

A Long Road to Recovery:

Market competition and the role of Western Union in the U.S.-Latin America and Caribbean corridor

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Introduction

This report presents an analysis of market competition among remittance companies, with an emphasis on the performance of Western Union in the United States to Latin American and Caribbean corridors. It analyzes changes in competition since 2012 resulting from the evolution of market players as well as from external dynamics affecting one of the largest companies in the market.

This report is based on field work research conducted at 30 money transfer agencies in five U.S. cities. It also includes data analysis of payment networks, transaction costs and other market performance indicators.

The main findings in this report include the following:

- The development of the money transfer industry over the past 15 years has been accompanied by waves of consolidation and significant competition;
- Such trends have affected the strong market presence of large companies like Western Union and exposed it to external shocks;
- Western Union lost significant revenue in its fourth quarter of 2012, particularly in the Mexico corridor, amounting to a 21% decline in transactions. These losses amounted to at least 500,000 transactions which have been picked up by various competitors mostly in the cash to cash market;
- Western Union's losses prompted it to change its strategy. The company drastically lowered prices, expanded its online presence, offered additional products, and expanded its agent locations;
- Western Union's results in the first and second quarter of 2013 suggested growth in the Mexico corridor and increases in online payments; these modest successes suggest that a recovery throughout the year will prove difficult, but not impossible;
- Pricing during the first, second and third quarters of 2013 is at 5% and Western Union positions itself among the lowest priced products;
- Businesses and agents have not felt a major competitive impact from Western Union's strategy;
- These dynamics signal a different competitive landscape that may require companies to devote additional attention to innovative approaches such as online, prepaid and mobile services.

1. Market competition in the U.S.-Latin America corridor

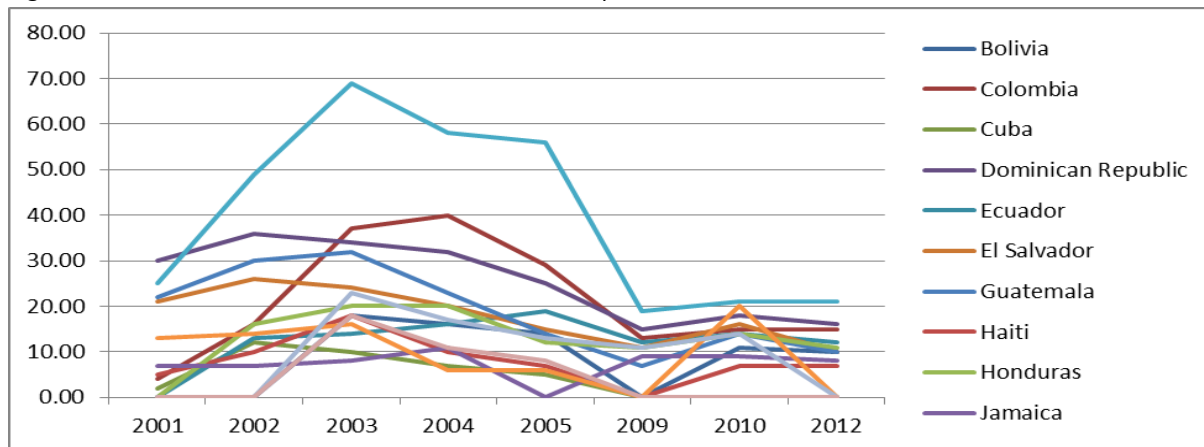
The global flow of remittances has grown over the past 10 years in part due to an intensification of international migration flows. Similarly, business competition in the remittance market has increased. That increase has had an effect on competitors, repositioning them in the market.

Competition in the remittance transfer market typically refers to a situation where businesses play by the rules, offer a range of products across various regions, offer market prices, have an accessible payment origin and distribution networks that offer various financial services, satisfy the needs of consumers, and demonstrate a robust legal compliance system against fraud and financial crimes.ⁱ Performance on these indicators impacts its competitiveness, often translating into increases or decreases in client transactions.

During the mid-2000s, many companies serving the U.S. – Latin America corridor sought to improve their competitive advantage and strengthen their position in the market. Many companies identified Western Union and MoneyGram as their competition, although in practice, these did not constitute their immediate competitors. Western Union and MoneyGram were in a strong enough position to withstand pressures on many competitive fronts and did not foresee the need to change their business strategy.ⁱⁱ However, as competitors grew in numbers and consolidated, there was a push to drop prices, improve compliance techniques, expand networks, and modernize their technologies.

This process occurred in three broad stages. First, a large number of companies emerged in the market. Second, as competition grew, some of these companies were unable to keep up. Some went out of business, while others were bought by other firms. Finally, the existing companies tried to adjust to changing environments, seeking to retain their market share or increase it through a process of consolidation. Around 2005, the number of companies began to consolidate into less than 15 per country corridor.ⁱⁱⁱ One interesting development in the U.S.-Mexico corridor was the emergence of Bancomer as a major player in the early 2000s for many remittance companies, breaking away from the conventional exclusivity approach and increasing competition as a result.

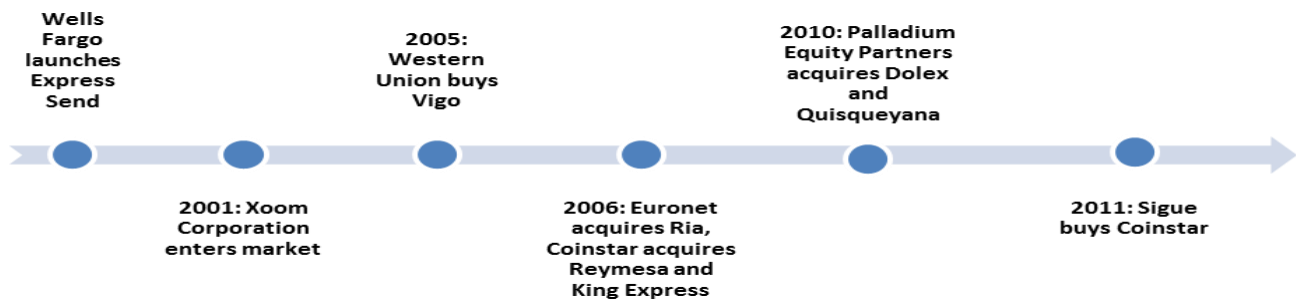
Figure 1: Process of Consolidation: Number of companies in the U.S. – Latin American and Caribbean corridors



Source: Orozco, Manuel. Data compiled by the author.

During the consolidation phase, the remittance market underwent many changes and growing pains. Many companies faced severe problems with their relationships with banks, undergoing account closures (on allegations of representing high risk) that curtailed their ability to grow, as described below. Simultaneously, banks and other non-banking financial groups in Latin America opened up their relationship with many companies, putting greater pressure on remittance companies. In the mid-2000s, large banking corporations such as Wells Fargo, Citibank, U.S. Bank and Bank of America fully entered the remittance market as service providers.^{iv} In 2005, Vigo Corporation was bought a second time, now by Western Union, at its highest revenue moment realizing nearly one million transactions. In 2001, Bancomer introduced Bancomer Transfer Services (BTS) and offered payment arrangement to many companies in the U.S.^v Also in 2001, Xoom Corporation entered the market.^{vi} Euronet acquired Ria International in 2006,^{vii} Coinstar (now Outerwall) bought Reymesa and King Express in 2007^{viii}, and Palladium Equity Partners acquired Dolex and Quisqueyana^x in 2010. In 2011, Sigue bought Coinstar as part of its expansion strategy,^{xi} and Bank of America withdrew its remittance services in 2013^{xii}.

