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FEATURED Q&A

Will Fintech Upend Mexico's Remittances Sector?



The number of financial technology firms has soared in Mexico, which received \$36 billion in remittances last year. // File Photo: pxfuel.com.

Q **Mexicans working abroad sent a record \$36 billion in remittances back home last year, the country's central bank announced last month. At the same time, the number of financial technology firms operating in Mexico has grown exponentially. How much are fintech firms disrupting the traditional remittance channels in Mexico and elsewhere in Latin America and the Caribbean, and what do those changes mean for consumers? How widely are remittance senders and recipients adopting fintech in the region? To what extent do remittance recipients use the money they receive through electronic channels differently as compared to recipients who receive it through more traditional money-transfer companies?**

A **Manuel Orozco, director of the Migration, Remittances and Development Program at the Inter-American Dialogue:**
"There are two separate trends to remittances to Mexico. First, the increase in remittances is slower than in 2018, when it was 12 percent. The 7 percent increase is explained largely by a slowing share of Mexicans sending funds. The percent of all Mexican migrants sending money had increased from 50 percent in 2006 to 66 percent in 2016, suggesting that as Mexicans are staying abroad longer, they continue to remit. Combined with the 'Trump fear factor,' remittances had increased despite restrictions on entering the United States because those staying longer not only have increased the share of money sent, but nearly half were sending 20 percent more out of fear of being deported. In 2019 the capacity to continue sending that larger amount slowed significantly: principal amount sent only increased 1 percent in 2019. With regard to

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TODAY'S NEWS

POLITICAL

Peru, Panama Close Schools to Fight Spread of Coronavirus

Peru and Panama were among the countries taking action in efforts to contain the spread of the highly contagious coronavirus. The World Health Organization declared the outbreak a pandemic.

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BUSINESS

Mexico Reportedly Hasn't Ruled Out Pemex Output Cut

Cutting production would mark a reversal from President Andrés Manuel López Obrador's strategy.

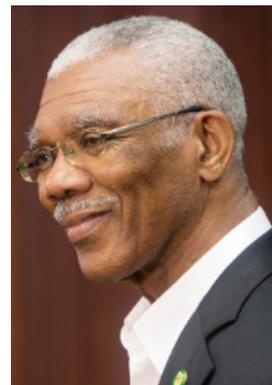
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POLITICAL

Head of Guyana's High Court Orders Partial Recount

The head of Guyana's Supreme Court ordered a partial recount of votes from the country's March 2 presidential election. The opposition PPP party accuses the government of tampering with the vote in favor of President David Granger.

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Granger // File Photo: Guyanese Government.

POLITICAL NEWS

Peru, Panama Close Schools Amid Rapid Spread of COVID-19

Countries across Latin America reported an increasing number of cases of coronavirus on Wednesday and took increasingly aggressive measures to contain the spread of infections as the World Health Organization declared the outbreak a pandemic. In Peru, which has at least 15 confirmed cases of COVID-19, President Martín Vizcarra said all schools in the country would be closed until at least March 30, Reuters reported. Panama took similar action to temporarily shutter schools at least until April 7 in an order that affects both public and private schools in most of the country. Students there will be able to continue their studies through lessons that can be completed at home, said a Panamanian education ministry official. Panama's health minister, Rosario Turner, earlier this week announced the country's first death attributed to the highly contagious virus and said there are 10 other confirmed cases of it in Panama. In neighboring Costa Rica, the government on Wednesday confirmed 22 cases of the disease, almost twice the previous count. Countries across the region also imposed new travel restrictions in an effort to fight the virus' spread. In El Salvador, which still has no confirmed cases of COVID-19, President Nayib Bukele said the government was banning entry to foreigners for 21 days, Agence France-Presse reported. In an address on state television, Bukele said immigration authorities would bar entry "of any foreigner who is not a resident or diplomat in Salvadoran territory." Bukele added that Salvadorans returning home from countries where coronavirus cases have been recorded would have to be quarantined for 30 days. Bukele also said gatherings of more than 500 people would be prohibited and that schools and universities would suspend classes for 21 days. Elsewhere, the governments of Argentina, Colombia and Peru said travelers from the countries that are hardest hit by the virus would be isolated upon arrival,

