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FEATURED Q&A

What Is Driving the Increase in Money Transfers to Mexico?



Mexico's level of remittances has grown this year despite the pandemic, according to the country's central bank, pictured above. // File Photo: Bank of Mexico.

Q Remittances to Mexico rose unexpectedly by 10.5 percent in the first half of this year, according to the country's central bank. Between January and June, Mexicans sent home approximately \$19 billion, as compared to \$17.25 billion in the first half of last year, despite record job losses due to the coronavirus pandemic in the United States, the source of most money transfers. What are the main factors driving remittances to Mexico? Will the growth continue in the second half of this year? How important are remittances to Mexican households and to the businesses that operate there?

A Jonathan Heath, deputy governor at the Bank of Mexico: "Given the strong seasonal pattern of family remittances from the United States to Mexico, it is better to examine them over a 12-month flow; in June, this flow reached a record high of \$37.9 billion, following an almost uninterrupted upward trend over the past seven years. In 2019, remittances represented a record high of 2.9 percent of GDP. Continued growth of this flow, coupled with the sharp contraction in economic activity expected for 2020, could push remittances to a new record for the year, as high as 3.8 percent of GDP. Remittances are an important complement for lower-income families, especially in certain regions of the country, where flows can represent more than 10 percent of a state's GDP. In 2009, remittances fell sharply, in line with the high unemployment rate of almost 13 percent registered in the United States among the Hispanic-Latino population. This year, remittances have continued to grow in spite of the same segment registering a record 18.9 percent unemployment rate. A few hypotheses have been suggested to

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TOP NEWS

FINANCIAL TECHNOLOGY

Wirecard to Sell Brazil Operations

Defunct German payment processor Wirecard has reached an agreement to sell its operations in Brazil, according to the company's insolvency administrator. The unit is being sold to a subsidiary of PagSeguro Digital for an undisclosed sum.

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BANKING

BBVA Secures \$47 Bn to Fight Climate Change

Spanish lender BBVA said it had secured approximately \$47 billion in sustainable finance to fight climate change. Among its projects is a revolving credit line linked to sustainability in Latin America.

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MONEY LAUNDERING

Top Avianca Shareholders Face Charges

Brothers Germán and José Efromovich, the majority shareholders of Colombian airline Avianca, were arrested on money laundering charges. Germán Efromovich denied wrongdoing.

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Germán Efromovich // File Photo: Cruks via Creative Commons.

FINANCIAL TECHNOLOGY NEWS

Wirecard to Sell Brazil Operations: Administrator

Defunct Germany-based payment processor Wirecard has reached an agreement to sell its operations in Brazil, according to the company's insolvency administrator, Reuters reported Aug. 21. Wirecard agreed to sell the operations in the South American country to a subsidiary of PagSeguro Digital for an undisclosed sum, the wire service reported. "Wirecard Brazil

“Wirecard Brazil has an innovative and experienced team that has built powerful online payment solutions...”

— PagSeguro

has an innovative and experienced team that has built powerful online payment solutions with more than 200,000 customers, including e-commerce platforms, marketplaces and virtual store platforms,” PagSeguro said in a statement. “In addition, their online solutions are available through application programming interfaces (APIs) and are integrated into more than 40 virtual store platform systems (e-commerce).” The deal marks Wirecard's first move to sell a global asset after the company collapsed earlier this year due to an accounting scandal, Reuters reported. The German company's plan to sell its operations in North America is also progressing, with a deal expected “shortly,” according to the administrator. Wirecard also has an agreement in principle to sell some of its operations in Britain to Railsbank Technology, according to the administrator. Wirecard had been strengthening, but it disclosed a hole in its accounts of 1.9 billion euros (\$2.24 billion). Prosecutors in Germany suspect company executives of running a criminal racket to steal billions of euros from creditors through falsifying the company's

accounts. [Editor's note: See [Q&A](#) on Brazil's payments sector in the July 2-15 issue of the Dialogue's biweekly Financial Services Advisor.]

Mexico's Creze Closes on \$12 Million From Investors

Mexican financial technology firm Creze has announced it recently closed a deal for 265 million Mexican pesos (around \$12 million) with unnamed Mexican investors, Contxto reported Aug. 10. The funds will go toward updating the fintech's lending platform as well as any potential consequences that might come out of the current situation. “We're proud to announce this investment, which will allow us to better face any eventuality that's derived from the current crisis as well as push for the continual innovation of our platform and the acquisition of customers to meet our objective of modernizing SME banking in Mexico,” Creze's co-founder, Diego Creel, said in a statement. Creze, which was founded in 2015, offers loans online to small and mid-size businesses in Mexico.

