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Imagining an open
future for payments

The economic empowerment of digital remittances: How to unlock the benefits of innovation and competition

Key insights and recommendations from the whitepaper

This new paper from the Visa Economic Empowerment Institute (VEEI) examines the latest global remittance trends; describes the advantages of digital remittances and digital enablement of migrant workers, their families, and communities; and offers recommendations for unlocking the benefits of innovation and competition for everyone, everywhere. Below are the key insights from our research and analysis—they are discussed at greater length in the body of the paper.

Remittance inflows are critical—and they have been resilient in challenging times

Remittances proved surprisingly resilient during the pandemic. Though expected to decline in 2020, global remittance inflows actually rose, a remarkable showing in a year characterized by shutdowns and slowdowns. Remittance inflows for 2021 were very strong, reaching $773 billion globally and $605 billion for low- and middle-income countries (LMICs). In addition to being a critical lifeline for families, remittances are critical to many countries. In 2021, 30 countries received over 10 percent of their GDP in remittances, and eight countries received over 25 percent of their GDP via these flows.

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Digital remittances were key to the resilience of inflows, but we need to enable more of them

Border closures and business lockdowns in the early days of the COVID-19 pandemic made cash-based over-the-counter and informal systems difficult to operate. Mobile-money remittances grew almost 50 percent from 2020 to 2021, but they still account for less than 3 percent of overall remittance flows. Money Transfer Operators (MTOs)—both the established operators with updated digital business models and the new breed of digital-first MTOs—saw digitally initiated remittances more than double during the pandemic, accelerating a trend that was already in play. These newer services offer a variety of advantages for senders and receivers, but still only a third of remittances are initiated digitally, and only one third of those are picked up digitally. Given the cost advantages of digital remittances, our focus needs to be on how to enable more of them.

Costs are still high for the "average" remittance, but are much lower for digital remittances and in cases where a migrant worker can compare multiple options

Policymakers have focused on remittances for years, and these transfers have often been the most-discussed example of the various frictions of cross-border payments. The frictions include lack of transparency, slowness, and relatively high costs due to the complexities of regulatory compliance and, in some cases, a lack of competitors.

As of 2Q 2022, World Bank remittance price data show that:

- The average $200 remittance costs 6.01 percent—this is the headline number policymakers most often mention.

- Cash-funded remittances cost 6.52 percent, and cash has routinely been the highest cost way of funding a remittance.

- The digital remittances index (for remittances digitally initiated in an online or self-assisted way) is 4.80 percent.

- The SmaRT index (a measure of what a savvy consumer with access to sufficiently complete information could pay) is at 3.35 percent—almost at the 3 percent UN Sustainable Development Goal (SDG) 10 target.

These observations are confirmed by VEEI modeling of card-initiated digital remittances over the last two years. In our modeling, we determined costs across several MTOs for 25 key global corridors and compiled three measures: the average cost, lowest cost, and highest cost.

