

The power of choice:

Options and trade-offs for digital remittances

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This paper provides an update to the data presented in the Visa Economic Empowerment Institute's 2022 paper, *The economic empowerment of digital remittances: How to unlock the benefits of innovation and competition*. The research team has updated the information on remittance trends and expanded VEEI's 2023 research into remittance options and costs from 25 to 50 global corridors. We also offer insights derived from the new data, many of which relate to our previous remittance policy recommendations.



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About the Visa Economic Empowerment Institute

VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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Introduction

In *The economic empowerment of digital remittances: How to unlock the benefits of innovation and competition*, the Visa Economic Empowerment Institute highlighted the importance of remittance inflows to people and the countries where they live; examined the latest global remittance trends; described the advantages of digital remittances and the transparency they afford; detailed the Institute's own research into remittance costs; and offered recommendations for further unlocking these benefits for migrant workers, their families, businesses, and communities (Harper & Rakkappan, 2022). Those five recommendations, abbreviated below,¹ still stand:

Begin with digital enabling infrastructure, if it does not already exist.

The digital receipt and use of remittances will be a non-starter without basic enabling infrastructure. For millions of people, basic infrastructure like electricity will be a barrier to the digitization of remittances, payments, and commerce. Beyond electricity, internet connectivity—and increasingly broadband connectivity—will be crucial.

Focus on digital enablement broadly, keeping both consumers and businesses in mind.

While the digital receipt of remittances is critical for further progress on efficiency, we must keep in mind that the larger goal is to digitally enable everyone, everywhere, to fully participate in this new world. Individuals need to be able to receive remittance funds digitally and then to use them digitally, with ubiquity. This requires digitally enabling businesses, especially small businesses, helping them to accept digital payments and to connect them to digital marketplaces. Therefore, consumers and businesses must both be part of the equation in achieving digital ubiquity, and the countries that have driven digital ubiquity most successfully over the last decade have worked to drive adoption on both sides.

Aim for an open, interoperable digital ecosystem built on a foundation of resilience and security.

Interoperability should be favored over uniformity—more paths are better than one. A truly interoperable service should be able to reach as many endpoints as possible: traditional bank accounts, prepaid accounts, or digital wallets.

¹ See the cited paper for a more detailed discussion of the policy recommendations.

Streamline the compliance environment to reduce cross-border frictions.

While the private sector is innovating, competing, and improving speed and efficiency, policymakers have a key role to play. Remittances go through a number of regulatory regimes that currently add frictions. But these frictions can be reduced by streamlining and aligning compliance rules as much as possible.

Simplify the licensing process to allow remittance innovation and competition to thrive.

