payments system research briefing

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International Remittances

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Money may or may not make the world go around, but it certainly makes its way around the world. The World Bank estimates that in 2007 the total value of recorded remittances—relatively low-value, cross-border, person-to-person payments—was nearly $340 billion. And, with nearly 200 million people living outside of their country of origin, more than $250 billion of that represented earnings sent home to families.[1] Estimates by Aite Group, The World Bank, Inter-America Development Bank, and others suggest that such migration trends and the resulting remittances will continue to grow.

This *Briefing* article describes some of the means by which individuals remit funds internationally—informal networks, money transfer operators, financial institutions, and other options—and discusses some of the factors that may influence the choice of provider.

Informal Networks

The need to move money across long distances is not a new phenomenon, but rather one that is centuries old. Then, as now, informal networks existed. One such network still in operation is hawala. Believed to have arisen in the financing of long-distance trade around the emerging capital trade centers in the early medieval period, the hawala system of money transfer is conducted via a network of brokers. To initiate a money transfer, an individual approaches a hawala broker in one city with a sum of money to be transferred to a recipient in another, usually foreign city. The hawala broker contacts another hawala broker in the recipient's city and provides instructions for the disbursement of funds with a promise to settle the debt at a later date.

Hawala, an "honor-based" system, does not rely on regulation, the use of a legal framework, promissory notes, or records of individual transactions. Instead, brokers maintain only a running total of the amount owed by one to another, and settlement of transactions between brokers may be in cash or take a variety of other forms. Brokers may take a commission from the transaction and also may profit from bypassing official exchange rates.

Although informal, unregulated, and illegal in some countries, networks like hawala are the means by which an estimated 40 percent[2] of money transfers are believed to be conducted by mostly migrant workers sending remittances to their countries of origin. Such networks may be an attractive means by which to transfer money because they provide a relatively fast and convenient transfer of funds, usually offer a lower commission than that charged by traditional money operators or by financial institutions, and do not require the kind of identification that traditional operators or financial institutions require. However, for the same reasons, governments tend not to favor such systems.[3]

Money Transfer Operators

An alternative to informal networks is money transfer operators, and two of the leaders are Western Union and MoneyGram. While their combined market share is less than 20 percent,[4] between the two they have nearly 500,000 agent locations in over 200 countries or territories. Both providers offer walk-in and online money transfer services (Western Union also offers a telephone option). Depending upon whether a transfer is initiated in person or remotely, Western Union customers can fund transfers with cash or U.S.-issued MasterCard- or Visa-branded debit or credit cards. Similarly, MoneyGram's customers can fund transfers with cash, MasterCard- or Visa-branded credit cards, or an account at a financial institution. With regard to delivery, both providers offer product options that enable receipt of funds within minutes or within a few days. In most instances, money transfers can be picked up at agent locations. Western Union also allows funds to be deposited directly into an account at a qualifying financial institution, and in some countries MoneyGram will deliver funds directly to the recipient's home. Fees associated with these remittances vary based on considerations that include the amount of the transaction, the country of origin, the destination country, and the type and timing of the delivery.

Though Western Union and MoneyGram are arguably the most high-profile money transfer operators, a range of other firms make up a significant portion of market share. Some, like PayPal and UPS, are familiar for other services they provide, but are providers of money transfer services as well. Others, like iKobo Money Transfer, are comparatively new operators. iKobo is an online means of money transfer that enables its customers to transfer funds to over 190 countries. Transfers can be funded using a Visa or MasterCard credit card or funds from a debit, checking, or savings account at a financial institution. Recipients of the funds will be FedExed a prepaid iKobo-branded Visa debit card that can be used at all ATMs that display the Visa logo and wherever Visa debit cards are accepted. If the transfer is funded via a bank account, the transaction fee is a flat $5 regardless of the amount of funds being sent. If the transaction is funded with a credit card, the transaction fee is the same, but there is also a loading fee of 3 percent of the transfer. There is also a charge for shipping the card that ranges from $1.99 to $24.95 depending on the destination and the shipping method. Further, the recipient of the funds will incur fees associated with monthly maintenance, ATM withdrawals, and the like.

