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**THE IMPACT OF TRANSFERWISE REMITTANCES FROM THE
US TO MEXICO ON A FINANCIAL INCLUSION**

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ABSTRACT

Financial inclusion is the access to a basic bank account from those who are unbanked and have been underserved in the past. Financial inclusion comes from the necessity to give financial control to the international community through financial services. Many countries are moving towards financial inclusion strategies seeking to reduce the percentage of unbanked people in their country.

Moreover, digital financial companies are now attracting customers to use their services through innovative and sophisticated banking systems. In this sense, in the example of Mexico as a main promoter of financial inclusion, and Transferwise, a remittance service provider which requires a bank account to access its service, it is precisely possible to question whether a digital financial company can promote inclusion and at the same time increase their market share in the respective country.

Although not necessarily inclusion drives growth in a company, it is relevant to understand to what extent today TransferWise promotes financial inclusion in Mexico, and also how Transferwise and Mexico can benefit from a higher inclusiveness of the community. Available data regarding financial inclusion, TransferWise and the current financial system, as well as the personal experience of the author provide the main qualitative and quantitative approaches for this paper.

Keywords: Financial Inclusion, Mexico, TransferWise, United States, Remittances

LIST OF ABBREVIATIONS

- International Telecommunication Union (**ITU**)
- Committee on Payments and Market Infrastructures (**CPMI**)
- Financial Inclusion Global Initiative (**FIGI**)
- Financial Conduct Authority (**FCA**)
- Know Your Customer (**KYC**)
- Office of the Comptroller of the Currency (**OCC**)
- Remittance Service Provider (**RSP**)
- Instituto Nacional de Estadística y Geografía (**INEGI**)
- Banco Nacional de Mexico (**BANXICO**)
- Commission Nacional Bancaria y de Valores (**CNBV**)
- Peer-to-Peer (**P2P**)
- Society for World Bank Interbank (**SWIFT**)
- Mobile Network Operators (**MNO**)
- Money Transfer Operators (**MTO**).
- Anti-Money Laundering (**AML**)
- Financial Inclusion Plan (**FIP**)

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INTRODUCTION

The world cannot unreasonably deny access to those who can reasonably benefit from advanced financial services. This is the reasoning behind the idea of empowering marginalized groups through digital financial technologies, strongly supported by the World Bank (The World Bank, 2015). Rather than only being an idea, financial inclusion is a global initiative seeking to include those who do not have access to a bank account today. It is a new way to promote long-term financial planning and inclusion for private purposes, as well as to exploit a market where banks can lower their costs by having a larger number of customers. Therefore, financial inclusion can help the world fight and reduce poverty.

Financial inclusion was included within the agenda of the Sustainable Development Goals of the United Nations in 2015. However, much of the progress towards financial inclusion requires initiatives which can be applied to specific countries, and therefore, tested. The World Bank, the International Telecommunication Union (ITU), and the Committee on Payments and Market Infrastructures (CPMI) launched the Financial Inclusion Global Initiative (FIGI) in 2017 with the purpose of developing a three-year program in three different model based developing countries: Mexico, China and Egypt. This paper believes that part of this decision is supported by the fact that China (USD 61 billion), Mexico (USD 28.5 billion) and Egypt (USD 16.6 billion) can be identified among the top 6 remittance receivers in 2017, being in second, fourth and sixth place respectively (World Bank, 2017). This, nevertheless, does not mean that the World Bank is excluding the rest of the countries, but rather primarily carrying out a stricter, specifically oriented program in these 3 countries.

In parallel, digital financial technologies (also known as Fintech) are becoming globally available as a response to the inability of financial institutions to suit the basics needs of the people such as access to bank accounts, debit cards or credit loans. Also, new companies, are starting to exploit their technological capabilities to offer services where they provide an infrastructure that makes money remittances easier, faster at a lower cost. An example of this is TransferWise Ltd, a British-

Estonian startup which operates as an Electronic Money Institution regulated by the Financial Conduct Authority (FCA, 2016). TransferWise offers currency routes to China (CNY, Chinese Yuan), Mexico (MXN, Mexican Pesos) and Egypt (EGP, Egyptian Pound) and to more than 30 different currencies (TransferWise, 2018). However, it is within the interest of this paper to analyze in depth the remittances to Mexico for the following 4 reasons.

Firstly, Mexico, as previously mentioned, is one of the main remittance receivers in the world, and part of the FIGI. This means that there is enough information available to know the impact a Fintech company can have in this specific country on a financial inclusion and analyze its internal situation regarding financial services availability. Secondly, Mexico has made an all-out effort to regulate Fintech companies by passing a new law on financial technologies in 2017 (Reuters, 2017). This law seeks to promote an increase of digital financial services and power financial inclusion in the country. Thirdly, empirical knowledge of TransferWise, as well as a deep understanding of its business model makes it easier to analyse TransferWise's impact on remittances to Mexico. Lastly, this paper will analyze the remittance corridor from the United States to Mexico, since this currency route is the number one remittance corridor worldwide (BBVA Research 2017, 132), and also is part of the supported currencies list of TransferWise.

Remittances are one of the main reasons behind payments made through money processors, and TransferWise is aware of this. Therefore, it is the main purpose of this paper is to know to what extent is TransferWise promoting financial inclusion in Mexico, and if this promotion can help TransferWise have a bigger market share in Mexico. To prove or reject this thesis, this paper aims to provide enough evidence by analyzing TransferWise business model which has introduced bank accounts and by focusing on sending remittances at a lower cost. Moreover, this paper aims to demonstrate the importance of digital financial technologies for a financial inclusion, by using the example of TransferWise. This paper uses both qualitative and quantitative methods. Thus, the qualitative approach will be based on observation (author's personal experience as a KYC agent at TransferWise) and a evidence of TransferWise comments, for instance, to institutions such as the Office of the Comptroller of the Currency. The quantitative method is based on the analysis of the costs of remittances from the US to Mexico of different remittance service providers, the share of bank accounts owned by Mexicans in Mexico and the United States, and numbers regarding financial inclusion, such as the number of people who have access to online banking and their preferences in remittance services.

This paper is divided into 3 chapters. The first chapter includes information regarding financial inclusion, Mexico and TransferWise. For instance, ongoing changes to financial technology company laws in Mexico are described, as well as TransferWise is placed as an online platform for remittances within a range of different remittance service providers. The idea behind this is to differentiate TransferWise and its competitors in the Mexican market, where cash payments open the debate towards financial inclusion and exclusion. Moreover, the first chapter presents the different types of remittance service providers (RSP) and their specific transfer services offered. Although it is known that RSPs are able to offer different services and features to their customers in their respective markets, this becomes a discrepancy in opportunities for smaller digital financial companies since they lack of access to the financial payment infrastructure.

The second chapter introduces how TransferWise's services are promoting financial inclusion for Mexicans living in the United States and in Mexico. Connectivity to internet, ownership of a bank account and personal documentation are the three conditions needed to make use of Transferwise service. Therefore, to benefit from TransferWise means that Mexicans might decide to open a bank account, and therefore, financial inclusion is driven with its service. The pricing of TransferWise and the comparison of this with its competitors is given in the third chapter. Also, this chapter finds that TransferWise is not consciously driving and promoting financial inclusion. It is their service itself demanding Mexicans to join financial institutions if they are willing to use a cheaper, faster way of sending money and economically benefiting from this.

For the last mentioned above, the third chapter proposes a viable plan towards a stronger financial inclusion which would give Transferwise the opportunity to have a bigger market share in Mexico. This way, this paper believes that there would be enough room for Mexican families to start benefiting more from financial competition and be financially served. Those unbanked, underserved Mexicans today are unfortunately not aware of the fact that cash remittances can be two times more expensive than a bank to bank account remittance, as well as TransferWise seems not to be aware of the fact that Mexico is strongly supporting financial technology companies to joint heir campaing in regards to financial inclusion. Financial inclusion can be developed through strategies in several countries, but without a partnership from goverement to business and viceversa, the international community would never be fully financially served.

