

**PROGRAM FOR THE APPLICATION OF THE GENERAL  
PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES  
IN LATIN AMERICAN AND THE CARIBBEAN**



**PANAMA**

JANUARY 2011



**CENTER FOR  
LATIN AMERICAN  
MONETARY  
STUDIES**  
Regional Association of Central Banks



Multilateral Investment Fund  
Member of the IDB Group







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The opinions expressed in this paper are those of the authors and do not necessarily coincide with the position of the Center for Latin American Monetary Studies (CEMLA), the Multilateral Investment Fund of the Inter-American Development Bank (IDB) or the World Bank. The authors are solely responsible for any errors of omission or commission.

## Forward

The World Bank-CPSS General Principles for International Remittance Services (General Principles) is the recommended reference guide for countries receiving remittances. The application of the General Principles contributes to increasing the efficiency of money transfers to families of migrants who live and work outside their countries of origin. The General Principles cover essential aspects of payment systems to guarantee the security and efficiency of services associated with remittance transfers. The General Principles were published in 2007 and since then have been endorsed by the Financial Stability Forum, the G8, and other international organizations.

Under this context, a program was started in 2007, co-financed by the Center for Latin American Studies (CEMLA) and the Multilateral Investment Fund of the Inter-American Development Bank (FOMIN-BID), with technical assistance from the World Bank, to assist Latin American and Caribbean Central Banks, and other relevant institutions, implement the General Principles. This will contribute to reducing remittance transfer costs and bring about more transparent, efficient, accessible, competitive and consolidated remittance markets. The program will also benefit remittance receivers by encouraging their participation in formal payment systems and by facilitating Access to more secure services.

In order to achieve these objectives, the program sends out missions to evaluate the remittance market situation in various countries. These missions discuss action plans with the local authorities in each country with the aim of reducing remittance transfer costs and improving the overall efficiency of remittance services. Public reports, such as this document, on the principle characteristics of remittance markets and services, are then drawn up. The ultimate objective of these reports is to increase transparency and knowledge about each country's market, to the benefit of the corresponding authorities, the agents involved in the market and, more importantly, the receivers of remittances.

This report on Panama's remittance market is the third in the series of public reports and was prepared in collaboration with Ministerio de Economía y Finanzas. It is mainly based on information gathered in 2009.

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## **The General Principles for the Provision of International Remittance Services and their Related Roles**

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets providing these services should be contestable, transparent, accessible and sound.

### **Transparency and Consumer Protection**

General Principle 1: The market for remittance services should be transparent and have adequate consumer protection.

### **Payment System Infrastructure**

General Principle 2: Improvements to payment system infrastructure that have the potential to increase efficiency of remittance services should be encouraged.

### **Legal and Regulatory Environment**

General Principle 3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

### **Market Structure and Competition**

General Principle 4: Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

### **Governance and Risk Management**

General Principle 5: Remittance services should be supported by appropriate governance and risk management practices.

### **Roles of Remittance Service Providers and Public Authorities**

- A. Remittance service providers should participate actively in the implementation of their General Principles.
- B. Public authorities should evaluate what actions to take to achieve the public policy objectives through implementation of the General Principles.

*SOURCE: Committee on Payment and Settlement Systems (2007), General principles for international remittance services, BIS and World Bank, January.*

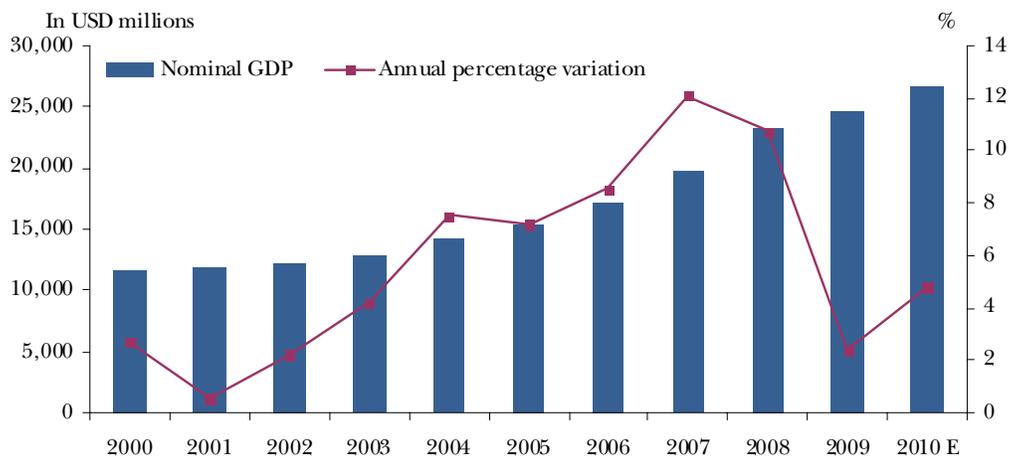


# 1 MACROECONOMIC FRAMEWORK AND REMITTANCES

Panama's economy performed favorably during 2006-2008. This period was characterized, among other aspects, by robust economic growth, mainly in response to significant increases in public and private investment; surpluses in public finances; strong external trade; and, a deficit in the balance of payments current account, which although high as a proportion of the gross domestic product (GDP) in 2007 and 2008, was financed by a surplus in the capital account, particularly by a considerable inflow of foreign direct investment.

The weakening of the world economy in 2008 and 2009 hit Panama's economy, especially in the latter year. Although economic expansion in Panama slowed significantly to 2.4% during 2009 (10.7% in 2008), it was still higher than that recorded by Latin America and the Caribbean as a whole in that year. The reduction in economic growth reflected contractions in exports and private investment expenditure. Under this context, the authorities leveraged a strong fiscal position to implement stimulus measures aimed at reducing the effects of the international recession.

**FIGURE 1. NOMINAL GDP AND ANNUAL PERCENTAGE VARIATION OF GDP AT CONSTANT PRICES, 2000-2010**



SOURCE: Instituto Nacional de Estadística y Censo de Panamá.

NOTE: 1996 constant prices. The value for 2010 is estimated.

Economic activity began to rebound in the fourth quarter of 2009 in response to an improved external environment and significant public investment associated with the widening of the Panama Canal. In the referred quarter, GDP expanded 5.2% at an annual rate (2.2% in the first three quarters of that year), strengthening further during 2010. In the first half of that year, GDP grew 6.1% (5.8% and 6.3% in the first and

second quarters, respectively), with improvements observed in the production levels of several sectors, including electricity, gas and water; commerce; transport, warehousing and communications; real estate, business and rental activities; and construction. The recovery of traffic volumes on the Panama Canal has also contributed to increased economic activity.

The long-term (seven-year) project to widen the Panama Canal has contributed to reduce the impact of the international recession due to the fact that the corresponding public investment expenditure has significantly influenced aggregate demand and economic activity. Public investment associated with this project will reach its peak in 2012, while it is estimated that its completion in 2014 will have a practically permanent positive influence on Panamanian economic growth.

**TABLE 1. MACROECONOMIC INDICATORS, 2007-2010**

	2007	2008	2009	2010 <sup>E</sup>
GDP (in millions of current USD)	19,794	23,184	24,711	26,689
	<i>Percentage annual variation</i>			
GDP (constant prices)	12.1	10.7	2.4	4.8
Private consumption (constant prices)	0.9	6.7	1.4	5.1
Public consumption (constant prices)	4.1	2.6	2.5	8.0
Private investment (constant prices)	37.7	14.2	-15.6	7.3
Public investment (constant prices)	43.2	58.3	17.2	22.3
Inflation: consumer prices at end of period	6.4	6.8	4.1	3.0
	<i>Million current USD</i>			
Merchandise exports (FOB)	1,638	1,724	1,257	1,506
Merchandise imports (FOB)	-5,280	-6,877	-5,321	-6,536
Current account	-1,430	-2,722	-12	-2,121
Capital and financial account	3,416	3,001	881	2,221
Foreign direct investment	1,777	2,402	1,773	2,060
	<i>Percentage of GDP</i>			
Fiscal balance	4.8	2.5	-0.5	-2.0
External public debt	37.4	32.7	36.5	38.5

SOURCE: Contraloría General de la República, Panamá.

<sup>E</sup> Values estimated by the IMF in its Panama: Staff Report 2010 Article IV Consultation, October 2010

Economic activity in Panama has generally benefited from the implementation of different structural change measures, improving the business environment and encouraging investment projects. In fact, such measures are estimated to have boosted Panama's potential economic growth. Among the most outstanding of them are fiscal consolidation efforts and social security system reform. The former has allowed for public debt levels to be equivalent to less than 40% of GDP. It is worth mentioning that the medium-term fiscal program implies a decline in the fiscal deficit as well as a lower public debt-to-GDP ratio. The authorities are also evaluating the possibility of

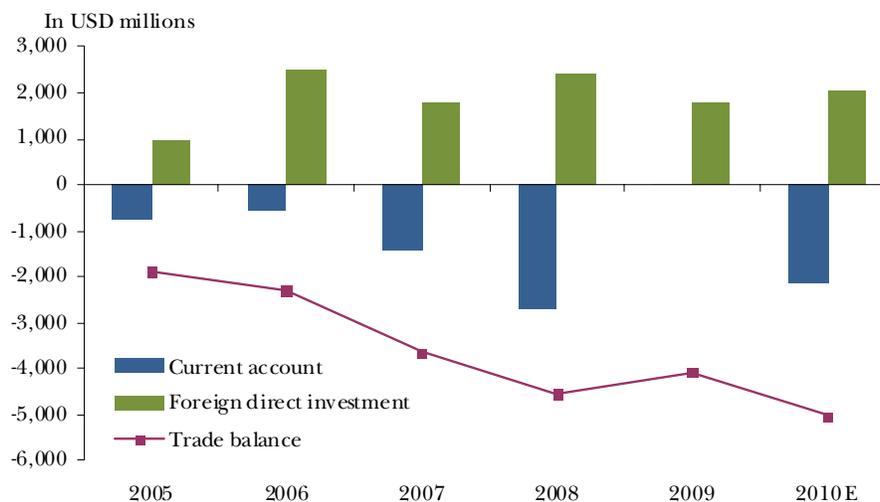
widening the coverage of financial system regulations. In particular, they are considering whether the Superintendencia Bancaria de Panamá (SBP, Superintendency of Banks of Panama) should oversee all deposit-taking institutions in order to reduce risks stemming from problems in the financial system.

