International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean—toward an industry scorecard

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Introduction[1]

The importance of worker remittance flows has increased substantially over the past ten years, and with that increase the intermediation of remittance transfers has also experienced important changes. In 2005, total remittances to Latin America and the Caribbean amounted to more than US$52 billion in money transfers, a volume that represents at least a ten percent revenue for the remittance industry as well as an important source of foreign savings with leveraging potential for receiving countries.

Four of the most relevant changes in the remittance industry over the past five years include a decline in transaction costs among remittance intermediaries; an increase in competition among formally licensed businesses, including the consolidation of firms which in turn reduces levels of informality; a growing interest on the part of banking institutions in the United States and Latin America in providing financial services, including remittances, to immigrants; and tightened government regulations.

Remittance transfers are found at the intersection between business and development because they not only are important sources of revenue growth but also have significant development potential when directly linked to financing. This report analyzes current trends in money transfers, paying attention to the gradual decline in costs and some of the factors influencing the decline. The report also highlights the fact that both banking and non-banking financial institutions, such as microfinance institutions, are increasingly becoming major payers of money in Latin America and the Caribbean. In doing so, these institutions position themselves at a critical juncture for leveraging these funds to increase household and community savings and investment ratios. Moreover, using a framework that links factors of interest to both businesses and development practitioners, the study measures the impact of companies in this industry on indicators such as transaction costs, partnership with financial institutions, consumer satisfaction and agent locations. This report simply presents a summary of the data analyzed for illustration purposes; however, the framework and the data collected offer a rich source of comparison on industry performance.

The study concludes by highlighting some of the prevailing challenges to the industry, including the lack of remittance literacy outlets available to consumers, the limited involvement of banks in promoting financial access to remittance recipients and the adverse effect of the current regulatory environment. However, the report does conclude on an optimistic note in recognizing that the opportunities to promote partnerships between money transfer companies and financial institutions are now greater than ever, allowing financial institutions to introduce and sell more financial instruments to both senders and recipients.

1. Costs in money transfers to Latin America: 2000 – 2005

In this section we review the decline in prices across corridors throughout Latin America and the Caribbean, as well as other features relating to an increasingly competitive environment.

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Declining costs

One longstanding issue surrounding the transfer of money to Latin America and the Caribbean has been the cost incurred by migrant workers in making remittance transactions. In 2000, the cost of sending money was above ten percent of the amount being sent. This cost included the fee, which alone was 10%, plus variable exchange markups that were over 5% (Orozco 2000). By December 2005 the transaction cost paid by migrants to send US$200 to various countries in Latin America had dropped to 5.6%. Moreover, when taking into account that the average individual transaction amount is now US$300, the average cost incurred by senders is lower than 5%.

Table 1: Cost to send US$200 to selected Latin American and Caribbean countries

	2001	2002	2003	2004.01	2004.11	2005.12	01-05
Ecuador		5.7	5.1	5.4	4.4	3.9	1.8
Peru			6.2	5.5	6.1	4.6	1.6
Colombia	10.1	8.7	6.0	6.5	5.9	5.0	5.1
Nicaragua	7.5	7.5	7.0	6.9	6.7	5.2	2.3
Venezuela			7.4	8.6	6.5	5.2	2.2
El Salvador	6.7	6.2	5.8	5.7	5.0	5.2	1.5
Guatemala	7.4	7.3	7.8	7.1	6.3	5.6	1.8
Bolivia			10.1	8.2	6.7	5.6	4.5
LAC with out Cuba	***8.6***	***7.8***	***7.7***	***7.4***	***6.4***	***5.6***	3
Honduras		6.9	6.9	7.2	6.2	5.8	1.1
Mexico	8.8	9.3	7.5	7.5	6.2	6.0	2.8
LAC	9	8.6	8.2	8.3	7.1	6.3	2.7
Dominican Rep.	9.4	8.4	7.2	8.8	7.1	6.4	3
Haiti	9.0	8.1	10.4	8.9	7.9	6.7	2.3
Jamaica	9.8	10.0	12.7	10.2	8.8	8.2	1.6
Cuba	13.0	12.9	12.4	12.1	12.4	12.0	1

Source: Orozco, Manuel. Data compiled by the author. See appendix for methodology