1. FINANCIAL INCLUSION AND ITS INCLUSIVENESS IN MEXICO AND TRANSFERWISE

1.1. What is Financial Inclusion?

Financial Inclusion is defined as the access to primary financial services, including payments, savings, credit and insurance by regulated financial institutions for everyone (GPII 2015, 6). Moreover, it is a key driver of 7 sustainable development goals out of the 17 currently existing. In other words, every country can benefit from and adopt the recommended measures given by the United Nations, specifically as part of the Universal Financial Access (UFA) plan for 2020. Today, around 2 billion people lack a transaction account, with China having a global share of 11.6%, Mexico with 2.6% and Egypt with 2.4% (The World Bank, 2015). Therefore, the FIGI is mainly focusing on the following 4 points: i) Introducing transaction accounts, ii) Expanding access points, iii) Improving financial literacy, iv) Driving scale and viability through high volume government programs. This means that national financial inclusion strategies must adopt an agenda following the previous 4 points.

National financial inclusion strategies make it easier for countries to map their goals and objectives, and in this way, accelerate financial inclusion in a shorter time frame. Cross-border, low value payments, better known as remittances, are a substantial part of the income of families from developing countries, and depending on the purpose of remittances, these payments contribute to the financing of food, healthcare and housing in the families who receive it. Although programs such as the FIGI have been adopted, there are still some goals to be achieved such as the inclusion of digital financial services which offer different affordable financial products for those unbanked people, and reduce the gap between those who have been always excluded. Financial inclusion represents not only the willingness to include people to financial services, but also to eradicate poverty in the world by a more frequent use of products which help families plan better their expenses.

1.2 Hand in hand, Mexico Towards Strong Financial Inclusion

Mexico is strongly supporting financial inclusion strategies, involving major financial governmental organizations and developing different policies and surveys to explore the national level of exclusion . In a country where the population is over 119 million (INEGI, 2015), the complexity of implementing new policies is very high and also expensive. On the other hand, Mexican-born people living in the United States account for around 25% of all immigrants, what is slightly more than 11 million Mexicans (Migration Policy Institute, 2018). Moreover, there are more than 36 million Mexican-Americans living in the United States (United States Census Bureau, 2016). Migration from Mexico to the United States is very tied to the fact that Mexicans are able to generate a higher income in the US compared to the average income received in Mexico. For instance, after taking into account the gross and net salary gap, Mexicans in the United States make three times more, having enough money to live in the US and send money back home (Perez, 2017). However, remittances are only sent after Mexicans have come through an adaptation period, and know the different remittance providers.

In regards to financial inclusion, Mexicans in the United States can open a bank account in Mexico simply online or by calling a support line (Gobierno de México, 2017), and therefore, they can easily send remittances directly to the accounts of their relatives. Furthermore, the Mexican government has developed several projects starting with the launch of the National Survey for Financial inclusion in 2012, and later again in 2015. Accounting for around 2.6% of the global 2 billion unbanked adults according to the World Bank, Mexico has taken big steps towards financial inclusion by developing the National Policy of Financial Inclusion in June 2016. Moreover, every year the Mexican government publishes a National Financial Inclusion Report, where the most important statistics regarding financial inclusion are discussed. This report also prioritizes financial inclusion as a way to help Mexican citizens have a better administration of personal resources, allow protecting the patrimony of families, the strengthening of personal finances and a which will generate a greater social inclusion (CONAIF 2017, 14). Also, it is important to know that the main organizations in charge of regulating the financial institutions in Mexico are the Bank of Mexico (BANXICO) and National Banking and Securities Commission (Spanish: Comisión Nacional Bancaria y de Valores, or CNBV). Both BANXICO and CNBV have accelerated the implementation of financial inclusion strategies, which has had a positive effect in the current numbers of people having a basic account.

The Mexican government also has a commitment to change and amend accordingly its laws towards financial technologies. This law has already been accepted in the senate and the congress of the republic, and it is now waiting to be passed by the executive power. The main purpose of this law is to provide enough legal grounds for financial technology institutions to be settled in Mexico, and facilitate access to local financial infrastructure to financial digital technology companies, as well as to regulate them. Mexico has around 238 startups offering financial services, a number which puts them ahead of other countries such as Brazil with 219 startups, Colombia with 124 and Chile with 75 (Expansión. 2018). Therefore, as a leader in financial technologies, Mexico has taken a big step not only towards financial inclusion, but also towards the regulation of financial technologies and the promotion of these services under a regulated schemes which benefits and creates awareness with its citizens.

1.3 TransferWise Ltd and Financial Inclusion

TransferWise LTD, the UK-based parent entity, was mainly established to process international transfers using initially a peer-to-peer system (P2P) which basically matches buyers with sellers and meets the exchange rate of two currencies. Founded by Taavet Hinrikus, the first employee of Skype, and Kristo Käärman, ex-Deloitte consulting, TransferWise was created to send money internationally in a different way than banks or remittance companies usually do. TransferWise operates in the United States through its US subsidiary, TransferWise Inc, which is subject to different and complex licensing and registration requirements for money transmitters in 41 states (Gildea, 2017). Moreover, TransferWise has over 1000 employees in nine offices, and it's regulated by different financial regulators in other countries (such as the Financial Transactions and Reports Analysis Centre of Canada, FINTRAC, or Kanto Local Financial Bureau in Japan). To make a remittance through its service, TransferWise manages two local bank accounts, one in the sending currency and one in the receiving currency. Therefore, instead of making one international transfer (SWIFT transfer), TransferWise make two local payments. For example, if someone would like to send money from the United States to Mexico, then the first payment would go from a local bank account in US dollars (USD) in the United States to TransferWise's local bank account in USD in the United States. The money is converted using the mid-market exchange rate, and finally sent out from TransferWise's bank account in Mexico in Mexican pesos (MXN) to the recipient account.

However, to be able to use TransferWise, both sender and recipient need to own a bank account, and this can be thought as either a limitation, or an incentive to open a bank account, if the ultimate benefits are considered. Therefore, there are different ways to understand where TransferWise is located in financial inclusion policies. For example, the Global Partnership for Financial Inclusion (GPFI), would define TransferWise as a Remittance Service Provider (RSP), which is basically an entity providing remittance services, collecting and sending the money to a store, post office or bank, as well as charging a fee for this service (GPFI 2015, 6). As a RSP, TransferWise is located in the subgroup of online services simply because they use the internet as the main method for their customers to access their service. Other services would fall within the scope of either Mobile Network Operators (MNO) or Money Transfer Operators (MTO).

However, the reason why TransferWise is not considered a MNO or MTO is because, for example, MNOs base their business model on wireless communication services (such as cellular carriers), and MTOs do not require the sender to open an account with them (GPFI 2015, 15). The GPFI also discusses the importance of each business model used by RSPs, and how they can drive financial inclusion through their own business model. For instance, the GPFI defines transaction-based RSP business model as the execution of a large number of low-value transfers (GPFI 2015, 30). Table 1 helps to differentiate better the type of RSPs according to the GPFI, as well as providing a better perspective on where to identify currently TransferWise in the remittance market. This table also mentions the business model used by each type of RSP, as well as their traditional transfer service offered.

Although postal networks are a remittance provider offering a wider selection of services, as well as having more than 660,000 offices in the world (Universal Postal Union, 2010), companies such as TransferWise cannot partner with them due to their business model. For instance, Postal networks use a financial intermediaries-based model, which offers a service for a higher fee, and allows both in-cash and out-cash remittances. Moreover, financial intermediaries and postal networks collaborate closely with MTOs in order to have comparative advantages and to have a better proximity to their customers (GPFI 2015, 35). Although banks are also a main remittance service provider, they are not mentioned in Table 1 mainly because their business-model and revenues are not based on the fees of remittances, and neither are they remittance oriented companies. However, banks do collaborate and partner with other financial institutions such as MTOs, MNOs and online platforms, as well as postal networks with different MTOs.

