

CRITICAL ISSUES SHAPING MONEY TRANSFERS

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Washington, DC

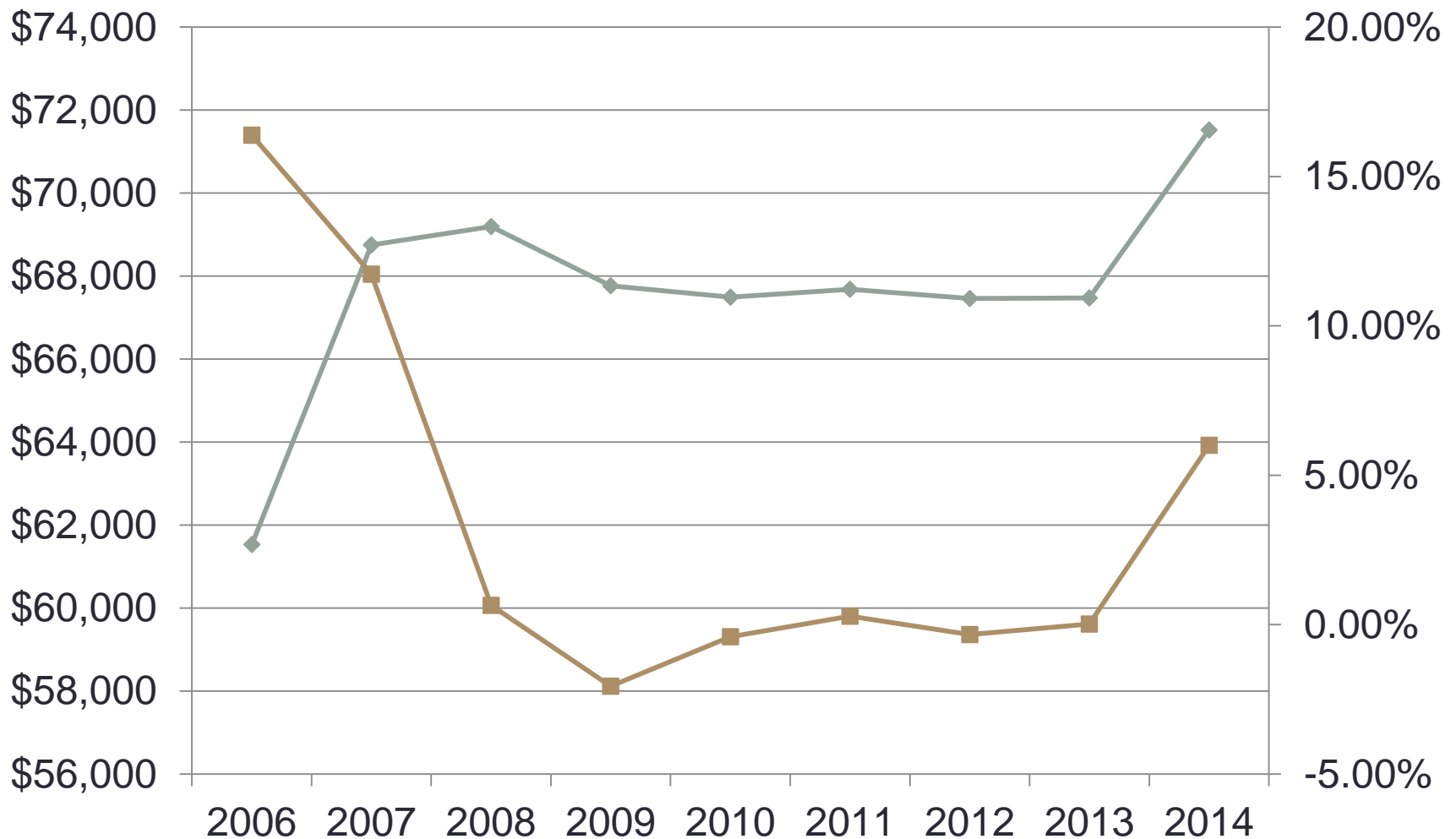
The marketplace for money transfers

- US growth trend—US\$120 billion, US\$56 billion to Latin America
- Latin American and Caribbean 2014 growth at 7% to US\$71 billion
- *What continues?*
 - Mexican and Central American low skilled migration continues and may have grown;
 - Account closings: perception of risk remains unchanged and is mostly a political risk issue;
 - Demand for C2C transactions;
 - Leading money transfer companies continue to predominate;
 - Business performance continues to be solid...
- *What changes?*
 - Shifting migration patterns toward Asian, high skilled and female migrants: they send higher principals and express demand for account based transfers;
 - Frequency of sending has increased from 13 to up to 16 times
 - Consumer behavior is increasingly moving into account based transfers: migrants are switching toward internet and mobile transfers;
 - On the payout the number of agents is growing and the type of services they offer is moving into accounts and mobile services.
- *What comes next?*

U.S. and Canada outbound remittances...