The timeline below highlights several key events from the consolidation phase:



This era of consolidation also brought with it several regulatory issues. In 2008, Sigue corporation was fined by the Justice Department for compliance problems^{xiii} and in 2010, Western Union was also fined for lack of due diligence with many agents in the U.S. and Mexico. Most recently, MoneyGram was fined \$100 million in the fourth quarter of 2012 for fraud issues and failing to maintain an effective anti-money laundering program.^{xiv}

Around this time, transaction costs also dropped. This was largely due to market pressures to attract more clients. In the case of pricing, costs dropped rapidly, reaching a mid-point near 5% to remit \$200 for many companies. Western Union and MoneyGram gradually lowered their prices from 10% and 12%, respectively, in 2001. By 2012, transfer costs for Western Union had dropped by almost 50%. In fact, there was only a 1% difference with other major competitors.^{xv} See Table 1.

As part of a competitive streak, money transfer companies and some banks have increased their countries of operation and their payment networks. Of the major companies, the payment locations for 10 countries in the Latin America corridor increased from 70,000 in 2006 to 180,000 in 2010 and more than 200,000 today. See Table 2.

Table 1: Transfers Costs by Company, 2001- 2012

	Years								
	2001	2002	2003	2004	2005	2009	2010	2011	2012
Remittance Service Providers (RSPs)									
NMTA	.0762	.0670	.0579	.0567	0.511				
Western Union	.1251	.0952	.1054	.0861	0.086	0.0613	0.0707	0.0743	0.0702
MoneyGram	.1045	.0992	.1038	.0870	0.0586		0.0646	0.063	0.0636
Vigo	.0853	.0793	.0664	.0580	0.542		0.0455	0.0498	0.0547
US Banks and all Credit Unions	.0634	.0713	.0585	.0710	0.0736				
Wells Fargo						0.0595	0.0705	0.0532	0.052
Other RSPs	.0785	.0718	.0678	.0539	6.3249	0.0573	0.0677	0.0711	0.0829
Xoom							0.0529	0.0409	0.0443
Ria							0.0585	0.0599	0.0583

Source: Orozco, Manuel. Data compiled by author.

Table 2: Payment points/locations in 10 Latin American and Caribbean countries^{xvi}

RSP payment points	2006	2010	2012
MoneyGram	18083	16032	18684
Western Union	19195	10191	11315
Viamericas	4089	14948	13364
Ria	2863	12164	20461
Vigo	1685	17119	9824
Dolex Dollar Express	397	10556	11410
Sigue	907	6302	9564
Uniteller		10909	11071
Wells Fargo		5,981	10546
Xoom		13940	16246
Other	13857	61187	71158
Total	61076	179329	203643

Some additional pressures, including an anti-immigrant backlash, began around 2006. Accompanied by the

2009 recession, transaction numbers dropped. The money transfer market grew at a slower pace around 2010 and competition became more intense for all companies. Businesses struggled to improve their market positioning. Leading companies like Western Union and MoneyGram felt pressure from growing and consolidating competitors and sought to adapt to the changing environment. In 2006, Western Union and MoneyGram ranked low on a score card on competition, while in 2010 and 2012 they managed to stay in the top 10 companies.^{xvii}

Developments in competition, externalities such as the 2009 recession, and stagnation in migration from Mexico—since remittances to Mexico had previously been one of the main sources of revenue for most companies—have taken a toll on several businesses. Western Union in particular was hit with a significant drop in growth. While Western Union’s number of consumer-to-consumer transactions continued growing from 118 million transfers in 2005^{xviii} to 231 in 2012 (that is for an annual 9% growth, mainly expanding operations in Asia), it has struggled to maintain a leading position while growing its revenue above 5%.^{xix} Meanwhile, other companies not only recovered from the recession, but also sought to grow at higher rates.

Table 3: Annual Revenue growth for selected money transfer companies, 2006-2012^{xx}

Revenue Growth	2006	2007	2008	2009	2010	2011	2012
Western Union *	14% ^{xxi}	9% ^{xxii}	9% ^{xxiii}	-4% ^{xxiv}	2% ^{xxv}	5% ^{xxvi}	-1% ^{xxvii}
MoneyGram	27%	4.5%	18%	1%	2%	9%	9%
Ria Financial		52%	45%	1%	5%	16%	11%
Dolex	13%	11%	8%	-3%	-3	5%	12%

Source: Company Annual Reports.

* Reflects consumer to consumer growth.

For the most part, the challenge has been maintaining a robust payment network with existing pricing while focusing on innovation and branding. Against this backdrop, Western Union faced at least two additional challenges: first, the need to increase revenue growth, and second, the obligations from the fine from the state of Arizona related to agencies along the US-Mexico border.^{xxviii}

2. Market competition: Western Union’s pricing shift

Western Union’s problems continued in 2012. Issues of compliance and regulation, changes in agent alliances, and technology crises between Vigo and Western Union led to substantial difficulties in sustaining and improving their revenues throughout 2012.^{xxix} By the fourth quarter, net income dropped 47% (to \$237.9 million) in total compared to the same period in 2011. Stocks fell 40 cents per share.^{xxx} The U.S.-Mexico corridor was hit particularly hard. According to Western Union Chief Financial Officer Scott Scheirman, fourth quarter revenues from Mexico declined 25%, and transactions declined 21%.^{xxxi} That decline may conservatively represent at least 300,000 monthly transactions for all three Western Union companies and total as many as 600,000.

Facing this situation, the executive leadership set up a strategy to recover market share and increase revenues. The strategy was based on price reductions applied in strategic corridors. This strategy aimed to increase usage and loyalty in 2013 and to positively impact the profits for 2014 and 2015. Among other

components of the strategy were to increase payout networks, promote the use of digital channels and innovate in other services.^{xxxii}

Causes of revenue decline

According to analysts, the factors explaining Western Union’s drop in revenue are varied, but generally relate to difficulties in the U.S. - Mexico corridor. This corridor is Western Union’s fourth largest, representing 6% of the company’s revenue.^{xxxiii}

These difficulties were a byproduct of compliance enforcement issues associated with the Arizona settlement. The settlement required closer monitoring of transactions between Mexico and the U.S., as well as evaluations of the agencies and their capacities to correctly monitor the veracity of the transaction.^{xxxiv} In turn, Western Union (including Orlandi Valuta and Vigo) terminated relations with more than 7,000 agent locations in Mexico.^{xxxv} Part of the compliance problem stems from lack of information feedback between Vigo and Western Union platforms. This situation made it difficult to track whether a single person could perform two separate transactions or a beneficiary would receive two separate transfers. However, when the systems changed, Vigo customers were dissatisfied. This could have been prevented with a more gradual approach, but such was not the case. Some observers estimate that the loss of clients may amount to more than 200,000.^{xxxvi}

