

Money transfers and the global landscape: trends and patterns in the U.S. outbound corridor

Manuel Orozco

Inter-American
Dialogue

MTRA Conference

A changing industry and market

- Volumes are higher than expected or reported
- Money transfer market shows vitality and dynamism
 - Costs continue falling;
 - Number of competitors changes in different directions across corridors;
 - Consolidation has continued;
 - New competitors look for niche markets outside ‘cash to cash’
 - Closing of bank accounts has continued and represents a challenge
- Migration context highlights postponed realities
 - Economic recession has affected migrants;
 - Deportations have increased;
 - Anti-immigration sentiment reflects perhaps the only issue polarizing the country

Worldwide remittance flow estimates

World regions	Number migrants	Remittance global estimate
Asia & Pacific	55772701	\$131,767,185,157
Latin America	29431475	\$68,827,492,142
Africa	32808862	\$38,895,730,657
Near East	19542961	\$48,224,042,195
Europe	47555847	\$100,097,072,502
North America	3576799	\$23,249,838,225
World	185079328	\$411,061,360,878


$$\sum \text{Remit } ij = \text{Migrant } ij * \text{Percent } ij * \text{Annual amount } ij$$

Remittances by region and development position

	High Income	Developing countries
Asia & Pacific	\$ 17,819,944,199	\$ 113,947,240,958
Latin America	\$ 837,276,988	\$ 67,990,215,154
Africa		\$ 38,895,730,657
Near East	\$ 3,883,349,538	\$ 44,340,692,657
Europe	\$ 63,952,687,475	\$ 36,144,385,027
North America	\$ 23,249,838,225	
Total	\$ 109,743,096,425	\$ 301,318,264,453

Flows to developing countries

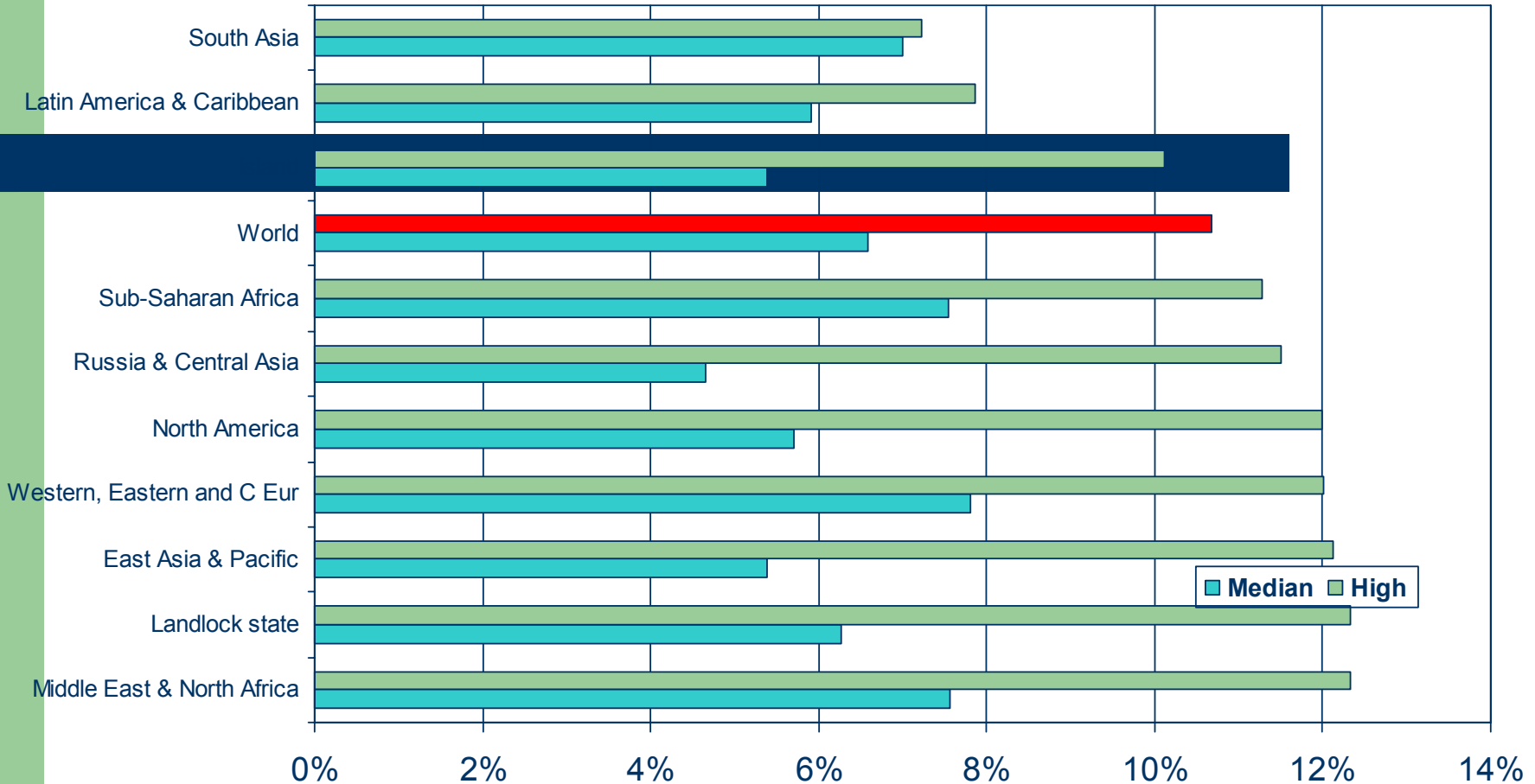
Characteristics of remittances with some social and economic indicators



Main characteristics of remittances

	per capita (US\$)	per migrant (US\$)	% of GDP	% of Exports	Ratio *
Asia & Pacific	796	3,112	3%	7%	23%
Latin America	687	2,128	3%	9%	20%
Africa	83	1,358	4%	11%	15%
Near East	363	2,491	5%	14%	20%
Europe	169	1,853	2%	5%	11%
All countries	441	2,145	3%	8%	18%

Cost of sending \$200 by region



Informality prevails in many countries and is associated to factors such as regulations, volume, financial infrastructure, development, competition among others

Current trends and Patterns in the U.S. outbound corridor

- ✓ Outbound flows
- ✓ Competition: supply and demand
- ✓ U.S. economic trends
- ✓ Immigration

