

# Consumer Remittances

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A Competitive Marketplace Where Consumers Benefit from Clear Disclosures.

## **Statement of Purpose**

This paper seeks to address two questions related to the price of international remittance transfers sent by consumers in the United States. The first is whether money transmitters provide clear disclosures that allow consumers to ascertain the true cost of the transaction. The second, related question, is whether the market for international remittance transfers in the United States is competitive in the products and pricing offered to consumers. As the analysis below makes clear, the answer to both questions is yes. Existing disclosures, which are required by law, allow consumers to easily compare prices and the available evidence shows that the marketplace for consumer remittance transfers is highly competitive on price. It is not necessary, as some critics have suggested, to require disclosure to consumers of an exchange rate "markup" or a mid-market exchange rate.



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## I. Introduction

This paper seeks to address two questions related to the price of international remittance transfers sent by consumers in the United States. The first is whether money transmitters provide clear disclosures that allow consumers to ascertain the true cost of the transaction. The second, related question, is whether the market for international remittance transfers in the United States is competitive in the products and pricing offered to consumers. As the analysis below makes clear, the answer to both questions is yes. Existing disclosures allow consumers to easily compare prices and the available evidence shows that the marketplace for remittance transfers is highly competitive on price.

We ask these questions primarily because some industry participants, consumer advocates and government officials have criticized the existing disclosure regime as permitting "hidden" fees in the form of an exchange rate markup.<sup>1</sup> The evidence supporting these assertions is sparse. As the Consumer Financial Protection Bureau ("CFPB") concluded in a 2019 report, "[t]he average price of remittances was declining before the [CFPB's 2013 Remittance] Rule took effect and has continued to do so."<sup>2</sup> The critics of the current regulatory regime contend that consumers shop for remittance transfer providers based primarily on disclosed fees only and thus they are misled by "inflated" exchange rate markups that are not disclosed. These critics assert that consumers cannot shop effectively for remittance transfers without knowing the exchange rate markup and that this leads to an uncompetitive remittance transfer market where consumers pay higher prices. They further advocate for changes to the established regulatory regime to address these supposed problems.

This paper addresses these criticisms by reviewing independent facts and data about each. More specifically, Part II provides an overview of the existing market for remittance transfers, including what goes into the wholesale and retail costs of such transfers as well as an overview of the current regulatory regime. Part III summarizes available data on the remittance transfer market, including the amount of provider competition, the consumer cost of remittance transfers generally, as well as the consumer cost of remittance transfers attributable to fees versus exchange rate markups.

As to the existing disclosure regime, substantial evidence exists that current remittance disclosures provide consumers the specific information they need to evaluate the cost of a transfer and compare between competing providers—the actual fees paid, the actual exchange rate, and the actual amount of currency the recipient will receive. Nor is there evidence that these disclosures cause providers to hide fees. As to competitiveness, and contrary to some anecdotal reports, the marketplace for remittance transfers is highly competitive, and providers have not moved to a system in which they disguise fees in an exchange rate markup.

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<sup>1</sup> Letter from Elizabeth Warren, Senator, United States Senate, to Rohit Chopra, Director, Consumer Financial Protection Bureau (Oct. 19, 2022), <https://www.warren.senate.gov/imo/media/doc/2022.10.18%20Letter%20to%20CFPB%20re%20remittance%20hidden%20fees1.pdf>; Letter from Americans for Financial Reform to Rohit Chopra, Director, Consumer Financial Protection Bureau (Oct. 19, 2021), <https://ourfinancialsecurity.org/wp-content/uploads/2021/10/Final-10-19-21-CFPB-Remittance-Hidden-Fees-Letter.pdf>.

<sup>2</sup> CFPB, REMITTANCE RULE ASSESSMENT REPORT 4 (2019), [https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcftp\\_remittance-rule-assessment\\_report\\_corrected\\_2019-03.pdf](https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcftp_remittance-rule-assessment_report_corrected_2019-03.pdf) [hereinafter CFPB Remittance Report].

Finally, we address the fact that requiring disclosure of exchange rate markups would be confusing to consumers, nearly impossible to determine, and would be at a variance with virtually every other product and service sold in the United States. Not a single other product or service sold in the United States requires the merchant disclose its wholesale price. And the evidence here does not support a departure from the existing norms and disclosures on which consumers have come to rely.

## **II. The Market for International Remittance Transfers in the United States**

### **A. Market Structure**

The market for remittance transfers is complex and consumers may have many options to send money abroad. Generally, there are many different ways that consumers can send remittance transfers, including cash-based services offered by specialized global money transfer operators that operate through extensive agent networks, online-only providers, services offered by credit card and debit card issuers, banks and credit unions that provide for international wire transfers, and similar services provided by broker dealers.<sup>3</sup>

Typically, remittance services providers will use a "network" to transmit consumers' funds.<sup>4</sup> Some providers create and maintain their own network and other providers use an existing network provided by third parties. The providers also must have a method of linking those access points to enable messaging (the transfer of information about the remittance) and settlement (the transfer of the funds themselves). Some providers, like international banks, may have branch networks they can use for this purpose, or they rely on international messaging services, such as SWIFT.<sup>5</sup> Others, including smaller providers, may use a network provided, for example, by one of the global money transfer companies or may have to cooperate to create a network. Non-bank money transfers companies generally may maintain their own networks or rely on others either to collect funds in the United States or to disburse them abroad.

### **B. The Wholesale Cost of Providing Remittance Transfers**

The cost to a provider of sending remittance transfers as well as the price charged to consumers reflects the complexities of the product. Remittance transfers typically require several parties in multiple countries to complete a transaction. As a result, remittance providers incur a range of costs in sending a single remittance transfer. Those costs can include:

- agent fees (both on the sending and pickup side),
- fees charged by U.S. bank into which the remittance funds are deposited by the sending agent,<sup>6</sup>

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<sup>3</sup> WORLD BANK, GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES 8 (2007), <https://documents1.worldbank.org/curated/en/894291468313541470/pdf/388210ENGLISH01remittances01PUBLIC1.pdf>; see also CFPB Remittance Report, *supra* note 2, at 40, 50-57.

<sup>4</sup> CFPB Remittance Report, *supra* note 2, at 50.

<sup>5</sup> See *id.* at 51-53. Except where noted, this paper does not address wire transfers sent by banks.

<sup>6</sup> Banking costs alone can be significant. Major U.S. banks routinely charge money transmitters a fee for every deposit their agents make plus a fee for every \$100 deposited into the account.

- interchange fees for credit card or debit card transactions,
- network fees especially where there is a single dominant network in a specific market,
- marketing costs,
- legal and compliance costs, including the cost of signage and printing disclosures, as well as compliance with anti-money laundering laws,<sup>7</sup>
- security costs, particularly in certain dangerous countries where many providers hire private security firms,
- online cyber security costs to mitigate the risks of hackers,
- regular and one-time taxes and fees imposed by foreign governments, such as when the Haitian Central Bank imposed a fee for all incoming transfers in 2011,<sup>8</sup>
- expenses related to currency acquisition and currency risk, and others.<sup>9</sup>

### C. The Retail Cost to Send International Remittance Transfers

Understanding remittance prices means understanding the multitude of factors affecting them. For most remittance transfers, providers earn revenue through two means: the transfer fee charged for the service, and if funds are being converted to a foreign currency, the differential – if any – between the exchange rate provided to the consumer and the rate at which the provider acquired that currency.<sup>10</sup> Most providers set prices based on what the market will support. The "market" for a transfer is a particular corridor. For example, a consumer sending money to Mexico is typically unconcerned with the cost of sending money to the Philippines. That customer may compare prices across providers to Mexico and will disregard other corridors.

The relative cost of a remittance transfer is a reflection of market factors at the country, corridor, provider, and product level. These frictions include GDP per capita of the receiving country, volume of remittances in that corridor, population distribution, and economic links between the sending and receiving countries, macroeconomic and regulatory policies, price power, market

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<sup>7</sup> The CFPB estimates that compliance costs in 2017 for a single remittance transfer were "between \$0.07 and \$0.37 per remittance" only for CFPB compliance costs. CFPB Remittance Report, *supra* note 2, at 5, 120 (citing 2017 Paperwork Reduction Analysis). Providers, however, have a host of other compliance costs including state licensing, OFAC, Bank Secrecy Act and other anti-money laundering laws.

<sup>8</sup> Carl-Henri Prophète, Do Remittances to Haiti Have a Dark Side *in Haiti?*, THE DIALOGUE (Dec. 9, 2022), <https://www.thedialogue.org/blogs/2022/12/do-remittances-have-a-dark-side-in-haiti/>.

<sup>9</sup> One expert explained the cost of remittances this way:

"[R]emittance pricing is the byproduct of the operating costs to run a particular business model. These operating costs are based on fixed and variable costs; for example, quantities, production costs to run known quantities (commissions to agents), and other cost center related expenses (administration, compliance, information and communication technology support, marketing, and call center client support, for example)."

MANUEL OROZCO ET AL., THE COSTS OF SENDING MONEY TO LATIN AMERICA AND THE CARIBBEAN 11 (2016), <https://www.thedialogue.org/wp-content/uploads/2016/02/The-Costs-of-Sending-Money-to-LAC-on-Template.pdf> [hereinafter Orozco et al. (2016)].

<sup>10</sup> Less often, foreign taxes may apply but when they do funds are remitted directly to tax authorities.

structure, and competition.<sup>11</sup> For example, and as is discussed further below, in certain corridors the common practice is to charge no or a low fee and a higher exchange rate markup while in others it is the opposite. These differences in pricing between corridors are typically driven by the laws, regulations, and customs of the foreign countries to which remittances are sent. Popular corridors for consumers in the United States involve substantial competition on fees and exchange rates and low margins for providers. These corridors represent the vast majority of U.S.-origin remittance transfers. Indeed, many members of the MSBA compete heavily with one another in these key corridors. These companies also compete with banks and other service providers.

A 2022 study analyzing remittance price data with variations across corridors, time, and service providers examined how these myriad factors influenced prices for consumer remittance transfers. In the study, "price" included both exchange rate margin and stated fees. The authors found that a higher GDP per capita of the sending country correlates to lower remittance fees.<sup>12</sup> Prices are also lower where the sending country has a larger population, rather than a smaller one. Conversely, if the sending country has a rural population, prices will be higher, perhaps due to higher costs of disbursing funds over a large area.<sup>13</sup> All of these factors support lower prices for U.S.-based transfers.

Market structure also matters to the costs of a remittance transfer. On average, banks charge higher prices than money transfer operators for transfers.<sup>14</sup> However, where more banks provide remittance transfers in a certain market, the prices charged by money transfer operators are also typically lower because money transfer operators react to competitive pressures of the banks.<sup>15</sup> Additionally, if a sending country has a fixed (or "pegged") exchange rate, banks and money transfer operators will charge lower prices.<sup>16</sup> Transfers of cash also tend to cost more in comparison to electronic transfers.<sup>17</sup> In short, there are a myriad of factors that influence the price of a single remittance transfer, as well as whether the provider passes on costs to the consumer in the form of an exchange rate markup, a stated fee, or both.<sup>18</sup>

At a high level, prices charged to consumers are based on the cost to the provider of obtaining foreign currency plus a margin to cover operating expenses, which may allow for a profit. There is no single rate at which these companies buy foreign currency. Indeed, some companies specialize in particular currencies, countries, or corridors. Remittance providers expend substantial resources on securing foreign currency for their customers at favorable rates. Many factors influence a provider's cost of foreign currency, including:

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<sup>11</sup> Thorsten Beck et al., *What Explains Remittance Fees? Panel Evidence 6* (Int'l Monetary Fund, Working Paper No. 63, 2022), <https://www.imf.org/en/Publications/WP/Issues/2022/04/01/What-Explains-Remittance-Fees-Panel-Evidence-515957>.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 24.

<sup>16</sup> *Id.* at 26.

<sup>17</sup> *Id.* at 6.

<sup>18</sup> Another analyst suggests that pricing is determined largely by the cost of buying a given currency and the relative AML and regulatory risk of a particular country. Orozco et al. (2016), *supra* note 9, at 13.

- **Country / Currency.** A particular provider may focus on transfers to a particular country and thus have the ability and expertise to purchase more currency at a better exchange rate. That same provider may provide a less favorable rate for transfers to another country where it does less business and has less ability to purchase currency at a favorable rate. Also, currency acquisition costs may vary from one country to the next.<sup>19</sup>
- **Volume.** The amount of currency a company buys impacts the rate it can charge. It seems obvious that a company buying \$5 million of a foreign currency a day will, all things being equal, get a better deal than a company that only buys that amount in a year. Like other wholesale purchases, those who purchase more get a better deal.
- **Market Conditions.** Exchange rate markets are constantly in flux. One provider may have obtained all of the foreign currency it expects to need for a day in a single purchase at the start of the day, while a competitor may buy its currency throughout the day. One of those companies may benefit from fluctuations when the other does not. Likewise, incorrect estimations of the amount of currency a company will need (i.e., the number of customer transactions it will generate) for a given day may lead to long or short positions at the end of the day, and to an excess or shortfall of the destination currency, impacting that company's costs for the following day.
- **Method of transfer.** Providers may also use different exchange rates for transfers sent for pickup at an agent as compared to wires sent to accounts at foreign banks. Some methods may involve lower costs than others. For example, it may be cheaper to send a transfer into a bank account in a recipient country rather than to pay a local agent to disburse cash.
- **Transfer Amount.** Providers may be able to offer a lower price to a consumer that sends a higher value transfer. Like many products, consumers buying small quantities (of currency, lumber, or garbage bags) will pay higher unit prices than those buying large quantities. Companies can offer savings to the customers buying large volumes because their per transaction profit is greater.
- **Compliance Risk.** Different markets require providers to incur different costs. These costs are borne out in prices charged to consumers. For example, providing the required CFPB disclosures can be more expensive for some corridors, than others, as can performing the required procedures to comply with the anti-money laundering laws. Further, certain countries require higher investments in physical and cyber-security.
- **Expertise & Competition.** Companies develop expertise in how to obtain currency at a favorable rate, in appropriate quantities and at the appropriate time in a manner that a competitor may not be able to. As one example, an entire industry of traders engaged in currency hedging exists.<sup>20</sup>

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<sup>19</sup> Orozco et al. (2016), *supra* note 9, at 13.

