The remittances game of chance:

playing with loaded dice?

January 2012

Consumers International (CI) is the only independent global campaigning voice for consumers. With over 220 member organisations in 115 countries, we are building a powerful international consumer movement to help protect and empower consumers everywhere. For more information, visit www.consumersinternational.org.

Consumers International is a not-for-profit company limited by guarantee in the UK (company number 4337865) and a registered charity (number 1122155).

A full list of CI members can be found at www.consumersinternational.org/our-members.

Contents

List of acronyms

AFD: *Agence Française de Développement*

CDFI: Community development financial institution

CECA: *Confederación Española de Cajas de Ahorros*

CFPB: Consumer Financial Protection Bureau

FATF: Financial Action Task Force

FDI: Foreign Direct Investment

FWC: Filipino Women's Council

GDP: Gross Domestic Product

IDB: Inter-American Development Bank

IDRC: International Development Research Centre

IFAD: International Fund for Agricultural Development

IMFR Trust: Centre for Microfinance Research

IOM: International Organization for Migration

MFI: Microfinance institution

MTC: Money-transfer company

OECD: Organisation for Economic Co-operation and Development

SACCO: Savings and credit cooperative society

WB: World Bank

WOCCU: World Council of Credit Unions

WSBI: World Savings Banks Institute

Introduction

"You put your money in and take your chances …
How much money comes out at the other end depends on what kinds of fees and what kinds of exchanges have been added in -- things that are not necessarily exposed to the client up front."

Elizabeth Warren
White House Special Adviser
Washington, 22 October 2010

"Competition is not only the basis of protection to the consumer, but is the incentive to progress."

Herbert Hoover
31st President of the United States

Worldwide, over USD400 billion is sent home by migrant workers every year, USD325 billion to developing countries.[1] This money is used to support education, build homes and provide the day-to-day essentials for millions of families. But many of the consumers who send money home are paying high, and sometimes extortionate, rates for transferring their money internationally. Although progress has been made in reducing costs between some countries, consumers are still routinely charged more than 10%, and in some cases more than 20% to send their money home.[2] Taken in the aggregate, these sums amount to billions of dollars annually. The World Bank estimates that a five-point price reduction in remittance costs could result in USD15 billion saved annually for immigrants and their families.[3]

This situation is not only a consumer protection issue, but also a question of social justice. As a direct result of these high prices, the consumer has less discretionary capital available for savings or investing in the host country. The migrant's family abroad has substantially less for consumption of food, clothing and medicines.

In contrast to the low incomes of many of their customers, market leaders, Western Union and MoneyGram, earned USD1.4 billion[4] and USD310 million[5] respectively in the second quarter of 2011 - an increase in profits of 7% and 15% respectively based on the previous year's Q2 earnings.

Why are consumers paying such high charges? The reasons vary from one country to another, but three themes are clear: a lack of real choice, a lack of transparent pricing and a lack of accessible information for consumers.

Too often, remittance consumers face numerous obstacles to getting a fair deal. They need the investigative skills of a CSI detective to compare adequately the prices offered by different money-transfer companies (MTCs). Additionally, the preferred MTC should be conveniently located *both* for the consumer to send the funds, as well as for the recipient who may well be located in a rural area of a developing country. Bank accounts and internet access may also be required to access the best deals. And despite all their efforts, they may still find that fair deals are just not out there in a market that is often remarkably uncompetitive. This is asking a lot from any consumer, let alone one who may be relatively new to the country.

However, there is evidence that these high prices and unfair practices can be challenged. High-volume corridors benefit from economies of scale as well as attracting niche providers, which specialise solely in this corridor adding to its competitiveness. In addition, they have also often been the subject of significant international attention, and where the most research exists, such as in the USA to Latin American corridor, prices and options available to the consumer appear to be more favourable.

In contrast, prices in lower-volume and less-researched corridors, such as those communicating with Africa, tend to be significantly higher. For example, in the first quarter of 2011, according to the World

Bank, it cost on average 6.87% to send funds from the United States to Mexico but 38.94% to send money from Ghana to Nigeria, and a whopping 47.24% to send money from Tanzania to Kenya.[6]

The wide disparity in remittance costs begs the question: does it cost the leading MTCs so much more to send money using the same technology and methodology from one country to the next or do they charge more simply because they can? More research on the actual composition of operational costs for the provider is needed to answer this question.[7]

Cutting the cost of sending money abroad
International bodies have repeatedly expressed the desire to cut the cost of sending money abroad. However, although progress has been made in some corridors, much more remains to be done. Most recently, the G8 meeting in Aquila, Italy in 2009[8] agreed the *5x5 statement* that set the target of reducing the global average of remittances costs from the present 10% average cost to 5% within five years *through enhanced information, transparency, competition and cooperation*. The 5x5 declaration is in line with numerous other statements *to work together to reduce remittance costs to migrants*; like the 2005 G8 declarations at Sea Island, and more recently at the G20 Seoul Summit in 2010 where the World Bank's Global Remittances Working Group was endorsed.

There is no doubt that the goal is laudable, and the World Bank estimates that, if achieved, the results would be monumental. However, such pronouncements beg two important questions; firstly, is the target of reducing the average cost to 5% ambitious enough? After all, transferring remittances is a relatively straightforward transaction, for which it is often hard to justify a 5% charge, and there are an increasing number of examples that suggest the service can be provided for much less. Secondly, why, despite all this global good will and high-powered thinking directed towards improving the status quo for migrants, has so little changed for the millions of hardworking consumers globally?

In fact, the international average remittance cost has increased in the last six months by 2.14%[9] and industry profits are consistently on the rise. This paper sets out a range of issues that deserve the urgent attention of governments and their agencies. Consumers International calls on governments to work with consumer organisations to investigate the situation in their country and, where necessary, take action to reduce prices and support consumers.

Transparent pricing
The current industry standard allows for opaque pricing, which obscures unfavourable currency conversion rates, hides the real cost to the consumer and makes it almost impossible for the consumer to 'comparison-shop'.

As US President Obama's special adviser on financial consumer protection, Professor Warren, noted, the consumer is effectively rolling the dice when they select a remittances service provider.[10] No matter which money transfer company or bank is selected, house rules apply, and the consumer always loses because the house is effectively playing with a stacked deck. The consumer is charged an initial fee to transfer funds, and is effectively charged a second time because the foreign exchange rate used generates a 'bonus profit' for the service provider who is not obligated to communicate this information to the consumer. Payout locations in some countries are also charging recipients to collect the remittances.

Promoting competition
Opaque pricing and the inability of consumers to comparison-shop is only one factor that can contribute towards a significant lack of competition in many remittances corridors. Although price comparison websites often list several service providers in each corridor, once access to a bank account or the internet or geographical location are taken into account, it is far less clear how much 'real' choice the consumer has.

In some markets, the dominant players are also tightening their grip on the market by signing exclusivity agreements with outlets and co-opting new market entrants like microfinance institutions and telecom providers into sharing a portion of the billion-dollar remittances pie with the MTCs, rather than becoming their competitors. Many new internet technologies are also pairing up with the largest MTCs in the market.

Empowering consumers
The remittances consumer is not necessarily ignorant of the opaque practices of the MTCs. However, a large portion of the consumers at issue are low-wage immigrants who "*are not financially sophisticated, and who base their money transfer service provider decision based on word of mouth"*.[11] They are also often recent arrivals in the country, and as a group do not generally have much clout with law and policy makers.

In a number of countries, efforts have been made to provide consumers with more information about the costs of transferring money. Information is often provided through price-comparison websites but also through targeted public-awareness campaigns.

Supporting financial inclusion
The MTCs currently dominating the market have only one product to sell: the remittance service. This represents a major lost opportunity to promote financial inclusion amongst a group of consumers, many of whom are currently unbanked. Consumer, migrants and human rights advocates could work together with community development financial institutions (CDFIs), like cooperatives, microfinance institutions and post banks (and regulators) to determine how these organisations can better serve migrant populations and their array of financial services needs; not only remittances.