Outbound remittances from the United States

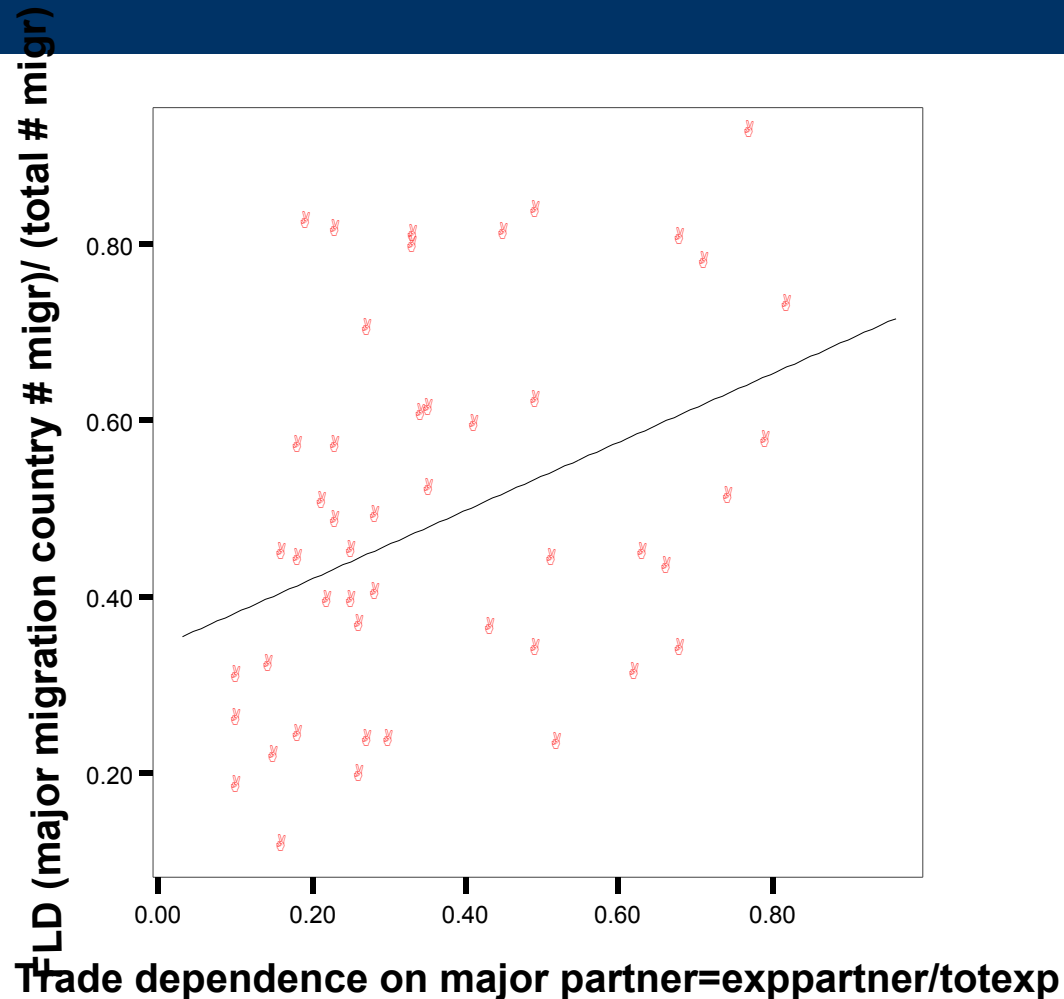
Region	Total
East Asia & Pacific	\$ 26,178,936,263.59
Europe & Central Asia	\$ 16,702,514,444.62
Latin America & Caribbean	\$ 53,131,672,060.37
Middle East & North Africa	\$ 3,611,726,578.29
North America	\$ 3,228,318,240.00
South Asia	\$ 10,109,629,219.20
Sub-Saharan Africa	\$ 3,257,968,230.42
Grand Total	\$ 116,220,765,036.50

Main countries of destination of remittances from the U.S.