<sup>20</sup> Hedging is an approach designed to reduce or offset a possible loss arise due to unknown fluctuations in the investment prices and to lock in profits. Anuradha Tiwary, *Study of currency risk and the hedging strategies 3* (Munich Pers. RePEc Archive, Working Paper No. 93955, 2019), [https://mpra.ub.uni-muenchen.de/93955/1/MPRA\\_paper\\_93955.pdf](https://mpra.ub.uni-muenchen.de/93955/1/MPRA_paper_93955.pdf) ("The presence of [foreign exchange] risk has made the business operations of

Based on these factors, a company with a large market share, high volumes of transfers, and experienced staff sending to a country with fewer regulatory hurdles may be able to obtain currency at a rate cheaper than a newcomer with lower volumes in a more challenging corridor.

#### **D. Regulatory Regime for Remittance Transfers**

Consumer remittance transfers in the United States are regulated at the state and federal level. Laws and regulations impose multiple consumer protections including, relevant here, price transparency and disclosures requirements. There are three main laws that dictate price transparency. The first is the CFPB's Remittance Rule, which requires price and fee disclosure and protects consumers when those disclosures are inaccurate. Specifically, consumers receive a disclosure with four key pieces of information: (i) the amount they are sending, (ii) any fees, (iii) the exchange rate applied to their transaction, if any, and (iv) the amount the recipient will receive.<sup>21</sup> Armed with this information, consumers can compare the absolute cost of different providers' services.

Second, the CFPB, FTC, and virtually every state prohibits deceptive practices and disclosures, including those around pricing. Finally, several state laws mandate specific disclosures about remittance pricing. Taken together, these laws require licensed money transmitters to accurately disclose their prices to consumers.

##### **i. CFPB Remittance Rule**

The Remittance Rule applies to all companies that send international money transfers in the normal course of their business.<sup>22</sup> The Rule requires disclosures, permits consumers to cancel most transfers for thirty minutes, and allows them 180 days to assert an error if the disclosed price is not honored or something else goes wrong. The objective of the Remittance Rule, adopted pursuant to amendments to the Electronic Fund Transfer Act that Congress included in the Dodd-Frank Act,<sup>23</sup> was to "significantly improve the predictability of remittance transfers and provide consumers with better information for comparison shopping."<sup>24</sup>

Most relevant here are the disclosures. The Remittance Rule requires providers disclose, among other things:<sup>25</sup>

- The transfer amount.

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companies dealing with foreign counterparts highly vulnerable to potential losses or gains arising out of foreign exchange rate fluctuations. The potential gains or losses that companies are exposed to in the present or near future due to exchange rate changes are measured in terms of foreign exchange exposure which 'is a measure of the potential for the firm profitability, cash flows, and market value to be adversely affected by unanticipated changes in the exchange rate.'")

<sup>21</sup> CRS, REMITTANCES: BACKGROUND AND ISSUES FOR THE 118TH CONGRESS 7 (2023), <https://crsreports.congress.gov/product/pdf/R/R43217> [hereinafter CRS, Remittance Report].

<sup>22</sup> 15 U.S.C. § 1693o (codified Dodd-Frank section 1073 and EFTA section 919).

<sup>23</sup> *Id.*; see generally 12 C.F.R. §§ 1005.1 – 1005.36.

<sup>24</sup> Electronic Fund Transfers (Regulation E), 77 Fed. Reg. 6194 (Feb. 7, 2012).

<sup>25</sup> 12 C.F.R. § 1005.31(b)(1).

- All fees imposed by the sending institution.<sup>26</sup>
- Certain fees imposed by other parties.
- Taxes collected by the sending institution.
- The exchange rate (if any) "used by the provider" to conduct the transfer.
- The amount to be received or picked up, in the appropriate currency after any deductions.

The Rule also requires disclosures of when the funds will be available, a consumer's cancellation and error resolution rights and details on how the consumer can lodge a complaint. The Remittance Rule strongly encourages all providers to use the same standard forms to disclose this information.<sup>27</sup> Each consumer receives a prepayment disclosure before confirming the transfer:

<b>ABC Company</b>	
1000 XYZ Avenue Anytown, Anystate 12345	
Today's Date:	March 3, 2014
<b>NOT A RECEIPT</b>	
Transfer Amount:	\$100.00
Transfer Fees:	+\$7.00
Transfer Taxes:	+\$3.00
Total:	\$110.00
Exchange Rate:	US\$1.00 = 12.27 MXN
Transfer Amount:	1,227.00 MXN
Other Fees:	-30.00 MXN
Total to Recipient:	1,197.00 MXN
Recipient may receive less due to fees charged by the recipient's bank (Est. 40 MXN).	

The consumer can take this disclosure and compare it with other providers' disclosures. If the consumer elects to proceed with the transfer, the consumer then receives a receipt:

<sup>26</sup> For bank transfers, certain fees known as non-covered third-party fees need not be disclosed.

<sup>27</sup> 12 C.F.R. § 1005.31(b).

Date Available:	March 4, 2014
Transfer Amount:	\$100.00
Transfer Fees:	+\$7.00
Transfer Taxes:	+\$3.00
Total:	\$110.00
Exchange Rate:	US\$1.00 = 12.27 MXN
Transfer Amount:	1,227.00 MXN
Other Fees:	-30.00 MXN
Total to Recipient:	1,197.00 MXN
Recipient may receive less due to fees charged by the recipient's bank and foreign taxes.	

The information on both disclosures must match.<sup>28</sup> The CFPB mandated identical disclosures so consumers can compare prices from one provider to the next.<sup>29</sup> For example, below are two sample prepayment disclosures for a consumer that wants to send a \$500 remittance transfer to Mexico:

<b>EXAMPLE ONE</b>		<b>EXAMPLE TWO</b>	
TRANSFER AMOUNT:	\$490.00	TRANSFER AMOUNT:	\$500.00
TRANSFER FEES:	\$10.00	TRANSFER FEES:	\$0
TRANSFER TAXES:	\$0	TRANSFER TAXES:	\$0
TOTAL:	\$500.00	TOTAL:	\$500.00
EXCHANGE RATE:	\$1.00 = 19.49 MXN	EXCHANGE RATE:	\$1.00 = 19.29 MXN
TRANSFER AMOUNT:	9,550.10 MXN	TRANSFER AMOUNT:	9,645.00 MXN
OTHER FEES:	0	OTHER FEES:	0
TOTAL TO RECIPIENT:	9,550.10 MXN	TOTAL TO RECIPIENT:	9,645.00 MXN

In Example One, the provider charges a fee but uses a higher exchange rate while the provider in Example Two charges no fees but uses a lower exchange rate. If a consumer receives each of these prepayment disclosures, they can reasonably compare the two providers and determine the provider in Example Two provides more money to the designated recipient at the exact same \$500 cost to the consumer. As noted above, the ultimate payout amount (Total to Recipient) is based on how much the customer is charged in fees and the exchange rate that is applied to the

<sup>28</sup> If, for example, the exchange rate has moved since the consumer received the prepayment disclosure, the provider must provide a new prepayment disclosure. See 12 C.F.R. § 1005.31(b)(2)(i).

<sup>29</sup> 12 C.F.R. § 1005.31.

transaction. Under this rule, the amount going to the recipient is *exactly* what our members disclose in virtually every transaction.<sup>30</sup>

The Bureau and the Federal Reserve's research in adopting this rule has shown consumers do not need additional information about exchange rates—beyond the actual rate applied to their transfer and the fees they and the recipient will pay for the transfer—to perform an effective comparison. Consumer testing conducted by the Federal Reserve Board in 2011, when it first proposed the Remittance Rule, found that most participants in the testing compared both fees and exchange rates between providers for transactions that involved foreign exchange. The report does not indicate that any consumers needed additional information about exchange rate markups to compare the actual cost of a transfer.<sup>31</sup> In finalizing the disclosures in 2012, the Bureau concluded that:

Disclosing the amount of currency to be provided to the recipient enables consumers to engage in comparison shopping, since it accounts for both the exchange rate used by the remittance transfer provider and fees and taxes that are deducted from the amount transferred. Consumers also benefit, however, from having reliable information about the individual components of remittance transfer pricing (i.e., exchange rates, fees, and taxes).<sup>32</sup>

As long as providers disclose the exchange rate and all fees accurately to the consumer, it is irrelevant whether a provider earns money from its fee, its exchange rate, or through some other means (such as a loss leader to promote other services). The consumer needs to know only their costs and the amount their beneficiary will receive. This cost information is one piece that is used to evaluate the selected provider along with other, non-monetary factors such as speed, convenience, accessibility, and reliability.<sup>33</sup> The existing disclosures provide the consumer with that necessary information. Further, changing the existing disclosure regime with which customers are familiar could cause more harm than good.

## **ii. CFPB Lacks Jurisdiction to Require Disclosure of Profit Margins**

Importantly, EFTA does not permit the CFPB to require disclosure of exchange rate markups that are not specific fees charged to consumers. Dodd-Frank section 1073, which amended EFTA to add remittance transfer provisions, is very specific. Congress mandated disclosure of, among other things:

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<sup>30</sup> While the Remittance Rule does include some exceptions that allow for estimate (*see* 12 C.F.R. § 1005.32) – those mostly do not apply to our members.

<sup>31</sup> ICF MACRO, SUMMARY OF FINDINGS: DESIGN AND TESTING OF REMITTANCE DISCLOSURES v (2011), [https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20110512\\_ICF\\_Report\\_Remittance\\_Disclosures\\_\(FINAL\).pdf](https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20110512_ICF_Report_Remittance_Disclosures_(FINAL).pdf); *see also id.* at 3 ("Some of these participants indicated that they used the internet to determine the rates at different providers, even if they send the money in person.").

<sup>32</sup> 77 Fed. Reg. at 6272; *see also id.* at 6194 ("The new protections will significantly improve the predictability of remittance transfers and provide consumers with better information for comparison shopping. First, the statute requires consistent, reliable disclosures about the price of a transfer, the amount of currency to be delivered to the recipient, and the date of availability.").

<sup>33</sup> For example, for many consumers cost is not the primary factor. Consumers compare remittance providers based on speed, convenience (both on the sending side or on the receiving side), agent location, and reliability.

(ii) the amount of transfer and any other fees charged by the remittance transfer provider for the remittance transfer; and

(iii) any exchange rate to be used by the remittance transfer provider for the remittance transfer, to the nearest 1/100th of a point.<sup>34</sup>

Congress was explicit—the exchange rate it wanted disclosed was the rate that is actually "used" by the provider, not any intermediate "mid-market" rate that might be publicized or a rate internal to the provider that is different from the rate "used by the remittance transfer provider." Requiring disclosure of such a rate would contradict the authority delegated by Congress to the CFPB.

### **iii. Deceptive Practices Laws Further Address Transparency**

In addition to the specific disclosures required by the Remittance Rule, federal and state laws prohibit deceptive pricing.

#### ***1. Federal Law***

Both the Dodd-Frank Act and the FTC Act prohibit deceptive acts and practices.<sup>35</sup> Among other things, these laws prohibit deception in pricing one's services. If a remittance company engages in deceptive marketing or pricing of its services, the FTC and CFPB can pursue a claim.<sup>36</sup> To date, neither the FTC nor the CFPB has *ever* alleged that a provider of any product or service, including a remittance transfer provider, has engaged in a deceptive practice because it marked up the retail price of a product from what it paid for the product at wholesale.

#### ***2. State Law***

Most states also have consumer protection laws that apply to money transmitters in the states where they operate. On a few occasions, money transmitters have been sued for not identifying exchange rate markups as fees. Courts have consistently found that such disclosures "are not fees" and thus failure to disclose them was not deceptive.<sup>37</sup> As one of these courts explained, "[The Court of Appeals had] effectively rejected the notion that the spread between a retail foreign exchange rate and the wholesale interbank rate constitutes a 'fee' of any sort."<sup>38</sup> The Seventh Circuit:

concluded that there was no substance to a claim by currency exchange customers that the defendants' ads claiming to charge only a \$15 fee for wiring \$300 to Mexico were fraudulent because the cost of the transaction also included the

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<sup>34</sup> 15 U.S.C. § 1693o-1(a)(2)(A).

<sup>35</sup> 12 U.S.C. § 5531; 15 U.S.C. § 45.

<sup>36</sup> For example, in a recent enforcement action, the CFPB asserted that a remittance provider was deceptive in its marketing of the speed of its remittance service. See *In the Matter of Chime, Inc. d/b/a Sendwave*, No. 2023-CFPB-0012 (Oct. 13, 2023), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-operator-of-sendwave-app-for-illegally-cheating-people-on-international-money-transfers>.

<sup>37</sup> *Pennington v. Travelex Currency Services, Inc.*, 114 F. Supp. 3d 697, 703-04 (N.D. Ill. 2015) (citing 267 F.3d 743, 749 (7th Cir. 2001)).

