



INTER-AMERICAN DEVELOPMENT BANK
SUSTAINABLE DEVELOPMENT DEPARTMENT
OFFICE IN EUROPE



**ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT**
COMPETITION DIVISION

Latin American Competition Forum Fourth Annual Meeting

-- SESSION IV --

Remittances: Some Observations from the United States

1. The Antitrust Division of the Department of Justice has conducted three substantial investigations involving remittances over the past three years. Our investigations have led us to some interesting observations about the remittance markets. Overall, the Division believes that competition authorities have a vital role to play in ensuring that competition in remittance markets remains robust. Competition agencies can also play a significant role in the remittance market by cooperating with foreign agencies and advocating to other governmental agencies to remove regulatory and structural barriers that continue to limit competition for remittances.

2. As Dr. Suki described, the United States' outbound remittance industry has grown in recent years¹. The market's growth has attracted entry from a variety of firms, ranging from small family-owned businesses that specialize in serving immigrants in particular neighbourhoods, to global financial institutions that distribute funds through retail branches of affiliate banks in foreign countries. This entry has spurred the decline in the price for remittances². In some instances, the U.S. to Mexico corridor being the best example, these price declines have been dramatic³. Although important, the declining prices do not suggest that the remittance market is perfectly competitive in all respects. There are several market factors that have hindered the overall competitiveness of the market and other new developments threaten the price declines that have been observed in the market.

3. In the United States, since the 1980s, companies such as Western Union and MoneyGram have had exclusive contracts with the agents representing them, *i.e.*, the contracts prohibit retail agents from

¹ Lenora Suki, Competition and Remittances in Latin America, paragraph 7.

² Lenora Suki, Competition and Remittances in Latin America, paragraph 45.

³ Orozco 2006.

offering competing money transfer services during the term of the contract. While exclusive arrangements may be common to these large companies, they need not be, as of this time, a requirement for a new entrant nor an impediment to new entry on the send side in the US. Many small businesses in immigrant neighbourhoods may be used as money transfer agents at a low setup cost and, moreover, they often are willing to represent multiple money transfer companies – often companies serving different foreign country corridors. As small money transfer companies grow and expand their services to different country corridors, consumers can choose among competing money transfer companies. When agents represent competing money transfer companies, consumers are more readily able to compare prices, including foreign exchange fees. Moreover, agents, seeking the best prices in order to compete against other agents, are also motivated to ensure that customers receive the most favourable pricing and service. Our investigations suggest that consumers seeking to transfer money from the United States to most Latin American/Caribbean corridors have a wide array of choices among agents and money transfer companies.

4. On the receiving side, however, exclusive contracts between money transmitters and banks and postal institutions in the receiving countries have been more persistent⁴. Furthermore, because the receiving party may have fewer options among receiving outlets, exclusivity arrangements on the receiving side of the transaction may prove more restrictive than those on the sending side of the transaction. To the extent that receiving institutions abandon their exclusive relationships with a single money transmitter, it is possible to see competitive benefits in the marketplace. For example, Bancomer BBVA operates a money transfer service, Bancomer Transfer Services, which acts as a middleman payer correspondent, providing a significant payout network of bank branches and affiliated banks for more than 70 U.S. money transfer companies to 18 Latin American countries. Bancomer’s willingness to serve as a receiving agent for multiple money transmitters in a number of countries reduces barriers to entry or expansion for companies seeking to expand their geographic reach.⁵

5. The Bancomer example demonstrates an area in which competition authorities can profitably take action to improve the competitive landscape. In certain countries, central banks and postal authorities have chosen to sign exclusive contracts with money transfer companies. To the extent that competition authorities can advocate for other government institutions to adopt a non-exclusive business model, these institutions can provide additional receiving options for receiving customers regardless of the money transfer company the sender uses to transmit the remittance. Although these government institutions may be reluctant to forego the signing bonuses that often accompany an exclusive contract, the Bancomer example suggests that these institutions may be able to increase their remittance volumes to such a degree as to overcome the loss of the signing bonuses. In any case, they may be better serving their citizens by facilitating competition in the market.

6. In other areas, competition authorities can advocate the removal or reduction of other regulatory barriers that often increase costs to companies that provide money remittance services. Our investigation found that the World Council of Credit Unions (“WOCCU”) and its member institutions have taken a leading role in increasing remittance options in the United States and Latin America. Unfortunately, in certain countries, regulatory restrictions have limited the ability of credit unions to act as money transmitters. This is just one example. In general, any restrictions that prohibit certain financial institutions or companies from acting as money transfer agents or restrict their ability to exchange foreign currencies can limit remittance options for consumers leading to reduced choices and/or higher prices.

⁴ Lenora Suki, Competition and Remittances in Latin America, paragraph 85.

⁵ Bancomer’s success has led at least one traditional money remittance provider, MoneyGram, to reconsider its exclusivity policy with respect to its distribution agents. Bancomer serves as a distribution agent for MoneyGram in Mexico.

Competition authorities can play an active role in pointing out the adverse consequences of these kinds of regulations.⁶

7. Transparency is another area in which competition authorities can serve as advocates for improving the remittance markets. Researchers like Dr. Suki and Dr. Orozco have been hampered in their analysis of the remittance market by the lack of reliable data on remittances. Indeed, as a rule, little data is typically publicly available about the number of remittances, the dollar figures of those remittances, and, more importantly, the cost components of remittance transactions⁷. Mexico has taken some steps to make information about remittances available to consumers⁸. Central banks, both in the United States and throughout Latin America, have collected some information about remittances. To the extent that central banks can collect additional information about remittance costs, consumers can be better served. Transparency in every pricing component, including any foreign exchange fee, can only increase the ability of consumers to understand the price they are paying and therefore choose the company that best meets their needs.