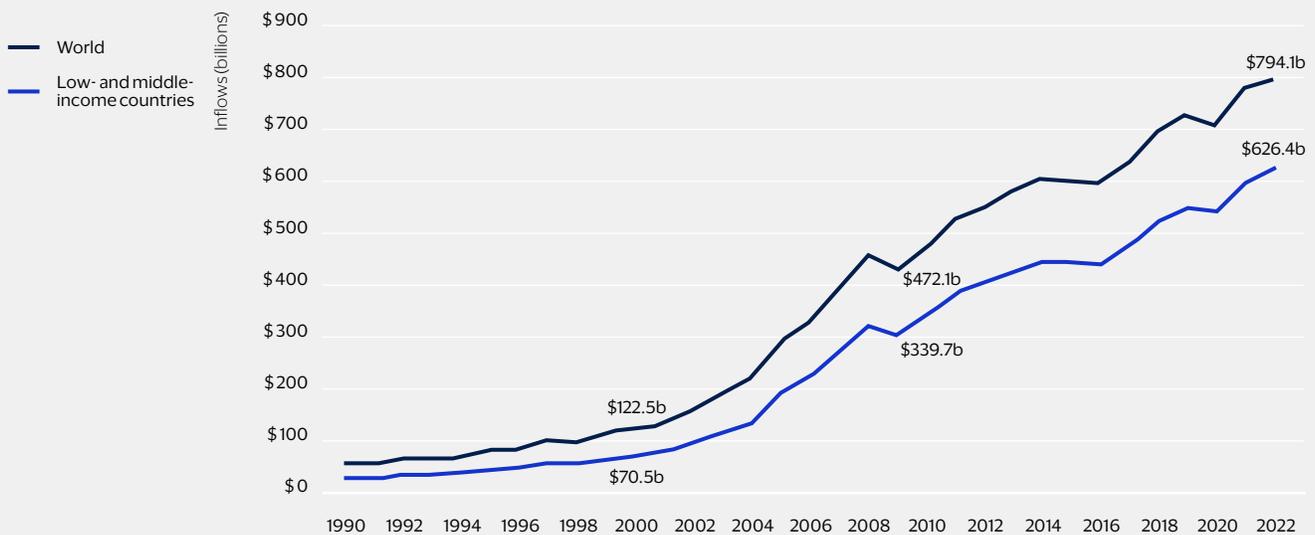
Policymakers can also help the private sector introduce innovations more quickly and with less burden. Increased consistency of licensing requirements would help remittance service providers enter and operate across multiple geographies with less friction. Streamlining licensing requirements and processes will help new market entrants bring the benefits of digital remittances to more corridors, and therefore to more people.

This paper is primarily an update to the data presented in our more wide-ranging 2022 publication. We have updated the information on remittance trends and expanded the Institute's research into remittance options and costs by extending the scope of our research from 25 to 50 global corridors. We find that an "under 3 percent" cost option was available in 40 of the 50 corridors, but a key imperative is digitally enabling migrant workers to find the options that are best for them. Other insights are offered from the new data, many of which relate to VEEI's previous remittance policy recommendations.

Remittances remain critical for hundreds of millions of families and many of their home countries

Remittances proved surprisingly resilient during the pandemic, and Figure 1 shows that inflows for 2022 grew strongly, reaching \$794 billion globally and \$626 billion for low- and middle-income countries (LMICs).² In addition to being a critical lifeline for families, remittances play an important role in the economies of many countries. In 2022, 29 countries received over 10 percent of their GDP in remittances, while seven of these (Honduras, Kyrgyz Republic, Lebanon, Samoa, Tajikistan, The Gambia, and Tonga) received over 25 percent of their GDP this way (KNOMAD, 2022).

Figure 1: Remittance inflows (world, low- and middle-income countries), 1990-2022



This line plot displays the value of remittance inflows between 1990 and 2022, with one line representing world inflows and another representing inflows to LMICs. In 1990, both values stood below \$100 billion. Throughout the period, the values grew steadily with only occasional downturns. By 2022, the value of world remittance inflows grew to \$794.1 billion and inflows to LMICs grew to \$626.4 billion.

Source: World Bank - KNOMAD, November 2022. Data labels show values for 2000, 2010, and 2022. Value for 2022 represents KNOMAD's estimate as of December 2, 2022.

² Final 2022 figures from KNOMAD (when available) may reflect even higher inflow totals.