Another problem Western Union faced as part of the settlement was that it had to terminate its relationship with Bancomer Transfer Services, BTS (which worked with Orlandi Valuti and Vigo). Because of compliance pressure in the Arizona Settlement, Western Union was not to use third party aggregators with whom it was difficult to monitor the destination. This abrupt change also resulted in a significant loss of market share. That loss may amount to at least 300,000 transactions.^{xxxvii}

An additional reason for the decline in the Mexico Corridor was renegotiating a contract with Elektra in February 2012. Elektra S.A.B de C.V. is a retail and financial service leader in Latin America. Elektra has more than 1800 points of sale in Mexico and it has been Western Union’s partner since 1993.^{xxxviii} During contract renegotiations, Elektra declined to extend an exclusivity agreement it had held with Western Union since 2006. Elektra initiated payout relationships with other remittance companies, damaging Western Union’s position in Mexico.^{xxxix}

Table 4: Estimated market share in the U.S.-Mexico segment

Transactions	2012 est.	2013 est.
Bank of America	100,000	100,000
Dolex	280,000	350,000
Intermex	150,000	200,000
MoneyGram	550,000	720,000
Order Express	192,000	216,000
Orlandi Valuta	320,000	250,000
Ria	768,000	864,000
Signe	512,000	576,000
Vigo	450,000	384,000

Wells Fargo	240,000	240,000
Uniteller	288,000	324,000
Western Union	1,000,000	750,000
Citibank	50,000	50,000
Xoom	160,000	220,000
Viamerica	166,400	190,000
Others	883,200	900,000
Monthly Transactions	6,109,600	6,334,000

Source: Author's estimates.

Western Union's strategy

In order to raise revenues and recover from a damaging crisis, Western Union announced several strategies. In November 2012, President and CEO Hikmet Ersek highlighted three approaches, namely, "improving the consumer value proposition by making pricing investments in key corridors and enhancing services and the customer experience; continuing to expand the digital and electronic account based money transfer channels; and further expanding the agent network."^{xl}

Western Union's price cutting approach first consisted of setting a flat fee of \$8 for every \$1000 sent, including for online sending. This pricing cut included Mexico, Central America and most of South America. For the Mexico corridor, Western Union fixed a flat price of \$5 for every \$300 and \$7 for every \$500, in two products, online transfers and "Money within minutes." It also charged \$4 for two day transfers up to \$2999.

This new pricing represented a significant drop from 2011 rates. Prices in the Mexico corridor had been \$12 for cash to cash transfers of \$300. It had cost \$11 for online sending of US\$200, \$12 for US\$500 and \$16 for cash to cash with every \$500.

The new rates positioned Western Union as providing one of the lowest priced products in the US-Latin America corridor. Only Xoom's and Ria's services are slightly under this price.^{xli xlii}

Western Union's foreign exchange margins also dropped in the Mexico corridor. For example, Western Union's cash to cash foreign exchange margin was 2.19% in the third quarter of 2012, but in the first quarter of 2013 the margin dropped to 0.88%.¹ See Table 5.

Table 5: Western Union Pricing in the U.S. - Mexico Corridor, 2012-2013

Product	Price in 3Q 2012	Price in 1Q 2013	FX Margin 2012	FX margin 2013
Online sending for \$200 In Minutes	11	5	2.19	0.88
Cash sending for \$200 in minutes	12	8	2.19	0.88
Online sending for \$500 in minutes	12	7	2.19	0.88
Cash sending for \$500 in minutes	16	8	2.19	0.88

Source: World Bank Pricing Database, 2012 and www.westernunion.com

¹ In some locations the margin was 0.5%

Another example of aggressive price reduction can be seen in the U.S. - Philippines corridor.

Table 6: Western Union Pricing in the U.S. - Philippines Corridor, 2012-2013

Product	Price in IIIQ 2012	Price in IQ2013
Bank to cash or cash to bank (Payout in dollars)	\$4.6 (online)	\$0
\$50 in minutes (payout in pesos or dollars)	\$10	\$5
\$300 in minutes (payout in dollars)	\$15	\$9.99

Source: World Bank Pricing Database, 2012 and www.westernunion.com. Information accessed May 7, 2013.

These pricing changes resulted in lower first quarter revenues in 2013, which were expected by the CEO as part of a long-term investment to win market share and increase brand loyalty. “This should position the company for growth in 2014 and 2015,” Western Union CEO Hikmet Ersek explained in a conference call.^{xliii} One effect of this strategy has been revenue loss among agents, a sacrifice Ersek said would be compensated for in terms of the increase of consumer usage.

Investor reaction and confidence

After the implementation of the pricing cut, several financial analysts reacted pessimistically toward the company strategy. For example, David Togut, an analyst with Evercore Partners, stressed that, “in our view, 2013 will be a more difficult transition year than we anticipated with Western Union's new value pricing strategy offering limited prospects for improvement in 2014 and beyond.”^{xliiv} Glenn Fodor, an analyst with Autonomous Research US, predicted continued deterioration of operating margins in 2014. According to Fodor, Western Union’s current strategy is insufficient to overcome its current challenges.^{xlv}

However, in their first and second quarter reports of 2013, Western Union seemed satisfied with the current figures. Regarding the strategies implemented, Mr. Ersek was optimistic with those results. “Our first quarter results are largely consistent with our expectations and we are making progress with our key strategy of cutting prices.”^{xlvi}

Steps to Recovery

Though it is too soon to know the long-term impacts of Western Union’s strategy, there have been some tentative steps toward recovery. First, Western Union had projected a fall in revenue due to the pricing reductions in the first 12 months followed by a forecasted increase for the year 2014. By the first quarter, some progress was highlighted by the company in the Mexico corridor. While the Bank of Mexico reported a decrease in remittances during the first quarter of 2013, Western Union went up from 2% in 1Q 2012 to 4% in 1Q 2013.^{xlvii} By the second quarter, the results were positive for the Mexico corridor for Western Union, which enjoyed a 22% increase from the second quarter of 2012. However, transactions to Latin America and the Caribbean did not experience positive growth.^{xlviii}

Western Union also replaced their discontinued agents with new ones, thereby increasing the payer

network in key corridors. Some of the recent achievements include alliances with Banorte and Bancoppel. These new partners will provide Western Union with 10,000 more locations in Mexico, nearly doubling the existing payout presence. Similarly, it has expanded its networks in other corridors.^{xlix}

Western Union hopes to regain customers. Their current strategy is, in a sense, a gamble. By reducing prices, general revenues fall, but customer usage and loyalty may increase. According to Hikmet Ersek, the pricing cut is a temporary investment that will result in growth in around a 12-month period. As of the second quarter of 2013, Western Union transactions were 115 million, or roughly the same as in the second quarter of 2012.ⁱ To demonstrate increased transaction growth by the end of 2013, still with revenue loss, its growth should exceed at least 10% of the 230 million transactions from 2012, which means maintaining the same number of transactions in the second quarter throughout the remainder of the year, growing by 60 million in each following quarter of 2013 respectively.

