

The Cost and Accessibility of Remittances Originating from the United States with a Focus on the Mexico Corridor

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Introduction

Did the passage in 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) alter the landscape of remittances?¹ It's possible that section 1073 (1073) did. This section created new protections for U.S. consumers sending money abroad. The Consumer Financial Protection Bureau (CFPB), responsible for implementing 1073, has since then issued several rules related to remittances. It issued the first on February 7, 2012, and the last on October 28, 2013. Some industry observers feared that the added regulatory requirements of Section 1073 would reduce competition, decrease options, and increase consumer prices.

This paper examines how the implementation of the 1073 rules changed the environment for low-value remittance transfers (\$200) in the United States. It also looks at how these changes have affected the cost of remittance transfers originating from the United States, especially those traveling the United States–Mexico remittance corridor, the largest in the United States, with a nearly 20 percent share of all U.S. remittances.

Consumers' remittance costs vary according to the remittance value. While the World Bank collects pricing data on both \$500 and \$200 remittance transfers, this paper analyzes the lower-value transfers to better gauge the impact of the 1073 rule-making. Consumers who make these smaller-value transfers are perhaps the least able to absorb increased costs. Further, the average remittance transaction in the U.S.–Mexico corridor is approximately \$300.¹ This paper does not examine the costs the remittance transfer providers incur, nor the related margins on their products.

The paper concludes that there is no evidence that the issuance in 2012 of 1073 has caused consumer prices of low-value remittance transfers to rise. In fact, over the past five years, the emergence of new service providers and business models, the growth of e-commerce and mobile commerce channels, and increased pricing transparency have given consumers access to lower-priced remittance options. Competitive market forces continue to drive pricing, and remittance providers with strong brand recognition and omni-channel product availability have more pricing power. Consequently, consumers' average costs for remittance transfers vary depending on the specific market forces for different corridors.

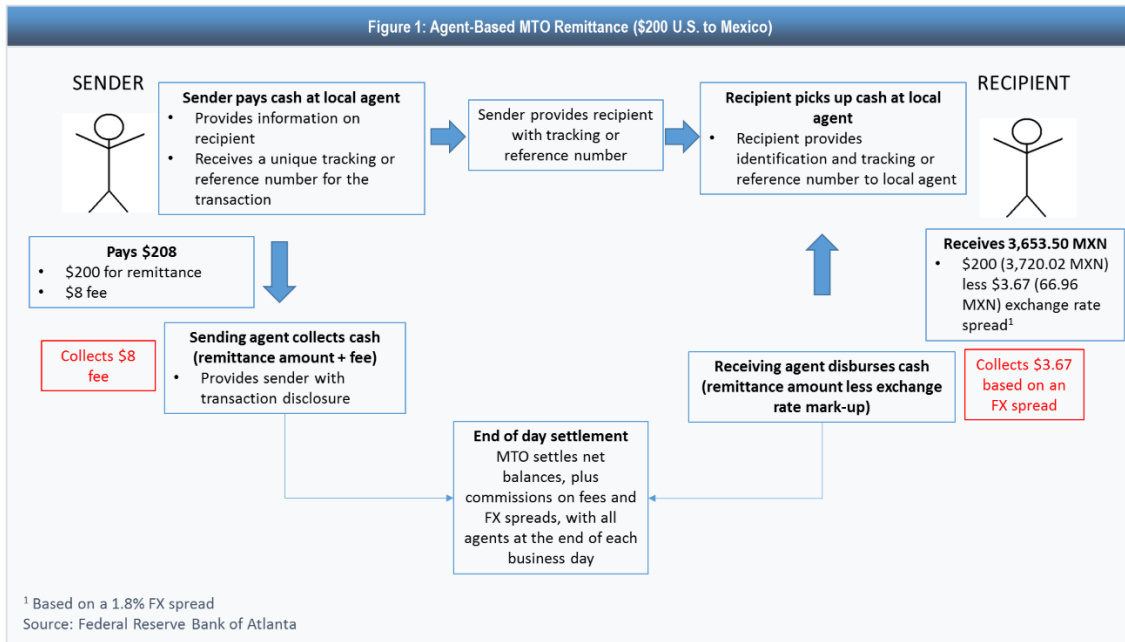
A Brief History of Remittances in the United States

The traditional remittance transfer industry in the United States dates back to Western Union's introduction of its money transfer business in 1871. Traditionally, the remittance transfer business, dominated by two companies—Western Union and MoneyGram—was cash-based and built on an extensive network of global agents.

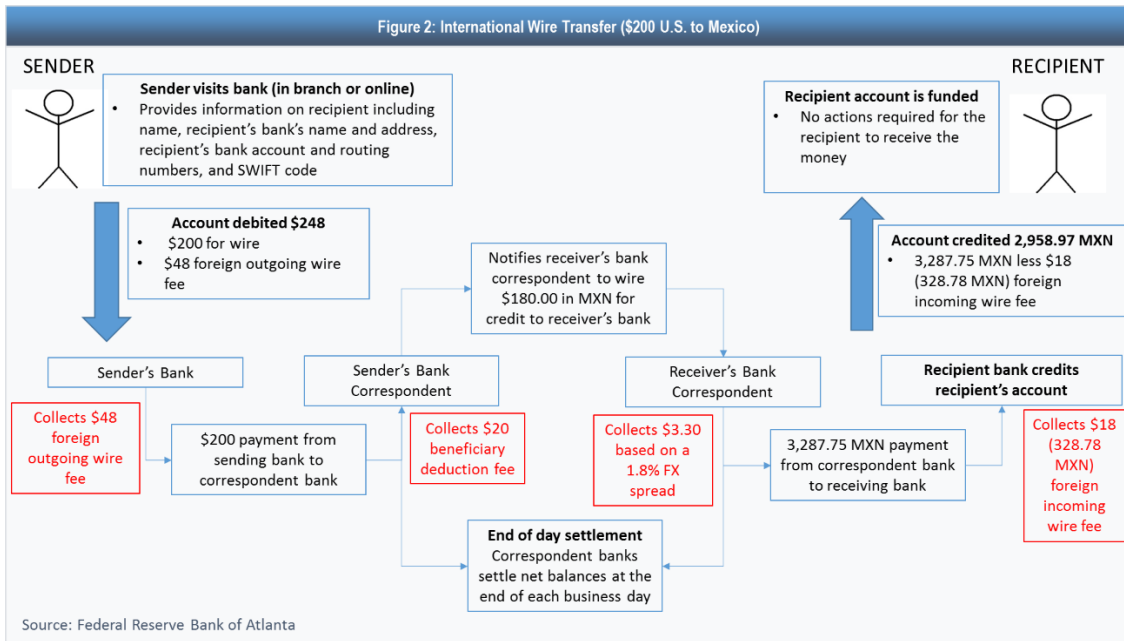
Under their traditional business model, these money transfer operators, or MTOs, offer near-real-time money transfers by facilitating transactions among the agents within their proprietary networks. A remittance sender gives an agent information on the recipient, a payment to cover the remittance