Migration and international money transfers

I. Global migration & the remittances it generates

Approximately 200 million consumers live outside of their country of birth according to the International Organization for Migration driven by the desire to earn a living wage or having fled political instability or natural disasters or environmental degradation. From 1965 to 1990, some 45 million people emigrated globally. And the number of migrants continues to grow at a rate of 2.9% per annum.[12]

Collectively, these millions of migrants transfer hundreds of billions of US dollars per year to family members back home.[13] These funds, called *remittances,* are used primarily to purchase food, household goods, clothing and medicine; and occasionally, to purchase homes, agricultural land and to invest in small business opportunities.

Not surprisingly, migrants flock to wealthy countries and countries in transition as their primary destinations, and, as a result, OECD countries are also the main source of remittances to developing countries. The USA is the frontrunner as a remittances-sending nation remitting approximately USD95 billion in outward flows annually, with the largest proportion of those funds going to Mexico.

Russia and Germany are in the second and third positions as sending nations.[14]

Generally, global migration patterns are from the South to North, and thus remittances flow in the reverse direction. However, as increased attention has been directed to remittances due to their economic importance in recipient countries, it has been noted that South-South remittances also play an important role, and account for 30-45% of all remittances received in the South. For example, remittances from Argentina to Bolivia or from South Africa to Zimbabwe or from Malaysia to Indonesia are all examples of South/South flows.[15]

In addition, domestic migration from rural to urban areas is on the rise with some 700 million persons falling into the category of internal immigrants according to the World Bank (millions of Indian and Chinese farmers relocating to coastal cities for example). This paper does not address these domestic flows; however, it is an important area for further study and, unfortunately, has received relatively little scholarly attention to date.

Remittances volumes to developing countries have grown consistently and considerably over time, and are predicted by the World Bank to continue to grow at a rate of 7% annually through 2013.[16] Remittances also appear to be responsive to natural disasters and instability; rising to meet the increased needs of family members in the country of origin during times of crisis. And on the macro level, remittances shore up hard currency reserves in developing countries, which in turn can increase their creditworthiness in the capital markets.

II. The economic impact of remittances on developing countries

Not only do recipient families rely on remittances for household consumption needs but, as mentioned above, governments rely on them for hard-currency reserves, and even as collateral for loans from the capital markets.[17] Remittances are a substantial part of many developing countries' gross domestic product (GDP). In fact, they represent 10% of the GDP for more than 40 developing countries,[18] and for some countries rise to the level of one-third of the country's GDP.[19]

India, China, Mexico and the Philippines are the top remittance-receiving countries per the World Bank's *Remittances Factbook 2011*. The Philippines excluded, these are sizeable economies with strong growth patterns. However, for the most part, remittance-recipient countries tend to be smaller in terms of land mass, as well as population size and market production capacity.

Not surprisingly, island nations have a large propensity to export people. The Philippines, Fiji, Samoa, Indonesia, Sri Lanka, Jamaica, the Dominican Republic and Haiti, just to name a few, have large numbers of migrants living in the US, the EU, Canada and Australia. Sri Lanka, for example, is fairly typical of small island nations. The amount of foreign exchange brought in by remittances dwarfs the earnings from Sri Lanka's varied exports like tea and tourism. In fact, remittances in 2007 exceeded record earnings from the tea harvest. While tea exports reached a record level of USD1.025 billion, worker remittances were almost 250% more than the earnings from the tea harvest at USD2.502bn. Remittances also exceeded earnings from tourism, foreign aid and other capital inflows to Sri Lanka. The importance of remittances can also be viewed from another perspective: 70% of the Sri Lankan trade deficit in 2007 was offset by these remittances.[20]

In some nations, remittances are such a significant portion of GDP that the country would face dire consequences if they were cut. For example, in Somalia, remittances are 18% of GDP, and without the existence of remittance-services providers, UN aid operations would not be able to get project funds into the country. [21]

Though not in as dire a situation as Somalia, Albania's economy relies heavily on remittances from its expatriates working in low-level domestic and construction jobs in neighbouring countries like Greece and Italy. Nearly 13% of its GDP is from remittances, which is greater than direct aid to Albania and 450% larger than its FDI.[22]

Beyond macroeconomic impacts, remittances help families in the countries of origin to pay bills and to eat; though the verdict is out on the potential for remittances alone to lift people out of poverty, they definitely add to household budgets, which can have positive consequences such as more children in school, the ability to seek medical care and more nutritional meals. They also provide individuals with the ability to invest in the long term in their country of origin. And several countries, like India, Israel and Greece have begun to tap into this resource through offering Diaspora bonds to their expatriates, which are used to invest in infrastructure projects. In fact, Israel and India have raised USD35-40 billion in this manner.[23]

III. Who is the typical remittance client and implications for the market

In order to inform policymakers better regarding real choices available in the financial services marketplace, it is a good idea to know more about who uses remittances services, their habits and objectives.

However, it is difficult to generalise about remittances clients as they can vary from an Indonesian woman working in a Malay computer chip factory or a Senegalese vendor selling African art along the Cote d'Azur or even a highly paid executive working in the foreign subsidiary of a multinational company.

Further, what is known about this very diverse group of consumers is based primarily on the existence of studies done on the more 'popular' Diaspora, and the more common geographic migration patterns; or *remittance corridors*, as the World Bank has dubbed the popular, bilateral pathways for funds transfers by Diaspora.

What can be said is that research indicates that *the typical remittance consumer* is a non-native born individual who may not have had an education beyond the secondary level, and who may not be fluent in the language of the host country.[24]

Therefore, the typical remittance consumer may not have a commercial bank account,[25] and is very likely to be earning below the average per capita earnings per household for the host nation. This description is confirmed by national studies such as one carried out by MoneyExpress, a remittances-services provider based in Senegal. In a speech given at the International Fund for Agricultural Development (IFAD) meeting in Tunis, their Executive Director, Malik Seck stated that 66% of its clients were low-skilled workers with low levels of bank account use and limited access to the internet.[26]

Ironically, the typical remittance consumer would appear to be in a group that is in most need of consumer protection but is least likely to be protected from abusive market practices.

Whilst price-comparison sites tend to show a range of different MTCs and different methods of sending money internationally, it is probable that the 'real choice' facing many migrants is much smaller. Due to the migrants low use (and in some cases active distrust) of banks,[27] the most popular formal method of sending money is a cash-to-cash transfer through a money-transfer company as the intermediary.[28] A survey of Latin America illustrated that only a third of money-transfer recipients have a bank account.[29]

The accessibility of sending and receiving outlets, both in terms of geography and opening hours, is also a factor, and migrants are also less likely to have access to the internet (or may be unwilling to pay an additional charge to use a computer in an internet cafe).

Thus, not surprisingly, in a 2010 survey of 1,000 remittance senders living in the US, 90% utilised MTCs for cash-to-cash remittance transfers. Only 3% used banks, 2% utilised the internet and 4% used another means.[30]

The implications of these factors may be considerable. Much international discussion about the cost of remittances is based on unweighted average prices generated by price-comparison surveys. Bearing in mind that cash-to-cash transfers often incur some of the highest prices, there is a danger that these averages are significantly underestimating the real costs experienced by many consumers.

Migrants' distrust of banks has in some regions led to an expansion of alternative methods to transfer money internationally. In some East Asian corridors, like the Gulf region to Afghanistan, Pakistan and India, the Hawala method (an informal value-transfer system based on a huge network of money brokers) could be just as popular if not more popular than MTCs,[31] and effectively amounts to an alternative remittance system that exists, or operates outside of or parallel to, traditional financial channels. A 2010 survey of 274 Indian migrants and their families by the IMFR Trust (Centre for Microfinance Research) illustrated that 57% of Indian workers abroad send money to India using Hawala, which costs 4.6% as compared to the India Post Office, which charges 6%, with Indian banks charging 3%. The bank appears on paper to be the best deal; however, the migrants surveyed indicated that there were hidden costs of obtaining the appropriate documents needed to open a bank account, travelling to the nearest branch, waiting in long lines to send or receive payments, all of which effectively increased costs such that there is no real savings using banks.[32]

This IMFR research is a red flag that the formal financial sector may be failing to meet the financial services needs of the average Indian migrant worker.