It is also important to mention the tax reforms of September 2009 and March 2010. These measures raised the share of indirect taxes in public revenues (increase in the value added tax); lowered income tax for individuals and firms, but broadened the tax base; increased taxes on dividends; reduced tax evasion and eliminated several tax loopholes. The authorities estimate that these reforms will result in an increase in public revenues equivalent to 2.2 percentage points of GDP. It is worth mentioning that average income tax rates for individuals are lower than other countries in the region and the Organization for Economic Co-operation and Development (OECD), while those for firms are below the average in the region and similar to OECD countries.

At the start of 2010, the main credit ratings agencies raised their outlook for Panama's sovereign debt to investment grade. The agencies signaled that their decision was based on the strength of public finances, an expected decline in public debt and positive economic growth forecasts for 2011-2012. The improvement in the country's credit rating is expected to have a positive impact on the business climate and foster private investment.

Increased economic activity during 2010 was accompanied by higher employment. Thus, in the first half of the year, employment (in firms with five or more employees)

**FIGURE 2. PANAMA'S EXTERNAL ACCOUNTS, 2005-2010**



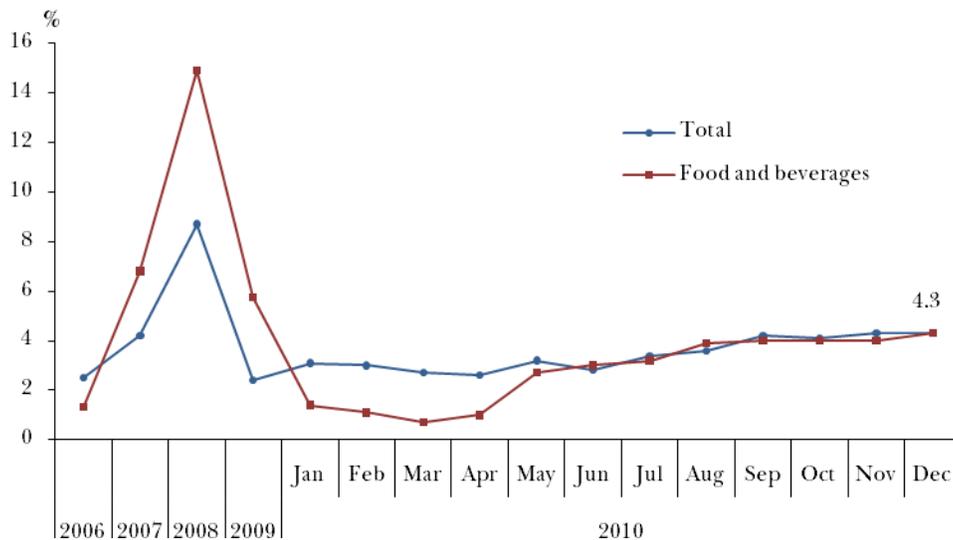
SOURCE: prepared with information from Panama: Staff Report 2010 Article IV Consultation, October 2010.

NOTES: Does not include the Colon Free Zone. <sup>E</sup> values estimated by the IMF.

rose notably in the manufacturing industry (3.1%), wholesale commerce (2.9%) and, especially, retail (14.2%). Such behavior implied a significant rebound in the total earnings of wage and salary workers and in average wages.

During 2008-2009, the performance of external accounts responded to the weakness of the world economy and its impact on domestic economic activity. Merchandise exports and imports slowed in 2008 and then contracted in 2009. The latter led to a reduction in the deficit of the trade balance during that year and, consequently, in that of the current account of the balance of payments. In 2010, the improvement of the external environment and the rebound in domestic production led to stronger external trade and a considerable current account deficit, which was financed without difficulties. Merchandise imports are also being driven upwards by external purchases associated with the project to widen the Panama Canal.

**FIGURE 3. INFLATION, 2006-2010**



SOURCE: Contraloría General de la República.

The sharp downturn in aggregate demand and economic growth during 2009 led to an inflation decline to 2%, after having reached 6.8% in 2008. Nonetheless, the rebound in international prices of oil and food products generated some upward pressures on prices. As a result, consumer prices registered an annual increase of 4.3% in December 2010.

As for monetary conditions, it is important to mention that the Panamanian economy is dollarized and, therefore, cannot implement an independent monetary policy. Under this framework, changes in monetary conditions in the US are transmitted to Panama along with their consequences for the nation’s economy.

## 1.1 EVOLUTION AND IMPORTANCE OF REMITTANCES

In line with the IMF's Balance of Payments Manual (fifth edition, 1993), the Instituto Nacional de Estadística y Censo de Panamá (Panamanian statistics and census agency) defines workers' remittances as current transfers made by migrants residing abroad, who have been, or intend to be away for more than one year.

**TABLE 2. PANAMA: REMITTANCE INFLOWS AND OUTFLOWS, 2007-JAN-SEP 2010**

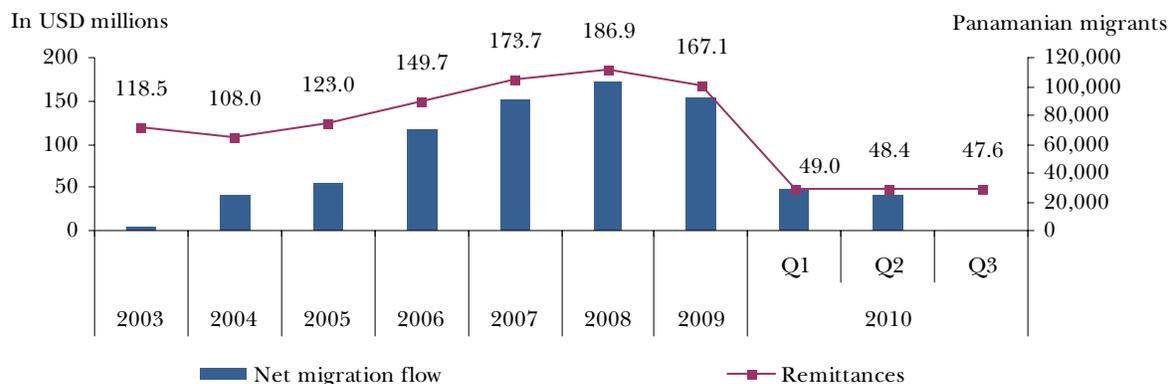
	2007	2008	2009	2009	2010	2008	2009	2010
				Jan-Sep				Jan-Sep
	<i>Million current USD</i>					<i>Annual percentage variation</i>		
Remittances: inflow	173.7	186.9	167.1	121.2	145.0	7.6	-10.6	19.6
Remittances: outflow	151.7	197.7	229.4	167.6	182.1	30.3	16.0	8.7
Net balance	22.0	-10.8	-62.3	-46.4	-37.1	-	-	-

SOURCE: Instituto Nacional de Estadística y Censo de Panamá.

The economy of Panama is both a receiver and sender of remittances. In fact, since 2008 it has been a net sender of remittances. During 2005-2008, remittance inflows to Panama increased significantly, growing at an annual average rate of 15%. Nevertheless, the international economic crisis of 2008-2009 led to a decline in these inflows amounting to 167.1 million US dollars (USD), a drop of 10.6%. In contrast to this, during the same year remittance outflows increased 16%. During 2010, remittance inflows showed signs of recovery, increasing in annual terms by 27.6%, 20.1% and 12% in the first, second and third quarters, respectively.

Revenues from remittance inflows to Panama accounted for 0.9% of the country's GDP in 2009, a much lower proportion than the World Bank's average figure of 5.8% for Latin America and the Caribbean as a whole. This inflow is also small if compared

**FIGURE 4. REMITTANCES AND NET MIGRATION, 2003-2010Q3**



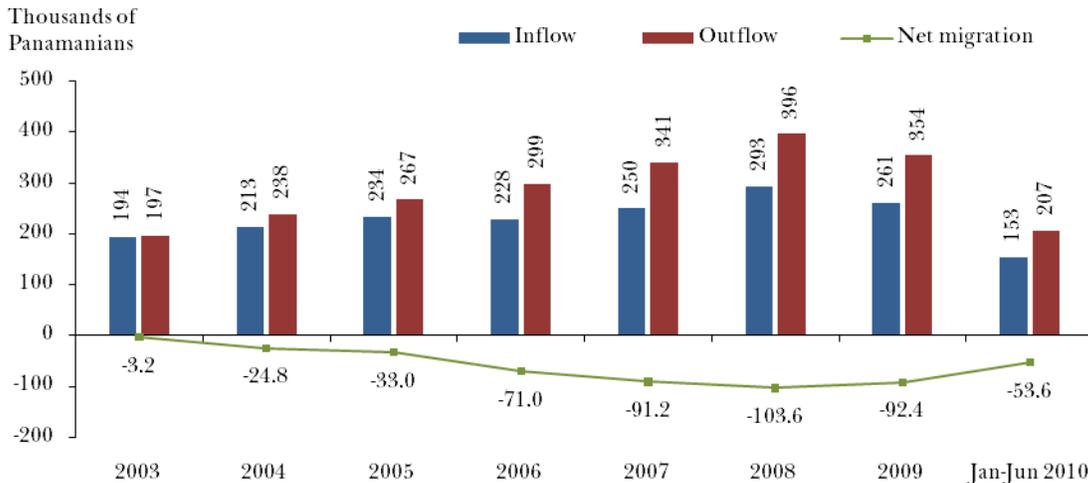
SOURCE: Instituto Nacional de Estadística y Censo de Panamá.

to other revenues from abroad. For instance, foreign direct investment equaled 10.4% of Panama’s GDP in 2008. Furthermore, in contrast to other countries in the region, remittance inflows to Panama represented 39% of current transfers received by the country from 2005 to the second quarter of 2010.