¹ Section 103 defines a remittance as an electronic transfer of funds greater than \$15 that a consumer in the United States originates for personal, family, or household purposes and sends to a recipient in a foreign country.

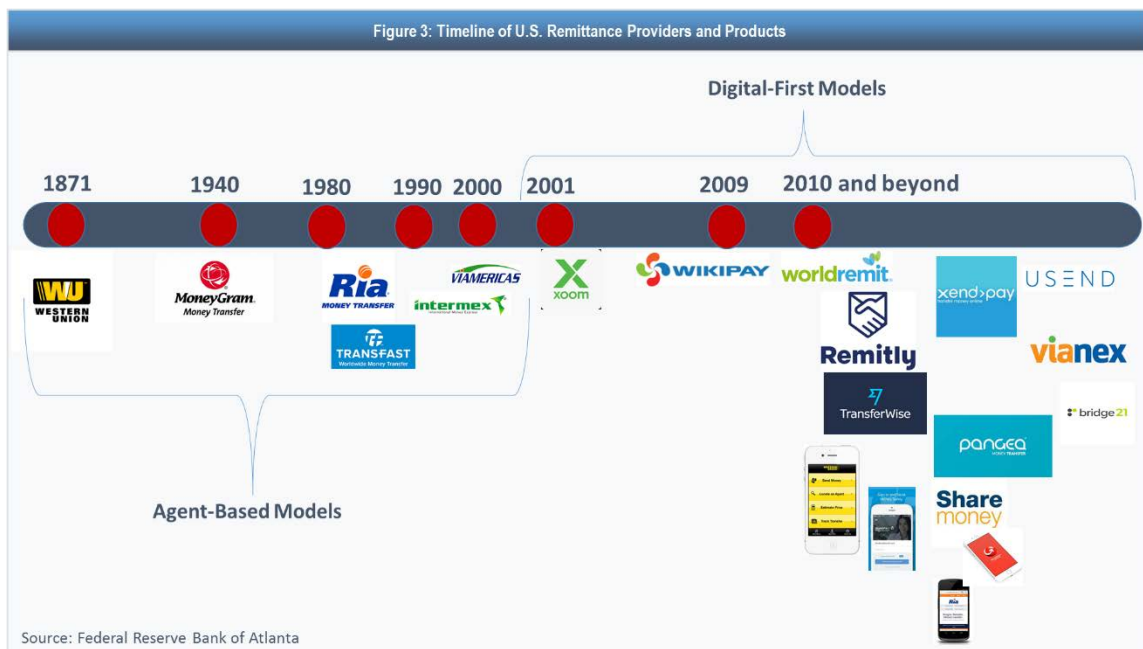
transfer amount, and a fee that generally consists of money for the transfer plus margin on the currency exchange rate. The agent then enters the transaction into the messaging system of either Western Union or MoneyGram, which generates a unique tracking or reference number to verify the transfer. When the remittance transfer recipient notifies the receiving agent, the agent accesses the messaging system. The recipient presents identification and the verification number, and the agent hands over the cash (see figure 1).



Financial institutions (FIs) have also historically offered international payment services, but their offerings are typically costlier and the services less ubiquitous than those of the MTOs. Wire transfers (wires) require that both the sender and receiver have an account with a financial institution, whereas MTOs do not require FI accounts for remittances. While some of the largest FIs offer international direct service products similar to those of MTOs, most FIs rely on correspondent banking relationships for international transactions, which adds additional layers to the payment process (see figure 2). In addition to being more complex, wires are priced significantly higher than MTO remittance transfers. According to the MyBankTracker website, the average cost of an outgoing international wire for \$200 from the 10 largest banks in the United States in October 2016 was \$48, plus another \$18 for receiving the wire. (The flat-rate pricing models for sending wires mean that the higher the wire value, the lower the per-transaction cost.)ⁱⁱ In comparison, the average cost of a \$200 remittance through an MTO for third-quarter 2016 was \$11.56, according to World Bank data.