Although this decline occurred across all corridors, it was more pronounced in certain countries. In countries where the dollar is the main currency transferred, such as in El Salvador, Ecuador and Honduras, the decline was smaller. Costs dropped more sharply in places such as Colombia, Bolivia and Haiti. Meanwhile, the costs of transfers to Cuba continue to be among the highest in the region. The cost of sending money to Venezuela shows strong variations due to the foreign currency fluctuations that occurred during the country's political crisis between 2003 and 2004. In the Dominican Republic, the decline in pricing was due primarily to a gradual shift among consumers in 2003 towards sending money in dollars instead of local currency in order to cope with the financial crisis faced by the country during that period. Some institutions argue that costs continue to be expensive (World Bank 2006, 136), but their widespread decline signals the strength of a competitive environment which is not only observed in Latin America but worldwide.[2]

[2] A comparative review of transaction costs to more than ten non-Latin American countries, such as Ghana and the Philippines shows that costs to those countries are also dropping.

Although the number of firms acting as money remitters in Latin America has increased, the factors explaining the decline in costs relate more to the nature of the competition in this market. As the table below shows, the number of competitors to Latin America in general has increased over the past five years. However, because of recent consolidation efforts in the industry, this number has remained relatively stable. Several companies were purchased between 2003 and 2006, including Vigo Corporation (which was acquired twice, most recently by First Data Corporation), Uno Money Transfers, Remesas Dominicanas, Dolex (acquired by Global Payments), and, more recently, Uniteller Corporation (acquired by Bannorte).

Table 2: Number of companies operating in selected Latin American and Caribbean countries

	2001	2002	2003	2004.01	2004.11	2005.12
Bolivia			18	18	16	14
Colombia	4	16	37	37	40	29
Cuba	2	12	10	9	7	5
Dominican Republic	30	36	34	31	32	25
Ecuador		13	34	18	16	19
El Salvador	21	26	24	29	20	15
Guatemala	22	30	32	30	23	14
Haiti	5	10	18	14	10	7
Honduras		16	20	20	20	12
Jamaica	7	7	8	13	11	6
Mexico	25	49	69	51	58	56
Nicaragua	13	14	16	11	6	6
Peru			23	24	17	13
Venezuela			18	10	11	8

Source: Orozco, Manuel. Data compiled by the author.

The acquisition and consolidation of businesses reflects the profitability of this relatively nascent industry as well as its competitive environment. This competition has translated into a decline in costs to the consumer. The decline can also be attributed to certain factors such as aggregate remittance volume, the amount sent, or the exchange rate. We have analyzed some of these issues using data on pricing for more than fifty companies sending money to fourteen Latin American and Caribbean countries between 2001 and 2005.

Table 3 shows a regression analysis of the cost of sending remittances incurred by individuals between 2001 and 2005. The dependent variable is the natural log of the total cost which permits the independent variables to be interpreted in percentage terms. The regression itself is reasonably robust. The regression examines whether the volume, transaction amount, spread in exchange rates, or number of competitors have an effect on pricing. The results show that companies respond to economies of scale: as the amount sent by an immigrant increases, the costs become lower. Moreover, when the aggregate volume of remittances received by a country is larger, costs are also lower. When analyzing the role of the exchange rate differential between company and interbank exchange rates we would expect a positive relationship; a decline in the spread would imply a decline in costs. The results show a positive and significant sign, signaling that drops in costs are related to declines in exchange rates. Finally, the number of businesses competing is related to transaction cost: more businesses in the market reduce costs.

Table 3: Coefficients Results on transaction costs

	B	Std. Error	Significance
Annual volume of remittances	-0.09	.011	***
Amount sent	-0.43	.042	***
Foreign exchange spread	0.21	.007	***
Number of businesses	-0.09	.022	***
(Constant)	1.62	.238	***
Model F			295
N			

R2=0.40; N=1800; *** p<0.001, ** p<0.005; * p<0.01

Consumer satisfaction and locations in the United States

In addition to declining transaction costs, consumer satisfaction levels reflect positive attitudes toward the industry on the part of remittance senders. A survey of 2800 remitters from Latin America and the Caribbean showed that over eighty percent of consumers feel satisfied or very satisfied with the company they do business with. Note that satisfaction was higher in countries where remittances are paid out in dollars.