Remittances have been digitizing, especially as a result of the pandemic

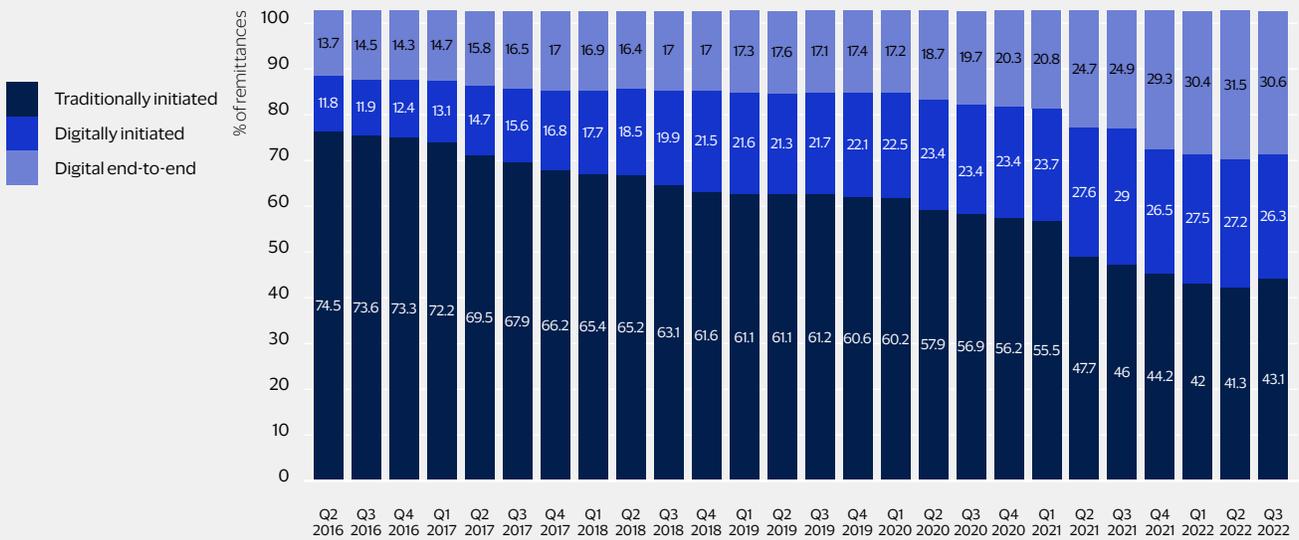
Border closures and business lockdowns in the early days of the COVID-19 pandemic bolstered digital money movement options and their adoption by remittance senders. These digital options offer a variety of advantages for senders and receivers (including cost, security, and speed).³ Figure 2 shows that strong progress has been made on digitizing remittances, but still only 57 percent of global remittances are initiated digitally, and less than one third of them are received in digital form.⁴ A key policy focus needs to be on how to enable more of these digital transfers. There does appear to be strong consumer interest in maintaining and expanding the digital progress made over the last few years. A recent ten-country survey by Visa (2023) found that 53 percent of surveyed respondents prefer digital methods for moving money internationally, when compared to going to a physical bank or branch (34 percent); sending cash, checks or money orders by mail (12 percent); or giving money to another person who is traveling to their home country (11 percent).⁵

³ The advantages are discussed in more detail in the 2022 paper.

⁴ For 2023, we worked with DevTech Systems to update our methodology for assessing data in the World Bank's Remittances Prices Worldwide database. The remittances we call "digital end-to-end" now reflect what the World Bank considers to be a digital remittance. We find it useful to also highlight those that are digitally initiated, even if they were not digitally received.

⁵ Survey was conducted by Visa and Morning Consult from December 14 to 28, 2022 among a sample of remittance senders and receivers across the U.S., Canada, México, Peru, France, Poland, Philippines, Singapore, United Arab Emirates, and Saudi Arabia.

Figure 2: Digital makeup of world remittance inflows, Q2 2016 - Q3 2022



This stacked bar plot displays the percentage of world remittance inflows that fall into one of three categories: traditionally initiated, digitally initiated, and digital end-to-end. Each observation represents one quarter between Q2 2016 and Q3 2022. In Q2 2016, traditionally initiated remittances made up 74.5 percent of the total, while digitally initiated remittances made up 11.8 percent and digital end-to-end made up 13.7 percent. Traditionally initiated remittances continued to make up more than half of the total until Q2 2021, when they fell to 47.7 percent. By Q3 2022, traditional remittances made up only 43.1 percent of the total, while digitally initiated made up 26.3 percent and digital end-to-end made up 30.6 percent.

Source: VEEI and DevTech Systems analysis of World Bank Remittance Prices Worldwide data.