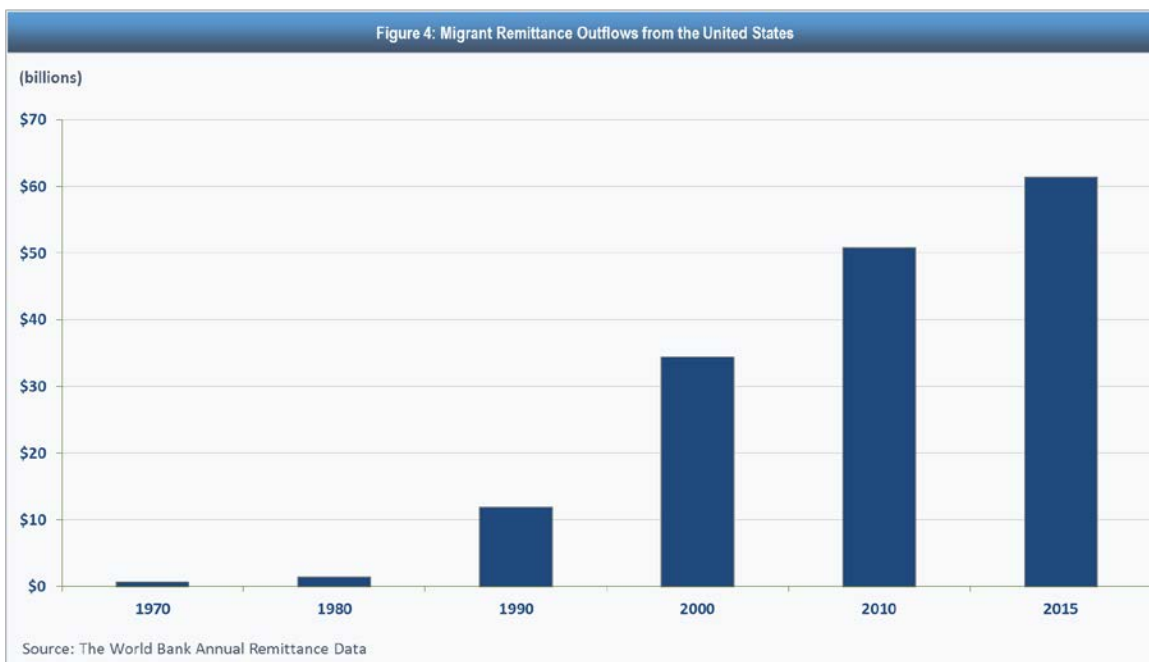


The growing significance of the digital economy, the proliferation of smartphones and internet accessibility, and the increasing number of cross-border migrants have greatly transformed the industry over the last 10 years (see figure 3). While the agent-based model is still a vital component of the remittance transfer industry and represents the majority of remittance transactions in the United States, a surge of digital-first remittance providers have entered the U.S. remittance market. In response to this surge, many of the traditional agent-based providers have since launched digital options. These offerings by both digital-first companies and traditional agent-based MTOs have increased the availability and accessibility of remittance transfers.



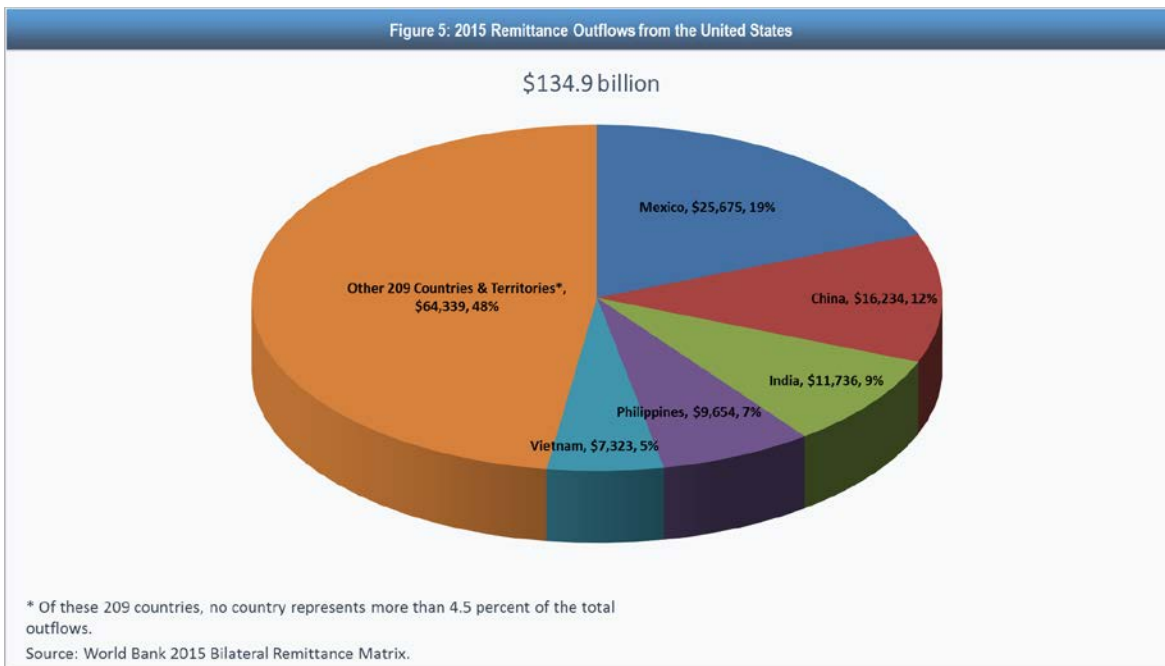
These innovations, together with the traditional agent options, allow for senders to fund remittance transfers with cash, debit, credit or prepaid cards, bank accounts, and prepaid mobile airtime while still allowing receivers to receive funds as cash in their local currency or as a credit to a prepaid card, bank account, or prepaid mobile phone account. And these transfers can take place at a brick-and-mortar agent, branch of a financial institution, or remotely, allowing the sender or receiver to bypass onsite agents or tellers. Interestingly, while there has been a surge of digital-first MTOs and digital-based products from traditional agent-based MTOs, the number of FIs that offer remittance transfers has declined. According to call report data that the Federal Financial Institutions Examination Council collected from financial institutions, as of December 2014, 3,660 financial institutions offered remittance services to consumers. By December 2016, that number had declined 10 percent, to 3,290. According to research that the Credit Union National Association (CUNA) conducted, 55 percent of credit unions that offered international remittances sometime between 2012 and 2016 either cut back or stopped offering them due to CFPB regulations.ⁱⁱⁱ

Outgoing migrant remittance flows for compensation of employees or personal transfers from the United States totaled \$61.4 billion in 2015, according to World Bank data. Figure 4 depicts the impressive growth of these remittances, starting several decades ago.