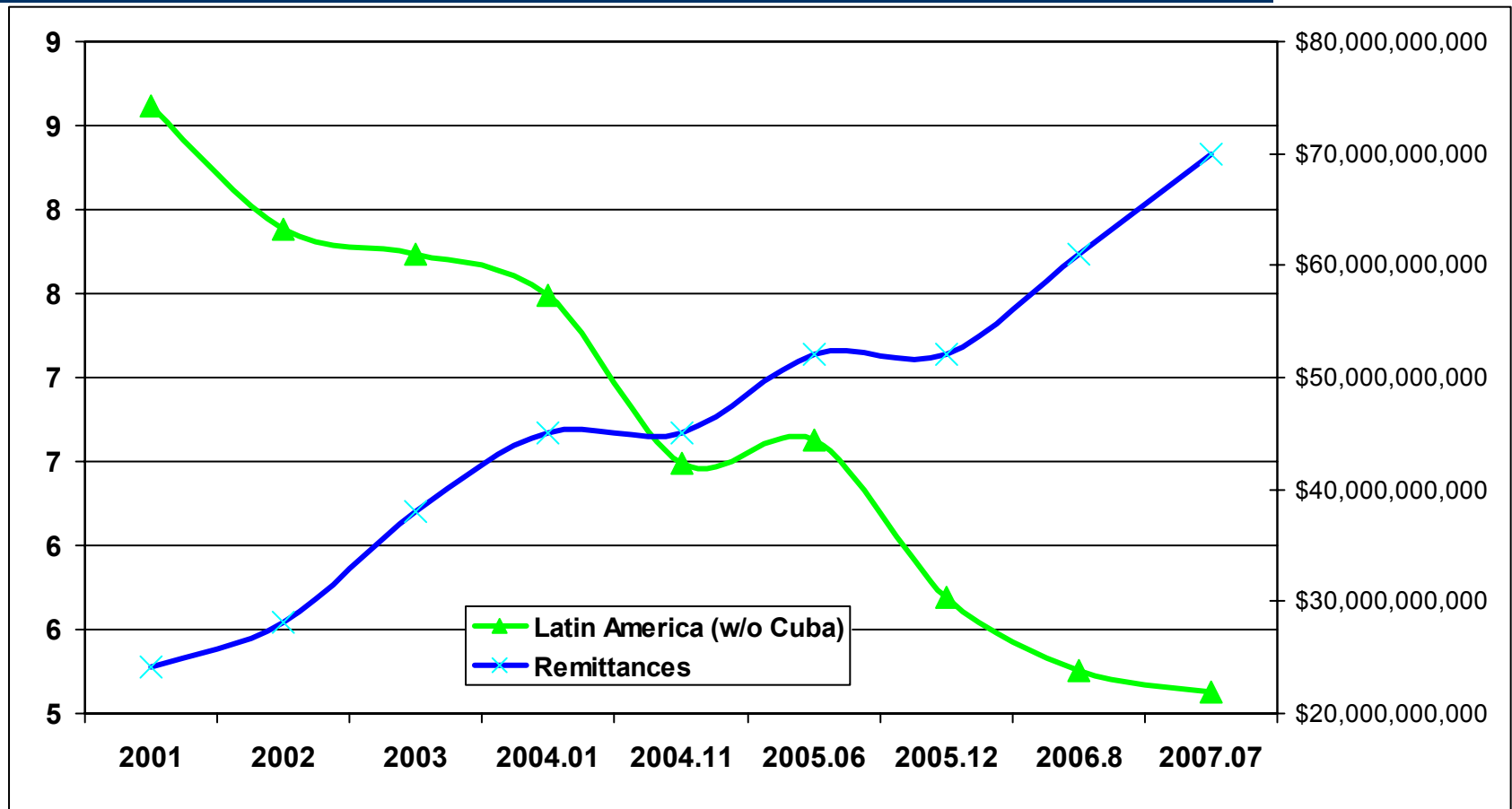
Host Countries

Mexico	24,242,813,200
India	8,400,000,000
Philippines	8,201,485,776
Puerto Rico	4,242,458,220
China	3,807,711,180
Viet Nam	3,788,610,840
Guatemala	3,210,327,839
Germany	3,129,595,560
El Salvador	2,969,952,963
Colombia	2,856,000,000
Dominican Republic	2,081,384,881
Honduras	2,075,889,556
Nigeria	1,790,358,198
Ecuador	1,312,379,841
Poland	1,203,720,840
Jamaica	957,665,520

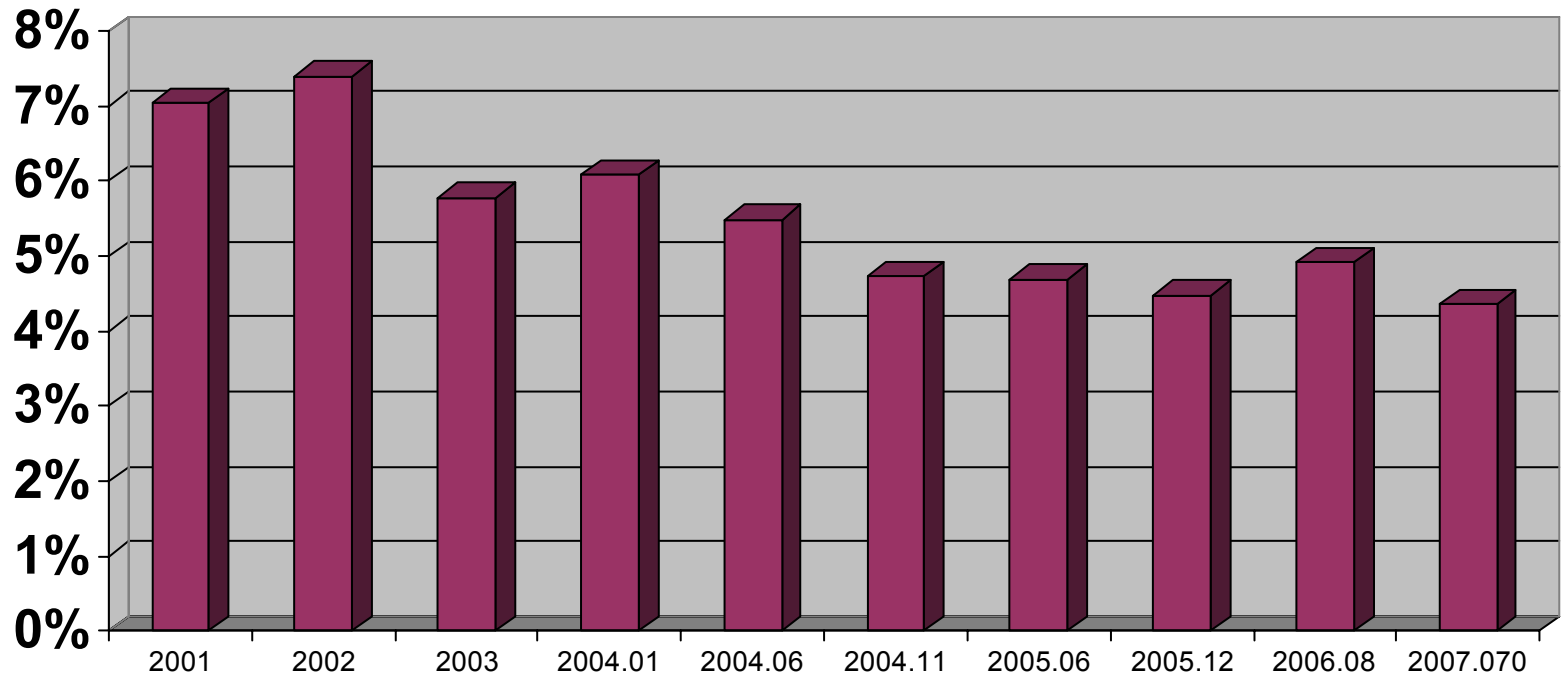
Trade and Migration -- - a strong relationship



Cost of remitting to Latin America



Cost of remitting to Mexico (\$300)



Consolidation and maturation

Criteria defining consolidation of firms in the industry & stages at which countries are found . . .	Mature	Consolidating	Undeveloped
<ul style="list-style-type: none"> • Composition of market share, • Efficiency of transactions (use of modern technology, extended networks nation wide, safe transfers), • Compliance to regulatory environment, • Tradition of transferring money, • Multiple new and old players (MTOs, banks, MFIs), • Costs to customers are lower than average, • Information and transparency, • Investment accessible 	<p>Mexico Philippines El Salvador, Dominican Rep., Ecuador, Jamaica Colombia Ghana India Armenia</p>	<p>←Nigeria ←Tajikistan ←Eastern Europe ←Vietnam</p>	<p>← Honduras Peru Guyana Haiti Cuba Nicaragua Argentina Venezuela Tajikistan Nigeria Somalia</p>

Consolidation

- A component of industrialization of money transfer companies has included consolidation and design of new products
- Consolidation: (2004-2007)
 - Dolex (Global Payments);
 - Ria (Euronet)
 - Quisqueyana (Consortio Mexicano)
 - Vigo (Western Union)
 - Uno (Omnex)
 - Uniteller (BanNorte)
 - GroupExpress (Coinstar)

New business models . . .