A related message that has appeared repeatedly in other research on migrants and financial services is that migrants require a 'high touch' or significantly greater levels of customer service than non-migrants. In fact, one US bank representative estimated that the average new account takes 20 to 35 minutes to set up, whereas migrant customers were more likely to take an hour, and bank respondents surveyed continually emphasised the need to establish a trust-based relationship with new migrant customers.[33] It is possible that MTCs are more willing to devote the time to understanding and servicing migrants and/or migrants are attracted to the simplicity of the 'cash in-cash out' business method.

In addition, new regulations may also be increasing costs for migrants. 'Know-your-client' requirements promoted by the Financial Action Task Force have an important role to play in preventing money laundering and the financing of terrorism. However, if extended too far, they could have a significant detrimental impact on millions of migrants who may be sending small amounts of money home to their families.

Why is the remittances market failing consumers?

I. Opaque pricing

Remittances services providers make money by charging the consumer transfer fees, which are normally a fixed fee based on the amount of money being sent and the destination (with more popular destinations usually costing less). MTCs also make a *secondary* profit in a manner that is not clearly communicated to the client. The MTC purchases foreign currency at one rate (determined by currency market variations and impacted by the ability to buy in large volumes), and then effectively resells that currency to the consumer at a less favourable rate. Thus, the MTC makes money on the difference between currency prices available to them in wholesale currency markets and the price at which they 'sell' it to the consumer. In the remittance parlance, this difference is called the *exchange-rate spread*.

In fact, in Western Union's 2010 Annual Report, the corporation states that "*we **primarily*** [emphasis added] *generate revenue based on the difference between the exchange rate set by us to the consumer … and the rate at which we are able to acquire currency"*.[34]

Although MTCs may be required by law to communicate to consumers the actual exchange rate that was applied on the transaction, they are not required to communicate the existence of an exchange-rate spread.[35] Further, there does not appear to be any applicable regulatory cap, which would limit the application of excessive spreads (similar to usury laws in consumer lending). That means that the only defence for consumers is the theoretical right to take their custom elsewhere. And if that option does not exist in practice, then the consequences are obvious.

Appleseed, a North American NGO, which advocates for social justice in this domain, noted in its survey of remittance-pricing practices in several US states that the exchange-rate spread made up 37% of the cost charged to consumers; thus, remittance consumers paid an estimated USD350m in exchange fees in 2005.[36] And World Bank pricing data on the 200 country corridors from 29 sending nations to 86 receiving nations illustrates a wide variation in the industry from no mark-up charged (infrequently and possibly a result of either no information being available or the fact the transfer is in the same currency) to an exchange-rate spread of 7.31 to send money from Australia to Papua New Guinea and 8.43 for the UK to Zimbabwe corridor.[37]

Indeed, this opaque remittance-pricing practice has already been the subject of litigation in the United States when a class action lawsuit was brought in 2002 against Western Union and associated companies, Orlandi Valuta and Tex Mex Money Transfer alleging that *the companies failed to disclose that they received a more favourable US dollar exchange rate than that which they passed on to their customers*.

The case was subsequently settled, and it is estimated that Western Union and associates paid out USD47.5 millions to clients who sent money to and from the US between January of 1995 and December of 2002. Interestingly, a spokesperson for Western Union stated that as a result of this legal action "Western Union has agreed to further clarify information regarding currency exchange on its forms and its price-related advertising."[38]

That was almost a decade ago. However, a brief investigation of the information available to consumers on the Western Union website, and Western Union and MoneyGram offices in the UK and Kenya, suggests information about exchange-rate spreads is still far from clear and accessible.

A visit to the Western Union homepage in December 2011, revealed a large advertisement promoting a EUR4.90 fee. However, a message in very small font also flashed upon the screen that read: "… In addition to transfer fees, Western Union does make money on the exchange rate spread." The message appears so rapidly (in less than five seconds it is gone) that it is impossible to read it in its entirety. Further, the message does not explain the significance of an exchange-rate spread, how the spread is calculated by Western Union or what the applicable spread is per transaction in the eurozone (where this site was viewed).[39]

Likewise, the number two money-transfer provider, MoneyGram is similarly vague in communicating exchange-rate spread information to its clients online. Again in small print, the following language appears on its website:

> *"In addition to the transfer fees applicable to a transaction, a currency exchange rate set by MoneyGram or its agents may be applied. Prices subject to change."*[40]

An examination of MoneyGram's print materials available in the UK reveals equally murky communications to the client. The 'send' form states in small print:

> *"2. Charges and Currency Exchange*
>
> *2.1 You must pay us the fee stated on the form. You will not be charged any other fee for the transfer. You can only send money in a certain currency or currencies. Your service rep will tell you whether a payout currency is available in the receive [sic] country and (if different to the currency in which you pay us) what exchange rate will apply. Your chosen currency, the agreed exchange rate and the converted amount will be stated in the form."*[41]

Additionally, the passive language used in the form leads the client to believe that there is a higher authority responsible for determining the exchange rate applied, whereas the actual practice is that MoneyGram determines the exchange rate that applies to the transaction with the consumer.

These opaque practices may soon come under greater scrutiny. In the world's largest sending corridor (US – Mexico), there is hope that the US Consumer Financial Protection Bureau will address the issue of transparency in remittance-pricing communications, and require providers to post *not only* all applicable fees and the foreign exchange rate applied, but also to provide sample transactions as models for the consumers to understand the pricing application in practice.[42]

At present, however, it is likely that most remittance clients do not have the time to decipher the money-transfer providers' pricing schemes.[43] Alternatively, they could be fully aware that they are paying high rates and multiple charges but prefer the convenience and security of their corner market, which not only offers money transfers as a MTC agent but may also be practical for picking up bread, milk and other necessities.[44] Convenience, security and speed of delivery of the remittance all have a value for which migrants are willing to pay. For example, in an IFMR Trust survey of Indian migrants, when asked what they value most in a payment system, cost was third after security and speed of the transfer.[45]

Regardless of whether or not the client knows that MTCs are expensive or prefers the convenience of a MoneyGram located in the nearest 7-Eleven retail store, this does not excuse the MTCs from communicating real pricing information to the public.

II. Uncompetitive markets

Currently, the global cross-border remittances markets are dominated by a handful of money-transfer companies, which represent huge profits for shareholders.

In 2010, Western Union reported revenues of USD5.2bn with USD750m distributed in dividends to investors in its Annual Report.[46] Likewise, MoneyGram reported to the US Securities and Exchange Commission in its 10-K filing that earnings from the funds-transfer side of its business totalled USD1.053bn in 2010 with another USD109m flowing in from the financial-paper segment of its business.[47]

Information about the global market share of particular companies is hard to verify. However, from the consumer perspective, it is the level of competition in specific corridors that is the most important issue. Not enough research has been done on this; however, what evidence there is suggests that a lack of competition may be a serious issue in some corridors. Industry analysts estimate that four MTCs (Western Union, MoneyGram, DolEx and Vigo) constitute 80% of the transfer market in Latin America and the Caribbean.[48] And it is estimated that the same four MTCs send approximately 40% of all remittances from the USA.[49] The *Agence Française de Développement* estimates that in

Francophone Africa, Western Union has a 65-100% share of the market.[50] In 2007, it was estimated that in the US Nigerian corridor, Western Union controlled 80% of transfers through banks into Nigeria and 78% of transfers through banks out of Nigeria.[51]

Furthermore, it is reasonable to suppose that the market shares of these leading MTCs have been rising in recent years, regionally as well as globally, as a result of market acquisitions and consolidations.

Western Union, for example, purchased a leading Italian money-transfer network, Angelo Costa, in April 2011, as well as acquiring Finint, a leading EU money transfer network, in October 2011.[52] Western Union already owns the brands Vigo, Orlandi Valuta and Pago Facil, which operate primarily in the US/Latin American corridors.