<sup>38</sup> *Id.* at 704.

retail/wholesale spread; they argued, in essence, that the markup from the interbank rate constituted a hidden fee in addition to the disclosed \$15 charge collected from the customers at the counter. The Seventh Circuit rejected that argument ... **because there is no requirement for retailers to disclose their markups from wholesale costs. 'Neiman Marcus does not tell customers what it paid for the clothes they buy, nor need an auto dealer reveal rebates and incentives it receives to sell cars. This is true in financial markets no less than markets for physical goods.'** Markups from wholesale prices to retail prices are not fees charged to consumers; they are the customary incidents to commercial transactions that permit retailers to cover their costs and earn a profit.<sup>39</sup>

Indeed, these courts noted that requiring disclosure of the markup from the wholesale price to the retail price would be a marked departure from existing price disclosure law in the United States. That companies seeking to make a profit should be "evident" to customers.<sup>40</sup>

#### iv. Enumerated State Laws

Finally, the country's two largest states—California and Texas—require additional disclosures be provided when customers purchase remittance transfers. These states, which account for almost half of all remittance transfers to the largest recipient country (Mexico) require additional disclosures.<sup>41</sup>

California requires disclosures similar to those required by the CFPB.<sup>42</sup> Specifically, California requires disclosure of, among other things, the amount to be transferred (in the currency in which the transfer is funded), fees and taxes imposed by the licensee, the total amount of the transaction, the exchange rate, and the amount received (in the recipient's currency).<sup>43</sup> California also requires providers have their receipts approved by the Department of Financial Protection and Innovation.<sup>44</sup> Texas requires similar disclosures, including the amount paid by the sender, the exchange rate, and the amount to be received (in the local currency).<sup>45</sup>

### III. Data on the Remittance Transfer Market

#### A. Competition in the Remittance Transfer Market

Proponents of change to the remittance transfer regulations contend that the "lack of transparency" in the disclosures reduces competition in the market for remittances. Even if federal law did not already guarantee transparency (see Part II.D above), the claims about competition are

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<sup>39</sup> *Id.*; see also *Sanchez v. American Express Travel Related Servs. Co., Inc.*, 865 N.E.2d 410, 419 (2007) (following *In re Mexico Money Transfer Litigation* because "defendant's profit-seeking behavior should have been evident to plaintiff").

<sup>40</sup> *Id.*

<sup>41</sup> Jazmin Rangel, *Infographic | Remittances in Mexico Reach a Historic High*, WILSON CTR. (Mar. 15, 2022), <https://www.wilsoncenter.org/article/infographic-remittances-mexico-reach-historic-high>.

<sup>42</sup> CAL. FIN. CODE § 2103.

<sup>43</sup> *Id.*

<sup>44</sup> CAL. FIN. CODE § 2100(a)(1).

<sup>45</sup> TEX. FIN. CODE § 278.051.

demonstrably false. By almost every measure, competition in the remittance transfer market has increased in recent years and this competition has led to lower remittance costs for consumers.

Indeed, since the early 2000s, the trend has been towards expansion in the number of remittance transfer providers, accompanied by subsequent "increases in payment networks, and a widening range of financial products available to both senders and recipients of remittances."<sup>46</sup> Moreover, due to increasing competition, providers are "looking to innovate and multiply the mechanisms they have to engage with clients and meet their needs."<sup>47</sup> They have done this by "expanding their networks to new corridors and opening up more locations in the US and around the world."<sup>48</sup> Trends in the United States track these worldwide trends. Indeed, the number of licensed money transmitters reporting money transmission activity on their call reports has increased every year since 2019 (increasing from 291 that year to 359 in 2022).<sup>49</sup>

In addition to expanding locations and corridors, technology has brought significant additional competition to the market for international remittances.<sup>50</sup> Perhaps most significantly, the market for remittance transfers has changed dramatically in recent years given the shift from in-person transfers to online methods, which are increasing in availability. Dozens of providers exist now when previously consumers had few or no online options. Cash originations dropped from 89% in 2016 to 80% in 2020.<sup>51</sup> While cash to cash transactions from the United States to Latin America have decreased from 90% in 2016 to 75% in 2021,<sup>52</sup> there has been a corresponding increase in digital transactions.<sup>53</sup> The COVID-19 pandemic further accelerated the growth in digital remittance transfers.<sup>54</sup> Further, the demand for digital innovation has, in turn, led to increased expansion by providers into new corridors and new retail locations in the United States.<sup>55</sup> For traditional providers, it seems logical that they will adjust their pricing and offerings to remain competitive with digital providers.

Perhaps spurred by the availability of online transfers, remittance transfer volume overall has increased significantly in recent years. Indeed, the increase in volume could be a factor that led to

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<sup>46</sup> MANUEL OROZCO & MATTHEW MARTIN, FAMILY REMITTANCES IN 2021 18 (2022), <https://www.thedialogue.org/wp-content/uploads/2022/03/Family-Remittances-in-2021-1.pdf>.

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

<sup>49</sup> NMLS, 2019 NMLS MONEY SERVICES BUSINESSES REPORT (2019), <https://mortgage.nationwidelicencingsystem.org/about/Reports/2019%20MSB%20Annual%20Report.pdf> (291 companies reported money transmission on their MSB Call Report); NMLS, 2020 NMLS MONEY SERVICES BUSINESSES REPORT (2020), <https://mortgage.nationwidelicencingsystem.org/about/Reports/2020%20NMLS%20Money%20Services%20Businesses%20Report.pdf> (306 companies reported money transmission on their MSB Call Report); NMLS, 2022 NMLS MONEY SERVICES BUSINESSES REPORT (2022), <https://mortgage.nationwidelicencingsystem.org/about/Reports/2022%20MSB%20Annual%20Report.pdf> (359 companies reported money transmission on their MSB Call Report). Note that the report was not available for 2021 and also that this number includes providers engaging in both domestic and international money transfers.

<sup>50</sup> Beck et al., *supra* note 11, at 6.

<sup>51</sup> OROZCO, *supra* note 46, at 13.

<sup>52</sup> *Id.* at 5.

<sup>53</sup> *Id.* at 15. For example, that same study noted an increase in digital transfers of more than 300% between the U.S. and the Dominican Republic between 2020 and 2021.

<sup>54</sup> WORLD BANK & KNOMAD, A WAR IN A PANDEMIC 27 (2022), [https://www.knomad.org/sites/default/files/2022-07/migration\\_and\\_development\\_brief\\_36\\_may\\_2022\\_0.pdf](https://www.knomad.org/sites/default/files/2022-07/migration_and_development_brief_36_may_2022_0.pdf).

<sup>55</sup> OROZCO, *supra* note 46, at 17-18.

an increase in the number of providers and, as a result, to greater competition in the market. Generally, an increase in volume reflects an increase in demand, which encourages market entrants and innovation. The CFPB's 2019 Remittance Rule Assessment noted that the number and size of remittance transfers by both banks and money services providers have grown rapidly between 2009 and 2017. Similarly, a study of transfer volume for 2020 through 2022 found growth over the previous year in every part of the world.<sup>56</sup>

Not surprisingly, the CFPB, which studied the market in its 2019 report, determined there is significant competition in this marketplace:

[T]he overall market for remittance transfers generally has been characterized by prices dropping, diversity of market participants, new entrants and innovation, which are conditions consistent with competition existing in the marketplace both before and after the effective date of the Rule.<sup>57</sup>

While the Bureau could not determine the Remittance Rule's direct impact on this competition, it concluded that "the remittance transfer market had and continues to have characteristics consistent with competition between providers of remittance transfers."<sup>58</sup> The available data absolutely refutes the suggestion that the market for remittance transfers is not competitive or has become less competitive. In recent years, the number of companies offering remittance transfers has increased, the volume of remittance transfers has increased, and the technology for offering remittance transfers has made remittance transfers quicker, cheaper, and more available.

## **B. Cost of Remittance Transfers for Consumers - Overall**

Critics of the existing regulatory regime also assert that the costs of remittance transfers are made artificially high because of the lack of transparency and competition. However, the costs of sending remittance transfers to most corridors of the world has actually *decreased* in recent years.<sup>59</sup> One 2022 study of remittance transfer prices over time found that "Remittance prices have come down significantly over time."<sup>60</sup> According to the CFPB, the "average price of remittances was declining before the Rule took effect and has continued to do so."<sup>61</sup> Other studies similarly note that prices have dropped.<sup>62</sup> *No available studies have identified an increase in the cost of sending*

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<sup>56</sup> WORLD BANK, *supra* note 54, at 8, 34. Remittance flows to Latin America and the Caribbean increased 25% in 2021 as compared to 2020 while those to Europe and Central Asia grew by 8%. In 2022, flows to Latin America and the Caribbean increased another 11% over 2021; flows to Europe and Central America increased by 19%; those to South Asia increased by 12% and to East Asia increased by just under 1%. A different study of remittance transfers between the U.S. and Latin America in 2021 found that the overall volume of transfers grew 24% as compared to 2020 and that the total number of senders increased by 7%. *Id.* at 7, 52. *See also* OROZCO, *supra* note 46, at 4, 6.

<sup>57</sup> CFPB Remittance Report, *supra* note 2, at 144.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 94; *see also* CRS, Remittance Report, *supra* note 21, at 9 (discussing how the United States is one of the least costly places to send money from).

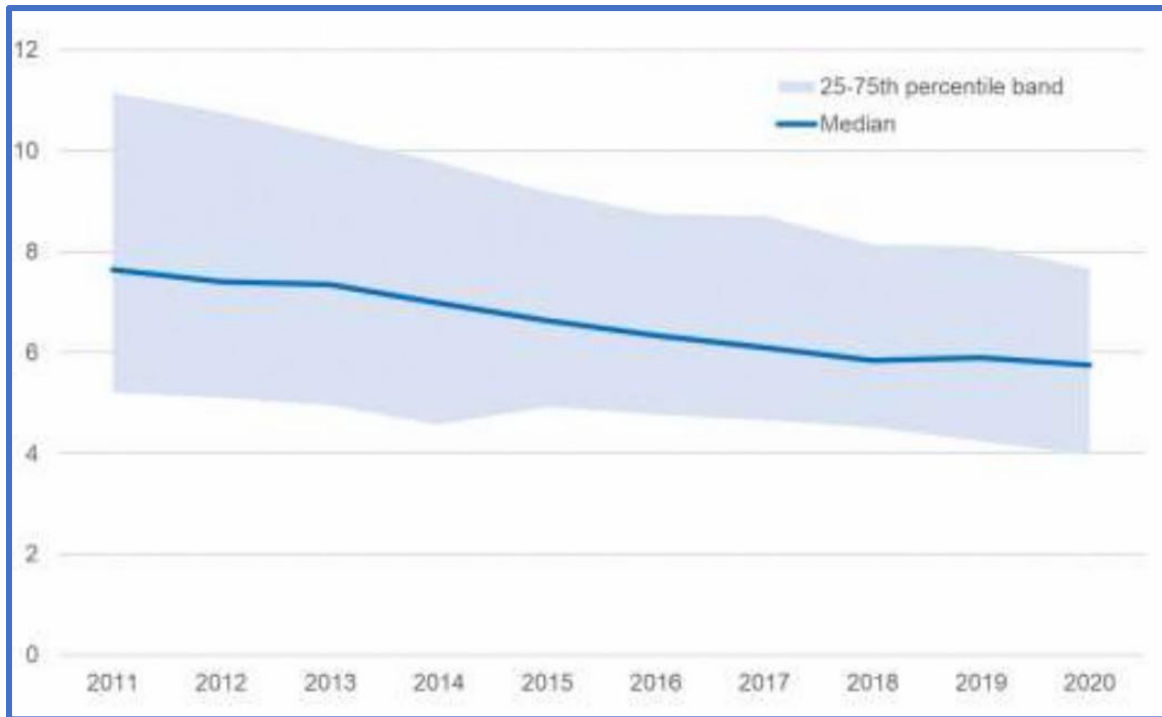
<sup>60</sup> Beck et al., *supra* note 11, at 11.

<sup>61</sup> CFPB Remittance Report, *supra* note 2, at 4.

<sup>62</sup> Orozco et al. (2016), *supra* note 9, at 4.

remittances in the recent past. Indeed, the median remittance price has decreased from 7.7% in 2011 to 5.7% in 2020.<sup>63</sup>

### Median Price of Remittance Transfers Over Time



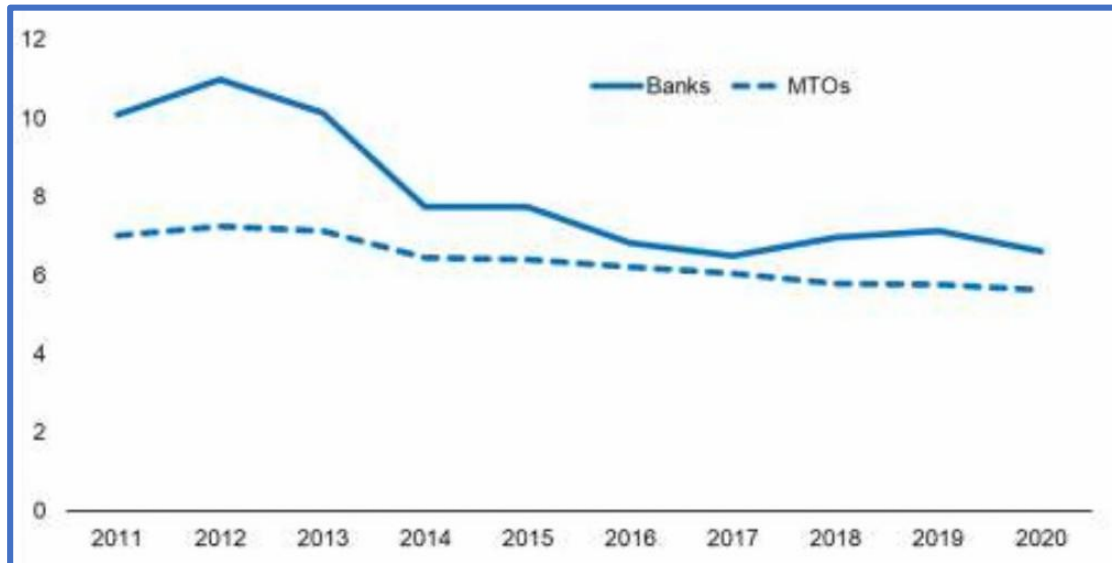
Sources: Beck et al.<sup>64</sup> calculations based on Remittance Prices, Worldwide, World Bank

For both banks and money transfer operators, the median fee has decreased over time, with the median bank fee generally being higher than the median fee charged by a money transfer operator. Over the ten years studied, the average share of banks in a corridor has decreased from 27% to 17%, while the share of MTOs has increased from 69% to 80%.