## 1.2 PANAMANIAN MIGRATION CHARACTERISTICS AND PATTERNS

Panama’s geographic location facilitates the traffic of individuals from Central and South America to the US and Canada. According to information from the Instituto Nacional de Estadística y Censo, in 2008 only 24% of all travellers leaving Panama were Panamanian residents, while the remaining 76% were non-residents or foreigners. The international economic situation has also influenced the amount of Panamanians leaving the country. In particular, during 2009 the international economic downturn and its effects on the US and Spanish labor markets led to a 10.8% fall in Panamanian migration. Meanwhile, in the first quarter of 2010, net international migration totaled around 53,600 individuals.

**FIGURE 5. PANAMANIAN MIGRATION, 2003-JAN-SEP 2010**

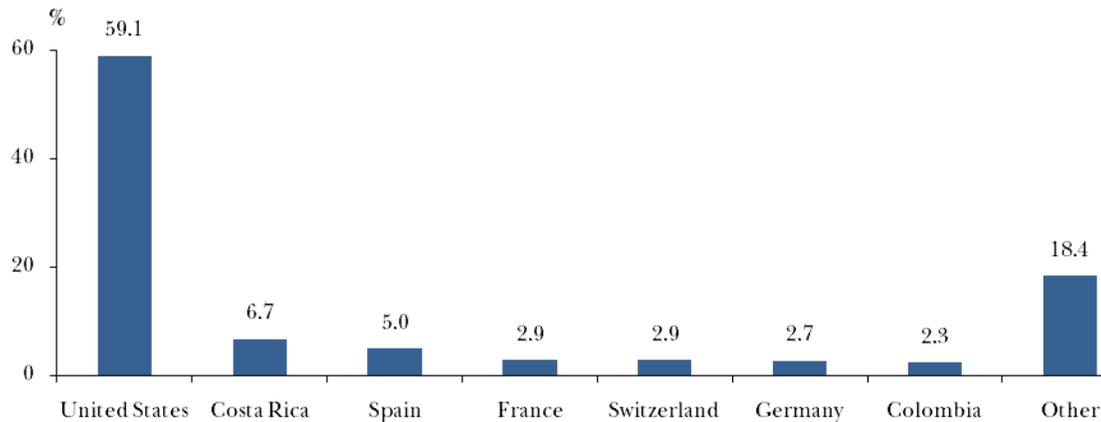


Source: Instituto Nacional de Estadística y Censo de Panamá.

In 2008, the Dirección de Estadística y Censo de Panamá (Statistics and Census Directorate of Panama) included a special section on international remittances and migration in its so-called Encuesta de Propósitos Múltiples (EPM, multipurpose survey). The results of this survey show that in 2007, from a total of 12,972 households surveyed, 1.9 % had at least one previous household member living permanently abroad. Meanwhile, 60.9% of Panamanian households with international migration

were urban. In the same year, 50.9% of the migrant population were women, 45.9% were aged between 15 and 29 and 41.9% between 30 and 59.

**FIGURE 6. MAIN DESTINATIONS OF PANAMANIAN MIGRATION, 2007**



*SOURCE: Instituto Nacional de Estadística y Censo de Panamá.*

The results of the referred survey indicate that Panamanians mainly migrate to the US, Costa Rica and Spain. In 2007, the main destinations of these migrants were the US (59.1%), Costa Rica (6.7%), Spain (5.0%) and France (2.9%). It is also noteworthy that, in the same year, migrants who lived in the US and Costa Rica mostly came from urban areas.

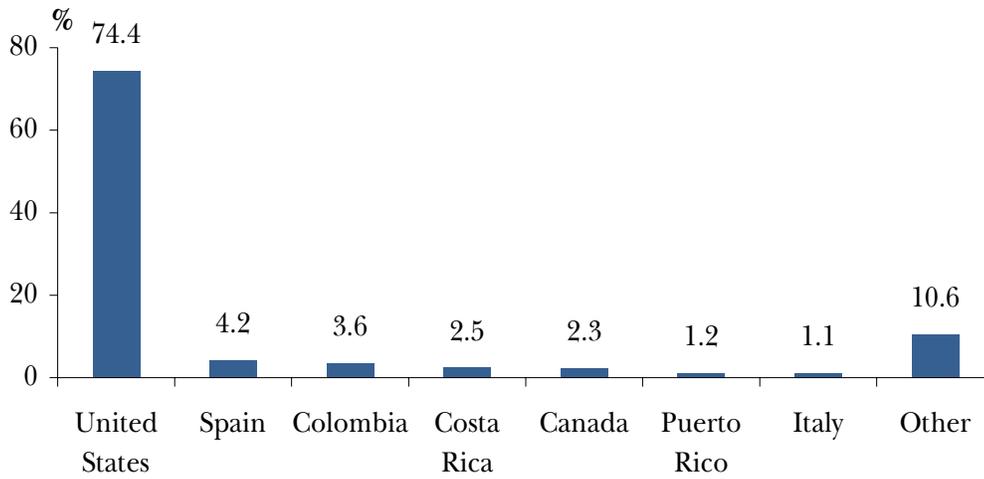
### 1. 2. 1 Profile of Remittance Receivers and Senders

The results of the 2008 EPM's remittance section show that an estimated 74% of remittance revenues came from the US, 4.2% from Spain, 3.6% from Colombia and 2.3% from Canada. Nevertheless, the two latter countries were not mentioned as important destinations for Panamanian migrants. The results of this survey also indicate that 43% of migrants had been living abroad for between 1 to 14 years, 28% from 5 to 9 years and 16.3% for more than 10 years.

The results of the 2008 EPM also show that 24.6% of Panamanians abroad sent money monthly, 5% every two months and 5.6% quarterly, while 26% did so on an undefined basis. As for the average value of remittances sent to Panama, 18.8% were between USD 100 and USD 200, and 15.8% between USD 301 and USD 500.

In addition, the results of the 2008 EPM show that 89.6% of households receiving remittances collected them through formal channels, including money transfer operators (72%) and bank transfers (17.3%), while 10.3% did so through informal (relatives, acquaintances or individuals who transport money or other products). Just as in

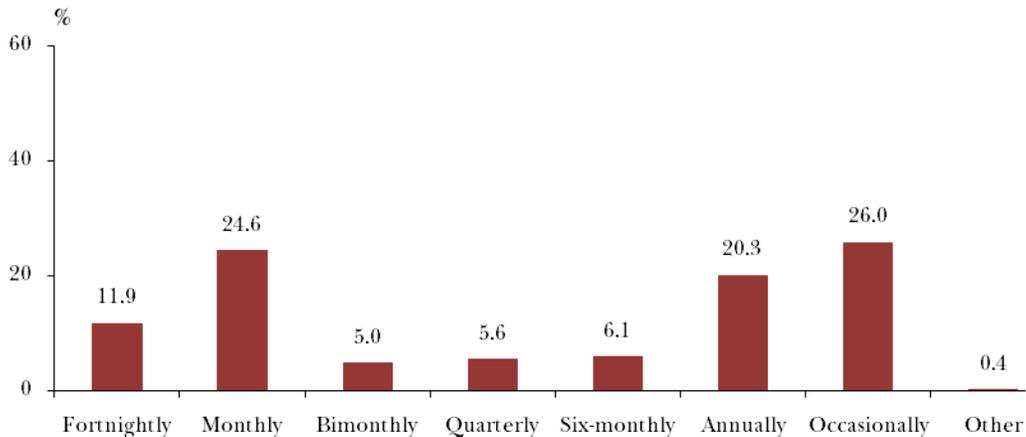
**FIGURE 7. MAIN ORIGINS OF REMITTANCES, 2007**



SOURCE: Instituto Nacional de Estadística y Censo de Panamá.

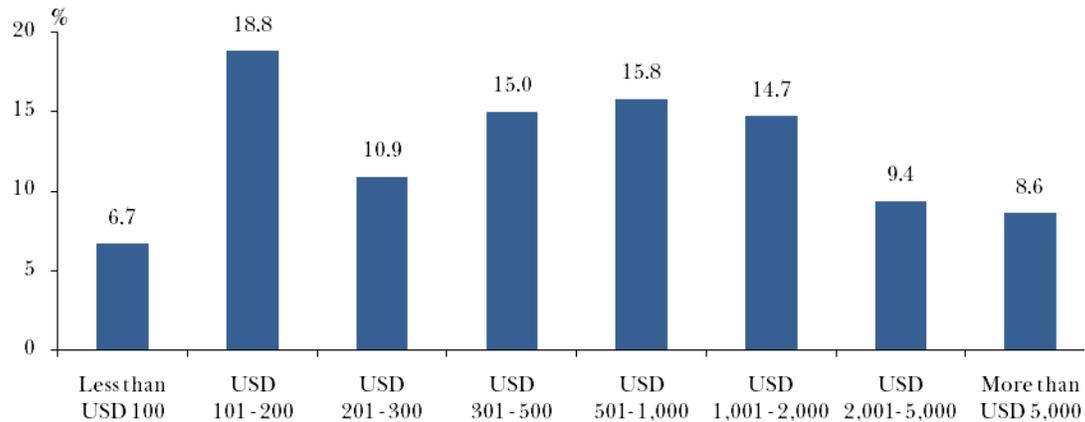
other countries of the region, remittances in Panama are mostly used to finance consumption expenditure. Thus, 56.7% of such transfers are channeled to family consumption, including food, health, furniture and household appliances, clothing, paying basic services, etc. The remainder is used for education (11.7%), housing (8.9%), other outlays (9.1%) and saving (13.6%).

