
Assessment of Remittance Fee Pricing

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Objectives

- Determine if remittance fees are excessive, either on an industry wide basis, in particular remittance corridors, within specific formal fund transfer channels or among key players within specific remittance corridors.
- Identify and assess the importance of the primary factors contributing to high remittance fees.
- Determine if there are any structural or other factors unrelated to the activities of major competitors that are responsible for keeping remittance fees high
- Identify the major trends in remittance fee pricing and the factors that are driving them.
- Determine if pricing trends and driving factors are likely to reduce remittance fees in the absence of additional government policy initiatives



Study Scope & Approach

- The study was focused primarily upon the large MTOs within the formal funds transfer system in 53 corridors representing:
 - North America to Latin America and Asia,
 - The EU to North Africa, Africa and South Asia,
 - The Gulf to South Asia
 - Eastern Europe to Central Asia
 - East Asia to Southeast Asia.
- The findings are based on data gathered from major MTOs by telephone and, in selected cases, in person, analysis of publicly available financial statements and performance indices, and both quantitative and qualitative assessments of potential pricing factors obtained from published sources and World Bank internal data. Telephone interviews with several industry sources were also conducted to confirm and refine the findings.



Discussion Outline

- Assessment Of Remittance Price Levels
 - Comparative Remittance Fees
 - Comparative Foreign Exchange Spreads
 - Profitability Of Major Money Transfer Organizations
 - Industry Cost Assessment
- Factors Contributing To Remittance Prices
- Remittance Fee Pricing Trends And Driving Factors
- The Need For Additional Government Policy Initiatives



Assessment of Remittance Price Levels



The price of an international cash transfer remittance consists of two components

- The remittance fee for receiving, processing and paying out the cash transfer is collected from the sender by the sending agent. The sender can easily compare remittance fees and shop around for the lowest one.
- The exchange rate spread is the difference between the retail foreign exchange rate that the MTO charges the sender and the more favorable wholesale foreign exchange rate that the MTO actually pays. Although the sender can usually obtain the specific exchange rate to be used in a transaction, the size of the spread is not available from the sending agent and requires time and some degree of sophistication to calculate. In this sense, the foreign exchange spread is a form of “hidden” foreign exchange commission.



Four approaches were taken to determine if remittance prices are excessive

- Remittance fees charged by major MTOs were compared to determine pricing consistency across corridors.
- The foreign exchange rate spreads of the leading competitors were calculated and compared across a broad range of receiving countries.
- The financial performance of the three MTOs owned by publicly traded companies was compared to that of Fortune 500 and public peer companies to assess their relative profitability.
- Finally, the cost structure of the industry was examined to assess the relationship between costs and remittance pricing.



Comparative Remittance Fees

Remittance fees were compared for Western Union, the global price leader, and Moneygram in 53 individual corridors across a broad range of sending and receiving countries to determine the level of consistency in pricing. In selected corridors, smaller MTOs were also included in the price comparison.



Remittance fee pricing is both complex and non-uniform

- Remittance fee pricing varies significantly by competitor, corridor and channel.
- Major fee pricing differences can also be observed between different sending countries-even for the same competitors sending remittances to the same receiving countries.
- Fees also vary with the size of the remittance.
- Fees can also vary significantly for a single competitor by type of service offered, sending city, and individual sending agent

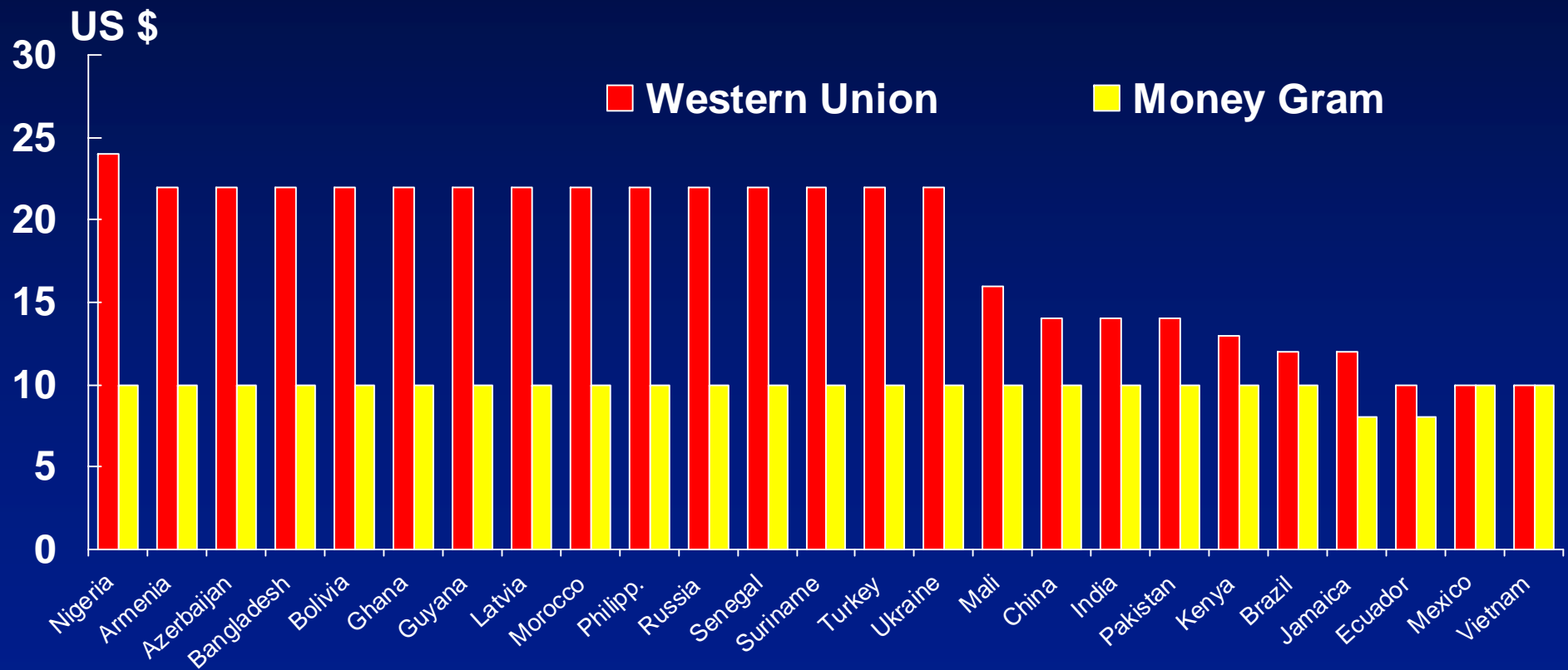


Fees by Competitor, Corridor and Channel for Sending \$200 from US (NYC)

Corridor	<u>US-China</u>	<u>US-India</u>	<u>US-Mexico</u>	<u>US-Philippines</u>	<u>US-Pakistan</u>
Major Global MTO's					
Western Union					
Phone Quote-Immediate	\$ 14.00	\$ 14.00	\$10.00	\$ 22.00	\$ 14.00
Moneygram					
Phone Quote-Immediate	\$ 10.00	\$ 9.99	\$ 9.99	\$ 9.99	\$ 9.99
Regional & Smaller MTO's					
Wing					
Phone Quote-Immediate		\$ 12.00	\$ 10.00	\$ 15.00	\$ 10.00
Phone/Agency Alt. Dist.					
-Max				\$ 16.00	
-Min				\$ 10.00	
Wells Fargo					
Agency Quote-Immediate			\$ 4.00		
Phone/Agency Alternative Distribution					
-Max			\$ 7.00		
-Min			\$ 3.00		
Comments:No service within US or outside US-Latin America corridors					
Small MTO's-WB Study (1)					
-Max		\$ 10.00	\$ 9.50	\$ 15.00	\$ 5.00
-Min		\$ 4.50	\$ 7.50	\$ 7.00	\$ 5.00
Comments	Data does not distinguish between instant delivery and next day delivery				
Banks					
Citibank					
Global Transfer	\$ 10.00	\$ 10.00	\$ 5.00	\$ 10.00	
Comments: Need Citibank account;					
Bank of America					
SafeSend Transfer Card			\$8		
Comments:Mexico only;\$8 per transfer up to \$1500; \$0 in Chicago, Need Visa/MasterCard/Chk Card					
Source: (1) World Bank Study by Ole Andreasen, currently in process					

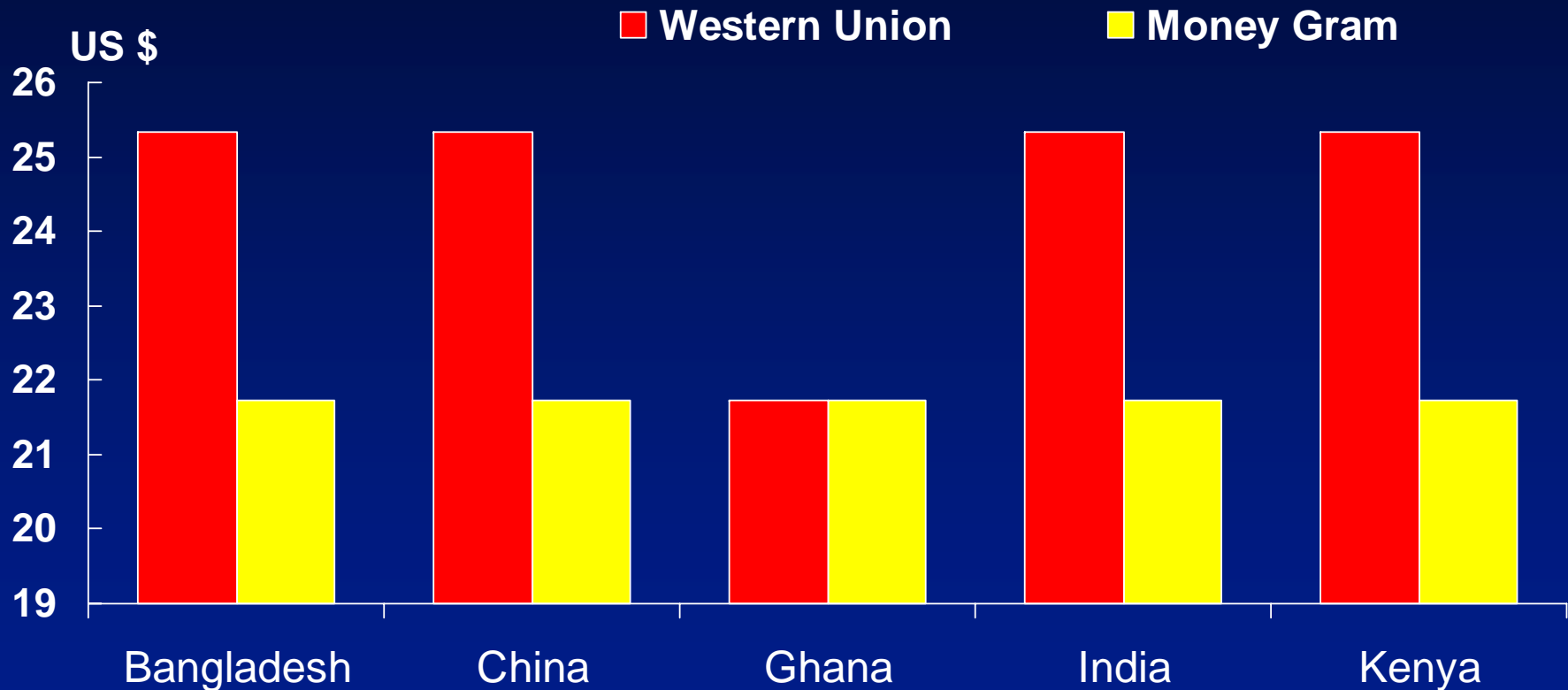
Remittance fees in the US vary by competitor and receiving country