Table 4: Remittance sender's satisfaction with MTO by country of origin

	Satisfaction level		Total
Country of origin	Very satisfied	Not satisfied	
Ecuador	98.0%	2.0%	100.0%
Dominican Republic	95.3%	4.7%	100.0%
El Salvador	94.2%	5.8%	100.0%
Guatemala	91.4%	8.6%	100.0%
Colombia	91.3%	8.7%	100.0%
Nicaragua	85.5%	14.5%	100.0%
Average	84.5%	15.5%	100.0%
Honduras	82.7%	17.3%	100.0%
Mexico	78.2%	21.8%	100.0%
Haiti	74.4%	25.6%	100.0%
Cuba	68.9%	31.1%	100.0%

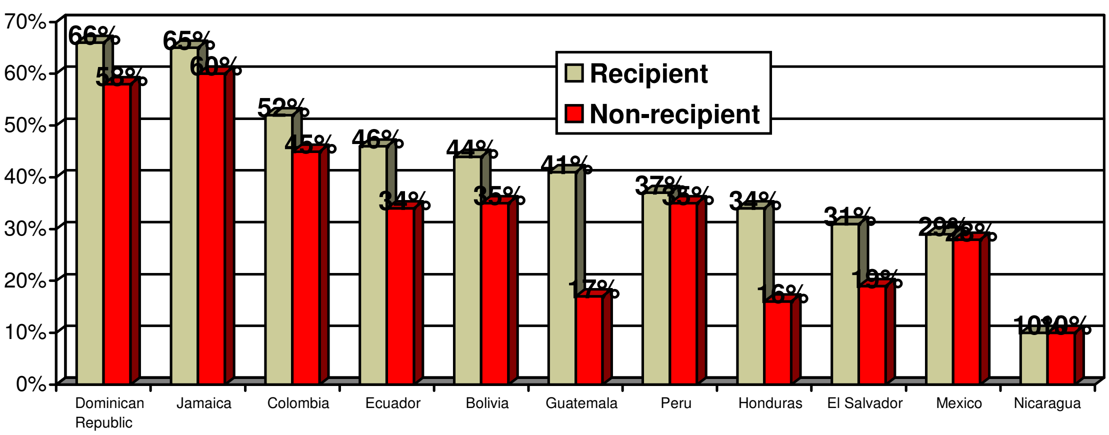
Source: Survey conducted by the author, administered by Protectora Holdings Inc. during the period of April 2004- May 2005; and January 2006 for Haiti.

Satisfaction with a remittance service may be associated with a range of different factors including pricing, convenience, and the customer's familiarity with the vendor. In fact, the presence of a variety of competitors within different U.S. cities has been an important sign of the industry's response to the demand for money transfers. In corridors with higher population density there are a larger number of money remitters, each with a large number of locations.

2. Remittance transfers and financial access: some trends in Latin America and the Caribbean

One important consideration in the debate on the remittance transfer industry is the effect that remittances have on development by virtue of their link to finance. Remittance transfers have a strong relationship to finance and are therefore a key factor associated with development policy. The policy relevance of these flows lies both in their implicit impact and their potential role in development intervention initiatives. In the first case, the International Monetary Fund (IMF) shows strong evidence that remittances boost growth in countries with less developed financial systems by providing an alternative means of financing investment. In this sense, remittances act as a substitute for weak domestic financial systems (2005). Another important aspect of this development dimension is that remittance recipients are more likely to have bank accounts than those who do not receive remittances. Survey data from eleven Latin American and Caribbean countries shows that recipients of remittances are at least ten percentage points above non-recipients in having a bank account.

Figure 1: Recipients and non-recipients with bank accounts by country



In fact, evidence from Latin America, South East Asia and Africa suggests that both senders and recipients tend to increase their savings and investment when remittances flow over a stable period of time, thus providing a space to set up small businesses or invest in real estate. Specifically, remittance flows increase by 25% when the sender has a savings account in his or her home country. When senders have a savings account, they are three times more likely to send money to support a family business. In addition, each year of remitting is associated with a 20% increase in sending money to pay off loans. From the perspective of the beneficiary, recipients with bank accounts receive 27% more. The longer a person has been receiving remittances, the higher the likelihood that they will run a business; what's more, having a bank account while receiving remittances also increases the chances of the beneficiary having a business (Orozco 2005; Orozco 2006).

From the supply side, when remittances are intermediated by financial institutions with the purpose of providing services such as savings accounts, credit or insurance, the transformation rate from remittance client into a bank client registers a minimum of 30%, thus increasing the savings and investment opportunities of the recipients and their communities. This has been found among the remittance clients of banks, credit unions and microfinance outfits (Orozco and Hamilton 2006).

