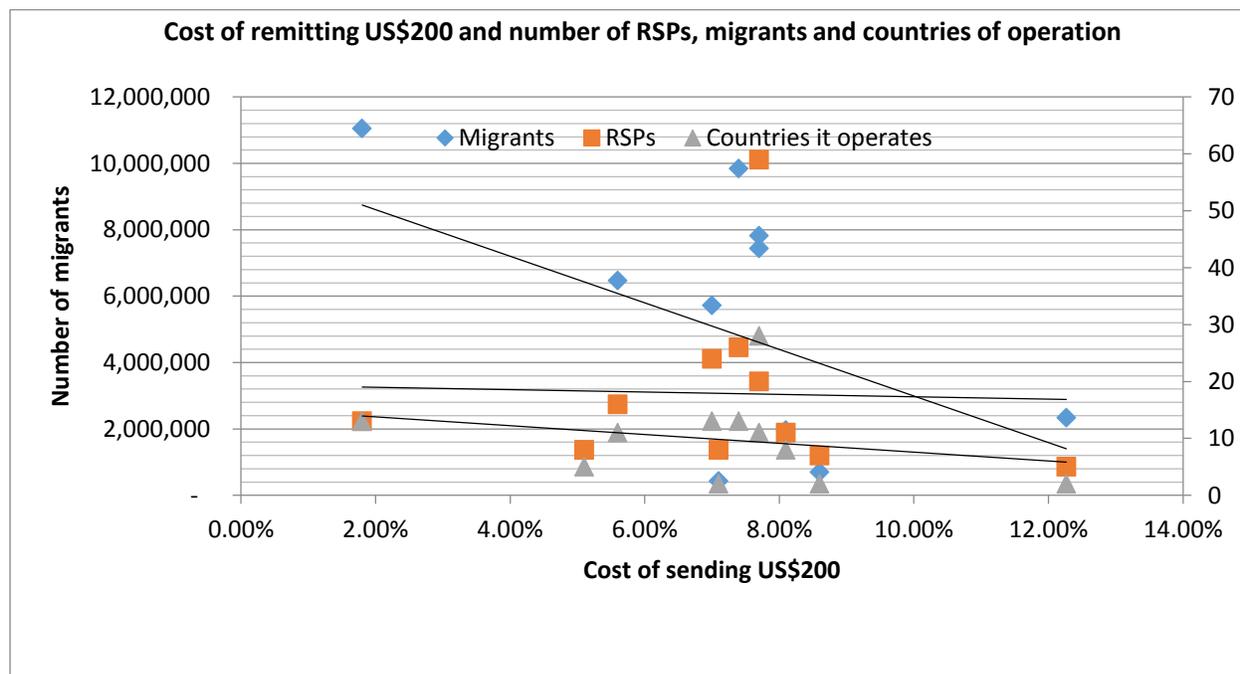
Table 3: Transfer costs by type of RSP, 2014

Country	Bank	MTO	Post office	Total
Austria	5.1%	7.0%		6.4%
Switzerland	4.7%	15.3%		12.3%
Czech Rep.	14.0%	7.1%		9.6%
Germany	17.4%	7.4%	7.4%	11.4%
Spain	4.5%	5.6%		5.4%
France	17.4%	7.7%	11.0%	12.8%
United Kingdom	6.3%	7.7%		7.7%
Italy	6.0%	7.0%	8.3%	6.8%
Netherlands	8.0%	8.1%		8.1%
Norway	1.6%	8.6%		7.6%
Russia		1.8%		1.8%
Grand Total	12.4%	6.9%	8.9%	8.4%

Source: the World Bank.

These costs are determined by a number of factors, and three important ones are economies of scale (number of customers), competitors (number of RSPs in a given corridor) and the outbound countries (number of countries active in the market).

Other factors also affecting pricing relate to fixed operating costs. Overall, cost drops when there are economies of scale in terms of migrant senders, number of participating countries and number of RSPs in the market. The figure below shows that trend for the ten European countries.



Source: Manuel Orozco, Inter-American Dialogue.

Marketplace Dynamics in Southeastern European Countries

Southeastern European countries exhibit a substantive income dependence on remittances above 5% of total GDP. There are some 4 million monthly transfers of migrant remittances to households amounting to eight billion dollars to a region with lower economic development than other European countries. Thus, the relevance of this marketplace for transfers to the Southeastern European countries is substantive.

This section analyzes 20 bilateral remittance country corridors for which seven billion dollars are transferred. The section reviews the extent of competition by looking at the number of RSPs, the payout network, costs of sending money and determinants of these costs.

We find that there is an uneven distribution of RSPs and payout networks. Moreover, sending costs are mostly correlated with a concentration of one set of businesses or with the size of the payout network. The countries analyzed are among those that have the highest income dependence on remittances, particularly from corridors where flows amount to 50% or more of all flows received from Europe.

Remittance recipient country	Remittance sending country	Monthly transfers	Volume US\$,000,000
Albania	Greece	199,194	478
	Italy	160,733	385
Bosnia & Herzegovina	Austria	90,880	218
	Croatia	260,324	624
	Germany	139,961	335
Lithuania	Poland	110,679	265
	Russian Federation	115,019	276
	United Kingdom	95,250	228
Macedonia, FYR	Germany	37,344	89
	Italy	36,721	88
	Switzerland	18,343	44
Moldova	Italy	100,043	240
	Russian Federation	279,405	670
	Ukraine	131,924	316
Montenegro	Denmark	129,334	310
	Hungary	3,286	7
Serbia	Austria	769,253	1846
	France	129,012	309
	Macedonia, FYR	31,517	75

Source: World Bank; author's estimates.