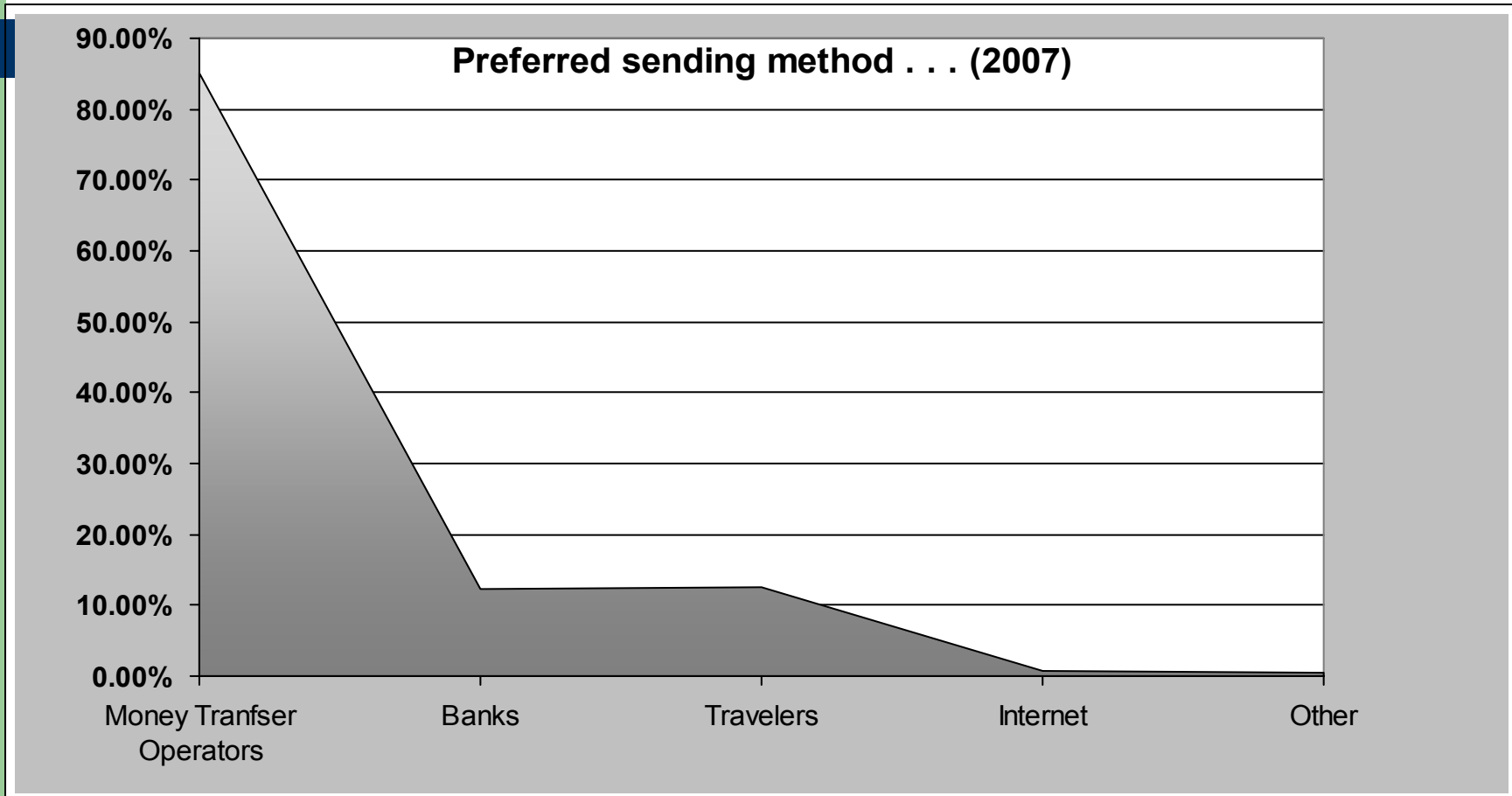
- Market recomposition involves a business model that integrates diverse products: SVCs, online payments, payment services, credits, account to account transfers, mobile transfers;
- On the demand side there are also important changes . . .

Card-based Remittance Transfers: the supply side

Business Models

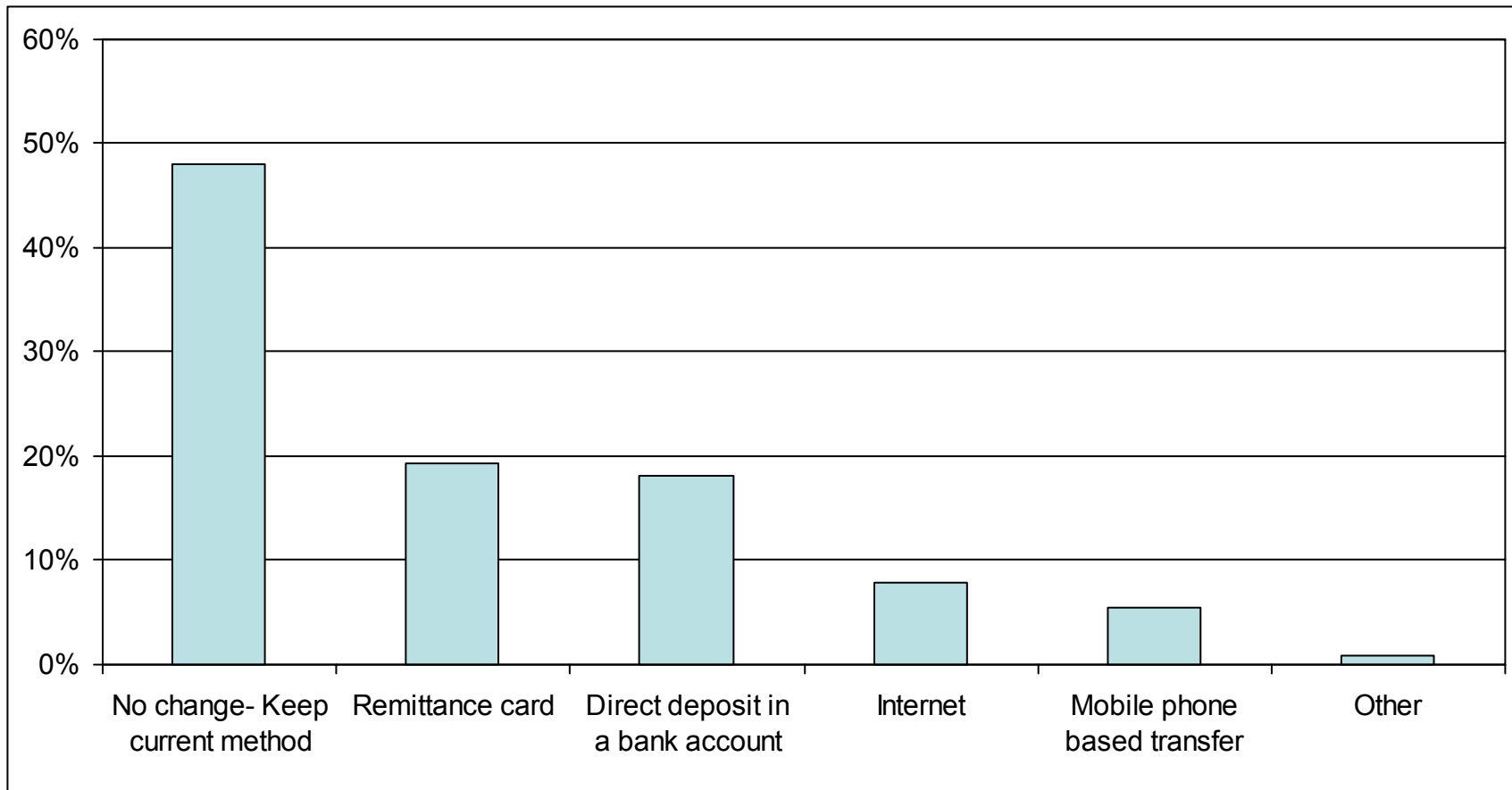
- **Card-to-cash model**
- **Dual-card model**
- **Sub-account model**
- **Recipient-only model**

Changes in the demand side . . .

