THEDIALOGUE
Leadership for the Americas

MARCH 2020

THE REMITTANCE MARKETPLACE IN 2019

The Growing Role of Digital Payments

Manuel Orozco
Kathryn Klaas
Nicole Ledesma

© 2020 Inter-American Dialogue.

Photo credit: Laura Porras / Inter-American Dialogue / Public Domain

Layout: Kathryn Klaas with Daniela Sáez / Inter-American Dialogue

This report is a product of the Migration, Remittances and Development Program at the Inter-American Dialogue. The views and recommendations contained herein are solely the opinions of the author and do not necessarily reflect the consensus views of the board, staff, and members of the Inter-American Dialogue or any of its partners, donors, and/or supporting institutions. The Inter-American Dialogue is a non-partisan organization deeply committed to intellectual independence, transparency, and accountability. While donors are encouraged to participate in Dialogue activities, they do not influence our work in any way. Financial supporters have no control over the writing, methodology, analysis or findings of the Dialogue's research efforts.

Report Contents

Introduction 2

I. Modernization of the Payments Industry 2

The Shifting Landscape of Competition and Fintech Opportunities 2

Mobile Wallets in Latin American Markets 4

II. Family Remittances and Transfer Costs 7

Analysis of Transfer Costs 7

Proposed Changes to the 'Remittance Rule' 11

Introduction

This report analyzes the role of money transfer intermediation for migrants remitting to Latin America and the Caribbean. The report begins by looking at trends related to modernization of the payments industry, specifically as they relate to digital payments. To further understand customers and mobile wallet demand, we provide a glimpse into consumers' use of mobile wallet services in Guatemala and Nicaragua.

The second section looks at trends in transfer costs. Additionally, we discuss the proposed changes to the 'Remittance Rule,' as well as the consequences they may have on remittance senders.

Major findings:

- Digital or online-based remittance transactions are at least 30% of all transfers to major countries
- Transfers (online or offline) deposited into the home country relative's bank accounts represent at least 20% of all transfers
- Mobile wallets capture funds from unbanked individuals, including remittance transfers they receive
- Average transfer costs for sending USD $200 have remained stable at 6%
- Money transfer operators continue to offer the lowest transaction cost
- There is not a single factor that predominantly explains transfer costs

I. Modernization of the Payments Industry

The Shifting Landscape of Competition and Fintech Opportunities

Within the context of increasing global competition, FinTech – defined as, "…any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin"[1] – is inextricably linked to the evolution of Remittance Service Providers' (RSPs) business models and operations in the worldwide money transfer marketplace.

This section shows that digital transfers, which can be described as transactions provided through financial online technology and payment vehicles, are growing and have a minimum of 20% market share.

The shifting landscape of competition and FinTech opportunities coincided with changes in RSPs' business models, which are designed to increase an RSP's market footprint and competitive position. Table 1 provides a typology of cross-border remittance service provider business models, most of which concentrated on the choice of product bundles, payment vehicles, and agent partnerships.

TABLE 1: TYPOLOGY OF BUSINESS MODELS
Source: Author's own.

	Single Product Offering		Mix of Financial Payment Services/Products	
	Cash-to-cash	Account-based*	Cash-to-cash	Account-based [a]
Agent-Based in origin and destination	MoneyGram, Western Union		Al Fardan	
Proprietary front operation with agent-based in destination	Dolex	Wells Fargo, Xoom	UAExchange	Worldremit, Remitly

[a] Account at bank or non-depository entity

[1] https://www.investopedia.com/terms/f/fintech.asp#ixzz4zphKbqch

While the demand for money transfers increases, the money transfer industry is adapting to changing demands by offering online transfer services in origin and destination countries. The growth of online payments is extraordinary. Growth is over 30% for some corridors, like US outbound transfers to Colombia, Guatemala and Mexico.

TABLE 2. MARKET SHARE PARTICIPATION BY TYPE OF PAYMENT METHOD, US TO THESE COUNTRY'S CORRIDORS

Source: Authors' estimates based on data collected from news sources, company annual reports, and expert interviews.