It is important to point out that Western Union has experienced successes in developing and promoting new technological channels such as mobile and online transfers. In the first quarter of 2013, for example, the use of internet showed a 60% growth rate from 46% in the fourth quarter of 2012. In the second quarter, this growth continued consistently at 68%.ⁱⁱ The strategy also includes diversification of products such as tuition payments for Indian students in England, and the alliance with Carrefour in Argentina. Moreover, migrants increasingly used account transfers, with Western Union account to cash transfers growing by 51%.ⁱⁱⁱ

3. Pricing, Competition, and Agent Perspectives

As mentioned above, the strategy implemented produced modest results in the various corridors where it was established. However, this report also includes research on how Western Union's strategy is being perceived among agents in the field, and what its impact has been to date. This section first explores issues of pricing and competition in thirty locations in five U.S. cities. It then discusses how remittance agents see the landscape of competition, particularly with regards to Western Union's positioning and recent pricing strategies.

The findings in this section are based on interviews and pricing inquiries conducted in the spring of 2013. Interviews were conducted with 30 agents in five major metropolitan areas: New York, Chicago, Los Angeles, Baltimore and Washington, DC. In addition, 105 pricing and exchange rate inquiries, known as "Mystery Shopping," were conducted in person at local agencies or via phone.

Pricing trends in the streets

The pricing levels during the first quarter of 2013 showed a very competitive market. On average we find that the cost of sending \$200 is \$10, or 5%. However, the cost of sending varies by company, by sending region, and by country of destination. Moreover, some companies are using special promotions and low rates to try to attract customers in some of the most competitive neighborhoods.

On average, the main RSPs charge a fee of 4.7% per \$200 to send to selected Latin American countries. They are generally earning an additional fraction of a percentage through their exchange rate, leading to an overall

cost of sending of 5% for \$200. Significant price convergence exists, with the standard deviation among 13 leading companies at 0.04, meaning that 70% of pricing is within 4% of the average. Western Union’s pricing position emerges among the lowest after Ria and Dolex.

Table 7: Average fee and cost to send, by Major RSPs, Spring 2013

RSP	Average fee to send \$200	Average total cost to send \$200, including FX margin
Dolex	4.3%	4.5%
Intermex	5.0%	5.2%
JNMT	4.6%	5.1%
La Nacional	4.7%	4.6%
MoneyGram	4.9%	5.0%
Reymesa	5.0%	5.3%
Ria	3.6%	4.0%
Sigue	5.0%	5.0%
Unitransfer	5.0%	6.0%
Viamericas	4.7%	4.7 %
Vigo	4.9%	5.3%
Western Union	4.2%	4.9%
Average:	4.7%	5.0%

Source: “Mystery shopping” at local agencies

In addition to pricing differences among RSPs, there are slight differences among sending regions. Los Angeles and Washington, D.C. generally have lower prices, whereas Baltimore and New York tend to be more expensive. Some of the difference, however, can be attributed to the remittance corridors.

Table 8: Average price to send \$200 by U.S. metropolitan area, all RSPs, Spring 2013

Sending Region	Main Destination(s)	Average Cost %	Lowest Cost %	Highest Cost %
DC Metro Area	El Salvador, Other Central America	4.6%	3.5%	7.5%
Baltimore Metro Area	Mexico	5.4%	4.4%	8.1%
Chicago Metro Area	Mexico	4.9%	4.0%	5.7%
Los Angeles	Mexico	4.5%	2.6%	5.3%
New York	Caribbean, Mexico	5.1%	2.25%	11%

Source: “Mystery shopping” at local agencies

The cost to send also varies by the country of destination, research shows. El Salvador is one of the least expensive destination countries, in part because the local currency is the dollar, thereby eliminating costs related to currency exchange. Mexico is also relatively inexpensive, whereas the Caribbean countries are slightly more expensive.

Table 9: Average price to send approximately \$200 to destination, all RSPs, Spring 2013

Country	Average Cost	Lowest Cost	Highest Cost
Dominican Republic	5.6%	2.3%	11.8%
El Salvador	4.6%	3.5%	7.5%
Haiti	5.9%	4.0%	6.75%
Jamaica	5.3%	4.3%	6.7%
Mexico	4.7%	2.5%	8.1%

Source: "Mystery shopping" at local agencies

Competitive Geographies

Geographic proximity is also a factor in pricing competition. On average, the agencies surveyed have 26 competitor RSP sending points within a one mile radius.^{liii} This characteristic of market competition suggests that MTOs are clustered in certain neighborhoods, along certain streets, and even at specific intersections. Clients looking to send money home may go to areas that have a number of different agencies and remittance companies to choose from, all located very near one another. On average, the agencies surveyed are located within .12 miles of a Western Union provider, which amounts to about a two minute walk for a client. There is evidence to suggest that the lowest cost agencies are located in neighborhoods with the highest concentration of competitors, as the table below shows. For example, the lowest cost agencies, those that charge less than 3% for a \$200 transaction, had nearly twice as many competitor agencies in close proximity as those with more average transaction costs.

Table 10: Costs and presence of competitors by neighborhood (mile radius)

	Western Union agencies	Total Competitor Agencies ^{liv}
Lowest Cost agencies	26	39
Low Cost agencies	18	22
Medium cost agencies	15	27
High cost agencies	10	21

Source: "Mystery shopping" at local agencies, company websites with Google mapping tools

Exchange rates

Many of the large companies appear to be setting exchange rates for agents based on a combination of sending region and receiving country. Multiple Western Union agents in Chicago have the same exchange rate for sending to Mexico. However, clusters of Western Union agents in Los Angeles are offering a different exchange rate to send from Los Angeles to Mexico on the same day.

Agents and the market

Agents' perceptions of their clients

Agents were asked about their clients' sending habits with regard to frequency, volume, and channels. Nearly half of all agents said that their clients are sending more transactions today than six months ago, suggesting that either their customer base is growing, their existing customers are sending more frequently, or a combination of the two factors. Only 13% of agents reported sending fewer transactions today than six months ago. In fact, during field work visits to agencies, it was noticeable how busy many of the agents were.^{lv}

Figure 2: Monthly Transactions, Compared to 6 Months Ago

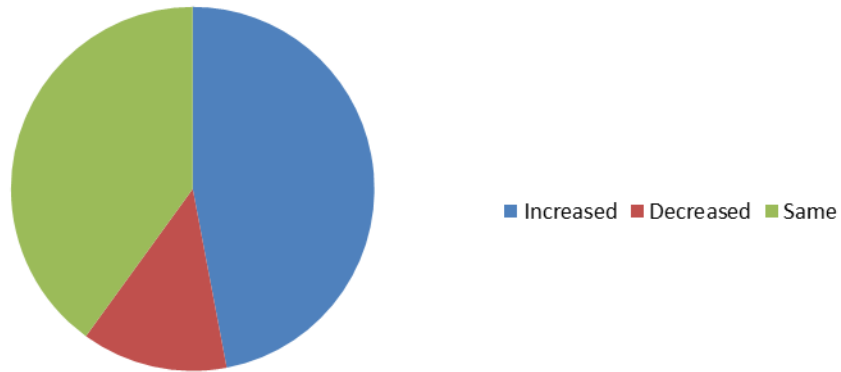
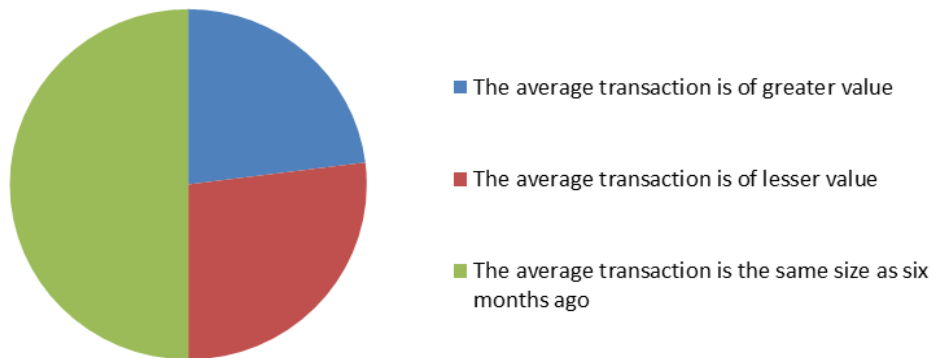


Figure 3: Value of Transactions, Compared to 6 Months Ago



Source: Interviews conducted with 30 agents in five major metropolitan areas: New York, Chicago, Los Angeles, Baltimore and Washington, DC.