<i>Region of migrant destination</i>	<i>Migrants</i>	<i>Volume sent</i>
Central Asia & Caucasus	607,357	\$ 1,360,611,756
East Asia & Pacific	7,443,636	\$ 21,102,708,060
Europe	1,807,019	\$ 2,732,212,728
Latin America & Caribbean	26,207,821	\$ 62,741,523,474
Middle East & North Africa	1,483,393	\$ 2,242,890,216
North America	876,437	\$ 1,325,172,744
Other	2,111	\$ 3,191,832
Russia	438,458	\$ 994,422,744
South Asia	2,815,195	\$ 7,981,077,825
Sub-Saharan Africa	1,323,776	\$ 2,001,549,312
Western Europe	2,731,633	\$ 6,883,715,160

Latin America and Caribbean remittance flows...is there a rebound?



CONTINUITY...

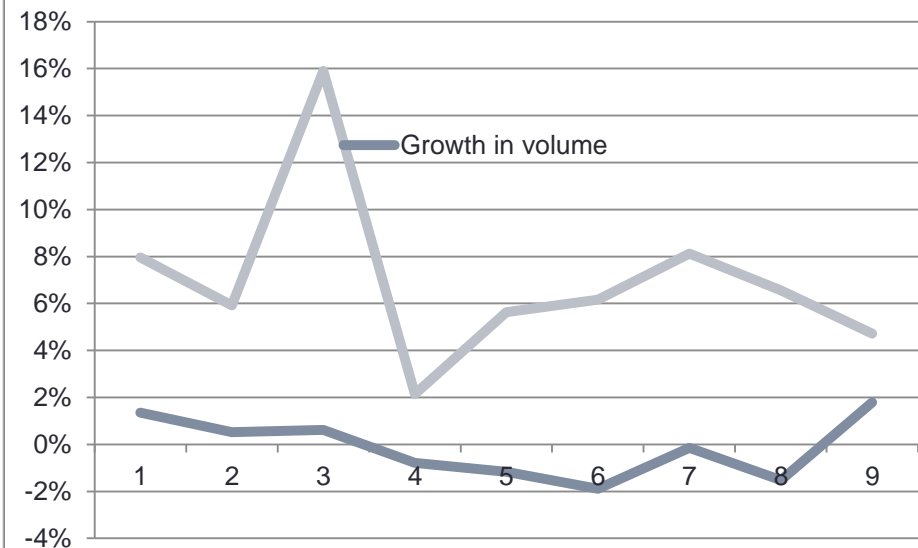
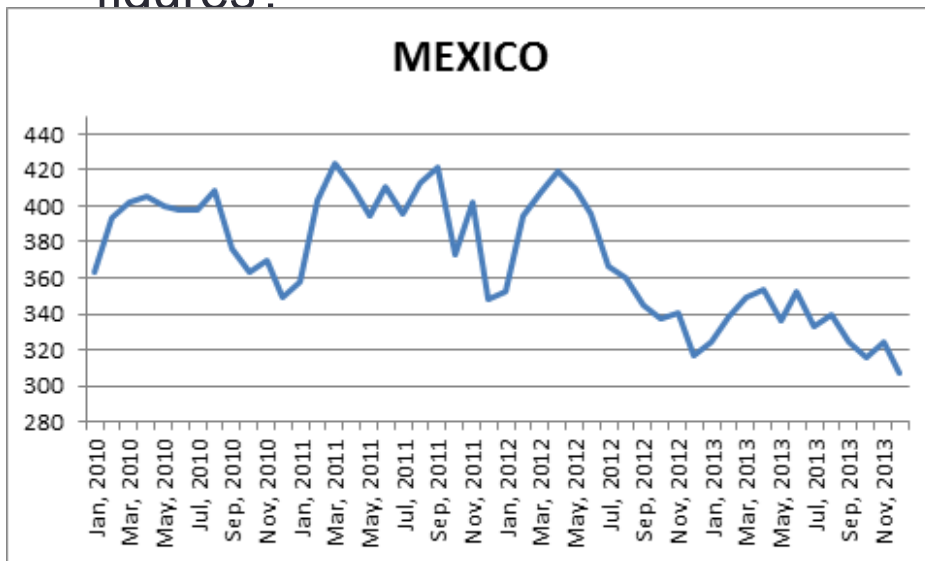
Remittance growth resulting from Mexican and Central American low skilled migration with a sustained demand for C2C transactions favoring traditional businesses whose performance continues