**FIGURE 8. FREQUENCY OF REMITTANCES, 2008**



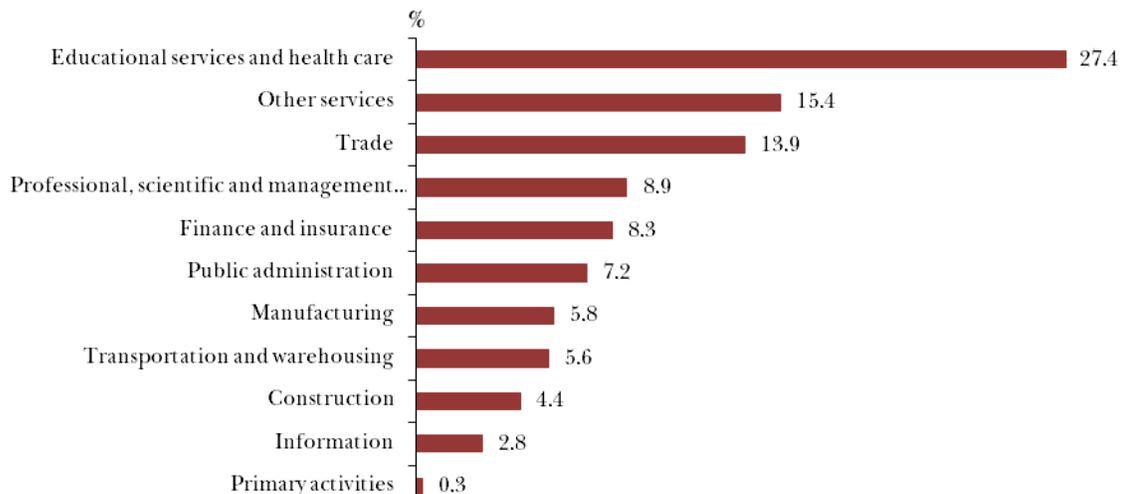
SOURCE: Instituto Nacional de Estadística y Censo de Panamá.

The results of the US Census Bureau’s 2009 American Community Survey (ACS), showed that 168 thousand 637 Panamanians were living in the US, figure equal to 0.3% of the country’s total Hispanic population and 5% of the population of Panama (approximately 3.4 million individuals). An analysis of the general characteristics of these immigrants reveals that just 29% had citizenship, 59.7% were women and the

**FIGURE 9. AVERAGE AMOUNT OF REMITTANCES, 2008**

SOURCE: Instituto Nacional de Estadística y Censo de Panamá.

remaining 40.3% men. Meanwhile, 31% of Panamanian immigrants fell within an age range of 35 to 54 and 25% from 18 to 34. Panamanian immigrants were mostly employed in education, health and social work, other services and commerce. Furthermore, 73% of Panamanian immigrants in the US worked in the private sector and 21% in the public sector, followed by those who were self-employed (5%) and unpaid family workers (1%).

**FIGURE 10. LABOR SECTOR OF PANAMANIAN IMMIGRANTS LIVING IN THE US, 2009**

SOURCE: American Community Survey (2009), US Census Bureau.

## 2 REGULATORY FRAMEWORK OF THE REMITTANCE MARKET

### **General Principle 3. Legal and regulatory environment**

*Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.*

### **2.1 REGULATORY ENVIRONMENT AND THE REMITTANCE MARKET**

A solid legal framework for remittance services, one which is well understood by market participants, will contribute to minimizing risks faced by both remittance service providers and users. The regulatory and legal framework includes the general legal infrastructure as well as any regulation, statute and contract relevant to remittances, such as payment system rules.

Although Panama has no specific legislation for regulating money transfers in general, such transactions are specifically regulated by the remittance service providers themselves. The 2003 Ley (Law) 43 from the Ministerio de Comercio e Industrias (MICI, Ministry of Commerce and Industry) regulates remittance services provided by the aforementioned institutions. This law gives the MICI supervisory powers over these entities. The regulation obligates all remittance service providers to obtain a license from the MICI, while all sole proprietors or companies who wish to operate as remittance service providers must seek authorization from the MICI through the Dirección General de Empresas Financieras (Financial Companies General Directorate).

Decreto Ejecutivo (Executive Decree) 52 of 2008 established the Ley Bancaria de Panamá (Panamanian Banking Law).<sup>1</sup> Article 4 of this law stipulates the Superintendencia de Bancos de Panamá as an autonomous state organization, with legal standing, its own assets and administrative, budgetary and financial independence. The SBP has exclusive powers to regulate and supervise banks, the banking industry and other entities and activities assigned to it by other laws. The SBP regulates and oversees money transfers made through banks.

The Republic of Panama's Anti Money Laundering (AML) legislation is set out in Law 42 of 2000.

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<sup>1</sup> Decreto Ejecutivo (Executive Decree) No. 52, April 30, 2008 which adopts the Texto Único (Sole Text) of Decreto Ley (Law Decree) 9, February 26, 1998, modified by the Decreto Ley, February 22, 2008.

**TABLE 3. PANAMA: REGULATORY FRAMEWORK FOR REMITTANCE SERVICES**

<i>Law</i>	
Ley Bancaria de Panamá (Banking Law of Panama)	Decreto Ejecutivo 52, April 30, 2008
Reglamento de las Empresas de Transferencias de Fondos (Money Transfer Operator Regulations)	Ley 48, June 23, 2003
Sistema de Prevención de Lavado de Activos y del Financiamiento del Terrorismo (Anti Money Laundering and Financing of Terrorism System)	Ley 42, October 2, 2000

*SOURCE: Superintendencia de Bancos de Panamá and Dirección General de Empresas Financieras.*

## **2.2 PAYMENTS SYSTEM REGULATORY FRAMEWORK**

The Republic of Panama does not have a Central Bank and, consequently, cannot implement independent monetary policy. The market determines the amount of money in circulation in Panama.

The official currency is the balboa and it has been pegged at a one- to-one rate to the dollar. The dollar is legal tender and, in accordance with Panamanian legislation, freely circulates and is used without restriction.

Panama has no specific regulation or law for regulating payment systems, although they are covered by the laws governing financial intermediation. Two of these laws are worth mentioning: the Ley Bancaria de Panamá, which regulates banking activities and empowers the SBP to supervise financial institutions and the Ley del Banco Nacional de Panamá (National Bank of Panama Law) which enables this financial institution to clear and settle payments in Panama.

The Ley Bancaria of 1998, modified by the Decreto Ley 9 of 2008, and approved through the Decreto Ejecutivo 52 of 2008, regulates all relevant financial intermediation activities, as well as the powers of the SBP. This legal framework supports the precautionary measures emitted by the SBP to guarantee the system's solvency and liquidity.

The Banco Nacional de Panamá (BNP, National Bank of Panama) was originally created by Ley 74 of 1904, which was modified several times. The institution was subsequently reorganized in accordance with Ley 20 of 1975. According to its legislation, the BNP is a state owned bank into which all government agency funds are deposited.

The BNP is authorized to participate in financial intermediation activities and to open accounts for any bank operating in Panama. The BNP has the power to establish the rules of operation of the cheque, automated and debit and credit card clearing houses. In addition, it is the financial system's clearing house operator. The BNP is subject to supervision by the SBP, as a financial intermediation institution, and by the

Contraloría General de la República (General Controller of the Republic) due to the fact that it handles funds belonging to government entities.

**TABLE 4. PANAMA: PAYMENTS SYSTEM LEGISLATION**

<i>Law</i>	
Ley Bancaria de Panamá (Banking Law of Panama)	Decreto Ejecutivo 52, April 30, 2008
Ley del Banco Nacional de Panamá (National Bank of Panama Law)	Ley 20, 1975
Pagos electrónicos (Electronic payments)	Ley 43, 2001

*Source: Superintendencia de Bancos de Panamá and Dirección General de Empresas Financieras.*

## **2.3 CONSUMER PROTECTION, TRANSPARENCY, COMPETITIVENESS, GOOD GOVERNANCE AND RISK MANAGEMENT REGULATORY FRAMEWORKS**

### **2.3.1 Consumer Protection**

The regulatory framework for consumer protection is based on Article 49 of Panama's Constitution. The aforementioned Article stipulates that the state should recognize and guarantee the right of every individual to obtain quality goods and services, along with accurate, clear and sufficient information about the characteristics and content of the goods and services they acquire. These goods and services should be freely chosen under dignified and fair conditions. It also states that the Law should establish the necessary mechanisms to guarantee these rights as well as measures to foment consumer education and defense procedures, compensation for damages incurred, and the relevant sanctions for violating these rights.

Ley 45 of October 31, 2007, contains the constitutional precepts mentioned above and constitutes the basic legal framework for consumer protection in Panama. The Law establishes the necessary mechanisms to guarantee the rights, education and consumer and user protection procedures, compensation for damages incurred and the relevant sanctions for violating these rights.

In particular, Article 2 of the referred Ley 45 establishes its scope of application, specifying that it applies to all economic agents, whether sole proprietors or companies, private companies or state or municipal institutions, industrial, commercial or professional, profit seeking or non-profit entities, or to anyone under any other designation who participates actively in economic activity. It also states that the Law applies to all acts or practices which have effect in the Republic of Panama, independent of where they take place.

Article 84 of Ley 45 establishes an institution with authority over consumer protection and defense of competition (the Autoridad de Protección al Consumidor y Defensa

de la Competencia, ACODECO) for goods and services in general. This institution was created as a decentralized institution, with legal standing, its own assets, administrative and budgetary autonomy and with the ability to administratively sanction infractions to the law. The institution does not have a specialized financial consumer defense unit as this falls under the purview of the SBP.

It is also important to mention that the relevant provisions of Decreto Ejecutivo 52 of 2007, also called the Ley Bancaria, apply to consumer protection or users of financial services. Chapter IV of the Ley Bancaria deals with complaint resolution. In particular, Article 206 establishes that all banks with a general license must have an administrative system in line with their activities which will be responsible for being aware of and attending to, in personalized fashion, complaints and controversies which arise as of a result of the relationship with their customers. In accordance with the aforementioned regulation, all banks with general licenses in the Republic of Panama must have an administrative system in line with their activities, responsible for being aware of and attending to, in personalized fashion, complaints and controversies which arise as of a result of the contractual bank-client relationship.