Fees for Sending \$200 from US (NYC)



Fees in the UK also vary by competitor and destination, but are higher than in the US

Fees (in US\$) for Sending £100 from UK



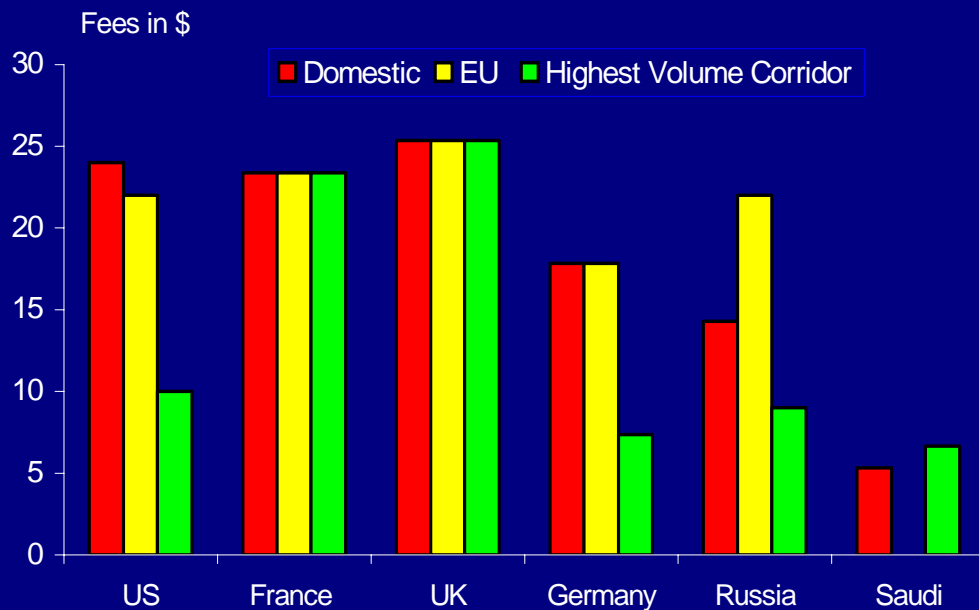
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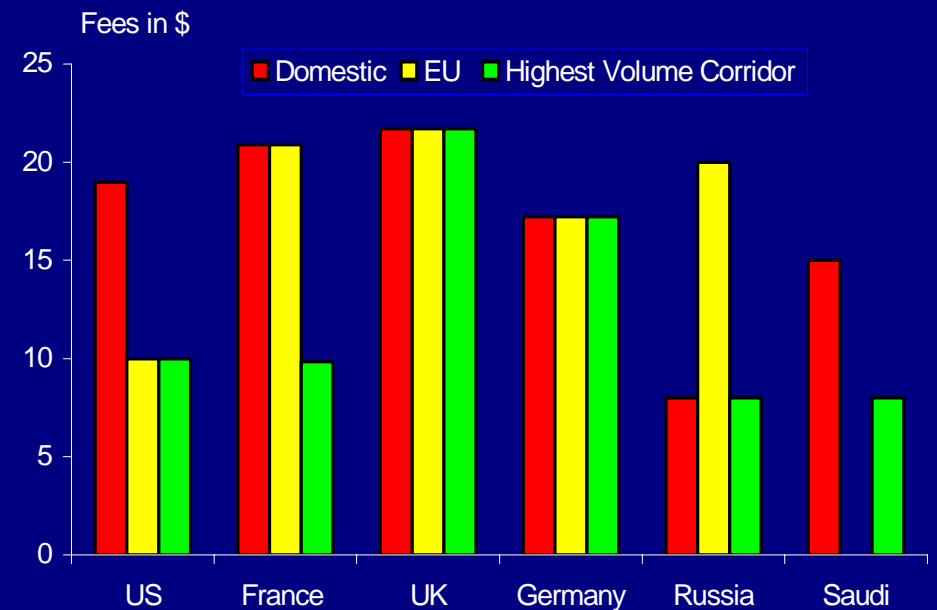


Fees of the major MTOs vary significantly by sending country

Fees for Domestic and International Transfer of \$200- Western Union

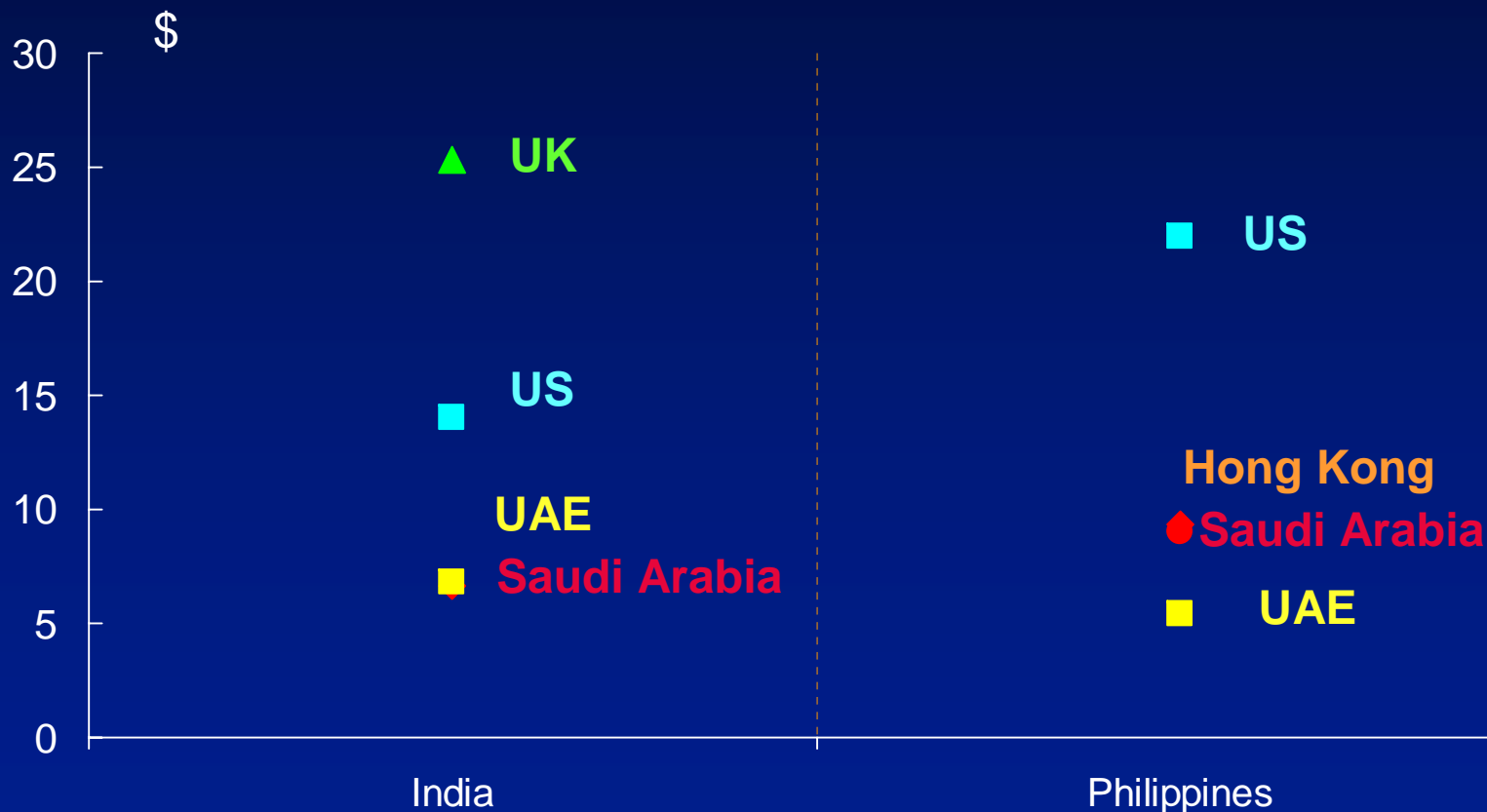


Fees for Domestic and International Transfer of \$200- Moneygram



Western Union fees for sending remittance from different countries to the same destination also vary significantly

Western Union Fee for Sending \$200 from Selected Countries to the Same Destinations