According to agents, the value of transactions being sent has stayed relatively constant. Half of all agents reported that the average transaction value was the same as it was six months ago. Twenty-three percent said that transactions were on average larger, while 27% said they were smaller. Of those agents reporting smaller transaction values, most attributed it to slow recovery from the recession.

Though many of the leading companies are promoting new sending methods, agents do not report seeing much impact. In general, they feel that their customers prefer traditional, face-to-face, cash-to-cash transfers. Eighty-eight percent of agents responded that they had seen little change in their clients' sending methods. The remaining 11% reported that their customers were showing an increased preference for account-to-account transfers.

Perceptions of Competitors in the neighborhood's vicinity

Agents have a general awareness of competition among remittance companies, but often lack further details. Approximately 40% of agents interviewed were not sure who their RSP's main competitors were. Of those who did name competitors, many were agents serving multiple RSPs in a single store, which provides a more concrete way to see competition and compare company performance.

The most frequently listed competitors were MoneyGram, Western Union, Viamericas, and Ria. According to this measure, agents consider Western Union to be a major competitor, but certainly not the largest competitor nor the only competitor.

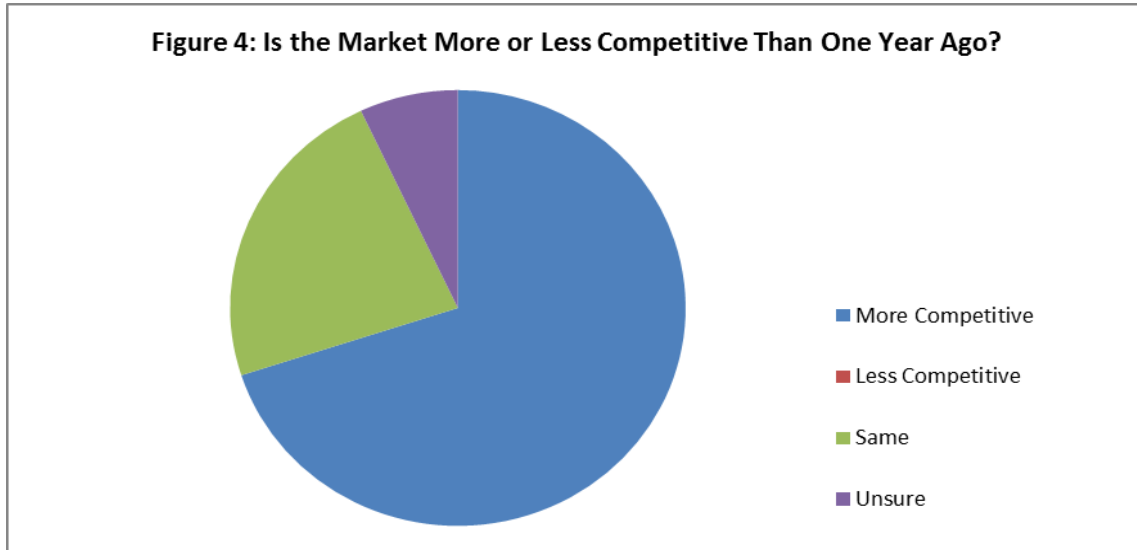
When asked which companies offer the best overall deal for customers, agents representing a single RSP usually named that RSP. Agents representing multiple RSPs were able to weigh the pros and cons of each company, based on their experiences working with multiple companies and the feedback they had received from customers. In agent interviews, the most commonly listed “best deal” company was MoneyGram, followed closely by Dolex and Ria. Interestingly, not a single agent listed Western Union, even among agencies offering Western Union services.

Some agents objected to the notion of a “best overall deal,” however. “It’s always changing,” one agent in Los Angeles reported. An agent in the Chicago area noted that the best deal will depend on the unique needs of the customer. He reported that he recommends one company for customers concerned about fast arrival, another company for customers most concerned about cost, and a third company based on their strong customer service. Another agent remarked that the best deal depends on the exact village the customer is sending to. Many towns in Oaxaca, Mexico have poor payout coverage. Customers in Los Angeles will not choose the “cheapest” company if it means that their family in Oaxaca must spend time and money traveling long distances to pick it up. Finally, a Miami-based agent noted that the best deal will depend on the amount the customer sends. These perspectives provide greater nuance and insight into the notion of the “best overall deal.”

Perception of Heightened Market Competition

Although agents may only have a general sense of their RSP’s competitors, they perceive the market for remittances as highly competitive overall. According to agents, companies compete with one another using a variety of tools and strategies. These include maintaining good exchange rates, lowering prices, raising agent commissions, and improving their call-center customer service. Seventy percent of agents reported that the market is more competitive today than it was one year ago. According to one agent in the Washington, DC metropolitan area, “the companies are fighting to keep their rates and exchange rates low. They call us all the time to check on their competition.” Twenty-three percent of agents perceive competition levels as comparable to one year ago, and 7% are unsure. Notably, not a single agent said that the market was less competitive. *See Figure 4.*

Figure 4: Is the Market More or Less Competitive Than One Year Ago?



Source: Interviews conducted with 30 agents in five major metropolitan areas: New York, Chicago, Los Angeles, Baltimore and Washington, DC.

Agents also report that more local stores are offering remittance services. Thus, they view competition as occurring not just among the companies, but also among local agents. According to one agent in Los Angeles, every corner store in her neighborhood now offers remittance services.

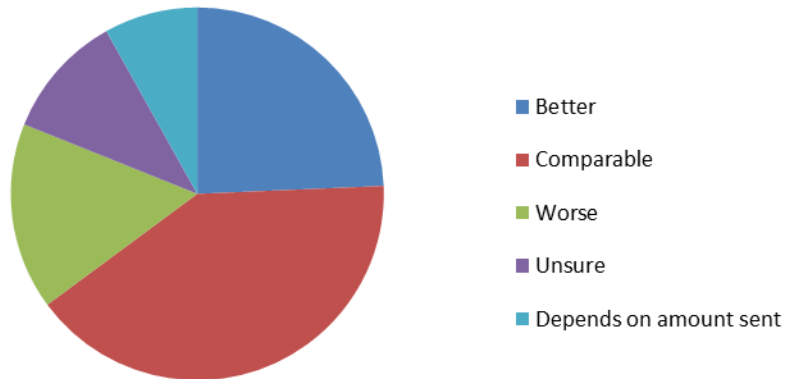
According to agents, larger companies and banks are now targeting markets that used to be dominated by Hispanic RSPs. One agent mentioned that MoneyGram and Western Union are increasingly engaged in trying to capture the Hispanic market. The agent noted that they were sponsoring local events and festivals, trying to build a positive relationship with Hispanic communities. According to another source, Western Union, MoneyGram and Xoom are increasingly targeting Caribbean communities with advertising and special promotions.