Payment Processor Evertec Explores Potential Sale: Report

Puerto Rico-based payments processor Evertec is exploring a potential sale, among other strategic options, Bloomberg News reported Aug. 18, citing unnamed sources with knowledge of the matter. A financial advisor is working with the company to gauge interest from potential buyers, the sources told the news service, asking not to be identified because of the private nature of the talks. Such a sale could reportedly appeal to larger payments companies including Global Payments and Fiserv. The talks are ongoing, and Evertec could choose to remain independent, Bloomberg News reported. Representatives for Evertec, Global Payments and Fiserv declined to comment to the news service on the report. The company's shares soared 10.59 percent on Aug. 18 on the

NEWS BRIEFS

U.S. to Partner With Panama on Money Laundering Task Force

The U.S. Embassy in Panama City announced Aug. 17 that it would establish a new task force to help Panama fight money laundering, Reuters reported. The task force will include training for regulators and prosecutors in Panama by officials of the U.S. Federal Bureau of Investigation, or FBI. The initiative is part of a new U.S. strategy for the Western Hemisphere.

Majority Holders of Colombia's Avianca Face Laundering Charges

Brothers Germán and José Efromovich, the majority shareholders of Colombian airline Avianca, were arrested Aug. 19 by Brazil's Federal Police in connection with the sprawling Car Wash corruption case, Reuters reported. Prosecutors accuse the brothers of money laundering and bribery of public officials in order to secure contracts with Transpetro, Brazilian state oil company Petrobras' logistics unit. The arrests are unrelated to Avianca. Reuters was unable to reach the brothers for comment. Germán Efromovich denied the charges in a virtual press conference on Aug. 21.

UBS Hires Vincensini as Advisor for Panama City Office

UBS Wealth Management has hired a top advisor from the private Prival Bank to join its office in Panama City, Citywire Americas reported Aug. 12. Juan Vincensini joined the Panama City office in July after working at Prival Bank for 11 years. At UBS, Vincensini will continue assisting clients in Panama and will report to Roger Castellero, UBS Wealth Management's desk head for Panama, Peru and Ecuador. Prival's head of private banking, Ricardo Zarak, said Vincensini's duties have been divided up by the group's other advisors.

New York Stock Exchange to close at \$34.46. There has been consolidation recently in the payments sector. Last year, Global Payments acquired Total System Services, and Fiserv acquired First Data Corp.

BANKING NEWS

Spain's BBVA Secures \$47 Billion in Finance for Climate Change

Spanish lender BBVA on Aug. 17 said it recently secured more than 40 billion euros (\$47 billion) in sustainable finance to combat climate change. In a statement, BBVA said one of its projects under the plan, announced last year, is the first revolving credit line linked to sustainability in Latin America, signed with Mexican real estate investment company Fibra Uno. The rate of the \$1 billion facility is linked to the company's credit rating and the performance of environmental indicators, such as the power consumption of assets managed by the company in kilowatt-hours per square meter occupied. The bank has pledged to secure 100 million euros in sustainable financing between 2018 and 2025.

INSURANCE NEWS

A.M. Best Assigns Credit Ratings to Allianz México

A.M. Best has assigned new credit ratings to Allianz México, the ratings agency said Aug. 21. The agency assigned the insurer a financial strength rating of A+, a long-term issuer credit rating of "aa," and a Mexico National Scale Rating of "aaa.MX," said A.M. Best. "The ratings reflect Allianz México's strategic importance as a subsidiary of Allianz SE (Allianz), which on a consolidated basis has a balance sheet strength that A.M. Best categorizes as stron-

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explain this unexpected behavior, although the most plausible one is that a good part of the unemployed were able to keep sending remittances thanks to the extended unemployment benefits and the CARES Act payments. If this is the case, we should expect remittances to slow down in the upcoming months as these programs expire."

A **Manuel Orozco, member of the Financial Services Advisor board and director of the Center for Migration and Economic Stabilization at Creative Associates International:** "The 10 percent volume growth to Mexico may appear astronomically high insofar as it reflects an increase at a time when most countries have experienced negative growth. The reasons for the increase, however, are twofold. First, 6 percent more Mexican migrants sent money, increasing the number of person-to-person transactions to 7.9 million (up from 7.5 million). Second,

“As they have stayed longer, the number of remitters has increased...”