Growth from Mexico and Central America: the continuity of migration

Countries	2013	2014	
Panama (C.Am)	1%	12%	
D. Republic (Carb)	2%	10%	Statistical
Bolivia (And)	10%	14%	Intra-reg.
Haiti (Carb)	13%	10%	Principal
Guatemala (C.Am)	6%	9%	Migration
Mexico	-3%	8%	
Honduras (C.Am)	9%	8%	
El Salvador (C.Am)	2%	8%	
Nicaragua (C.Am)	6%	6%	
Costa Rica (C.Am)	5%	5%	
Uruguay (S.Am)	-3%	5%	
Ecuador (And)	-2%	1%	Spain
Jamaica (Carb)	1%	-1%	
Brazil (S.Am)	-1%	-3%	Uncertain
Peru (And)	-2%	-3%	Economy
Colombia (And)	1%	-10%	Spain
Paraguay (S.Am)	-6%	-15%	Economy

Where is Mexico's growth originating?

- Official unemployment figures show a decline from 9.1% in 2012 to 7.5% in 2013 to 7.2% in 2014.
- That amounts among Mexican immigrants an increase in 75,000 new jobs;
- However, increases in transactions went up 300,000 from September 2013 to September 2014;
- Average remitted has not increased, but frequency has increased to 15
- Is there newer migration coming and not captured by unemployment figures?



Immigrants remitting on the same year they arrived and frequency remitting...

	2007	2008	2009	2010	2013	2014
Mexico	6.10%	1.00%	1.30%	1.00%	1.30%	4%
D. Rep.	2.00%	5.60%	1.00%	2.00%	7.30%	
Honduras						4.40%
El Salvador	9.00%	7.40%	2.00%	2.00%		2.13%
Guatemala	4.00%		3.00%			3.45%

Country	Monthly Transactions as of Sept. 2014	Senders	Frequency sent
Mexico	6,754,000	263,406	15 times
Honduras	984,911	43,336	14
El Salvador	1,294,964	27,583	14
Guatemala	1,540,881	53,160	14

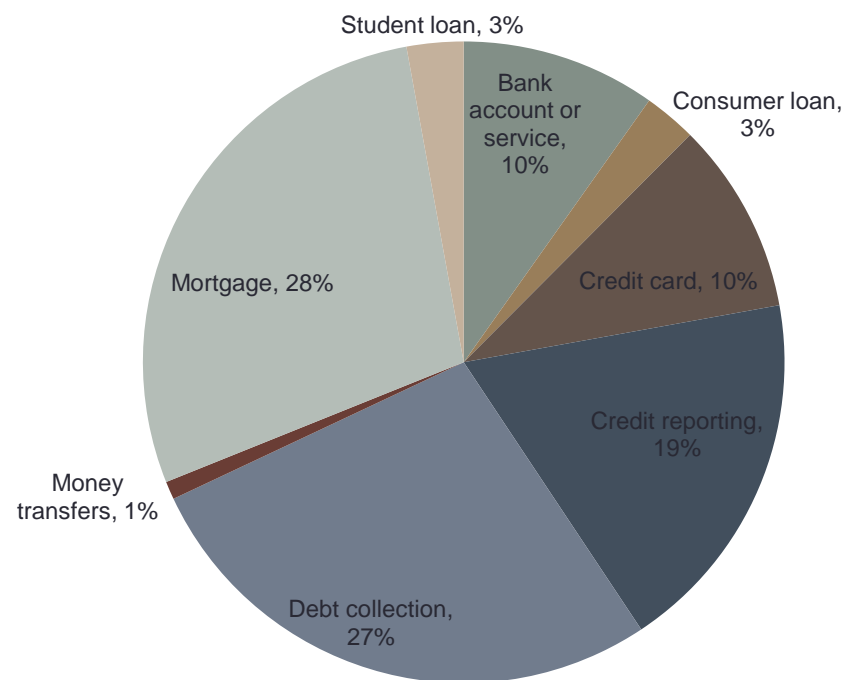
A clash between risk and competition

- Despite strong compliance mechanisms, most cases of misuse of RSPs relate to fraud, yet **banks continue to close bank accounts** of RSPs.
- While most c2c businesses are affected, this is not an advantage among those in online transfer market: government oversight aims any business and often times argue that the internet is not a safe outlet
- **Competition continues to be fierce** and predominates among leading businesses; however, revenue and transaction growth among the dominant companies is slowing