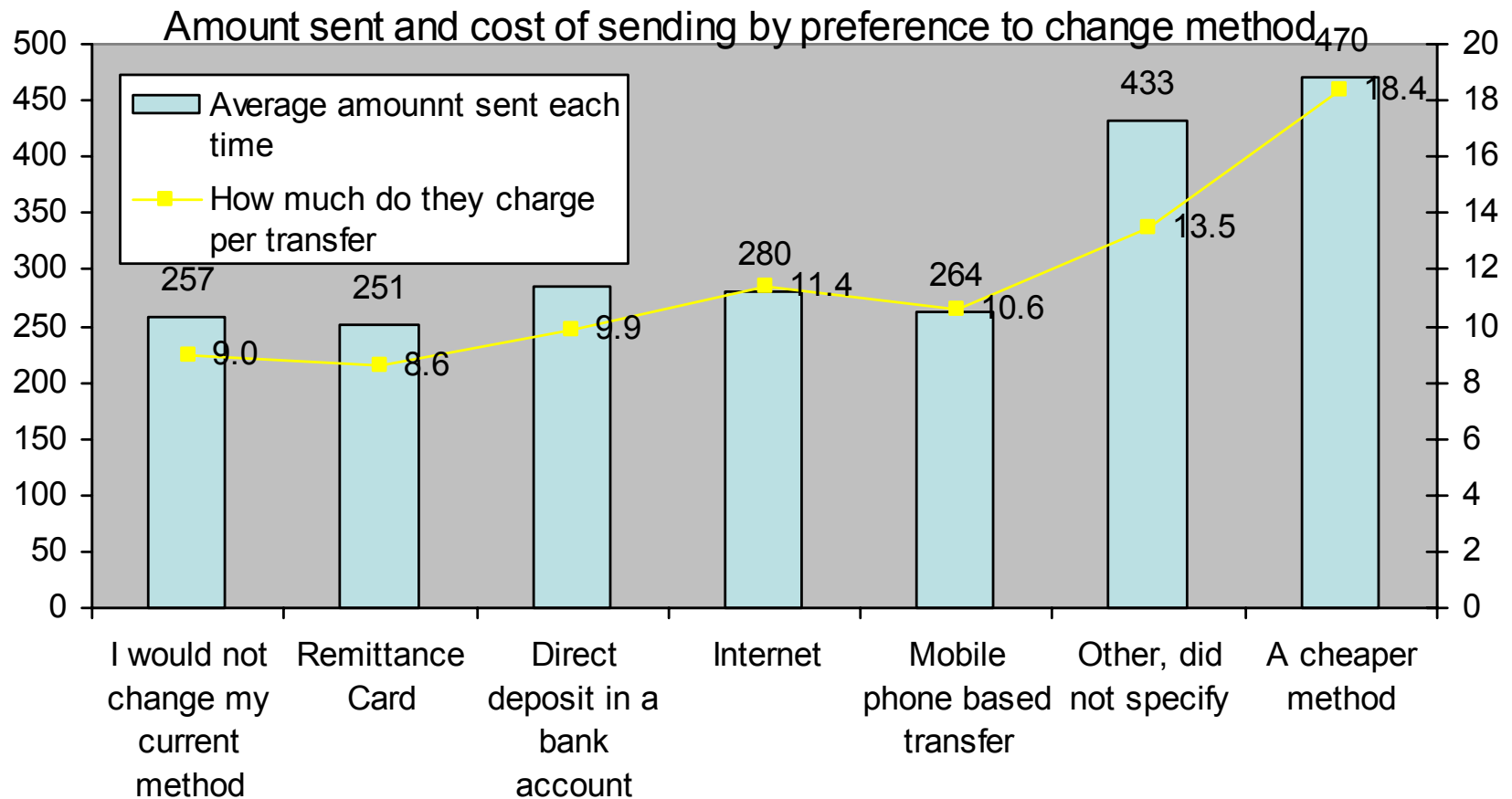


Account to account transfers to Mexico: 1.00% (2004); 2.55% (2006); 7.28% (2007)