One important connection between remittance transfers and client access to financial institutions is the role of financial institutions as remittance payers. By virtue of being paying outfits, financial institutions are strategically positioned to sell financial products to recipients from savings accounts, credit and loans to insurance products and other payment services. The opportunities for financial institutions to provide these services have direct effects on the institutions' revenue as well as on individual households and local economy as a whole. Because money transfer operations (MTOs) often prefer to partner with financial institutions rather than with retail stores, the potential benefits of banking are greater. Table 5 shows that, with some exceptions, financial institutions make up the majority of payers in countries where the total volume of remittance flows is higher. This condition increases remittance recipients' chances of having access to financial institutions. When these institutions cater to remittance clients, financial intermediation works.

Table 5: Percent distribution of locations by type of business

	Type of payer						
Country	Bank	Cooperative, credit union, popular bank	MFI	Bureau of Exchange	Retail store	Post office	Home delivery
El Salvador	67.5%	6.4%	1.8%	1.4%	16.4%	.	6.6%
Honduras	61.5%	1.1%	1.7%	8.9%	26.8%	.	.
Ecuador	59.4%	4.3%	.	.	36.3%	.	.
Mexico	55.3%	2.1%	.0%	2.3%	40.2%	.	.
Haiti	50.9%	.6%	9.8%	.	38.6%	.	.
Peru	50.8%	3.5%	3.2%	6.6%	35.1%	.8%	.
Bolivia	47.5%	12.4%	18.6%	.1%	20.3%	1.1%	.
Colombia	39.5%	.	.	46.8%	13.7%	.	.
Dominican Republic	39.1%	2.4%	.1%	10.3%	48.2%	.	.
Jamaica	26.6%	13.2%	1.0%	.7%	46.1%	12.4%	.
Guatemala	23.5%	3.3%	.4%	.	72.8%	.	.
Nicaragua	17.7%	18.6%	9.7%	.	53.9%	.	.
Guyana	7.7%	.	.	.	56.9%	35.4%	.

In El Salvador, Banco Salvadoreño is an important example of the way in which alliances between money transfer companies and banks are connected to and financial intermediation. Salvadoran banks currently pay 70% of all remittances in El Salvador. In 2004, Banco Salvadoreño transferred US$256 million in remittances, representing over 90,000 transfers. Of that amount, US$100 million were transferred directly by Bancosal Inc, the bank's MTO operating in the United States: 63% of these transfers were directly deposited into the accounts of remittance recipient clients in El Salvador. Moreover, the bank has opened more than 26,000 savings accounts among recipients and distributed nearly 8,000 "Salvadoreño Emprendedor" debit cards and hundreds of credits and loans.

Although only 3% of payers are microfinance institutions, as Table 5 shows, their presence in low-income communities or places where banking institutions are not operating, such as rural areas, is a response to the demand for transfers and financial services by these segments of the population.

Some institutions have developed innovative financial products to specifically tailored to needs and preferences of remittance recipients. Two illustrative cases are Banco Solidario in Ecuador and Salcajá in Guatemala. Banco Solidario, a microfinance institution that also takes deposits in addition to making loans, is engaged in a strategy to cater to transnational families as its clientele. The bank is offering financial products designed for both remittance senders and recipients. As part of its Enlace Andino program, it created a special account called "My Family, My Country, My Return," which offers clients bundled savings options. These options include credit lines, housing credits, savings accounts, and insurance. Banco Solidario's other banking products include the Chauchera smart card that allows clients to make transactions through their POS network. After less than two years of operating in the remittance transfer marketplace, Banco Solidario now holds nearly 10% of market share.

Table 6: Banco Solidario remittance transfer and financial services (2002-2004).

Year	**Transfers**	**Volume**	**Accounts**		Loans issued	
2002	1,800	$6,000,000	270	$150,000	50	$70,000
2003	14,000	$23,000,000	860	$670,000	230	$525,000
2004	60,000	$50,000,000	4,000	$3,500,000	1,700	$4,000,000

Source: Banco Solidario officials' interview, January 2004 & 2005

3. A scorecard on remittance transfers

Competition between MTOs has been a major contributor to the decline in transaction costs and the emergence of many financial institutions as remittance payers. For the most part, money transfer companies have been proven to work in a competitive environment with financial institutions. In this section we examine those companies that have had the best performance within this realm of money transfers. Industry officials and observers of this market argue that is important to look to factors other than transaction costs as indicators of a company's importance to consumers, advocates and development players. For example, some argue that including information about geographic distribution as well as legal compliance is also critical to understanding performance.