Similarly, MoneyGram acquired MoneyCard World Express and Cambios Sol in 2008, which it refers to in its annual report as "*two Spanish super money transfer agents*". In 2010, MoneyGram also acquired Dutch agent Blue Dolphin Financial Services.

Reading the annual US Securities and Exchange Commission reports of the two remittances behemoths over a period of five years, there seems to have been at least one annual acquisition per MTC. It would be interesting to determine to what extent competition authorities have considered the above-mentioned acquisitions a priori and ex ante to analyse the impact on competition in the remittances markets in their countries and globally.

Interestingly, some MTCs themselves perceive there are competition problems in the marketplace. In a survey of 73 remittance providers in six US states, 13.85% responded that the market was oligopolistic and 18.46% stated that the market was in fact consolidating, though some 50% did perceive that competition was on the rise.[53] This perception could indicate that, on a US state-by-state basis, new competitors are entering the market, but on the industry-wide scale, there remain the dominant MTCs. The same survey also indicated that US remittance providers feel oppressed by 'know-your-client' account opening rules, licensing and bonding requirements, which do not impact the informal competition.[54] Further, current operators see building huge networks of agents and investing in compliance systems as an almost insurmountable barrier to entry in the remittance business.[55]

- **Limited involvement from mainstream banks**

Recently, banks, particularly in the US, have become more important players in the remittances marketplace but they appear to be a less popular choice due to the fact that many senders, and even more recipients, lack bank accounts (immigrants tend to view banks as costly due to account fees, and are put off opening accounts by the perception that they do not make enough money). Further, banks have "banking hours," which may make a midday visit to one's bank inconvenient for a day labourer. Additionally, in quite a few jurisdictions, banks require proof of residency to open an account, which may be difficult as well as bureaucratic for immigrants to demonstrate.[56] Italian banks, for example, require a valid immigration status in the country (a *permesso di soggiorno* or *carta di soggiorno*) as well as official residency in the town in which you are opening a bank account. Both documents can take many months to process. [57]

Further, commercial banks do not have the wide disbursement reach that MTCs do, and are often not present in rural areas. For example, Western Union has 445,000 agents in 200 countries[58] and MoneyGram 233,000 locations in 191 countries (which in the case of MoneyGram is more than twice the number of locations of McDonald's, Starbucks, Subway and Walmart combined).[59] In contrast, Wells Fargo Bank has just 27,000 payout locations in a mere 15 countries.[60]

Further, while a network of ATMs in rural areas could be effective distribution 'agents' for banks, they require frequent maintenance and are prone to vandalism.[61] And as already mentioned, migrants often prefer a more high-touch customer service approach.

On the other hand, some of the established commercial banks are making a valiant attempt to compete with the MTCs for market share. In the US, Wells Fargo and Bank of America appear to recognise the potential value of the remittances market and are developing strategies including hiring of Spanish-speaking employees and offering a variety of remittance "sales" on popular Mexican holidays and bundling packages of financial services, which might interest migrants.

Wells Fargo also offers further remittance discounts on transfer fees for its *ExpressSend* service for cash-to-account or account-to-account transfers for those clients who opt to enrol in a bundled package of financial services including a checking account and ATM card, called the *Gold Pack*. Clients can send up to USD1,500 per day to Wells Fargo recipient partner banks like Banorte, HSBC, Bansefi and Banco Santander.[62] The transfer fee is fixed, and the exchange rate is available by calling a toll free 1-800 number.

Similarly, Bank of America provides its *SafeSend* remittance service, which is offered to any account holder at the bank with "*no transfer fees charged"*, though profit is presumably made on the exchange-rate spread (the site states that exchange rates are "*competitive"* but offers no further information or phone line to call to find out the applicable rate, though presumably that information can be requested at the time the funds are sent).[63] Citibank also offers account-to-account transfers "*for free*"* (the asterix is never explained on the company's website but most likely means the transfer is free but an exchange-rate spread is applied). Citi also offers a telegraph transfer using SWIFT.[64]

Still, these marketing strategies do not seem to be gaining much market share, at least for American banks. Banks in other regions may have had more success, with an important factor being the immigrant populations' propensity to use banks in their country of origin. For example, the Philippine population in Italy is only 49% banked in Italy, but more than 70% of Filipino migrants have a bank account back home.[65]

- **Limited involvement from other financial providers**

There is also recognition by institutions involved in the financial inclusion movement that they need to do some creative thinking with regard to developing new remittance networks of providers, as well as moving the migrants from cash-based financial services to accounts. Two organisations, which have taken the lead on this issue, are the US-based World Council of Credit Unions (WOCCU) and the World Savings Banks Institute (WSBI) network, located in Brussels. WOCCU has implemented a new remittance network called Irnet between developing country credit unions and primarily US-based money-transfer providers (MoneyGram, Ria and Vigo are involved), whereby the credit unions act as distribution agents for the money-transfer providers.[66] WSBI and the European Savings Bank network have created a larger consortium, again with the involvement of MTCs, allowing more interactivity of remittance transfers amongst members, and possibly non-members as well. It is not clear whether this is now a functioning network or exactly how it will work in practice.[67] To date, there has been no published external review of the efficacy of these new networks or their impact on competition.

There have also been initiatives taken by microfinance institutions to engage in remittances. However, these have generally been restricted to corridor initiatives, and usually from the US to Latin America.

Further, the US and Mexican governments have collaborated to improve the efficiency of remittance transfers through experimental projects like the US Federal Reserve FedACH joint venture with 22 nations, including the Bank of Mexico. Through this scheme, a sender in the US is offered a guaranteed fee and exchange rate when sending money to a bank account in Mexico. The bank account can also be pre-opened by the sender in the US on behalf of the recipient. This is not only an attempt to lower remittance fees but to move migrants and their recipient families into the formal financial services sector.

Multilateral organisations like IFAD, IDB and the International Organization for Migration have also sponsored pilot projects designed to promote innovation in the remittance sector. Annually, IFAD publishes a call for proposals to support new remittance projects, and hosts conferences to analyse results. At present though, the resultant pilots appear to be one-off projects, which are not particularly replicable in other nations, possibly due to the differing regulatory structures and capacity of actors present in each market.

Studies looking at the actual impact of these new networks and projects on market prices over time could be a useful guide for future initiatives.

- **Exclusivity agreements**

Another factor that comes into play in many countries is the exclusivity agreements that MTCs have signed with their agents. Agents can vary from commercial banks to new market entrants such as post banks, microfinance institutions and even Walmart; all of whom sign these agreements in exchange for receiving a guaranteed flow of commissions. However, from a consumer perspective there is a concern that these exclusivity agreements could be limiting rather than expanding choice for consumers and stifling competition by making it even harder for new providers to enter the market.

Exclusivity agreements can be widespread, particularly in the African continent, where a small number of MTCs are particularly dominant. This is partly because 80% of the states do not allow financial institutions other than banks to handle foreign currency exchanges,[68] and a small number of leading MTCs have approached many of the banks promising a high volume of guaranteed remittance flows in return for an exclusivity agreement.

But even in countries with more diverse financial institutions, MTCs may have limited the choice available to migrants by signing exclusivity agreements with outlets. A particularly worrying example of this practice is where post-office networks have signed exclusivity agreements with MTCs. Examples include MoneyGram's deal with the UK post office and Western Union's deal with the French post office. In many countries, post offices could offer a very accessible outlet for retail financial services, but by only offering the services of one MTC, they seriously reduce the beneficial impact that they could have on the choice available to consumers. Furthermore, this can often contradict national policies that seek to promote competition in remittances.