Digital remittances cost less than cash ones, and access to better information helps them cost even less

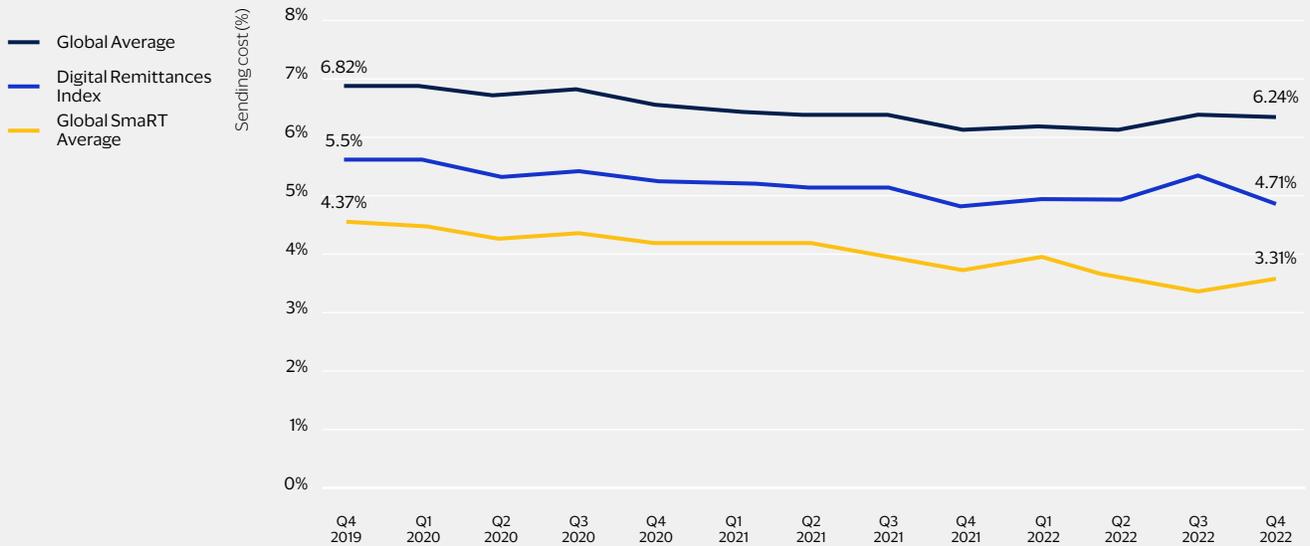
The World Bank tracks remittance costs in a variety of ways, some of which are shown on Figure 3. As of Q4 2022, the World Bank's (2023) Remittance Prices Worldwide database shows that:⁶

- The global average cost of sending a \$200 remittance is 6.24 percent (\$12.48)—this is the headline number policymakers most often mention. This number is heavily influenced by the fact that many remittances still involve cash.
- The digital remittances index (for remittances digitally initiated in an online or self-assisted way) is 4.71 percent (\$9.42).
- The Global SmaRT Average—constructed by averaging the three lowest costs in each corridor—reflects what a savvy consumer could pay to transfer remittances. The SmaRT index is at 3.31 percent (\$6.62)—very close to the 3 percent UN Sustainable Development Goal 10 target.⁷ It is clear that access to information really helps obtain a lower cost.

⁶ The cost of remittances is calculated as the simple average total cost for sending \$200 or \$500 (and their equivalents) through remittance service providers (RSPs), as captured by the World Bank (2022) Remittance Prices Worldwide database. The total cost charged by a provider includes the remittance transfer fee and, importantly, the foreign exchange rate applied by the RSP. The total costs in this discussion are represented as a percentage of a \$200 remittance.

⁷ In 2015, the United Nations General Assembly (UNGA), seeking to reduce inequality among countries, adopted a 3 percent remittance cost target (for a \$200 remittance) to be achieved by 2030 as a part of their Sustainable Development Goals (SDGs). More recently, remittances have become an important part of the cross-border payments roadmap being managed by the Financial Stability Board (FSB, 2020) with significant support from the Committee on Payments and Market Infrastructures (CPMI), International Monetary Fund (IMF), World Bank Group (WBG), and others. In October of 2021, the FSB reaffirmed the remittance cost target of 3 percent, and new targets for speed, access, and transparency were added.