Destination Countries



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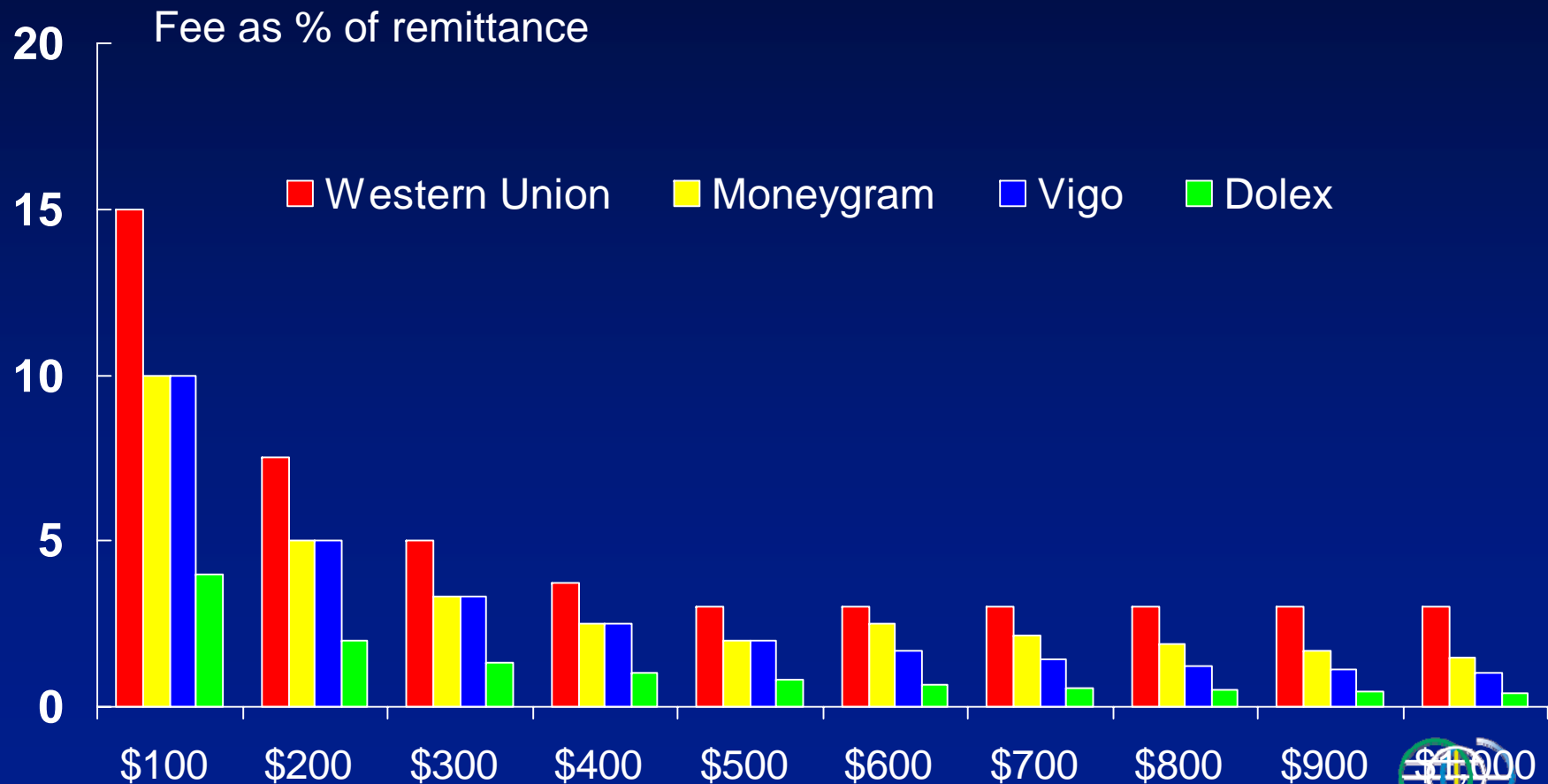
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Small remittance transfers are very costly due to the fee pricing policies of most MTOs

US-Mexico Corridor



Size of Remittance

Remittance fee pricing is both complex and non-uniform

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Major Global MTO Fees For Sending \$200 To Mexico From Selected US Cities

Sending City	NYC	DC	LA	Chicago
Western Union				
Fees				
Online	9.50	11.99	11.99	11.99
Phone Credit Card	14.99			14.99
Phone Quote-Immediate	10.00	14.99	14.99	14.99
-Next Day	9.99	9.99	9.99	9.99
Agency Quote-Immediate	10.00	14.99	14.99	
-Next Day	9.99	9.99	9.99	
Moneygram				
Fees				
Online	20.00			20.00
Phone Credit Card (N/A)				
Phone Quote-Immediate	9.99			8.99
-Next Day				
Agency Quote-Immediate	9.99			
-Next Day				



Regional & Smaller MTO Fees For Sending \$200 To Mexico From Selected US Cities

Sending City	NYC	DC	LA	Hartford
Vigo				
Fees				
Phone Quote-Immediate	10.00			
-Next Day				
Agency Quote-Immediate	10.00			
-Next Day				
Dolex				
Fees				
Agency Quote-Immediate	3.00		4.00-7.00	
Others				
La Naciones				
Agency Quote-Immediate				6.00
Small MTO's-WB Study (1)				
Fees				
-Max	9.50		11.00	
-Min	7.50		3.00	



Summary of Comparative Remittance Fee Findings:

- The large variations observed across different corridors, channels and competitors described in this section suggest that remittance fees are higher than necessary in the EU, the higher priced corridors within the US and, with a few exceptions, for the services offered by Western Union.
- Small remittance transfers are particularly costly due to the fee pricing policies of most MTOs



Comparative Foreign Exchange Spreads



Comparative Foreign Exchange Spreads

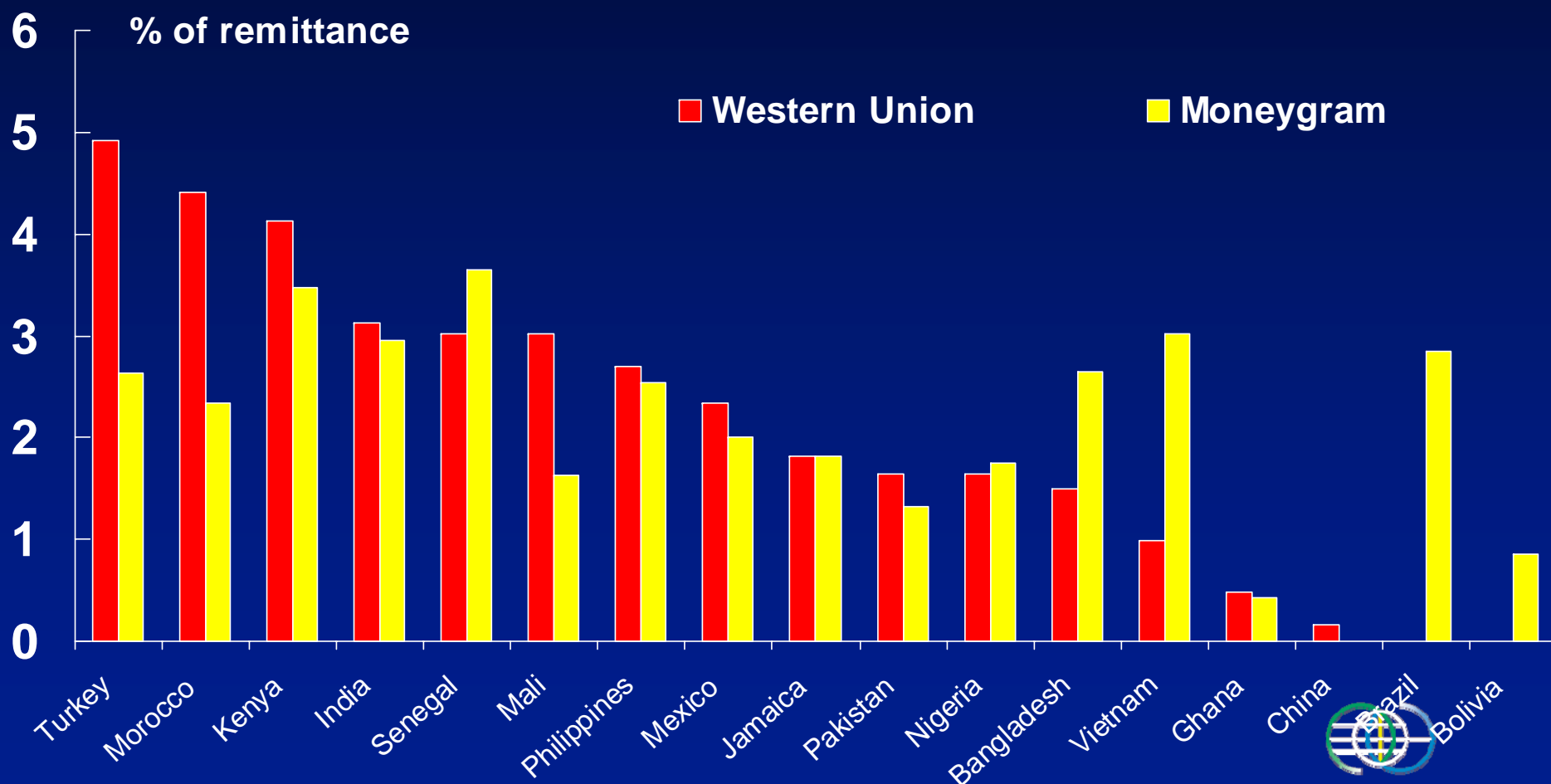
- Actual daily foreign exchange spreads (for Western Union transfers to 22 countries from the US and the UK and for Moneygram transfers from the US to the same countries) were calculated for four consecutive business days early in June 2005.
- Spread calculations for each corridor were based on the difference between the average wholesale commercial market exchange rates for that corridor published daily on Bloomberg and the actual exchange rates charged by Western Union and Moneygram
- Four-day average spreads were used in the analysis to smooth out the daily fluctuations, such as the ones illustrated below:

Western Union Exchange Rate Spreads As % Of Market Rate for selected US Corridors

Local Currency	June 1	June 2	June 3	June 6	June 7
Indian Rupee	3.38%	2.97%	3.17%	3.13%	3.23%
Mexican Peso	2.33%	2.26%	2.34%	2.31%	2.42%
Philippine Peso	2.76%	2.73%	2.66%	2.74%	2.70%
Pakistani Rupee	1.77%	1.65%	1.65%	1.68%	1.60%
Moroccan Dirham	4.78%	4.73%	4.65%	4.22%	4.04%
CFA Franc (Senegal)	2.17%	3.21%	2.58%	3.04%	3.24%

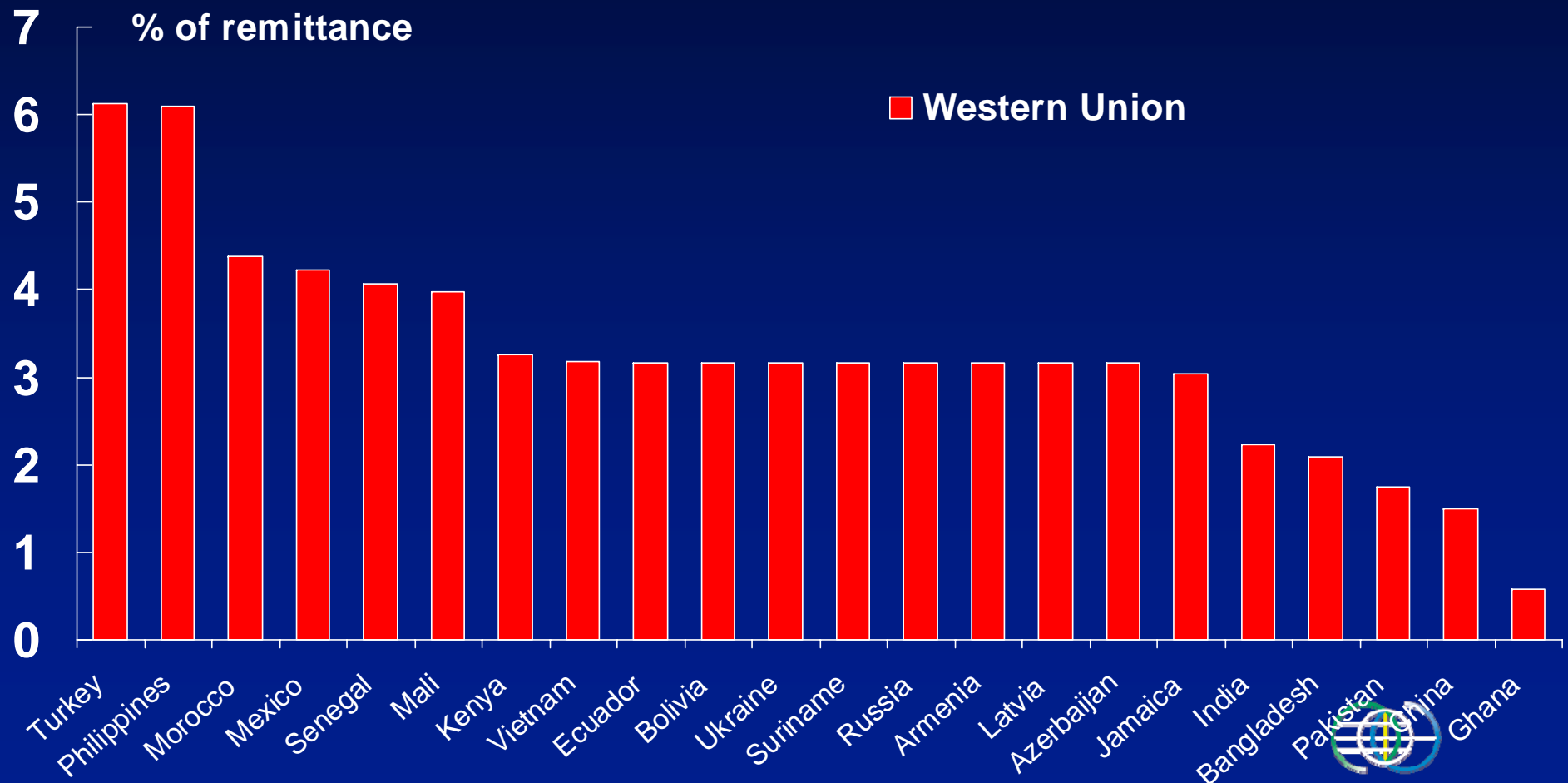
Foreign exchange spreads on US remittances vary significantly by competitor and recipient country