Table 1. Type of Remittance Service Providers

Type of RSP	Business Model	Traditional Transfer Service	Example
Money Transfer Operators (MTO)	Transaction-based model	<ul style="list-style-type: none"> • Cash to cash • Card/Internet/mobile-to-cash/mobile • Account/cash to-account transfer 	<ul style="list-style-type: none"> • MoneyGram • Western Union • Elektra • Coppel
Mobile Network Operators (MNO)	Transaction-based model	<ul style="list-style-type: none"> • Card/Internet/mobile-to-cash/mobile • Account to account transfer • Current/savings account in host country • Airtime coverage 	<ul style="list-style-type: none"> • Elisa • Telia • AT&T
Online Platforms	Transaction-based model	<ul style="list-style-type: none"> • Account to account transfer • Current/savings account in host country • Direct payments 	<ul style="list-style-type: none"> • TransferWise • WorldRemmit • Xoom
Postal Networks	Financial intermediaries-based model	<ul style="list-style-type: none"> • Cash to cash • Card/Internet/mobile-to-cash/mobile • Account/cash to-account transfer • Current/savings account in host country • Direct payments 	<ul style="list-style-type: none"> • La Poste Tunisienne • Correos de México

Source: Global Partnership for Financial Inclusion (2015, 30)

The main idea behind the explanation in Table 1 of the different types of RSP and their business based-model, is to identify the relation between the way RSPs operate and their own promotion of financial inclusion. An example of this would be how an online platform’s intervention through its specific business model in financial services improves the inclusiveness for the people, who ultimately begin to use and benefit from financial services. If TransferWise, apart from being an electronic money processor, is defined as an online platform with a transaction-based model which avoids in-cash remittances and uses digital technology, then it is easier to understand that

TransferWise will help to provide faster, convenient transfers at a lower cost to account-based customers, and not to those who are seeking in or out-cash remittances. Or, on the other hand, TransferWise would have an opportunity to increase the inclusiveness of remittance receivers by making them open a basic account in their country since this is a requirement for all customers who wish to use their service.

2. MOVING TOWARDS FINANCIAL INCLUSION BY ACCESSING TRANSFERWISE

This section presents what is needed for Mexicans living in the US to make use and access TransferWise services, and the implicit inclusiveness of it by introducing three conditions.. The first one is the mandatory connectivity to internet to make use of the service, with a desktop or a mobile phone. The second one discusses the mandatory requirement to have a bank account in the United States and Mexico to be able to make use of the service. The last condition is to be able to be verified at any point, despite of financial inclusion regulatory approaches ask financial institutions to have thresholds to avoid verification for low-value payments.

TransferWise can only be accessed and used online, what means that internet is mandatory. While access and use of internet in countries such as Mexico accounts for only 59.5% of the population (INEGI, 2017), in the United States, the offline population only accounts for 13%, and this percentage does not reflect a lack of access to this service, but rather a choice not to make use of internet (Anderson & Perrin, 2016). The reasons behind the internet non-adoption can be varied. For example, in the United States, internet non-adopters do not go online simply because they do not have an interest in doing so, as well as finding internet too difficult to use (Anderson & Perrin, 2016). However, out of the percentage of offline people, only 16% accounts for hispanic people living in America. This means, that senders living in the United States could easily make use of financial online services and access TransferWise.

However, historically, the share of activities related to both usage of internet and access to online and mobile banking dramatically decreases compared to other activities such as social network. In 2016, only 61% of adults would bank online in the United States (Board of Governors, 2016) and only 9.9% of internet users bank online in Mexico (INEGI, 2017). If senders & receivers hold a strong commitment to the services they use when sending remittances abroad, then it is very likely that they will not use financial digital technologies to perform any online transaction. Nonetheless, there are several benefits from accessing online platforms, , such as a 24/7 availability. A wide

connectivity and availability to internet is fundamental for having a hassle free experience when using any digital remittance company, a point highlighted when promoting the use of financial technology services by the World Bank.

2.1 Non-cash remittance service: bank account as a mandatory requirement to use and access TransferWise

TransferWise can only be accessed if there is a sender and receiver account. One of the main reasons, as previously mentioned, behind financial inclusion strategies in developing countries is the lack of access to basic accounts. In 2006, only 40% of Mexicans living in the United States had either a savings or checkings account (Federal Reserve Bank of Chicago, 2006). Although the idea that Mexican migrants do not have a regular status in the United States, and therefore, they cannot open a bank account is the main reasoning behind the low share of Mexicans banking abroad, this paper challenges this conception by identifying 2 different obstacles that have a greater impact on the process of deciding whether or not to open a bank account in the United States. For instance, this paper identifies and discusses below cultural barriers and in-cash transaction approaches.

The banking culture in Mexico is affected mainly by the lack of interest and knowledge for using financial services. To support this idea, Figure 1 represents the access to online banking and bank accounts for Mexicans living in the United States or Mexico. In 2012, around 56% of Mexicans owned a bank account in Mexico (CNBV, 2015), a share which is not far from the 40% of Mexicans owning a bank account and living in the United States a year before. However, the low penetration of online banking and the low share of people owning a bank account in Mexico can be better explained in terms of use. In other words, by identifying which are the reasons behind the reluctance of Mexican to open a basic bank accounts in Mexico. The combination of the living conditions and lack of trust towards financial institutions would be an empirical answer, and this can be supported by the lack of interest in almost half of the population in 2012 represented in Figure 1. However, reasons based on quantitative data can show a broader and more specific answer to this question.

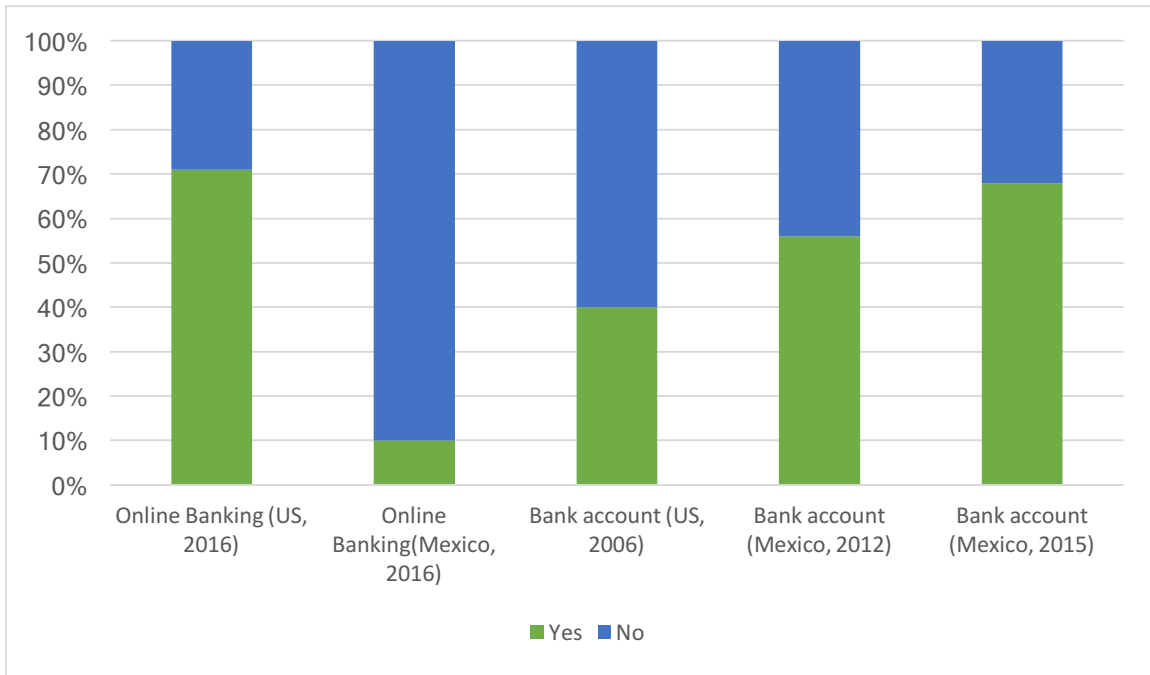


Figure 1. Access to Online Banking and Bank accounts for Mexicans living in the US or Mexico
 Source: Several sources (2011, 2012, 2015 and 2016),

Therefore, it is noticeable in the same figure that there was an increase of 12% in the share of Mexicans owning at least one financial product in Mexico, and this was mainly highlighted in the National Survey for Financial Inclusion 2015. This paper understands that this increase was mainly because of government strategies and its strong support towards financial inclusion. On the other hand, in this same survey, Mexicans were asked in question 5.6, what is the main reason why they do not have a basic bank account (CNBV Libro de Tabulados 2015, 41). Figure 2 presents the 8 available answers for the interviewees and the outcome in percentage for each answer. Figure 2 shows that the main reason why Mexicans do not have a bank account is because they believe that their income is not sufficient or variable to have one, followed by a lack of interest in having one which was mainly described as preferring to have a different way of keeping their money (CNBV Libro de Tabulados 2015, 42)