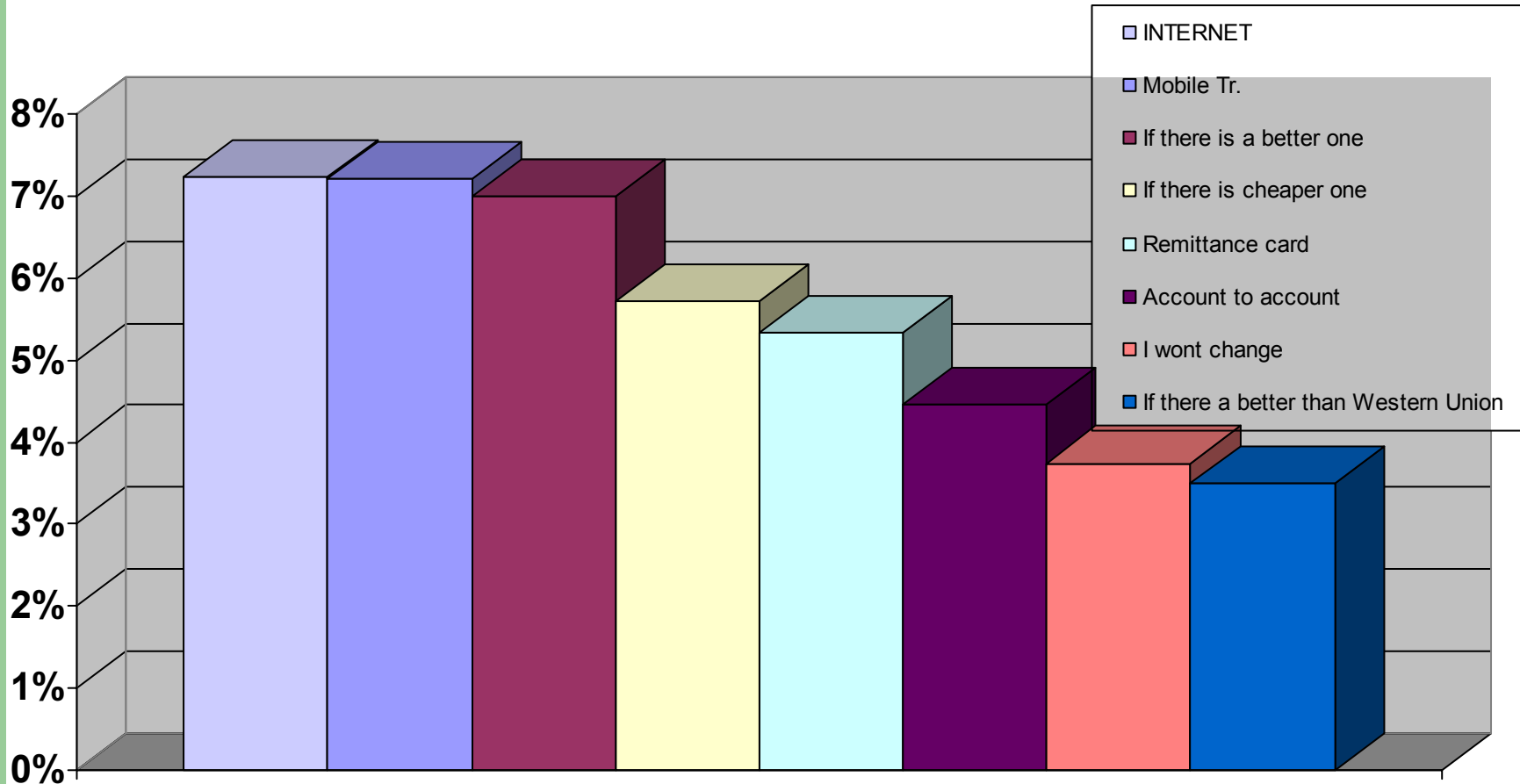
Consumer preferences to change ...



Costs influence decision to switch



Nigerian migrants preference to change to a more efficient way and current cost of sending as % of principal sent

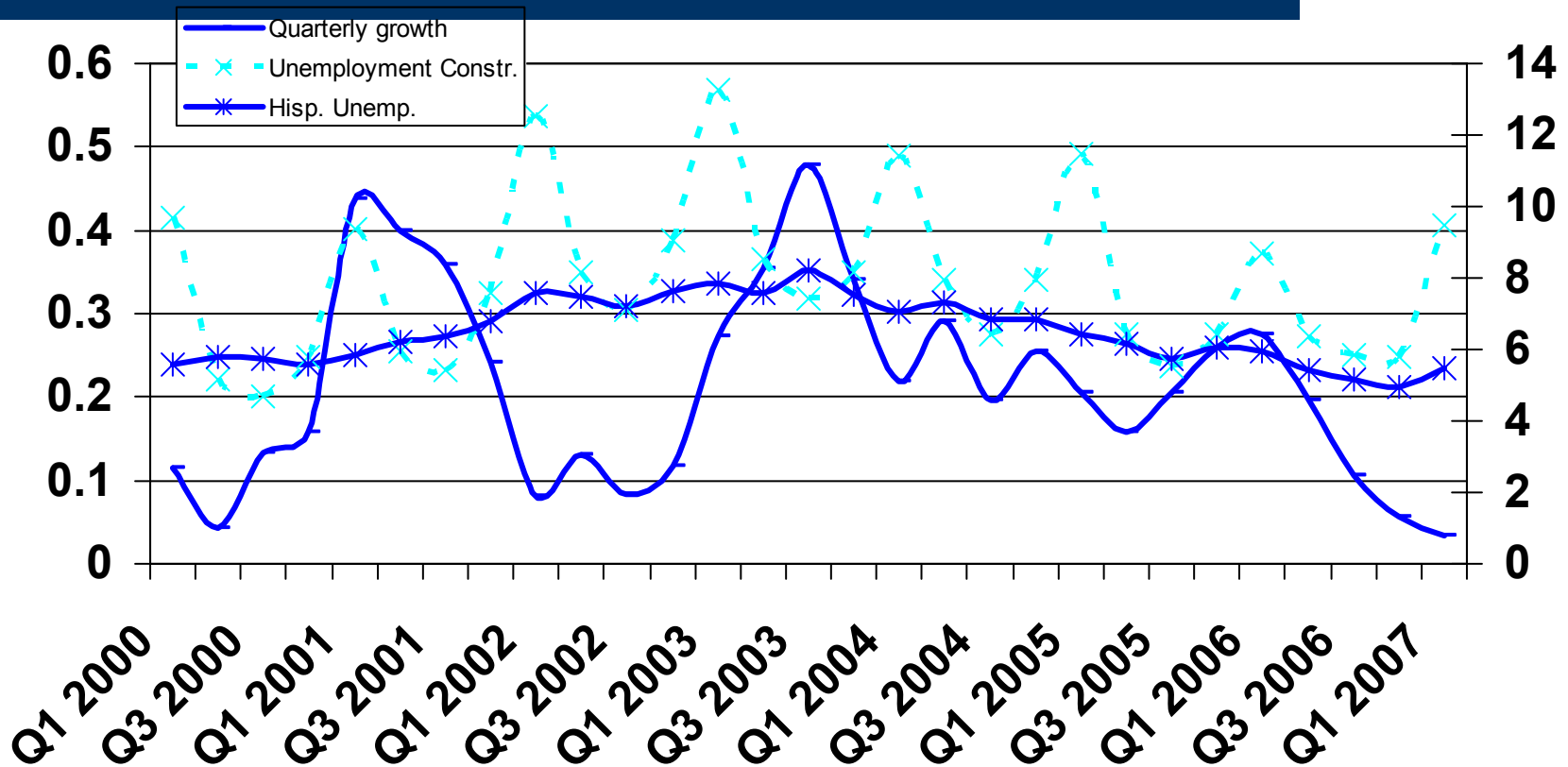


Card-based Remittance Transfers: the demand side (I)