— Manuel Orozco

there is a slight increase of 4 percent in the average amount remitted, from \$320 to \$340. These increases relate to shifts in the use of online money transfers during the Covid-19 crisis. For one, most online remittance service providers reported growth in their transactions of more than 100 percent, while after six months, cash-to-cash money transfer operators registered growth of less than 5 percent. The market share of digital or online remittance companies increased from 37 percent to 45 percent during this period, and these companies typically have migrants sending a higher amount than other service providers. In addition, unlike other nationalities, a smaller share (60 per-

cent-70 percent) of Mexican migrants have traditionally remitted. However, as they have stayed longer, the number of remitters has increased, showing progressive growth since 2005. The Covid-19 crisis has increased that number to 80 percent of all Mexican migrants. In addition, other cross-border migrant workers who have stayed on the U.S. side have performed cash transfers to their families instead of returning with money themselves."

A **Mario Trujillo, member of the Financial Services Advisor board and chairman, president and CEO of DolEx Dollar**

Express: "Remittances to Mexico in 2020 so far have been performing above historical growth trends, but the first six months of the year were not all the same. The first quarter was exceptionally positive when, as a result of Covid-19, the peso hit more than 25 pesos per U.S. dollar at one point in March, and that drove many Mexicans to send increased amounts (some likely from savings) and send more often to take advantage of the exchange rates. April was relatively weak, and May and June reflected strong year-over-year growth. As the United States struggles with the pandemic, Latin America in general has been devastated. With poor health care infrastructure and already weak economies prior to Covid-19, the impact on the region will be immense and long lasting. Mexico has fared better than many other Latin American countries, as Mexicans in the United States disproportionately work in agriculture, food processing and other similar industries that have remained largely open. In the longer term, these double-digit remittance growth rates are not sustainable with increased and long-lasting unemployment trends in the United States that may take years to recover. In the meantime, our customers, who are mostly frontline workers, have proven to be very resilient in continuing to work or finding alternative employment enabling them to continue to send remittances. The need to

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gest, as well as strong operating performance, very favorable business profile and very strong enterprise risk management,” the ratings agency added. A week earlier, A.M. Best also affirmed its ratings for Somo Seguros México. The agency has a financial strength rating of A+, a long-term issuer credit rating of “aa-” and a Mexico National Scale Rating of “aaa.MX” for the insurance provider. The Mexican insurer, known as Somo México, is a subsidiary of Somo America Insurance Company and a member of Somo Japan Insurance, the core operating unit of Somo Holdings. “Somo México’s risk-adjusted capitalization also is supported by the company’s solid reinsurance program and small retention profile, as well as historical positive bottom-line results reflected in good profitability metrics and conservative profit retention policies,” said A.M. Best.

POLITICAL NEWS

Colombia to Ease Lockdowns in Bogotá, Medellín

Colombian President Iván Duque announced Aug. 24 that officials will gradually lift Covid-19 lockdown measures in the country’s two largest cities, Bogotá and Medellín, according to Colombia Reports. Duque’s government imposed a nationwide lockdown on March 25. The presi-



Duque // File Photo: Colombian Government.

dent said Aug. 24 that he will extend a national state of emergency and that locations where outbreaks are continuing will still face “specific restrictions.” However, he said lockdowns in Bogotá and Medellín will gradually be lifted

THE DIALOGUE CONTINUES

Are Mexico’s New Reforms a Good Deal for Pensioners?

Q Mexico’s government and the country’s private sector have ironed out the details of a pension reform that is expected to take effect early next year, the Finance Ministry said July 22. Under the plan, the average worker’s pension will rise 40 percent, said Finance Minister Arturo Herrera. Is the new plan likely to be approved in Mexico’s Congress? Where is the increased payout coming from? How will the proposal affect workers and the country’s current pension funds, known as the Afores? What are the proposal’s main benefits and drawbacks?