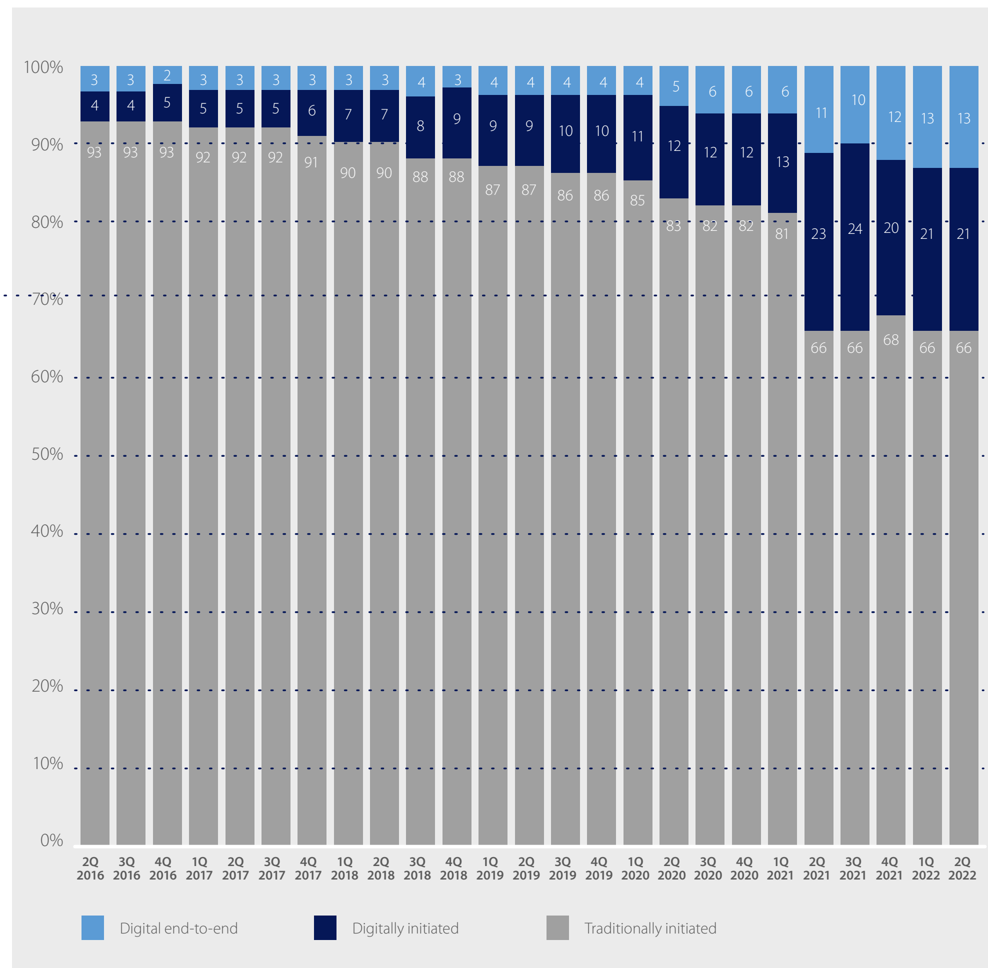
- The average costs for a $200 remittance across all MTOs and corridors declined from 4.24 to 3.89 percent in 2022, a drop of almost 10 percent—this is roughly analogous to the "digital remittances index" from the World Bank.

- The average of the lowest costs declined from 2.96 to 2.08 percent in 2022, a decline of almost 30 percent—this measure is roughly analogous to the World Bank's SmaRT index.

- By contrast, the average of the highest costs found in the corridors went up from 6.15 to 7.09 percent in 2022, driven largely by two corridors, where MTOs were offering dramatically different pricing. Migrant workers without the ability to check on multiple options could have paid exceptionally high prices (and some undoubtedly did) during this period.

Overall, while the average price of a remittance in our research was 3.89 percent, we were able to find a sub-3 percent remittance in 20 of our 25 corridors in 2022.

There has been a shift to digital remittances, but most are still traditional



Source: VEEI/Devtech Systems analysis of WBG Remittance Prices Worldwide Quarterly data

In light of these insights, a few imperatives emerge

Clearly, the ability to send remittances digitally and to easily compare options make a big difference to remittance senders and their families. So, what can the public and private sectors do to bring the power of innovation and competition to more people?

- Traditional remittances must become digital. Cash-initiated remittances are the most expensive way to send a remittance, and it is perhaps worse on the receiving end—many MTOs maintain vast cash out networks in receiving countries, and this adds appreciable costs to remittances today.
- Migrant workers must be able to compare options and send remittances digitally, and their families must be able to then spend the funds digitally at businesses in their communities. None of this can happen without basic digital infrastructure.
- Innovation must be facilitated by more consistently applied compliance rules and by well-developed standards, and consumer choice needs to be promoted by making it easier for remittance providers to bring new innovations to market.

How we unlock the benefits of remittance innovation and competition for everyone, everywhere

We believe these five steps will help unlock the benefits of innovation and competition for more people while also uplifting businesses and communities.

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

As policymakers strive to promote digital remittances, we believe that they should adopt a principle-led and outcome-based approach, giving payment service providers and payment networks the flexibility to innovate in order to deliver against goals. 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.

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 and other cross-border payments 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. We therefore believe that it is critical for the public sector to address the regulatory, supervisory, and oversight frameworks focus area of the Financial Stability Board (FSB) cross-border roadmap.

Simplify the licensing process to allow 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 markets with less friction. Currently, with vastly different license requirements around the globe that need to be navigated, companies must spend large amounts of time and money to navigate the different policies and requirements, and as Bank for International Settlements (BIS) and World Bank researchers recently noted, this process can take years. Streamlining licensing requirements and processes will help new market entrants bring the benefits of digital remittances to more corridors, and therefore to more people.

About Visa Inc.

Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable, and secure payment network–enabling individuals, businesses, and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network, and scale to reshape the future of commerce.

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