<sup>63</sup> Beck et al., *supra* note 11, at 11.

<sup>64</sup> *Id.*

## Median Price of Transfers Over Time for Banks and Money Transfer Operators



Source: Beck et al.

More recent studies suggest that prices have continued to decrease. The global average cost of sending remittance transfers decreased or remained the same in all corridors of the world between 2021 to 2022.<sup>65</sup> Further, the global average cost of sending \$200 decreased from 6.5% to 6% and the cost of sending in the East Asia region decreased by a full percentage point, from 6.9% to 5.9%. In sum, while critics of the current remittance transfer regime suggest that current prices are "artificially" high, the data reflects that prices consistently declined since 2011.

### **C. Cost of Remittance Transfers for Consumers - Exchange Rate Margins Compared to Fees**

Proponents of changes to the remittance transfer disclosures assert that many transfer providers "disguise" their fees using high exchange rate markups such that consumers are not aware of the true cost of sending transfers. A frequent claim made by these critics is that a 2019 study found that over half of the \$16.3 billion in revenue collected from American consumers sending remittances abroad came from exchange rate markups, rather than from fees.<sup>66</sup> Importantly, the underlying study cited by these critics includes exchange rates on transactions for many types of transactions that are *entirely unrelated* to consumer remittances.<sup>67</sup> That study includes, for example, costs of international portfolio investment earnings and of import and export of goods and services internationally by small and medium sized companies—markets entirely unrelated to consumer remittance transfers and markets not subject to existing consumer disclosure regimes.

<sup>65</sup> See generally WORLD BANK, *supra* note 54.

<sup>66</sup> E.g., Letter from Elizabeth Warren to Rohit Chopra, *supra* note 1; Harsh Sinha, *Over half of global payment fees are hidden in inflated exchange rates. That can be fixed*, FORTUNE (Aug. 1, 2021, 10:00 AM), <https://fortune.com/2021/08/01/remittances-global-international-payments-fees-abuse/>.

<sup>67</sup> Nicholas Lembo, *Stop The Exchange Rate Ripoff Report* (Sept. 23, 2020), <https://wise.com/us/blog/stop-the-exchange-rate-ripoff-report>; CAP. ECONS., ESTIMATING THE SCALE OF FOREIGN EXCHANGE TRANSACTION FEES IN THE U.S. 1 (2020), [https://wise.com/documents/Public\\_Research\\_and\\_Survey\\_-\\_US\\_Hidden\\_Fees.pdf](https://wise.com/documents/Public_Research_and_Survey_-_US_Hidden_Fees.pdf).

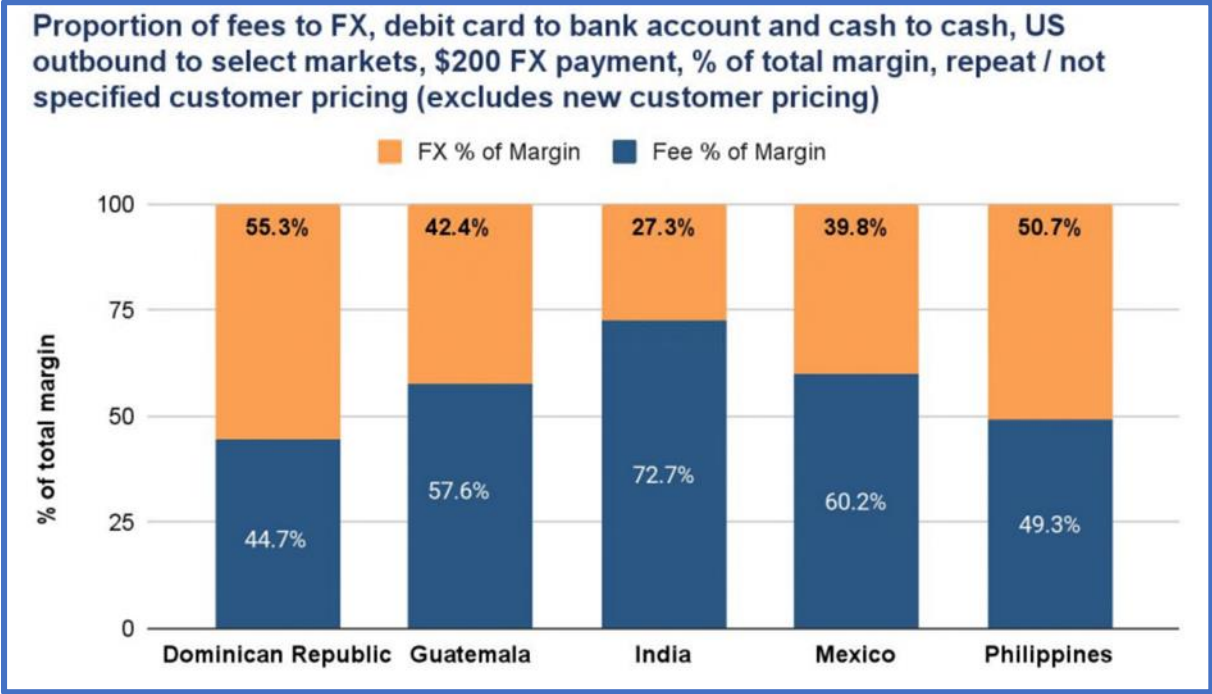
A close review of the 2019 study reveals it does break out the costs for consumer remittance transfers to and from the United States separate from the costs of these other types of transactions for the years 2013 through 2019. For the consumer remittance transfers only, the 2019 study found that exchange rate margins are actually around 30% of the consumer cost and that percentage has remained consistent over time. For example, in 2013, consumer costs for remittances were \$6.5 billion for money sent from the U.S. Only \$1.3 billion of that cost was attributable to exchange rate margins (just over 20%). In 2019, the proportion was slightly higher, with \$2.2 billion out of \$7.3 billion owing to exchange rate margins (just over 29%). Indeed, that study analyzed seven types of international money transfers, only two of which involved consumer remittances (from the United States and to the United States). Of the seven types of transfers, the consumer remittance transfers had the lowest ratio of exchange rate margins to fees. Put another way, the cost to consumers of remittance transfers studied was between 20 to 30% exchange rate and between 70 to 80% fees. By contrast, for portfolio investment earnings from abroad, the percentage charged for the transactions was more than 70% due to the exchange rate markup.

<b>Fees (USD million, current prices)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>1. Fees on portfolio investment earnings from abroad</b>	<b>1,598</b>	<b>1,683</b>	<b>1,749</b>	<b>1,825</b>	<b>1,952</b>	<b>2,137</b>	<b>2,170</b>
<i>Of which transaction fees</i>	426	449	467	487	521	570	579
<i>Of which exchange rate margins</i>	1,172	1,234	1,282	1,338	1,431	1,567	1,591
<b>2. Fees on remittance outflows from US</b>	<b>6,495</b>	<b>6,339</b>	<b>6,977</b>	<b>7,079</b>	<b>7,041</b>	<b>6,931</b>	<b>7,335</b>
<i>Of which transaction fees</i>	5,162	5,296	5,501	5,417	5,357	5,086	5,169
<i>Of which exchange rate margins</i>	1,332	1,043	1,476	1,662	1,684	1,845	2,166
<b>3. Fees on remittance outflows to US</b>	<b>296</b>	<b>297</b>	<b>311</b>	<b>297</b>	<b>286</b>	<b>308</b>	<b>314</b>
<i>Of which transaction fees</i>	236	242	249	234	240	239	239
<i>Of which exchange rate margins</i>	60	55	62	63	47	69	76

A more recent 2023 study confirms the findings above – namely that fees are generally a higher portion of the price for remittance transfers than exchange rate margin. The 2023 study analyzed the cost of consumer remittance transfers from the United States to five high-volume countries: Mexico, Guatemala, Philippines, India, and the Dominican Republic. The study collected the cost of sending \$200 to each country via two different methods: cash to cash and debit card to bank account.<sup>68</sup> Whereas most remittance transfer studies report the cost to consumers in a single figure

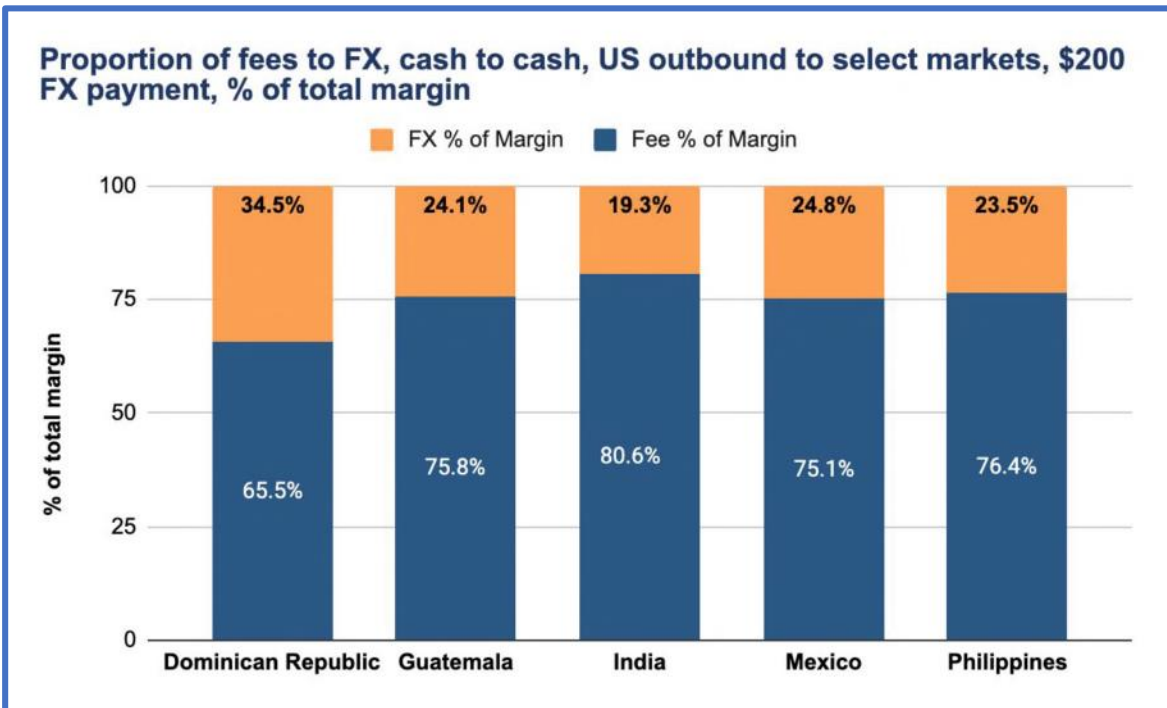
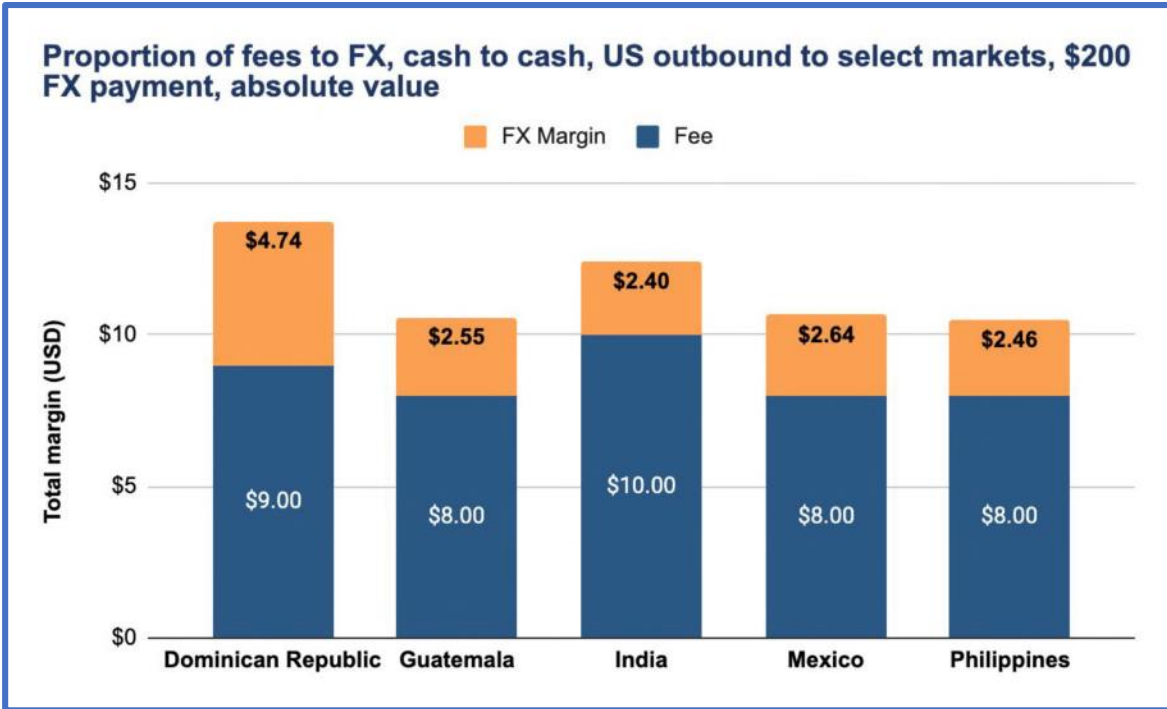
<sup>68</sup> MSBA commissioned the 2023 study from FXC and it is reproduced in full at Appendix 1. FXC collected data on remittance transfer prices between April 1, 2023 and June 30, 2023. Where possible, FXC used automated collection systems which capture the end-user prices (including both exchange rate margin and fees) offered to customers on payment provider websites and/or apps. These prices are collected from provider websites, pricing calculators, apps, and/or APIs. FXC collects this pricing data at the granularity of corridor, payment channel, send amount, and customer price type (i.e. new or repeat customer pricing). Where automated collections are not possible (such as for banks with non-public pricing or on the ground agent pricing) FXC maintains a research panel of individuals who collect mystery shopped pricing data. FXC's automated data is collected hourly throughout the day and aggregated to daily medians at the end of each day (UTC). FXC uses these daily median records to calculate the median price across any given period through further aggregation.

that includes both exchange rate markups and stated fees, the 2023 study reports separately the exchange rate markup and the fees as components of consumer cost. The study found that, on average, the price paid by consumers to send \$200 is attributable more to fees than to exchange rate margin. Indeed, across all providers sample for both cash and debit card transactions, the cost for transfers to Mexico was 60.2% fees and 39.8% exchange rate. For transfers to India, the cost was 72.7% fees as compared to 27.3% exchange rate. In only one corridor, the Dominican Republic, was the cost attributable to the exchange rate higher than fees, and then only barely higher (55.3% exchange rate as compared to 44.7% fees). The table below reflects the cost breakdown between exchange rate margins and fees in all five corridors.

