

Consumer Remittances

A competitive marketplace where consumers benefit from clear disclosures

Summary:

The MSBA conducted an analysis to evaluate whether money transmitters provide disclosures that allowed consumers to determine the cost of their transactions, and also to review the marketplace in the United States to determine if the marketplace is competitive in the products and pricing that consumers can use.

The paper reviews various aspects of the remittance market, including market structure, wholesale and retail costs, and factors influencing pricing. It explains that providers incur numerous costs in facilitating remittance transfers, including agent fees, banking fees, network fees, compliance costs, and security expenses. Additionally, it discusses how providers set prices based on market factors and competition, with variations across corridors and providers.

Overall, the regulatory framework and market dynamics play crucial roles in shaping the remittance transfer landscape, with a focus on enhancing consumer protections and fostering competition to drive down costs.

The remittance market has seen increased competition over the years, leading to lower costs for consumers. The availability of online transfers and technological advancements have contributed to this competition. The cost of remittance transfers has decreased over time, with median fees declining from 7.7% in 2011 to 5.7% in 2020.

The 2023 study analyzed transfers to five high-volume countries, revealing that fees outweighed exchange rate margins in most cases, particularly for cash transactions. However, for debit card transactions, exchange rate margins made up a greater share of the cost.

Some have suggested disclosing the mid-market rate to help consumers understand the true cost of transfers. However, the study demonstrates that this rate would lead to information overload and confusion, as the mid-market rate is constantly changing and would not reflect the actual rate applied by transfer providers.

FAQ's

1) What regulations are Remittances subjected to?

There is an existing, robust regulatory framework that protects consumers and promotes price transparency in international remittance transfers.

- Multiple laws and regulations at both the federal and state levels govern disclosures in international remittance transfers, promote price transparency and protect consumers.
- The CFPB's [Remittance Rule](#), finalized in 2020, applies to all companies that send international money transfers and requires them to disclose the below before the transaction is conducted, allowing consumers to comparison shop:
 - 1) the amount the consumer is sending,
 - 2) any fees,
 - 3) the exchange rate applied to the transaction, if any, and
 - 4) the net amount the recipient receives.

The Rule strongly encourages all providers to use the same standard forms to disclose this information.

- The CFPB, the Federal Trade Commission (FTC) and virtually every state prohibit deceptive practices and disclosures, including around pricing. Neither the FTC nor the CFPB has ever alleged that a remittance transfer provider has engaged in deceptive pricing. The CFPB recently issued a Circular to clarify its position on the topic of marketing terms.
- As of July 2024, the country's two largest states – California and Texas – require additional disclosures be provided when customers purchase remittance transfers. These two states account for almost half of all remittance transfers to Mexico.

2) *How do we know that Consumers understand the remittance receipt?*

- [Consumer research](#) commissioned by the Federal Reserve around the time of the Remittance Rule found that most participants compared both fees and exchange rates between providers for remittance transfers.
- The CFPB itself has acknowledged that disclosing fees, the exchange rate and the total to the recipient is sufficient to enable comparison shopping.
 - “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,” [the CFPB wrote in 2012](#).
- In 2019, The [Bureau issued a 168-page report](#) on the Remittance Rule's impact on the market over its first five years. Nothing in the report suggests that consumers do not understand the disclosures they receive.

3) *Are there other factors that Consumers use to select a remitter?*

- The Federal Reserve’s [consumer research](#) found that cost is not the only factor influencing consumer behavior. Costs are weighed alongside non-monetary factors such as speed, convenience, accessibility and reliability.

4) *How can the US market be categorized?*

- Competition in the remittance transfer market has increased markedly since the Remittance Rule took effect, which has benefited consumers. This is supported by:
 - An increase in the number of providers: Since the early 2000s, the number of remittance providers has been steadily growing; [there are 359 licensed providers in the U.S. as of 2022](#).
 - Lower costs: The median remittance price has decreased from 7.7% in 2011 to 5.7% in 2020, according to [World Bank data](#).
- The CFPB’s own research confirms 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,” [a 2019 CFPB report](#) reads.

APPENDIX

CFPB Remittance Rule:

<https://www.consumerfinance.gov/rules-policy/final-rules/remittance-transfers-under-electronic-fund-transfer-act-regulation-e/>

Federal Reserve Consumer Research:

[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)

2012 CFPB Report:

<https://www.govinfo.gov/content/pkg/FR-2012-02-07/pdf/2012-1728.pdf>

2022 NMLS Money Services Business Report:

<https://mortgage.nationwidelicensingsystem.org/about/Reports/2022%20MSB%20Annual%20Report.pdf>

World Bank Data:

<https://cepr.org/voxeu/columns/investigating-drivers-remittance-fees>

2019 CFPB Remittance Rule Assessment Report:

https://files.consumerfinance.gov/f/documents/bcftp_remittance-rule-assessment_report_corrected_2019-03.pdf