Figure 3: Cost (%) of sending a \$200 remittance, Q4 2019 - Q4 2022



This line plot displays the average cost of sending a \$200 remittance payment between Q4 2019 and Q4 2022 using three metrics from the World Bank: the global average, digital remittances index, and global SmaRT average. Throughout the period, the global average remained highest, followed by the digital remittances index, and lastly, the SmaRT average. In Q4 2019, the global average stood at 6.82 percent, falling to 6.24 percent by Q4 2022. During the same period, the digital remittance index fell from 5.5 percent to 4.71 percent and the SmaRT average fell from 4.37 percent to 3.31 percent.

Source: World Bank Remittance Prices Worldwide quarterly reports.

2023 cost research highlights the success of innovation and the imperative of digital enablement

While the World Bank’s cost data is derived from a sample of completed remittances (what actually happened), the Institute partnered with DevTech Systems, Inc. to look further into “what might have happened” if remittance senders had digital tools and skills. We first examined digital remittance costs in 28 corridors in February 2021. The corridors were chosen to represent a good number of the top receiving countries—both the ones that receive the most in value and the ones that receive a high percentage of their GDP in remittances. We repeated the exercise in February 2022, and expanded the corridors to 50 in 2023, adding several intra-regional corridors and several for Ukraine as a receiver, among other additions.⁸ The analyses that follow will look at the newly expanded set of corridors.

Our research methodology

A positive aspect of digital remittances is that consumers can shop around for options if they have digital tools—much like a consumer can check prices of items they plan to purchase online. We examined options available to a migrant worker or consumer across five money transfer operators (MTOs). Data were gathered for a couple of established MTOs that offer a digital remittance product and for a few of the new digital-first MTOs. For our selected MTOs, a user is able to select a corridor, payment method, and pickup method and see the costs—broken into transfer fees and foreign exchange margins—before sending the remittance. We used this modeling capability to examine costs for \$200 and \$500 remittances (or the sending country’s equivalent) for the corridors, without actually completing the transfers. Data were gathered for a given corridor quickly (across just a couple of days) to mitigate the effects of market fluctuations for a given corridor. Also, the team ignored “introductory offers” and any exchange rate “bonuses.” Importantly, data were gathered for every possible permutation of a remittance at a given MTO. For example, if an MTO offered three payment methods (debit card, credit card, and bank account transfer) and three pickup options (card, bank account, or cash for in-store pick up at a partner location), there would be nine total permutations to record costs for. Each of these permutations would involve a sending fee and a foreign exchange rate. In some corridors, there were more than nine permutations for each MTO. For \$200 remittances across 50 corridors and five money transmitters, we gathered and analyzed over 2700 cost records (involving a computed total cost which combines a sending fee and foreign exchange rate).

⁸ The research team excluded three previous Russian corridors when expanding the list to 50 for 2023.

A view of the remittance cost data by corridor

Table 1 shows the results of the data gathering for \$200 remittances.⁹ For a given corridor, the mean and median costs are shown, which are derived from all the cost permutations for that corridor across all of the MTOs. We also show the highest and lowest costs identified for a given corridor.