	MoneyGram	Ria	Western Union	Xoom
YoY 2012-2013				
Revenue	1,474	370.4	5,664.80	122
Revenue Growth	10%	17%	-2%	53%
Transactions	13%	7%	5%	45%
I Q2013- I Q2014				
Revenue	374.9	94	1,350.80	35.9
Revenue Growth	10%	13%	2%	48%
Transactions	12%	9%	9%	42%
II Q2013- II Q2014				
Revenue	328.3	122.1	1,400	39.8
Revenue Growth	3%	31%	2%	19%
Transactions	4%	29%	6%	24%
III Q2013 – III Q2014				
Revenue	358	151.2	1,440.9	39.4
Revenue Growth	(7%)	59%	2%	22%
Transactions	(3%)	56%	5%	22%

Business performance: CFPB

- One percent of all complaints (70 per month) are for money transfers;
- Half of those complaints are on domestic transfers;
- One third of those complaints are against fraud or scam and
- One third against Western Union



The majority of migrants still prefers sending money through remittance agents and is still favorable of the business

		2010 (%)	2013 (%)
Fee for each remittance transaction		US\$ 8.32	US\$ 8.23
Preferred method	Banks and or internet	17	16
	Remittance agencies	87	87
	Travelers or others	12	5
Reason for choosing company: Shown are “Strongly agree” & “Agree”	Transparent prices	72	82
	Transparent exchange rates	63	78
	Easy to use	82	89
	Cheap	61	69
	Offers more value than others	50	60

CHANGE...

New migration patterns are shaping the future flow of remittances accompanied by increases in frequency sent and willingness to switch to other payment methods

Migration is increasingly becoming -Asian; -Female and -Professional..

Nationality	Total population	Female	Management	Poverty
Native	273,089,382		37.40%	10.50%
Foreign born	40,824,658	51.30%	29.50%	18.40%
Mexico	11,563,374	47.10%	9.00%	29.80%
China	2,292,233	56.00%	52.80%	12.00%
India	1,967,998	47.50%	71.60%	4.40%
Philippines	1,868,316	59.70%	42.90%	5.20%
El Salvador	1,271,859	48.90%	9.70%	20.70%
Vietnam	1,258,979	53.10%	28.20%	13.70%
Cuba	1,113,901	50.70%	26.00%	17.40%
Dominican Republic	957,376	56.00%	15.30%	29.60%
Guatemala	858,530	40.80%	8.30%	28.50%
Canada	800,985	55.20%	58.60%	6.70%
Jamaica	680,845	57.20%	32.30%	12.20%
UK	679,483	52%	60%	4%
Colombia	677,068	57.20%	28.90%	12.60%
South Korea	613,838	56.50%	49.90%	11.70%
Germany	592,431	63.60%	50.90%	4.80%
Honduras	521,682	47.00%	8.30%	30.40%
Poland	440,312	56.60%	30.60%	8.10%
Peru	426,263	53.30%	23.90%	13.60%
Ecuador	420,910	48.50%	18.30%	17.00%
Ukraine	342,971	55.20%	40.00%	11.50%
Japan	329,499	67.00%	56.30%	8.10%
Brazil	325,547	58.30%	31.40%	9.60%

Sending money: the demand side

- Immigrants are remitting slightly a bit more, but not in larger amounts.
- Migrants from the Dominican Republic remit more than 16 times a year—that may partially explain the increase

Average Amount Sent		Ave. Number Transfers per Year	
2009	2013	2009	2013
\$205	\$212	12 Transfers	15 Transfers
	3% growth		7% growth

Disposition to Change in Remitting Methods

- But in 2013 more immigrants were prepared to switch remittance methods than in 2010, particularly through online services or mobile banking.
- In 2010, just 4 percent of respondents indicated using the internet to check their bank accounts or send money.
- In contrast, 12 percent of respondents in 2013 reported going online to send money.
- Internet access has also increased from 30% in 2006 to 70% in 2013;
- Ownership of smartphones has also increased to 45% in 2013.