**TABLE 5. SPECIFIC CONSUMER PROTECTION LEGISLATION**

Constitución Política de la República de Panamá (Constitution of the Republic of Panama)	Título (Title) III. Derechos y deberes individuales y sociales (Individual and social rights and obligations)
Ley 45	Título X. La economía nacional “Which lays out consumer protection and defense of competition regulations.” (October 31, 2007)
Ley Bancaria	Título VI. Protección al Consumidor Bancario (on Bank Consumer Protection) Decreto Ejecutivo 52 (April 30, 2008)
Ley 24	“Which regulates the service of client or consumer credit history information” (May 18, 2006)
Acuerdo (Accord)003–2008	“By which the procedure for complaint resolution by the Superintendencia is established” (July 24, 2008)

*SOURCE: Autoridad de Protección al Consumidor y Competencia and Superintendencia de Bancos de Panamá.*

### 2.3.2 Transparency of Information

Panama’s current legislation for the transparency of remittance transfers through MTOs or remittance service providers can be found in Chapter III of Ley 48 of 2003, and specifically in Articles 18 and 21:

*Article 18:* the operations or transactions carried out by remittance service providers will consist in writing of the corresponding forms, containing the following minimum general information:

1. Place and date of the transaction

2. Transaction details:

- a) Name of sender and beneficiary
- b) Sender ID number and type
- c) Transaction amount
- d) Fee charged
- e) Place of origin and destination of transaction
- f) Operation control number
- g) Currency in which the remittance will be paid and exchange rate applied at the time of the transaction.

*Article 21.* Remittance service providers are obliged to provide the client with a copy of the transaction receipt at the time the transaction is completed. This must include the information stipulated by Article 18 of this Law.

The Ley Bancaria details the right of the SBP to ask commercial banks, as well as any company of the financial group the bank might be part of, for documents and reports pertaining to their operations and activities.

### **2.3.3 Competitiveness**

Ley 45 of 2007 sets out defense of competition regulations. Regarding competitiveness, monopolistic practices are considered as those likely to have a negative impact on consumer interests.

### **2.3.4 Good Governance and Risk Management**

<p><b>General Principle 5. Governance and risk management</b></p>
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<p><i>Remittance services should be supported by appropriate governance and risk management practices.</i></p>
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Commercial Banks and money transfer operators (MTOs) are subject to minimum service standards and prudential regulation requirements. Furthermore, Article 1 of Ley 42 of 2000, regarding systems for the prevention of money laundering and the financing of terrorism, establishes the following as subject to anti money laundering (AML) provisions: banks, fiduciary companies, foreign exchange companies and remittance service providers, including sole proprietors and companies engaged in this activity, financial companies, savings and loans, stock markets, securities deposits, brokerages, brokers and investment administrators.

Article 5 of the aforementioned law makes reference to institutions for the supervision and control of each activity, empowering them to inspect the procedures and internal control mechanisms of those entities subject to oversight. The different activities carried out by the institutions, both financial and commercial, obligated to report will be overseen and controlled by their respective supervisory bodies:

- a) For banks and fiduciaries: Superintendencia de Bancos.
- b) For currency exchange and remittance service providers: Ministerio de Comercio e Industrias, through the Dirección General de Empresas Financieras.
- c) Financial Companies: Ministerio de Comercio e Industrias, through the Dirección General de Empresas Financieras.
- d) Savings and Loans: Instituto Panameño Autónomo Cooperativo (IPACCOOP, Panamanian Autonomous Cooperative Institute).

### **3 AUTHORITIES PARTICIPATING IN REMITTANCE SERVICE REGULATION**

#### **3.1 AUTHORITIES**

In Panama several different authorities are responsible for the various aspects related to the application of General Principles (GP) for international remittance services: the Superintendencia de Bancos de Panamá, the Ministerio de Comercio e Industrias, the Ministerio de Economía y Finanzas (Ministry of Economy and Finance), the Contraloría General de la República, the Autoridad de Protección al Consumidor y Defensa de la Competencia and the Ministerio de Relaciones Exteriores (Ministry of Foreign Affairs).

##### **3.1.1 Superintendencia de Bancos de Panamá**

In Panama, banks and other financial institutions are authorized and supervised by the Superintendencia de Bancos de Panamá.

##### **3.1.2 Ministerio de Industrias y Comercio**

Ley 48 of 2003 establishes that MTOs, which are part of the remittance service providers (RSPs), are under MICI supervision.

###### *3.1.2.1 Dirección General de Empresas Financieras*

The Dirección General de Empresas Financieras is the governing body for activities taking place in the financial sector, comprised of financial companies, leasing companies, remittance service providers and pawn brokers.

This Directorate is also responsible for applying Ley 48 of June 23, 2003, regulating remittance service providers and Ley 16 of May 23, 2005, regarding pawn brokers.

##### **3.1.3 Ministerio de Economía y Finanzas**

The Ministerio de Economía y Finanzas is tasked with formulating economic and social policy and with the administration and provision of resources for implementing the Government's plans and programs.

##### **3.1.4 Autoridad de Protección al Consumidor y Defensa de la Competencia**

Article 84 of Ley 45 decrees that the ACODECO is a decentralized public entity, with its own legal status, and internally autonomous and independent as regards to carrying

out its functions. The authority is subject to audit by the Contraloría General de la República in accordance with the Constitution and the law.

The institution should oversee the creation, in any part of the country, of the administrative units required by Article 86 of Ley 45. This Law establishes the functions and attributes of the ACODECO including: its obligation to determine its general policies, designate provincial offices and point out their functions; investigate and sanction, within the limits of its power, acts and conduct prohibited under consumer protection law; and establish coordination mechanisms with other state entities for consumer protection and for prevention.

### **3.1.5 Ministerio de Relaciones Exteriores**

Up to now the Ministerio de Relaciones Exteriores de Panamá has not created any specific projects concerning remittances and international migration. However, through its consulates abroad it does have contact with migrant communities in the most important remittance sending countries.

### **3.1.6 Other Institutions**

#### *3.1.6.1 Banco Nacional de Panamá*

The Banco Nacional de Panamá is a state-owned commercial bank. As such, it serves as a depository for state agencies, while as a commercial bank it offers a wide variety of retail banking services.

The BNP is not a central bank as it lacks the principal characteristics of such institutions. Nevertheless, in virtue of legal dispositions and international agreements, this banking entity carries out some activities which are typical of a central bank. Thus, the BNP is authorized to open accounts for any bank operating in Panama, as well as open settlement accounts for non-financial payment providers such as, for example, securities depositories. It also operates the clearing houses for the banking system.

#### *3.1.6.2 Asociación Bancaria de Panamá*

The Asociación Bancaria de Panamá (ASP, Panamanian banking association) brings together public and private banking entities which carry out their business both inside and outside Panama.

## 3.2 Remittance Service Providers

### General Principle 4. Structure and competition

*Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.*

Remittances in Panama are mainly channeled through RSPs and, to a lesser extent, through the financial system. The aforementioned companies are responsible for 72% of money transfers received by Panamanian households from abroad, while 17% is sent via bank transfer.<sup>2</sup> International money transfer operators provide remittance services through foreign exchange houses, pawn brokers, supermarkets and telephone service providers, etc.

In Panama's case, it is worth noting that Western Union has a dominant position in the market for money transfers from abroad, while it also serves the local market for domestic money transfers. Under existing law, international MTOs face no legal impediments for offering international remittance services in Panama through their own offices as long as they have applied for authorization from the MICI (Ley 48, 2003).

**TABLE 6. PANAMA: COMMERCIAL BANKS, 2009**

<i>Commercial Bank</i>	<i>International links</i>	<i>Service</i>
BBVA		Account to account (clients only)
BAC	Grupo BAC	Remittance reception
Banco Azteca	Money Gram	Remittance reception
Credicorp	Money Gram	Remittance reception
Citibank	Xoom	Remittance reception
Banco Uno	Ria	Remittance reception
Multibank		Remittance reception

*SOURCE: Dirección General de Empresas Financieras.*

### 3.2.1 Money Transfer Operators

According to statistics from the MICI's Dirección General de Empresas Financieras, there are 13 MTOs in Panama's remittance market. The majority focus on international transfers but also offer national services coverage.

In 2009, remittance inflows to Panama received through MTOs fell significantly as compared to 2008. Such resources mainly originated from Colombia, US, Costa Rica

<sup>2</sup> Contraloría General, Instituto de Estadística y Censo, 2008.

and Spain. Two international money transfer companies partnered with local agents represented almost 90% of the remittance disbursement market.

**TABLE 7. PANAMA: MONEY TRANSFER OPERATORS, 2009**

<i>Supervised MTOs</i>	<i>International links</i>	<i>Coverage</i>
Universal de Giros	Delgado Travel y Titan	National and international
Telegiros.	Titan	National and international
Transferencias Más Me Dan	Money Gram	National and international
Pronto Giros		National and international
Unigiros		National and international
United Services Overseas		National and international
Importadora Ricamar, SA		International
Transactional Services		International
Transfer Express de Panamá	Western Union	National and international
Multigiros		National and international
Intercambios Panamá		National and international
Master Money Transfer		International
Connect Plus Panama		International

*SOURCE: Dirección General de Empresas Financieras.*

### **3.2.2 Financial Companies and Pawn Brokers**

Official statistics indicate that there were 146 financial companies and 260 pawnshops registered in Panama in 2009. These institutions can act as disbursing agents for a remittance service provider.

Microserfin is a private company specialized in microfinance which also acts as a disbursing agent for Western Union. This is the only company supervised by the Dirección General de Empresas Financieras of the MICI.

### **3.2.3 Credit Unions**

Credit unions do not currently offer remittance services in Panama.

## 4 REMITTANCE SERVICE ACCESS POINT NETWORK

### General Principle 2. Payment system infrastructure

*Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.*

Development of transparent, secure and low cost transfer channels is of utmost importance to the remittance market. In Panama, as previously mentioned, remittances are principally transferred through international money transfer companies and commercial banks. In both cases it is necessary to have some sort of *network*, meaning, access points where consumers can send and receive funds.