MTCs can also sign agreements with retail chains. In France, MoneyGram's five-year agreement with a chain of 28,000 tobacco shops signed in 2010 was actually seen as increasing competition in the market (possibly as it reduced the grip Western Union had on the market through their agreement with the post office). MoneyGram also has kiosks present in 400 7-Eleven stores located throughout Australia and in 1,000 Valora stores, a Swiss retail giant.[69] It is also present in CVS pharmacies, Walmart stores, SuperValu grocery stores in the US, Albertsons in Canada and Carrefour in Europe.[70]

MTCs have also approached microfinance institutions (MFIs) with the same offer of exclusivity, and have even inserted exclusivity clauses, *which extend beyond the actual contractual term*. Two legal advisers for two leading East African MFIs confirmed that the MFI they currently advise has an existing exclusivity agreement with Western Union, which will last for one year, and the second lawyer was able to negotiate the clause down to eight months following the termination of the underlying agency agreement. However, as one of the lawyers involved stated "this agreement will last as long as the money keeps flowing in … Or, for as long as Western Union wants basically."[71]

Surprisingly, few competition authorities appear to have taken much action on this issue. In the US, the department of justice is apparently investigating Western Union's exchange-rate pricing practices in the Dominican Republic, but little else is known about the status of this investigation.[72] In Uzbekistan, a positive result occurred when the competition authorities did intervene in the remittances market. Uzbekistan is a small land-locked country receiving remittances of about USD790m per annum (more than double the volume of foreign direct investments in the country). Western Union opened for business there in 2002, and soon had cornered 95% of the remittance market. The Antimonopoly Policy Research Centre in Uzbekistan with support from the International Development Research Centre conducted research on the anticompetitive activities and restrictive business practices leading to a non-level playing field for participants in the remittances market. The study highlighted that Western Union's control of more than 35% of the market is by law considered a "dominant position," and the use of exclusivity clauses could be considered an abuse of that position if it harmed competition.[73]

Strangely, the study determined competition was not harmed by use of exclusivity clauses (perhaps in the short term), but the Uzbek competition authority expressed its concern to Western Union about these exclusivity clauses, and the company subsequently dropped this clause with its Uzbek banking agents. Further, as competition increased from 2002 to 2006 in the period studied, the average remittance fee dropped from over 10% to between 4-5%.[74]

Interestingly, a few financial services regulators have also taken a stance on the issue of exclusivity agreements. For example, the Reserve Bank of India proclaimed that:

> *"'exclusivity' arrangements limit competition, distort pricing and thereby act as* ***a deterrent to a payment system*** [emphasis added] *from achieving the desired goal of efficiency, affordability and being ubiquitous …"*[75]

And Nigerian regulators published their Financial System Strategy 2020 recommending that the monopoly that exists in the remittances sector be removed and remittances fees subsequently dropped from 8 to 5%.[76]

It appears that in some countries, an investigation by the competition authority or financial services regulator has had a significant impact on MTCs' practices and pricing.

- **Limited impact of new technologies**

As new remittance technologies emerge, like card-based transfers, internet and mobile phones, one would expect migrants to flock to these services, and that costs would be reduced in the industry. Yet, this has not happened. And while sending an internet remittance transfer from the comfort of one's own home may appeal, there are other issues, which can limit a consumer's access to these services such as the need to: 1) have access to the internet (implying access to a computer or phone with this capacity); 2) be at least basically technologically expert enough to find and register with the remittance site, and 3) in many cases to have a credit card or bank account. And, with any of these new technologies, one still needs to be able to pick up the physical cash in a payout location.

A study done in September 2010 by Manuel Orozco, who surveyed 1,000 Latino immigrants in various US cities, determined that while migrants are amenable to adopting newer technologies and methods for sending money home, their access to technology-based devices is limited, and products currently offered in the US are not available to most migrants. Further, technology-based money-transfer services require advanced skills in technology interfacing, and generally provide service only in the US (not in the recipient countries), thus these products do not meet migrant needs.[77] For example, 53.3% of the surveyed individuals reported that they do not use, or do not know how to use email; 30% did not have a bank account and, while 92% had mobile phones, more than 80% of these could not access the internet.[78] Thus, the vast majority of migrants are still using the MTCs for cash-to-cash transfers per this study, with 90% using MTCs, 3% using banks, 2% using the internet and one respondent preferring to send cash in the US mail (26.9% indicated that Western Union was their preferred provider, 7.5% La Nacional, 6.3% MoneyGram, 5% Vigo, and 4.9% Delgado Travel).[79]

These results correspond with findings of an Acorn study regarding a failed Citibank card-to-card remittances transfer programme from California to Mexico, which found that recipients had difficulty using the ATMs, which were new to them, and there was no human technical support available. Citi lamented that it just "couldn't get the cards to talk to one another."[80] It would appear that new technology requires capacity building of migrants and their recipients that perhaps commercial providers are not willing to allocate resources to. However, this could be an area of intervention for migrant and consumer advocates.

We also note that even with the emergence of newer money-transfer technologies, partnerships are being formed with the same dominant MTCs. MoneyGram for example has a cash-to-Visa account programme. Consumers can visit any of the 35,000 MoneyGram locations in the US to send funds directly to the Visa accounts of recipients in Mexico.[81] (However there is a danger here that as credit cards are being used as the remittance "catching" mechanism, it is easy to foresee a development whereby Visa/MasterCard might begin allowing recipients to utilise more funds than they receive, effectively issuing credit for which an interest rate would also be charged.)

On the other hand, in the mobile industry there have been incredible innovations by the Safaricom/Vodafon joint venture, which, in addition to being a huge technological leap forward, has also had a very positive impact on financial inclusion and poverty alleviation domestically. With Safaricom's M-PESA, low-income Kenyans who are predominantly unbanked can now use their mobile phones for domestic person-to-person money transfers. They can also open a savings account through M-PESA as a result of a partnership that M-PESA has formed with Equity Bank, a Kenyan microfinance bank.[82] As a result of this service, instead of taking a two-day bus ride from Nairobi to the rural village where his mother lives, Kenyan commercial lawyer Leonard Obura states that now he can send money in about a minute (more or less depending on how fast he can text). And Leonard's mother can open a bank account via M-PESA whereas before no bank serviced her rural town.

When outside the country, however, to send money via Safaricom, one must use Safaricom's partner Western Union, and not only are Safaricom/ M-PESA charges applicable, but now Western Union's transfer fees (and opaque exchange-rate pricing to change, for example, euro to Kenyan shillings) will be applied.

Western Union is similarly partnered with both of the mobile wallet providers in the Philippines Smart and G-Cash mobile wallet for international remittance transfers.[83] Finally, by teaming up with the GSM, a mobile networks trade association representing 750 mobile-phone operators, Western Union has agreements with mobile payments system providers such as Bharti Airtel in India, Orascom, present in six countries and Zain, present in multiple African states.[84]

With this background, it is difficult to imagine that the entrance of telecoms into the international remittances market will alter the MTC-dominated status quo very much, at least until mobile-phone operators are allowed to handle foreign currency exchanges without a middleman. Further, it may even make sending money more expensive, because there is now a mobile-phone operator that needs to be paid its cut.

III. A lack of consumer information and support for financial inclusion

There is evidence that, given the opportunity, many migrants are keen to switch providers. In a survey conducted by CI member in the Netherlands Consumentenbond, more than half of respondents were prepared to switch their MTC with cost being the main consideration for 76%.[85]

However, new migrants are often very busy looking for or maintaining employment and spare time is often spent in the company of other immigrants at religious and cultural centres. Thus, consumer empowerment must engage immigrants on their own territory, with word of mouth and presence in places where they congregate probably being the best way to 'market' to these communities.

This is a lesson that Western Union and MoneyGram have certainly learnt judging by the considerable amounts spent on sponsoring social events to build good will with these populations.[86] And they have been very successful.

Consumer and migrant rights advocates must take a page out of the Western Union playbook and utilise similar marketing strategies. There are now a number of different comparative online sources for remittances services. The World Bank for instance aggregates an impressive data set on remittances worldwide but individual countries also have their own websites such as www.envoidargent.fr in France or www.fxcompared.com. It would be interesting to research whether migrants as well as development professionals are accessing this data, and whether the posting of this data has helped to reduce the cost of remittances. Consumer and migrant advocates should also consider offering financial literacy training to leaders of migrant hometown associations and supporting them to educate other migrants.