		2010	2013
Willing to Change Method for Sending Money		47	58.20
Method Most Likely to Switch To	Remittance Card	28.91	9.15
	Direct Deposit in a Bank Account	40.87	74.68
	Internet	18.34	7.23
	Cellphone Mobile Transfer	11.88	3.83
	Other	0	5.11

Technology payments...

	Web-based portals	Mobile wallets	Mobile Banking	Smartphone Payment Apps	Web-based or Cryptocurrencies
Examples	Online banking, Amazon.	Geocode, Loopay	Almost any bank offers it	Starbucks, Xoom, Remitly	Bitcoin, Amazon Coin
Relationship to remittances	Many remittances companies have web-based portals.	Very few experiences in cross-border remittances. Most are country or niche-centered. The “account creating” type (which are not dependent on the existence of a previous banking product) provides financial access to the unbanked, thus increasing its impact on development.	International transfers are not always offered through these services.	At least one MTO has reported growth of number of transactions per customer among app users.	Very dependent on availability of exchange options, which are quite limited thus far for mass public.

.com growth for Western Union and MoneyGram, 2nd Quarter 2014.

	Western Union	MoneyGram
.com transactions	46%	41%
.com revenues	31%	31%

What comes next?

- Remittance flows will continue a steady growth determined by migration, income and home country needs;
- A money transfer industry strong but faced with formidable challenges: often time with businesses operating at cost, in the middle of stiff regulations, firms entering with new payment technologies and payers demanding greater commissions.
- Moving to economies of scale through efficiencies, new markets and new products will strengthen the industry.
- Consolidation or slowing may continue to occur among businesses with transactions under 100,000.



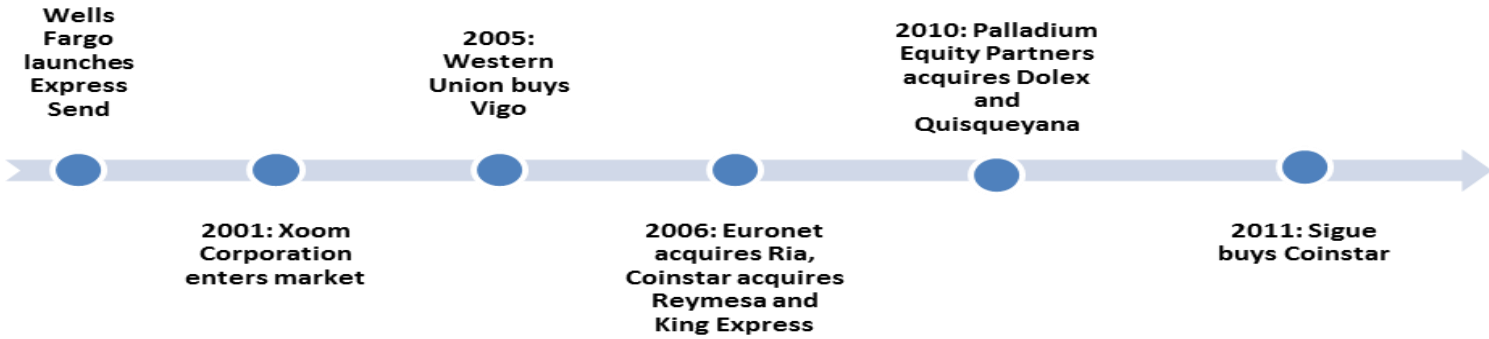
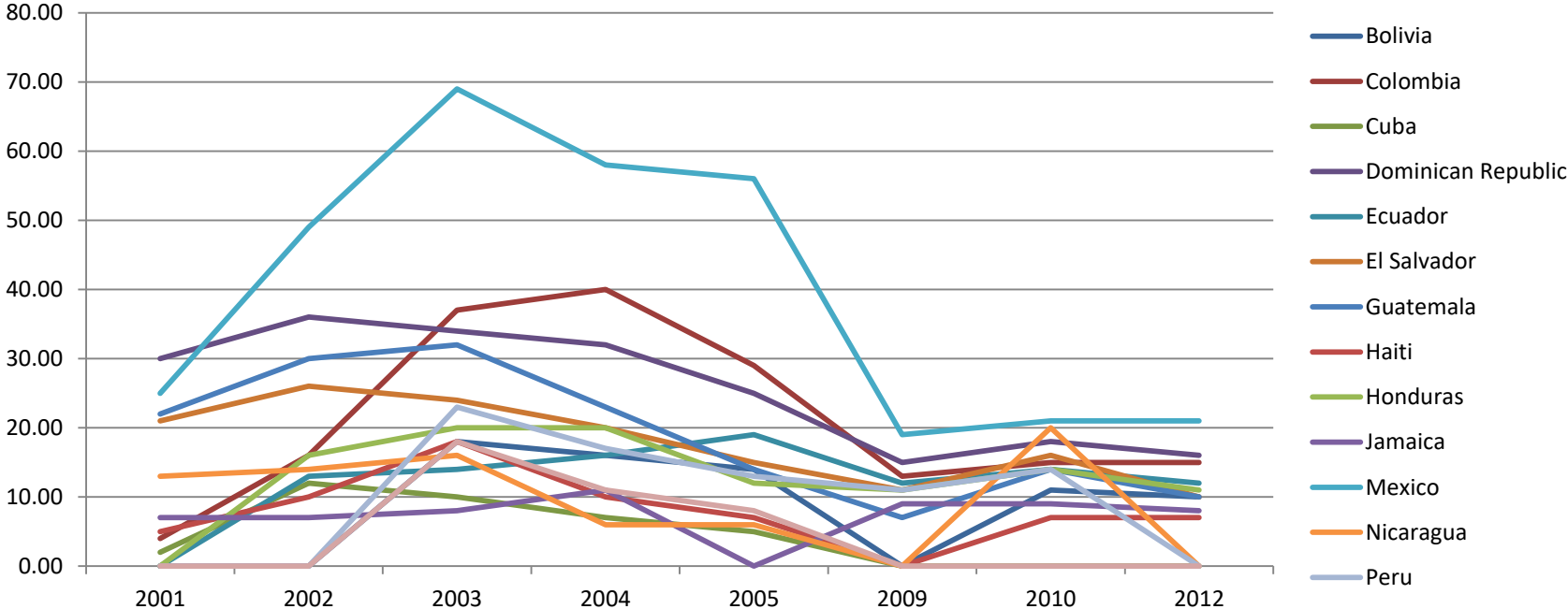
Account ownership and disposition in changing method