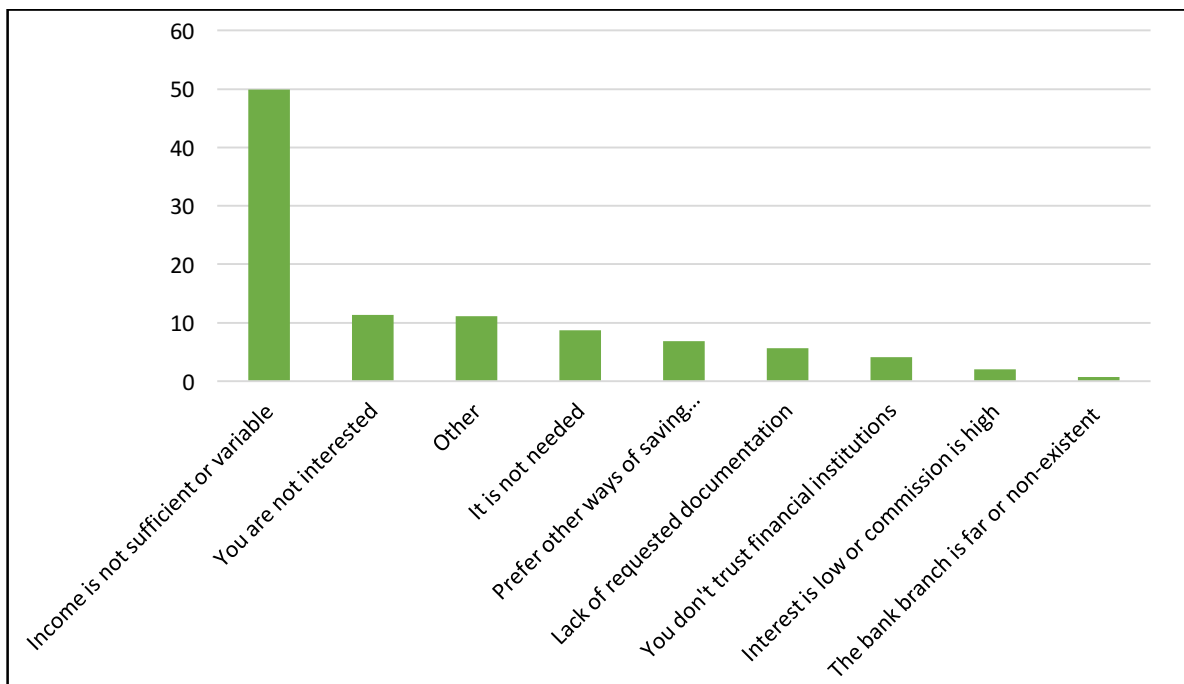


Figure 2. What is the main reason why you do not have a basic account?

Source: Comisión Nacional Bancaria y de Valores, (2015, 41)

To think that income is not sufficient to own a bank account completely contrasts with the available financial services in Mexico which offer bank accounts and do not take any commission for keeping a monthly or minimum balance in the account, for example, such as the Simple Flexible Account of HSBC (HSBC, 2017). However, it is clear that Mexicans are battling with the misconception that all financial services charge a fee for keeping a balance or opening a bank account, and this is why they decide to abstain from getting access to a basic financial service. For instance, question 5.3 of ENIF 2015 survey specifically enquires whether Mexicans knew they can save money in a bank account without having to pay any fees to the financial institutions. The outcome shows that 48.5% of the interviewees knew that they can own a bank account without having to pay any fees, while 51.5% did not know it (CNBV Libro de Tabulados 2015, 39). By understanding that half of Mexicans believe that their income will stop them from getting a bank account, when financial institutions offer this service certainly for free, then probably half of Mexicans who go to the United States will carry these beliefs. There would be, in the mind of those Mexicans, no room for understanding the benefits of a bank account, and create a cultural barrier for accessing financial services, which is better translated as a lack of financial education.

Another point to take into account is that, around 94% of Mexicans who receive remittances like to withdraw and use their money in cash (CNBV, 2015). However, financial institutions as well as MTOs and MNOs accepting in-cash transactions increase considerably their costs, and therefore, the cost of a remittance. Also, they develop more strict verification processes and the availability of their service depend on how many branches and ATMs they have in the communities. Moreover, compliance, regulatory policies and documentation checks are different in Mexico and the United States, mainly for undocumented Mexican migrants and people seeking to perform international cash transactions. Although banks in the United States are more stringent with undocumented migrants to be able to open a bank account, Mexican banks, as previously mentioned, have given the service to open an account by simply calling the bank. However, Mexican migrants are still using MTOs and MNOs mainly to send money abroad. RSPs such as Elektra, Famsa, and Coppel account for 36% of the remittances received in Mexico, while only 13.7% received money from abroad through banks (CNBV 2015, 161). The reason for this mainly lies in the fact that their main payment method is cash, and a bank account is not needed to make use of their service, regardless of the high fees charged.

2.2 TransferWise's approaches to Know Your Customer (KYC) within a Financial Inclusion

TransferWise's customers need to be able to document, at any point, their identity, their address, and depending on the transfers, their source of wealth. However, TransferWise follows a less stringent KYC policy where customers do not require to be fully verified from the first transfer if they are sending low-value payments. However, the set of preconditions presented before (ownership of a bank account in both sending and receiving end, and internet) are still required to access TransferWise's services. Moreover, online platforms such as TransferWise are based on a non-cash policy, which reduces the impact on customers of legal and regulatory measures, which for example, banks or other type of RSPs usually need to implement. In other words, RSPs which accept cash deposits are more stringent and strict when someone wants to use their services, and their verification process becomes more bureaucratic and chaotic compared to the verification process of TransferWise.

Table 2. Identifying Thresholds from-USD transfers in TransferWise

Type of Verification	When is verification triggered?	Type of Document
Identity	Equivalent to 1,000 EUR in a single transfer	<ul style="list-style-type: none"> • Social Security Number • Passport • Driver’s License • National ID Card • Mexican Consular ID
Proof of Address	Equivalent to 15,000 EUR in total	<ul style="list-style-type: none"> • Utility bill – Gas, Electric, Phone (we can accept mobile phone bills if issued in Mexico) • Bank or Credit card statement • Other government or financial institution issued document
Source of Wealth	Equivalent to 10,000 USD within any 30-day period.	<ul style="list-style-type: none"> • Customers are prompted with a drop-down menu when setting up the payment with several options

Source: TransferWise FAQ (2018)

Table 2 introduces the type of documents TransferWise requests in order to verify the identity of its customers, depending on the amount to transfer. Verification can be triggered in several ways when using TransferWise services, and it usually depends in the currency a customer is sending money from. Regarding transfers from the United States, verification is triggered when sending one single transfer equivalent to 1,000 EUR, TransferWise has also the right to request to verify its customers at any point regardless of the amount being sent. This, however, does not mean that identity verification becomes stringent for the use of its service. The list of documents which are accepted as ID proofs can be seen in Table 2. If a Mexican citizen living in the United States decides to use TransferWise and triggers verification, he or she can easily send a passport, a national ID card, a driver’s license or even their Mexican Consular ID, as presented in Table 2.

Verification of identities can be performed either automatically or manually. Automated verification relies on the integration with verification vendors which are able to process and verified documents almost instantly. Some examples of these vendors are Eidentity or Jumio, which

follow regulatory schemes. The importance of automated verification relies on the decrease of customer drop-off, or in other words, engaging more with those unbanked people not willing to go through this process. On the other hand, manual verification is fully done to address proofs, and also to part of the ID cards of the customers. Speed, not only in transfers, but also verification, makes online platforms include non-financial services adopters have a positive experience which leads to inclusion. Moreover, automation of verification reduces costs in terms of hiring, since less people is needed and this represents a reduction in the costs of remittances. Also, financial exclusion happens when a customer cannot be verified, and therefore, standard means of documentation were not presented.