An adequate infrastructure to supply remittance services is required in order for them to function efficiently. Remittance service providers usually use their own infrastructure (for example, their access point network where they can receive and disburse funds) and that of their agents, as well as the general payment systems of the countries where funds are sent and received.

This section examines the state and development of Panama's access point network, as well as its financial infrastructure for receiving and distributing remittances.

### 4.1 ACCESS POINT NETWORK

The fact that 59% of Panama's migrant population reside in US means most remittances originate from that country. In light of this, it is worth mentioning that 74% of households receiving money from outside Panama receive it from US.<sup>3</sup>

Panamanians resident in US mainly send remittances through the following money transfer companies:

**TABLE 8. TRANSFERS FROM THE US TO PANAMA, 2010**

Company	Type
Vigo	MTO
Xoom	MTO
Money Gram	MTO
Western Union	MTO
Sigue	MTO
Ria	MTO

*SOURCE: Dirección General de Empresas Financieras.*

<sup>3</sup> Contraloría General, Instituto de Estadística y Censo 2008.

## **4.2 LOCAL FINANCIAL INFRASTRUCTURE**

A well developed local financial infrastructure is of utmost importance for guaranteeing efficiency and security to remittance receivers.

### **4.2.1 Bank Network Coverage**

Panama has one of the most highly developed financial sectors in Latin America and the Caribbean. Nonetheless, there is great disparity of access to financing outside the country's capital and between urban and rural areas. Although access to financial services is relatively adequate in the capital's metropolitan area, it is poor in the rest of the country. The reduced coverage of commercial banks outside metropolitan areas implies significant costs for those who receive remittances and government transfers or pay for services.

### **4.2.2 MTO Network Coverage**

Western Union and Money Gram have a dominant market position in Panama due to the number of branches they operate. Money Gram has around 50 disbursement points.

Meanwhile, Western Union operates around 170 branches in Panama, of which more than ten are their own offices. Approximately 70% of their business is money reception, the majority of which comes from US.

In accordance with Article 17 of Ley 48 of 2003, companies officially authorized to operate as remittance service providers in Panama, under their own responsibility, can operate from their own branches and name intermediaries (subagents).

Companies engaged in this business must supply the MICIS's Dirección General de Empresas Financieras with a copy of the contracts signed with their intermediaries (subagents), including their general information and their exact address in writing.

### **4.2.3 Payment Systems in Panama**

#### *4.2.3.1 Large Value Payment Systems*

No real time gross settlement system exists in Panama. Settlements are therefore made using two mechanisms: for large value or interbank transfers, banks make their debit and credit transactions through their foreign correspondents. This mechanism allows same day settlement and all banks use SWIFT for their international transaction messaging. On the other hand, low value payments are generally settled locally and channeled through the various systems managed by the BNP: the cheque clearing house, the automated clearing house (ACH) and the credit and debit card clearing.

#### *4.2.3.2 Low Value Payment Systems*

##### *Cheque Clearing House*

Cheques are the most commonly used instrument for low value payments in Panama. The cheque clearing house is operated by the BNP and all banks have a clearing account. Funds are credited to client accounts in 48 hours (T+2).

##### *Automated Clearing House (ACH)*

Around 25 banks operating in the Panamanian banking system are affiliated with the electronic transfer network which allows them to make transactions from their offices. The service is called ACH Directo and operates under the organizational structure of the American National Automated Clearing House Association (NACHA), of which it is a member.

NACHA is responsible for establishing and updating the ACH's operational rules as well as for the standards governing transaction interchanges among financial institutions and ACH networks.

ACH Directo offers direct local and international deposit services, has 34 members, and automates periodic or occasional payments, such as salaries, dividends, royalties or inter-company payments. A majority of banks participate in the ACH network, while most ACH transfers are available in 24 hours or in 48 hours if the payment is processed after closing.

It is possible to process cross-border payments and remittances through the ACH network. All transactions are settled between financial institutions which use the BNP's national clearing house and the United States Federal Reserve Bank (Chart 1).

##### *Automated Teller Machines, Cards and Point of Sale Networks*

All banks in Panama issue their debit cards under the same system, the Sistema Clave. This guarantees interoperability.

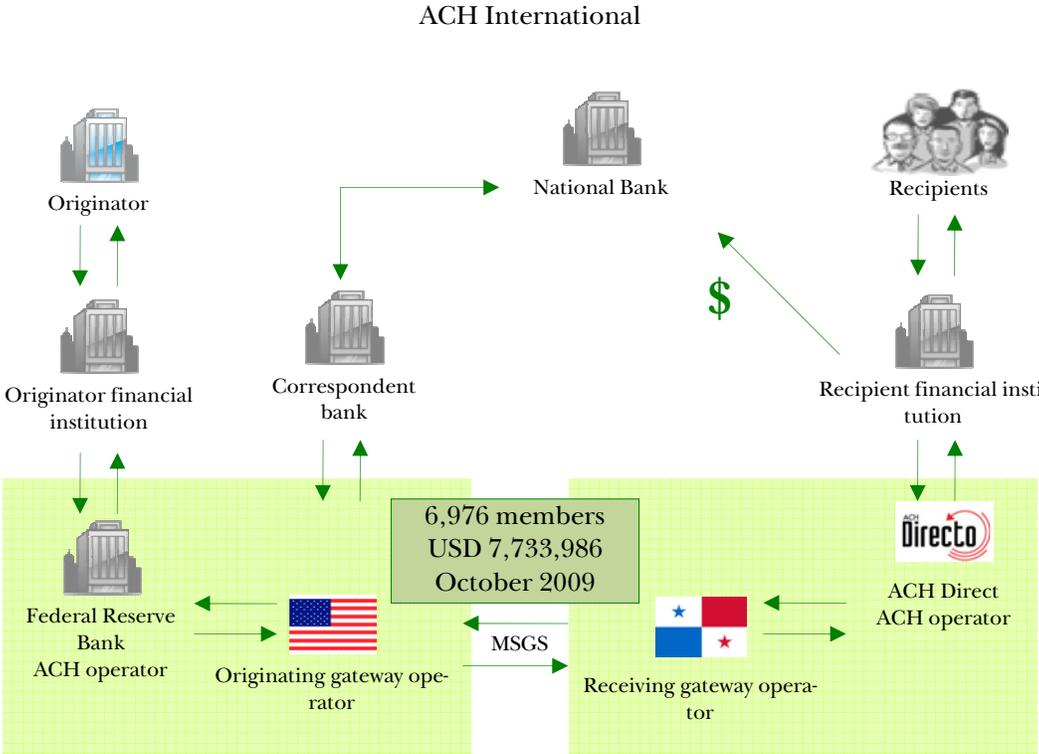
Automated Teller Machines (ATMs) offer access to account funds, withdrawals, transfers, inquiries, deposits, purchase of cellular and fixed telephone minutes, and services payments. As of November 2009 there were 1,028 ATMs, of which 341 were located in the interior of the country (33%).

Debit card issuance has increased dramatically in the last few years, having gone from 258,000 cards in 2002 to 860,000 in 2009.<sup>4</sup> It is estimated that 5 million transactions are made monthly (cash withdrawals, transfers, deposits and service payments).

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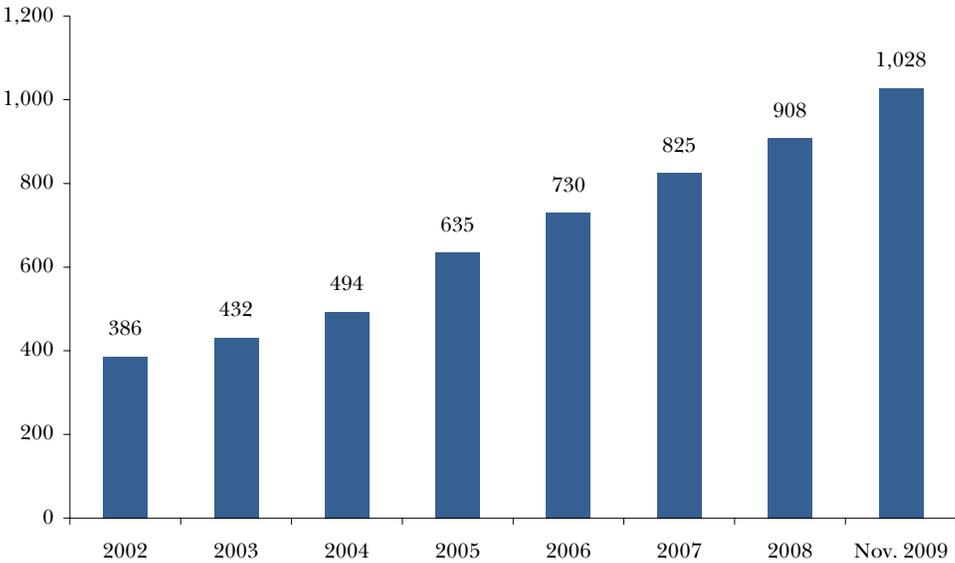
<sup>4</sup> Source: Telered.

CHART 1. PANAMA: ACH DIRECT



SOURCE: ACH Directo.

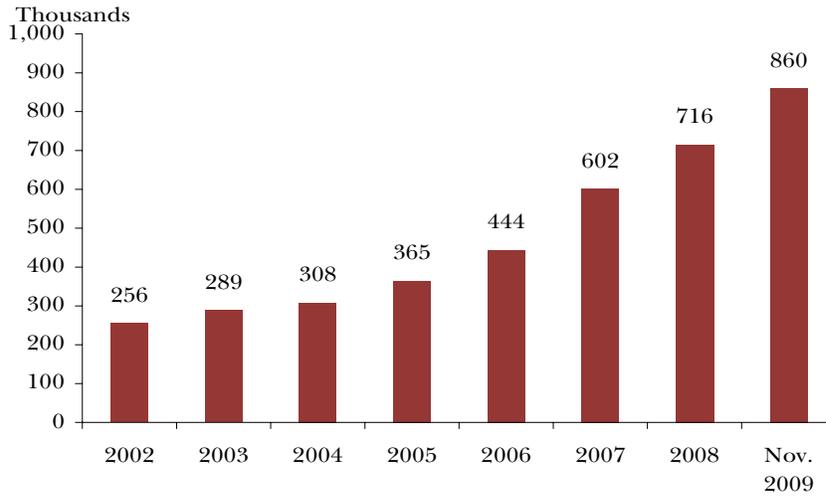
FIGURE 11. PANAMA: NUMBER OF ATMs



SOURCE: TELERED.