Foreign Exchange Spreads on Transfers from US



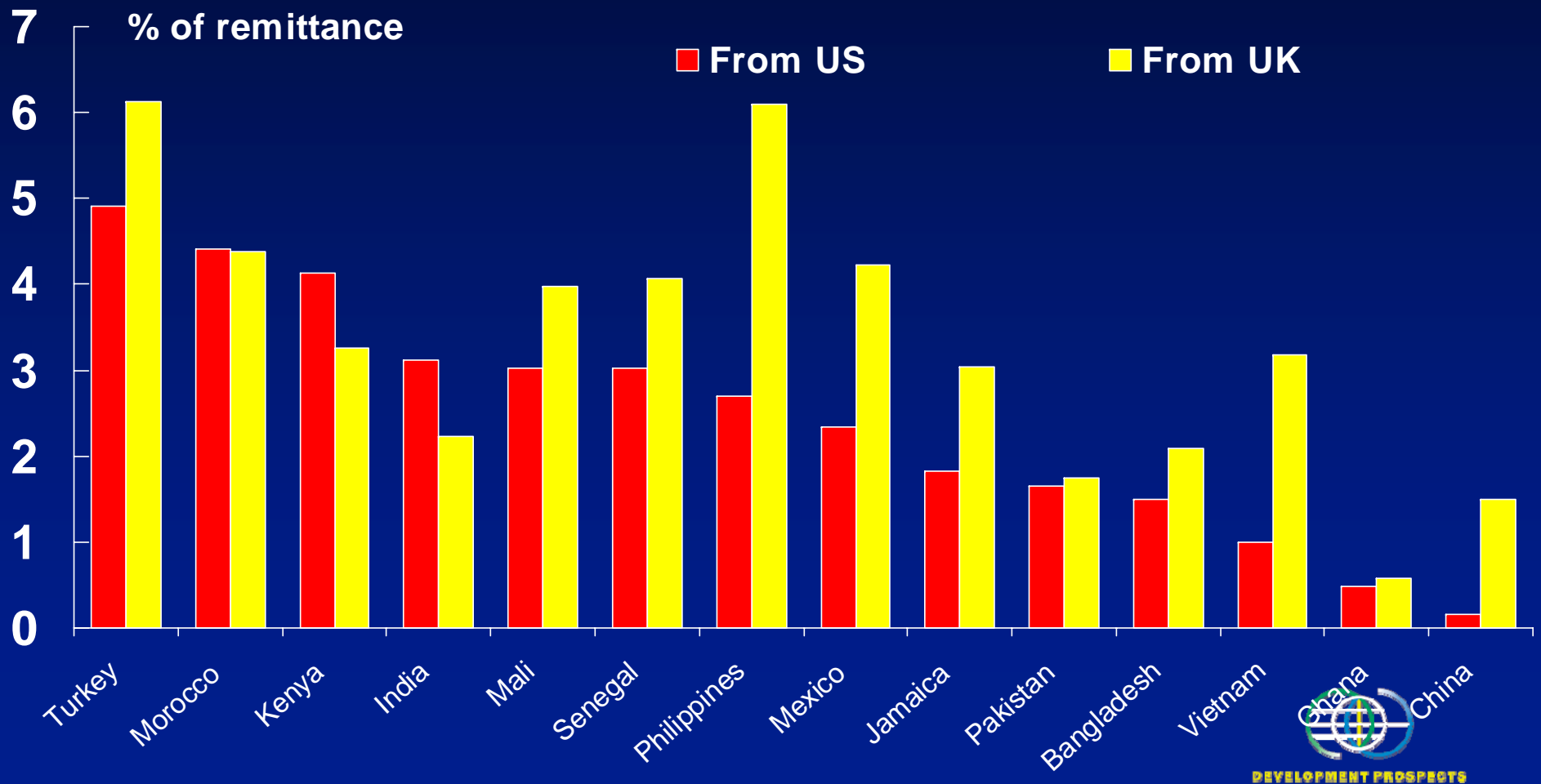
Western Union foreign exchange spreads on UK remittances also vary significantly by corridor...

Foreign Exchange Spreads on Transfers from UK



...and are significantly higher than those in the US

Western Union Foreign Exchange Spreads in UK vs US



Summary of Comparative Foreign Exchange Findings

- Foreign exchange rate spreads on remittances for both Western Union and Moneygram appear to be too high, even in high volume corridors, and are not transparent to the sender.
- Increased consumer awareness of the high level of foreign exchange spreads, could encourage more exchange rate competition and help lower overall remittance costs.



Profitability of Major Money Transfer Organizations



Profitability of Major Money Transfer Organizations

The assessment of profitability relative to Fortune 500 companies and public peer companies covered three MTOs, with each evaluated at three different levels.



Only three of the four largest MTOs are owned by public companies that report financial data

- Western Union has been owned by First Data Corporation since 1996 and has been included in the First Data financial filings since that time.
- Moneygram was spun off from First Data as a public company in 1996, acquired by Viad Corporation in 1998 and spun off again as a public company, along with other Viad operating, units in 2004. Financial data for Moneygram is available for 2004 and, more limited data has been reported for comparison purposes for 2002 and 2003.
- Dolex was purchased from a private buyout fund by Global Payments Inc. late in 2003 as a growth platform for expansion into the money transfer market. As a result, reported financial data incorporating Dolex is only available for 2004.
- Vigo has been privately held since its founding in 1986 and has never reported financial data, but is currently in the process of being purchased by Western Union.



Profitability of these MTOs was assessed at three different levels with:

- A wide variety of financial indicators reported at the parent company level
- The revenue and operating profit for the reporting segment that includes the money transfer operation as well as other business units unrelated to workers remittances
- Estimates of the revenue and operating profit of the money transfer operation from information disclosed in SEC filings and industry analyst reports.



First Data and Western Union are significantly more profitable than competitors and peers

- The profitability of Moneygram and Dolex is higher than average Fortune 500 companies, but comparable to peer group companies at the parent, segment and money transfer operation levels. First Data has outperformed both of the other publicly held MTOs, as well as most of the peer group companies
- Western Union has sustained operating margins over 50% higher than other MTOs and its industry peer group, but may have difficulty maintaining these high margins in higher volume remittance corridors as competition intensifies.



MTO Parent Company Financial Performance vs Fortune 500 and Peer Group

	Profit as % of			One Year Growth (%)	
	Revenue	Assets	Shareholder Equity	Revenue	Profit
First Data Corporation					
2002	16	5	30	18	42
2003	16	6	35	12	14
2004	19	6	21	18	33
Moneygram International					
2002	8				
2003	16			4	98
2004	11	1	15	12	-24
Global Payments					
2004	10	7	14	22	17
Peer Group Average					
(American Express, Total System Services, DTS System, Sunguard Data System, Fiserv)					
2002	11.3	7.6	16.48		
2003	12.24	8.02	22.92	14.54	25.6
2004	11.26	6.78	19.38	12.54	4.98
Fortune 500 (Median)					
2002	3.1	2.3	10.2	1.2	14.5
2003	4.6	3.1	12.6	7.3	17
2004	5.2	4.1	13.9	10.3	20.3



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Operating Margins vs. Peer Group

Assessment Levels	Operating Margins as % of Profit		
	2002	2003	2004
Parent: First Data Corporation	23.1	23.1	23.3
Reporting Segment- Payment Services (1)	32.9	33.6	32.2
Western Union Money Transfer Operations (2)			32
Parent: Moneygram International	12.2	12	10.8
Reporting Segment- Global Funds Transfer (3)	22.7	21.5	19.3
Moneygram Money Transfer Operations (4)		13.5	14.9
Parent: Global Payments			17.9
Reporting Segment- None	11.3	7.6	16.48
Money Transfer Operations Including Dolex (5)			20
Peer Group Average	17.46	17.86	17.76
American Express	20.2	19.9	20
Total System Services	16.5	18.1	17
DST Systems	12.7	12.7	13
Sunguard Data Systems	20.7	21.1	21.1
Fiserv	17.2	17.5	17.7

(1) 90% Western Union-50%-55% Non-US/Canada Consumer to Consumer Money Transfers

(2) Piper Jaffray Estimate 2/05

(3) 85% Money Transfer Operations

(4) Piper Jaffray Estimate 2/05



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Summary Of Comparative Profitability Findings

- Overall profitability of the major MTOs is high compared to average Fortune 500 companies, but, with the exception of Western Union, is in the same range as peer group companies.
- Western Union has maintained exceptionally high margins due to its extensive distribution network in sending countries, a first-mover advantage in building powerful agency networks through partnerships in receiving countries (where it has generally developed the market) and a brand that is well-recognized and trusted worldwide.
- Western Union is lowering remittance prices (or, in the case of Mexico, offering lower priced delayed service) in response to increased competition in high volume corridors. However, these pricing pressures have not affected overall profitability due to growth in other higher priced corridors, including emerging markets where the company has aggressively expanded its networks over the past four years. In these other corridors, Western Union's high prices and profitability are not likely to decrease until the competitive environment intensifies.