Card Type	Mexico	Dominican Republic	Jamaica	El Salvador	Guatemala	Bolivia	Nic	Avg.
Money and Financial Services Cards								
Benefits	2.5%	17%	30.5%	8.3%	4%	0	1%	8.7%
Credit & Debit	36.6%	56.5%	69.1%	40.3%	39.4%	57.1%	29.6%	49.1%
Debit	49.6%	25.1%	17.3%	53.7%	54.6%	29.3%	57.4%	38.2%
Credit	13.8%	18.4%	13.7%	6.1%	6.1%	13.6%	13%	12.8%
Gift	13.3%	26.7%	28%	11.3%	16%	7%	5%	15.6%
Payroll	0.3%	17.3%	39.0%	6.8%	0	1.0%	0	8.5%
Prepaid Debit	2.7%	7.7%	19.5%	5.5%	1.0%	0.5%	1.0%	5.4%
Reloadable	1.5%	11.3%	15.5%	5.3%	4.0%	14.5%	6.0%	7.1%
Remittance	1.8%	5.0%	6.5%	12.8%	1.0%	8.0%	13.0%	6.3%
Non-Financial Cards								
ID	42.3%	68.7%	76%	45%	22%	59%	86%	53.6%
Affinity	0	5.7%	9.5%	4.3%	0	0	0	2.8%
Discount	46.5%	67%	70%	60.8%	50%	74.5%	59%	59%
Laundry	6.5%	6.7%	24.0%	9.0%	12.0%	4.0%	5.0%	8.8%
Phone	78%	85.3%	79%	82.8%	74%	96.5%	92%	82.7%
Public transit	33.3%	65%	79.5%	25.8%	24%	8.5%	97%	63.1%

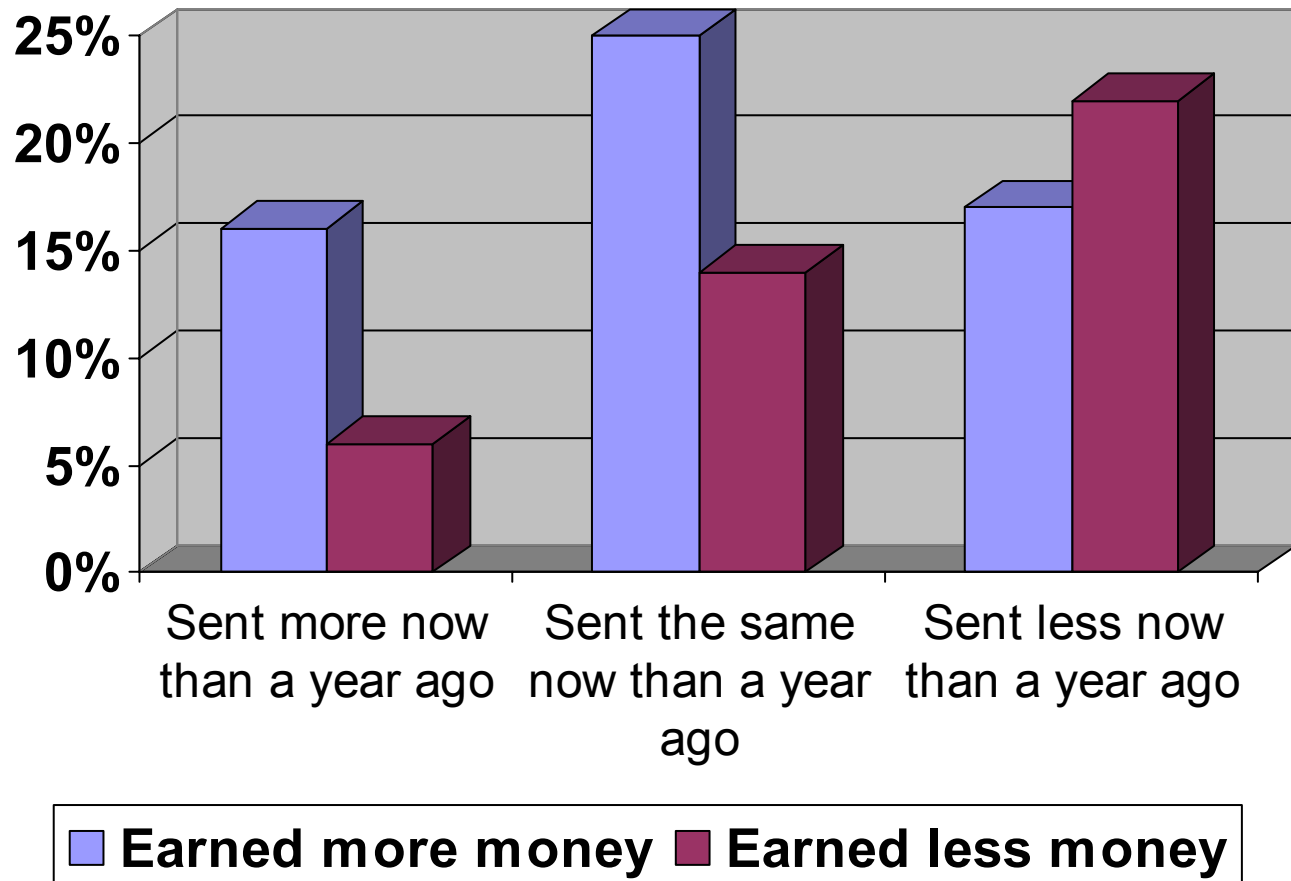
Source: Orozco, Manuel and Jacob, Katy. "Remittances, prepaid cards,

Recent economic downturn has affected transfers...