	Colombia			Guatemala			Mexico		
Payment Method	2015	2018	2019	2015	2018	2019	2015	2018	2019
Cash	72%	54%		77%	66%		82%	67%	
Digital*	28%	46%	47%	23%	24%	25%	18%	33%	37%
Total monthly transactions	489,000	598,000	610,000	760,000	850,000	950,000	6,393,600	6,880,000	7,100,000

**Includes transaction amounts from Xoom, Remitly, WorldRemit, and WesternUnion.com

For other countries, market share for online services will also increase to at least 30% of all money sent by 2022 to the region. In 2009, less than 1% of all United States remittance transfers to the region originated online, but, by 2022, this figure is projected to reach 30%. Remittance pick-up in home countries via digital wallets, mobile banking or account deposits will also grow to more than 10% of all transfers.

The impact of this modernization is relevant insofar as the payment's ecosystem is reaching the entire migrant population and households in the region, in turn providing greater financial access. The table below provides a measure of digital transfer market share participation as compared to all other transfer methods.

Table 3 is based on expert interviews and data analysis for key corridors in the Latin America and Caribbean region. The share of digital transfers is increasing from 24% to 37% for key US to Latin America country corridors. This is a growing trend, where transactions are gradually shifting, year-by-year to online payment vehicles as seen in Table 3.

Another important trend highlighted in this table refers to transfers deposited into local family bank accounts on the receiving end. The data for the six countries' corridors, for which data is available, shows that 25% of online transfers were deposited into bank accounts. Offline, agent-originated transfers are also performing account deposits to a minimum of 10% of beneficiaries' accounts.

TABLE 3: DIGITAL FINTECH-BASED TRANSFERS TO LATIN AMERICA AND THE CARIBBEAN
Source: Data collected from Central Banks; Author estimates based on interviews with industry experts.

Country	Average transfer	Person-to-Person	Bank account owners in the US (%)	Potential Digital outbound remittance market	Outbound Digital Active Market	Accounts deposits (offline-online) in home country
Region	387	21,230,999.51	72%	15,239,518.01	3,610,000.00	
Mexico	325	7,013,542.44	70	4,909,480	2,812,000	20%-35%
Colombia	220	1,797,970.31	87	1,564,234	267,000	40%-70%
Guatemala	420	968,507.59	53	513,309	220,000	30%
El Salvador	305	907,370.22	67	607,938	165,000	35%
Dom. Republic	260	1,170,854.06	76	889,849	146,000	10%
Honduras	260	953,676.99	45	429,155	120,000	15%
Argentina	320	111,010.70	80	88,809	N/A	
Belize	220	29,435.87	80	23,549	N/A	
Bolivia	235	376,500.19	80	301,200	N/A	
Brazil	541	360,066.44	80	288,053	N/A	
Costa Rica	301	114,772.32	80	91,818	N/A	
Cuba	150	816,820.20	90	735,138	N/A	
Ecuador	293	739,533.58	72	532,464	N/A	
Guyana	179	133,978.41	90	120,581	N/A	
Haiti	180	1,165,420.84	45	524,439	N/A	
Jamaica	209	792,989.39	90	713,690	N/A	
Nicaragua	133	681,639.63	70	477,148	N/A	
Panama	196	173,305.90	90	155,975	N/A	
Paraguay	263	144,089.53	90	129,681	N/A	
Peru	250	889,614.92	70	622,730	N/A	
Suriname	220	165.15	90	149	N/A	
Trinidad and Tobago	200	48,547.91	90	43,693	N/A	
Uruguay	198	34,867.95	90	31,381	N/A	
Venezuela, RB	138	1,806,318.96	80	1,445,055	N/A	

Mobile Wallets in Latin American Markets

The latter issue mentioned in the previous section is significant because mobile wallets are increasingly being promoted in Latin American markets and usage is starting to point to a critical mass of consumers. For example, data from Guatemala and Nicaragua on two specific products and mobile wallets, TigoMoney and CashPak, show that when consumers are introduced to the service, one in three adopt it.

The cases analyzed below are part of a financial advising initiative that provides financial advising to transactional clients in order to increase their financial access through mobile payment vehicles. One relevant aspect of this type of clientele is that they are typically less likely to have a bank account. Therefore, access to this payment vehicle offers new opportunities to enhance their chances to build or strengthen their assets.