Industry Cost Assessment



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Two basic business models are used in the MTO industry

- The “agency” model employed by Western Union, Moneygram and Vigo uses agents who nearly always operate other businesses in the same location in the receiving and sending countries
 - These agents pay for all rents, personnel and other fixed and operating expenses for the location in exchange for a commission.
 - Commissions are generally a fixed percentage of the MTO fee for the transfer, excluding foreign exchange spreads. However, in some countries, including Mexico, commissions to paying agents are negotiated at a fixed price per transaction.
- In the “branch” model used by Dolex and many of the smaller regional MTOs and small to mid-sized niche players, the MTO owns the sending, and often also the receiving, branch and pays for all fixed and operating costs associated with each branch.



Each of these business models has a different cost structure

- The costs of operating the cash collection and distribution locations are almost entirely variable for the agency model, but mostly fixed for the branch model
- The MTO's cost/transaction is lower for an agency when volume is low, but a branch is cheaper to operate in high volume locations
- Since the agency model leverages existing businesses on a commission basis, it is also much less capital intensive and can be expanded rapidly through partnerships at a much faster pace
- Due to the cost-volume relationship and capital requirements, the largest MTOs use the agency model, while the smaller regional competitors and niche players often use the branch model.
- Both models appear to have high fixed costs associated with the transaction processing operations (including the actual transfer process if the MTO has its own proprietary transfer system), compliance with regulatory monitoring and reporting requirements, marketing and the administration of the overall business.



Detailed cost data is not available, but some components of the cost structure for major MTOs using the agency model can be estimated

- Agent commissions, the dominant variable cost in the agency network model, vary considerably by corridor and company. Total commissions for both sending and receiving agents appear to be in the range of 40% to 60% of the remittance fee (excluding foreign exchange commission) for most MTOs, and 25% to 45% of the premium priced remittance fees charged by Western Union.
- Marketing costs for First Data's Payment Services reporting segment, which is nearly all Western Union, were disclosed as 7%-8% of segment revenue, approximately \$300 million. This number is included in selling, general and administrative costs, which totaled 16% of total revenue at the corporate level.
- Depreciation and amortization on capitalized costs, including the costs associated with building or purchasing software and systems to handle transactions and transfers, is approximately 3%-4% of total cost.
- Agency start-up costs have been estimated by Piper Jaffray at \$1000-\$1500 per new agency
- Licensing and regulatory compliance costs were not quantified in the study, but were considered a major problem by the small MTOs interviewed in the World Bank Andreassen study.



A model was developed to estimate Western Union's cost structure and capacity to lower remittance fees

- Information disclosed in SEC filings and the agency cost component estimates were used to develop a rough model of the cost structure for the international portion of Western Union's MTO activity that is most relevant to worker remittances
- A simple model (assuming that a 35% commission on fees is the only variable cost and that all other costs are fixed) was used to illustrate the impact that transfer fee price reductions would have on Western Union's international operating margins
- This model was also used to demonstrate how costs could be lowered by operating low cost regional hubs and increasing transaction volume



Estimated Cost Structure for Western Union International Transactions Related to Remittances

(Millions)

Estimated Elements of Cost Structure

Number of Transactions

Total Average

76 1

Revenue:

Fee Revenue

\$1,746 \$22.91

Foreign Exchange Spread Revenue

485 6.37

Total Revenue

\$2,231 \$29.28

Identifiable Costs

Variable Costs:

Agency Commissions @ 35% of Fee Revenue

\$(611) \$(8.02)

Fixed and Discretionary Costs:

Marketing @ 8% Total Revenue

\$(178) \$(2.34)

General and Administrative Costs @ 8% of Total Revenue

\$(178) \$(2.34)

Depreciation and Amortization @ 3% of Total Revenue

\$(67) \$(0.88)

Agency Start-up Costs (37K new agents @ \$1500/agent)

\$(56) \$(0.73)

Total Identifiable Costs

\$(1,090) \$(14.31)

Unidentifiable Variable and Fixed Costs

\$(468) (6.14)

Operating Profit

\$673 \$8.83

Operating Margin (Operating Profit as % of Total Revenue)

30% 30%



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Simple Fee vs Profitability Model for Western Union International Transactions

(Millions)	Current Margin		Peer Group Margin		Break-even Margin	
	Total	Average	Total	Average	Total	Average
Estimated Elements of Cost Structure						
Number of Transactions	76	1	76	1	76	1
Revenue:						
Fee Revenue	\$1,746	\$22.91	\$1,162	\$15.25	\$711	\$9.33
Foreign Exchange Spread Revenue	485	6.37	485	6.37	485	6.37
Total Revenue	\$2,231	\$29.28	\$1,647	\$21.62	\$1,196	\$15.70
Identifiable Costs						
Variable Costs:						
Agency Commissions @ 35% of Fee Revenue	\$(611)	\$(8.02)	\$(407)	\$(5.34)	\$(249)	\$(3.26)
Fixed Costs:						
Marketing	\$(178)	\$(2.34)	\$(178)	\$(2.34)	\$(178)	\$(2.34)
General and Administrative	\$(178)	\$(2.34)	\$(178)	\$(2.34)	\$(178)	\$(2.34)
Depreciation and Amortization	\$(67)	\$(0.88)	\$(67)	\$(0.88)	\$(67)	\$(0.88)
Agency Start-up Costs	\$(56)	\$(0.73)	\$(56)	\$(0.73)	\$(56)	\$(0.73)
Unidentifiable Costs	\$(468)	\$(6.14)	\$(468)	\$(6.14)	\$(468)	\$(6.14)
Total Fixed Costs	\$(947)	\$(12.43)	\$(947)	\$(12.42)	\$(947)	\$(12.42)
Operating Profit	\$673	\$8.83	\$294	\$3.85	\$1	\$0.01
Operating Margin (Operating Profit as % of Total Revenue)	30%	30%	18%	18%	0%	0%

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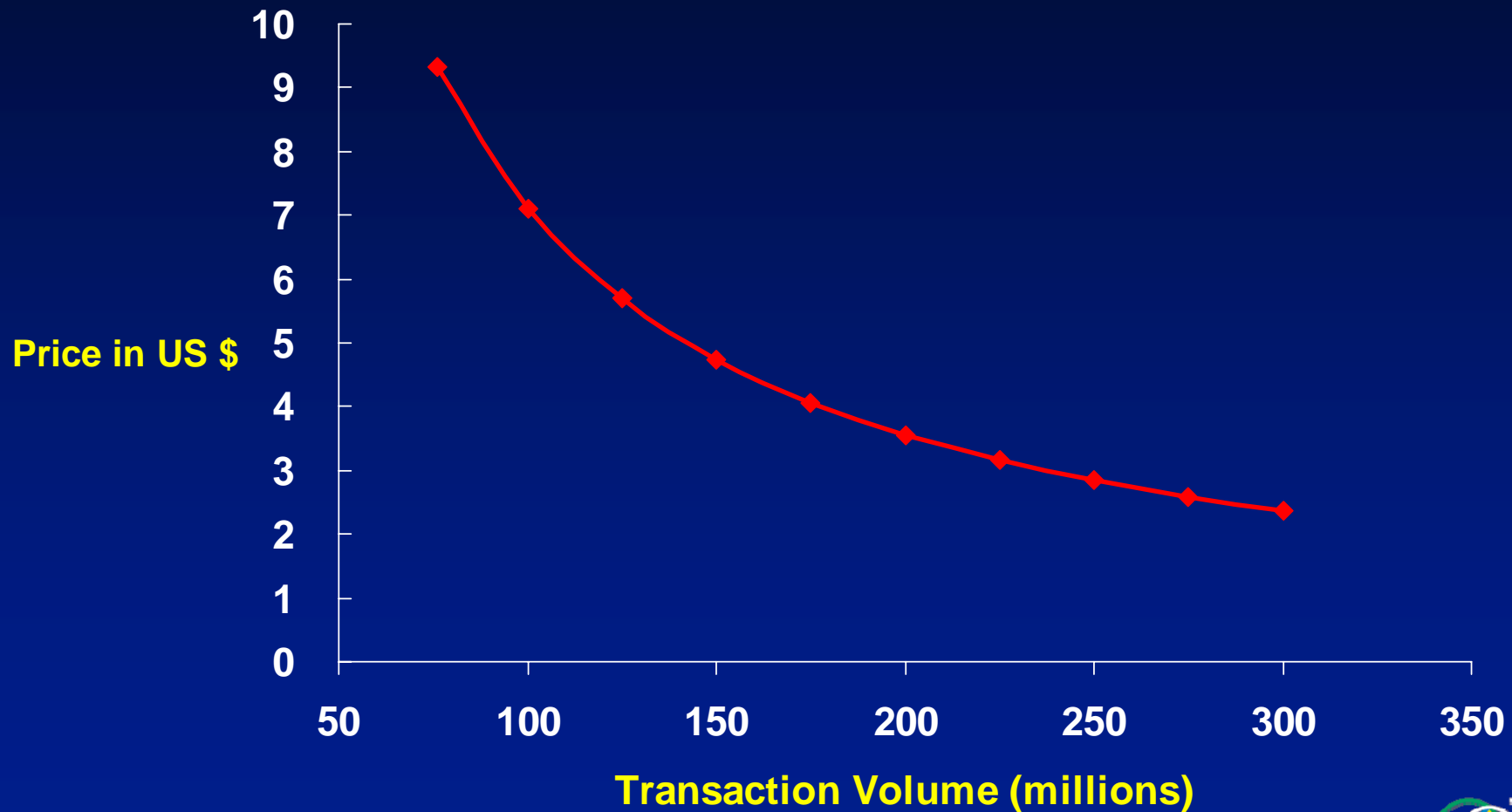
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Western Union: \$200 to India from US vs Saudi Arabia

(Millions)	Per Transaction Cost Structure		
Estimated Elements of Cost Structure	US-India	Assumption	Saudi-India
Number of Transactions	1		1
Revenue:			
Fee Revenue	\$14.00		\$6.67
Foreign Exchange Spread Revenue	\$6.26		\$6.26
Total Revenue	\$20.26		\$12.93
Variable Costs:			
Agency Commissions @ 35% of Fee Revenue	\$(4.90)		\$(2.33)
Fixed Costs:			
Marketing	\$(2.34)	PPP Ratio (35.2%)	\$(0.82)
General and Administrative	\$(2.34)	PPP Ratio (35.2%)	\$(0.82)
Depreciation and Amortization	\$(0.88)		\$(0.88)
Agency Start-up Costs	\$(0.73)		\$(0.73)
Unidentifiable Costs	\$(6.14)		\$(6.14)
Total Fixed Costs	\$(12.43)		\$(9.40)
Operating Profit	\$2.93		\$1.20
Operating Margin (Operating Profit as % of Total Revenue)	14%		9%