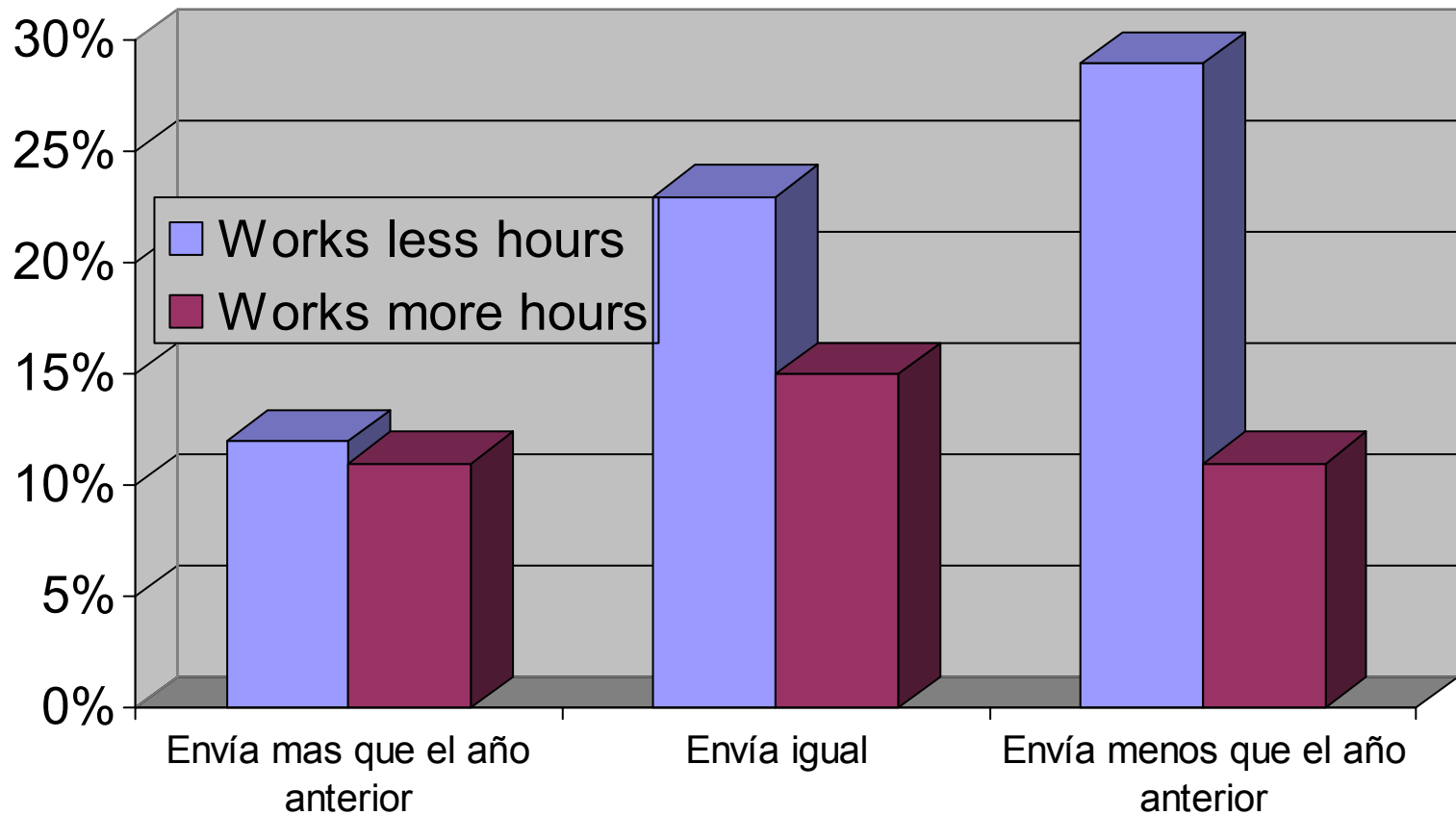


20% of Mexico's labor force works in construction. A 10-20% unemployment equals to some 20,000 jobs

The economy in the U.S.

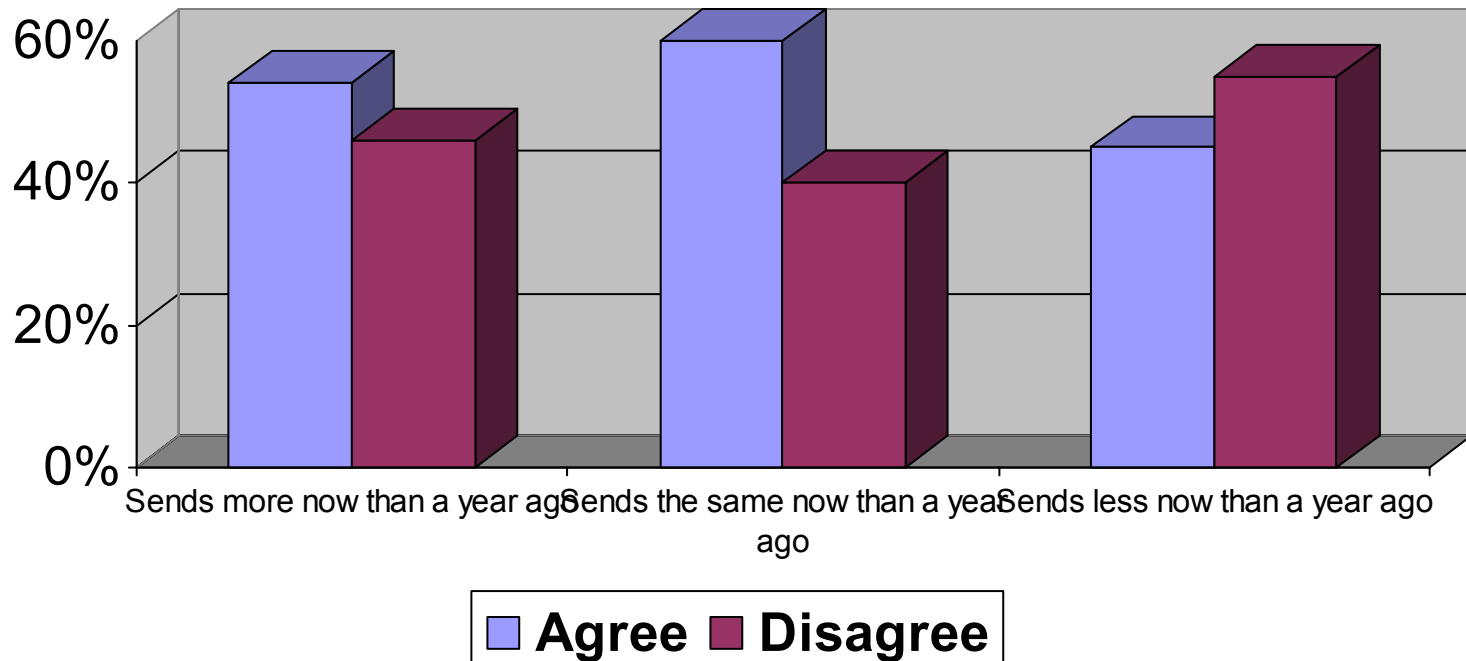


Working less hours, sending less . . .



Anti-immigration sentiment makes sending more difficult

Do you agree or disagree with the following statement: "the anti-immigrant sentiment in the United States is making it more difficult for me to send money to my family"



Deportations have grown . . .

Countries	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 [Jan-Jul]
Honduras	5,145	3,400	4,688	4,461	4,843	7,884	8,198	14,556	26,526	15,145
Dominican R	2,518	3,229	3,444	3,973	3,531	3,358	3,527	2,929	2,805	
El Salvador	5,348	4,048	4,617	3,808	3,902	5,108	6,405	7,235	10,312	10,954
Guatemala	5,152	3,429	4,222	4,343	4,919	6,848	8,308	12,529	18,386	11,458
Mexico	139,392	149,784	150,656	141,584	109,703	139,750	149,289	144,840	114,640	80,000
Nicaragua	411	406	459	500	445	656	793	1,022	2,241	1,800

Conclusion . . .

- Changing dynamics make money transfers a more complex phenomenon;
- There are challenges and opportunities in every aspect;
- The continuity of the flow is most certain in the near future