Additionally, new language skills are a necessity for most migrants; and learning a new language may be easier when coupled with budgeting and/or computer skills training. These programmes should be offered to adults as well as youth. In fact, older immigrants often rely on their children and grandchildren to act as translators and intermediaries because they often learn the language of the host country much quicker. And, it is a good idea to teach children about savings and budgeting before they develop bad financial habits. Such courses can also be a way to form remittance and savings clubs, which can operate in conjunction with the aforementioned community development financial institutions.

Financial education should also be available to migrants' families to help them understand how to manage the money that they are receiving from overseas. In the Philippines, for example, which has been consistently exporting its labour forces since the 1970s, the migrant families have witnessed increased incidence of divorce, drug and alcohol dependencies, increases in teenage pregnancies and even rising levels of over-indebtedness on the part of migrants (who are taking out consumer loans at high rates of interest to send remittances to the extended family in the Philippines.)[87] The Filipino Women's Council in Italy has been hosting financial literacy trainings for several years to combat these problems; with one of the principal messages being that remittances are not equal to savings; and that the migrant should first pay herself (so as to set aside money to save), and then send money to her family back home.

Several studies, including the previously mentioned Orozco study of 2010, have also shown that remittances consumers have the potential, as well as interest, to utilise other financial services beyond the mere transfer of money.

Ensuring migrants have access to basic financial services such as a basic bank account could improve the choice of remittance services available to them and reduce costs. Laws that oblige banks to provide these basic services, such as the law passed in Belgium in 2003, would certainly support this process.

However, the service providers currently dominating the market are money-transfer companies with only one product to sell: the remittance service. Thus, there really is no incentive for MTCs to consider a short-term reduction in profits by offering more competitive remittance pricing as a way to market other services. The commercial banks on the other hand may not be willing to 'go the extra mile' in terms of increased customer service for migrant clients.

A good example may be a new Spanish remittance service that is promoted by CECA (*Confederación Española de Cajas de Ahorros*) that offers a common platform for making remittances via SWIFT/internet (*intercambio de ficheros*). The aim is to provide savings banks with remittances services. The agreement has been signed by 40 savings banks in Spain and 14 countries in Latin America. They stated that the money-transfer service is a means to attract immigrant clients to use other banking services.

Thus, it could be interesting for consumer, migrants and human rights advocates to work together with community development financial institutions (CDFIs), like cooperatives, microfinance institutions and post banks (and regulators) to determine how these organisations can better serve migrant populations and their array of financial services needs; not only remittances. In fact, these financial institutions could easily develop a variety of remittance products including something as simple as opening institutional accounts abroad; and sending aggregated transfers through their own accounts, using a network of cooperatives, post banks and MFIs as disbursement agents. This would require attention to detail in accounting, but does not seem too much of a burden for a financial institution with a financial inclusion mandate. Governments and regulators could even consider subsidising these operations or offering grants to establish the network operations (such as IFAD and IDB are currently doing).

For example, a Florida-based CDFI could open an account with a Guatemalan bank. It could collect remittances one day a week in Florida, and collectively remit one group transfer, distributing the fees amongst the cooperative members who transferred money that week accordingly. Recipients could either come to the bank to pick up payments or a Guatemalan cooperative or MFI could be a named delegate on the bank account and the agent charged with distribution. This would be an additional service to migrants, and the institution can also offer other products to this population.

Documentation can be collected by consumer organisations and shared with other community development financial institutions state by state so that essentially the market research has already been done (at least in part) for small financial institutions to enter the remittances game. This also facilitates financial inclusion.

Conclusions and recommendations

Globally, migrants number in the hundreds of millions and produce billions of dollars in revenue for private companies (principally located in OECD countries), and significant hard currency reserves for the countries that they send their remittances to. Like consumers everywhere, they have a right to be given the facts needed to make an informed choice, to be able to select from a range of products and services offered at competitive prices, and to acquire knowledge and skills needed to make informed, confident choices about goods and services.

Yet, because they are not in their country of birth, these basic rights have too often been neglected, and their access to basic consumer protection forgotten. The G8 plan and World Bank's monitoring of prices are laudable, and there are many interesting and significant initiatives around the world but the status quo is not changing fast enough. This is perhaps because the focus of change needs to move to the national level where government agencies working with consumer organisations and others can investigate the particular characteristics of their market and take appropriate action.

On the basis of existing research, there is clear evidence that certain issues such as pricing transparency, competition and improved information for consumers warrant further study. CI is therefore calling on governments, competition authorities, regulators and other relevant agencies to investigate and, where appropriate, take action in the following areas:

Transparent pricing

- Investigate MTCs' practices in relation to the provision of information about their fees and other charges, and where necessary require all MTCs to provide transparent and comparable pricing. This would include clearly stating and publishing prices in the MTC's office and online, itemising all applicable fees, costs and taxes including transfer fee, the forex exchange rate applied and referencing the applicable spread. This should be illustrated with two sample model transfers available for the client's reference, and based on the amounts of USD200 and USD500 sent from the sending country to the most frequently used destinations, which illustrate the sum being sent minus all costs and the actual sum received in foreign currency by recipient.

Promoting competition

- Monitor market competition, and where necessary take action to enable new financial institutions like post banks, cooperatives, credit unions and microfinance institutions to remit as well as receive remittances.

- Investigate whether key acquisitions and mergers of MTCs by MoneyGram, Western Union and other large MTCs should be disallowed due to the negative impact on competition. More research should also be done on the impact of past Western Union and MoneyGram acquisitions on competition.

- Investigate *exclusivity arrangements* between MTCs and their delivery agents to discover the degree to which they are a restraint on trade.

- Explore whether or not the current licensing and regulatory framework could be modified to allow new remittance actors in, be it microfinance institutions, cooperatives, SACCOs or telecoms, whilst taking the necessary precautions to assure this does not pose a risk to the financial system. Other options could include opening a hotline whereby financial services providers desiring to enter the market can be informed of what procedures and licensing are applicable. [88]

- Consider 'regulation light' for remittance senders which work in a limited number of corridors, and/or which specialise in financial inclusion and have close relationships with their clients, such as MFIs that truly 'know their clients' much better than banks.

- Investigate measures to enable increased competition from telecoms, such as allowing telecoms to have direct access to clearing systems and foreign exchange licences, such that international person-to-person transfers can occur with mobile-phone technology and no MTC mediation.

Supporting financial inclusion

- Enable alternative financial-services providers, which provide basic financial services such as bank accounts and insurance to become involved in remittance payments, including by partnering with migrant and consumer advocacy organisations.

Empowering consumers

- Empower consumers to make informed decisions by collecting pricing data and communicating this information directly to migrant populations in places where it will be picked up and read (not necessarily on the internet).

- Offer financial literacy and household budgeting courses specifically tailored to the migrants' transnational financial services requirements, including assistance establishing long-term financial objectives and directing to financial services providers that can fulfil those needs (programming could be paid for by voluntary contributions from the MTCs).

Advocacy and representation

- Promote consumer and migrant advocacy organisations' participation in the international remittances and microfinance conferences, which are a primary forum for disseminating ideas and engaging with the financial inclusion-focused organisations. Both groups are vastly underrepresented at these events.