AFP reported. Argentina, which was the first country in Latin America to confirm a coronavirus-related death, said travelers arriving from China, Italy, France, Germany, Spain, Japan, South Korea and the United States would be in isolation for two weeks. "This is not voluntary, it's not a recommendation. If you don't comply you'll be committing a crime, which is putting the public health at risk," Argentine President Alberto Fernández told radio station FM Delta. "The person who complies with the 14-day quarantine is obliged to shut himself away at home alone." Argentina as of Wednesday had registered 19 cases of coronavirus. Brazil, Latin America's most populous nation, had more cases, at 34. Brazilian President Jair Bolsonaro, however, played down the risk of the fast-spreading virus. "During the past year, obviously, we have had moments of crisis. A lot of that is fantasy. And coronavirus, which is not all the mainstream media makes it out to be," Bolsonaro said Tuesday during a visit to Miami, Reuters reported. Bolsonaro said the outbreak of the virus and associated turmoil in financial markets resulted from "fantasy" and did not represent a crisis. On Wednesday, Brazilian stocks fell 8.5 percent, and the country's currency dropped back toward its all-time low against the dollar. Stock trading in São Paulo was halted for 30 minutes in the afternoon when a 10 percent fall in the Bovespa index tripped a so-called "circuit breaker" in order to pause trading. In the United States, the Dow Jones Industrial Average fell more than 5 percent on the day and slightly more than 20 percent from its high, ending an 11-year bull market on the index.

Head of Guyana's High Court Orders Partial Vote Recount

The head of Guyana's Supreme Court on Wednesday ordered a partial recount of last week's contested general election, BBC News reported. The decision is a major win for the opposition PPP party, which has accused the government of tampering with the vote in favor of incumbent President David Granger.

NEWS BRIEFS

Chileans Protest in Santiago as Piñera Marks Two Years in Office

Chilean President Sebastian Piñera's second anniversary since taking office on Wednesday was marked by protests in Santiago in which riot police and students clashed, France 24 reported. The demonstrations also coincided with the 30th anniversary of dictator Augusto Pinochet's fall and the country's return to democracy in 1990. In a ceremony, Piñera said the last 30 years had been a "fertile" period during which Chile lifted eight million people out of poverty, while recognizing inequalities that hurt "the soul of the nation."

Argentina Needs 'Substantial' Relief in Debt Talks: Economy Minister

Argentina needs "substantial relief" as it restructures almost \$70 billion in debt, Economy Minister Martín Guzmán told Reuters Wednesday. Guzmán added that a March 31 deadline to reach a deal with bondholders may be affected by the coronavirus pandemic. Guzmán said Argentina will not have capacity to service its foreign currency bonds for a "few years."

Bank of America Reportedly Reorganizes Latin America Units

Bank of America has reorganized its Latin America corporate and investment banking teams, Reuters reported Wednesday, citing internal memos. Augusto Urmeneta, who has been at the bank for 22 years, is now head of global corporate and investment banking in Latin America. Hans Lins, who has headed Brazil investment banking for 12 years, will coordinate Latin American ties with investors from Asia and the Middle East. Additionally, Bruno Saraiva was appointed co-head of Brazil Investment Banking with Lin and will continue to oversee Brazil's equity capital markets unit.

Judge Roxane George-Wiltshire ruled that there had been substantial noncompliance by the electoral officer's declaration of results in one of the country's voting regions, Region Four, and ordered the results be nullified and void, Stabroek News reported. She also said that the Guyana Elections Commission cannot declare a final result until the recount of Region Four is properly done, with the process set to begin this morning. Both Granger of the incumbent PNCR coalition and Irfaan Ali of the PPP have claimed victory in the March 2 election, sparking tensions and some violent protests over the weekend that left one person dead and several injured, BBC News reported. The election campaign was marked by the two sides' plans on how to manage the massive expected oil revenue this year from recently discovered fields that began production in December. Some international election observers, including representatives of the Organization of American States and the European Union, plan to stay in Guyana until final results are declared, Stabroek News reported.

BUSINESS NEWS

Mexico Hasn't Ruled Out Cutting Production at Pemex

Mexico has not ruled out cutting production at state oil company Pemex following the plunge in oil prices this week, a move that would mark a significant reversal in President Andrés Manuel López Obrador's strategy to boost the firm's declining output, the Financial Times reported Wednesday, citing a tweet from the energy minister. "The price of the Mexican [oil export] mix is determined by international oil prices. All producing countries in the latest Opec-Non-Opec meeting expressed our willingness to adjust by a percentage to avoid overproduction," Energy Minister Rocio Nahle wrote on Twitter. "We are in permanent communication." The energy ministry did not immediately respond to the newspaper's request for comment, and Pemex did not confirm a cut in production.

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digital transfers, Mexico is leading the global outflow of money transferred through online mechanisms, which we estimate is at 37 percent. Those sending through these mechanisms tend to send 10 percent more than the cash-to-cash sender. Therefore, a small part of the 7 percent growth is explained by these users. Overall, there is no disruption. However, there is a rapid transition into online payments to the region, capturing at least 30 percent of all U.S. outbound flows, while inbound payments into accounts (mobile wallets or depository accounts) have also increased, to 20 percent of all remittance transfers. This is a significant trend as Latin American migrant workers transferred \$100 billion back to their home countries in 2019."