Perceptions of Western Union's Change of Strategy

In general, agents were confident in their ability to withstand competition through good prices and positive relationships with customers. Most agents were unimpressed with Western Union's attempts to woo customers. "Western Union actually follows our low prices," an agent of a major competitor claimed, despite their aggressive advertising campaign.

Most agents believe that their companies' prices are low enough to keep them competitive with other companies such as Western Union. Forty-one percent of agents reported that their prices were competitive, and 24% said they offered lower prices than their competitors. Only 16% believed that their prices were too high to be competitive.

Figure 5: How do your RSP's prices compare with other major companies, such as Western Union?



Source: Interviews conducted with 30 agents in five major metropolitan areas: New York, Chicago, Los Angeles, Baltimore and Washington, DC.

Agents also expressed confidence in their relationships with customers and their knowledge of remittance corridors. One company's mid-level manager described how his agents stay abreast of Caribbean news so that they can connect with their remittance customers over events in their home countries. He felt that this was a key difference between his company and Western Union, which he claimed lacked meaningful connections to the region.

Though agents perceive the market as competitive, they don't think that Western Union is stepping ahead of its competitors. Only one agent out of thirty reported losing customers to Western Union over the past year.

Moreover, many agents were skeptical of Western Union's promotions and price cuts. Some agents said that the \$5 promotion being advertised was only for online transactions, which they did not see as particularly relevant for their customer base. Other agents said that they didn't believe the rate even existed. According to one agent, "I've heard about it on the radio, but I've never actually seen it with my own eyes."

4. A game change in the U.S. – Latin American remittance market?

The money transfer market in the U.S. – Latin American corridor has been characterized by its competitiveness. Even during difficult times, companies continue to strive to increase their market share using various means (new products, lower prices, more countries, larger networks, greater geographic penetration, and better client service). MoneyGram and Ria Financial have experienced important growth during 2013, proving that the money transfer environment continues to offer opportunities. For MoneyGram, growth in U.S. outbound transactions was 19%, mostly attributed to its presence in Mexico. Similarly, Ria's revenue and transaction growth was substantial, showing transaction growth of 27% to Mexico.

However, the market presents many challenges. As the ranking of the more competitive companies suggests, these businesses have limited maneuvering room to compete and increase their market share because they share many similar traits (see Table 11).

In addition, bank account closures present a major challenge for money transfer operators as well as money service businesses. These companies have been severely affected by many banks' untested presumptions that money transfer operations constitute a high financial risk. Account closures affect their day to day business operations to a significant extent, provoking unnecessary burdens to the marketplace and even affecting transaction costs.^{lvi} The latest series of events dealing with BTS' decision to close accounts with third parties has affected a number of companies in the industry, BTS included. Some analysts estimate that BTS may have lost at least 30% of its transactions as a result of terminating relationships with several companies. Similarly, Banamex's decision to close its remittance business will affect many companies in the industry, including Western Union.

These issues surround the competitive environment. In this context, Western Union's current approach may be a sound strategy for growth, but perhaps not adequate for recovery from a significant crisis such as the one it underwent in 2012. Western Union's approach was based on pricing and network, two important segments where the company had traditionally lagged behind other businesses.^{lvii} However, the company may need to address additional aspects of their competitive performance, in areas including product innovation (such as prepaid cards), marketing, and negotiating new partnerships for outbound and inbound transfers. The critical question is whether its recovery will bring back its position to at least its 2011 transactions within the remaining quarter of 2013.

One scenario is that their consistency in low pricing becomes another recognizable aspect of the company and attracts new or older clients in significant numbers. The main challenge is to woo back all those clients who are now doing business with the competition. However, increasing transactions under the new pricing model will mean that revenue and net income will continue to be lower than in 2012. As Western Union reached its second and third quarter report, they will experienced little change: 3% decline in revenue on the second quarter and 1% in the third quarter. However, it is unlikely that their increase will exceed 15%.

The issues faced by Western Union apply to the entire industry. The cash to cash market is saturated with many solid businesses, many of which are operating in more than 10 countries; thus, the revenue options of

growing through the conventional variables are limited, particularly when revenue per transaction has declined considerably. The increase in Western Union's online payments is putting them ahead of the game in this segment. Leading competitors are still enjoying the losses from Western Union. These gains are not static, and can turn the tables to Western Union's favor. A recovery of 100,000 transactions for 2013 will be felt among competitors' revenue lines.

Companies need to introduce new methods of delivery, partner with companies that are innovators, both in the countries of origin and destination, and prepare financial instruments and technologies for a demand shift from cash to electronic payments. Central to this approach is to take a broader strategy beyond pricing and towards branding. As more immigrants are expressing an interest in switching to electronic payment methods, the demand for online payments and the use of prepaid cards and mobile transfers have increased. This trend will be part of the new frontier of competition in the U.S. market, and adapting from C2C into A2C and A2A will require new investments, marketing strategies and a higher risk propensity to bet into this up and coming market segment. The current wave of international migration is increasingly showing high-skilled, professional migrants that are drawn to electronic forms of payment, which suggests that the use of cards, online accounts, and mobile transfers will continue to increase.

Table 11: Characteristics of leading money transfer companies, 2012

RSP	Rank	Estimated Market share	# of Products	Country Coverage	Cost (%)			Payment Network			Inclusiveness		
					Fee	FX	Total cost	Payment Points	Points/Country	Points/Network (%)	Rural Ratio (%)	Bank ratio (%)	MFI ratio (%)
Western Union	11	21	5	213	6.67	1.5	8.17	11315	1132	10%	77%	26%	6%
MoneyGram	6	12.5	5	196	5.6	1.2	6.8	18684	1868	15%	76%	36%	13%
Ria Intl.	5	11	5	136	3.24	2.26	5.5	20461	2273	14%	77%	46%	5%
Sigue	9	5.3	2	14	5	1.3	6.3	9564	3188	10%	79%	55%	5%
Wells Fargo	1	4.5	4	14	4	1.0	5.5	10546	1318	5%	73%	76%	1%
Xoom	1	3.5	4	30	2.5	1.4	3.9	16265	1807	10%	74%	59%	6%
Uniteller	8	3.24	3	10	3.6	1.1	4.7	11071	1384	6%	79%	67%	4%
Viamericas	1	2.5	4	20	4.3	0.24	4.54	13364	1909	9%	76%	71%	4%
Dolex/Quisqueyana	4	4	3	43	3.15	1.13	4.28	11599	1657	8%	77%	60%	0%
La Nacional	9	-	3	85	4	0	4	2246	562	5%	73%	58%	1%

Source: Orozco, Manuel, "The Market for Money Transfers: Ranking of Remittance Service Providers in Latin America and the Caribbean," Inter-American Dialogue, 2012