Internet sources

http://www.africaremittances.org/objectives.html (Country surveys on remittances)
http://census.gov
www.gcash.com
www.ifad.org/remittances
www.moneygram.com
www.paypal.com
www.safaricom.com
www.westernunion.com
http://www.remittancesgateway.org/
http://remittanceprices.worldbank.org
http://unstats.un.org/

References

[1] *Outlook for Remittance Flows 2011-13* by Sanket Mohapatra, Dilip Ratha and Ani Silwal (Migration and development brief 16, Migration and development Unit, World Bank) 23 May 2011.
[2] Eighth meeting of the Global Remittances Working Group. Presentation by Massimo Cirasino and Dalip Ratha. http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1257537401267/GRWG_Massimo_Dilip_Spring_Meeting.pdf
[3]http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:22121552~menuPK:6110491~pagePK:210058~piPK:210062~theSitePK:282885~isCURL:Y~isCURL:Y,00.html
[4] Western Union website, www.westernunion.com
[5] MoneyGram website, www.moneygram.com/MGICorp/InvestorRelations/index.htm
[6] In fact, remittance prices have actually increased this year in Africa, while decreasing on other continents: http://remittanceprices.worldbank.org/.
[7] Remittances providers surveyed in the US report that the costs of building extensive agent networks and compliance with regulation are the primary costs of doing business. Andreassen, Ole, *Remittance Service Providers in the United States: How remitance firms operate and how they perceive their business environment*, World Bank Financial Sector Discussion Series, 2007, available online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=958810
[8] *Rome Road Map for Remittances*, Italian Ministry of Foreign Affairs, 9 November 2009: http://www.esteri.it/mae/approfondimenti/20091230_Rome_Road_Map_for_Remittances_fin.pdf
[9] Cirasino, Massimo, *Global Remittances Working Group, The 2011 Spring Meeting, Minutes*, 15 April 2011, World Bank Washington DC, available online at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1257537401267/GRWG_Minutes_Spring2011_Final.pdf
[10] Elizabeth Warren, White House Special Adviser, Washington, 22 October 2010
[11] *An International Remittances Customer Charter: A Toolkit for National Action*, The World Bank Global Remittances Working Group, 2010. Available online at www.worldbank.org/paymentsystems.
[12] *About Migration*, The International Organization for Migration: http://www.iom.int/jahia/Jahia/about-migration/lang/en
[13] The World Bank estimate for 2010, USD325 billion (see footnote 1 above).
[14] *Making Money Transfers Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Money Transfers*, Consultative Group to Assist the Poor/World Bank, March 2008, p. 17. Available online: http://www.cgap.org/gm/document-1.9.3003/Technical%20Guide%20Money%20Transfers.pdf
[15] *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*, Ratha, Dilip, Finance and Development, 2005.
[16] *Outlook for remittance flows 2011-13* by Sanket Mohapatra, Dilip Ratha and Ani Silwal (Migration and development brief 16, Migration and development Unit, World Bank) 23 May 2011. Available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/08/04/000386194_20110804015417/Rendered/PDF/635860BRI0Outl00Box0361520B0PUBLIC0.pdf
[16] Eighth meeting of the Global Remittances Working Group, Presentation by Massimo Cirasino and Dalip Ratha
[17] Future flow receivable financing is possible based on utilising the value of future remittances coming into the country in hard currencies as collateral for loan purposes. Ratha, Dilip and Suhas Ketkar, *Securitization of Future Flow Receivables: A Useful Tool for Developing Countries*, International Monetary Fund's Finance & Development Quarterly, March, 2001.
[18] Western Union, Annual Report 2010, available online at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9ODgyMzl8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1
[19]http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:22121552~menuPK:6110491~pagePK:210058~piPK:210062~theSitePK:282885~isCURL:Y~isCURL:Y,00.html
[20] *Remittances, the lifeblood of Sri Lanka's economy*, The Economist, 18 May 2008. Available at http://sundaytimes.lk/080518/Columns/eco.html
[21] *Somalis' Money is Lifeline for Homeland*, The New York Times, 11 November 2009. Available at http://www.nytimes.com/2009/11/12/world/africa/12remit.html
[22] Uruci, Esmeralda and Ilir Gedeshi, *Remittances Management in Albania*, Centro Studi di Politica Internazionale, Working Paper 5, 2003.
[23] *Development Finance through Diaspora Bonds - Track Record and Potential*, Ketkar, Suhas and Dilip Ratha, Paper presented at World Bank Conference on 23 May 2007. Available at http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1100792545130/Diasporabonds.pdf
[24] Baddour, Ann & Sonja Danburg, *Creating a Fair Playing Field for Consumers: the Need for Transparency in the US-Mexico Remittance Market*, Texas Appleseeds, 2005.
[25] According to the Italian Bankers Association (ABI), some 43% of immigrants in Italy do not have a bank account. *Cittadinanza economica dei migranti e microfinanza: presentazione dei risultati preliminari dell'indagine ABI-CeSPI sulla bancarizzazione dei migranti in Italia*, 2005. In the previously mentioned Bendixen & Associates study done in Los Angeles and Miami, 47% of the immigrants interviewed stated that neither they nor their remittance-recipients had a bank account.
[26] Global Forum on Remittances 2009: *Remittances as a development tool in Africa*, Session Notes, 22-23 October 2009, available online at http://www.ifad.org/remittances/events/s_notes.pdf; more on Money Express can be found at http://www.money-express.com/index.php
[27] Hoti, Erudita, *Remittances and Poverty in Albania*, National Ekonomiska Institutionen, 2009.
[28] Ibid.
[29] *International Flows of Remittances: Costs Competition and Financial Access in Latin America and the Caribbean – Toward an Industry Score Card*, Orozco, Manuel, Interamerican Development Bank, 2006.
[30] *Is there a match among migrants, remittances and technology*? Orozco, Manuel; Elisabeth Burgess, Netta Ascoli, 2010. Similar results were obtained in a 2002 study, *Billions in Motion: Latino Immigrants, Remittances and Banking*, Bendixen & Associates, November, 2002, commissioned by the Pew Hispanic Center whereby, 83% of the 302 remittance senders interviewed in Los Angeles and in Miami stated that they utilised MTCs, 9% used banks and 8% used courier services.
[31] El Qorchi, Samuel Munzele Maimbo and John Wilson, *Informal Funds Transfer Systems: An Analysis of the Informal Hawala System*, International Monetary Fund, 2003.

[32] Gopinath, Shreyas, Justin Oliver, Ajay Tannirkulam and Supriyo Bhattacharya, *Putting Money in Motion: How Much do Migrants Pay for Domestic Transfers?*,IFMR Research, Centre for Micro Finance, November 2010. Available at http://www.ifmr.ac.in/cmf/publications/wp/2010/42_Putting_Money_in_Motion.pdf

[33] Orozco, Manuel and Rachel Fedewa, *Leveraging Efforts on Remittances and Financial Intermediation*, Working Paper 24, December 2006, p. 17.

[34] US Securities and Exchange Commission 10-K filing for Western Union, 2010 available at http://ir.westernunion.com/phoenix.zhtml?c=203395&p=irol-irhome

[35] The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, for example, requires that fees, exchange rates applied (to the nearest one-hundredth of a point), total transaction costs and amounts to be received in the home country currency be included on the remitter's receipt. The Financial Services Consumer Protection Agency may also require that sample transactions be published to facilitate consumer's ability to compare remittance products. The Act can be found in its entirety at http://www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf

[36] Baddour, Ann & Sonja Danburg, *Creating a Fair Playing Field for Consumers: The Need for Transparency in the US-Mexico Remittance Market,* Texas Appleseed, 2005

[37] http://remittanceprices.worldbank.org/Country-Corridors The World Bank calculates the exchange-rate spread as the difference between the interbank exchange rate and the remittance service provider's exchange rate applied on the sale of funds.

[38] Hawkes, Alex, *Western Union heads off biggest action with USD90m,* The Times, 30 September 2003. Available at http://business.timesonline.co.uk/tol/business/article1164554.ece (requires subscription).

[39] Western Union website: www.westernunion.it/WUCOMWEB/staticMid.do?pagename=HomePage&method=load (note the language which will appear in the upper left-hand corner of the site, where there is a button advertisement with animation). Viewed on 16 August 2011. On a related consumer protection issue, another class action was filed against Western Union on 2 April 2010 regarding a claim that Western Union fraudulently retains unclaimed remittances. As a business practice, Western Union takes the sending customer's information. Sometimes a remittance can remain unclaimed. Pursuant to the allegations of this complainant, rather than informing clients so that they may redirect or pick up their unclaimed remittances, Western Union has been retaining these millions of dollars in unclaimed funds for years, using them as a de facto interest-free loan. *Smet v. The Western Union Company*, District of Colorado Case No. 10-00765-JLK. Western Union, per its 2010 annual report is also subject of a US Department of Justice antitrust investigation, which appears to be related to exchange-rate pricing only in the Dominican Republic.