A Kai Schmitz, partner at Crestone Venture Capital: "Traditional remittance operations can be broken down into three parts: the collection of money from senders, the payment to the recipient and the process of settlement between the service providers involved. In a cash-based remittance system, there are many parties: collection agent, bank or banks in the originating country, the remittance company, a bank in the receiving country and sometimes an agent for the payout. Collecting or paying out cash is expensive and slow, introducing lag in the settlement that remittance operators need to overcome by supplying working capital. Fintech companies in the United States and Europe have already overcome the origination part by offering money transfers online and innovating identification and payment security. This has significantly reduced the costs of processing online remittances. Companies can and must invest in online marketing. Disrupting the process in receiving countries has proven much harder. A lack of penetration with efficient electronic payment methods, be it bank accounts, cards or wallets, has hindered a more efficient and lower-cost process. Fintech companies have tried many options, from card-to-card trans-

fers to handing out store credit or gift cards, but today most remittances are still paid out in cash. However, this may be changing. The increasing penetration of wallets, payment cards and low-cost bank accounts offers new methods for electronic payments. Many fintech and tech companies have started to

“Companies can and must invest in online marketing.”

– Kai Schmitz

issue simple payment accounts, wallets and cards and are growing very fast. Sending remittances into these accounts will reduce the cost of distribution significantly. A deeper disruption of the traditional remittance business may already have begun. Payments through social media such as Facebook and WhatsApp were launched and are scaling fast in India and a few other markets. The large social media companies are used by most remitters and recipients. Regulation currently prohibits their use for international payments. But regulation is changing, and fintech has a successful track record of disrupting not just business models but also the regulation that protected them."

A Sofia Mercer, payments practice analyst at Americas Market Intelligence: "Despite Mexico's booming remittance market, AMI estimates that less than 20 percent of remittances sent to Mexico is received digitally. Recipients predominantly prefer cash due to a mistrust of banks and technology. However, digital remittances are becoming more popular as consumers are increasingly exposed to digital transactional channels, including online banking, payment via QR code and e-commerce in general. Within remittances, fintechs are creating user-friendly interfaces and focusing on solving historically neglected pain points,

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namely exorbitant fees and the need to travel to an agent to collect funds. Fintechs that are incorporating solutions such as blockchain are reshaping user expectations by lowering costs and increasing transfer efficiency. All of this is occurring in the context of Mexico's famed Fintech Law, which is in the process of issuing licenses that enable fintechs to operate without the backing of a bank. Bitso, a cryptocurrency wallet using Ripple's XRP remittance platform, was the first-ever fintech in Mexico to receive a cryptocurrency fintech license, in 2020. Bitso can send transactions in less than 90 seconds and reduce fees by 3 percent to 6 percent. Backed by its status as a regulated fintech, Bitso reports 15 percent weekly growth and has announced publicly that it aims to achieve 20 percent market share of inbound remittances to Mexico by the end of 2020—such a feat would truly represent market disruption. As more fintech companies in Mexico receive fintech licenses this year and receive permission to hold digital funds, consumers' trust in these institutions will increase, as well as investors' interest."

A **Mario Trujillo, chairman, president and CEO of DoEx Dollar Express, Inc.:** "The adoption of fintech has been rapid in recent years; however, there are still countless opportunities and a lot of work to be done. In Latin America, a young and tech-savvy population is increasing the demand for digital services, and fintech is no exception. Globally, the adoption of fintech is approximately 64 percent. Adoption has doubled year after year since 2015, with developing countries being the most progressive. Within the first 10 positions, we have Colombia with 76 percent, Peru with 75 percent and Mexico

with 72 percent, surpassing countries such as Britain and the United States. The size of underbanked markets, coupled with the benefits that financial technology offers, such as availability, accessibility and price, make Latin America an ideal market for both mature companies and start-ups. At DoEx, we understand the importance of making new technologies available to our consum-

“**In Latin America, a young and tech-savvy population is increasing the demand for digital services, and fintech is no exception.**”

— Mario Trujillo

ers, and we are transforming the traditional brick-and-mortar outlet to a world-class fintech retail outlet. We are committed to continuing to invest in cutting-edge technology to develop and provide offerings that make a difference, such as responsible installment loans that help people initiate a credit history and therefore access life-changing financial products. Consumer preferences have been changing rapidly; this represents a challenge for large financial corporations in Latin America and around the world. Their ability to adopt and adapt to new technologies is the key to staying relevant in the preference of new generations and their demands for easy, fast financial technology at prices below market averages."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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