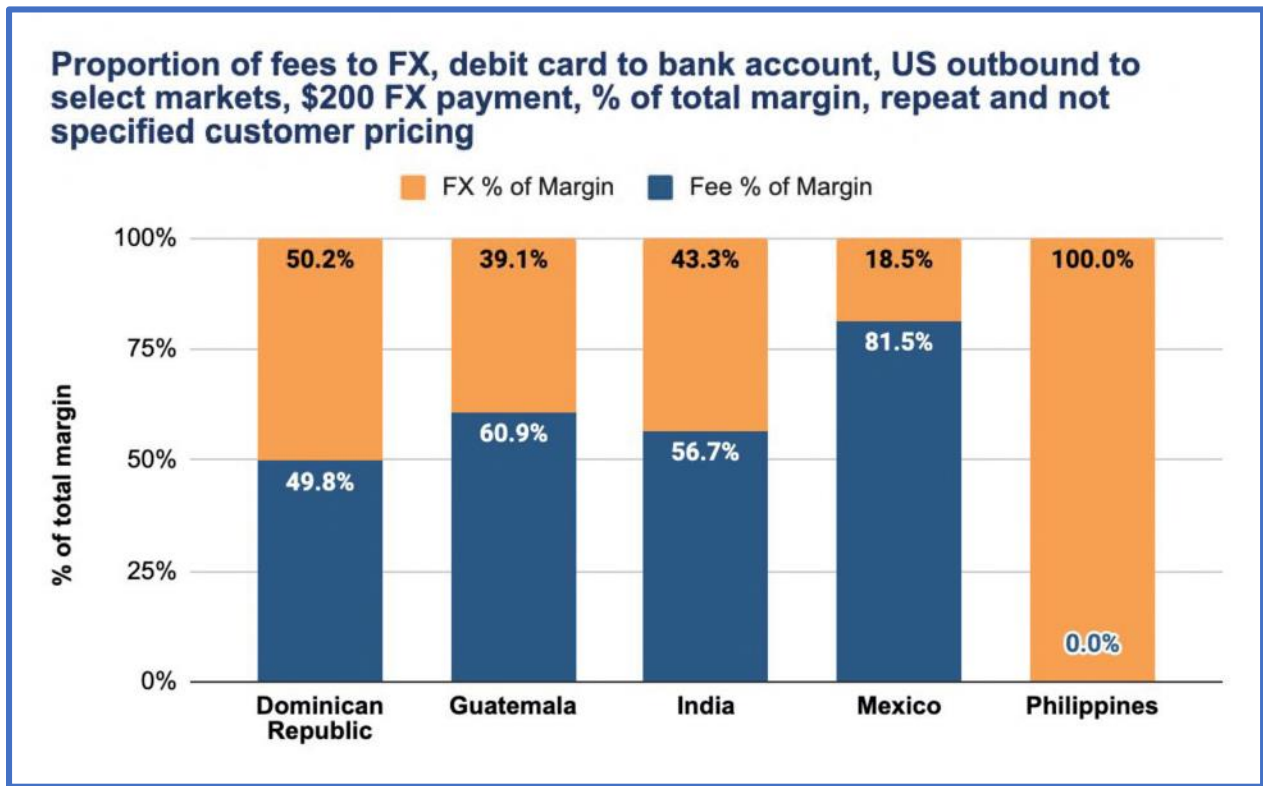


When looking only at cash transactions across all five corridors studied, the consumer cost attributable to fees is significantly higher than the cost attributable to exchange rate margins. Of the five corridors, transfers to India had the highest proportion of cost paid via fees as compared to exchange rates. In a \$200 cash transaction sent from the United States to India, 80.6% of consumer cost was attributable to fees as compared to 19.4% attributable to the exchange rate markup. At the other end of the spectrum, the highest proportion of cost passed to consumers through the exchange rate was for transactions to the Dominican Republic in which consumers paid 34.5% in exchange rate markups as compared to 65.5% in fees. The tables below reflect the

costs attributable to exchange rate margin vs. fees (both as a percentage and in absolute dollars) for cash transactions in each of the five corridors.

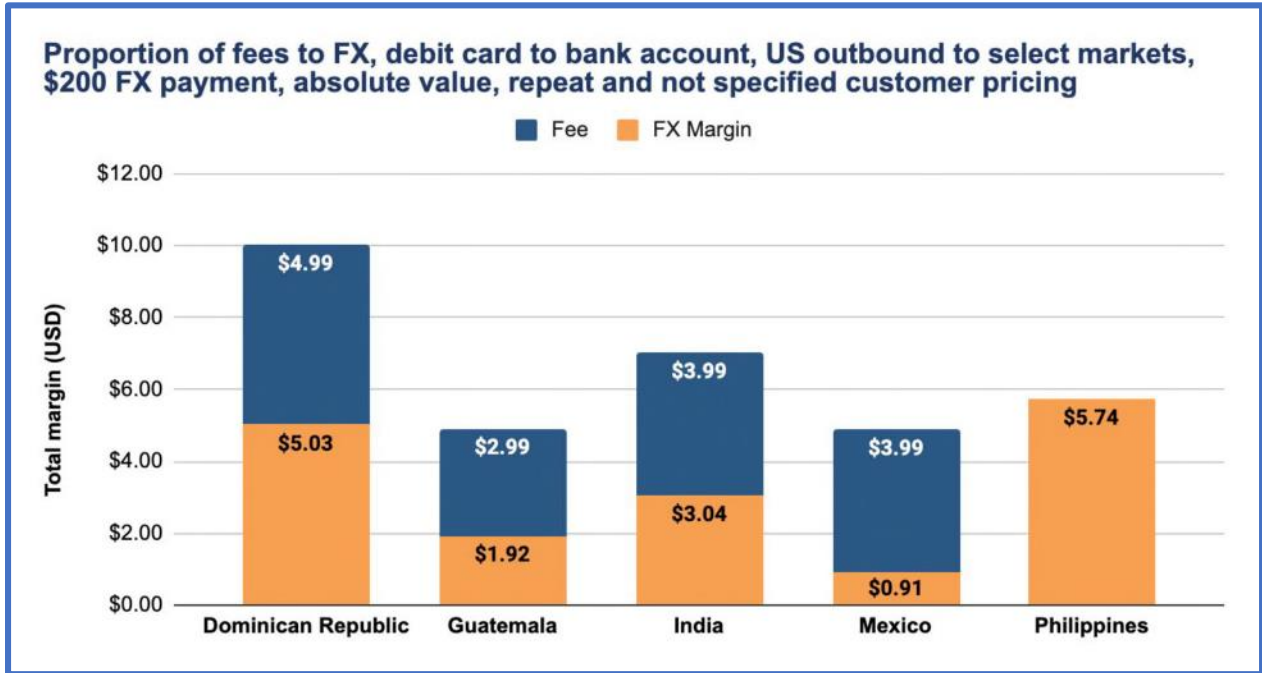


When looking separately at debit card transactions, exchange rate margins make up a greater share of the cost for debit card transactions than for cash transactions.<sup>69</sup> For debit card transfers, the 2023 study found the cost breakdown between exchange rate margin and fees ranged from 81.5% fees to 18.5% exchange rate margin (for transfers to Mexico) and 49.8% fees to 50.2% exchange rate margin (for transfers to the Dominican Republic). The breakdown of exchange rate margin to fees for all five corridors is shown below. On average, providers in four out of the five corridors studied received more revenue from fees than from an exchange rate markup.<sup>70</sup>



<sup>69</sup> Many providers offer one-time "new customer pricing" for digital transfers from the United States in order to entice new customers. The data reported for the debit card transactions are the prices offered for repeat customers (i.e., not the discounted prices offered to first-time customers) or prices that do not specify whether they are for first-time or repeat customers. For transfers to India and the Philippines, many providers offer "no fee" pricing for new customers that arguably support the conclusion that providers make the bulk of their revenue by exchange rate markups that disguise the true cost of the transaction from consumers. On the other hand, in the sample of five high-volume corridors, the "no fee" pricing for new customers existed in only two: India and the Philippines. Further, in both corridors in which new customers were offered "no fee" transactions with costs "hidden" by exchange rate margins, the total cost of a \$200 transaction was less than \$.50 – a cost of less than 1%. See Appendix 1 at page 5.

<sup>70</sup> In the fifth corridor, United States to the Philippines, many smaller providers offer "no fee" transactions for all customers where the entirety of the consumer cost is attributable to exchange rate margins. Accordingly, the median price of a \$200 transfer to the Philippines is composed entirely of exchange rate margin and charges no fees. When looking at only the seven largest providers, the median total cost to send \$200 with a debit card is \$5.69. Of that total cost, 34.2% (or \$1.95) is attributable to stated fees and 65.8% (or \$3.70) is attributable to an exchange rate markup.



It is noteworthy that the ratio of fees to exchange rates is similar for both cash and digital transactions, even though the total cost for the transaction is significantly higher in a cash transaction. The absolute cost to send \$200 cash was over \$10 in all five corridors sampled, more than double the highest absolute cost to send that same amount digitally. And yet the proportion of the fee derived from exchange rate markup was relatively consistent with that percentage for digital transactions, between 20% to 35%.

In short, the available data absolutely refutes the claim that providers derive more than half of their revenue from exchange rate markups. The true number, on average, is much closer to 30% and that figure varies significantly depending on the corridor and many other factors. Nor is there any evidence that markups have increased over time due to an intent to rip off customers.

#### **IV. The Existing Disclosures for Remittance Transfers Work Well**

In addition to the information already required to be disclosed by Regulation E, critics of the current regulatory regime argue that consumers should receive disclosure of the "mid-market rate." The mid-market rate is the midpoint between the buy and sell prices of any two currencies at any moment in time.<sup>71</sup> Mid-market rates are published by various independent sources and are constantly changing. Indeed, by the time a mid-market rate is reported or published, it is necessarily out-of-date. Thus, any reported "daily" mid-market rate is simply a historical aggregation of what many different firms would pay to buy and sell currency on average across all times on that date. That rate may be very different from the rate at which a money transfer company actually acquires currency, depending on the timing and source of its currency purchases.

<sup>71</sup> IMF COMM. ON BALANCE OF PAYMENTS STATS., F.13 MARGINS ON BUYING AND SELLING TRANSACTIONS 13 (2022), <https://www.imf.org/-/media/Files/Data/Statistics/BPM6/FITT/f13-margins-on-buying-and-selling-transactions.ashx#:~:text=Thus%2C%20the%20margin%20on%20the,ask%20prices%20of%20the%20security>.

Including a mid-market rate on the remittance disclosure would lead to information overload and be hopelessly confusing for consumers.<sup>72</sup> Nor would adding this hypothetical information help consumers comparison shop given *consumers today can compare total cost* from one provider to the next. Adding another exchange rate to the disclosure – that does not apply to the transfer – would only complicate the disclosure process.

Disclosure of a mid-market rate is particularly impractical in a brick-and-mortar setting. Retail money transmitters typically update their exchange rates and disclosures only once per day. If a retail money transmitter were required to disclose the mid-market rate, it would need to choose the mid-market rate from a single point in time. If it used the mid-market rate from close of business the day before or from the time that the retail location opened, the selected rate would be out of date nearly as soon as the first disclosure was printed. In other words, using a single daily mid-market rate in a retail setting (assuming such a rate existed, which it does not) would be useless and likely misleading, since the disclosed rate would likely differ widely from the actual mid-market rate at the time of the transaction.

The mid-market rate is akin to the average price of a 30-year fixed rate mortgage which is published weekly by the Federal Reserve. The average is based on mortgage loans submitted for purchase by Freddie Mac from lenders nationwide; the average price is not an indication of the "correct" or "fair" interest rate, it is simply an average. A consumer shopping for a new mortgage may find a mortgage rate higher or lower than the weekly national average for all kinds of reasons: location of the home, type of lender, purchase price of the home, "points" paid by the borrower to buy-down the interest rate. A borrower whose mortgage rate is more than the weekly average has not paid an "inflated" rate; that borrower has simply paid a rate that happens to be more than the weekly average, which could have happened for any number of reasons.

In general, the critics seem to believe that any exchange rate above the mid-market rate means it is "inflated."<sup>73</sup> To the contrary, there is nothing inherently "correct" about the published mid-market rate for a particular currency, such that charging a consumer a higher rate is somehow inflated or unfair. A provider may charge an exchange rate to a consumer that is either higher or lower than the mid-market rate, for any number of business reasons. There are so many different factors that go into determining an exchange rate and fees for a given remittance transaction, it is nonsensical to assert that any particular exchange rate is "inflated" or "unfair." Exchange rates charged to consumers for remittance transfers vary for a multitude of reasons, just as mortgage interest rates or any other consumer prices vary.