TigoMoney is a mobile wallet introduced in Guatemala in order to reach out to mobile phone consumers.[2] Consumers who received financial advising were shown the mobile wallet. As a result, over 25% of people who received financial advising sessions used their mobile wallet to store money and make payments following the session.

[2] These numbers are the results of a financial advice initiative in partnership with Tigo Guatemala to promote financial inclusion through the mobile wallet, TigoMoney. The numbers are part of a group of 2500 people receiving financial advising. The conversion

These clients are less likely to own bank accounts, that is, they are probably more unbanked than the average individual. While the country's banking access rate is 40%, the Tigo clientele tends to have lower income and, as Table 4 shows, has less access to banking institutions.

Tigo's participant profile was composed of men (58%) and women (42%), with the average age of all participants being 39 years old. While income varied widely across sites, the average annual household income was Q 34,320 without including remittances. Only 20% of these clients said that they receive remittances, while 30% said they have a family member living abroad. Among those receiving remittances, these money transfers amount to roughly 84% of what a household earns on a yearly basis.

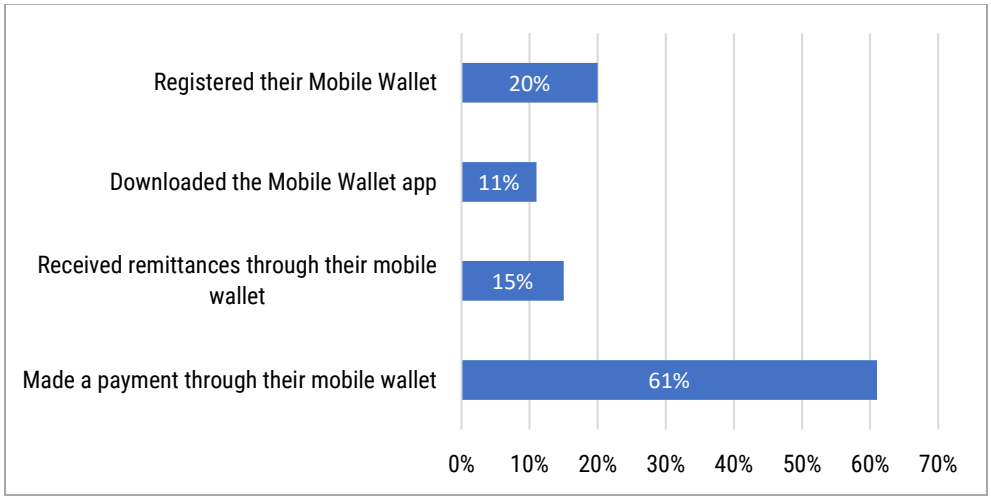
TABLE 4: TIGO PARTICIPANTS IN FINANCIAL ADVISING SESSIONS, GUATEMALA
Source: Inter-American Dialogue, financial advising partnership with Tigo Guatemala.

Number of Financial Advising Sessions	Female Participants	Average Household Age	Annual Household Income (Q) (Excluding Remittances)	% Receiving Remittances	Amount Received in Remittances Annually (Q)	Average Years Receiving Remittances	% with Family Abroad
2, 520	42%	39	34,320	20%	28,823	3	30%

Note: Income and remittance amounts are shown in the Guatemalan currency, Quetzal (Q)

After the financial education trainings, there was a conversion rate of 25%, meaning that TigoMoney users stored a total of USD $47,619.29 in funds. Figure 1 shows the activities that participants performed after receiving a financial education session.

FIGURE 1: ACTIVITIES TAKEN AFTER FINANCIAL EDUCATION SESSIONS
Source: Inter-American Dialogue, financial advising partnership with Tigo Guatemala.



Note: Among Tigo participants who carried out at least one action following the advising session.

rate measures the percentage of participants who go on to take a concrete action following the financial advising session. Concrete actions include signing up for Mobile Money or using their Tigo Mobile wallet for some purpose after receiving a financial education session.

The financial profile of participants confirms the benefits of budgeting and saving formally. As seen below in Table 5, those who save formally had an average stock of savings of Q 6,241 while those who save informally have an average stock of savings of Q 2,888. As these participants tend to have less financial access than the average Guatemalan, the use of the Wallet enhances their opportunities to insert themselves into the country's financial system.