Our industry scorecard was based upon a quantitative framework that served as the basis of measurement for evaluating the ways in which money transfer companies respond to a range of important factors associated with remittance transfers. The framework synthesis provided here includes nine criteria for an analysis of market performance in relation to development and consumer rights. The criteria include transfer fees and exchange rate commissions, mechanisms used to send money, competitive position in the corridor, geographic coverage across corridors, levels of engagement with the local consumer community, relationships with financial intermediaries, transparency in disclosing information about pricing, and compliance to regulatory rules.

We collected data from more than 50 money transfer companies on issues relating costs, locations in the U.S., types of payers in Latin America and the Caribbean, consumer satisfaction with companies, and the relationship between the geographic locations of payers and of the households that receive remittances. The methodology employed was based on field work data collection on pricing, interviews with money transfer companies about their locations and payers, and surveys on consumer satisfaction. Companies were scored according to whether their activity was above or below the average. Furthermore, data was not collected for all of the indicators listed in Table 7 (see below). Specifically, data was not collected for three criteria relating to disclosure practices, compliance to the regulatory environment and corporate philanthropy because the appropriate methodology is still being discussed with money transfer companies.

Table 7: Scoring criteria and their measurable indicators.

Criteria	**Indicator**
1. Transfer fee	Cost of sending money as reported by an MTO
2. Exchange rate used	Exchange rate reported by an MTO agent for the conversion of the dollar into local currency
3. Transfer mechanism	Type of sending method home delivery, money order, electronic transfer: debit card, bank to bank, internet, courier agency transfer, other
4. Marketplace competition (supply side)	Number of companies in any market
5. MTOs location geographic coverage in the U.S.	Number of MTO agents in each state they operate and ratio of these to the average MTO agents in each state
6. Consumer convenience and satisfaction	Extra features that meet consumer need and preference over the product. (complimentary phone cards to complete the transaction, hours of operation, choice of delivery methods or pay-out currency, etc.); Extent of satisfaction with MTO.
7. Type of payer in Latin America and the Caribbean	Payers that such as banks, credit union, microfinance institution, retail store, post office, or home delivery; concentration ratio of MTO payers in the recipient country's capital vis a vis percent of remittance reception in those capitals.
8. Development support	Support to the local community adds value to the product and loyalty to the company
9. Transparency	A company that advertises its exchange rates cultivates or promotes more trust from the customer.
10. Compliance to regulations	A company that meets all the requirements to operate as a remitter.

Competitors in the Market
The table below offers a list of sixteen companies whose work in at least three of five indicators under study performed above the average values in each category. The summary results are presented in the appendix. The companies in the list below include a range of businesses from large companies with hemispheric wide presence such as MoneyGram and Vigo, to MTOs whose operations in one country are at least thirty-five percent of Latin America. It is worth noting that except for Jamaica and Haiti, most of these companies operate in countries where transaction costs are more competitive. However these are countries with a longer tradition of receiving money and with the highest remittance volumes.

Table 8: Top 16 companies performing at least three out of five indicators

Company	Financial Inst.	U.S. location	Satisfaction	Capitals	Cost	Main country
Banco Agricola	+	-	-	+	+	El Salvador
Bancomercio	+	-	+	-	+	El Salvador
Bancosal	+	-	+	-	+	El Salvador
BHD	+	-	+	+	-	D.R.
Delgado Travel	-	-	+	+	+	Ecuador
Dolex Dollar Express	+	-	+	+	+	Mexico
Ficohsa Express	+	-	+	+	-	Honduras
Fonkoze	+	-	-	+	+	Haiti
Jamaica National Overseas	+	-	-	+	+	Jamaica
La Nacional	-	-	+	+	+	D.R.
MFIC	+	-	NA	+	+	El Salvador
Moneygram	+	+	-	+	+	LAC
Reymesa	+	+	-	+	+	Mexico
Sigue	+	+	-	+	+	Mexico
Viamericas	+	+	NA	+	+	Colombia
Vigo	+	+	-	-	+	LAC
Average value	57.83%	0.35	57.45%	1.41	4.9%	

NOTE: +: better than average; -: not as good as average. *Financial Inst.*: this indicator denotes the percent of payers that are banks, credit unions, or MFIs.; *U.S. location:* denotes the ratio between the number of MTO agent locations divided by the average number of agent locations in a given U.S. state; *Satisfaction* measures consumer response to be "Very Satisfied" with the remittance company; *Capitals:* measures the ratio between the percent of MTO payers in Latin American capitals and the percent of remittances received in the capital. A ratio above the average denotes that there are fewer MTO payers spread in a country. *Cost:* this indicator measures the total cost of sending US$300 to fourteen Latin American and Caribbean countries.