Therefore, having a decrease on customer drop-off, positive experience due to speed and trust in the remittance company, and a high reduction in costs due to automatization make TransferWise a clear driver of financial inclusion. However, sometimes due to KYC and Anti Money Laundering processes (AML), customers which have fraudulent behaviors might be excluded from the financial inclusion standards (Financial Action Task Force, 2014). Nonetheless, by being regulated by the FCA, TransferWise supports the idea that where people cannot reasonably be expected to produce standard evidence of identity, they are not unreasonably denied access to financial services (Tim Edmond, 2017). In this sense, TransferWise has established a proportional approach towards KYC regulations based on different types of verification and thresholds, and this positively identifies the company as a driver of financial services in both the United States and Mexico. Financial inclusion is not only related to the fact of offering financial services, but also promoting the access and use of it in a friendly way, adapting it for the local communities who rely on it.

2.3 How likely is that Mexicans will access TransferWise services in the United States?

Although there is no recent available data regarding the exact share of Mexicans-migrants owning a bank account in the United States, the FDIC National Survey of Unbanked and Underbanked Households presents an approximate number of the hispanic people owning a bank account in the United States. Table 3 presents a comparison of the unbanked population in the US by selected household characteristics and its respective year. All unbanked population accounted only for 7% of the population in 2015, while hispanic population's share was 16.2%, almost 4% less than in 2011. Meanwhile, the white unbanked population had very low percentages with only 3.1% of

them being unbanked. Taking into account that around 63.3% (36 million) of the hispanic population has a Mexican origin (Pew Research Center, 2015) out of the 321 million people living in the United States in 2015 (United States Census Bureau, 2015), then an estimation can be done to know how many people with Mexican-origin owned a bank account in 2015. This estimation takes into account the share of Mexicans owning a bank account in 2011 in Figure 2, the share of Mexicans in the US from hispanic population as well as the share of Mexicans in the hispanic unbanked rates from Table 3.

Table 3. Unbanked Rates by Selected Household characteristic and Year

Characteristic	2011	2013	2015	Difference (2015-2011)
All	8.2	7.7	7.0	-1.2
Hispanic	20.1	17.9	16.2	-3.9
White	4.0	3.6	3.1	-0.9

Source: FDIC National Survey of Unbanked and Underbanked Households (2015, 15)

Therefore, if Mexicans accounted for 63.3% of hispanics in the US in 2015, then the share of the national survey above must have had a very similar segmentation basing this in general statistical assumptions. This gives a general perspective that 63.3% of the hispanic unbanked rate belonged to Mexicans, which is 11.3% of unbanked rates, and almost 1% of all unbanked population rate. This means that around 3.2 million citizens with Mexican-origin did not own a bank account in the United States in 2015. Therefore, 9 of every 10 Mexicans are able to use their bank account. Once again, it is important to remember that these calculations are simply estimations based on the information available online. Moreover, the lack of a strong commitment to banks might affect the decision of Mexicans switching from typical MTOs and MNOs to online RSPs.

Based on empirical knowledge, even if digital technologies are widely available and the set of conditions for access, in this case with TransferWise, are met, then families back home might not rely on financial institutions due to their strong cash culture. Although financial technology institutions operate different than banks, most people do not use banks to send money abroad as previously mentioned. Mexicans use mostly different means of RSPs, for example stores such as Elektra, Famsa and Coppel. However, there is very little inclusiveness from their service, lacking mainly of a promotion to make use of bank accounts or any other financial services. MTOs and

MNOs rely on a cash transaction based model which does not require remitters to open bank accounts or make use of formal financial products. This goes, however, probably along with the fact that most migrants prefer to use services which accept cash, rather than opening a bank account.

Although the difficulty of opening bank accounts has decreased, it is hard to find reports or surveys from financial technology institutions describing the benefits derived from opening bank accounts and using their products, and how this helps towards a financial inclusion and benefit for everyone. Therefore, financial inclusion plans (FIP) should be mandatory in the business plans of financial institutions in Mexico and the United States. The reason for this is imply because a company which is not fully regulated and accepted, for instance, by Mexican regulators, (e.g. BANXICO or CNBV), might face more challenges and difficulties to provide fully all the features of its service in comparison to first comers and competitors. Therefore, even if TransferWise is unconsciously driving inclusion through its services, bank accounts and debit cards, for instance, are not available for Mexican citizens due to the multiple policies preventing this from happening and the lack of transparency of the entrance of a fintech company in Mexico. Hopefully, however, this will be solved with the implementation of the fintech law this year.

3. SERVICES, BARRIERS AND CHALLENGES OF MEXICO AND TRANSFERWISE TOWARDS FINANCIAL INCLUSION

New products such as electronic money accounts and non-cash remittance service are struggling to find their own access to local banking infrastructures, and battling against the classic way of sending money locally and abroad. While digital financial technologies reduce the cost of sending money abroad, the features of each RSP can varied from only providing a basic remittance service to the delivery of a debit card to be able to make payments. However, the availability of these features depends on the regulatory schemes which the RSPs follow in the countries where they operate. For instance, Table 4 presents the services which are provided by TransferWise to Mexicans living in Mexico and in the United States. The first row of the list explains that Mexicans can sign up to Transferwise and send money from USD to MXN. Also, they are able to send money from 30 different currencies to Mexico. However, it is not possible to send money from Mexico to other countries (from MXN to USD, for example).

Table 4. Availability of Transferwise services in Mexico

Type of Service	Available for Mexicans	Notes
Remittance	Yes	<ul style="list-style-type: none"> • 30+ routes including Mexican pesos (MXN) • Compliance requirements • Bank account required in both sender and receiver end
Bank account	Yes*	<ul style="list-style-type: none"> • EUR bank account (IBAN) • GBP bank account (Sort code and account number) • AUD (account number and BSB code) • Holding a balance in MXN (20+ currencies) <p>* USD accounts are not available for people with an address in Mexico and the United States</p>
Debit Card	No	<ul style="list-style-type: none"> • Debit cards are not available for people with an address in Mexico or the United States

Source: TransferWise Frequently Asked Questions section (2018)

The second row of the list shows that Mexicans in the US and Mexico can have a bank account in euros (EUR), sterling pounds (GBP), and in Australian dollars (AUD), but they are not able to have a bank account in USD. This is mainly because of the current licensing of TransferWise in the European Union, for instance, in comparison to how it is regulated in Mexico. TransferWise is not registered in the business registry of Mexico, and therefore, it is probably operating through a local partner which has access to a local bank account there, and therefore, peer to peer system is implemented between them. By not being part of the local financial payments system, Transferwise does not have the neither the ability or legal grounds to offer bank accounts in Mexico. Moreover, the third row shows access to debit cards, what is only available for a Mexican citizen with an address in the European Economic Area. This requirement excludes Mexicans from having important financial products such as a USD bank account or a debit card.

The opportunity to own a USD account for a Mexican living in Mexico or the United States by only presenting an ID and proof of address, or even a debit card, would tear any financial wall built before between the two countries in terms of remittances, and would maximize the benefits for unbanked Mexicans without US issued documents. Some of the benefits would be, for instance, keeping a balance in an electronic money account in USD. Secondly, transparent charges as well as the ease of use either in the website or app to monitor their finance. This would prevent migrants and their families from having to go to a branch to make a cash transaction or pick up the cash. Thirdly, the cost of sending money with TransferWise is very low compared with other RSPs and banks, even though the hiding of fees from different RSPs makes it difficult for users to know where the difference in pricing relies. If TransferWise would like to be part of the local payments system, then it would be worth licensing itself with the Mexican regulators

3.1 Pricing and customer schemes to benefit and create awareness with Mexican citizens

Each RSP uses a different pricing method on remittances, depending on several factors such as currency route, value of the payment, and even payment methods. Although this paper will not discuss in depth the different pricing methods, the relevance of comparing the pricing of different RSP relies on the fact that the UN Sustainable Development Goals (SDGs) include a target of reducing remittances costs to less than 3% by 2030 (SDSN, 2016). Since Transferwise requires

access to a bank account, and the lower fees and faster service are an incentive for Mexicans to use this service, Transferwise can clearly promote financial inclusion, a higher inclusion in comparison to its competitors. As the core point of this thesis is to prove how by promoting financial inclusion TransferWise can have a bigger market share, the next paragraphs will focus this in the pricing of TransferWise compare to its competitors, and how this pricing can motivate Mexicans to start using financial services and opening bank accounts.