TABLE 5: FINANCIAL CHARACTERISTICS OF TIGO PARTICIPANTS, GUATEMALA
Source: Inter-American Dialogue, financial advising partnership with Tigo Guatemala

Financial Characteristics	Value
Has a checking account	30%
Has a savings account	18%
Avg. stock of savings (Q) among people who save (formally and informally)	4,285
Avg. stock of savings (Q) among people who use a formal institution to save	6,241
Avg. stock of savings (Q) of participants who don't save formally	2,888
Individuals who budget	42%
Individuals who save in some way	39%
Individuals who save in a financial institution (among those who save)	41%

The table below shows the financial behavior disaggregated by gender. Both men and women were similar in their likelihood to save. Although 50% of women budgeted as opposed to 36% of men, their average stock of savings was lower.

TABLE 6: FINANCIAL BEHAVIOR BY GENDER AMONG TIGO PARTICIPANTS, GUATEMALA
Source: Inter-American Dialogue, financial advising partnership with Tigo Guatemala

Financial Behavior	%		%
Women	42%	Men	58%
Save	39%	Save	40%
Save formally	43%	Save formally	40%
Budget	50%	Budget	36%
Avg. stock of savings (Q)	4,089	Avg. stock of savings (Q)	4,415
Receive remittances	27%	Receive remittances	15%

Through a similar initiative in Nicaragua[3], the company Airpak which provides remittance payment services to Western Union, has introduced its mobile wallet, CashPak. Through interventions on financial advice to their clientele, 17% of clients acquired the mobile wallet or added cash to their wallet the same day they received financial advising. Of those who took action immediately following their advising session, 20% registered a new wallet, and 10% transferred money into the wallet.

The financial profile of these clients is different to that of people who regularly visit a depository financial institution and, therefore, the wallet becomes an important instrument for financial access, especially among women. For example, less than 30% of participants own a financial product, 18% have a savings account and half saves. Table 7 offers a financial profile of their savings capability and behavior.

[3] The Inter-American Dialogue has partnered with AirPak to offer financial education sessions. The data provided here represents 2064 clients who have received sessions.

TABLE 7: FINANCIAL CHARACTERISTICS OF NICARAGUAN TRANSACTIONAL CLIENTS
Source: Inter-American Dialogue, financial advising partnership with AirPak Nicaragua.

Financial Product Ownership and Capability	
Has a financial product	27%
Has a checking account	7%
Has a savings account	18%
Saves or invests in someway	50%
Information on Savings Behavior	
Saves money at the end of the month	21%
Saves at home	32%
Saves through a financial institution	18%
Makes a budget	58%
Migration and Remittances	
Has family living abroad	82%
Receives remittances	86%
Amount received annually (average USD)	2,500

These clients' average age is 33 and 66% are female. Annually, households earn an average income of USD $3,840 (excluding remittances) and receive USD $2,571 in remittances.

Eighty-two (82%) percent of participants have family living outside Nicaragua, and 86% of recipients receive remittances. These clients stored an aggregate of USD $68,330 during one month of sessions with an average of USD $31,135 stored in the participants' wallets. Participants that have received financial advising have been actively using the wallet, with a total of USD $4,246 transferred out of their mobile wallet to perform payments.

Overall, these findings provide insight as to the increased use of online based payment vehicles, both in the remittance origin and destination.

II. Family Remittances and Transfer Costs

Analysis of Transfer Costs

Family remittance transfers been made possible by a large network comprised of thousands of money transfer companies. Starting in the mid-2000s when the trend in global flows escalated, the number of remittance service providers (RSPs) increased in most outbound corridors worldwide, though these increases were uneven across countries.

The growth of active RSPs has differed across corridors, primarily due to competition in the business industry. Table 8 presents trends related to the number of RSPs from approximately 2008 to 2019 and current remittance volumes for 14 outbound countries, which send 70% of transfers worldwide.

TABLE 8: NUMBER OF REMITTANCE SERVICE PROVIDERS, 2008-2019
Source: Data compiled by the author based on World Bank Remittance Pricing Database.