4. Prospects for the industry and implications for development
Money transfers to Latin America and the Caribbean have progressed substantially in recent years. First, costs have declined largely as a result of competition in the industry. Such competition is observed in the number of MTOs entering the market, as well as in the ways in which they reduce foreign exchange markups as a way to attract consumers. The entrance of banking institutions into the U.S. outbound transfers market may also give cues as to their impact on price reduction. Wells Fargo and Harris Bank, for example, have a remittance

cost similar to the market's average. Unfortunately, data on other indicators was not available for these two companies, which may likely have scored high in payers and locations in the U.S.

As development practitioners approach the volume of remittances is as a source of foreign savings with development potential, concern with increasing their leveraging role has become more pressing. Identifying challenges to remittance transfers is therefore important in the review of lessons learned with its association to future steps. Four main challenges are identified here so far. First, limited financial intermediation exists for remittance recipients. Despite the fact that banks are among the major payers of remittances, their efforts to offer financial services to unbanked recipients are exceptions. Second, although the volume of remittances to Latin America and the Caribbean continues to grow and is substantially higher than foreign investment or foreign aid to the region, remittance literacy among senders is almost inexistent. Third, the current regulatory environment in the United States is making remittance intermediation more expensive and risky for companies. Fourth, technology solutions to transform remittance senders into bank account holders are yet to be met with a demand for such instruments.

Low bank access among remittance recipients

Despite that half of all payers in Latin America are banks, banking access rates are still quite low: only one third of recipients currently have bank accounts. The cases in which financial access has taken place at the initiative of financial institutions are rather exceptional situations. Very few financial institutions cross sell their products to remittance recipient clients; even those institutions that do, are not tailoring these services to meet the demands of this cohort. The table below shows that there is little correspondence between the existence of banks as remittances payers and the percentage of recipients having bank accounts. For example, in Guatemala, nearly half of recipients who withdraw their money at *MoneyGram* have bank accounts, while only twenty percent of recipients who withdraw at banks have accounts.

Table 9: MTO where money is picked up and having a bank account (%)*

	Ecuador	*Guatemala*	*Honduras*	*El Salvador*	*Mexico*	*Colombia*	*Bolivia*	*Peru*
Recipients with bank accounts	*34*	*17*	*16*	*19*	*28*	*45*	*35*	*35*
MTO type where they pick up money . . .								
Post office	6	6	5 (11)	5 (14)	20 (57)			
Western Union	20 (14)	33 (52)	43 (36)	26 (32)	20 (60)	(31)		
MoneyGram	10 (5)	7 (50)	17 (33)	3 (33)	3 (90)			
Main company	36 (15)	37 ()	7 (80)	18 (33)	2			
Other MTOs	4	3						
Bank	17 (28)	6 (20)	17 (38)	34 (40)	44 (60)			
Travelers	6	3 (43)	9		7			

* Number in parenthesis is the percentage of recipients with bank accounts who withdraw money at an agent of that MTO.

Banks need to further leverage remittances as a way to increase financial services. The economic benefits will impact not only the community but the institutions themselves.

Regulatory issues

One issue of particular concern that has emerged during the past three years has been the closing remittance company bank accounts as a result of pressures from the U.S. Treasury regulators. Since September 11, 2001, regulations have required that MTOs and financial institutions apply stricter requirements to remittance transactions such as tightened Know Your Customer guidelines, the Bank Secrecy Act and the Patriot Act.[3] These requirements have made the internal costs of regulatory compliance soar. According to one major business, MTOs and financial institutions often have to devote as much as 65 percent of their time and personnel to compliance issues.

In addition to regulatory compliance pressures within this post 9/11 context, U.S. Treasury Department regulators have pressed banking institutions to perceive MTOs as high-risk businesses and have encouraged them to close MTO bank accounts.[4] In this respect, one industry analyst stresses that, "bankers are concluding that the best approach is to withdraw services, in some cases leaving these bank customers (and their customers) with no legitimate financial system alternatives. The harm to individuals and businesses trying to legitimately conduct their financial affairs has not yet been factored into the regulatory excesses."[5] As a result, many businesses have been unable to fully operate because major banks have closed MTO accounts nationally. Early in 2006, for example, Bank of America decided to cancel all its accounts with money transfer companies, including those with MoneyGram and Western Union. In fact, between 2002 and 2004, ten businesses reported the closing of over sixty of their bank accounts.[6] According to the National Money Transmitters Association, some MTOs have been forced to sell their operations, or have considered doing so, because they are left with virtually no available accounts.