Finally, requiring disclosure of any of these rates would treat remittance transfers differently from virtually every other product, consumer finance or otherwise. In consumer finance, for example, mortgage lenders and credit card issuers need not disclose that they may increase interest rates charged above a national average rate. Instead, Regulation Z only requires disclosure of the

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<sup>72</sup> See Petra Persson, *Attention Manipulation and Information Overload: Barriers to Consumer Protection*, BEHAVIORAL PUBLIC POLICY, 2(1), 78-106 (2018) (explaining that the quality of a consumer's actions decreases when the quantity of disclosures increases, due to consumers' limited attention).

<sup>73</sup> Letter from Americans for Financial Reform to Rohit Chopra, *supra* note 1.

interest rate applied to the consumer's loan.<sup>74</sup> Banks do not disclose that they may offer a lower interest rate on deposits than a national average. Instead, Regulation DD only requires disclosure of the rate the bank actually used to compute interest.<sup>75</sup> Nor do Bureau regulations applicable to consumer lessors,<sup>76</sup> settlement service providers,<sup>77</sup> payday lenders,<sup>78</sup> gift card issuers,<sup>79</sup> or debt collectors<sup>80</sup> require those companies to disclose their profit margin. Indeed, we are not aware of a single industry—in consumer finance or otherwise—where a business is required to disclose a markup over a single national rate or amount.<sup>81</sup>

## V. Conclusion

In conclusion, it appears that critics of the current remittance rule disclosure regime seek to solve a problem that does not exist. In support, they rely on exchange rates applied in non-consumer transactions and ignore that for consumer remittance transfers disclosures are clear and markups are minimal. Simply put, there is no support to treat remittance transfers differently from other products and require providers disclose exchange rate markup, as consumers already have the information, they need to compare prices and providers are not inflating exchange rates charged to consumers.

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<sup>74</sup> Regulation Z requires providers of open-end credit to disclose "each periodic rate that may be used to compute the finance charge..." (12 C.F.R. 1026.6(a)(1)(ii)) and closed-end lenders to disclose the applicable finance charge. 12 C.F.R. § 1026.18(d).

<sup>75</sup> Regulation DD requires disclosure of the annual percentage yield and interest rate for fixed-rate accounts. 12 C.F.R. § 1030.4(b)(1)(i).

<sup>76</sup> Regulation M requires disclosure of "[t]he total amount to be paid...." 12 C.F.R. § 1013.4(b).

<sup>77</sup> Regulation X requires disclosure of "the actual charges paid by the borrower and seller...." 12 C.F.R. § 1024.8(b)(1).

<sup>78</sup> See 12 C.F.R. Part 1041 (requiring no disclosure of payday loan costs).

<sup>79</sup> Regulation E requires gift card providers to disclose "[t]he amount of any fees that may be imposed in connection with the card." 12 C.F.R. § 1005.20(a)(4)(iii)(C).

<sup>80</sup> 12 C.F.R. § 1026.6(b)(3)(i).

<sup>81</sup> And in the most closely analogous industry, currency exchange, there is no required disclosure of a purported "mid-market" rate even though exchanger's posted prices are plainly different for individuals buying or selling a particular currency. See, e.g., Currency exchange rates sign, Amsterdam (2021), [https://commons.wikimedia.org/wiki/File:Currency\\_exchange\\_rates\\_sign,\\_Amsterdam\\_%282021%29\\_02.jpg](https://commons.wikimedia.org/wiki/File:Currency_exchange_rates_sign,_Amsterdam_%282021%29_02.jpg).

# Acknowledgements

## FXC Intelligence

FXC Intelligence is the leading market intelligence provider for remittances and cross-border payments, working with enterprise-grade customers across the globe to deliver a daily impact to their businesses. FXC's clients cover the world's largest banks, payment companies, fintechs and big tech. FXC also supplies the underlying data for two of the most important global indices in the sector - the World Bank's Remittance Price Index and the G20/Financial Stability Board retail cross-border payment targets.

# **Appendix 1**

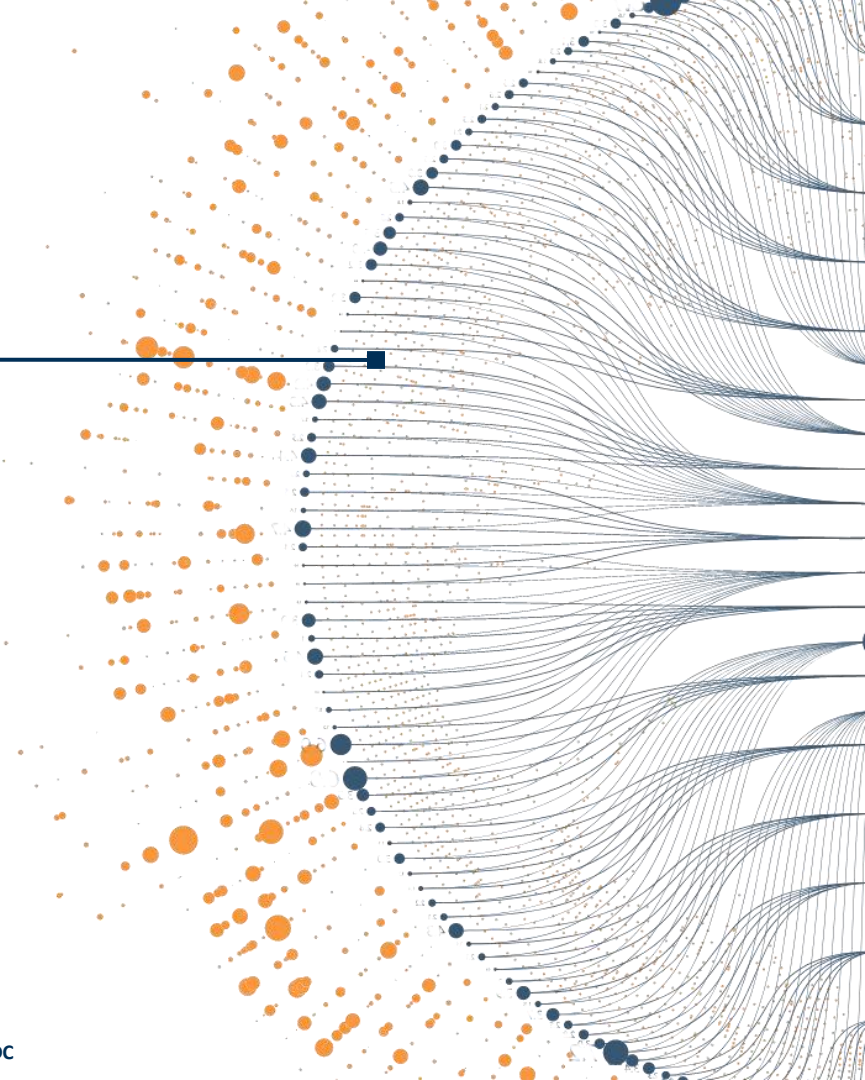


October 2, 2023

MSBA

Consumer Pricing Analysis

Final Deliverable



# Overview

## Send and Receive Market Scope

United States to:

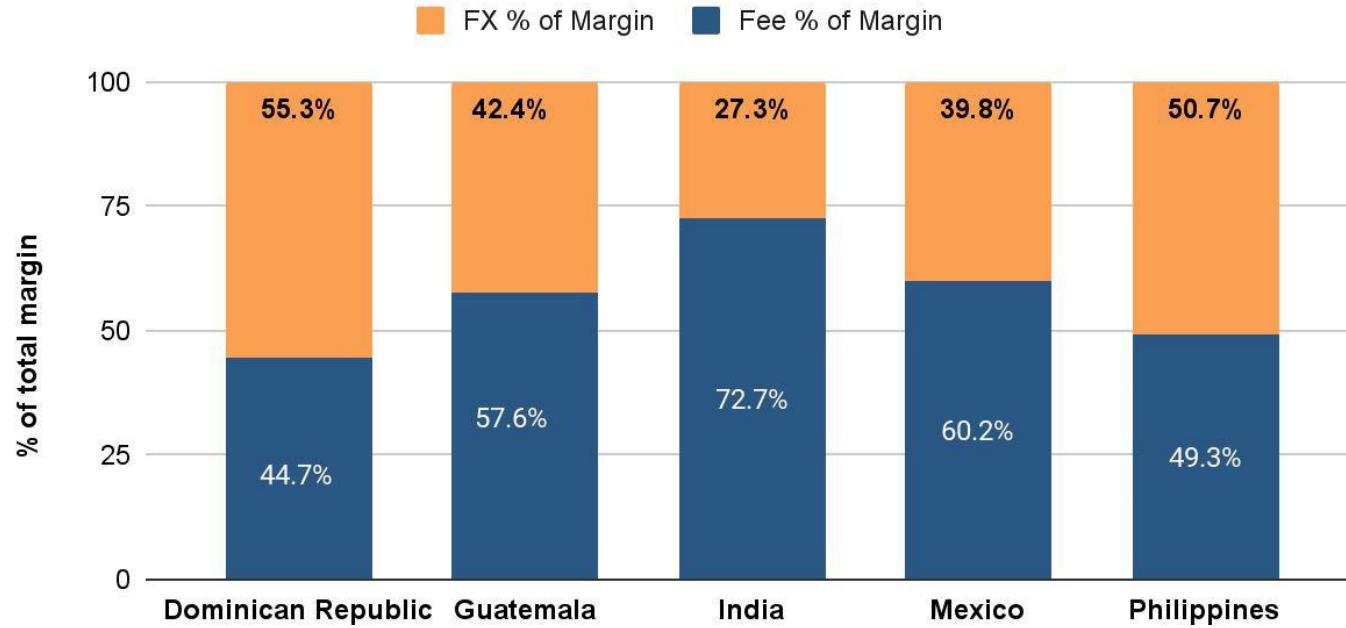
- Mexico
- Guatemala
- Philippines
- India
- Dominican Republic

Payin/Payout combinations to be included:

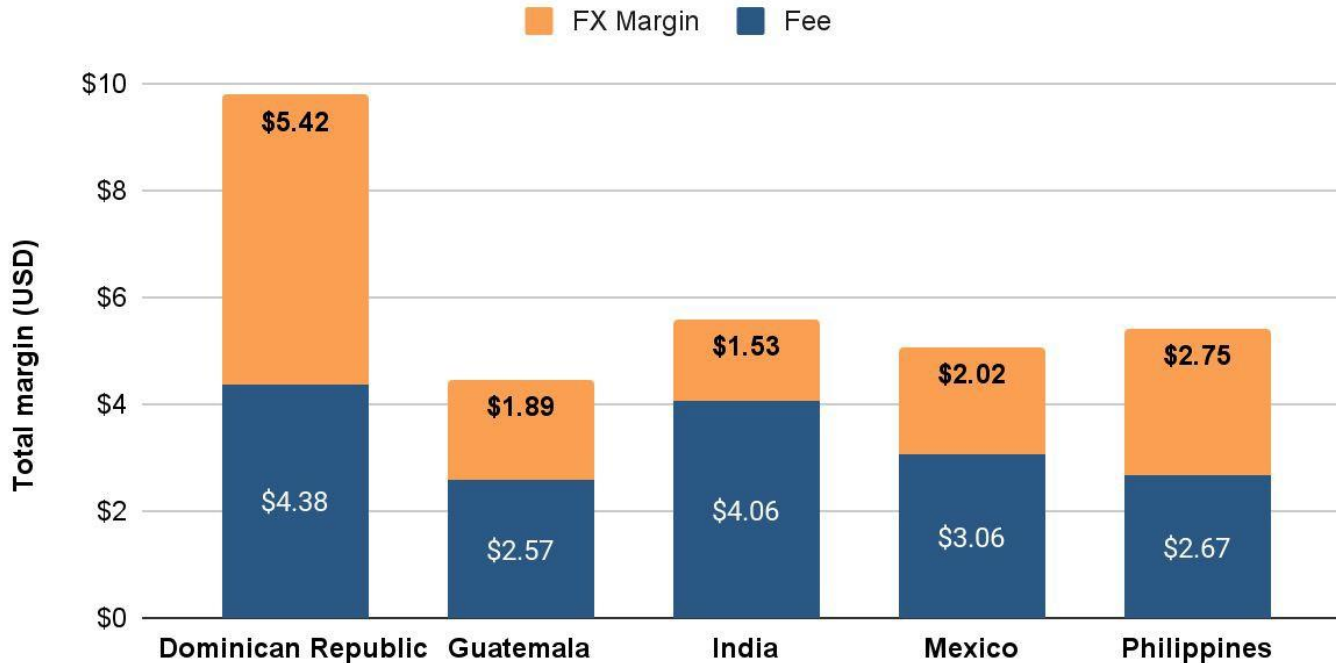
- Cash to cash
- Debit card to bank account

Data for Q2 2023.