Outbound	Circa 2008	2013	2017	2019
14 Corridors	228	331	291	300
Canada	13	30	35	35
Germany	20	26	23	28
Italy	12	26	29	36
Japan	6	29	31	32
Malaysia	7	18	28	33
Netherlands	12	12	13	15
Russian Federation	13	12	12	6
Saudi Arabia	6	7	11	9
Singapore	24	32	44	49
South Africa	8	10	9	14
Spain	17	15	16	18
United Arab Emirates	8	10	13	19
United Kingdom	52	57	75	68
United States of America	82	50	67	69

Note: This table includes 14 main outbound corridors for which data on the number of RSPs were available. The precise number of active RSPs is unknown partly because registries of licensed remittance service providers do not capture if the entity is active or not. The global flow is based on an estimate of 165,000,000 remitters.

Sending money and paying for the transfer has enabled both an industry as well as a global effort to provide these services to over 160 million migrant senders who transfer funds every month to their relatives. These services matter to migrants, not only because they ensure that the funds are received accordingly, but because the funds sent and received are an integral part of their budgets.

The issue of costs has been addressed extensively in several forums and studies and, as the data shows, migrants are spending less to make their transactions. This gradual decline has not been so steep for Latin America and the Caribbean; however, these costs are among the least expensive in the world, second only to South Asia, which predominantly receives remittances from Arab, oil-exporting countries.

The total cost has declined or remained relatively unchanged for the region. However, foreign currency exchange differentials – that are also passed on to migrants upon payment of the transaction – have fluctuated for the region encompassing nearly 2% of all costs, whereas for other regions, they have increased.

FIGURE 2: PERCENT COST OF REMITTING USD $200, 2011-2019
Source: World Bank Remittance Pricing Database.

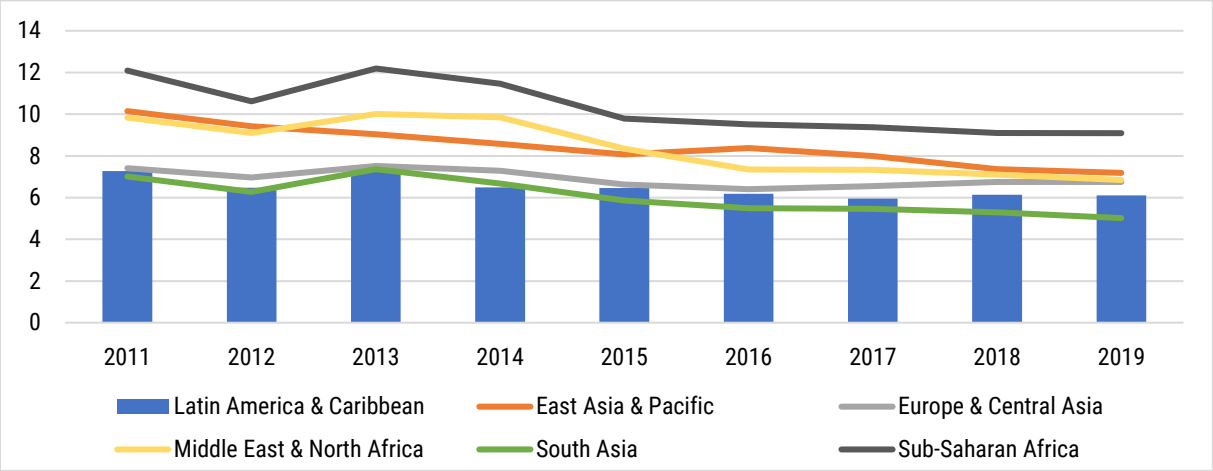
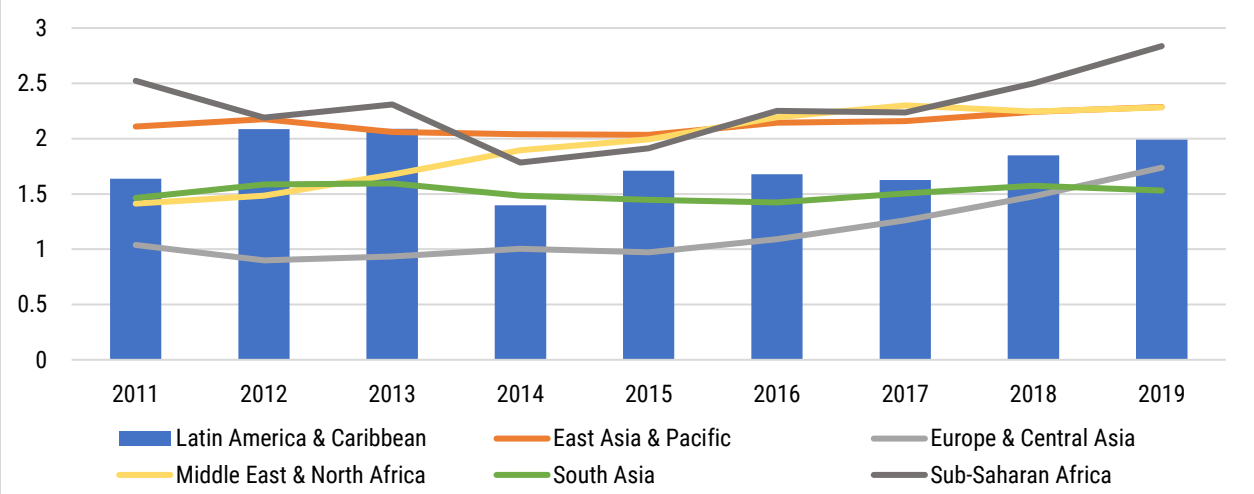