As of 2015, remittances to five countries have accounted for over 50 percent of the value of all outgoing remittance transfers from the United States. Mexico, with a nearly 20 percent share of the total, represents the largest outflow corridor for the United States.²

² The estimated value of remittances originating in the United States varies significantly according to the organization doing the estimating, and varies even within an organization. The World Bank has two separate remittance estimates. Only a few countries collect official data on remittance flows between countries. Remittance amounts in the bilateral remittance matrix (figure 5) are unofficial estimates designed to capture country-specific incoming and outgoing remittance estimates between countries. Since estimating bilateral remittances is more problematic than estimating the total volume of remittances received by a country, the bilateral remittance estimates result in higher remittance values than the World Bank's official estimates (figure 4). In a 2016 February



The Accessibility and Costs of Remittances Originating in the United States since 1073 Rule-Making

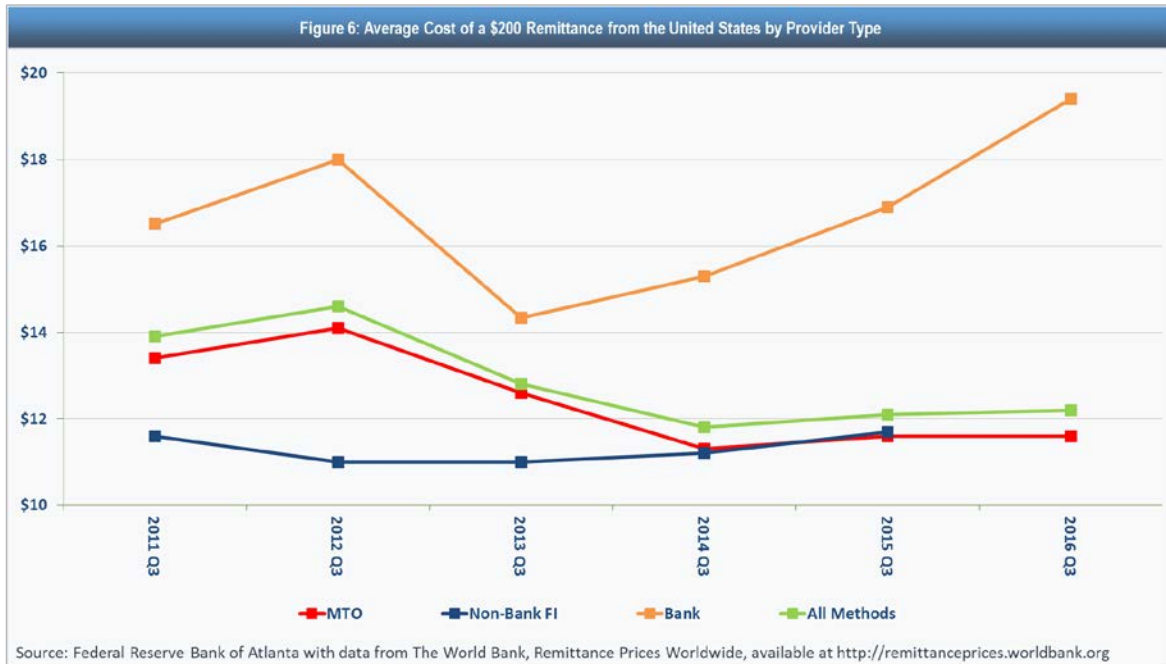
While the United States remittance industry has seen a surge of new remittance providers and digital-based products over the last several years, the 1073 rules also changed the regulatory landscape, beginning in early 2012. FIs and MTOs must now provide disclosures to consumers before they pay for remittance transfers. These disclosures contain several informational elements, including the exchange rate applied to the transaction, fees and taxes the remittance provider collects, fees that the providers' agents abroad and intermediary institutions charge, and the amount of money that the receiver abroad receives (excluding certain fees charged to the recipient or foreign taxes withheld). While the requirement for "pre-receipt" disclosures has increased pricing transparency at the time of the transaction, it has lengthened the time it takes to make a transaction, especially in select cases, such as transactions conducted by the telephone, when this disclosure must be read orally, a situation that can create a more negative experience for some consumers and providers. In addition to the disclosure requirements, 1073 rules also extend several additional protections to users of remittance transfers. These protections include a 30-minute cancellation period after initiating a remittance and recourse for errors that remittance providers or transfer agents make. Like the disclosure rule, this protection can also create a negative experience for the customer who funds the remittance with cash and whose remittance provider waits out the 30-minute cancellation period prior to completing the transaction.

Today, consumers have a broader array of remittance products to choose from—driven by numerous digital-based product launches—and, thanks to 1073, pricing is more transparent. All these options, along with the growing array of digital devices, have made it easier for consumers to comparison shop among different providers and products. Websites created specifically to help consumers comparison shop are even available. For example, the World Bank has developed the Remittance Prices Worldwide