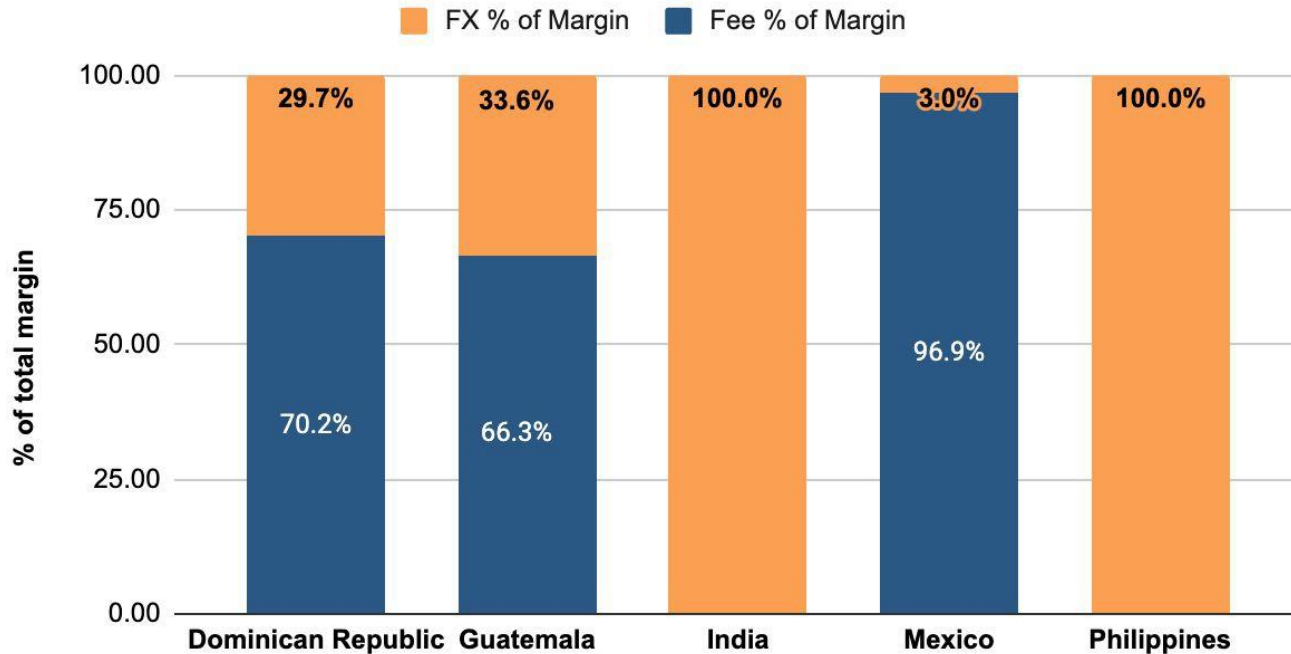
Proportion of fees to FX, debit card to bank account and cash to cash, US outbound to select markets, \$200 FX payment, % of total margin, repeat / not specified customer pricing (excludes new customer pricing)



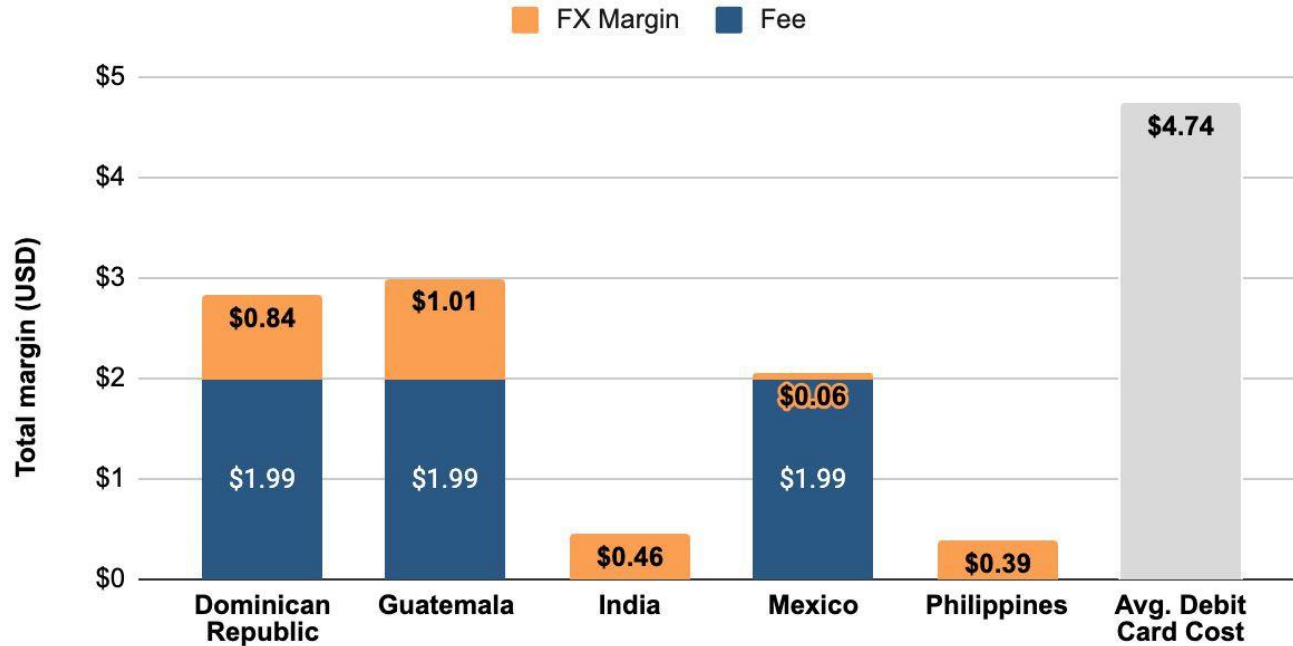
Proportion of fees to FX, debit card to bank account and cash to cash, US outbound to select markets, \$200 FX payment, absolute value, repeat / not specified customer pricing (excludes new customer pricing)



## Proportion of fees to FX, debit card to bank account, US outbound to select markets, \$200 FX payment, % of total margin, new customer pricing

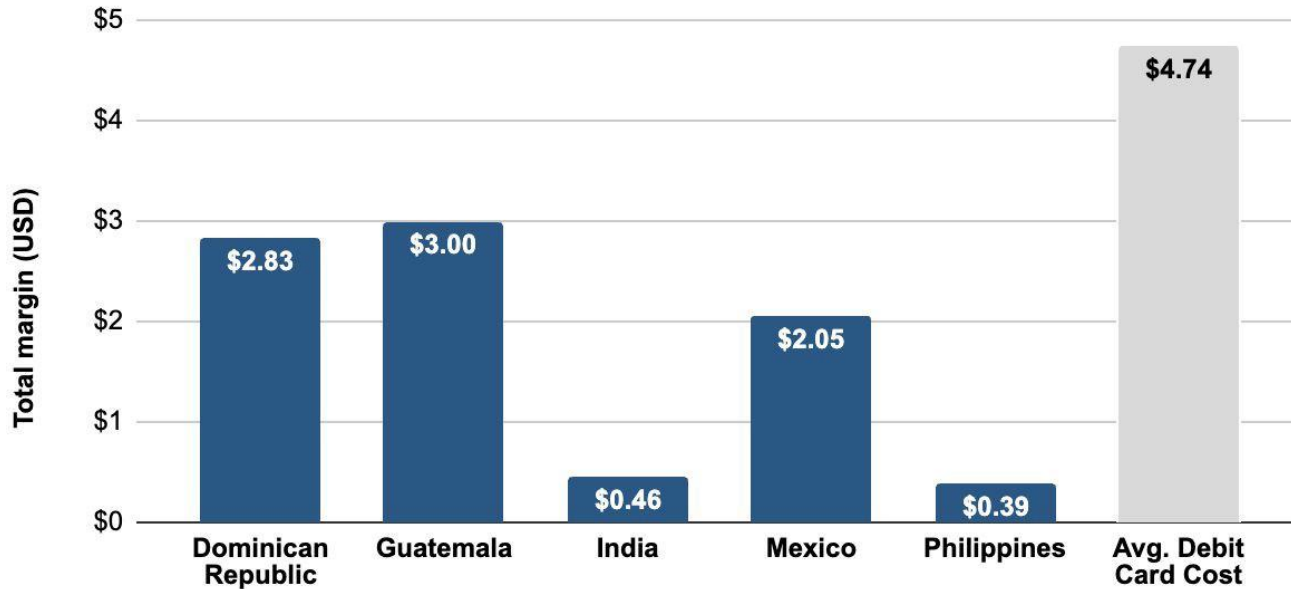


## Proportion of fees to FX, debit card to bank account, US outbound to select markets, \$200 FX payment, absolute value, new customer pricing



Note: Average for a sample of major debit cards out of the US

**Total margin, debit card to bank account, US outbound to select markets, \$200 FX payment, absolute value, new customer pricing**

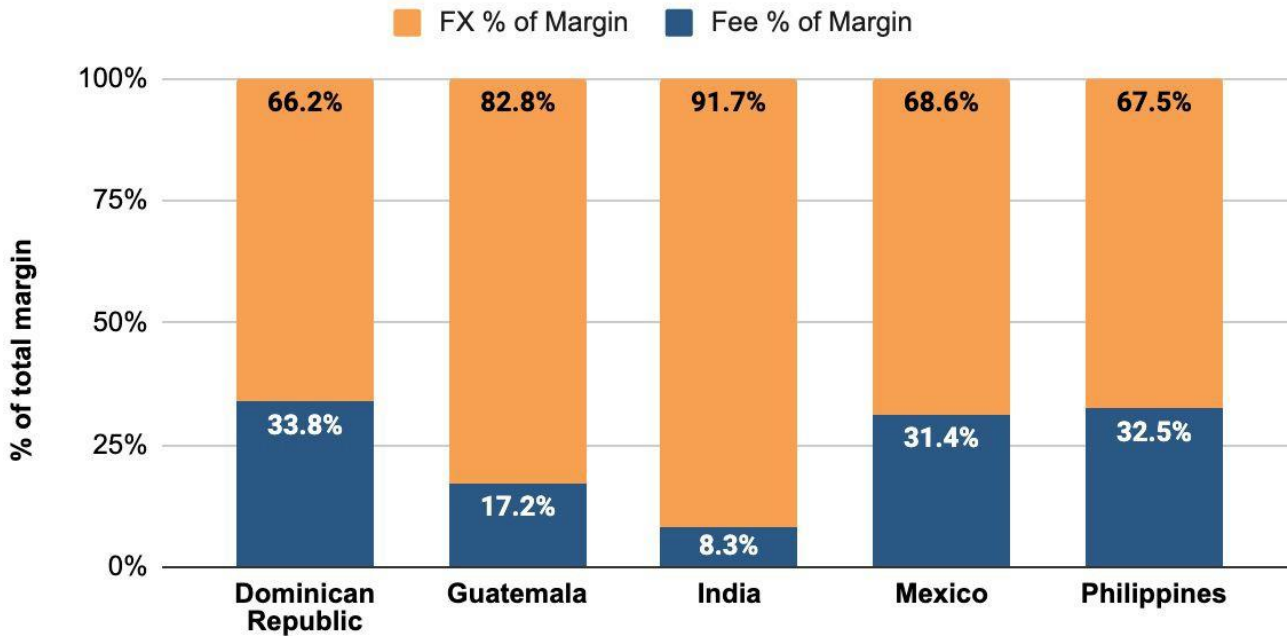


**Notes:**

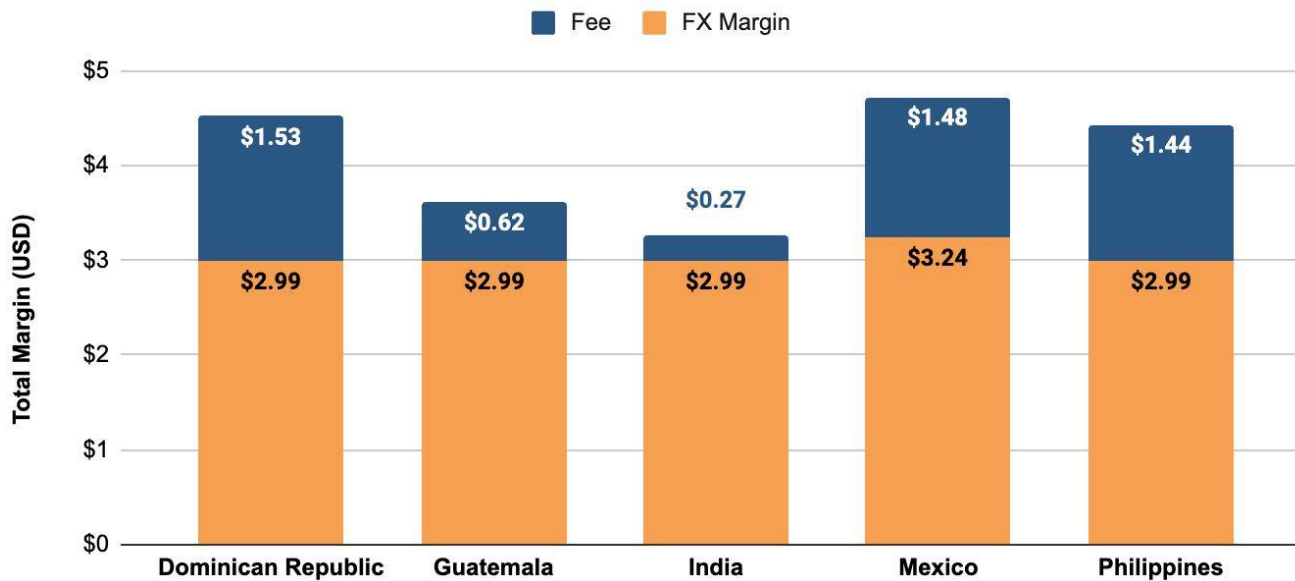
*Average for a sample of major debit cards out of the US*