FIGURE 3: EXCHANGE RATE MARGIN (RSP-INTERBANK), 2011-2019
Source: World Bank Remittance Pricing Database.



Relative to the rest of the world, none of the primary sending countries in the region have a average transfer cost above the global average (Table 9). However, there is variation between countries, particularly within the Caribbean. For example, the Dominican Republic Haiti and Jamaica are among the most expensive corridors compared to dollarized economies like El Salvador, Ecuador and Honduras.

TABLE 9: COST OF SENDING USD $200, 2019
Source: World Bank Remittance Pricing Database.

Country	Total cost	Corridor Cost
Rest of the world	8.2	7.5
Jamaica	8.1	7.2
Dominican Republic	6.5	7.1
Colombia	5.7	5.3
Haiti	7.2	5.1
Bolivia	5.6	4.9
Nicaragua	4.4	4.8
Guatemala	4.6	4.7
Mexico	4.6	4.5
El Salvador	3.9	4.1
Honduras	4.3	3.8
Ecuador	4.5	3.7

The average cost of sending USD $200 through banks is 7.30%. On average, the least expensive entity to send money through is a non-bank financial institution and the most expensive method is the post office (Table 10). However, when looking at the specific payment methods offered by different money transfer entities, sending money through a bank account transfer or via a debit or credit card is the least expensive of all the options.

TABLE 10: AVERAGE PERCENT COST OF SENDING USD $200 TO THE LAC, BY PAYMENT METHOD AND TYPE OF FIRM, 2019
Source: World Bank Remittance Pricing Database.

Payment Method	Bank	Money Transfer Operator	Non-Bank Financial Institution	Post office
Total average	7.3	5.9	5.5	10
Bank account transfer	8.2	5.2	.	.
Bank account transfer, cash	8.8	3.9	.	.
Bank account transfer, debit/credit card	.	5.1	.	.
Cash	6.3	6.4	5.5	10
Cash, debit/credit card	.	9.5	.	.
Debit/credit card	3.9	6.2	.	.

Note: Values are presented as percentages.

These finding are important for several reasons. On one hand, they indicate an emerging trend that connects the use of mobile payments to bank account ownership. They are also relevant in light of the proposed changes to the 'Remittance Rule,' which we discuss in the following section.

Proposed Changes to the 'Remittance Rule'

In November 2019, the US Consumer Financial Protection Bureau (the Bureau) released a set of proposed changes to the Remittance Rule, which establishes protections for consumers sending remittance transfers under the Electronic Funds Transfer Act. [4] These proposals followed the Bureau's public "Request for Information" in April 2019 – seeking comments on possible changes to the Rule.[5]

One proposed change involves raising the safe harbor threshold used to determine whether a person is a remittance transfer provider (RTP) based on the number of transfers made in the normal course of business. The proposal would increase the number of transfers at which a person is considered an RTP from 100 to 500 transfers annually. According to the Bureau, this modification would reduce compliance costs for providers, specifically banks and credit unions, that make "a limited number of remittance transfers annually."