Money transfer operators fall under the umbrella of a money services business in that they are money transmitters. As a result, U.S. Federal law requires them to register with the Treasury Department and, depending on the states in which they operate, they may be required to be licensed at a state level as well. And, in compliance with regulations like "Know Your Customer"[5] and laws such as those related to preventing money laundering activities, money transfer operators are required to verify customer identity, document transactions, maintain records and participate in appropriate reporting activities. Consequently, regardless of the operator, senders of funds must provide identification and other personal information to initiate the transfer, and recipients must show identification and/or provide a transaction or PIN number to collect the funds.

While money transfer operators do not offer the anonymity that informal systems provide, they offer several advantages. Among those are the convenience of a multitude of sending and receiving locations in hundreds of countries; expanded options for funding transfers; options for initiating remittances in person, online, or via the telephone; and options with regard to the manner in which the funds are delivered. Further, given that money transfer operators are regulated, risks of running afoul of the law or funds not reaching their intended destination are minimized.

Financial Institutions

A third means by which individuals can send remittances internationally is via financial institutions. In addition to large-value remittance services—for example, wholesale wire transfers—financial institutions have been increasing their offerings of small-value remittance services as well. Institutions like Bank of America, Branch Banking and Trust, Wells Fargo, and others, including credit unions, have introduced small-dollar international remittance services in recent years.[6]

In 2002 Bank of America introduced SafeSend, a free remittance service to Mexico. SafeSend is an additional feature that Bank of America customers can add to any Bank of America personal checking account. To send funds, SafeSend customers simply make a phone call and provide instructions. Calls made weekdays by the daily deadline result in same-day payment of cash. Generally, within two hours of the time the transfer is initiated, the funds are available at one of the 4,500 participating paying agents in Mexico. To pick up the funds, the recipient goes to one of those locations and provides appropriate identification and an authorization code communicated to them by the sender. And, just as there are no fees for the sender, there are no fees associated with the recipient's withdrawal of the funds.

Introduced in 2004, Branch Banking and Trust's EasySend service is an account-based product with an attached stored-value card that can be used at any ATM worldwide with the PLUS logo. To use the service, an individual must open an EasySend account with Branch Banking and Trust. Within two weeks, the account holder receives the recipient's card in the mail. The account holder then must send the EasySend card and the corresponding instructions to the intended recipient of the funds. Upon confirmation of receipt by the recipient, the Branch Banking and Trust account holder must call to activate the card. Funds can be added to the card by depositing or transferring money into the EasySend account. This can be done at any Branch Banking and Trust branch, by phone, or at Branch Banking and Trust's website. If the customer has a Branch Banking and Trust checking or savings account, or a Branch Banking and Trust payroll card, there are no fees to open or fund the account. However, if the EasySend account holder has none of those, there are fees for opening and funding the account. In addition, other fees for account maintenance, inactivity, and balance inquiries may apply.

Wells Fargo has been a provider of remittance services since 1994, when it first began offering ATM remittance services for customers sending money to the Philippines. Then in 1995, it launched InterCuenta Express, a consumer remittance product to Mexico. Today, Wells Fargo's ExpressSend Service offers remittance products to those destinations as well as to El Salvador, Guatemala, China, India, and Vietnam. To use the ExpressSend service, a Wells Fargo customer can choose either to fund the transfer from an eligible Wells Fargo checking or savings account or use cash. In addition, the remitter can choose how they want the recipient of the funds to receive the money—either for cash pick up at one of a group of banks Wells Fargo has established relationships with or into their account at the receiving bank. However, options may vary by country. There are no enrollment fees, monthly or annual maintenance fees, or fees for the recipient of the funds. There is, however, a transaction fee, which may be discounted or waived depending upon use of other Wells Fargo services.