*Total margin is the sum of fees and FX margin*

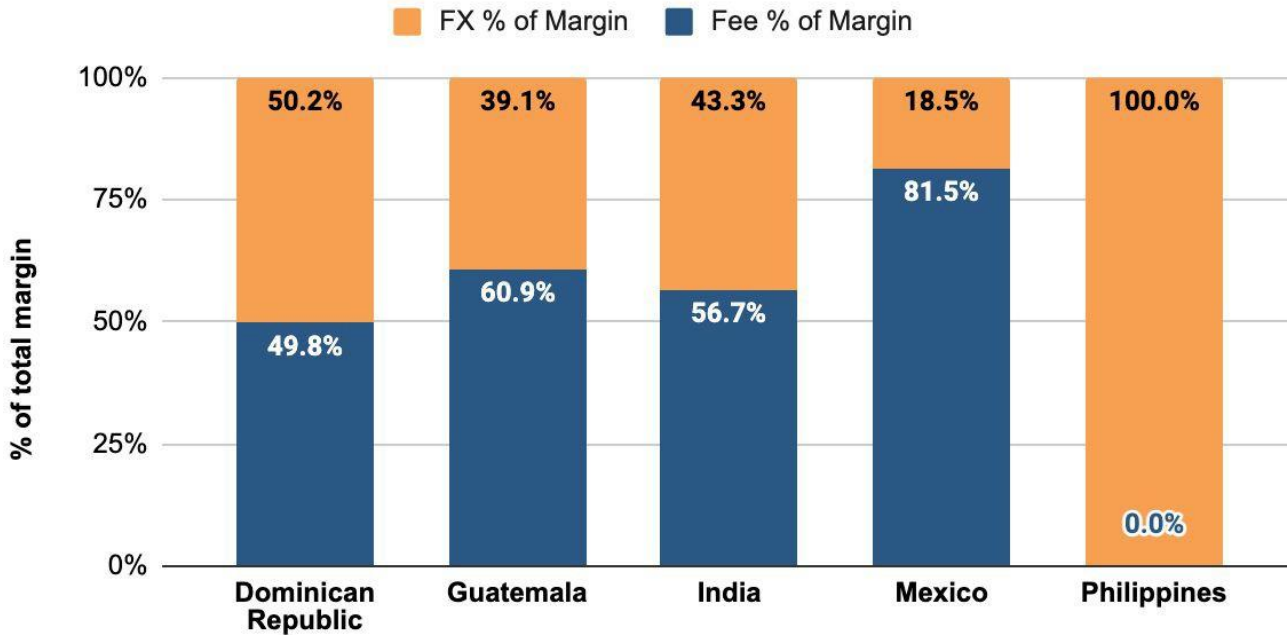
## Proportion of fees to FX, debit card to bank account, US outbound to select markets, \$200 FX payment, % of total margin, repeat customer pricing



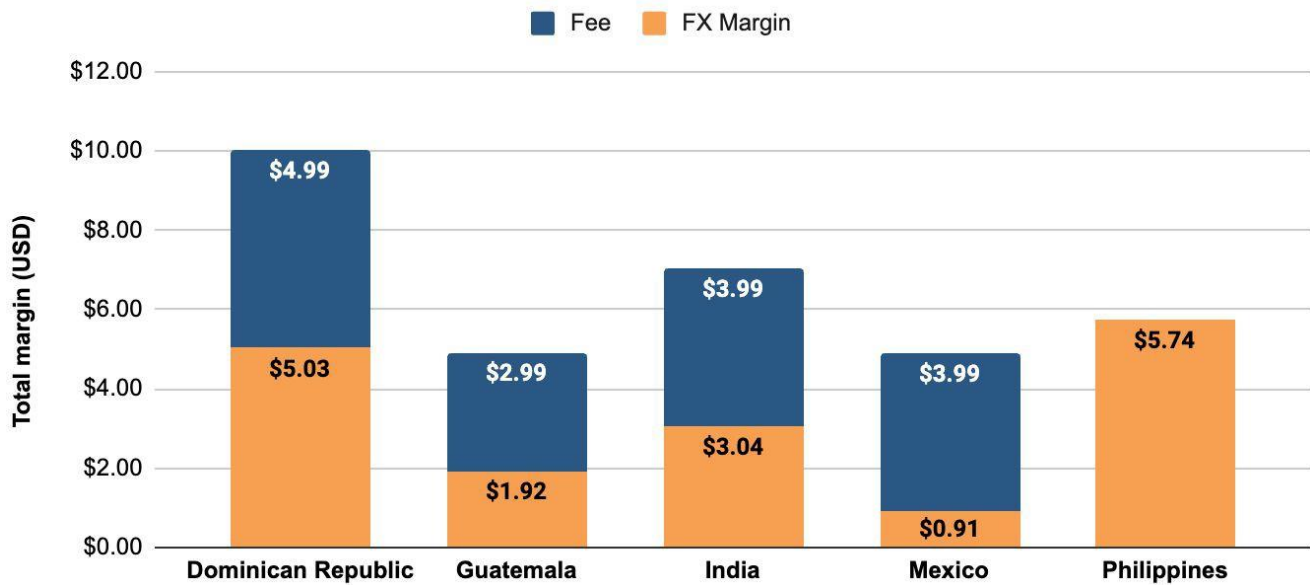
Proportion of fees to FX, debit card to bank account, US outbound to select markets, \$200 FX payment, absolute value, repeat customer pricing



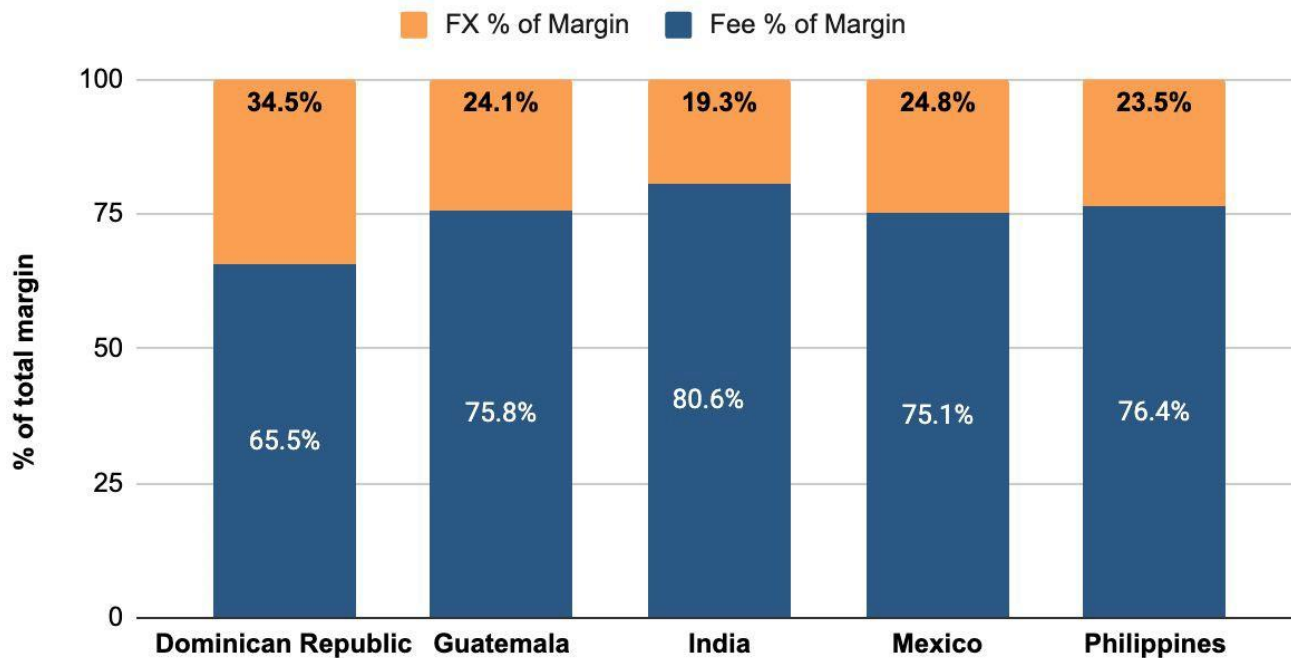
## Proportion of fees to FX, debit card to bank account, US outbound to select markets, \$200 FX payment, % of total margin, repeat and not specified customer pricing



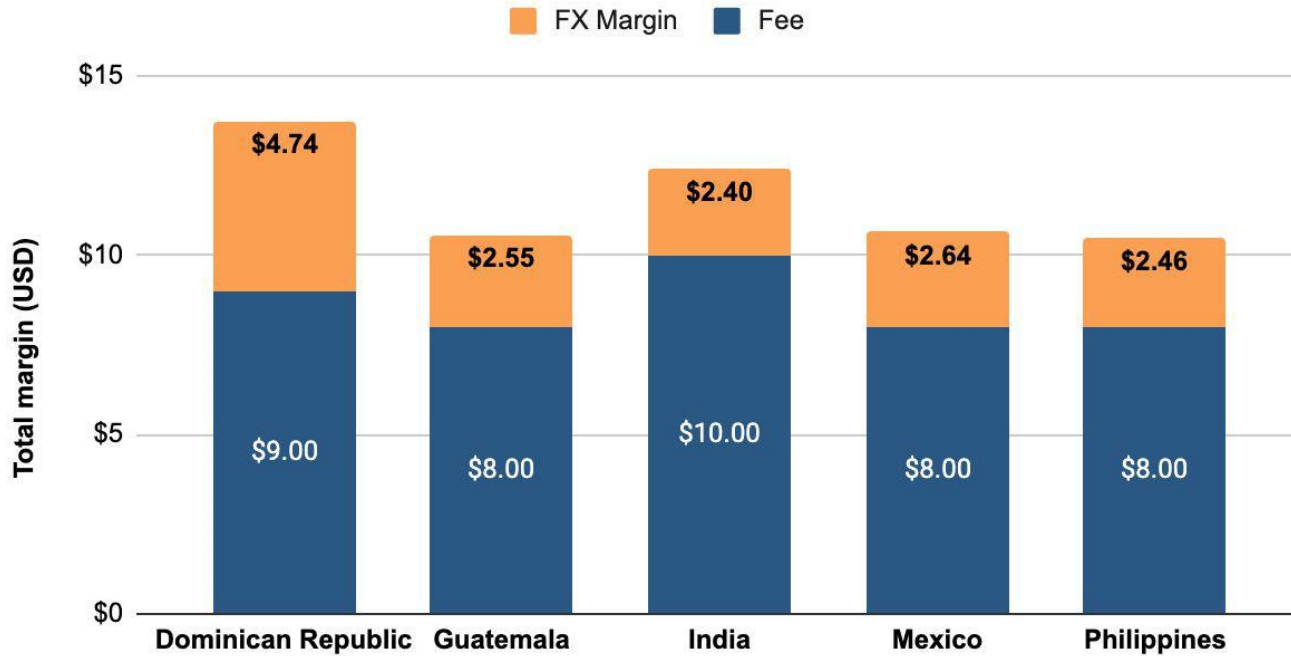
**Proportion of fees to FX, debit card to bank account, US outbound to select markets, \$200 FX payment, absolute value, repeat and not specified customer pricing**



## Proportion of fees to FX, cash to cash, US outbound to select markets, \$200 FX payment, % of total margin



## Proportion of fees to FX, cash to cash, US outbound to select markets, \$200 FX payment, absolute value



# Number of providers included by corridor

Corridor	Number of providers included
US - India	16
US - Mexico	15
US - Guatemala	15
US - Dominican Republic	13
US - Philippines	17

# How FXC collects fees & exchange rate data

- FXC captures the prices (including both fees and FX margin) being offered by payment companies to retail consumer clients.
- FXC collects this data primarily through automated data collection programs which collect pricing from payment company websites and pricing calculators or via direct connections with the providers.
  - This includes pricing for both digital payment methods (i.e. bank account, debit card card transfers) and the prices offered for cash to cash transactions at agent locations.
- This data is collected at a high frequency (intra-day) and then aggregated to daily, monthly, and quarterly medians to show a representative price.

# FX Margin Collection & Calculation Overview

Pricing offered to customer on payment company website

The screenshot shows a payment interface with two main sections: 'RATES & FEES' and 'TRACK & RECEIVE'. Under 'RATES & FEES', there is a 'SEND' section with '300.00 GBP' and a 'RECEIVE' section with '20,183.71 PHP'. Below this, it states '1.0000 GBP = 67.2791 PHP'. There are also sections for 'Select a Payment Option' (Credit Card, Debit Card, Cash at Location) and 'Select a Receive Method' (Direct to Bank Account, Debit Card Deposit, GCash, Cash Pickup). At the bottom, it says 'Money available by Wednesday, 16 March'.

Data extracted and standardised by FXC

```
"name": "MoneyGram",  
"provider_type": "Payment company",  
"transfer_methods": "online",  
"send_amount": 300,  
"conversion_amount": 300,  
"send_amount_usd": 392.69,  
"fx_rate": 67.279065,  
"fx_margin": 1.5395,  
"fee_from_currency": 3.99,  
"fee_to_currency": 268.4435,  
"fee_margin": 1.33,  
"total_margin": 2.8695326813,  
"total_cost": 8.6085980439,  
"transfer_speed": "In minutes",  
"received_amount_from_currency": 295.3814,  
"received_amount_to_currency": 20183.7195,  
"collected_timestamp": "2022-03-15 04:21:46",  
"pay_in_method": "Debit Card",  
"pay_out_method": "Cash",  
"mid-market_rate": 68.33104374999999,  
"mid-market_rate_timestamp": "2022-03-15 04:20:54",  
"customer_price_type": "Not specified",  
"source_data": {  
  "pay_in_method": "debitCard",  
  "pay_out_method": "10 Minute Service",  
  "location_from": "",  
  "location_to": "",  
  "transfer_speed": "At any location in minutes"  
},  
"status": ""
```

FX Margin calculated as difference between offered provider FX rate and mid-market rate (sourced from Refinitiv) at time of collection

X margin calculation:

$$(((\text{mid\_market\_rate} - \text{provider\_rate}) / \text{mid\_market\_rate}) * 100) = \text{fx\_margin}$$

$$(((68.3310 - 67.2791) / 68.3310) * 100) = 1.53$$

# Detail on the data fields included

## **FX % of Margin**

- The median percentage of the total margin the fx margin represents aggregated over the specified quarter

## **Fee % of Margin**

- The median percentage of the total margin the fee represents aggregated over the specified quarter

## **FX Margin**

- The median monetary value of the fx\_margin (in buy\_currency) aggregated over the specified quarter

## **Fee**

- The median fee charged for the transaction (given in the buy\_currency\_code) aggregated over the specified quarter

# About FXC

FXC Intelligence is the leading market intelligence provider for remittances and cross-border payments, working with enterprise-grade customers across the globe to deliver a daily impact to their businesses. FXC's clients cover the world's largest banks, payment companies, fintechs and big tech. FXC also supplies the underlying data for two of the most important global indices in the sector - the World Bank's Remittance Price Index and the G20/Financial Stability Board retail cross-border payment targets.



Empowering global payments to be more.

From **fundamental daily decisions** to **long-term strategy**,  
FXC Intelligence's data underpins the cross-border payments industry.