Western Union International: Operating Profit Break-Even Price vs Volume



Summary Of Industry Cost Structure Findings

- Although agency costs of the largest MTOs are almost purely variable, the central operations costs of supporting the transfers, transaction processing, regulatory compliance and administration of these organizations appear to be primarily fixed, with significant economies of scale
- Approximate cost structure models suggest that Western Union has considerable latitude to reduce its fees on international remittances
 - Reducing average fees by a third would still provide operating margins comparable to competitors and peers
 - Marginal profitability could still be maintained if fees were cut in half
- The company should have even more capacity to lower prices in the future by using lower cost regional hubs and increasing transaction volume
- Increased regulatory requirements that add to fixed costs put smaller competitors at a competitive disadvantage relative to the larger operators



Factors Contributing To Remittance Prices



Factors Contributing To Remittance Prices

The potential impact of three sets of factors on remittance prices were analyzed quantitatively wherever possible, and qualitatively using anecdotal examples

- Corridor-Specific Factors
- Sending Country-Specific Factors
- Receiving Country-Specific Factors



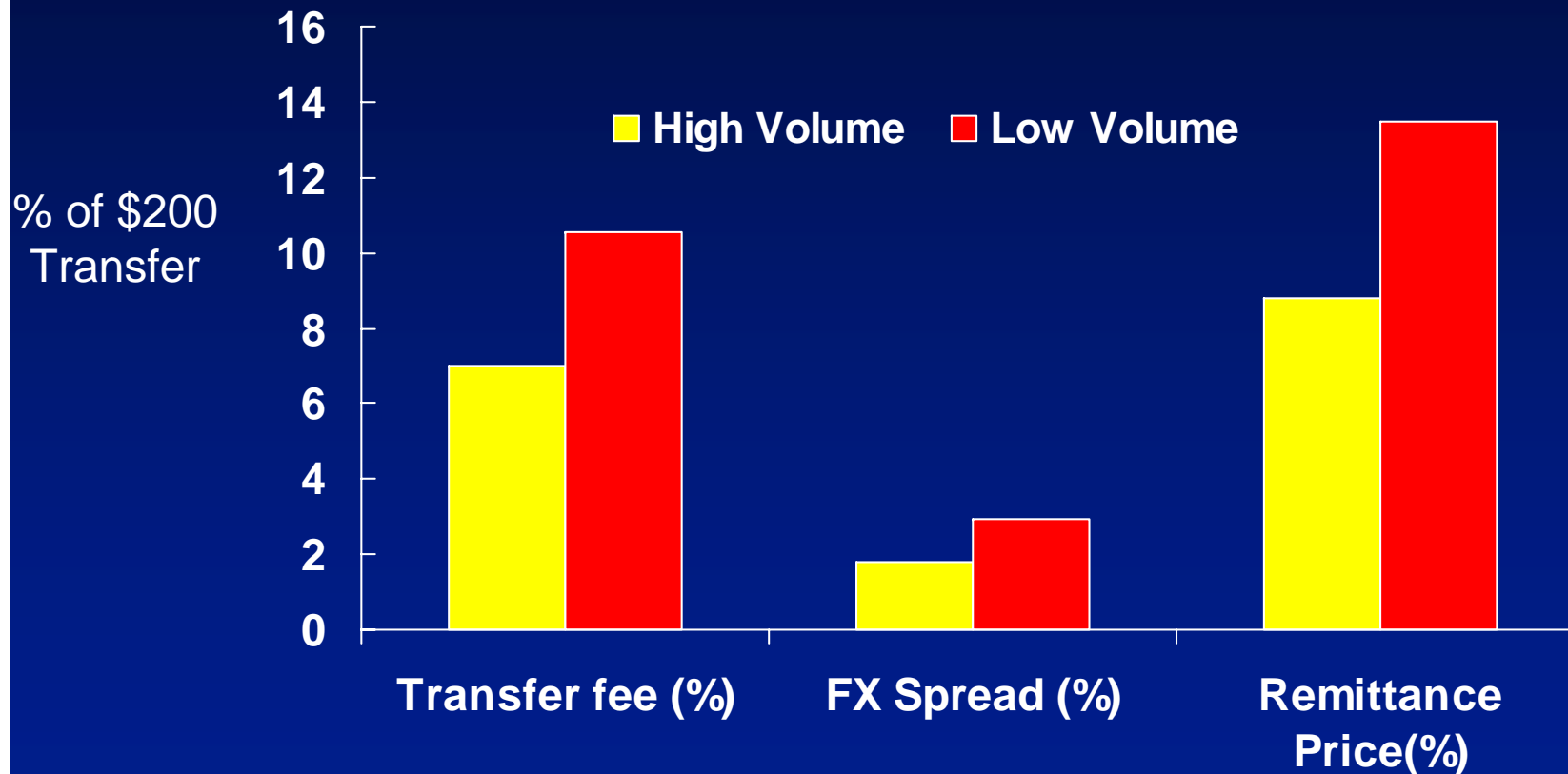
Corridor-Specific Pricing Factors

- Corridor volume appears to be the single most important factor contributing to remittance prices.
- The next most influential price determinant is the extent to which global MTOs' partner with national postal systems to expand their agency networks in either the sending or receiving end of the corridor
- Other factors that appear to have an impact on corridor pricing include:
 - active participation of banks, credit unions or other non-bank financial institutions in the remittance market
 - cultural and geographic commonality with group of countries that includes one highly competitive, high volume corridor with lower prices
 - the strength of informal transfer network in the corridor
 - government policy initiatives within a corridor



Corridor volume has a major impact on remittance prices

Western Union Fees and Foreign Exchange Spreads
For \$200 transfers from US (NYC)*



*Note: High volume corridors are those with total annual remittance flows above \$500 million based on 2004 World Bank data.



DEVELOPMENT PROSPECTS

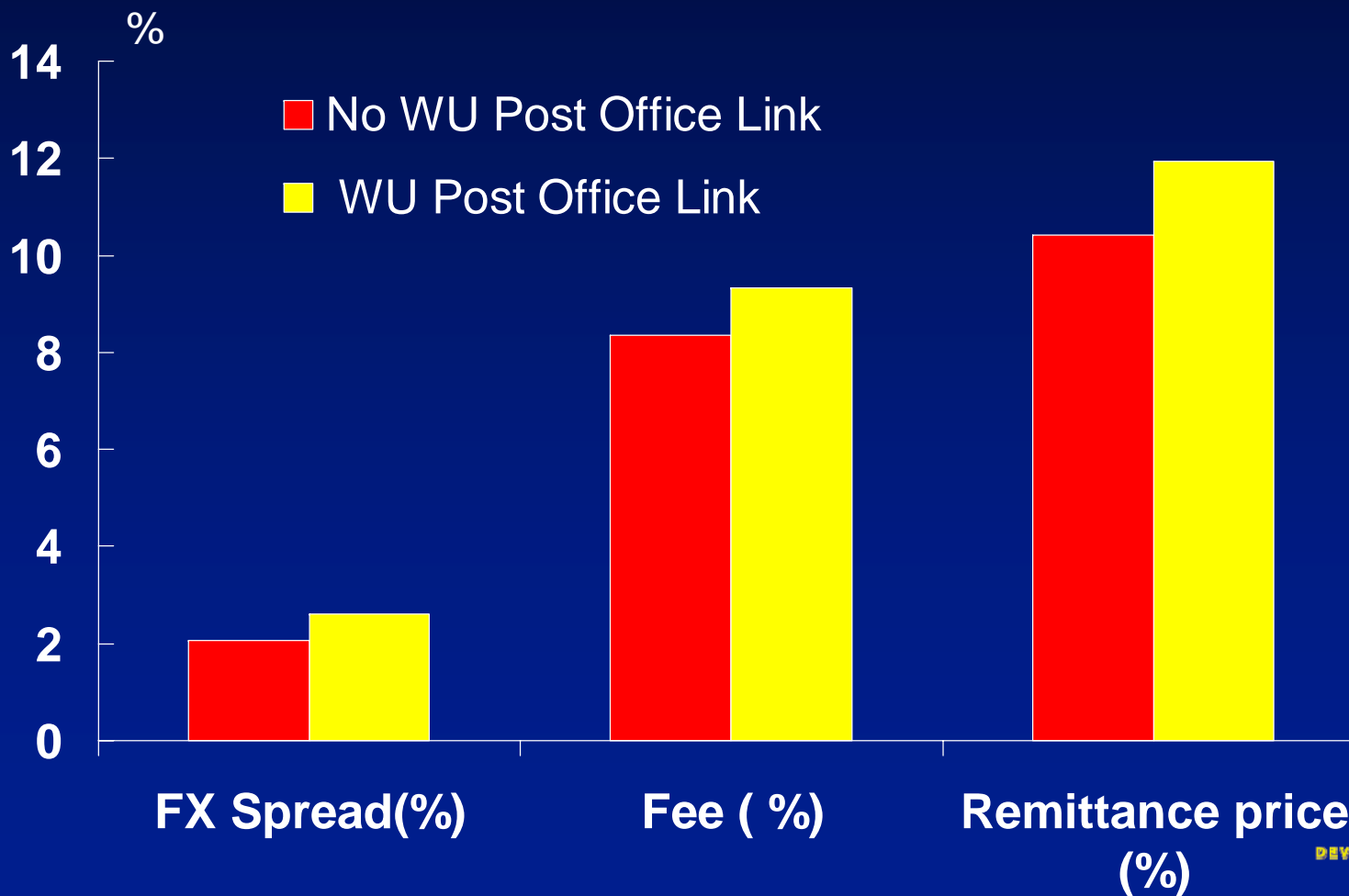
Corridor-Specific Pricing Factors

- Corridor volume appears to be the single most important factor contributing to remittance prices.
- The next most influential price determinant is the extent to which global MTOs' partner with national postal systems to expand their agency networks in either the sending or receiving end of the corridor
- Other factors that appear to have an impact on corridor pricing include:
 - active participation of banks, credit unions or other non-bank financial institutions in the remittance market
 - cultural and geographic commonality with group of countries that includes one highly competitive, high volume corridor with lower prices
 - the strength of informal transfer network in the corridor
 - government policy initiatives within a corridor