Table 1: Cost (%) of sending a \$200 remittance in 50 corridors, 2023

2021-2023 corridors	Median	Mean	Highest	Lowest	New 2023 corridors	Median	Mean	Highest	Lowest
Australia-Vietnam	2.24	2.60	6.05	0.73	Canada-Philippines	4.21	4.08	7.42	1.10
Canada-Vietnam	2.48	3.15	6.05	0.80	Czech Republic-Ukraine	1.78	1.87	4.93	0.49
France-Algeria	2.27	3.28	6.59	1.98	France-Morocco	3.63	2.96	5.93	0.46
Germany-Vietnam	3.76	3.49	6.05	1.16	Germany-Ukraine	1.89	2.52	7.73	1.17
Greece-Albania	4.76	4.86	7.76	2.16	Italy-Romania	2.07	4.93	13.60	0.58
Italy-Albania	0.62	1.70	4.38	0.27	Italy-Ukraine	1.78	2.33	6.13	0.44
Italy-India	2.45	2.45	2.45	2.45	México-El Salvador	2.24	2.79	6.50	0.24
Kuwait-India	4.06	4.06	4.94	3.19	México-Guatemala	0.99	1.16	2.24	0.24
New Zealand-Samoa	5.19	5.16	7.62	3.25	México-Nicaragua	5.25	5.25	6.50	4.00
Saudi Arabia-Bangladesh	6.33	6.29	6.83	5.42	Poland-Ukraine	1.78	2.25	5.77	1.45
Saudi Arabia-Indonesia	5.77	5.53	8.28	3.28	Saudi Arabia-Egypt	6.31	6.43	6.81	6.31
Saudi Arabia-Nepal	4.44	4.44	4.44	4.44	Slovakia-Ukraine	1.63	1.98	4.08	1.22
United Arab Emirates-Egypt	6.93	6.27	7.43	2.88	South Korea-Cambodia	2.50	3.25	8.00	0.00
United Arab Emirates-India	2.63	3.37	5.77	1.85	Spain-Venezuela	4.89	4.89	4.89	4.88
United Arab Emirates-Pakistan	5.56	4.58	6.28	2.31	Switzerland-Serbia	6.55	6.47	6.79	6.05
United Arab Emirates-Philippines	4.34	5.23	7.34	1.80	Thailand-Myanmar	35.45	35.45	35.70	35.20
United Kingdom-Kenya	2.90	3.38	6.44	1.17	United Kingdom-Pakistan	3.06	5.79	20.89	0.63
United Kingdom-Nigeria	2.31	6.06	15.16	0.19	United States-Bangladesh	3.22	4.09	8.43	1.93
United States-Dominican Republic	4.48	4.71	9.05	0.62	United States-Brazil	6.39	4.50	7.77	0.14
United States-El Salvador	3.50	2.76	6.50	0.01	United States-India	2.84	2.41	4.38	0.06
United States-Guatemala	1.78	1.80	3.32	0.28	United States-Lebanon	0.24	0.44	2.65	0.02
United States-Haiti	4.69	3.62	6.19	0.01	United States-Nigeria	2.50	4.69	13.86	0.00
United States-Honduras	3.16	3.28	7.49	1.16	United States-Philippines	3.24	3.26	7.34	0.33
United States-Jamaica	3.02	2.87	5.52	0.76	United States-Venezuela	2.28	3.02	5.01	2.24
United States-México	1.16	1.93	4.12	0.17	United States-Vietnam	1.99	2.14	6.07	0.02

Source: VEEI and DevTech Systems research and analysis, 2023.

⁹ Costs for \$500 are consistently lower than those for \$200 remittances, but the general trends are the same. Since the UN SDG goal is expressed in terms of a \$200 remittance, we will focus on these data.

Key data observations

- The mean remittance cost across all 50 corridors (covering every cost permutation across MTOs) was 4.32 percent (\$8.64)—3.68 percent (\$7.36) excluding the very high cost in a single corridor (Thailand to Myanmar).
- But mean costs do not tell the important story—a migrant worker is interested in the costs for their corridor. We found an option costing less than 3 percent (\$6) in 40 of the 50 corridors. Only four of the 50 corridors had no available costs of less than 5 percent (\$10).
- While there was a cost below 3 percent available in 80 percent of the corridors, there is no guarantee that a migrant worker would have encountered the low costs. As one can see from the table, the cost spreads can be quite striking for a given corridor. The United Arab Emirates to Egypt corridor, for instance, had a median and mean cost above 6 percent (\$12), while the lowest cost was only 2.88 percent (\$5.76).
- There were several corridors where the highest and lowest costs varied even more significantly. For the UK to Nigeria corridor, we found the highest cost was over 15 percent (or over \$30 for a \$200 remittance), while the lowest cost was 0.19 percent, or 38 cents. A person without the tools to shop for options could have encountered a very high total fee, or a very low one.