Remittance literacy and Card based transfers

There are almost no outreach or media outlets available to help senders learn about the market of money transfers. Consumers don't have anywhere to go to find out what the best companies in their localities are, or what services they offer. Although an important emphasis has been placed on increasing financial intermediation of senders through the use of debit cards or smart cards, the relationship between supply and demand is still poor. Remittance senders do not use cards to send money or to load their paychecks and, in the majority of cases, those who do make use of a stored value card already have bank accounts.

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[3] After 9/11 Congress toughened requirements on banks to investigate their own customers, the Know Your Customer guideline became Know Your Customer's Customer: more tightened than before. The Banks Secrecy Act requires banks to keep basic data on account holders, report cash transactions larger than $10,000 and file "Suspicious Activity Reports". The USA Patriot Act, enacted in late 2001, added new requirements for banks to scrutinize high-risk customers and conduct special due diligence with foreign financial firms, although it is unclear if it is banks or MTOs that the Act refers to. As William Fox, the director of the Treasury Department's Financial Crimes Enforcement Network stated. "It does no one any good if banks refuse to take these businesses --that just encourages them to go underground." *Wall Street Journal,* December 30, 2004, Glenn R. Simpson, "Did Ice Cream Shop Feed Al Qaeda?"

[4] In order for an MTO to operate it needs a bank account so it can both store the money it collects from migrants' transactions and wire it to their partners in the recipient country. These partners, in turn, are in charge of disbursing the funds. Without a bank account a MTO would have to physically transport the money across borders.

[5] Legal Foundation, January 2005.

[6] Members of the National Money Transmitters Association –NMTA- 2005.

Conclusion

The changing environment and its prevailing challenges are rather opportunities to seize the moment to foster greater partnerships between MTOs and financial institutions in the U.S. and Latin America and the Caribbean. These partnerships will encourage the supply side to take greater iniatiatives to get people in the financial systems, explore the use of electronic transfers through card based instruments, and establish remittance literacy outreach.

Appendix

Data on companies on five criteria of analysis

Company	FI	US Locations	Very Satisfied	Capital Ratio	Cost
Average	57.83	0.35	57.45	1.41	4.91
Afex	97.90		25.00	2.00	3.42
Almacen El Español					7.00
Americana de Servicios					4.10
Antillas Express					3.98
Banco Agricola	100.00	0.02	55.80	0.46	3.00
Banco Atlantida					4.07
Banco Cuscatlan	100.00	0.01	50.00	1.81	
Banco Metropolitano					3.95
Banco Occidente					3.56
Bancomer Transfer Services					4.50
Bancomercio	100.00	0.02	87.50	1.77	3.67
Bancosal	100.00	0.01	75.00	1.73	3.33
Bank of America					1.50
BHD	70.60	0.02	100.00	0.76	5.00
Bobby Express			27.00		9.00
Bonilla Express					4.00
Caribbean Air Mail	0.00	0.19	35.70	2.20	
Caribe Express			100.00		
Cibao					6.67
Delgado Travel	17.40	0.24	64.30	1.28	3.00
Dinero Express			81.80		8.21
Dinero Seguro (USPS)					4.45
Dolex Dollar Express	77.00	0.12	58.30	1.40	3.81
Ecuagiros	99.50			2.56	
Envios 22-24	0.00	0.01		0.10	6.00
Envios Abreu y Collado	5.90	0.21		0.70	3.66
Ficohsa Express	100.00	0.01	66.70	1.04	5.33
Fonkoze	100.00	0.00		0.33	3.33
Gigante Express	0.00	0.02	16.70	0.08	4.33
Giromex			38.50		5.00
Giros Latinos			.		2.51
Girosol			66.70		4.50
Harris Bank					5.65
Hemisferio Pronto Envios					3.33
Intermex			100.00		4.59
Jamaica Air Express	0.00	0.00		4.76	10.05
Jamaica National Overseas	100.00	0.13	50.00	0.81	4.71
Jet Peru	65.80	0.01		2.55	
King Express	0.00	0.14	53.80	0.67	4.50