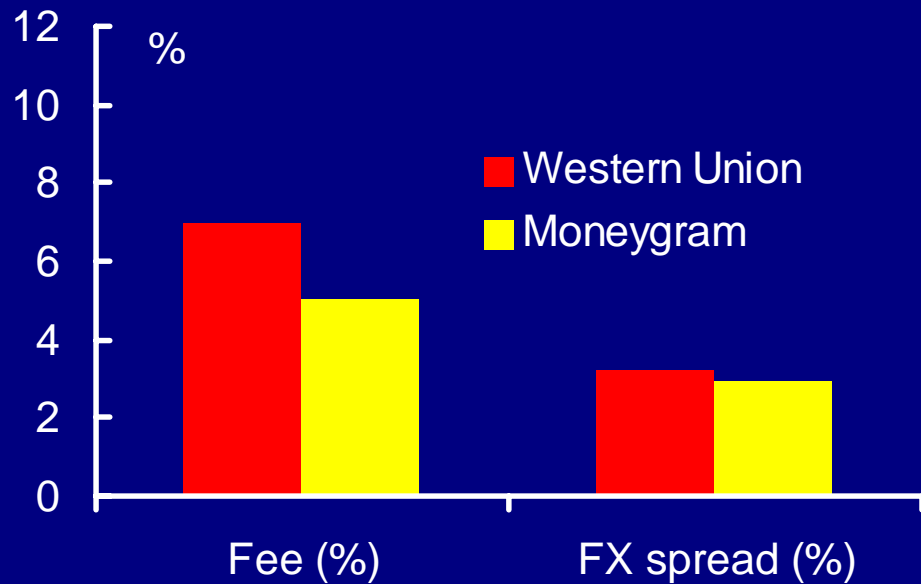
Western Union's prices are significantly higher in US corridors where the company has partnered with the receiving country postal system

Impact of Western Union-post office link in recipient countries for \$200 transfers from US (NYC)*

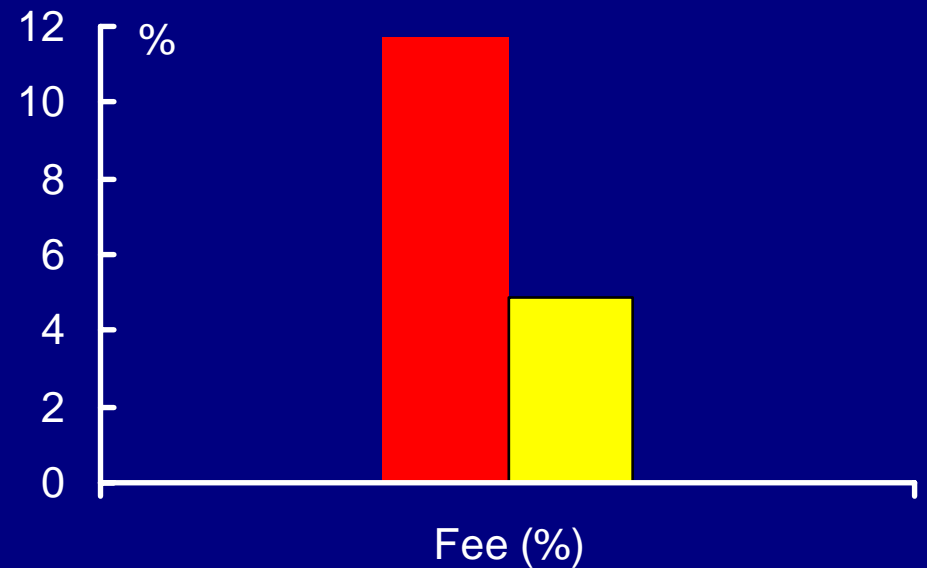


Price impact of Western Union-Postal System link in two high volume corridors...