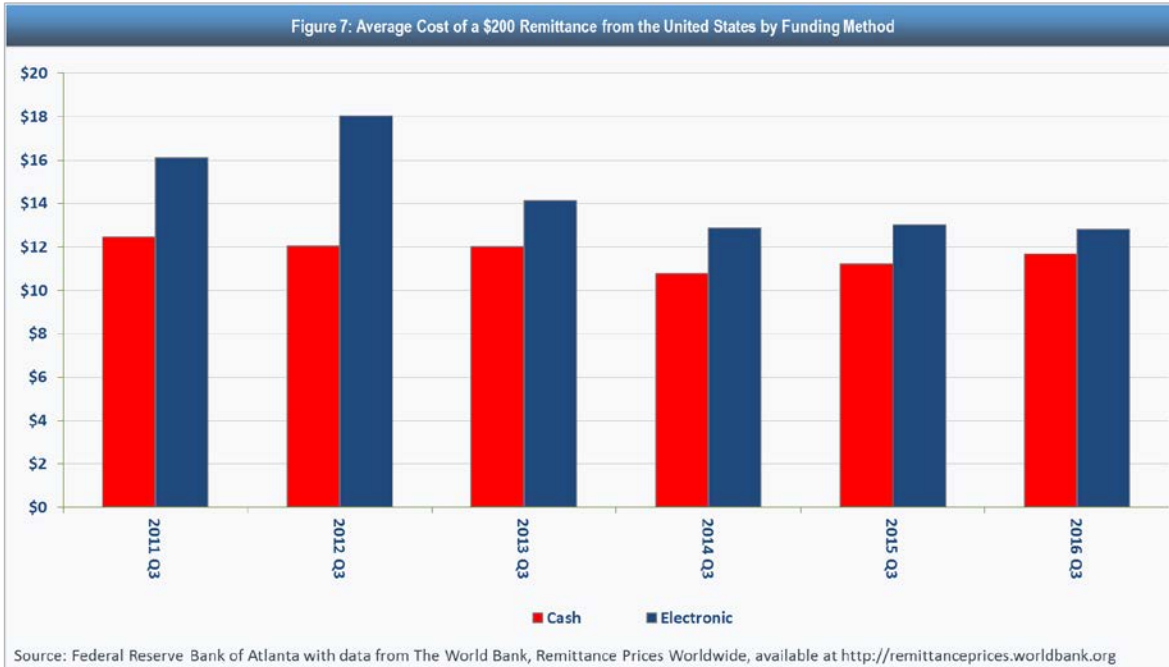
report, the U.S. Government Accountability Office found that actions were needed to address unreliable official U.S. remittance transfer estimates.

group, which publishes a quarterly report monitoring remittance transfer prices and maintains a website that allows consumers to compare prices based on data the group collects.^{iv}

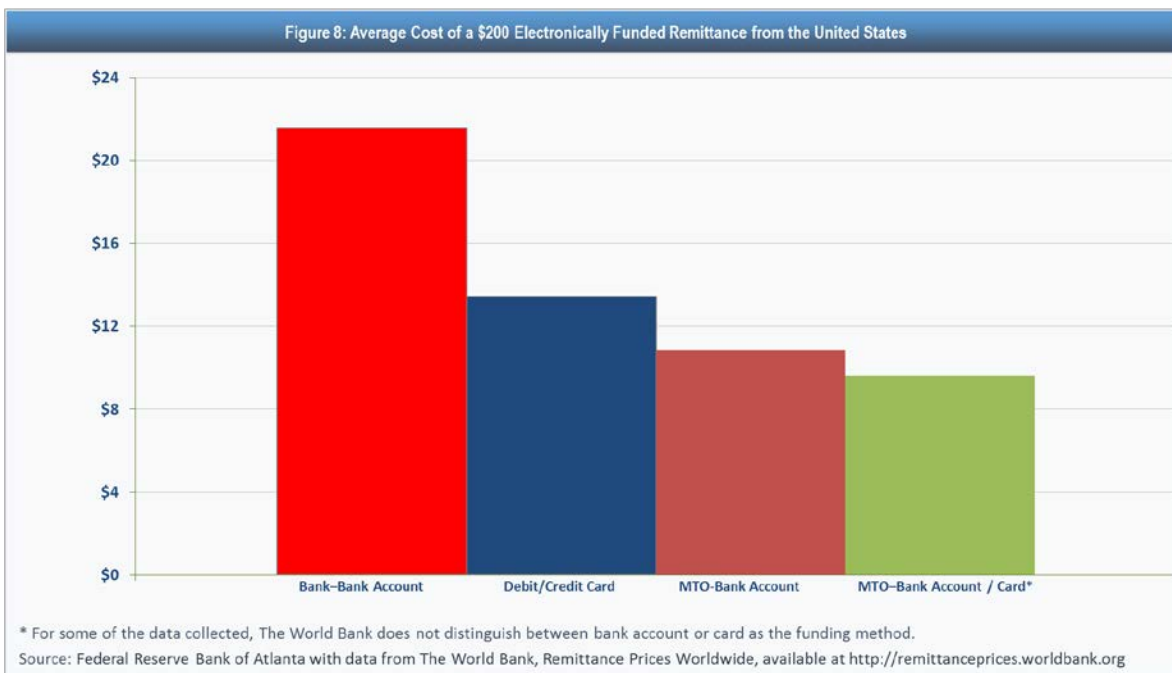
With more remittance transfer options available, greater transparency in pricing, and easier comparison shopping, consumers' costs for sending remittances have declined, on average, since the issuance of 1073 rules. However, this decrease is not consistent across all providers. The price of banks' remittance services has risen while the price of MTOs' services has fallen. Figure 6 shows a significant widening of the difference in the average cost gap between banks and MTOs since 2013, the year of implementation of 1073's final rule.



The average cost for consumers to send remittances electronically has come down significantly since 1073 rules issuance, which should be expected in a market-driven environment where the number of options have increased significantly. While the costs for consumers to send cash-funded remittances have not similarly decreased, they remain, on average, less expensive than most electronically funded remittances.



There are multiple electronic funding options available, and the costs among these options vary by the type of remittance provider (MTO versus bank) and by the funding instrument (bank account versus debit or credit card). So while it is true that the average cost of cash-funded remittances is less than that of electronic-funded remittances in aggregate, several electronic-funded options cost less on average than cash-funded remittances. Figure 8 depicts the wide range of costs for electronic funding options during the third quarter of 2016. This figure suggests that market-based pricing is in effect in the remittance industry as the more accessible and numerous product options from MTOs are priced lower than other options.