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Appendix: Company financials

Revenue (millions)	2005	2006	2007	2008	2009	2010	2011	2012	Q1 2013
Western Union ^{lxviii}	3,279	3,745	4,093	4472	4301	4,383	4,608	4,584	810
MoneyGram ^{lix}	650	822	859 ^{lx}	1015 ^{lxi}	1,028	1053	1,153	1,255	294
Ria Financial ^{lxii}	n/a ^{lxiii}	3 ^{lxiv}	159	231	233	245	285	316	83
Viamericas Corp				23 ^{lxv}					
Xoom									24 ^{lxvi}
DolEx ^{lxvii}	96 ^{lxviii}	120	132	144	139	Unknown ^{lxix}			

Revenue Growth (%)	2005	2006	2007	2008	2009	2010	2011	2012	Q1 2013
Western Union ^{lxx}	—	14%	9%	9%	-4%	2%	5%	-1%	7%
MoneyGram	22%	27%	4.5%	18%	1%	2%	9%	9%	
Ria Financial	n/a ^{lxxi}	—	52%	45%	1%	5%	16%	11%	
Xoom									43%
DolEx	107%	13%	11%	8%	-3%	lxxii			

Net agent locations	2005	2006	2007	2008	2009	2010	2011	2012	Q1 2013
Western Union ^{lxxiii}	—		335,000	375,000	410,000	445,000	485,000	510,000	515,000 ^{lxxiv}
MoneyGram		110,000	143,000	176,000	190,000	227,000	267,000	310,000	
Ria Financial	n/a ^{lxxv}	32,000	—	76,000	82,000	110,000	—	177,000	199,000
Viamericas		10,000 ^{lxxvi}							
Sigue							75,000 ^{lxxvii}		
DolEx		900,000 ^{lxxviii}						1,600,000	

Growth of Transactions to Mexico (%)	2005	2006	2007	2008	2009	2010	2011	2012	Q1 2013
Western Union ^{lxxix}	—	35% ^{lxxx}	4%	-1%	-12%	2%	0%	-1% ^{lxxxi}	—
MoneyGram ^{lxxxii}		29% ^{lxxxiii}	8%	2% ^{lxxxiv}	-9%	-2%	12%	21%	
Ria Financial ^{lxxxv}	n/a ^{lxxxvi}	—	—	-9%	-20%	-9%	1%	19%	26%

Growth of Revenues to Mexico (%)	2005	2006	2007	2008	2009	2010	2011	2012	Q1 2013
Western Union ^{boxxvii}	—	29% ^{boxxviii}	-4%	- 2%	-15%	0%	2%	-3% ^{boxxix}	—

Total Transactions (millions)	2005	2006	2007	2008	2009	2010	2011	2012	Q1 2013
Western Union ^{2xc}	118.5	147	168	188	196	214 ^{xci}	226	231	55
Ria International	n/a	—	12	17	18	19	24	31	8.1
Xoom									2 ^{xcii}

ⁱ Manuel Orozco, “The Market for Money Transfers: Ranking of Remittance Service Providers in Latin America and the Caribbean,” The Inter-American Dialogue, 2012.

ⁱⁱ According to Coopers and Lybrand (1997), Western Union held 80% of the market share in Mexico in 1996, and the company sustained a comfortable position for nearly 10 years. By 2007 its market share was estimated at 20%.

ⁱⁱⁱ A Scorecard in the Market for Money Transfers: Trends in Competition in Latin America and the Caribbean. Manuel Orozco, Elisabeth Burgess and Landen Romei. http://www.thedialogue.org/PublicationFiles/Scorecard%20Report%206.18.2010_FINAL.pdf. The Inter-American Dialogue, 2010.

^{iv} Although the bank offered transfers since the 1980s, it was not until the 2000s when they became fully active in the business.

^v WORLD BANK WORKING PAPER NO. 47. Raúl Hernández-Coss. The U.S.–Mexico Remittance Corridor: Lessons on Shifting from Informal to Formal Transfer Systems. 2005. p 23. <http://elibrary.worldbank.org/doi/pdf/10.1596/0-8213-6087-6>

^{vi} <http://www.crunchbase.com/company/xoom>

^{vii} Euronet agrees to acquire RIA Envia, Inc., the third-largest global money transfer company. November 21, 2006.

<http://ir.euronetworldwide.com/releasedetail.cfm?ReleaseID=373624>

^{viii} <http://goldexico.com/services/mexico-express/>

^{ix} <http://siteresources.worldbank.org/INTAML/Resources/US-Guatamala.pdf>, page 8

^x NetSpend and DoEx Dollar Express, Inc. Announce New Prepaid Card Distribution Agreement

AUSTIN, Texas, Aug. 7, 2012. <http://www.dolex.com/press/netspend.asp>

^{xi} <http://phx.corporate-ir.net/phoenix.zhtml?c=92448&p=irol-newsArticle&ID=1572582&highlight=>

^{xii} BofA Merrill Launches Dodd-Frank Payments Solutions for Financial Institution Clients. March 26, 2013.

<http://newsroom.bankofamerica.com/press-release/corporate-and-investment-banking-sales-and-trading-treasury-services/bofa-merrill-la-0>

^{xiii} <http://www.justice.gov/opa/documents/sigue-deferred-prosecution-agreement.pdf>

^{xiv} Department of Justice. Moneygram International Inc. Admits Anti-Money Laundering and Wire Fraud Violations, Forfeits \$100 Million in Deferred Prosecution. November 9, 2012. <http://www.justice.gov/opa/pr/2012/November/12-crm-1336.html>

^{xv} Orozco, Manuel.

^{xvi} The Market for Money Transfers: Ranking of Remittance Service Providers in Latin America and the Caribbean. Manuel Orozco. October 24, 2012

http://www.thedialogue.org/PublicationFiles/LatAm_Final_120612.pdf

^{xvii} Latin American Scorecards. Inter-American Dialogue. 2006, 2010, 2012.

^{xviii} Western Union Annual Report 2006. p 47. http://ir.westernunion.com/files/doc_financials/2006AR.pdf

^{xix} Western Union Annual Report 2012. http://ir.westernunion.com/files/doc_financials/WU2012ARFinalWeb.pdf

^{xx} Data compiled from Western Union Annual Reports 2006-2012.

^{xxi} Western Union Annual Report 2007, page 28.

^{xxii} Western Union Annual Report 2007, page 28.

^{xxiii} Western Union Annual Report 2009, page 49.

^{xxiv} Western Union Annual Report 2009, page 49.

^{xxv} Western Union Annual Report 2011, page 58.

^{xxvi} Western Union Annual Report 2012, page 58.

^{xxvii} Western Union Annual Report 2012, page 58.