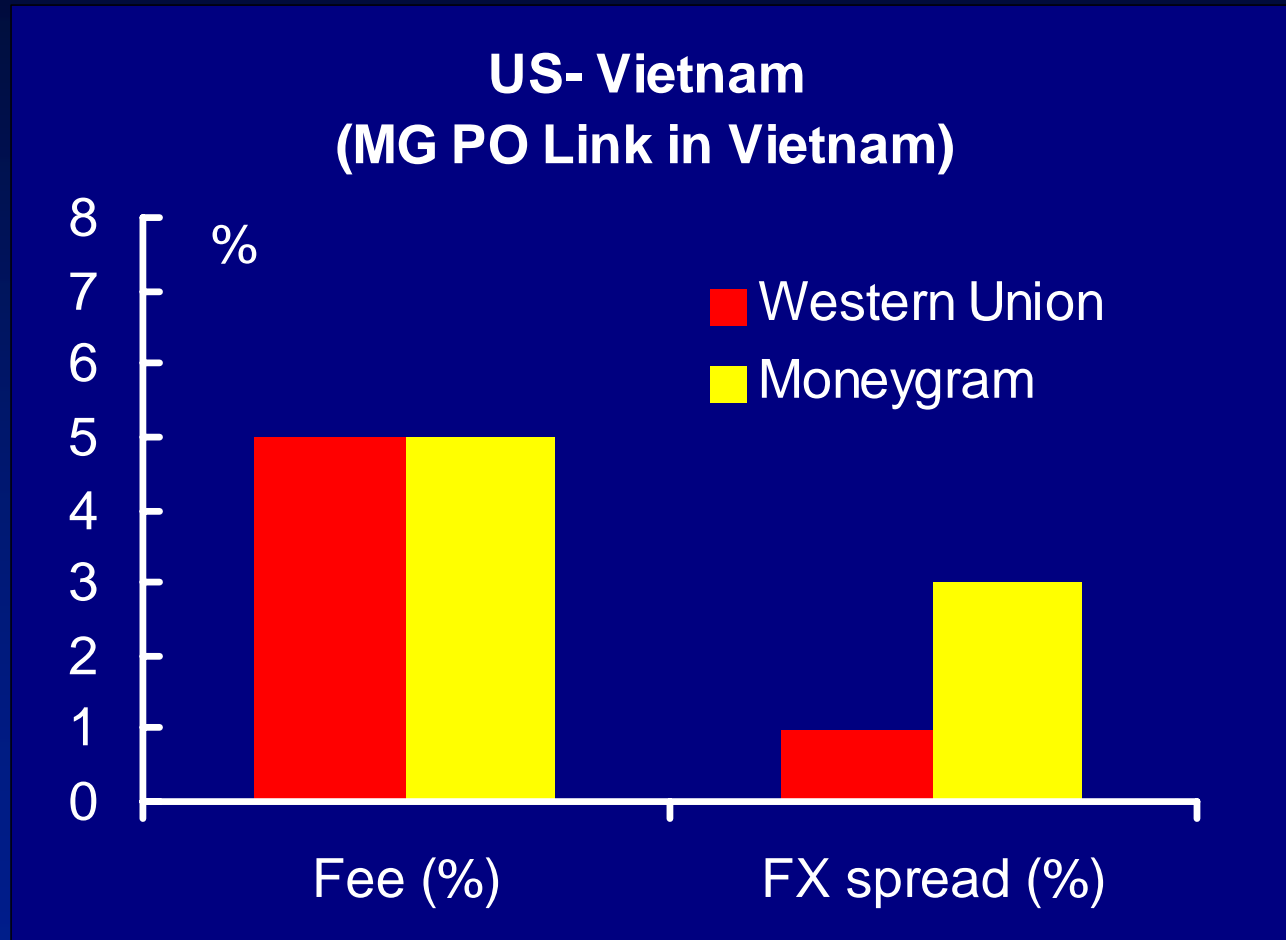
**US- India
(WU PO Link in India)**



**France-Morocco
(WU PO Link in France and Morocco)**

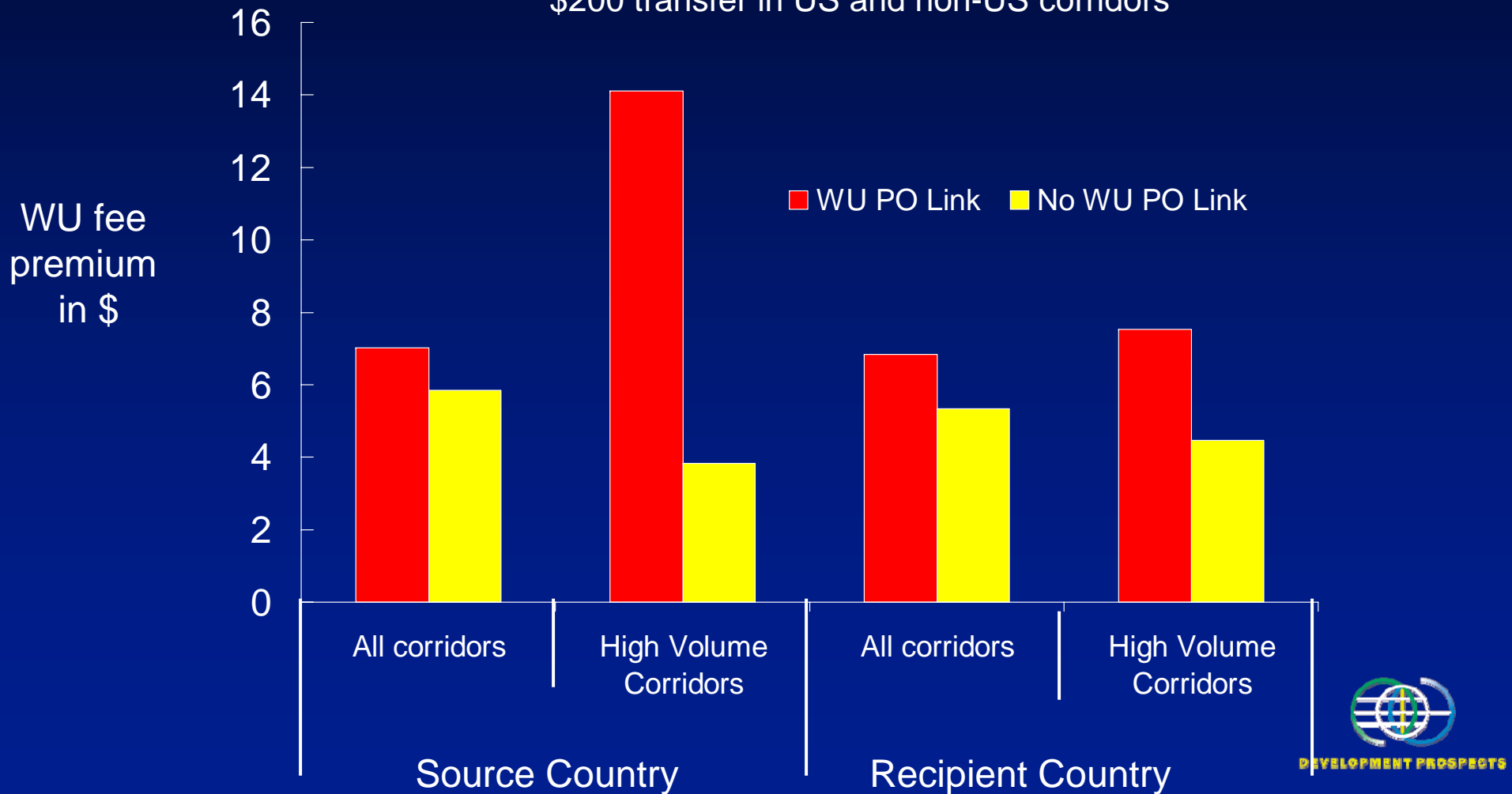


...and price impact of Moneygram-Postal System link



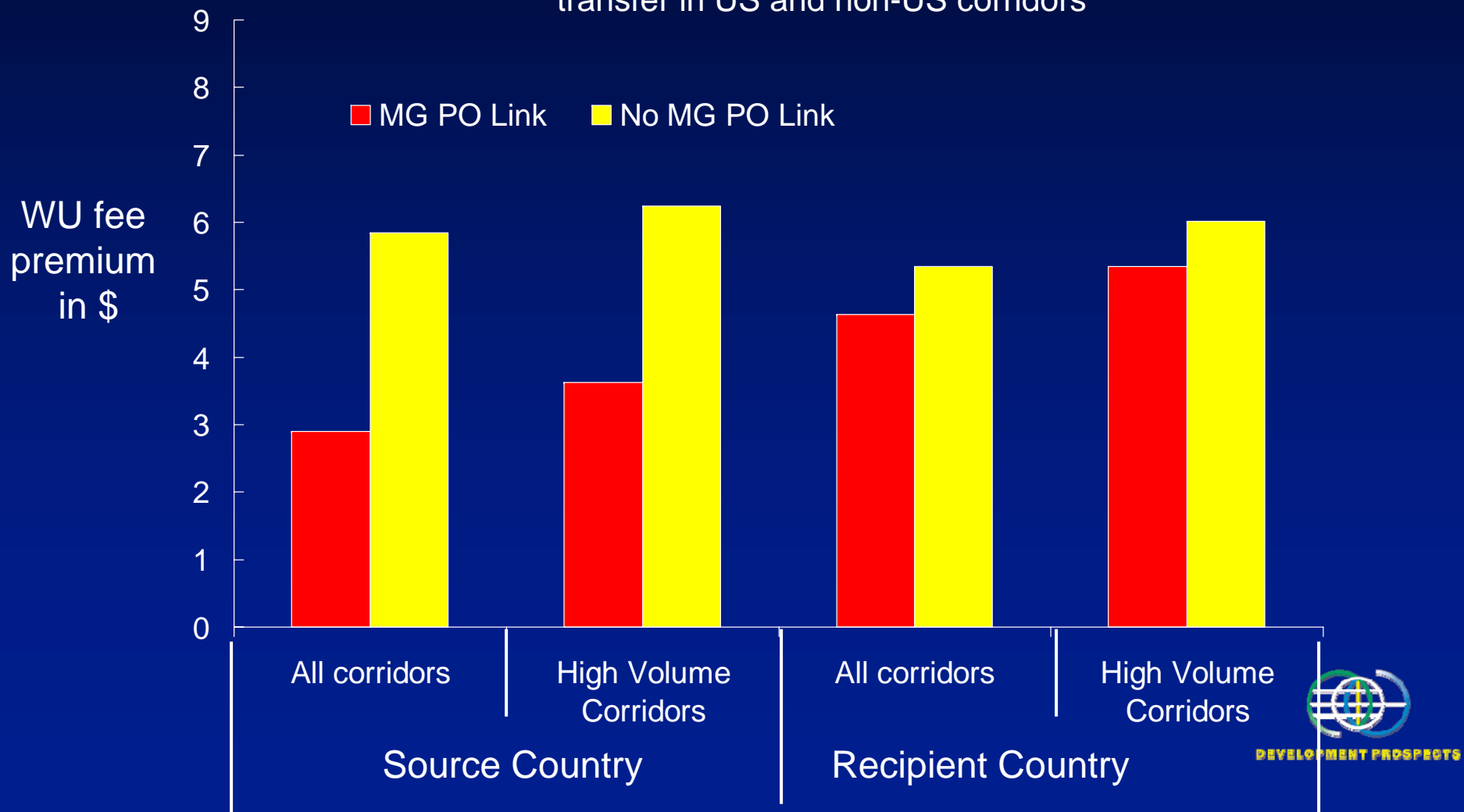
Western Union's price premium over Moneygram fees is significantly higher in corridors where Western Union has partnered with the postal system

Impact of Western Union-post office links in sending or receiving countries on Western Union price premium over Moneygram fees for \$200 transfer in US and non-US corridors



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Sending Country-Specific Pricing Factors

- A restrictive regulatory climate may be discouraging competition from smaller MTOs and enabling large players to maintain higher fee prices in the EU and, to less of an extent, the US corridors.
- Other sending country factors that appear to have an impact in pricing include:
 - migrant access to low cost alternative remittance options through banks and non-bank financial institutions
 - The level of competition from the informal transfer network within the sending country



Receiving Country-Specific Pricing Factors

- There are several specific cases in which the access to modern, efficient, low cost transfer, payment and clearing systems in the receiving country may have been a factor in remittance prices.
 - Analik
 - Bancomer
 - Credit union access to payment/clearing systems
- In receiving countries with high levels of mobile phone, Internet, ATM and POS usage, product and service innovations utilizing these technologies are beginning to offer low cost remittance alternatives that could have a significant impact on remittance pricing in the future.
 - Smart communication
 - Xoom



Summary of Remittance Pricing Factor Findings

- Corridor volume, which attracts global and regional MTOs as well as small niche players that compete on price, appears to be the most significant factor driving remittance fee prices.
- Exclusive agency partnerships between large Global MTOs and postal systems also appear to have a major influence on remittance prices by serving as a significant entry barrier to small competitors and allowing high prices to be maintained even in the face of serious competitive challenges from other large, lower priced rivals.
- Restrictive regulations in the US and sending countries in the EU may also have an impact on pricing by discouraging new competition and making it easier for the large global MTOs to maintain higher prices.
- Other factors that appear to influence remittance pricing within a corridor include:
 - the active participation of banks, credit unions and other non-bank financial institutions in the remittance market
 - migrant access to low cost alternatives offered by these organizations
 - technology and product/service innovations
 - the strength of the informal transfer network
- Government policy initiatives may have helped reduce remittance prices in selected corridors such as the US to Mexico, but the significance of their impact is difficult to assess.



Remittance Fee Pricing Trends And Driving Factors



Remittance Fee Pricing Trends And Driving Factors

Remittance fee prices have declined dramatically in corridors such as the US to Mexico and Hong Kong to the Philippines in recent years. The study findings were used to identify the competitive, technological and policy factors that appear to be most influential in driving these price reduction trends and to make some observations on the future direction of remittance fee prices



Competitive Factors

- The proliferation of new, small and mid-sized niche MTOs that compete by offering the lowest prices
- Intensified competition in high volume corridors between global and regional MTO's seeking additional volume and increased market share.
- Increased competition in emerging corridors, such as the Gulf to South Asia, as global, and some large regional MTOs implement aggressive expansion programs in these areas
- The active participation of banks such as Bank of America, and ICICI offering low or negligible transfer fees to attract migrant accounts
- The activities of banks such as Bancomer and Analik, that focus on low priced remittance services as a major source of revenue
- The participation of credit unions and other non-bank financial institutions offering low fees for their members



Technology and Product Factors

- Investment in low cost transfer, processing and settlement systems employing modern technology
- The introduction of innovative, low cost alternative remittance products and services using the internet, mobile phones, ATMs, credit/debit cards or POS devices, such as those offered by Xoom, Ikobo, Smart Communications and others



Government Policy Factors

- Migrant education programs that include information on remittance options and their costs, such as those provided by the Philippine Government.
- Unilateral policy initiatives in receiving countries, such as Mexico's "Matricula Consular" identity card program that provides migrants with access to lower cost remittance services offered by banks and other financial organizations.
- Bilateral policy initiatives such as the joint US-Mexican program that linked the automated clearinghouse (ACH) systems used by their central banks to reduce the cost of remittance transactions between the two countries



Future Fee Pricing

- After a rapid rate of decline from 1999-2003, remittance fees in the US-Mexico corridor appear to be stabilizing, and major decreases are not expected in the near future
- The remittance industry appears to be consolidating
 - Global MTOs are acquiring large regional players (Western Union's pending acquisition of Vigo)
 - Regional players are being acquired as growth platforms by large financial service organizations (Global Payments acquisition of Dolex)
 - Mid-sized MTOs are merging with or acquiring other mid-sized firms and small niche players in high volume corridors such as the US to Mexico
- Industry consolidation could significantly reduce the number of small to mid-sized competitors and lead to less price competition among the remaining MTOs.



Summary Of Remittance Fee Pricing Trend And Driving Factor Findings

- Competition within the higher volume corridors, particularly among the small to mid-sized niche players that compete by offering the lowest prices, is most responsible for the trend toward lower remittance fees.
- Technology and product /service innovations are expected to have a major influence on prices in the future, but so far have only had a significant impact in a few areas.
- Policy initiatives appear to have been helpful in some corridors, but the significance of their impact is difficult to access.
- After any major drop, prices in most high volume corridors are likely to stabilize, particularly if the trend toward industry consolidation accelerates.



The Need For Additional Government Policy Initiatives



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The Need For Additional Government Policy Initiatives

- **In high volume remittance corridors without overly restrictive government regulations, remittance fees are likely to be driven down over time by competitive pressures, technology and product/service innovation without additional government policy initiatives, although such initiatives may accelerate the process.**
- **In most lower volume corridors and a few high volume corridors, such as France to Morocco and others originating in the EU, specific government policy initiatives are more likely to be an important factor in lowering remittance fees**



Policy Recommendations Suggested by Findings

- Encouraging postal systems and other state owned distribution alternatives to open their networks to multiple MTO partnerships on a non-exclusive basis
- Avoiding over-regulation and excessive monitoring or reporting requirements that could drive out smaller competitors who lack the economies of scale to absorb the cost of compliance
- Fostering a regulatory, tax and general business environment that encourages the formation and growth of the small to mid-sized niche MTOs who compete by offering very low prices
- Taking measures to facilitate migrant access to lower cost remittance options offered by banks through ATMs, credit cards and free transfers
- Creating a legal and regulatory environment that encourages receiving country banks that focus on low cost remittance services, such as ICICI and Bancomer, to establish partnerships or branches in sending countries



Policy Recommendations (Cont'd)

- Eliminating or moderating costly or restrictive licensing requirements to encourage new competition
- Increasing consumer awareness of the high level of foreign exchange spreads to encourage more exchange rate competition and help lower overall remittance costs
- Educating potential and actual migrants on the costs and alternative methods of sending cash remittances home, including the major remittance fee savings that are possible by sending fewer, but larger remittances to take advantage of MTO fee pricing brackets
- Encouraging the creation of new financial services that would allow migrants to meet the weekly cash needs of their families in receiving countries while also accumulating the cash required to reduce remittance fees by increasing the size and decreasing the frequency of each cash transfer
- Providing local credit unions and other non-bank financial institutions that handle remittances for their members with access to low cost national clearing and payment systems
- Encouraging the adoption of technology to enhance the development of distribution networks and improve the transfer and payment infrastructure in receiving countries



Thank You !



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