[40] MoneyGram website: https://www.moneygram.com/MGI/EN/IT/Send/Send.htm?CC=IT&LC=EN

[41] MoneyGram UK send-form conditions (Non Rewards), UK NR Send T&C 141010.

[42] *Report on remittance transfers*, 20 July 2011. Available at http://www.consumerfinance.gov/wp-content/uploads/2011/07/Report_20110720_RemittanceTransfers.pdf

[43] In fact, in many instances it may be virtually impossible to comparison-shop as above-mentioned Appleseed study demonstrated. It found that exchange-rate pricing was inconsistent and erratic even on the same day, creating a disparity in the same market. Thus, if the consumer called to check pricing in the morning, it could change by the time they arrived one half hour later. Appleseed demonstrated that in Georgia, a consumer could spend as little as USD3.88 or up to USD21.90 on the same day in June to send USD300 to Mexico. They also found a variation in pricing *within the same company* from a cost of USD1.52 to USD13.84 over the two-week study. Appleseed demonstrated that the market's complex pricing structure prevents comparison-shopping, and makes it nearly impossible to choose a money-transfer provider on the basis of cost.

[44] The Mexican Center at the University of Texas at Austin and Appleseed Texas conducted focus groups for a month in 2002, which revealed that more than 50% of the participants chose a money-transfer service based on convenience, either for the sender or for the recipient, Texas Appleseed, 2005.

[45] Gopinath, Shreyas, Justin Oliver, Ajay Tannirkulam and Supriyo Bhattacharya, *Putting Money in Motion: How Much do Migrants Pay for Domestic Transfers?*, IFMR Centre for Microfinance Research, November 2010.

[46] Available through the Western Union website at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9ODgyMzI8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1

[47] Available through www.moneygram.com at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NDE5OTU1fENoaWxkSUQ9NDMzMzQ4fFR5cGU9MQ==&t=1

[48] Schatt, Dan, *Global Money Transfers: Getting the Formula Right When High-Tech meets High-Touch*, March, 2005, Celent Communications, p. 17.

[49] Ibid.

[50] Agence Francaise de Developpement *Paroles d'acteurs* (Key Players' views) AFD, 2005

[51] Orozco, Manuel and Millis, Bryanna, *Remittances, competition, and fair financial access opportunities in Nigeria* UAID, 2007.

[52] *Western Union Completes Acquisition of Finint S.r.l.*, Business Wire, 31 October 2011. As published online at www.businesswire.com/news/home/20111031005679/en/Western-Union-Completes-Acquisition-Finint-S.r.l.

[53] Andreassen, Ole E, *Remittance Service Providers in the United States: How Remittance Firms Operate and How They Perceive Their Business Environment,* World Bank Financial Sector Discussion Series. Available at SSRN: http://ssrn.com/abstract=958810

[54] Ibid.

[55] Ibid.

[56] In the US, this issue has been partially resolved for Mexican citizens by the issuance of *matricula consular* which US financial institutions are authorised to accept as proof of identity for "know-your-client" requirements of the anti-money laundering laws. For more details, see http://www.sre.gob.mx/index.php/matricula-consular . More South American countries are considering issuance of such national ID card programmes for their citizens residing in the US.

[57] In the case of the migrant author of this paper residing in Italy, this process took more than two years.

[58] Western Union, Annual Report 2010, available online at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9ODgyMzI8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1

[59] http://www.moneygram.com/MGICorp/MediaRelations/OurCompany/CompanyFacts/index.htm

[60] http://remittancesgateway.org/index.php/press-clippings/industry-news/920-wells-fargo-reports-strong-growth-for-expresssend-remittances

[61] Conversation with National Microfinance Bank Tanzania's CEO Ben Christiaanse, circa September 2008 regarding NMB's complete coverage of the state with ATMs, and unwillingness to let other financial institutions "piggyback" off its investment; NMB's ATMs worked only with NMB cards.

[62] https://www.wellsfargo.com/per/intl_remittance/mexico
[63] http://www.bankofamerica.com/safesend/index.cfm?template=overview&context=en
[64] http://www.international-money-transfer.info/articles/citibank.htm#1
[65] Rhi-Sausi, José Luis and Marco Zupi, *Banche e Nuovi Italiani: I comportamenti finanziari degli immigrati*, Associazione Bancaria Italiana-CESPI, 2009, pg. 164.
[66] World Council of Credit Unions website: www.woccu.org/involved/remittances
[67] World Savings Banks Institute: www.wsbi.org/template/content.aspx?id=4364
[68] Orozco, Manuel, *Sending Money Home to Africa: Remittance markets, enabling environment and prospects*, International Fund for Agricultural Development (IFAD), p. 5, 2009
[69] http://www.moneygram.com/MGICorp/MediaRelations/OurCompany/CorporateBackgrounder/index.htm
[70] http://www.moneygram.com/MGICorp/MediaRelations/OurCompany/CorporateBackgrounder/index.htm
[71] Email exchanges on 16 and 17 August 2011 with two East African lawyers; general counsel to two separate MFIs, which report financial data to MixMarket.org. One lawyer estimated that agency fee earnings of the MFI through the relationship with Western Union are over USD10,000 monthly, which is a great income for MFIs, which are always under pressure to become sustainable (funds converted from the foreign currency). The lawyers are still working for the institutions at issue, thus requested that they not be named in this report.
[72] Part II of Western Union's 10-Q report of 30 September 2011 to the US Securities and Exchange Commission. Available at http://google.brand.edgar-online.com/displayfilinginfo.aspx?FilingID=8221448-226562-229958&type=sect&TabIndex=2&companyid=711432&ppu=%252fdefault.aspx%253fsym%253dWU
[73] The Antimonopoly Policy Improvement Center, Uzbekistan. *International money transfers market in Uzbekistan. Development, competition and trends,* 2006, published online at http://web.idrc.ca/uploads/user-S/11949815321Uzbekistan.pdf
[74] Stanley, Bob, *Case Study: Uzbekistan – Competition research improves services*, IDRC, published online at http://www.idrc.ca/EN/Resources/Publications/Pages/ArticleDetails.aspx?PublicationID=549
[75] Reserve Bank India Circular 2010-11/206. Available at http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=5998
[76] Remittance fees to Nigeria drop to five percent says World Bank, The Guardian, June 13, 2011, as published online at http://scoopafrica.com/newsitem/remittance-fees-nigeria-drop-five-cent-says-world-bank
[77] Orozco, Manuel, Elisabeth Burgess and Netta Ascoli, *Is there a match among migrants, remittances and technology?* 30 September 2010
[78] Ibid, p 20.
[79] Ibid, p 18.
[80] Acorn International special report, *Past time for remittance justice,* December 2010. Available at www.slideshare.net/ACORNInternational/past-time-for-remittance-justice-final
[81] MoneyGram website: www.moneygram.com/MGICorp/MediaRelations/OurCompany/CorporateBackgrounder/index.htm
[82] Safaricom website: www.safaricom.co.ke/index.php?id=263
[83] Western Union website: westernunionmobile.com/globegcash.aspx
[84] Western Union website: http://corporate.westernunion.com/news_media_MobileMoney.html
[85] *Making good on money transfers*, Rob Dorscheidt Hoofd Kennisgroep Diensten en MVO, afd Onderzoek, 25 October 2005
[86] Western Union spends about 4% of its revenue on marketing per its Q2 report 2011, available at www.westernunion.com
[87] Conversation with Charito Basso, founder of the Filipino Women's Council, a Rome based NGO that works with the Filipino community of immigrants in Italy that has experienced significant problems with its second generation. 16 April 2011.
[88] This could be done in a manner similar to 'one-stop shops' that work with foreign investors and/or US secretaries of state corporations divisions, which publish all the required forms and fees online, and have customer service contact information posted for questions related to how to form a corporation.