International cards affiliated with VISA-PLUS and CIRRUS MASTERCARD are accepted by the Sistema Clave's national network of ATMs.

**FIGURE 12. PANAMA: NUMBER OF DEBIT CARDS**



*SOURCE: TELERED.*

There are more than 15,000 point-of-sale (POS) terminals in more than 9,500 affiliated businesses in Panama. These terminals process 900,000 transactions per month for a total value of USD 41 million.

## 5 INSTRUMENTS FOR DISBURSING REMITTANCES IN PANAMA

### General Principle 2: Payment System Infrastructure

*Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged*

Remittances in Panama are mainly disbursed in cash or by bank account deposit.

**TABLE 9. INSTRUMENTS FOR SENDING REMITTANCES TO PANAMA**

<i>Operator</i>	<i>Transfer method</i>	<i>Transfer speed</i>	<i>Commis- sion (USD)</i>	<i>Total cost (USD)</i>	<i>Total cost (%)</i>	<i>Amount received (USD)</i>	<i>Access point</i>
Vigo	Cash	One hour or less	5.00	5.00	2.50	195.00	Banco de América Central, Elektra – Banco Azteca y TEP Trans Express Panamá
Vigo	Cash to deposit account	One hour or less	5.00	5.00	2.50	195.00	Citibank
Xoom	Account to account	3 to 5 days	6.99	6.99	3.50	193.01	Citibank
Xoom	Account to cash	3 to 5 days	6.99	6.99	3.50	193.01	Credomatic, Citibank and Super 99
MoneyGram	Cash	One hour or less	9.99	9.99	5.00	193.01	Credicorp Bank and Elektra – Banco Azteca
MoneyGram	Account to cash	3 to 5 days	10.00	10.00	5.00	190.00	Credicorp Bank and Elektra – Banco Azteca
Sigue	Cash to deposit account	One hour or less	10.00	10.00	5.00	190.00	BAC
Sigue	Cash	One hour or less	10.00	10.00	5.00	190.00	BAC
Xoom	Credit/debit card to account	Next day	10.99	10.99	5.50	189.01	Citibank
Xoom	Credit/debit card to account	Next day	10.99	10.99	5.50	189.01	Credomatic, Citibank and Super 99
MoneyGram	Credit/debit card to account	One hour or less	14.00	14.00	7.00	186.00	Credicorp Bank and Elektra – Banco Azteca
Ria	Cash	2 days	17.00	17.00	8.50	183.00	Banco Uno, Credomatic, Electra Panamá and Importador Recomar
Ria	Cash to deposit account	2 days	17.00	17.00	8.50	183.00	Banco Uno, Credomatic, Electra Panamá and Importador Recomar
Western Union	Cash	One hour or less	20.00	20.00	10.00	180.00	Super Cash
Western Union	Credit/debit card to account	One hour or less	20.00	20.00	10.00	180.00	Super Cash
Western Union	Credit/debit card to account	One hour or less	22.00	22.00	11.00	178.00	Super Cash
Western Union	Credit/debit card to account	One hour or less	33.00	33.00	33.00	167.00	Super Cash

SOURCE: World Bank (<http://remittanceprices.worldbank.org>).

## **5.1 CASH**

Over 60% of all remittances in Panama are disbursed in cash.

## **5.2 BANK ACCOUNT DEPOSIT**

Two of the institutions disbursing remittances in Panama offer a bank account deposit service. One of these is BAC/BAMER, which receives resources the same day, does not charge a direct commission (although it obtains part of the commission charged at customer origin) and disburses the transfer in cash, or for it to be used to pay credit cards, the beneficiary's loans or be deposited in the latter's bank accounts. Citibank also offers a service to send money directly to the beneficiary's account in any of its Banco Citi.

## 6 THE TOTAL COST OF SENDING REMITTANCES

### General Principle 1: Transparency and Consumer Protection

*The market for remittance services should be transparent and have adequate consumer protection.*

The process of sending and distributing remittances involves a chain of intermediaries starting in the issuing country. In the market where the transfer originates, the remittance sender carries out the operation through either a capturing (supermarket, retail outlet, etc.) and an international MTO or a bank or financial institution (bank agent). Remittances are then transferred to a series of remittance disbursing agents in the receiving market

Intervention in this chain of agents with different operating structures implies a cost, covered by the customer through a commission or fee. The total cost is made up of two components: the transfer commission, the most visible cost, which varies among market operators, and the exchange rate margin measured by the spread between the exchange rate used for payment to the remittance beneficiary and the interbank rate. In Panama's case there is no exchange rate margin due to the fact that remittance inflows mainly come from the US and the USD is used as the country's currency. According to information from the World Bank's database of remittance prices ([www.remittanceprices.worldbank.org](http://www.remittanceprices.worldbank.org)), the average cost in the third quarter of 2010 of sending USD 200 from the US to Panama was 7.1%.

As for remittances sent from Panama to other countries, available information shows that the average cost of sending them to their main destinations, Colombia and Venezuela, was 4% and 6%, respectively.

**TABLE 10. PANAMA: COST OF SENDING REMITTANCES FROM THE US**

Company	Type	Commission (USD)	Exchange rate margin (%)	Total Cost		Transfer speed
				%	USD	
Vigo	MTO	5.00	0.00	2.50	5.00	Same day
Xoom	MTO	6.99	0.00	3.50	6.99	3 to 5 days
MoneyGram	MTO	9.99	0.00	5.00	9.99	At least one hour
MoneyGram	MTO	10.00	0.00	5.00	10.00	3 to 5 days
Xoom	MTO	10.99	0.00	5.50	10.99	Same day
MoneyGram	MTO	14.00	0.00	7.00	14.00	Same day
Western Union	MTO	22.00	0.00	11.00	22.00	At least one hour
Western Union	MTO	23.00	0.00	11.50	23.00	At least one hour
Western Union	MTO	27.00	0.00	13.50	27.00	At least one hour
MTO Average		14.33	0.00	7.17	14.33	Average total in 2010Q3 7.17
Average total		14.33	0.00	7.17	14.33	

Source: World Bank (<http://remittanceprices.worldbank.org>).

## **7 TOWARDS A MORE EFFICIENT REMITTANCE MARKET**

The previous sections of this document have described the situation of Panama's remittance market. This last section gives a summary of each of the five aspects of the remittance market highlighted in the General Principles for Sending International Remittances as well as the role of the authorities and the private sector in applying them.

### **7.1 TRANSPARENCY AND CONSUMER PROTECTION**

According to current legislation, expressed in chapter III of Law 48/2003, MTOs and RSPs have specific legal obligations regarding the transparency of remittance transfers. In fact, companies handling remittance operations or transactions must provide written details of the general characteristics of the transfer including the place and date of the transaction, name of the sender and receiver, sender's ID, principle amount of the transaction, commission charged, currency in which the remittance will be disbursed and the exchange rate agreed at the time of the transaction.

RSPs are also obligated to provide customers with a receipt for the operation, which can be used as authentication, for accounting purposes and as proof of the operation's cost.

The Banking Law establishes the right of the SBP to request information from banks, or any financial group they might be part of, regarding documents or reports on their operations and activities. However, there are no laws regulating the obligation of such institutions to disclose or publish their interest rates or commissions, leaving this for each institution to decide.

Commercial banks in Panama do not currently provide the SBP with information on their remittance operations. Furthermore, the remaining remittance service providers, such as microfinance companies, are not obligated to report remittance transactions to the Superintendency either.

Regarding consumer protection, clients of bank and remittance services are protected by different regulations if problems occur in the process of sending or receiving remittances. These norms depend on the type of operator handling the transaction and not on the service they provide.

The SBP has developed a bank customer service portal. One of the main aims of the portal is to advise customers on their relationship with banking institutions. The portal provides information on current regulations regarding bank consumer protection,

complaints, statistics and information on the different bank products and services available, without specifically mentioning remittances.

**TABLE 11. GP1: TRANSPARENCY AND CONSUMER PROTECTION**

	<i>Yes</i>	<i>No</i>
Consumer protection law	✓	
Specifically mentions remittances and consumer protection		✓
Commercial banks: Transparency of information in financial services (regulations for disclosure and publication)		✓
MTO: Transparency of information in remittance sending services (regulations for disclosure and publication)	✓	
Consumer protection authority	✓	
Independent consumer protection authority	✓	
Defender of public interests in financial services		✓
Defender of public interests in remittance services		✓
Remittance services code of best practices		✓
Consumer protection sanctions	✓	

## 7.2 PAYMENT SYSTEM INFRASTRUCTURE

The special characteristics of Panama's payment and monetary systems means they have no specific regulations. In particular, the remittance services market in Panama is mainly cash to cash: cash transactions account for almost two thirds of the total received followed by electronic bank transfers. The most important international MTO in the market only offers remittance disbursement in cash, while Panama's banking institutions have not implemented measures to encourage remittances being deposited in bank accounts or their reception through cards.

**TABLE 12. GP2: PAYMENT SYSTEM INFRASTRUCTURE**

	<i>Yes</i>	<i>No</i>
Payment systems		
RTGS system		✓
Cheque clearing house	✓	
Automatic clearing house	✓	
Instruments for remittance payments		
Cash	✓	
Bank account deposit	✓	

In general, large differences exist between access to financial services in urban and rural areas, and between Panama City and other urban areas. The scarcity of banking services in non-metropolitan areas makes it extremely difficult for individuals living there to link access to household saving instruments and the payment of services with remittance services and the reception of these transfers.

