



The remittances game of chance: *playing with loaded dice?*

Executive summary

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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.

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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 billion⁴ and USD310 million⁵ 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 2009⁸ 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.

Conclusions and recommendations

Like consumers everywhere, migrants have the 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 the 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.¹²
- 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.

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 remittance 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 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.