Table 5 shows a comparison among TransferWise and its biggest competitors in Mexico To understand who TransferWise's main competitors were, this paper had to analyze the main remittance providers in Mexico based on the National Survey on Financial Inclusion 2015. As previously stated, 36% of remittances in 2015 were processed through RSP which are mainly stores such as Elektra, Famsa and Coppel, as well as 26.6% of the share belongs to Western Union and MoneyGram (CNBV 2015,161). However, Table 5 shows WorldRemit and Xoom instead of Elektra (Banco Azteca), Famsa and Coppel because these last ones do not have a physical presence in the United States. Instead, remittances are sent via WorldRemit or Xoom (a Paypal-owned RSP) which have bank account transfers and also cash pick up. This last payment and receiving method is a non-driver of financial inclusion, since it does not require to own a bank account.

Sending money from USD to MXN with TransferWise costs 0.7% of the amount that is converted plus \$ 1.25 USD using the mid-market exchange rate (TransferWise, 2018). If someone would like to send 2500 USD to MXN, the fee to be paid would be 18.75 USD and the amount received would be 46,021.00 MXN, taking into account a mid-market exchange rate of 1 USD = 18.41 MXN (XE, 2018). In Table 5, it is easy to identify that the transfer fee of TransferWise is clearly higher than the transfer fees of its competitors because of the margin in the exchange rate. Therefore, when visiting the website of the competitors, it is very likely that someone who has never used this service will believe that TransferWise, is more expensive than other MTOs at first glance. Moreover, it was partly difficult for this paper to conclude quickly where the pricing was negatively affecting the amount received in MXN from competitors. Appendix 1 shows the full research done regarding pricing on the different RSPs from Table 5. Hidden fees are the reason behind the unfair charges done by different MTOs to customers. It is easily noticeable in the difference between the real exchange rate and the rate given by Transferwise's competitors when sending 2500 USD to Mexico.

Table 5. Sending 2500 USD to MXN using a bank account in both sender and receiver ends

RSP	Transfer fee (USD)	Exchange rate	Difference with real exchange rate	Amount received (MXN)
TransferWise	18.75	18.41	0	46,021.00
WorldRemit	0.01	18.25	0.16	45,625.00
Western Union	2.99	18.19	0.22	45,484.00
Xoom	4.99	17.80	0.61	44,500.00

Source: Several Sources (TransferWise, WorldRemit, Western Union, Xoom, 2018)

There is a difference of 396 MXN (21.51 USD approximately) between TransferWise's amount received and the one received from WorldRemit. This means that WorldRemit charges 2.76 USD (including their 0.01 USD fee) more when sending money to Mexico. Moreover, Western Union and Xoom charge a fee of 32.15 USD and 87.60 USD in total respectively (numbers were obtained using the same calculations as with WorldRemit), what makes it clearly not competitive with Transferwise's business model. Hidden fees are the way different MTOs, stores and banks get their revenue from remittances, and this is totally unacceptable in terms of customer schemes and fairness. Although 2.54 USD is not a big difference for a transfer valued in 25000 USD at first sight, there are several different hidden limitations. Figure 3 represents the behavior of fees between TransferWise and World Remit depending on the sent amount and including the cost of cash transactions with WorldRemit. Although in transfers from 500 USD to 1000 USD there is a minimal difference in fees, transfers from 1500 USD to 3000 USD have a higher gap between each other. Also, it is clear that to make a cash transfer increases considerably the cost of the remittance, almost twice the cost of an account to account transaction, but since TransferWise does not process or delivers cash, it cannot be fully comparable to its service.

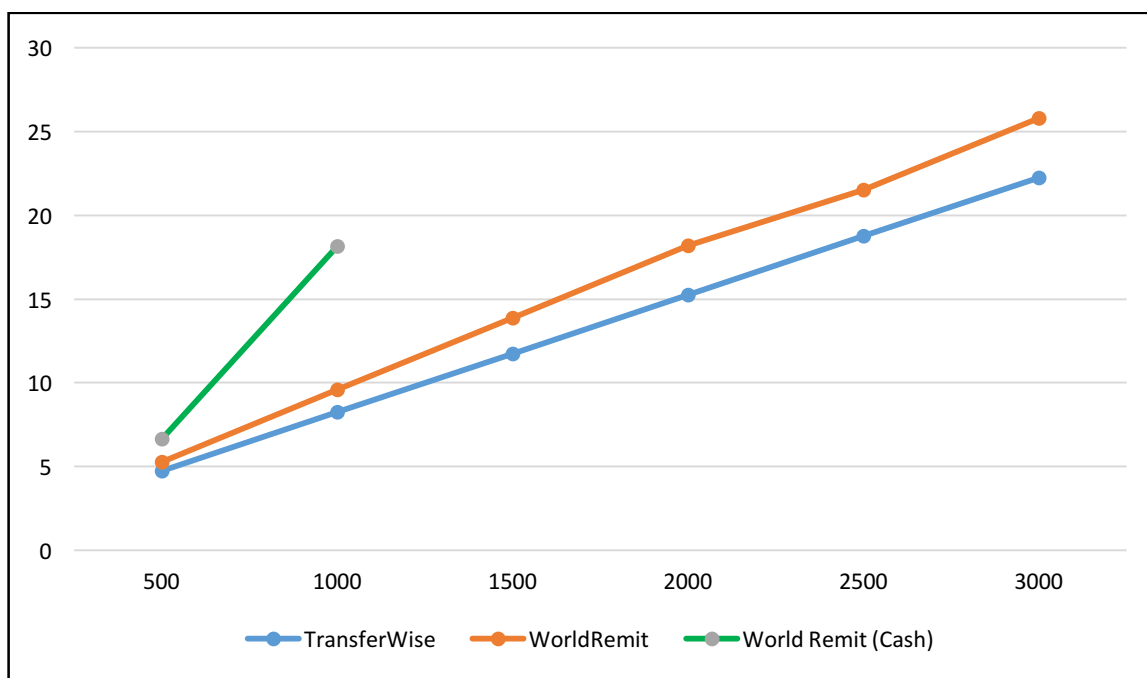


Figure 3. Price of a remittance versus its value between TransferWise and World Remit, including WorldRemit's cash remittances

Source: Several sources (WorldRemit, TransferWise, 2018)

A first limitation here would be the fact that Mexicans migrants are not encouraged to money with a bank account, and mostly this is because the highest revenue is obtained from cash remittances. There is no real value for MTOs to financially include their customers towards bank accounts and different financial products (e-wallets or electronic money accounts), since the main business and revenue comes from cash payments. Secondly, to be able to lower the fees to be competitive against other RSPs, WorldRemit has had to exclude different financial institutions in Mexico, being limited in bank transfers to Banco Azteca (bank operated by the store Elektra), Bancoppel (operated by the store Coppel), and BBVA Bancomer. There is no way to send money to a different financial institution. Furthermore, WorldRemit does not offer the possibility to send more than 55600 MXN (around 3072 USD depending on the exchange rate) via bank transfer, and no more than 25000 MXN to Elektra, 18000 MXN to Coppel and 8500 MXN to BBVA Bancomer (WorldRemit, 2018). In few words, WorldRemit offers both cash and bank remittances to Mexico, with the condition of being part of an oligopoly (sending only to specific MTOs and banks) in the remittance market between the US and Mexico.

On the other hand, the limits to send money from the US to Mexico with TransferWise depend on the payment method, ranging from 15000 USD via ACH direct debit, to 50000 USD via wire

transfer. In other words, while to send 15000 USD via TransferWise simply costs 106.25 USD, to make this transfer via WorldRemit would cost 129 USD, and would need to be carried out 5 times. This means that the exchange rate, apart from being manipulated, would be different each time, and the fee would be higher. The challenge for TransferWise here, in terms of financial inclusion, would be to understand two main points brought by its competitors. The first is related to the fact that 94% of Mexicans like to withdraw and use their money in cash, and therefore, competitors are partnering with trusted, known Mexican stores to obtain a higher share of the Mexican remittance market by offering cash transactions. Secondly, TransferWise's competitors are abusing from customer schemes in terms of transparency of the cost on remittances.

TransferWise is clearly left behind with only a small portion of the remittance market by not allowing in or out cash transactions. Considering the relevance of cash remittances in Mexico, it is worth questioning if TransferWise should accept cash deposits, or, if TransferWise is financially excluding Mexicans by not accepting and delivering cash. However, per definition, financial inclusion looks forward to the use and ownership of bank accounts, and therefore, if TransferWise would allow cash remittances, then its contribution towards financial inclusion would be null. Although it is very attractive to pursue a cash integration due to the likely increase of remittance volumes, TransferWise must not be part of this business model since it would be simply continue the historical exclusion of those who are unbanked and do not make use of financial services.