Finally, it is not just banks that are offering consumer international remittance services, but credit unions as well. In the late 1990s, in response to members and potential members' demand for money transfer services, The World Council of Credit Unions began the process of developing a credit union-to-credit union proprietary network for international money transfers known as the International Remittance Network. Today, the network's infrastructure is comprised of 38,000 credit unions throughout 85 countries. Through strategic alliances, credit unions in the United States may provide the international money transfer product of Vigo Remittance Corporation, while credit unions outside of the United States may offer the products of MoneyGram, Coinstar Money Transfer, and Vigo. The World Council of Credit Union's international remittance program is not limited to credit union-to-credit union transfers: Options also exist for making transfers from a credit union to a non-credit union (a money transfer operator) or from a non-credit union to a credit union. The network currently provides service to countries in Africa, Asia, Australia, Europe and Latin America.

Individuals may opt to use financial institution remittance services because they are typically a less-expensive alternative to services offered by traditional money transfer operators. However, almost all financial institutions require the remitter to become a customer, and some individuals may prefer not to establish such a relationship. So, while the pricing of these services may be an attractive aspect to prospective users, some consumer education may be required. Further, some products do not offer the geographic reach, funding, or payment options that may be available through services provided by money transfer operators.

On the Horizon

Other aspects of international remittances warrant mention. Those include the impending expansion of cross-border ACH payments, the evolution of mobile money transfer services, and the participation of payment card networks as remittance service providers.

While today cross-border ACH payments can be exchanged with Mexico and Canada, in September 2009 a new NACHA standard entry class code, IAT (international ACH transaction), will expand the exchange of such payments to include the U.K., the Netherlands, Switzerland, Austria and Germany as well. IAT will enable U.S. financial institutions to send and receive cross-border ACH payments that can be easily identified and that carry remittance information that identifies all of the parties involved in the payment.

Mobile money transfer services are gaining popularity in developing countries where far more people own mobile phones than have bank accounts. There is a project underway, GSMA Mobile Money Transfer, to enable mobile-to-mobile, cross-border money transfers. Thirty-five mobile operators are reported to be involved. Among them, they have 800 million customers in 100 countries. Western Union is now a project participant and has recently announced a venture with Vodafone and Safaricom to pilot cross-border mobile remittances between Kenya and the U.K.

Through its card issuers, Visa Europe offers a service called Visa Money Transfer that enables cardholders to transfer money from one Visa card to another. To use Visa Money Transfer, cardholders need to sign on to their financial institution's online banking service, specify the amount they want to transfer, and provide the recipient's Visa card number. The transaction can even be completed if a Visa cardholder only has the recipient's name and e-mail address. The person receiving the money is contacted by e-mail. They then must access the Visa Money Transfer website and enter their own card details to accept the transfer. Recipients receive funds, in all major currencies, straight to their Visa card account. They can either spend those funds immediately, make a cash withdrawal from any ATM that displays the Visa logo, or if the recipient is not a Visa cardholder, they can collect the cash from a participating bank branch. The sender can track the transfer online and is sent e-mail updates, enabling every stage of the process to be monitored.

Summary

The total value of recorded worldwide remittances was nearly $340 billion in 2007, and projections suggest the value could exceed $450 billion by 2010.[7] Individuals have a number of means by which to make these remittances. They can use the services of informal networks, money transfer operators, and financial institutions. And, in some parts of the world, mobile phones and credit cards are options as well.

While the end result with each provider is the same, the advantages they offer may differ. Individuals can chose the provider that best meets their needs for anonymity, for payment options, delivery options, and costs. The international remittance landscape is both broad and varied.

Endnotes

[1]The World Bank Group, *AccessFinance*, September 2008, Issue No. 24.

[2]Citigroup Global Markets, Western Union Company, October 18, 2006.

[3]While informal networks have legitimate uses, they also may be used to circumvent exchange controls, avoid paying customs duties and income taxes, as well as launder the proceeds of criminal and other illegal activities.

[4]Citigroup Global Markets, Western Union Company, October 18, 2006.

[5]"Know Your Customer" refers to the due diligence that financial institutions and other regulated companies must perform as mandated under the Bank Secrecy Act and USA PATRIOT Act to identify their customers and obtain relevant information prior to conducting financial business with them.

[6]For a discussion of financial activity in this area, see Karen Epper Hoffman, "Money Without Borders." *BAI Banking Strategies*, November/December 2008.

[7]"Competing in Money Transfers: A Market Overview", Aite Group, March 26, 2007.

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