Although not shown in the table, our research team made a few more observations while analyzing the granular cost permutations:

- The lowest cost for any given corridor was often offered by a particular MTO, without a high degree of variation (for that MTO) between the send and receive permutations. (The same applies to the highest costs—there was usually a high cost MTO for a corridor.) The costs for a given MTO in a corridor (across sending payment options and the receiving options) were not usually highly differentiated.
- The previous observation notwithstanding, there were sometimes trade-offs that could be made between cost and speed. Some MTOs would offer two cost options for bank account initiated remittances, for example. We found that there could be one cost for a remittance to be received in a few hours or less, and a lower cost for a remittance to be received in a few days.
- Cost and location trade-offs (for an MTO) were observed for remittances to be received in cash. There was sometimes a lower cost if the remittance was to be picked up on the receiving end from a preferred business partner of the MTO, instead of from any available partner.

Policy implications from the data

Private sector innovation is improving remittances.

As we found in 2021 and 2022, this year's research results show that private sector innovation, in the form of digital business models and newer money movement networks, is providing efficient remittance options in the vast majority of corridors we investigated.

Compliance frictions and licensing issues still need attention.

Our positive cost findings do not mean that the previous policy recommendations no longer apply. The work is by no means done. We need to enable more digital remittances for more corridors, and there are compliance frictions to resolve and licensing issues to streamline that would enable lower costs in even more places. The 50 corridors we examined do not necessarily constitute a broad sample.

Digital opportunity, skills, and trust are key.

Our "what might have happened" research results highlight the importance of digital opportunity, digital skills, and digital trust for migrant workers. Digital tools would provide the means to shop around frictionlessly for the best cost options, while skills might be needed to effectively compare the options. The data show favorable costs are available in many corridors, but consumers need to be able to compare the options.

More can be done on transparency.

MTOs are increasingly transparent on the sending fees and foreign exchange rates to be applied to a given remittance, and they make this information available on their websites and apps. However, in most cases, the research team still needed to perform calculations to develop the all-inclusive cost numbers, given that the foreign exchange information was almost never presented in a way that facilitated "adding it" to the transfer fee to see an all-inclusive cost. The foreign exchange rate had to be calculated into a dollar cost, then added to the transfer fee.

End users make trade-offs among attributes.

As we highlighted in *Let's give a voice to end users: Cross-border payments, attributes, and use cases*, end users care about a variety of payment and product attributes, often in a combination that reflects their unique needs for a given use case (Harper & Quibria, 2023). While we have highlighted that migrant workers and other remittance senders need to have the digital tools and skills required to compare options, they might also reasonably make trade-offs once they have information. While most people would prefer to send a \$200 remittance at a cost of \$0.38 instead of \$30.32 (to borrow an extreme example from our data), it might be reasonable for someone to send a \$5 remittance with an MTO they trust and use regularly as opposed to a \$4.50 one with an MTO they have never tried. It might also be reasonable for someone to choose a \$6 remittance that takes three days to arrive rather than a \$10 one that arrives within hours. That particular migrant worker might have recently sent money to their family, and speed is a lesser concern for that particular end user for that particular remittance.¹⁰ What is critical, though, is that these trade-offs be made on the basis of good information.

¹⁰ For the MTO, the slower option could involve some operational efficiencies or treasury management advantages that they are able to pass along to the customer.

We welcome an ongoing dialogue

At the Visa Economic Empowerment Institute, we will continue to explore and analyze developments in global money movement and remittances. We hope this paper's insights are useful to policymakers and private sector partners, and we welcome continued engagement with all stakeholders on how digital innovation can be a flywheel for upward mobility in the global economy.

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VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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