La Nacional	8.50	0.34	85.00	0.41	4.83
Laparkan	0.00	0.02		0.33	5.00
Latino Community Credit Union					5.83
Maniflo					3.33
Mexico Express	0.00	0.13	41.70	1.20	5.00
MFIC	78.40	0.07		1.05	3.00
Moneygram	66.50	1.95	42.30	1.18	4.67
Multivalores					3.00
Order Express			50.00		3.88
Orlandi Valuta	46.10		25.00	1.20	4.38
Park Federal Savings Bank					4.59
Rapid Money					4.27
Remesas Agil	5.90	0.21		0.70	10.50
Remesas Pujol			100.00		
Remesas Quisqueyanas	83.00	0.24	74.40	2.31	6.73
Reymesa	84.10	0.39		1.34	4.00
Ria	95.70		51.40	1.83	4.25
Second Federal Savings					13.33
Servimex					5.76
Sigue	66.10	0.71	37.50	0.88	4.59
Trans-Fast			66.70		3.75
Uniteller					3.61
Unitransfer	100.00	0.01	34.60	4.42	9.00
Uno Money Transfers			56.30		4.22
US Money Express					4.06
Viamericas	91.00	0.35		1.37	4.11
Vigo	60.70	0.43	47.70	1.49	4.52
Wells Fargo					5.26
Western Union	46.10	4.39	30.60	1.22	5.14

Methodology

The data collection for the different indicators analyzed involved consultation with more than twenty companies in the business. Most companies cooperated and provided information about their institutions. For purposes of protecting proprietary information, the numbers were translated into ratios and percentages that served as comparison while the actual figures remained protected.

1. FEE:

A company's fee is compared with the average fee in a given country corridor offered by all the competitors. Then the companies are ranked depending on whether they are above or below that average fee. Score Fee: Company fee j / average fee j

2. FX:

With regards to the exchange rate two procedures are applied: a) A company's fx with the average fx in a given corridor are compared. Then the companies are ranked depending on whether they are above or below the average fx. b) A company's fx is compared to the interbank fx. That gives a percent spread between the company's and the interbank rate. Foreign exchange: 1 – (company's fx / interbank). This is a reference point that serves as comparison. The two procedures will be presented separately.

3. DELIVERY AND INSTRUMENT MECHANISMS:

Different methods of transferring money were analyzed by asking companies what type of method they employed, such as hand delivery, home delivered, pick up, card based/ATM withdrawal.. A list is provided of what kinds of services/products are offered and their delivery methods.

4. MARKETPLACE COMPETITION:

The number of the main companies participating in different corridors is presented. The data is based on pricing data collected over time as well as on consultation with money transfer operators.

5. BUSINESS LOCATION:

The effective market presence of companies is analyzed in locations where there is a demand for transfers in the U.S. and Latin America. The method is to identify where are MTOs operating in the U.S. states. Companies will be compared among each other by obtaining the ratio between the company's per capita branch average and the market's average for a given corridor.

On the Latin American side we look at the ratio between the number of payers located outside of the capital versus the average number of non-capital payers for that country. That ratio will also be compared to the actual percent of people receiving remittances in the capital.

6. CONSUMER CONVENIENCE

On consumer convenience the following issues are looked into:

- Inclusion of a free phone call with each remittance transfer in order to notify the beneficiary

- Extended night and weekend hours to meet the needs of migrant workers with non-traditional schedules
- Multiple options for delivery methods to accommodate consumer preference
- Multiple options for pay-out currencies to accommodate consumer preference
- Consumer satisfaction with the MTO

Each of these features adds extra value to a remittance product and influences consumer choices.

7. PARTNERS IN LATIN AMERICA AND CARIBBEAN:

Here the purpose is to identify the number of payers, their institutional position (bank, MFI, retail store, telecommunications, post office, etc.) and presence by number of branches in LAC located within both urban and rural areas. The ratio of total payers is obtained from the analysis of all payers, the ratio of payers that are located outside of the capital, and the ratio of payers that are financial institutions.

Similarly to the other variables, all companies will be compared against their own ratios and the average for a given country. Two scores will be created:

- The ratio of the number of distribution sites in a given country and the average number of sites for that country
- The ratio between financial institutions and the total number

For example, MTO one has 6500 payment locations in Mexico, and MTO 2 has 8500. The average number of payment locations in Mexico for all major companies is 5,000. Thus the ratio for MTO one and MTO tow in Mexico is 1.3 and 1.7, they are above the average.

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