A Wolfram F. Schaffler González, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University: “The reform is a mixed bag of benefits and unintended consequences. Workers could retire at 65 with a bigger pension, after fewer years of formal work and contributions (from 24 to 14 years). Government and employee contributions (1.125 percent) will stay the same, while those of businesses will increase from 5.15 percent to 13.875 percent. Around 20 million workers with Afores will benefit, but 60 percent (32 million) who work informally will not have that opportunity. With the constant switching of workers between the formal and informal sectors, this will have

starting Sept. 1 in coordination with the cities’ mayors. Duque, Bogotá Mayor Claudia López and Medellín Mayor Daniel Quintero separately announced the easing of restrictions after data from the National Health Institute indicated that the country has passed the peak of the pandemic, according to Colombia Reports. Duque called the reopening in Bogotá and Medellín “a road to adaptation.” He added, “We must live together with the virus and seek a

a negative impact on the time people need to accrue to receive a pension. Each year, the Mexican government’s contributions to pensions is equivalent to 3.95 percent of the country’s GDP, an amount that is almost the same as what it raises through value-added taxes. This is more than Mexico’s yearly investment in education, health and infrastructure. With this reform, it will have an even higher long-term impact on the Mexican economy. The agreement considers a gradual growth of the obligations of business owners for eight years, up to the expected percentage they must pay, while at the same time the proposed number of weeks required to receive a pension will rise from 750 to 1,000. Some things that might happen could be a reduction of wages paid by employers, more outsourcing of jobs and more informality. Unanswered questions are what will happen with independent workers, caregivers, housekeepers and those under other social coverage (teachers, for example). This reform may not be the best thing to happen to Mexican workers, but it is a solid step in the right direction.”

EDITOR’S NOTE: The comment above is a continuation of the [Q&A](#) published in the July 30-Aug. 12 issue of the Advisor.

way to share responsibility.” Duque said restrictions on events and large crowds will remain in place nationwide at least through September, Reuters reported. López said the capital would be on its way to “the new normal,” according to Colombia Reports. She added that public transportation in Bogotá would be limited in capacity to 35 percent. López added that the city would “strengthen epidemiological vigilance and increase the tracking and isolating

NEWS BRIEFS

Death Toll Rises to 13 as Hurricane Laura Churns Through Gulf of Mexico

The death toll has risen to 13 on the island of Hispaniola as Tropical Storm Laura, which was upgraded Aug. 25 to hurricane status, brushed the southern coast of Cuba and took aim at the U.S. Gulf Coast, Agence France-Presse reported. Nine people were reported dead in Haiti, and four were reportedly killed in the Dominican Republic as the storm pounded Hispaniola. The storm is expected to make landfall Aug. 26 near the Texas-Louisiana border.

Fires Prompt Residents to Evacuate in Argentina's Córdoba Province

Fires in Argentina's Córdoba province are prompting evacuations and threatening to destroy homes, due in part to strong winds and a lack of rain, officials said Aug. 24, Reuters reported. At least 55 square miles of grasslands and mountainous territory so far have been damaged by the fire, mainly in the northern areas of Punilla and Ischilín, according to local media.

Colombia's Supreme Court Calls on Uribe to Testify on Massacres

Colombia's Supreme Court has called on former President Álvaro Uribe to testify in a case involving three massacres that happened in the department of Antioquia and the death of a human rights activist during Uribe's time as governor of the department, the Associated Press reported Aug. 23. The mass killings happened in the late 1990s. The case would examine Uribe's alleged ties to violent paramilitary groups, which Uribe has strongly denied. Supreme Court Magistrate César Reyes has asked Uribe and several ex-paramilitaries to appear in court in September.

of contacts" of people who contract Covid-19. In Antioquia department, where Medellín is the capital, intermunicipal travel will remain closed, except for the southwest part of the department, where many temporary workers are needed for harvesting coffee, according to acting Governor Luis Fernando Suárez. Also on Aug. 24, Duque announced that Colombia would participate in Phase 3 trials of a Covid-19 vaccine developed by Johnson & Johnson, Reuters reported. The worldwide trial will involve 60,000 healthy volunteers between the ages of 18 and 60 who will receive a single dose of the vaccine, according to Colombia's health ministry. Colombia has more than 551,000 confirmed cases of Covid-19 and more than 17,000 reported deaths from the disease, according to a count by Johns Hopkins University.