Those interested to change methods are people who own bank accounts..	Does Not Own an Account (%)	Owens an Account (%)
Would not Change Current Method	48.3	37.8
Would Change to Remittance Card	16.2	17.3
Would Change to Direct Deposit in a Bank Account	19.2	26.8
Would Change to Internet	9.1	11.8
Would Change to Mobile Transfer	7.0	6.1
Other	0.3	0.3

Frequency of use of online banking or online money transfers (%), 2013

	HAI	MEX	HON	DOM	SAL	GUA	JAM	COL	AVE
4 or more times a week		0.9				0.5		0.5	0.6
2 times a week		0.1							0.1
Once a week		0.7	1.0				3.0	3.0	0.9
Almost never uses it		3.2	11.0	46.0	9.5	3.5	63.0	17.0	10.6
Don't use it/don't know it	100.0	95.0	88.0	54.0	90.5	96.0	34.0	79.5	88.0

Process of Consolidation: Number of companies in the U.S. – Latin American and Caribbean corridors



Competition in the U.S. outbound

- Some trends have affected the strong market presence of large companies like Western Union and exposed it to external shocks;
- Western Union lost significant revenue in its fourth quarter of 2012, particularly in the Mexico corridor, amounting to a 21% decline in transactions. These losses amounted to at least 500,000 transactions which have been picked up by various competitors mostly in the cash to cash market;
- Western Union's losses prompted it to change its strategy. The company drastically lowered prices, expanded its online presence, offered additional products, and expanded its agent locations;
- Western Union's results in the first and second quarter of 2013 suggested growth in the Mexico corridor and increases in online payments; these modest successes suggest that a recovery throughout the year will prove difficult, but not impossible;
- Pricing during the first quarter of 2013 is at 5% and Western Union positions itself among the lowest priced products;
- Businesses and agents have not felt a major competitive impact from Western Union's strategy;

Growth in 2013...