8. Increasing transparency in conjunction with increased financial literacy can also lead consumers to make better informed choices about remittance services. Remittance providers typically charge a flat fee (typically from \$9.99-\$14.99) plus a percentage of the money transmitted, often in the form of a fee on the foreign exchange rate when the sender receives a foreign currency. Consumers who choose to send multiple small transfers can pay significantly higher costs than consumers who send fewer large transfers because the upfront fee, which must be paid on every transaction, is often large. Tables 1 and 2 illustrate this point.

Table 1. Transfer from Washington, D.C, to Mexico:

Principal	Base Fee	Net FX Fee	Total Fees	As % of Principal
\$100	\$18.99	\$2.10	\$21.09	21%
\$300	\$22.99	\$6.33	\$29.32	9.7%

9. Sending \$100 twice would cost a customer \$42.18 ($=\$21.09*2$), whereas sending \$200 once would only cost \$23.19. The difference is due to the large upfront fee that must be paid per transaction; the exchange rate fee on a per \$1 basis is actually the same in both cases.

⁶ Reducing regulatory barriers and prices for remittance services may also encourage more consumers to use formal money transfer services as opposed to informal transfer mechanisms. Governments, in general, should favor taking steps that encourage consumers to use formal remittance channels given their interest in combating money laundering, among other concerns.

⁷ Lenora Suki, Competition and Remittances in Latin America, paragraphs 6, 103 and footnote 2.

⁸ Lenora Suki, Competition and Remittances in Latin America, paragraphs 48 – 49 and footnote 18.

Table 2. Transfer from Washington, D.C. to Costa Rica:

Principal	Base Fee	Net FX Fee	Total Fees	As % of Principal
\$100	\$20.00	\$4.06	\$24.06	24%
\$300	\$34.00	\$12.19	\$46.19	15.4%

This result is not unique to the US/Mexico corridor.⁹

10. To the extent that consumer education efforts can make these costs clear, consumers can “bundle” their transfers to increase the amount of money that is actually transferred to the recipient.

11. Financial institutions can also play an important role by educating consumers regarding the array of remittance options available to remittance senders and receivers. Our investigations found that there is no shortage of companies -- including banks, credit card companies, and other companies -- that are actively seeking to enter or expand their presence in the remittance market by offering traditional remittance services or new means to transfer money (*e.g.* ATM cards, stored value cards). Unfortunately, consumers have not shown much interest in these new products or remittance services offered by banks¹⁰. There are many reasons why these companies and their products have not been more successful with consumers. U.S.-based financial institutions certainly have not been as responsive to consumer demand as traditional money transfer companies. However, the fact that immigrants are less likely to have bank accounts than other consumers certainly affects the extent to which these consumers see the transfer services offered by banks as viable alternatives to the remittance services offered by agent-based money transfer companies. The Chicago Federal Reserve has found that the more time spent in the United States the more likely immigrants are to acquire bank accounts¹¹. However, the remittance sender is only one side of the equation. Improving the access of remittance receivers to bank products will provide additional options to remittance customers. Increasing the options available to consumers will undoubtedly have a positive impact on consumer choice and, hopefully, the price paid for remittance services.

12. One positive development in the U.S./El Salvador corridor also points to another means of expanding competitive alternatives for remittance consumers. El Salvador’s banks, including Banco Agricola, Banco de Comercio, and Banco Cuscatlan, have opened branches in the United States that serve as money transfer agents. These bank branches are located in immigrant communities and have attracted an increasing share of the U.S./El Salvador remittances. Given the concentrated nature of immigrant communities in the United States, opening money transfer agents in the United States could be an attractive opportunity for other Latin American or Caribbean banks. Moreover, to the extent that these financial institutions can gain a presence in remittances, senders and receivers may also take advantage of the other financial services offered by these institutions.

⁹ Data from Western Union website, June 27, 2006. Net FX fee based on available interbank rates to Mexico of 11.42 pesos/dollar and to Costa Rica of 532.44 colons/dollar on 6/27/06.

¹⁰ Lenora Suki, *Competition and Remittances in Latin America*, paragraph 61.

¹¹ Federal Reserve Bank of Chicago & The Brookings Institute, *Financial Access for Immigrants: Lessons from Diverse Perspectives* (2006), at 17.

13. Overall, the Division's investigations found that there was aggressive competition in the market for money remittances, particularly in the Latin American region. We believe that maintaining competition requires that competing money transfer networks continue to have access to a reasonable quantity and geographic breadth of distribution outlets in receiving countries. In country corridors where high prices have persisted, the Division believes that policy makers and competition authorities should ensure the availability of reasonable access to the financial infrastructure and should promote consumer awareness of the range of alternative products so as to enhance competition. The Division has long emphasized the importance of cooperation and coordination between antitrust authorities in investigations involving multinational markets and we are committed, as part of our competition advocacy program, to work with our sister competition authorities to make clear the substantial benefits that vigorous competition can bring to consumers in the United States and abroad.