^{xxviii} Washington Post. Western Union settles Ariz. suits, will pay to fight money laundering by Mexican cartels. February 11, 2010.

http://articles.washingtonpost.com/2010-02-11/news/36840936_1_western-union-financial-services-mexican-drug-cartels-flow-of-illicit-funds

² Consumer to Consumer only

xxix Western Union Worth \$16 Even After Earnings. November 4, 2012. <http://seekingalpha.com/article/976391-western-union-worth-16-even-after-earnings>

xxx “Western Union sees lower earnings as competition bites.” *Reuters*. February 12, 2013.

xxxi Johnson, 2013; Western Union First Quarter Report, April 30, 2013.

xxxii Western Union Annual Report 2012. http://ir.westernunion.com/files/doc_financials/WU2012ARFinalWeb.pdf

xxxiii WU Affirms Pact with Grupo Elektra. Zacks, Feb 24 2012. <http://www.zacks.com/stock/news/70302/WU-Affirms-Pact-with-Grupo-Elektra>

xxxiv The US\$94 million settlement involved a dispute over whether Western Union’s “turned a blind eye to the use of its services in border-related crime.” Archibold, Randall, “Western Union to Pay in Border-Crime Deal” *The New York Times*, February 11, 2010.

xxxv UPDATE: Western Union 4th-Quarter Profit Down on Expenses, Flat Revenue. Johnson, February, 2013. <http://online.wsj.com/article/BT-CO-20130212-715906.html>

xxxvi Interviews with several Western Union observers.

xxxvii We estimate at least 333,000 transactions from the revenue loss in Mexico of US\$250 million during that quarter. However, some analysts have estimated that Vigo transaction decline alone may have been as much as 500,000.

xxxviii WU Affirms Pact with Grupo Elektra. Zacks, Feb 24 2012. <http://www.zacks.com/stock/news/70302/WU-Affirms-Pact-with-Grupo-Elektra>

xxxix UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549. Western Union Company. Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. <http://www.sec.gov/Archives/edgar/data/1365135/000136513513000008/wu-12312012x10k.htm>

xl Western Union, “First Quarter Report,” Conference Call, February 13, 2013.

xli <https://www.riamoneytransfer.com/Pricing/PriceCalculator.aspx>

xlii <https://www.xoom.com/money-transfer-fees>

xliii Western Union, “First Quarter Report,” Conference Call, February 13, 2013.

xliv Western Union Expects Decline in Earnings. Johnson. February 2013. <http://stream.wsj.com/story/markets/SS-2-5/SS-2-168711/>

xlvi Fodor, 2013.

xlvii Western Union, “First Quarter Results,” April 30, 2013.

xlviii Western Union, “First Quarter Results,” April 30, 2013.

xlvi Western Union Second Quarter Report, July 2013.

xlix Banorte Branches across Mexico Will Offer Western Union Global Money Transfer Services. Wednesday, April 24, 2013 06:30 PM.

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ⁱ Western Union Second Quarter Report, July 2013. <http://ir.westernunion.com/files/EarningsRelease63013.pdf>

ⁱⁱ Western Union Second Quarter Report, July 2013. <http://ir.westernunion.com/files/EarningsRelease63013.pdf>

ⁱⁱⁱ Western Union, “First Quarter Results,” April 30, 2013.

ⁱⁱⁱⁱ In some cases, multiple competitor sending points may be located within a single competitor agency. For example, a local convenience store may have several different remittance companies for customers to choose from. It is also important to note that the statistic of 26 competitors within one mile is not representative of the United States, nor is it necessarily representative of the metropolitan areas included in the survey.

^{lv} “Major Competitors” includes RSPs that have agent locator mapping tools on the websites (Western Union, MoneyGram, Vigo).

^{lvi} In many cases, agents requested to be visited at quiet times, such as the mid-afternoon on a weekday. Even at these times, the interviewer frequently waited for 3-4 customers to be helped before they could conduct the interview. In many cases, the flow of customers rarely lets up throughout the day.

^{lvii} For a close analysis of bank account closures, see Orozco, Manuel and Julia Yansura, *Keeping the Lifeline Open: Remittances and Markets in Somalia*, Oxfam, May 2013.

^{lviii} Western Union’s global presence in many countries suffered from its own competitive advantage: exclusivity. Because the company has retained its exclusive agreements, the number of partners has been smaller than with other non-exclusive players. In turn, their payment network is solid but not the largest in most corridors.

^{lix} Revenue of Consumer to Consumer transactions, excluding business transactions. Data compiled from Annual Reports 2005 – 2012 and Quarterly Report for 2013.

^{lx} Measured by the Global Funds Transfer Segment, which includes Money Transfers and Bill Payments.

^{lxi} Reported revenues have changed; this is from the 2009 annual report. http://files.shareholder.com/downloads/AMDA-1TA9OX/2808609814x0x660413/D3786850-E5AC-4959-AE22-C217743920B2/2009_10-K.pdf

^{lxii} Reported revenues have changed; this is from the 2010 annual report. http://files.shareholder.com/downloads/AMDA-1TA9OX/2808609814x0x660415/F0A61236-4AF9-4F65-B0A3-0F02AC0DD3BC/2010_10-K.pdf

^{lxiii} Measured by the Money Transfers division information of EuroNet WorldWide.

^{lxiv} Ria had just launched its Money Transfers Segment at the time of the 2005 Yearly Financial Report.

^{lxv} At this time, Euronet had not yet purchased Ria Financial.

^{lxvi} See “Deloitte’s 2009 Technology Fast 500,” available at <http://www.orametrix.de/getdoc/006645f7-a43d-4557-afdf-53086d86f9d8/2009DeloitteTechnologyFast500winners.aspx>, page 8.

^{lxvii} Xoom First Quarter 2013 Results. <http://ir.xoom.com/releasedetail.cfm?ReleaseID=758227>

^{lxviii} Global Payment Systems, Inc. Money Transfer Segment.

^{lxix} Reported revenues have changed; this is from the 2006 annual report.

^{lxx} In 2010, DolEx was acquired by Palladium Equity Partners, a private equity firm.

^{lxxi} Reflects Consumer to Consumer growth, from Annual Reports. See Table 3 for page numbers.

^{lxxii} Ria had just launched its Money Transfers Segment at the time of the 2005 Yearly Financial Report.

^{lxxiii} In 2010, DolEx was acquired by Palladium Equity Partners, a private equity firm.

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- lxxiii Data compiled from Annual Reports
- lxxiv First Quarter 2013 Report, page 7.
- lxxv Ria had just launched its Money Transfers Segment at the time of the 2005 Yearly Financial Report.
- lxxvi https://www.viamerica.com/CustomerDirect/Modulos/Maestros/Public/MV_Links.aspx?Home=History
- lxxvii See "Sigue Corporation News," available at <http://www.sigue.com/news/>.
- lxxviii Dolex Annual Report 2006.
- lxxix Data compiled from Annual Reports.
- lxxx Or 6%, excluding Vigo.
- lxxxi Annual Report 2012. Page 59.
- lxxxii Data compiled from Annual Reports.
- lxxxiii Mexican volume represented 11 percent and 12 percent of total transactions in 2006 and 2005.
- lxxxiv Mexico represented nine percent of total transactions in 2008 compared to 10 percent in 2007.
- lxxxv Data compiled from Annual Reports.
- lxxxvi Ria had just launched its Money Transfers Segment at the time of the 2005 Yearly Financial Report.
- lxxxvii Data compiled from Annual Reports.
- lxxxviii Or 7%, excluding Vigo.
- lxxxix Annual Report 2012. Page 59.
- xc Data compiled from Annual and Quarterly Reports.
- xci Data for 2006 through 2010 from 2010 Annual Report, page 37.
- xcii <http://ir.xoom.com/releasedetail.cfm?ReleaseID=758227>