Growth is steady for most companies, particularly MG and RIA. Second tier businesses (Dolex, Viamericas, Intermex, Uniteller are also experiencing low double digit growth). Most of this growth is coming from WU's losses of 700,000 transactions, as well as from smaller companies stopping business and new high skilled migration.

Growth figures	Xoom	Western Union	Money Gram	Ria
Transactions	56%	9%	14%	11%
US-Mexico Transactions	20% estimate	15%, (24% WU branded)	34%	14%
	Xoom	Western Union	Money Gram	Ria
Revenue	62%	-1%	13%	19%
Indicator	Xoom	WU	MG	Ria
.com transactions	56%*	68%	46%	ND
Agents (year to year)	37,409 No comparative data.	515,000 3%	334k 14%	207,000 22%

Mexico, growth or slowdown?

- Although businesses are reporting growth in this corridor, growth to Mexico is likely to be no more than 3% in 2014 as a result of
- continued trends in the US, with deportations,
- no immigration reform or limited, and
- still lower amounts remitted due to poor economic condition of this population:

Source of entry of Mexican immigrants	2012	2013	2014
H2 visas	237,790	244923.7	252271.4
Visa overstayers (7% of all tourist and BCC visas)	75,250	77507.5	79832.73
Cross border entry	425,208	437964.2	451103.2
Apprehensions	-265,755	-273728	-281939
Deportations	-366,292	-377281	-388599
Estimated total Mexican annual migration (*)	106,200	109386	112667.6
Number of new P2P transactions (*)	117,000	120,000	126000

Sending money, the demand side

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Almost never uses it		3.2	11.0	46.0	9.5	3.5	63.0	17.0	10.6
Don't use it/don't know it	100.0	95.0	88.0	54.0	90.5	96.0	34.0	79.5	88.0

- Migrants' reasoning for choosing specific remittance companies were similarly ranked in 2010 and 2013. Ease of use was the most important determinant for using a specific company, followed by transparent prices and transparent exchange rates.
- In 2010, 28 percent of migrants identified Western Union as the primary company they use to send remittances.
- In 2013, Western Union remained the company of choice for 24 percent of respondents.

		2010	2013
Fee For Each Remittance Transaction		USD 8.32	USD 8.23
Preferred Method*	Banks	17.40	15.75
	Remittance Agencies	86.70	87.10
	Internet	2.70	1.95
	Travelers or Others	12.40	4.75
Reason for Choosing Company: Shown Are "Strongly Agree" & "Agree"	Transparent Prices	71.60	81.50
	Transparent Exchange Rates	63.21	77.65
	Easy to Use	82.25	88.80
	Cheap	60.55	68.60
	Offers More Value Than Others	49.90	59.95

REGULATIONS: Common operating procedures and Standards among remittance companies:

Criteria	Indicator
Monitoring customers and transactions	<ol style="list-style-type: none"> 1. Transactions monitored in real time based on sending and receiving patterns, location, frequency, amount, and behavioral analysis. 2. All senders and recipients screened against OFAC and other AML/CFT lists 3. Software prevents any transaction from being processed that has incomplete information 4. Software automatically freezes and flags cases where customer cancels transaction midway
Enhanced Monitoring and Suspicious Activities	<ol style="list-style-type: none"> 1. Companies practice “enhanced due diligence” for all transactions 2. Less than 1% of all transactions require reporting as “Suspicious Activity.” 3. Regular cooperation with law enforcement, and strong support of their AML/CFT efforts.
Oversight of agents	<ol style="list-style-type: none"> 1. All companies screen prospective agents for: criminal background, valid business registration, tax payment, financial statements, credit history, and OFAC. 2. All new agents receive a compliance and risk-mitigation training. All companies require new agents to master this information before they are authorized to make transactions. 3. Companies require yearly trainings for ongoing agents. A major focus of this training is controlling the risk of financial crime. 4. Companies monitor agencies in real time via transaction software, are in touch with them via phone or email on a daily basis. 5. Companies formally visit agencies on a regular basis. They also send unannounced “mystery shoppers” to evaluate agencies on their compliance.
Partners overseas (payers)	<ol style="list-style-type: none"> 1. All companies require that partners have a valid local business license, demonstrate adequate AML/CFT policies and procedures, and undergo audits and background checks.
Audits	<ol style="list-style-type: none"> 1. Companies pass numerous audits, including: independent audits every 1-2 years; state audits every 12-36 months, for each state in which the company operates; bank audits yearly; IRS audits of company and agencies.