Comparing figure 8 to figure 7 makes it clear that the average cost of sending a remittance through an MTO using an electronic bank account transfer is less than using cash. However, the average cost to send a remittance through a bank using an electronic bank account transfer is significantly greater than using cash. This cost does vary significantly by bank and product. Some larger financial institutions offer intra-bank, cross-border transfers that are priced less than inter-bank transfers and competitively priced against electronically funded products from MTOs.

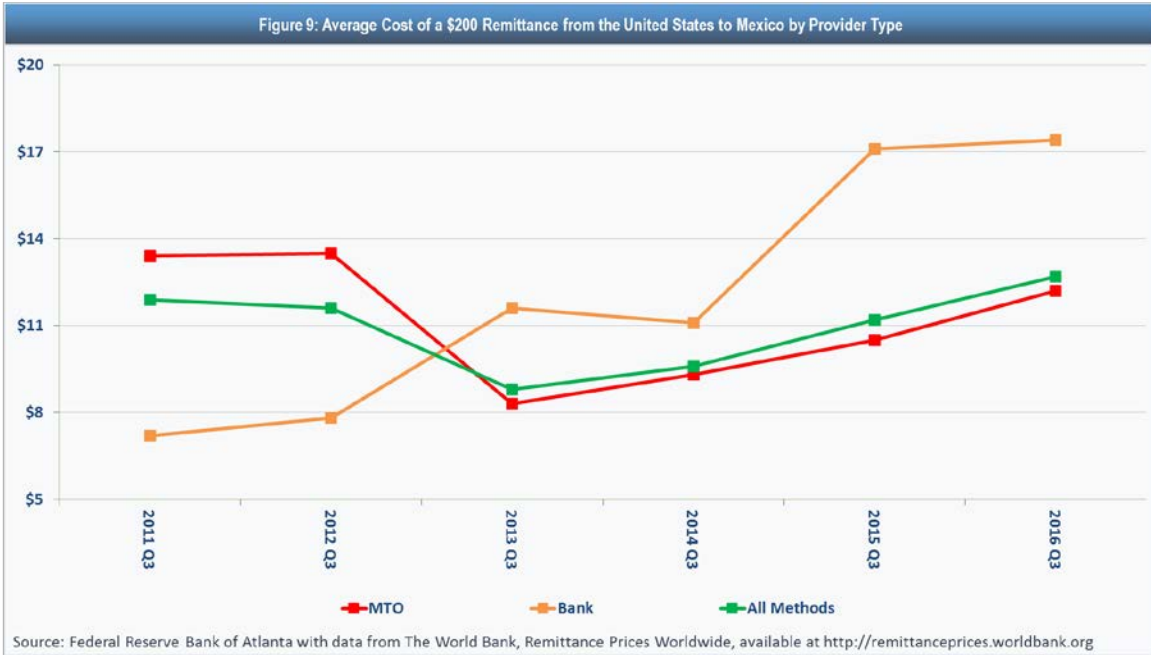
It should be noted that these costs include only the actual transaction cost of sending a remittance. These costs do not take into consideration associated costs that a consumer might incur, such as check cashing fees (to convert checks into cash), fees for maintaining an account with a bank, ATM cash withdrawal fees, and cash advance fees charged by a credit card issuer. While some of these costs—such as cash advance fees that credit card issuers charge—are directly related to the costs of a remittance, others, such as check cashing or ATM cash withdrawal fees, will more than likely be incurred by the consumer whether or not a remittance transfer is ever conducted.

A Look into the United States-to-Mexico Remittance Corridor since the 1073 Rule-Making

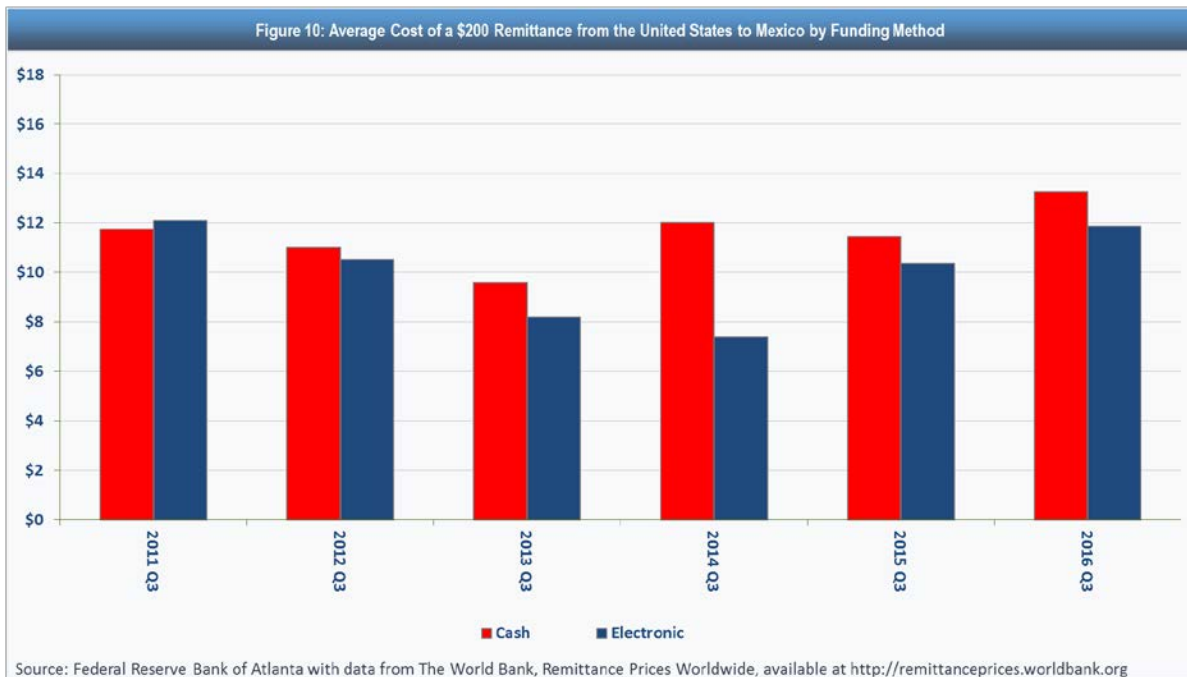
The accessibility and costs to consumers of remittance transfers also vary by country and remittance corridors and depend on the unique market conditions in each country. Given that the Mexico corridor boasts the largest percentage of remittance outflows from the United States, the remainder of this paper looks specifically at the accessibility and costs of remittance transfers to Mexico.