It is an obligation for financial institutions to create awareness on customers, to guarantee a full transparency of information, fair treatment and effective mechanisms to deal with complaints against unfair practices and abusive behaviors (CONAIF 2017, 3). Apart from having hidden fees in the exchange rate and low transfer limits, it is proven that cash remittances have an extra cost since families need to move to the branch to pick the money up, which costs around 50 MXN, or 2.70 USD approximately (CNBV 2015, 168) Moreover, TransferWise's commitment with transparency and financial inclusion should not change in order to increase its market share in Mexico. Simply by looking at all the fees from USD with TransferWise, this paper calculated that TransferWise's average cost of remittances from USD to any other currency is 0.90% + 2.56 USD, which represents almost 2% less than the goal set by the SDGs for 2030 (refer to Appendix 2 for further information on calculations).

This paper believes that by having a bigger impact towards financial inclusion, TransferWise can obtain a higher market share from a country such as Mexico. Many questions, however, arise from

this. For example, would it be worth for TransferWise penetrating a market through financial inclusion and waiting longer in the queue to onboard more Mexican customers, while other RSPs benefit from exclusion? Or, would Transferwise adopt a financial inclusion plan to support more Mexicans if a revenue would be guaranteed? What would be the benefits of having a company such as Transferwise promoting access to bank accounts in Mexico and consciously driving financial inclusion? It is known that several financial inclusion policies might be appealing for fintech companies to follow, but it is the development of a substantial, well-structured financial inclusion plan (FIP) the very specific solution which, arguably, might help TransferWise define where its services are driving inclusion, where its services must improve to promote customer schemes and restrict exclusion, and the ultimate benefits derived from this.

3.2 Development of a Financial Inclusion Plan for TransferWise in Mexico

On March 15, 2017, the Office of the Comptroller of the Currency (OCC) presented a draft supplement with the objective of granting special purpose national bank (SPNB) charters to financial technology companies (Squire Patton Boggs 2017, 1). This means that this draft supplement would give the opportunity to have public comments from fintech companies, and therefore, TransferWise had the opportunity to open dialogue with the OCC. Among the topics covered in the draft, this paper found relevant the fact that a financial inclusion plan (FIP) was included in the six key elements of the business plan proposed by the OCC (Squire Patton Boggs, 2017, 2). It is relevant because the OCC demands TransferWise and fintech companies to demonstrate in their business plan a commitment to financial inclusion by proposing goals, approaches, activities and milestones for serving the relevant market and community (Squire Patton Boggs 2017, 2). Moreover, the OCC expects Transferwise to receive public input regarding their FIP, a strategy which is very similar to the one followed by Mexico through its national survey of financial inclusion.

Regarding the FIP, TransferWise commented that (2017) “Considering that some services are provided only online, more clarity would be helpful to determine how community should be construed. TransferWise’s business model is internet-based and inclusive (except in its exclusion of potential customers for AML/OFAC or verification reasons) and it would hope that this would be taken into account” However, this paper believes that the OCC was clear determining how community should be interpreted in a FIP. The OCC proposed to describe the products and services

to offer, identify the financial services needs and milestones for meeting financial inclusion goals in the relevant communities (Squire Patton Boggs 2017, 2). For instance, community is interpreted as who are underserved and underbanked in the countries where they operate, such as Mexico. In this sense, TransferWise must engage in activities to offer, expand, deepen and scale financial products in these countries, an approach which, in turn, does not necessarily represent a completely different strategy than the current one for the company.

The description of the community for remittances from the United States to Mexico is simple. In the United States, there are around 36 million immigrants with Mexican origin, using a route worth 27 billion USD in volume per year, and having more than 70% of Mexican recipients receiving remittances in stores or MTOs. Moreover, the Mexican community has a banking attitude which relies on the fact that customer schemes in Mexico always impose poor quality service for high fees. The Mexican community relies more on cash than on cards or bank accounts due to the lack of promotion of financial services, as well as a weak penetration of fintech companies. There is not a strong commitment to challenge national policies regarding access to payment infrastructure, and therefore, fintech companies rather find difficulties to drive growth across developing countries and are stuck in bureaucratic processes. The Mexican community would expect, apart from an internet-based and inclusive service, an fully operative service, with all its features, in Mexico.

Therefore, the importance of a FIP would not only be the promotion of financial inclusion for those underserved, but also to drive inclusiveness for TransferWise and other fintech companies in order to access the financial market and payment infrastructure in Mexico. To have a robust competition and the ability to access financial markets without having to bank with competitors or banks. Some of the benefits of this would be, for example, the drop of the cost of remittances, and an affordable way to access financial services in Mexico. Moreover, immigrants in the United States would be able to bring attitudes either from Mexico or the United States by having the experience and trustworthiness of institutions such as TransferWise, where they can feel in control of their money.

Based on the research presented above, TransferWise can implement a financial inclusion plan where they can adapt and meet current and evolving customer needs in 4 main ways, which are summarized in Figure 4. TransferWise has centralized its approach towards the financial remittance system in the fact that banks are unreliable, and charge hidden fees in the remittances. Therefore, TransferWise's mission today is to have money without borders, where the cost of

transfers would be zero. Therefore, this is translated in a ‘zero fees’ goal, which can be achieved if the volume of transfers in a specific market until the point where the marginal cost to make a payment would be almost zero. By driving the cost of remittances down, the Mexican community can easily notice the difference between other RSPs and banks. However, in order to achieve this, the FIP must include key approaches to facilitate a clearer roadmap to accomplish the initial goal.

Goal	Approach	Activities	Milestone
<p>Zero fees</p> <p>International transfers should cost the same as sending money from your local bank account to your friend's account in the same country.</p>	<p>Promote competition Promote transparency Promote innovation Promote regulations</p> <p>Promote a robust competition by enhancing innovation and transparency, supported by a proportionate regulatory framework</p>	<p>Community engagement Regional financial needs Financial education Financial inclusion</p> <p>Research and engagement with Mexican community by understanding their needs, promoting financial services and driving inclusion</p>	<p>Market Share</p> <p>To have the ability to include the Mexican community in all its financial services, and having a third of the share of the market</p>

Figure 3. Financial Inclusion Plan (FIP) proposed for TransferWise

Source: Developed by the author.

The first approach is to promote competition. To offer an increased competition in the national market provides a better chance to directly compete with those RSPs which offer existing products to the community, and this way, new RSPs, such as TransferWise, can benefit from a product comparison, for instance, with World Remit, Western Union or Xoom. Moreover, competitors should not hide their fees, and TransferWise must demand regulatory authorities for more transparency regarding their pricing. By meeting not only the low expectations of the less financially included, but also offering an innovative only service, Transferwise would promote innovation, and would become appeal for those Mexicans receiving remittances back home. This would drive unbanked Mexicans from not having a bank account, to opening a bank account to use TransferWise services, or in its case, to compare among competitors. Finally, non-discriminatory legal and regulatory framework, as well as a proportionate legal and regulatory framework for remittances would help level the regulations among different RSPs (GPMI 2015, 42). This means that less stringent regulations would be in place towards low-value transfers, as well as a enforcement by the authorities in a consistent manner depending on the type of institution. For instance, a RSP such as TransferWise would have a lower-risk level based on its type of business (non-cash remittances).

Thirdly, the FIP needs to recognize where TransferWise is driving already inclusion and which activities need to continue, and which other ones need to be developed and carried out. TransferWise's business model is inclusive by itself, in terms of KYC requirements and the mandatory requirements to make use of it (bank accounts and access to internet). However, this is an unconscious inclusion which does not have a proper structure. It is simply including Mexican migrants by excluding those who do not have a bank account, a functional way to make remittances but with a limitation for those who wish to send cash. TransferWise's service, as written in the comment to the OCC, recognizes that if there's standard evidence for a customer to make use of its services, this offer will not be denied, and rather fully given to the Mexican community itself. In order to give a clear guidance on how to structure inclusion towards its service, there are four main points which are shown in Figure 4.