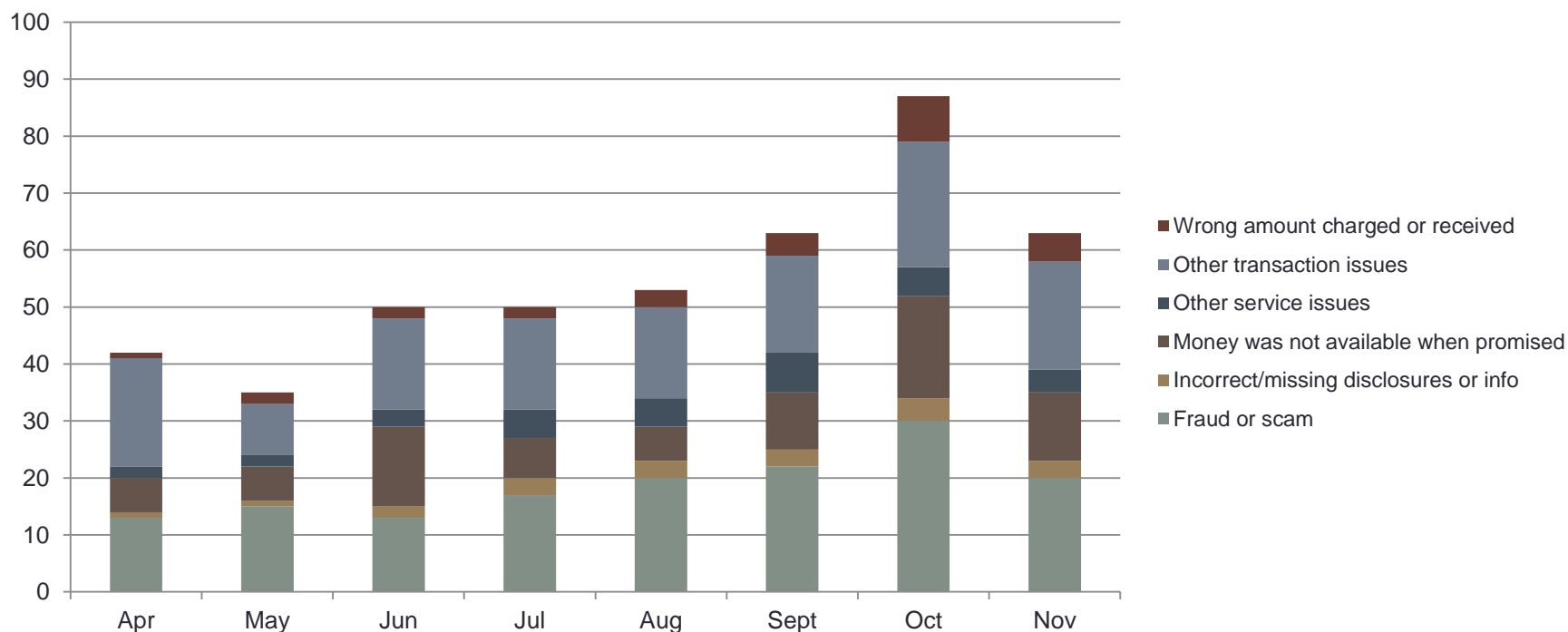
Putting Risk in Perspective

	Remittance Transfers	USCIS Non-Immigrant Visas
Total volume per year	37,500,000	12,000,000
Flagged for possible additional investigation by authorities	94,551	1,300,000
% of total volume that are flagged	0.02%	10.83%
Merit investigation by authorities	632	2,600
% of flagged items that are investigated	0.067%	0.1%

The remittance rule...

There will be limited enforcement so far, mostly follow up through the examination procedures. Currently as of November 2013 the number of complaints was less than 60 per month, 60% on MTOs and 36% on banks

CFPB Consumer Complaint by Issue - 2013



Competitors and the market

- *Strengths*: Competitive services, label, pricing, and geographic scope.
- *Opportunities*: shifting markets to banking/account transfers, online based transfers, other financial products;
- *Weaknesses*: Limited services, visibility, CSR
- Opportunities to increase market share of the business without sacrificing margin:
 - Expand online offering, including mobile,
 - explore prepaid debit on the payout and on the origin
 - Acquire an existing business in areas where penetration is weaker
 - Expand to other countries and regions (Asia, Africa, Europe)