Because of the importance and size of these remittance transfers, it is not surprise that competition in this corridor is intense. The providers and products for sending a remittance transfer from the United States to Mexico are as numerous as any remittance corridor originating from the United States. However, consistent with the trend noted in the previous section, some banks have exited the remittance market since the introduction of 1073. MTOs dominate this corridor, though some of the remaining banks offer inexpensive and speedy products.

Interestingly, even though this corridor is highly competitive, the average cost for remittance transfers through this corridor has been increasing since the implementation of 1073 rules, according to pricing data from the World Bank. Several things are driving this increase. First, the number of banks, including two “top 10” banks, who offer remittance services is down.^v Second, while most MTOs kept their remittance fees stable during the time period evaluated, almost all of them increased their exchange rate margins—that is, the exchange rate applied to the remittance over the interbank exchange rate, which is the MTO’s actual exchange rate for the transfer. This increase has resulted in higher overall costs for consumers. However, the cost for consumers to use an MTO for a remittance transfer is less today than it was five years earlier. The same is not true for banks.

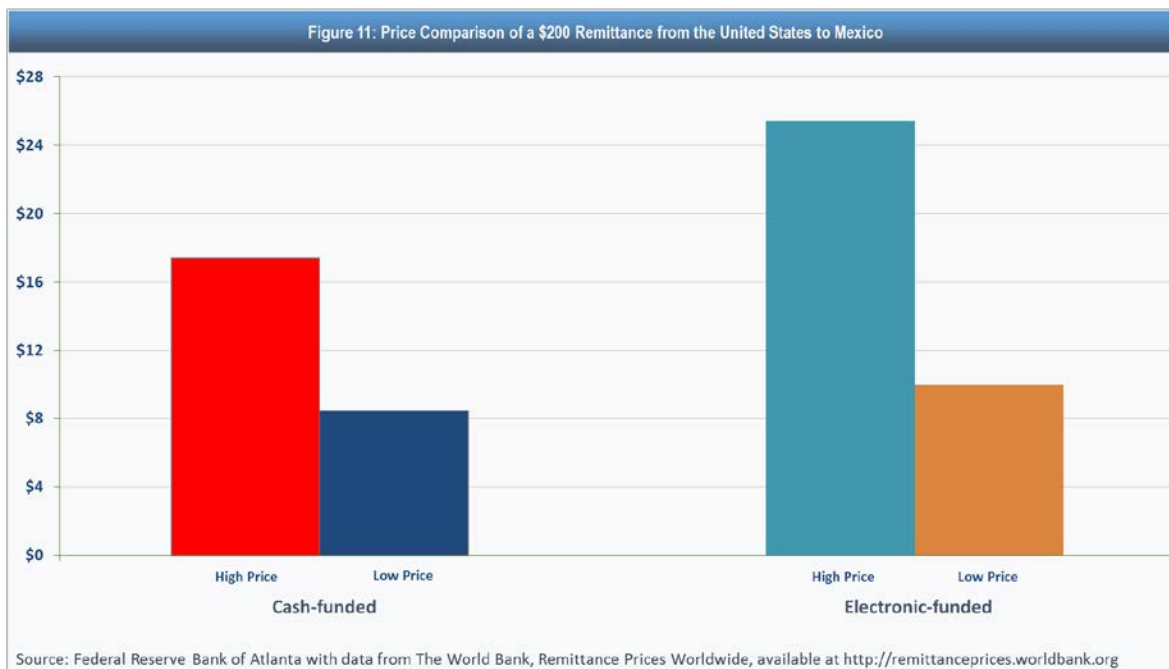


From a funding perspective, the cost of cash funded remittance transfers has increased since 1073 implementation, with the average for the third quarter of 2016 the highest for the periods analyzed. The average cost of electronically funded remittance transfers has also been rising during the past two years.