### 7.3 REGULATORY FRAMEWORK

A legal framework for remittance services which is transparent, open and fosters competition is important for developing an efficient remittance market.

Most remittance operations in Panama come under some kind of control from its national authorities. According to the 2008 Ley de Bancos all financial institutions are supervised by the SBP and must comply with legal requirements guaranteeing the security of internal procedures and report periodically according to the SBP’s law. MTOs, on the other hand, are regulated and overseen by the MICI through the Dirección General de Empresas Financieras.

In Panama, MTOs must register and obtain a license to offer remittance services. Commercial banks and MTO’s are responsible for guaranteeing that they, and any disbursing agent they employ, comply with applicable laws and regulations, including AML/CFT requirements.

**TABLE 13. GP3: REMITTANCE AND PAYMENT SYSTEMS REGULATORY FRAMEWORK**

	<i>Yes</i>	<i>No</i>
Payment system supervision authority		✓
Remittance disbursing banks	✓	
License franchising	✓	
Money laundering program	✓	
Transaction tracking	✓	
Provision of reports to the authorities	✓	
Supervisory authority	✓	
Sanctions	✓	
Remittance disbursing MTOs	✓	
Registry	✓	
License franchising	✓	
Money laundering program	✓	
Provision of reports to authorities	✓	
ID presentation requirement	✓	
Supervisory authority	✓	

## 7.4 COMPETITION

The efficiency of remittance services depends on the existence of a competitive market which reduces monopolistic practices and, thereby, encourages low prices and good quality services.

Remittance service end users have several options for sending and receiving money. There are MTO accounts which offer money transfer services directly or through the use of their networks. Panama's remittance disbursement market is characterized by a limited number of operators and is dominated by two international MTOs: Western Union and Money Gram.

Western Union holds the dominant position in Panama's market and also operates independently as a local remittance agency. According to current legislation (Law 48/2003), international MTOs do not face any legal requirements in order to offer international remittance services in the local market once they have been authorized to do so by the MICI. It is important to mention that Western Unions is the only international MTO operating through its own offices with a considerable network of national branches. Meanwhile, Money Gram disburses remittances through local intermediaries and MICI uses 13 local MTOs operating in Panama's remittance market.

The existence of exclusivity agreements significantly restricts competition in Panama's remittance market. Several RSPs use these agreements to ensure their agents work only with them. This constitutes an obstacle to reducing costs and increasing the distribution network. Thus, if an individual wishes to send money from, for instance,

**TABLE 14. GP4: MARKET STRUCTURE AND COMPETITION**

	<i>Yes</i>	<i>No</i>
Network for capturing remittances-channels for sending remittances	✓	
Electronic transfers	✓	
Bank accounts	✓	
Postal orders	✓	
Traveler	✓	
Others	✓	
Remittance disbursement network	✓	
Banks	✓	
MTO	✓	
Financial firms and pawn brokers	✓	
Credit unions		✓
Exclusivity agreements	✓	
RSP have adequate Access to payment systems		✓
Competition law	✓	
Independent competition authority	✓	

the US to a location in Panama where there is only one disbursing agent, the transfer can only be carried out through one channel. Furthermore, exclusivity agreements can block the entrance of new RSPs to the market due to the fact that they do not allow potential competitors to acquire a sufficient volume of transactions to ensure they have a viable business. Some RSPs have also reported difficulties for accessing commercial bank disbursement infrastructures on an equal basis (i.e., indirect access).

## 7.5 GOVERNANCE AND RISK MANAGEMENT

RSP’s can bolster the safety and soundness of remittance services, and help protect consumers by adopting good governance and adequate risk management practices. In this context, banks and MTO’s in Panama have implemented internal risk control systems and periodically audit their agents.

In general, RSP’s in Panama take on credit and liquidity risks as they disburse remittances before actually receiving the funds from the transfer’s originating agent. However, such risks are not large and cannot lead to a systemic crisis, although bankruptcy or fraud in an important RSP could reduce confidence in the institutional channels used for transferring remittances. Contracts which include guarantees protecting against this risk are therefore important for increasing the public’s confidence in remittance transfer channels. It is also worth mentioning that Law 48/2003 stipulates that: “all MTOs are obligated to constitute and maintain a surety bond for fifty thousand balboas (B 50,000) in favor of the Tesoro Nacional (National Treasury), to cover any losses resulting from negligent or fraudulent acts with the funds they administer, and, any corresponding legal sanctions imposed by the State”.

**TABLE 15. PG5: GOVERNANCE AND RISK MANAGEMENT**

	<i>Yes</i>	<i>No</i>
Major remittance service providers with internal procedures for regulating money transfer services	✓	
Risk management and governance best practices among supervised institutions.	✓	
Risk management and governance code of best practices for the industry as a whole.		✓

## 7.6 THE ROLE OF THE PRIVATE SECTOR

RSPs are responsible for ensuring their activities comply with current standards and the corresponding laws, including regulations for preventing money laundering and consumer protection laws, which also apply to their agencies, employees and internal procedures. Such activities must also adapt to any changes made in the regulatory framework.

Coordination among banks in Panama is carried out through the bank association and committees for different banking business areas (legal, operational and risk management), which are in contact with the SBP. However, the meetings of these committees mainly focus on matters of banking supervision, without specifically mentioning remittance services. There is also no formal mechanism of cooperation among authorities and the private sector, leaving the latter to innovate its products and systems alone.

**TABLE 16. THE ROLE OF THE PRIVATE SECTOR**

	<i>Yes</i>	<i>No</i>
Cooperation among RSPs	✓	
Cooperation among RSPs in the application of General Principles		✓

## 7.7 THE ROLE OF THE AUTHORITIES

In the same way as in many other countries, in Panama the different aspects of the remittance industry fall under the jurisdiction of various authorities, including the SBP, the MICI, the ACODECO, the MRE and the MEF. This means such authorities must cooperate in both policy design and implementation in order to ensure a consistent and coordinated approach.

Finally, it is important to mention that there is currently no formal coordination among authorities regarding remittance transfer issues or improving the efficiency and reducing the costs of such services.

**TABLE 17. THE ROLE OF THE AUTHORITIES**

	<i>Yes</i>	<i>No</i>
Cooperation among authorities		✓
Cooperation among authorities in the application of General Principles		✓

## Abbreviations and Acronyms

ABP	Asociación Bancaria de Panamá ( <i>Bank Association of Panama</i> )
ACH	Automated Clearing House
ACODECO	Autoridad de Protección al Consumidor y Defensa de la Competencia ( <i>Consumer Protection and Competition Defense Authority</i> )
AML	Anti money laundering
ATM	Automated teller machine
BID	Banco Interamericano de Desarrollo ( <i>Inter-American Development Bank</i> )
BNP	Banco Nacional de Panamá ( <i>National Bank of Panama</i> )
CFT	Combating financing of terrorism
CPSS	Comité de Sistemas de Pago y Liquidación ( <i>Payment and Settlement Systems Committee</i> )
EAP	Economically active population
EPM	Encuesta de Propósitos Múltiples ( <i>Multipurpose survey</i> )
FOMIN	Fondo Multilateral de Inversiones ( <i>Multilateral Investment Fund</i> )
GDP	Gross domestic product
GP	General Principles
IPACOOOP	Instituto Panameño Autónomo Cooperativo ( <i>Panamanian Autonomous Cooperative Institute</i> )
MEF	Ministerio de Economía y Finanzas ( <i>Ministry of Economy and Finance</i> )
MICI	Ministerio de Comercio e Industrias ( <i>Ministry of Commerce and Industry</i> )
MRE	Ministerio de Relaciones Exteriores ( <i>Ministry of External Relations</i> )
MTC	Money transfer company
MTO	Money Transfer Operator
OECD	Organization for Economic Co-operation and Development
POS	Point of sale
RSP	Remittance service provider
SBP	Superintendencia Bancaria de Panamá ( <i>Superintendency of Banks of Panama</i> )
SWIFT	Society for Worldwide Interbank Financial Telecommunication
WB	World Bank

## Glossary

This page contains a brief glossary of some of the most important remittance market concepts used in this report. For additional information, see: <http://www.cemla-remesas.org/informes/GlosarioRemesas.pdf>.

**Agent (capturing or disbursing).** Entity (capturing agent) which receives money and instructions from the sender or (disbursing agent) which distributes funds to the beneficiary on behalf of the company providing the remittance service.

**Exclusivity condition.** Condition under which a remittance service provider (RSP) allows its agents or other RSPs to offer its remittance service only on condition that they do not offer similar services for any other company.

**Money transfer company.** Non-bank organizations which are in the business of international remittance transfers.

**Price.** Total cost to the end users of remittance transfers, including fees charged to the sender and the recipient, and the margin by which the foreign exchange rate employed in the transaction exceeds the current interbank rate.

**Payment service provider.** Entity which provides disbursement services (remittances and/or other types of payments). These include deposit-taking organizations which allow fund transfers from their deposits (i.e. most commercial banks and non-bank deposit-taking institutions), as well as non-deposit taking institutions which transfer funds (e.g. MTOs).

**Remittance service provider.** Business entity which provides a remittance service to end users, either directly or through agents. This includes both deposit taking entities and non-deposit takers such as money transfer operators.

**Access point.** Location where end users can send or receive remittance transfers. An Access point can be physical (e.g. a bank branch, post office, store) or virtual (e.g. website, telephone).

**Remittance service.** A service which allows end users to send and/or receive remittance transfers.

**International remittance transfer.** Cross-border payments of relatively low value, typically recurrent person-to-person payments by migrant workers (e.g. monthly money transfers to relatives in their country of origin). For simplicity the report uses the expression *remittance transfer* (i.e. it is automatically assumed that it is international).

**End user.** Sender (originator) or the receiver (beneficiary) of a money transfer (remittance).

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