Tougher Restrictions Leading to Delays at U.S.-Mexico Border

U.S. citizens who regularly cross the border from Mexico are reporting long delays to re-enter the United States, following new coronavirus-related restrictions on cross-border travel by U.S. citizens and permanent residents, Reuters reported Aug. 24. U.S. Customs and Border Protection, or CBP, recently announced measures to curb nonessential travel during the pandemic. Among them, in ports of entry including the San Ysidro, Otay Mesa and Calexico crossings in Baja California, secondary inspections will be conducted on those who are suspected of traveling for an unnecessary reason, NBC San Diego reported. During that secondary inspection, travelers will be given educational materials on the coronavirus issued by the Centers for Disease Control and Prevention in a bid to raise awareness about the pandemic and the risks of cross-border travel. According to the CBP, a recent survey of 100,000 travelers found that 60 percent of travel across the U.S.-Mexico border by U.S. citizens and permanent residents was not considered essential. The agency said the measures are being taken because of an increase in positive Covid-19 cases along the

Mexican side of the border. According to CBP data, wait times at some border crossings have doubled or tripled, Reuters reported. On Aug. 24, border-crossers reported wait times of as long as five to six hours.

ECONOMIC NEWS

Colombia Sold Two-Thirds of Gold Just Before Record High

Colombia's central bank, led by Juan José Echavarría, sold two-thirds of its gold reserves in just one month, weeks before investors looking for havens against the global economic crisis were about to boost the metal to a record high, Dinero reported Aug. 20. In June,



Echavarría // File Photo: Colombian Central Bank.

the Andean nation sold 1.8 billion pesos (\$475 million) worth of gold, the central bank said on its website, a figure that represents 67 percent of its holdings as of the end of May, Bloomberg News reported. Investors have flocked to precious metals, including gold, this year as yields on other haven assets such as treasuries plunged to record lows. In June, when Colombia sold a portion of its reserves, the price of gold averaged \$1,736 per ounce. Earlier this month, the price jumped to an all-time high of \$2,075 per ounce, and it is currently trading at about \$1,930 per ounce, according to the report. Colombia's sale was based on "optimization exercises," with the central bank monitoring interest rates and asset volatility to determine its international reserve portfolio holdings, the bank told Bloomberg News in response to emailed questions.

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receive remittances back home is ever more essential. Mid to long term, these macroeconomic conditions will increase migration to the United States from Latin America.”

A **Fabrice Serfati, managing director and partner at IGNIA Partners:** “The rise in remittances has indeed been unexpected. There are three main factors driving this increase. First, travel constraints due to the pandemic have caused customers to switch from informal remittance channels to formal channels. The pandemic has prevented people from traveling to Mexico and handing over cash to their families in person, forcing them to send remittances through formal services. The services growing the fastest during the pandemic are mobile-focused

“**The services growing the fastest during the pandemic are mobile-focused remittances platforms...**”

— Fabrice Serfati

remittances platforms as more people are electing to send money digitally instead of at physical locations. Recipients are also switching to digital as more users are receiving money directly into their bank accounts instead of going to pick-up locations. The second factor driving this growth is that the U.S. government stimulus and unemployment insurance have increased the money available to send as remittances. The third factor is the increased need for the remittances. Most immigrants are prioritizing allocating a larger portion of their income to send help to their families. With many Mexicans unable to work due to the pandemic and receiving no government aid, remittances are pivotal to keep them afloat as they help cover the cost of essential purchases as well as medical care. If the

pandemic continues to hold up economic activity, remittances will continue to be sent at a higher rate than last year. In time, as the pandemic subsides, remittances should decrease and level off to rates such as those observed in 2019.”

A **Michelle DiGruttolo, senior managing director, and Miyako Yerick, senior associate, at Ankura Consulting Group:** “Remittances to Mexico in the first half of the year saw an unexpected increase, possibly as a result of the unemployment boost from the CARES Act. Further growth is unlikely in the second half of the year. Experts project Mexico’s GDP to fall by 10 percent this year, continuing the plunge into recession. Mexico does not have a federal unemployment program, and more than 50 percent of workers are now in the informal sector. Documented Mexican families in the United States have access to higher salaries, a social safety net of health insurance and unemployment insurance. The influx of remittances, and the importance they have in keeping families out of poverty, highlight the insufficient national safety net and the resulting tenuous hold on social stability in Mexico. However, as additional unemployment insurance from the CARES Act expires and the U.S. jobless rate increases, it will negatively affect the aggregate amount of the remittances Mexicans and Central Americans can send home. Absent remittance income, Latin Americans may start putting pressure on their governments for more social services, which will likely require tax reforms and could increase the costs of doing business. If Joe Biden wins the upcoming election and Latin American economies are still reeling at the beginning of 2021, we may see an influx of migrants attempting to enter the United States to work. This would put pressure on the United States to reconsider and prioritize its foreign and aid policies toward the region.”

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