The first one is related to community engagement. Transferwise does not engage with the Mexican community directly. The remittance service is built in a general way which does not appeal the Mexican community to switch from expensive RSPs to TransferWise. Therefore, it is needed to deepen the research on this to have a higher impact in the market. Moreover, regional financial needs such as USD bank accounts or cards required access to national payment infrastructure. TransferWise must demonstrate a commitment to lobbying and promoting the goodness of its services towards a financial inclusion of Mexicans in financial services. Furthermore, the efforts of the Mexican government to regulate fintech companies should help to penetrate in a faster way the Mexican community, as well as to understand where financial education is needed. For instance, how to differentiate between a MTO and an online platform, and where and how companies hide fees and overcharge for its services. As a result, TransferWise would engage deeper with the community by supporting the objective of inclusion and goal towards zero fees.

By being fully regulated in Mexico, and having access to the Mexican financial system, TransferWise can accomplish the milestone of being one of the biggest RSPs in Mexico, and providing financial services to most remittance users in the United States who send money to Mexico. Therefore, to have a share of at least a third of immigrants who send money back home, while offering the same customer schemes (transparency and lower costs), would maximize the revenue regarding the Mexican market for TransferWise, as well as it would benefit the Mexican community if all the features and services are fully implemented. Challenging Mexican regulations and settling strongly into his market would make TransferWise penetrate a Latin American country which has not seen a revolutionary change in its financial market and services in decades and

the promotion of financial inclusion would pass from being a top priority, to a simple constant in the delivery of its service. It is the chance to push the Mexican community towards a reasonable way to be financially included and receive a higher value in the remittance market.

SUMMARY

The main purpose of this paper is to know to what extent is TransferWise promoting financial inclusion in Mexico, and if this promotion can help TransferWise have a bigger market share in Mexico. The main results of this paper can be summarized in the following three points. First, TransferWise's services is inclusive *per se*. By having a transaction-based model, Transferwise only allows Mexican customers send money by using a bank account. The main idea of financial inclusion per definition is the access and use of bank accounts by the majority of the population, and therefore, TransferWise complies with this condition when it comes to the analysis of its service. Moreover, TransferWise as a remittance service provider does not allow any type of cash transactions, and requires access to internet and also personal documentation. In this sense, TransferWise promotes financial inclusion by having a decrease on customer drop-off, positive customer experience due to the speed and in its service, and a high reduction in costs due to automatization of its processes, what reduces the amount of employees of the company.

Secondly, TransferWise is offering bank accounts and debit cards in its services. If a Mexican citizen living in the United States or Mexico would decide to have a bank account in certain currencies such as EUR, GBP, or AUD, TransferWise would be able to offer this by simply requesting a valid ID and a proof of address. However, bank accounts in USD are not available for Mexican citizens due to the way the digital company is regulated in the United States and Mexico. Moreover, the capacity of TransferWise to challenge the regulations and hidden fees from different remittance service providers in Mexico is limited. The use of cash remittances and trust in stores as main remittance service providers makes it difficult for TransferWise to consciously drive financial inclusion in the Mexican market. TransferWise is rather driving inclusion simply because of the way its service is performed.

Thirdly, TransferWise pricing is very competitive and low compared to the average price of its competitors and the price set by the United Nations for remittances in 2030. However, comparing TransferWise with other remittance companies such as Xoom or WorldRemit, it is difficult to

identify where the main difference in pricing is located, and therefore, it is difficult for Mexicans to easily understand the economic benefits of having a bank account and using TransferWise services. TransferWise must look forward to challenging local regulators in countries where transparency is missing. For instance, approaches towards more transparent fees and stronger customer schemes will benefit the local community, as well as it would promote the financial activities of TransferWise. To have the opportunity to comment in drafts for financial licensing such as the one with the Office of the Comptroller of the Currency in the United States should be the beginning of a long-lasting relationship with financial regulators.

Putting the last three points together, and assessing the current needs of Mexicans in regards to financial inclusion, and the situation of TransferWise in Mexico, this paper concludes that TransferWise is partially driving inclusion because of the nature of its business model. However, since many of its main features such as bank accounts and debit cards are not available in the United States and Mexico, there is a way in which TransferWise can communicate with regulators to first, penetrate the Mexican market in a better way, and second, to promote fully financial inclusion with all its services. The applicability of this assessment, however, will depend on how the company behaves towards international financial needs as well as its own goals in helping a specific community.

Therefore, this paper proposes the creation of a financial inclusion plan (FIP) in order to consciously drive financial inclusion in Mexico. This plan is construed in 4 main approaches which come along with the vision of TransferWise in different currencies. For instance, the first point is to promote its goal towards 'zero fees' in Mexico, since their main differentiator in the country is pricing. Financial inclusion is marketed in different ways, and being one of those the convenience of switching from hiding money under the blanket, to trusting financial institutions to keep your balance safe. By cutting costs to zero fees, Transferwise can position itself in Mexico as the main remittance provider, and therefore, make customers create bank accounts. The second approach seeks to promote competition, transparency, innovation and regulations. This means that financial inclusion is not simply achieved by lowering your prices, but also by changing one generation's mentality towards banks. If Mexicans believe that they are fully in control of their money, with transparent customer schemes and supported with sophisticated products, then it will be easier to increase the number of people holding a bank account and using TransferWise's services while promoting and driving financial inclusion.

Furthermore, the third approach is about financial inclusion itself, and the benefits derived from it. For example, the needed financial education for Mexicans can be implemented by local groups and the government itself. However, this is only a theoretical approach towards financial inclusion. In practice, remittances come along remittance service providers, and in this case, it is TransferWise the one which should engage directly with the community, even if it is not necessarily related to financial education, it should be aware of regional needs and how these are related to financial inclusion. By identifying these needs, and meeting local regulators, TransferWise can make the milestone of becoming one of the biggest remittance service providers in Mexico, what is not a small objective in a USD 27 billion worth corridor.

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APPENDICES

Appendix 1. Comparison of pricing among different remittance service providers

RSP	Total amount paid in USD	Amount converted in MXN	Amount received in MXN	Their exchange rate	Commission	Total fees (including hidden fee from rate)
World Remit	2500.01	2,500.00	45,625.00	18.25	0.01	21.51
Xoom	2,504.99	2,500.00	44,500.00	17.8	4.99	87.60
Western Union	2502.99	2,500.00	45,484.00	18.1936	2.99	32.15
TransferWise	2,518.75	2,500.00	46,020.75	18.4083	18.75	18.75

Source: Several Sources (TransferWise, WorldRemit, Wester Union, Xoom, 2018)

Appendix 2. Average pricing of sending money from USD with TransferWise

Currency	Price (Fixed)	Price (Variable)
AED	\$3.00	0.65%
AUD	\$1.25	0.60%
BDT	\$3.00	0.95%
BGN	\$1.25	0.85%
BRL	\$1.80	1.30%
CAD	\$1.00	0.60%
CHF	\$2.25	0.55%
CLP	\$4.00	1.10%
CNY	\$8.00	1.10%
COP	\$4.00	2.85%
CZK	\$1.50	0.65%
DKK	\$1.50	0.60%
EUR	\$1.00	0.60%
GBP	\$1.25	0.60%
GEL	\$1.50	1.55%
HKD	\$2.00	0.80%
HRK	\$1.50	0.65%
HUF	\$1.50	0.65%
IDR	\$2.00	0.75%
ILS	\$2.00	0.85%
INR	\$1.00	0.65%
JPY	\$4.00	0.85%
KES	\$3.00	0.75%
KRW	\$1.50	1.05%
LKR	\$2.25	0.85%
MAD	\$3.25	1.10%
MXN	\$1.25	0.70%
MYR	\$3.00	0.75%
NGN	\$3.00	0.75%
NOK	\$1.00	0.70%
NZD	\$1.25	0.60%
PEN	\$4.00	1.35%
PHP	\$3.50	0.75%
PKR	\$2.00	0.85%
PLN	\$1.00	0.70%
RON	\$2.00	0.75%
RUB	\$3.00	1.05%
SEK	\$1.00	0.60%
SGD	\$2.00	0.60%
THB	\$2.00	0.85%
TRY	\$3.50	0.65%
UAH	\$1.00	2.35%
USD	\$0.75	0.55%
VND	\$3.25	1.55%
ZAR	\$16.75	0.85%
EGP	\$3	0.85%
NPR	\$2	0.85%
Total	\$2.56	0.90%

Source: Transferwise (TransferWise, 2018)