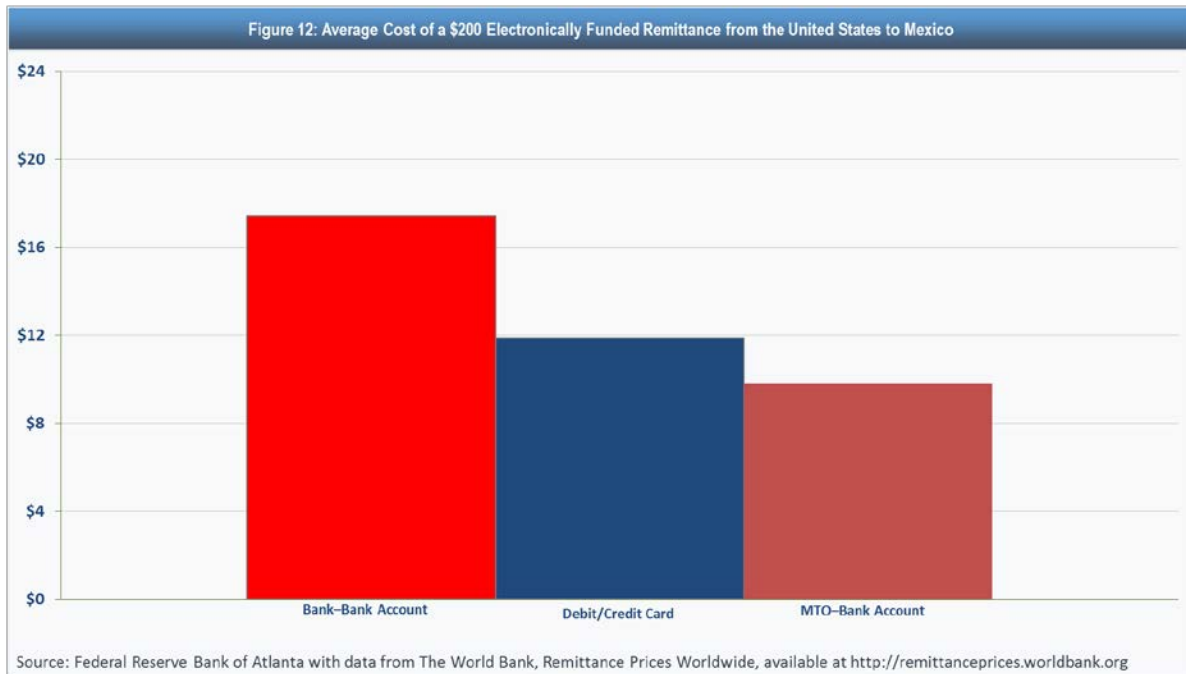
Although the average cost of remittance transfers is rising, the pricing among providers and among products is highly variable. The increased transparency of pricing allows for comparison shopping so consumers can find the lowest-cost remittance options. For both cash and electronically funded remittances, large spreads in pricing exist between the lowest and highest priced products. For example,

for third-quarter 2016, the least expensive cash funded product was available at an agent location that offered funds availability in under one hour either to a bank account or in cash for \$8.44. The highest-priced cash product with similar timing for funds availability was priced at \$17.40. An even greater price spread exists for electronically funded remittances.



Costs peripherally associated with a remittance could explain some of the spread in pricing, especially with remittances using the agent model. Many agents for MTOs offer a wide range of financial services alongside remittance transfers and, while one agent's remittance transfer might be priced lower than a competitor's, the price to cash a check to get cash for the transfer might be higher than the competitor's price. Also, it appears that brand recognition is highly valuable in the remittance industry. MTOs and their agents sometimes run special promotional offers on remittance transfers perhaps in an attempt to boost brand awareness and market share. This can create a fair amount of variability in pricing between different time periods.

Significant pricing gaps in the U.S.–Mexico corridor also exist among the various electronically funded remittance products, as they do for the U.S. remittance industry as a whole, as the previous section discusses. The cost of using an MTO to send a remittance funded by a bank account is substantially less than the cost of using a bank. The cost of using a debit or credit card falls between the cost of the two different bank account options. Again, consumers willing and able to comparison shop can save money on remittance transfers by identifying a lower-cost provider or product.



Conclusion

From a pricing and options perspective, 1073 rules have not harmed consumers. Competition remains healthy and prices are reasonable. And the 1073 rules requiring greater disclosure have created more transparency in the pricing of remittances. Furthermore, even with some financial institutions vacating the industry, consumers have benefited from a number of new remittance options, primarily in the digital space and from digital-first providers. All these factors, and others, have led to an overall decrease in the price of remittances.

While the average cost has come down for remittances originating in the United States, this is not the case for every corridor from the United States, as evident by the largest corridor, the U.S.–Mexico corridor. In this case, average costs are rising. Many different factors beyond supply and demand affect remittance pricing—branding, product availability, points of distribution, and the underlying business models of the actual remittance transfer. Consequently, remittance pricing can vary widely by provider type, products, and geography. This is evident in both the differences in costs by provider types (see figures 6 and 9) and by the different funding methods (figures 7 and 10). Even within funding methods, pricing varies widely (figures 8, 11, and 12).

The wide ranges in prices suggests that competitive market forces exist within the remittance industry. Some remittance providers charge consumers premiums for certain attributes such as brand awareness, convenience, and availability, while others use value-based pricing through operating efficiencies or in an effort to drive loyalty based on low prices. And for consumers wanting to search for the right product to fit their individual needs, a variety of comparison websites and mobile applications are available to help them identify and access the most suitable product for their particular needs.

ⁱ Manuel Orozco, Laura Porras, and Julia Yansura, “The Continued Growth of Family Remittances to Latin America and the Caribbean in 2015,” Inter-American Dialogue, February 2016, <http://www.thedialogue.org/wp-content/uploads/2016/02/2015-Remittances-to-LAC-2122016.pdf>, accessed on June 27, 2017.

ⁱⁱ Theresa Kim, “Comparing Wire Transfer Fees at the Top 10 U.S. Banks,” May 2017, <https://www.mybanktracker.com/news/wire-transfer-fee-comparison-top-10-us-banks>, accessed on June 5, 2017.

ⁱⁱⁱ “Impact of CFPB Rules Survey – Final Results,” Credit Union National Association, https://www.cuna.org/uploadedFiles/CUNA/Legislative_And_Regulatory_Advocacy/Removing_Barriers_Blog/Removing_Barriers_Blog/FINAL%20Report%20Summary%20only%20Impact%20of%20CFPB%20Survey%20Analysis.pdf, accessed on July 18, 2017.

^{iv} <http://remittanceprices.worldbank.org/en/resources>

^v Elinor Comlay, “Tighter Rules on Money Transfers Put Squeeze on Businesses,” *New York Times*, June 2016, https://www.nytimes.com/2016/06/10/business/dealbook/tighter-rules-on-remittances-put-squeeze-on-go-between.html?_r=0, accessed on June 5, 2017.