A second set of proposed changes would make permanent the temporary exception set to expire on July 21, 2020. This exception exempted some insured institutions from disclosing exact foreign exchange rates and fee amounts prior to and during the transaction.[6] The first of these changes would implement a permanent exception that allows insured institutions to provide an estimate of the exchange rate if the recipient is to receive funds in the destination country's local currency and the insured institution has not made more than 1,000 remittance transfers to that country in the prior calendar year. Additionally, a permanent exception would be included to allow insured institutions to estimate covered third-party fees arising from transfers to the designated recipient institution if the insured institution made no more than 500 remittance transfers to that institution during the prior calendar year.

The 45-day period for public comments on the proposed changes has closed, and, at the time of writing this report, no final decisions have been released.

For transfers to the LAC region, banks and MTOs that partner with post offices generally charge a higher average cost (fee + exchange rate margin) than other remittance transfer providers, regardless of payment method (Table 11).

As Table 11 shows, the total average cost to send USD $200 to the LAC through a bank is USD $7.3, compared to USD $5.1 for MTOs. This gap is even larger when comparing the cost of transfers sent using different payment methods. The average total cost to send a bank transfer through a bank amounts to USD $8.2, while MTOs, on average, charge USD $5.2.

[4] Bureau of Consumer Financial Protection, "Remittance Transfers under the Electronic Fund Transfer Act (Regulation E)," November 25, 2019, https://files.consumerfinance.gov/f/documents/cfpb_nprm_remittance-rule_2019-11.pdf

[5] Bureau of Consumer Financial Protection, "Request for Information Regarding Potential Regulatory Changes to the Remittance Rule," April 23, 2019, pg. 1 https://files.consumerfinance.gov/f/documents/cfpb_rfi_remittance-rule.pdf

[6] Under the Electronic Funds Transfer Act section 919, remittance transfer providers must inform consumers of the exact exchange rate, certain fee amounts, and the amount to be received prior to and during the transaction unless they qualify for a temporary exception. Providers who qualify for this exception can provide estimates of rates, fees, and pay-out amounts. To qualify they must be "(i) an insured depository institution or insured credit union (collectively, "insured institutions") that makes a transfer from an account that the sender holds with them" and "(ii) unable to know, for reasons beyond their control, the amount of currency that will be made available to the designated recipient." https://files.consumerfinance.gov/f/documents/cfpb_rfi_remittance-rule.pdf

TABLE 11: AVERAGE COST OF SENDING USD $200 TO THE LAC, BY DESTINATION AND TYPE OF FIRM, 2019
Source: World Bank Remittance Pricing Database.

Destination	Bank	MTO
CARIBBEAN	9.0	8.0
Cuba	n/a	10.4
Dominican Republic	**11.1**	6.2
Haiti	**7.4**	7.3
Jamaica	**8.4**	8.1
CENTRAL AMERICA, MEXICO	4.6	4.6
Costa Rica	4.0	6.7
El Salvador	4.0	3.8
Guatemala	4.1	4.7
Honduras	**4.4**	4.2
Mexico	3.6	4.7
Nicaragua	**7.9**	3.8
Panama	4	4.3
SOUTH AMERICA	6.6	6.5
Bolivia	6.2	6.2
Brazil	**12.6**	6.6
Colombia	4.9	5.8
Ecuador	**6.0**	4.2
Guyana	7.1	8.7
Paraguay	7.0	8.1
Peru	3.5	5.2
Suriname	5.4	7.4

This change in the rule would have adverse effects for senders who conduct a limited amount of transfers through banks. This is notable considering that banks, on average, charge the highest overall price. For some migrants from the Caribbean, Nicaragua and even Brazil, using banks is already expensive.

Eliminating rule compliance would adversely affect this group, even if they represent less than 1% of all senders.

www.thedialogue.org

Inter-American Dialogue 1155
15th Street NW, Suite 800
Washington, DC 20005
202-822-9002
remittances@thedialogue.org
thedialogue.org/**remittances**