Trends in the Origin

Remittance services continue to be relatively limited to the presence of a few competitors. There are over 40 RSPs working in these 20 corridors, of which Germany, Italy, and Russia have the largest number transferring in the origination. Moldova, Croatia and Bosnia are the countries with the largest number of RSPs operating on the payout. In total, there are 23 banks, 15 MTOs and 5 post offices offering remittances across these corridors.

Only MTOs offer services in more than one country. Western Union, MoneyGram, and Ria are the only companies that are present in all nine receiving countries and in all sending remittance countries. This means that while in the origin there are more than seven RSPs on average, in practical terms, four of those are MTOs, and two are banks and one is a post office. Post offices, however, work mostly with an MTO like Western Union to process the transaction. Therefore, in every corridor competition is limited to a few MTO companies handling the vast volume of transactions. Although banks are larger in number, they are not the primary provider, but an MTO. With the exception of transfers to Moldova from Russia or Serbia from Austria, the medium monthly volume of transactions is less than 150,000. Therefore, economies of scale are limited to opportunities within a single country corridor, unless a RSP offers transfers to more countries.

Table 4: Remittance service providers in 20 corridors between Europe and South Eastern Europe

Number of RSPs in remittance sending country		Number of RSPs working in remittance receiving country		RSP	N. of countries
Austria	8	Bosnia & Herzegovina	15	Western Union	9
Belgium	1	Croatia	14	MoneyGram	9
Switzerland	8	Kosovo	7	Ria	9
Czech Republic	1	Lithuania	10	Contact	4
Germany	20	Moldova	15	Leader	4
Denmark	1	Macedonia	5	Avers	3
United Kingdom	6	Montenegro	2	Azimo	3
Greece	8	Serbia	7	Small World	3
Croatia	3	Ukraine	9		
Italy	19				
Poland	6				
Russia	12				
Ukraine	7				

These companies are not only competing with each other but against an informal network.

The informal networks vary in the region. For example, transfers to Ukraine and Moldova are predominantly through licensed channels, partly and largely due to a strong payment network. Within the Balkan area, the rate of informality is estimated at 40% in the mid-2000s.

Therefore, given informal networks, economies of scale for licensed money transfers are bifurcated and represent lower revenues. Many of these networks are not informal (hand carrying currency for example) but rely on mechanisms that add less value to the currency.

Table 5: Informality in Remittance Market

Unlicensed mechanisms to transfer or carry money		
Bosnia & Herzegovina		40%
Croatia		
Kosovo		40% (2011)
Lithuania		
Moldova		
Macedonia		40% (2010)
Montenegro		
Serbia		50% (2006)
Ukraine		11% (2012)

Source: Bosnia (Social transfers...) Macedonia (), Serbia (WB 2006), Kosovo (Migration and Economic Development in Kosovo); Ukraine (<http://www.bank.gov.ua/doccatalog/document?id=80651>).

The presence of informal networks may work as a disincentive to the industry to compete in those markets in part because there is an assumption that the costs of implementing payout networks in areas where there are traditional sending methods do not bring enough benefit in revenue terms. However, one result of limited competition is transfer cost.

The table below shows the average cost among these corridors. Two different weighted remittance transfer cost averages were used, first by market size and second by MTOs. In the first case, these costs average 7%, however, when weighted by the preferred RSP (MTO) transfer costs drop to 5.7%.

Table 6: Cost of sending money by preferred provider (MTO)

	AUT	CZE	DEU	DNK	GBR	GRC	HRV	ITA	POL	RUS	UKR	Total
HRV	15%		14%									14%
BIH	13%		12%				11%					12%
SRB	9%											9%
ALB						8%		9%				8%
KOS		11%	5%									8%
LTU					9%				6%	6%		8%
MKD		10%	7%					8%				8%
MNE				8%								8%
Total	11%	10%	8%	8%	9%	8%	11%	6%	5%	2%	2%	6%
UKR			5%					4%	5%	2%		4%
MDA								7%		1%	2%	3%

A closer analysis of transfer costs shows that there are key determinants of costs, particularly; 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 origin nation.

Table 7: Determinants of remittances cost in South Eastern European remittance recipient countries

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	↓

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. Therefore RSPs establish agreements with payers in the destination.

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 the South Eastern European area there are over three hundred thousand payout locations, two thirds of which are in Ukraine. The number of locations is not only large for many of these countries, but their type of payer is more diverse than in other regions.

The table below shows the distribution of payers by type. Banks play a more important role in some corridors than in others, but are not as predominant as in other parts of the world.

Table 8: Type of payer

	ALB	BIH	HRV	KOS	LTU	MDA	MKD	MNE	SRB	UKR
Bank	33%	53%	18%	32%	11%	57%	46%	65%	36%	69%
Post Office	33%	47%	0%	0%	88%	43%	46%	35%	62%	31%
Retail	28%	0%	37%	36%	0%	0%	8%	0%	0%	0%
Credit Union	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MFI	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%
NBFI	4%	0%	3%	32%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Manuel Orozco, Inter-American Dialogue.

Another key aspect is that two thirds of paying locations are outside the capital of these countries. In many places in the Balkans, it is particularly important because the regions are demographically dispersed outside the main cities or capital.

Table 9: Payout Locations in Capital City (% Total)

Capital	ALB	BIH	HRV	KOS	LTU	MDA	MKD	MNE	SRB	UKR	Total
Retail	32%		0%	17%	100%		37%	0%	100%		38%
Bank	48%	17%	24%	25%	25%	44%	50%	32%	31%	31%	33%
MFI									33%		33%
Postal	30%										30%
NBFI	8%		35%	12%							17%
Other										10%	10%
Post Office		4%	6%		16%	6%	20%	20%	16%	1%	7%
Total	46%	15%		21%		42%	41%	30%	32%	31%	

Source: Manuel Orozco, Inter-American Dialogue.